



Finance Advisory Commission Meeting Agenda

Thursday, January 19, 2023 – 7:30 AM

To Be Held At:

**City Administrative Offices,
Womack Conference Room
922 Machin Avenue, Novato, CA 94945**

**Chair
Tim O'Connor**

**Vice Chair
Andy Zmyslowski**

**Members
Regina Bianucci Rus, Rafelina Maglio, Tina McMillan, Larisa Thomas, Richard Johnson**

**Staff Liaison
Amy Cunningham**

The Finance Advisory Commission welcomes you to attend its meetings which are regularly scheduled the third Thursday every month. Your interest is encouraged and appreciated.

In compliance with the Americans with Disabilities Act, if you need special assistance to participate in this meeting, please contact the City Clerk at (415) 899-8900. Notification at least 48 hours prior to the meeting will enable the City to make reasonable accommodation to help ensure accessibility to this meeting.

The Finance Advisory Commission may discuss and/or take action on any or all of the items listed on the agenda irrespective of how the agenda items are described.

-
- A. CALL TO ORDER AND ROLL CALL**
 - B. APPROVAL OF FINAL AGENDA**
 - C. PUBLIC COMMENT**

All members of the public wishing to address the Finance Advisory Commission are requested to submit a speaker card in advance to the Staff Liaison. (Please remember that all comment cards are PUBLIC RECORDS). The Chair will call the names of speakers from the cards. In addition to receiving comment from the public during the Public Comment period, the Chair will recognize persons from the audience who wish to address the Commission on a particular agenda item at the time that item is considered.

There is a three-minute time limit to speak although the Chair may shorten the time based on the number of speakers or other factors. A speaker may not yield his or her time to another speaker.

For issues raised during Public Comment that are not on the published agenda, except as otherwise provided under the Ralph M. Brown Act, no action can legally be taken. The Commission may direct that the item be referred to the Staff Liaison for action or may schedule the item on a subsequent agenda.

D. CONSENT ITEM

All matters listed on the Consent Calendar are considered to be routine and will be enacted by a single vote of the Commission. There will be no separate discussion unless specific items are removed from the Consent Calendar for separate discussion and action. Any Commission Member may remove an item from the Consent Calendar and place it under General Business for discussion.

D.1. Approve the Meeting Minutes of November 17, 2022

E. UNFINISHED AND OTHER BUSINESS

F. GENERAL BUSINESS

These items include significant and administrative actions of special interest and will usually include a presentation and discussion by the Finance Advisory Commission. They will be enacted upon by a separate vote.

F.1. Investment Policy Reviews

F.2. FY 22/23 Second Quarter Budget Report

F.3. Update on Finance Department Activities

G. COMMISSION AND LIAISON REPORTS

This section is used for Commission Members and the Staff Liaison to orally report on topics that can be considered for discussion at a future meeting.

G.1. Staff Updates

G.2. Commission Member Reports

H. ADJOURNMENT

Materials that are submitted to members of the Commission after the distribution of the meeting's agenda packet will be available upon request.

AFFIDAVIT OF POSTING

I, Stacey Hoggan, certify that on the Friday before the Finance Advisory Commission meeting of January 19, 2023 that the agenda was posted on the City Community Service Board at 922 Machin and on the City's website at novato.org in Novato, California.

/ Stacey Hoggan /
Stacey Hoggan, Payroll/Accounting Technician



Follow us on Facebook, Twitter, YouTube, Instagram, NextDoor & Nixle



Novato Citizens Finance Advisory Commission

Minutes

Thursday, November 17, 2022 – 7:30 AM

A. CALL TO ORDER AND ROLL CALL

The meeting was called to order by Chair O'Connor at 7:30 A.M.

Commissioners Present: Regina Bianucci Rus, Rafelina Maglio, Tina McMillan, Andy Zmyslowski, Richard Johnson, Chair Tim O'Connor

Arrived Late: Commissioner Larisa Thomas arrived at 7:32

Commissioners Absent: None

Staff Present: Administrative Services Director Amy Cunningham, Deputy Administrative Services Director Carla Carvalho-DeGraff, City Manager Adam McGill, Payroll/Accounting Technician Stacey Hoggan

B. APPROVAL OF FINAL AGENDA

Commission Action: Upon a motion by Commissioner Zmyslowski, and seconded by Commissioner McMillan, the Commission voted 7-0-0-0 to approve the final agenda

Ayes: Bianucci Rus, Johnson, Maglio, McMillan, Thomas, O'Connor, Zmyslowski

Noes: None

Abstain: None

Absent: None

Motion Carried

C. PUBLIC COMMENT

None

D. CONSENT ITEMS

D.1. Approve the Meeting Minutes from October 20, 2022

Commission Action: Upon a motion by Commissioner Bianucci Rus, and seconded by Commissioner Maglio, the Commission voted 6-0-1-0 to approve the Meeting Minutes from October 20,2022.

Ayes: Bianucci Rus, Maglio, McMillan, O'Connor, Thomas, Zmyslowski

Noes: None

Abstain: Johnson

Absent: None

Motion Carried

E. UNFINISHED AND OTHER BUSINESS

E.1. Introduction to New Commissioner

Commissioners were introduced to the newest Commissioner, Richard Johnson. Commissioner Johnson worked for 40 years at the San Francisco Water Department and resides in the City of Novato.

E.2. Vice Chair Nomination

Commission Action: Commissioners were asked to choose a Vice Chair Commissioner. Chair O'Connor nominated Commissioner Zmyslowski and the nomination was seconded by Commissioner Bianucci Rus. The Commission voted 7-0-0-0 to approve Commissioner Zmyslowski as Vice Chair.

Ayes: Bianucci Rus, Johnson, Maglio, McMillan, O'Connor, Thomas, Zmyslowski

Noes: None

Abstain: None

Absent: None

Motion Carried

E.3. Ad Hoc Subcommittee Update

Staff Liaison Cunningham advised Commissioners that the interactive sustainability tool has not been updated due to other workload demands and the current capacity of Staff. Staff Liaison Cunningham anticipates getting the updated module out to Commissioners in the next few weeks.

F. GENERAL BUSINESS

F.1. Funding Proposal for Purchase of 501 Davidson Street

City Manager McGill presented information to the Commission regarding the recent purchase of 501 Davidson Street. He advised the Commission that the delay in the real estate transactions are discussed in closed session due to the confidentiality needed in negotiations and purchase offer amounts.

Initial funding for the \$5.75-million purchase came from the City's Emergency Disaster Relief Fund (EDRF). After initial funding, financing for the purchase of 501 Davidson is proposed to come from various sources. About \$400,000 will come from Measure F, \$536,000 will come from general fund, one-time monies, and the balance of about \$4.85 million will be in the form of a loan from the City's Equipment Internal Service Fund. This fund has over \$6 million dollars dedicated to fleet replacement. Due to changes in equipment replacement procedures, there has been a surplus of funds in that account. The Equipment Replacement Fund will be reassessed to determine how funds are to be allocated in the future. The final proposal for 501 Davidson will be presented to Council on December 6, 2022.

The purchase of the property also creates an opportunity for revenue and loan repayment through the lease of approximately 2 ½ acres of unused space.

F.2. Bridge Loan for Homeward Bound Veterans Housing Project

The bridge loan for Homeward Bound Veterans Project is a short-term, 30-month loan to cover Phase I construction costs of a 24-unit, veterans housing apartment complex. Upon completion and certificate of occupancy, Homeward Bound will receive money from the State Veterans Housing and Homeless Prevention Program (VHHP), which will be paid to the City as reimbursement of the loan. The projected completion of this phase of construction is October 2024. The loan is scheduled to fund in June 2025, with the terms of the loan extending to September of 2025.

Homeward Bound is requesting a loan amount of \$3,000,000 at an interest rate of 2.5%. The money for this loan will be funded from the City's Emergency Disaster Relief Fund; these monies are currently being held in the Local Agency Investment Fund (LAIF). LAIF's rate at this point is about 1.7% and it is unknown if it will exceed the 2.5% rate of return for this loan in the next 30-month period.

Commissioners noted their concerns with the City issuing loans. As a future agenda item, Commissioners suggested that Staff add the discussion of the City's policies and procedures surrounding loan proposals and use of Hamilton Trust for loans.

Commission Action: Upon a motion by Chair O'Connor and seconded by Commissioner Bianucci Rus, the Commission voted 7-0-0-0 to recommend to City Council to reject the Homeward Bound Veterans Project Bridge Loan.

Ayes: Bianucci Rus, Johnson, Maglio, McMillan, O'Connor, Thomas, Zmyslowski
Noes: None
Abstain: None
Absent: None

F.3. Agreement with Novato Theater Group - Update

City Manager McGill provided an update to the Commission regarding the Novato Theater Group. The City was contacted by the Novato Theatre Group Board President when they decided to end their non-profit status and sell the property. Due to the restrictions that the City had placed on the property from previous funding, the property must be used for entertainment purposes only. The Novato Theater Group is asking the City to lift those restrictions, as it is a hindrance in the sale of the property. In exchange for lifting the restriction, the City is requesting proceeds from the sale to recoup a portion of the money that the City had invested in the theater project. The request from the Novato Theater Group will be brought to Council at a later date for more discussion.

G. COMMITTEE AND LIAISON REPORTS

G.1. Staff Updates

None

G.2. Committee Member Reports

None

G.3. Next Meeting Date

The next meeting is scheduled for Thursday, January 19, 2023 at 7:30 AM in the Womack Conference Room, located at 922 Machin Avenue.

ADJOURNMENT

H.

The meeting was adjourned at 9:27 AM.

I HEREBY CERTIFY that the foregoing minutes were duly adopted at the Novato Citizens Finance Advisory/Oversight Committee Meeting of January 19, 2023.

/ Stacey Hoggan /
Stacey Hoggan, Payroll/Accounting Technician

STAFF REPORT

MEETING

DATE: January 19, 2023

TO: Finance Advisory Commission

FROM: Natalie Moline, Accountant II,
Carla Carvalho-Degraff, Deputy Director Administrative Services

SUBJECT: Investment Policy Review

REQUEST

Review and provide feedback on the City's updated Investment Policy.

DISCUSSION

In accordance with City policy, the Investment Policy which was last revised by City Council in July 2019 has been reviewed and updated by Staff, the City's investment advisor PFM Asset Management (PFMAM), and the City Attorney's Office. The primary objective of the policy is safety of principal, with investment goals of safety, liquidity, and yield. To this end, City funds, both the Hamilton Trust and City operating funds, are governed by California Government Code Section 53601 which exists to protect public funds from adverse risk and unscrupulous investments. The City is more conservative than State law allows. Our investment strategy has a 3–5-year liquidity window, so there are time restrictions on some of the investments where the State does not have any. There are also some investments that PFMAM does not purchase such as repurchase agreements and public bank obligations which are not a widely utilized investment tool in the public arena.

PFMAM ensures that we are always in compliance with code and City policy and makes any necessary adjustments to our portfolio and strategies as required by any code changes. PFMAM has offices nationwide and has more than \$189 billion in assets under management as of September 30, 2022. Their focus is solely on institutional clients, including cities, counties, school districts, pension funds, utilities, insurance pools, higher education, and healthcare institutions. PFMAM has been managing the Hamilton Trust on behalf of the City since 2012 when they were engaged as the City's investment adviser.

PFMAM is a well-established and trusted public entity investment advisor with over 42 years of experience and 245 professionals. Currently the City's team consists of six

seasoned investment experts who work closely with staff and among their many services, provide the City with quarterly performance updates. City staff meet with the PFMAM staff each quarter to review portfolio performance and market trends.

Several updates to the policy are recommended with the goal of bringing greater transparency to the investment process. None of the updates are substantive nor do they change the City's current investment strategy.

A summary of updates are as follows:

Authorized Financial Dealer and Institution

PFMAM is an authorized municipal investment advisor as defined by the Securities and Exchange Commissions (SEC) and is on the California State Treasurer approved list of municipal advisors. As such they can conduct investment transactions with their own list of approved broker/dealers and financial institutions that meet the appropriate requirements. Therefore, the City is not required to maintain a list of financial institutions for investment related services and has not maintained such a list. PFMAM's approved list will be made available to the City upon request. *(Investment Policy, Section V. Safekeeping and Custody of Securities, paragraph 2)*

Measurement of Investment Term

For purposes of compliance with California Government Code (Code) Section 53601 an investment's term or remaining maturity shall be measured from the settlement date rather than the trade date. A security purchased in accordance with this policy shall not have a forward settlement date exceeding 45 days from the time of investment. With this change, PFMAM may purchase new-issue five-year corporates, federal agencies or other security types as permitted by the City's investment policy that commonly have a term to maturity that is a few days beyond five years when measured from the security's trade date. This will allow PFMAM to act on opportunities as they arise for better investment selection and more advantageous pricing. *(Investment Policy, Section VI Authorized Investments, paragraph 1)*

Authorized Investments

1. The investment policy will allow registered treasury notes or bonds of any of the other 49 states in addition to California, including bonds payable, solely out of the revenues from a revenue-producing property owned, controlled, or operated by a state or by a department, board, agency, or authority or any of the other 49 states in addition to California. *(Investment Policy, Section VI Authorized Investments, Paragraph 1, subparagraph d)*
2. Negotiable Certificates of Deposit may be purchased when issued by a savings association or a federal association, a state or federal credit union or by a federally licensed or state-licensed branch of a foreign bank, in addition to nationally or state-

chartered banks. (*Investment Policy, Section VI Authorized Investments, Paragraph 1, subparagraph g*)

3. Shares of beneficial interest issued by diversified management companies that are money market funds registered with the Securities and Exchange Commission under the Investment Company Act of 1940 will be allowed to be purchased subject to either of the following criteria (*Investment Policy, Section VI Authorized Investments, Paragraph 1, subparagraph p*):
 - a. The issuing company has attained the highest ranking or letter and numerical rating provided by at least 2 NRSROs
 - b. Retained an investment advisor registered or exempt from registration with the Securities and Exchange Commission with not less than five years' experience managing money market funds with assets under management in excess of five hundred million dollars (\$500,000,000).

RECOMMENDATION

Recommend adoption of revised investment policy to the Novato City Council.

ATTACHMENTS

1. Proposed City of Novato Investment Policy 2023

ADMINISTRATIVE POLICY 4.7

~~2019~~February 2023

Revised: ~~July~~

(Issued: April, 1996)

CITY OF NOVATO INVESTMENT POLICY (UPDATED)

I. POLICY

In accordance with the City of Novato Municipal Code and under authority granted by the City Council, the City Treasurer is responsible for investing the unexpended cash in the City Treasury.

The investment of the funds of the City of Novato is directed by the goals of safety, liquidity and yield. The authority governing investments for municipal governments is set forth in the California Government Code, Sections 53600 through 53659.

The primary objective of the investment policy of the City of Novato is **SAFETY OF PRINCIPAL**. Effective cash flow management and resulting cash investment practices are recognized as essential to good fiscal management and control. The City's portfolio shall be designed and managed in a manner responsive to the public trust and consistent with state and local law. Portfolio management requires continual analysis and as a result the balance between the various investments and maturities may change in order to give the City of Novato the optimum combination of liquidity and yield/return based on cash flow projections.

II. SCOPE

The investment policy applies to all financial assets of the City of Novato as accounted for in its Annual Audit. Policy statements outlined in this document focus on the City of Novato's pooled ~~funds, but~~funds but will also apply to all other funds under the City Treasurers' span of control unless specifically exempted by statute, ordinance or this policy. The City also has a unique irrevocable trust, entered into with the developer of the Hamilton housing subdivisions, the Hamilton Trust Fund. The trust provides investment income to the General Fund and the Affordable Housing Programs Fund.

III. STANDARD OF CARE

1. Prudence

The standard of prudence to be used by City of Novato investment officials shall be the "prudent investor" standard as defined by California Government Code §53600.3 and shall be applied within the context of managing an overall portfolio. Investment officers acting in accordance with written procedures and this investment policy and exercising due diligence shall be relieved of personal

responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely manner and appropriate action is taken to control adverse developments.

“When investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds, a trustee shall act with care, skill, prudence, and diligence under the circumstances then prevailing, including, but not limited to, the general economic conditions and the anticipated needs of the City, that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the City.”

2. Ethics and Conflicts of Interest

Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with the proper execution and management of the investment program, or that could impair their ability to make impartial decisions. Employees and investment officials shall disclose through filing appropriate disclosure forms with the City Clerk any material interests in financial institutions with which they conduct business. They shall further disclose any personal financial/investment positions that could be related to the performance of the investment portfolio. Employees and officers shall refrain from undertaking personal investment transactions with the same individual with whom business is conducted on behalf of the City.

3. Delegation of Authority

Through the authority granted by City Council, the responsibility of investing unexpended cash is assigned to the City Treasurer. This includes the daily management responsibility of the investment program and the maintenance of procedures for the management of all cash that is consistent with this investment policy. No person may engage in an investment transaction except as provided under the limits of this Investment Policy.

The City may contract for the use of investment manager services subject to all other provisions of this Investment Policy. The Treasurer shall maintain investment instructions for internal and external management of investments consistent with Government Code requirements.

IV. OBJECTIVES

1. Safety of Principal

Safety of principal is the foremost objective of the City of Novato. Each investment transaction shall seek to ensure that capital losses are avoided, whether from securities default, broker-dealer default or erosion of market value. The City shall seek to preserve principal by mitigating the two types of risk, credit risk and market risk.

Credit risk, defined as the risk of loss due to failure of the issuer of a security, shall be mitigated by investing in investment grade securities and by diversifying the investment portfolio so that the failure of any one issuer does not unduly harm the City's capital base and cash flow.

Market risk, defined as market value fluctuations due to overall changes in the general level of interest rates, will be mitigated by maintaining a diversified maturity structure.

2. **Liquidity**

The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated. This is accomplished by structuring the portfolio so that securities mature concurrent with cash needs to meet anticipated demands (static liquidity). Furthermore, since all possible cash demands cannot be anticipated, the portfolio should consist largely of securities with active secondary or resale markets (dynamic liquidity).

3. **Yield and Return**

The investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints and liquidity needs. Return on investment is of least importance compared to the safety and liquidity objectives described above. The core of investments are limited to relatively low risk securities in anticipation of earning a fair return relative to the risk being assumed.

V. **SAFEKEEPING AND CUSTODY OF SECURITIES**

1. **Safekeeping**

To protect against fraud or embezzlement or losses caused by collapse of an individual securities dealer, all securities owned by the City shall be held in safekeeping by a ~~third-party~~third-party custodian bank, acting as agent for the City under the terms of City Council approved custody agreement or investment agreement, and evidenced by safekeeping receipts.

Securities held in custody for the City shall be independently audited on an annual basis to verify investment holdings.

All exceptions to this safekeeping policy must be approved by the City Treasurer in written form and included in quarterly reporting to City Council.

2. **Authorized Financial Dealer and Institution**

A list will be maintained of financial institutions authorized to provide investment

services. In addition, a list will also be maintained of approved security broker/dealers selected by creditworthiness who are authorized to provide investment services in the State of California. These may include "primary" dealers or regional dealers that are guaranteed by a primary dealer and qualify under Securities and Exchange Commission Rule 15C3-1 (uniform net capital rule).

All financial institutions and broker/dealers who desire to become qualified bidders for investment transactions must supply the following as appropriate:

- audited financial statements
- proof of Financial Industry Regulatory Authority (~~FINRA~~-
~~certification~~FINRA) certification
- proof of state registration
- completed broker/dealer questionnaire
- certification of having read the City's investment policy

An annual review of the financial condition and registration of qualified bidders will be conducted by the City Treasurer.

If the City has engaged the services of a registered investment advisory firm, the City will not be required to maintain its own list of financial institutions for investment related services. Instead, the engaged investment advisory firm is authorized to conduct investment transactions on the City's behalf with their own list of approved broker/dealers and financial institutions. The investment advisor's approved list must be made available to the City upon request.

3. **Internal Control**

The City ~~Manager of Novato~~ or designee Finance Manager is responsible for establishing and maintaining an internal controls structure designed to ensure that the assets of the entity are protected from loss, theft or misuse. The internal control structure shall be designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgments by management.

The minimum controls in place for the City of Novato shall be:

- a. *Separation of transaction authority from accounting and record keeping.*
The City Treasurer, ~~Finance Manager~~Director of Administrative sServices and their designees may make wire transfers between City accounts. Only the City Treasurer and their designees may make investments. The ~~Finance Manager~~Director of Administrative Services or designee is responsible for recording all transactions.
- b. *Custodial safekeeping.* Securities purchased from any bank or dealer including appropriate collateral (as defined by State Law) shall be placed with an independent third party for custodial safekeeping.

- c. *Avoidance of physical delivery securities.* Book entry securities are much easier to transfer and account for since actual delivery of a negotiable document never takes place. Delivered securities must be properly safeguarded against loss or destruction. The potential for fraud and loss increases with physically delivered securities.
- d. Wire transfer agreement with the lead bank or third-party custodian. These agreements are on file in the City's Finance Division.

4. Delivery vs. Payment

All trades where applicable will be executed by delivery vs. payment (DVP). This ensures that securities are deposited in the eligible financial institution prior to the release of funds. Securities will be held by a ~~third party~~ third-party custodian as evidenced by safekeeping receipts.

5. Collateral Requirements

Collateral is required for investments in certificates of deposit, repurchase agreements and reverse repurchase agreements. In order to reduce market risk, the collateral level will be at least 102% of market value of principal and accrued interest.

Only U.S. Treasury securities or Federal Agency securities will be acceptable collateral.

VI. AUTHORIZED INVESTMENTS

1. Authorized Investments

All concentration limits and minimum credit rating requirements shall apply at the time of purchase. In the event a security held by the City is subject to a rating change that brings it below the minimum credit ratings specified in this Policy, the City shall require investment advisors engaged in the investment of City funds to notify City staff of the downgrade and provide a plan of action to address the downgrade.

With the exception of items in the U.S. Treasuries, federal agencies, and authorized pools, California Local Agency Investment Fund (LAIF), investments detailed in items d through j below are further restricted for any one issuer, regardless of security type, to a maximum of 15%10% of the cost value of the portfolio at the time the investment is made. The total value invested in any one issuer shall not exceed 5% of the issuer's issuer's net worth. Again, a five yearfive-year maximum maturity limitation is applicable unless determined otherwise by this policy. For purposes of compliance with this Policy, an investment's term or remaining maturity shall be measured from the settlement date to final maturity. A security purchased in accordance with this Policy shall not have a forward settlement date exceeding 45 days from the time of investment.

Investment of City cash is governed by the California Government Code Sections 53600 et seq. Within the context of the limitations, the following investments are authorized:

- a. Bonds issued by the local agency, including bonds payable solely out of the revenues from a revenue -producing property owned, controlled, or operated by the local agency or by a department, board, agency, or authority of the local agency.
- b. United States Treasury Bills, Bonds, and Notes or those for which the full faith and credit of the United States are pledged for payment of principal and interest. There is no percentage limitation of the portfolio which can be invested in this category, although a ~~five year~~five-year maturity limitation is applicable.
- c. Federal Agency or United States Government-Sponsored Enterprise Obligations, Participations, or other Instruments, including those issued by or fully guaranteed as to principal and interest by federal agencies or United States government-sponsored enterprises. There is no percentage limitation of the portfolio which can be invested in this category, although a ~~five year~~five-year maturity limitation is applicable.

~~With the exception of items in the California Local Agency Investment Fund (LAIF), investments detailed in items d through j below are further restricted for any one issuer to a maximum of 15% of the cost value of the portfolio at the time the investment is made. The total value invested in any one issuer shall not exceed 5% of the issuers net worth. Again, a five year maximum maturity limitation is applicable unless determined otherwise by this policy.~~

- d. Bonds, notes, warrants, or other evidence of indebtedness of this state and any local agency within this state, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the state or local agency, or by a department, board, agency, or authority of the state or local agency.

Registered treasury notes or bonds of any of the other 49 states in addition to California, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by a state or by a department, board, agency, or authority of any of the other 49 states, in addition to California.

Securities eligible under this subdivision shall be , provided that these securities are rated in a rating category of "AA" or the equivalent or better one of the two highest rating categories (without regard to any gradations within such categories by numerical qualifier or otherwise) by a Nationally Recognized Statistical Rating Organization (NRSRO).

- e. Bills of exchange or time drafts drawn on and accepted by commercial banks, otherwise known as banker's acceptances. Banker's acceptances purchased may not exceed 180 days to maturity or 40% of the cost value

of the portfolio. ~~However, no more than 30% of the cost value of the portfolio may be invested in the bankers acceptances of any one commercial bank.~~

- f. Commercial paper rated in the highest letter and number rating category by one or more NRSROs., The corporation that issues the commercial paper shall meet all of the following conditions in either paragraph (1) or paragraph (2).

(1) The entity meets the following criteria: (a) is organized and operating within the United States, as (a) general corporation, (b) has total assets in excess of five hundred million dollars (\$500,000,000), and (c) has debt, other than commercial paper, if any, that is rated in the highest rating category (without regard to any gradations within such categories by numerical qualifier or otherwise) by a NRSRO.

(2) The entity meets the following criteria: (a) is organized within the United States as a special purpose corporation, trust or limited liability company, (b) has program-wide credit enhancements including, but not limited to over collateralization, letters of credit, or surety bond, and (c) has commercial paper that is rated "A-1" or higher, or the equivalent by a NRSRO.

Purchases of eligible commercial paper may not exceed 270 days to maturity. ~~nor represent more than 10% of the outstanding paper of the issuing corporation.~~ Purchases of commercial paper may not exceed 25% of the cost value of the portfolio.

- g. Negotiable Certificates of deposit issued by a nationally or state chartered banks, or state or federal savings institutions, a savings association or a federal association, a state or federal credit union, or by a federally licensed or state-licensed branch of a foreign bank. Purchases of negotiable certificates of deposit may not exceed 30% of the cost value of portfolio. A maturity limitation of five years is applicable.
- h. Repurchase agreements which specify terms and conditions may be transacted with banks and broker dealers. The maturity of the repurchase agreements shall not exceed 90 days. The market value of the securities used as collateral for the repurchase agreements shall be monitored by the investment staff and shall not be allowed to fall below 102% of the value of the repurchase agreement. An investment agreement is required between the City of Novato and the broker dealer or financial institution for all repurchase agreements transacted.
- i. Reverse repurchase agreements which specifies terms and conditions may be transacted with broker dealers and financial institutions but cannot exceed 20% of the cost value of the portfolio value on the date entered into. The City may enter into reverse repurchase agreements only to fund short term liquidity needs. The term of reverse repurchase agreements may not exceed 90 days.

- j. Local Agency Investment Fund (LAIF) which is a State of California managed investment pool may be used up to the statutory limit.
- k. The pooled cash program as managed by the Treasurer of Marin County may be used up to the maximum permitted by California State Law.
- l. Time deposits, non-negotiable and collateralized in accordance with the California Government Code, in those banks and savings and loans associations which meet the requirement for investment in negotiable certificate of deposit. The issuer firm should have been in existence for at least five years. The City may waive the first \$250,000 of collateral security for such deposits if the institution is insured pursuant to federal law. Since time deposits are not liquid, no more than 25% of the cost value of the portfolio may be invested in this investment type.
- m. Medium Term Corporate Notes, issued by corporations organized and operating within the United States or by depository institutions licensed by the United States or any state and operating within the United States. ~~may be purchased.~~ Securities eligible for investment shall be rated in a rating category of "A" or its equivalent or better by a NRSRO. nationally recognized statistical rating organization. Purchase of medium term notes may not exceed 30% of the cost value of the portfolio. ~~and no more than 15% of the cost value of the portfolio may be invested in notes issued by one corporation.~~
- n. Supranationals which are United States dollar denominated senior unsecured unsubordinated obligations issued or unconditionally guaranteed by the International Bank for Reconstruction and Development (IBRD), International Finance Corporation (IFC), or Inter-American Development Bank (IADB), with a maximum remaining maturity of five years or less, and eligible for purchase and sale within the United States. Investments under this subdivision shall be rated in a rating category of "AA", its equivalent, or better by a NRSRO. at least one of the three large rating agencies, Moody's, Standard & Poor's, or Fitch.

Purchases of supranationals shall not exceed 30% percent of the cost value of the investment portfolio. ~~of the City. Supranationals will be permitted by California Government Code § 53601 (q) and this Policy effective January 1, 2015.~~
- o. Asset-backed securities including a mortgage passthrough security, collateralized mortgage obligation, mortgage-backed or other pay-through bond, equipment lease-backed certificate, consumer receivable passthrough certificate, or consumer receivable-backed bond. Securities eligible for investment under this subdivision shall be rated in a rating category of "AA" or its equivalent or better by an NRSRO and have a maximum remaining maturity of five years or less. Purchase of securities authorized by this subdivision shall not exceed 20% of the cost value of the portfolio.

- p. Shares of beneficial interest issued by diversified management companies that are money market funds registered with the Securities and Exchange Commission under the Investment Company Act of 1940. The company shall have met either of the following criteria: (A) Attained the highest ranking or the highest letter and numerical rating provided by not less than two NRSROs. (B) Retained an investment adviser registered or exempt from registration with the Securities and Exchange Commission with not less than five years' experience managing money market mutual funds with assets under management in excess of five hundred million dollars (\$500,000,000). The purchase price of shares of beneficial interest purchased pursuant to this subdivision shall not include commission that the companies may charge and shall not exceed 20% of the cost value of the portfolio.
- q. Local government investment pools including shares of beneficial interest issued by a joint powers authority organized pursuant to Section 6509.7 that invests in the securities and obligations authorized in Government Code Section 53601 subdivisions (a) to (r), inclusive. Each share shall represent an equal proportional interest in the underlying pool of securities owned by the joint powers authority. To be eligible under this section, the joint powers authority issuing the shares shall have retained an investment adviser that meets all of the following criteria: (1) The adviser is registered or exempt from registration with the Securities and Exchange Commission. (2) The adviser has not less than five years of experience investing in the securities and obligations authorized in Government Code section 53601 subdivisions (a) to (q), inclusive. (3) The adviser has assets under management in excess of five hundred million dollars (\$500,000,000).

~~Other eligible investments are those that are described under Government Code Section 53601.~~ It is noted that special circumstances may arise that will necessitate the purchase of securities beyond the ~~five-year~~ five-year limitation. On such occasions, requests must be approved by City Council no less than three months prior to purchase.

Various daily cash funds administered for or by trustees, paying agents and custodian banks contracted by the City of Novato may be purchased as allowed under State of California Government Code and per the Trust Indenture.

The following summary of maximum percentage limits, by instrument, is established for the City's total pooled funds portfolio, at the time purchases are made:

Investment	Percentage
Marin County Investment Pool	0 to 100%
Repurchase Agreements	0 to 100%
Local Agency Investment Fund	0 to 100% <i>up to LAIF's maximum</i>
<u>State and</u> Local Government Agency Debt	0 to 100%

Investment	Percentage
US Treasury Bonds/Notes/Bills	0 to 100%
US Government Agency Obligations	0 to 100%
Bankers' Acceptances	0 to 40%
Commercial Paper	0 to 25%
Negotiable Certificates of Deposit	0 to 30%
Time Certificates of Deposit	0 to 25%
Medium Term Corporate Notes	0 to 30%
Reverse Repurchase Agreements	0 to 20%
Supranational Investments	0 to 30%
<u>Asset-Backed Securities</u>	<u>0% to 20%</u>
<u>Money Market Funds</u>	<u>0% to 20%</u>
<u>Local Government Investment Pools</u>	<u>0% to 100%</u>

2. Legislative Changes

Any State of California legislative action, that further restricts allowable maturities, investment type or percentage allocations, will be incorporated into the City of Novato's Investment Policy and supersede any and all previous applicable language.

3. Interest Earnings

All moneys earned and collected from investments authorized in this policy shall be allocated quarterly to various fund accounts based on the cash balance at the end of each quarter in each fund as a percentage of the entire pooled portfolio.

4. Limiting Market Value Erosion

The longer the maturity of securities, the greater their market price volatility. Therefore, it is the general policy of the City to limit the potential effects from erosion in market values by adhering to the following guidelines:

All immediate and anticipated liquidity requirements will be addressed prior to purchasing all investments.

All long-term securities will be purchased with the intent to hold all investments to maturity under then prevailing economic conditions. However, economic or market conditions may change, making it in the City's best interest to sell or trade a security prior to maturity.

Bond reserves and other cash for which there is a restriction on the expenditure of the principal may be invested in securities maturing in a period greater than five years. On such occasions, requests must be approved by City Council prior to purchase.

Effective May 22, 2007, the City Council of the City of Novato approved an exception to its Investment Policy to allow for funds deposited in the Hamilton Trust Fund to be invested in securities that can have maturities up to thirty years.

VII. ADVISE AND REVIEW

1. Policy Review

The City of Novato's investment policy shall be reviewed and adopted by resolution of the City Council. This investment policy shall be reviewed at least annually, to ensure its consistency with the overall objectives of preservation of principal, liquidity and yield/return, and its relevance to current law and financial and economic trends. Any amendments to the policy shall be forwarded to City Council for approval. If there are no such amendments, it should be stated.

VIII. INVESTMENT PARAMETERS

1. Diversification

The investments will be diversified by security type and institution.

2. Maximum Maturities

The City of Novato shall limit its maximum final stated maturities to five years unless specific authority is given to exceed [at least three months prior to investment](#). To the extent possible, the Treasurer will attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, the Treasurer will not directly invest in securities maturing more than five (5) years from the date of purchase. The Treasurer should determine what the appropriate average weighted maturity of the portfolio should be.

Reserve funds may be invested in securities exceeding five (5) years if the maturity of such investments are made to coincide as nearly as practical with the expected use of funds. All bond reserve fund investments will be made in compliance with the bond indenture. The ability to invest these types of funds should be disclosed to the City Council including appropriate time restrictions, if any apply.

IX. REPORTING

1. Methods

The City Treasurer shall review and render quarterly reports to the City Manager and City Council, which shall include the face amount of the cash investment, the classification of the investment, the name of the institution or entity, the rate of interest, the maturity date, the current market value, and any other information [the](#)

City wishes to include~~required by law~~. The report shall also detail all repurchase agreements, reverse repurchase positions and associated liabilities. The report shall include a statement of any investment which is an exception to this policy and any realized losses in the prior period.

This report will be prepared in a manner which will allow the City Manager and City Council to ascertain whether investment activities during the reporting period have conformed to the investment policy.

2. Performance Standards

The investment portfolio will be managed in accordance with the parameters specified within this policy. The portfolio should obtain a market average rate of return during a market/economic environment of stable interest rates. Portfolio performance should be compared to appropriate benchmarks on a regular basis. The investment results shall be reviewed annually with the ~~Measure F Oversight/Citizens Finance Committee (or its successors)~~Finance Advisory Commission.

3. Marking to Market

A statement of the market value of the portfolio shall be issued quarterly. This will ensure that the minimal amount of review has been performed on the investment portfolio in terms of value and subsequent price volatility. Review should be consistent with the GFOA Recommended Practice on Mark-to Market Practices for State and Local Government Investment Portfolios and Investment Pools.

X. POLICY

1. Exemption

Any investment currently held that does not meet the guidelines of this policy shall be exempted from the requirements of this policy. At maturity or liquidation, such monies shall be reinvested only as provided by this policy.

2. Amendment

This policy shall be reviewed on an annual basis. Any changes must be approved by the City Council.

XI. GLOSSARY OF INVESTMENT TERMS

Accrued Interest - Interest earned but not yet received.

Active Deposits - Funds which are immediately required for disbursement.

Amortization - An accounting practice of gradually decreasing (increasing) an asset's book value

by spreading its premium (discount) over a period of time.

Asked Price - The price a broker dealer offers to sell securities.

Asset-Backed Securities: Securities that are supported by pools of assets, such as installment loans or leases, or by pools of revolving lines of credits. Asset-backed securities are structured as trusts in order to perfect a security interest in the underlying assets.

Bankers' Acceptance (BA) - Short-term credit arrangements to enable businesses to obtain funds to finance commercial transactions. They are time drafts drawn on a bank by an exporter or importer to obtain funds to pay for specific merchandise. By its acceptance, the bank becomes primarily liable for the payment of the draft at its maturity. A BA is a high grade negotiable investment instrument. Bankers' Acceptances are purchased in various denominations for a term usually not exceeding thirty, sixty, ninety days, but in no case longer than two hundred seventy days.

Basis Point - One basis point is one hundredth of one percent (.01%).

Bid Price - The price a broker dealer offers to purchase securities.

Bond - A financial obligation for which the issuer promises to pay the bondholder a specified stream of future cash flows, including periodic interest payments and a principal repayment.

Book Value - The value at which a debt security is shown on the holder's balance sheet. Book value is acquisition cost less amortization of premium or acquisition cost plus amortization of discount.

Certificate of Deposit - A deposit insured up to \$250,000 by the FDIC at a set rate for a specified period of time.

Collateral - Securities, evidence of deposit or pledges to secure repayment of a loan. Also refers to securities pledged by a bank to secure deposit of public moneys.

Commercial Paper - Short term unsecured promissory note issued by a corporation to raise working capital. These negotiable instruments are purchased at a discount to par value or at par value with interest bearing.

Constant Maturity Treasury (CMT) - An average yield of a specific Treasury maturity sector for a specific time frame. This is a market index for reference of past direction of interest rates for the given Treasury maturity range.

Coupon - The annual rate of interest that a bond's issuer promises to pay the bondholder on the bond's face value.

Credit Analysis - A critical review and appraisal of the economic and financial conditions or of the ability to meet debt obligations.

Current Yield - The interest paid on an investment expressed as a percentage of the current price of the security.

Custody - A banking service that provides safekeeping for the individual securities in a customer's investment portfolio under a written agreement which also calls for the bank to collect and pay out income, to buy, sell, receive and deliver securities when ordered to do so by the principal.

Delivery vs. Payment (DVP) - Delivery of securities with a simultaneous exchange of money for the securities.

Derivative Investments - Derivatives are investments whose value is "derived" from an underlying asset. Frequently derivatives are also indexed in some fashion either directly or indirectly. When appropriate, limited use of derivative investments tied solely to interest rate structures are allowable. However, any investment of this type must receive prior approval from the City Treasurer. Securities or investments classified as derivatives must be issued by an agency or entity authorized by this investment policy.

Discount - The difference between the cost of a security and its value at maturity when quoted at an amount lower than its value at maturity.

Diversification - Dividing investment funds among a variety of securities offering independent returns and risk profiles.

Duration - The weighted average maturity of a bond's cash flow stream, where the present value of the cash flows serve as the weights; the future point in time at which on average, an investor has received exactly half of the original investment, in present value terms; a bond's zero-coupon equivalent; the fulcrum of a bond's present value cash flow time line.

Fannie Mae - Trade name for the Federal National Mortgage Association (FNMA), a U.S. sponsored corporation.

Federal Farm Credit Bank (FFCB) - A U.S. sponsored corporation used to finance the short and intermediate term needs of farmers and national agricultural industry.

Federal Deposit Insurance Corporation (FDIC) - Insurance provided to customers of a subscribing bank which guarantees deposits to a set limit (currently \$250,000) per account.

Federal Home Loan Bank (FHLB) - A federal credit agency to help finance the housing industry. The notes and bonds issued by this agency provide liquidity and home mortgage credit to savings and loan associations, mutual savings banks, cooperative banks, insurance companies and mortgage-lending institutions.

Federal Home Loan Mortgage Corporation (FHLMC) - A U.S. corporation and instrumentality of the U.S. government. Through its purchases of conventional mortgages, it provides liquidity to the mortgage markets, much like FNMA. FHLMC assumes and guarantees that all security holders will receive timely payment of principal and interest.

Federal National Mortgage Association (FNMA) - A U.S. sponsored corporation used to assist the home mortgage market by purchasing mortgages insured by the Federal Housing Veterans Administration.

Federal Reserve System - The central bank of the U.S. which consists of a seven member Board of Governors, 12 regional banks and 5,700 commercial banks that are members.

Fed Wire - A wire transmission service established by the Federal Reserve Bank to facilitate the transfer of funds through debits and credits of funds between participants within the Fed system.

Freddie Mac - Trade name for the Federal Home Loan Mortgage Corporation (FHLMC), a U.S. sponsored corporation.

Governmental National Mortgage Association (GNMA) - A chartered federal corporation guarantees mortgages issued by mortgage bankers, commercial banks, savings and loan associations and other institutions.

Ginnie Mae - Trade name for the Government National Mortgage Association (GNMA), a direct obligation bearing the full faith and credit of the U.S. Government.

Inactive Deposits - Funds not immediately needed for disbursement.

Interest Rate - The annual yield earned on an investment, expressed as a percentage.

Investment Agreements - An agreement with a financial institution to borrow public funds subject to certain negotiated terms and conditions concerning collateral, liquidity and interest rates.

Investment Grade - Securities rated BBB+ (by Standard and Poors and Fitch) and Baa1 by Moody's Investors Service.

Liquidity - Refers to the ability to rapidly convert an investment into cash.

Local Agency Investment Fund (LAIF)- A fund managed by the California State Treasury which local government agencies may use to deposit funds for liquidity and yield. Deposits can be converted to cash within twenty-four hours.

Local Government Investment Pool (LGIP) - Investment pools that range from the State Treasurer's Office Local Agency Investment Fund (LAIF) to county pools, to Joint Powers Authorities (JPAs). These funds are not subject to the same SEC rules applicable to money market mutual funds.

Market Value - The price at which a security is trading and could presumably be purchased or sold.

Mark to Market - The process of establishing market value.

Maturity - The date upon which the principal or stated value of an investment becomes due and payable.

Medium-Term Note - Corporate or depository institution debt securities meeting certain minimum quality standards (as specified in the California Government Code) with a remaining maturity of five years or less.

Money Market Mutual Funds - MMF's are mutual funds that invest exclusively in short-term money market instruments. MMF's seek the preservation of capital as a primary goal while maintaining a high degree of liquidity and providing income representative of the market for short-term investments.

Negotiable Certificates of Deposit - Unsecured obligations of the financial institution, bank or savings and loan, bought at par value with the promise to pay face value plus accrued interest at maturity. They are investment grade negotiable instruments, paying a higher interest rate than regular certificates of deposit. The primary market issuance is in multiples of \$1 million, the secondary market usually trades in denominations of \$500,000.

New Issue - Term used when a security is originally "brought" to market.

Perfected Delivery - Refers to an investment where the actual security or collateral is held by an independent third party representing the purchasing entity.

Portfolio - Collection of securities held by an investor.

Primary Dealer - A group of government securities dealers that submit daily reports of market activity and security positions held to the Federal Reserve Bank of New York and are subject to its informal oversight.

Purchase Date - The date in which a security is purchased for settlement on that or a later date.

Rate of Return - The yield obtainable on a security based on its purchase price or its current market price. This may be the amortized yield to maturity on a bond or the current income return.

Repurchase Agreement (REPO) - A transaction where the seller (bank) agrees to buy back from the buyer (City) the securities at an agreed upon price after a stated period of time.

Reverse Repurchase Agreement (REVERSE REPO) - A transaction where the seller (City) agrees to buy back from the buyer (bank) the securities at an agreed upon price after a stated period of time.

Risk - Degree of uncertainty of return on an asset.

Safekeeping - see Custody.

Sallie Mae - Trade name for the Student Loan Marketing Association (SLMA), a U.S. sponsored

corporation.

Secondary Market - A market made for the purchase and sale of securities that have already been issued.

Separate Trading of Registered Interest and Principal of Securities (STRIPS) - U.S. Treasury issued zero coupon securities.

Settlement Date - The date on which a trade is cleared by delivery of securities against funds.

Student Loan Marketing Association (SLMA) - A U.S. corporation and instrumentality of the U.S. government. Through its borrowing, funds are targeted for loans to students in higher education institutions.

Strips - U.S. Treasury or municipal securities that brokerage firms have separated into principal and interest which are marketed as zero coupon securities.

Supranationals – Bonds issued by international organizations which promote economic development for members. Examples of Supranational organizations include International Bank for Reconstruction and Development (IBRD), International Finance Corporation (IFC), and Inter-American Development Bank (IADB).

Treasury Bills - Short-term, direct obligations of the U.S. Government issued with original maturities of 13 weeks, 26 weeks and 52 weeks; sold in minimum amounts of \$10,000 in multiples of \$5,000 above the minimum. Issued in book entry form only. T-bills are sold on a discount basis.

U.S. Government Agencies - Instruments issued by various US Government Agencies most of which are secured only by the credit worthiness of the particular agency.

Yield - The rate of annual income return on an investment, expressed as a percentage. It is obtained by dividing the current dollar income by the current market price of the security.

Yield to Maturity - The rate of income return on an investment, minus any premium or plus any discount, with the adjustment spread over the period from the date of purchase to the date of maturity of the bond, expressed as a percentage.

Yield to Maturity at Maturity - The rate of income return of a callable security with a variable interest rate. The Yield is calculated as if the security matures at par value and is not called.

Yield Curve - The yield on bonds, notes or bills of the same type and credit risk at a specific date for maturities up to thirty years.

Zero-Coupons - A debt security or instrument that does not pay periodic interest. They are issued at a discount to the maturity value of the security, and its value increases as its time to maturity decreases.

City Manager



CITY OF NOVATO
CALIFORNIA

INVESTMENT POLICY – REVIEW 2023

INVESTMENT POLICY

- Applies to any City funds invested, including both the Hamilton Trust and City operating funds.
- Requires a review and update- typically annually.
- Last updated in 2019.



PFM ASSET MANAGEMENT

- Duties and Responsibilities:
 - Manage the portfolio
 - Invest Funds
 - Code Compliance (California Government Code Section 53601)
 - Report on investment activity
 - Meet with Staff to review market trends and performance



City of Novato

Finance Advisory Commission

Investment Policy Discussion

January 19, 2023

Presented by:

Wale Kajopaiye, Sr. Managing Consultant

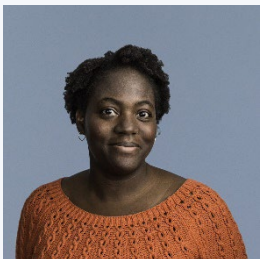
Allison Kaune, Sr. Analyst

PFM Asset Management LLC | pfmam.com

NOT FDIC INSURED : NO BANK GUARANTEE : MAY LOSE VALUE

For Institutional Investor or Investment Professional
Use Only – This material is not for inspection by,
distribution to, or quotation to the general public

The City of Novato's PFMAM Team



Monique Spyke
Managing Director
Engagement Oversight
18 years in the
industry/PFMAM



Allison Kaune
Senior Analyst
Relationship Manager
16 years in the industry/PFMAM
Has worked with Novato since the
start of our engagement in 2012



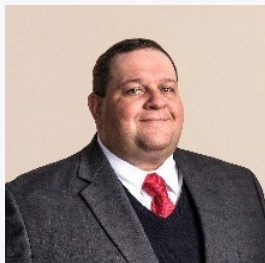
Wale Kajopaiye, AAMS, AIF
Senior Managing Consultant
Relationship Manager
13 years in the industry/
2 years with PFMAM



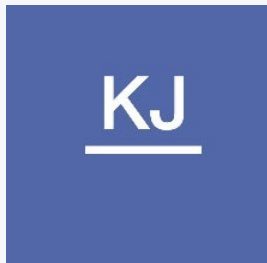
Michael Downs, CFA
Senior Portfolio Manager
Portfolio Management
35 years in the industry/
8 years with PFMAM



Kyle Jones
Managing Director
Portfolio Strategist
20 years in the industry/
10 years with PFMAM



Leo Karwejna
Managing Director
Chief Compliance Officer
24 years in the industry/
12 years with PFMAM



Karen Jones, CPA
Managing Director
Accounting
33 years in the industry/
5 years with PFMAM

PFM Asset Management LLC

42 years of experience

245 professionals

- ▶ Specialist in customized, investment-grade fixed income and Multi-Asset portfolios
- ▶ Fixed income strategies include:
 - ▶ Liquidity management
 - ▶ Enhanced cash
 - ▶ Bond proceeds investments
 - ▶ 1-3, 1-5, and 1-10 year mandates
- ▶ Philosophy and mission consistent with public sector objectives
 - ▶ Safety
 - ▶ Liquidity
 - ▶ Yield

\$186.0b

Total assets nationwide

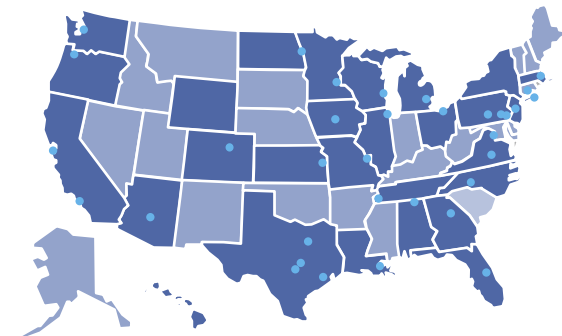
\$140.3b

Discretionary assets under management

\$45.7b

Assets under advisement

**National Reach:
PFMAM Offices**



As of September 30, 2022.

- ▶ The City's Investment Policy:
 - ▶ Is in compliance with California Government Code (the "Code")
 - ▶ Is comprehensive and includes sections and guidelines as recommended by industry best practices
 - ▶ Defines the investment program objectives
 - In order of priority: safety, liquidity, return
 - ▶ Allows for a broad range of permitted investments
 - With appropriate credit quality requirements and sector/issuer limitations
 - ▶ Requires transparency through reporting requirements
- ▶ Investment Policy reviews help to ensure the Policy remains this way

2023 Investment Policy Recommendations

- ▶ **Administrative**

- ▶ Include all relevant funds in the Scope section
- ▶ Update title references and commission reference

- ▶ **Increase transparency and increase safety parameters regarding authorized investments**

- ▶ List all of the City's permitted investment types
- ▶ Remove language allowing the City to invest in everything permitted by the Code
- ▶ Reduce maximum issuer exposure from 15% to 10% and apply to more investment types

- ▶ **Address 2023 Code changes**

- ▶ Calculating term to maturity and limit the number of days between security purchase and security settlement (forward settlement)

- ▶ **Add relevant terms to the glossary**

Authorized Investments

- ▶ City funds in the PFMAM-managed portfolios, including those related to the Hamilton Trust, are governed by California Government Code Section 53601.
- ▶ The City's Policy permits all investment types authorized by the Code with the following language in the authorized investment section:

“Other eligible investments are those that are described under Government Code Section 53601.”

- ▶ We recommend deleting this language and instead listing all of the investment types the City chooses to authorize for the City's use. This will:
 - ▶ Increase transparency
 - ▶ Provide the City more control over the investments you want to allow

California Government Code 53601

		1 Day	180 Days	270 Days	1 Year	5 Years	Over 5 Years	
Conventional Fixed Income	U.S. Treasuries	Permitted					Requires Approval	
	Federal Agencies	Permitted					Requires Approval	
	Municipal Securities	Permitted					Requires Approval	
	Negotiable Certificates of Deposit	Permitted					Requires Approval	
	Commercial Paper	Permitted			Prohibited			
	Bankers' Acceptances	Permitted		Prohibited				
	Medium-Term Corporate Notes	Permitted					Prohibited	
	Asset-Backed Securities (ABS)	Permitted					Prohibited	
	Supranationals	Permitted					Prohibited	
	Public Bank Debt	Permitted					Requires Approval	
	Repurchase Agreements	Permitted				Prohibited		
	Money Market Funds/Bond Mutual Funds	Permitted	Prohibited					
	Local Government Investment Pools	Permitted	Prohibited					

Investment Universe vs. California Government Code

		1 Day	180 Days	270 Days	1 Year	5 Years	Over 5 Years	
Conventional Fixed Income	U.S. Treasuries	Permitted					Requires Approval	
	Federal Agencies	Permitted					Requires Approval	
	Municipal Securities	Permitted					Requires Approval	
	Negotiable Certificates of Deposit	Permitted					Requires Approval	
	Commercial Paper	Permitted			Prohibited			
	Bankers' Acceptances	Permitted		Prohibited				
	Medium-Term Corporate Notes	Permitted					Prohibited	
	Asset-Backed Securities (ABS)	Permitted					Prohibited	
	Supranationals	Permitted					Prohibited	
	Public Bank Debt	Permitted					Requires Approval	
	Repurchase Agreements	Permitted				Prohibited		
	Money Market Funds/Bond Mutual Funds	Permitted	Prohibited					
Local Government Investment Pools	Permitted	Prohibited						
Broader Fixed Income	Foreign Sovereign	Prohibited						
	Fixed-Income ETFs	Prohibited						
	High-Yield Bonds	Prohibited						
	Private Placements	Prohibited						
	Convertibles	Prohibited						
	Non-U.S. Dollar Investment Grade	Prohibited						
	Emerging Markets Debt	Prohibited						
	Bank Loans	Prohibited						
Equities	Domestic Equities (Large-, Mid-, Small-Cap)	Prohibited						
	International Equities (Large-, Mid-, Small-Cap)	Prohibited						
	Emerging Markets	Prohibited						
	Preferred Stock	Prohibited						
	Equity Mutual Funds and ETFs	Prohibited						
Alternatives	Commodities	Prohibited						
	Real Estate	Prohibited						
	Hedge Funds	Prohibited						
	Private Equity	Prohibited						
	Venture Capital	Prohibited						
	Tangible Assets	Prohibited						
	Complex Derivatives, Futures, and Options	Prohibited						

Source: California Government Code Section 53601.

City's Investment Policy Is More Restrictive than Code

Security Type		California Government Code	City's Investment Policy
Overnight	LAIF	State requirements	State requirements
	Money Market Funds	20% of portfolio, AAA rated additional requirements	20% of portfolio, AAA rated additional requirements
	LGIPs	Specific requirements	Specific requirements
Government	U.S. Treasuries	No restrictions	5-years
	Federal Agencies	No restrictions	5-years
	Municipal Obligations	No restrictions	AA rated, 10% per issuer
	Supranationals	5 years, AA rated 30% of portfolio	5 years, AA rated 30% of portfolio, 10% per issuer
Credit	Bankers' Acceptances	180 days 40% of portfolio, 30% per issuer	180 days, 40% of portfolio, 10% issuer
	Repurchase Agreements	1 year, 102% collateral requirement	90 days, 102% collateral requirement
	Medium-Term Notes	5 years, A rated 30% of portfolio, 10% per issuer	5 years, A rated 30% of portfolio, 10% per issuer
	Negotiable CDs	5 years, 30% of portfolio Additional requirements	5 years, 30% of portfolio, 10% per issuer, Additional requirements
	Commercial Paper	270 days, A-1 rated 40% of portfolio, 10% per issuer	270 days, A-1 rated 25% of portfolio, 10% per issuer
	Asset-Backed Securities	5 years, AA rated 20% of portfolio	5 years, AA rated 20% of portfolio, 10% per issuer
	Public Bank Obligations	No restrictions	Not Permitted

Red text: Policy requirements that are more restrictive than Code

- ▶ Changes recommended:
 - ▶ Address recent Code changes
 - ▶ Increase transparency
 - ▶ Increase diversification requirements
 - ▶ Do not add to City's list of authorized investments
 - ▶ Address administrative changes

Disclaimer

Investment advisory services are provided by PFM Asset Management LLC (“PFMAM”), an investment adviser registered with the U.S. Securities and Exchange Commission and a subsidiary of U.S. Bancorp Asset Management, Inc. (“USBAM”). USBAM is a subsidiary of U.S. Bank National Association (“U.S. Bank”). U.S. Bank is a separate entity and subsidiary of U.S. Bancorp. U.S. Bank is not responsible for and does not guarantee the products, services or performance of PFMAM. The information contained is not an offer to purchase or sell any securities. Additional applicable regulatory information is available upon request.

For more information regarding PFMAM’s services or entities, please visit www.pfmam.com.

STAFF REPORT

MEETING

DATE: January 19, 2023

TO: Citizens Finance Oversight/Advisory Committee

FROM: Carla Carvalho-DeGraff, Deputy Director Administrative Services

SUBJECT: Fiscal Year 2022/2023 Quarterly Budget Report

REQUEST

Receive and file Quarter 2 Budget Report for Fiscal Year 2022/2023.

DISCUSSION

FY 2022/2023 represents the first year of quarterly budget reporting. The goal this year is to improve budget transparency by reporting on the status of the General Fund each quarter. For FY 2023/2024 the report will include a year-to-date comparison by quarter for the current and prior year and will be expanded to include non-General Fund categories that have significant budgetary impacts (such as Gas Tax).

General Fund Performance Summary

General Fund revenue is budgeted at \$47.7 million while General Fund expenses are budgeted at \$50.0 million for Fiscal Year 2022/2023. Revenue and expenses may be different than the adopted budget due to budget amendments approved by the City Council throughout the year.

As of Quarter 2 of Fiscal Year 2022/2023 we have received 43% of budgeted revenues at \$20.5 million and expended 51% of budgeted expense at \$25.6 million. Revenue and expense are currently tracking as projected. Additional information about performance-to-quarter is detailed below and on page 3 of Attachment 1.

For detailed variance explanations please see page 2 of the budget report.

Revenue

Property Tax

The largest source of General Fund revenue is derived from Property Taxes which are budgeted at \$17.7 million for Fiscal Year 2022/2023. Receipt of Property Tax revenue is at 54% through Quarter 2. The City receives property tax in three installments during the year, the largest disbursements in December and April. Property Tax receipts are currently tracking as anticipated.

Sales Tax

The second largest revenue source for the City is Sales Tax budgeted at \$15.2 million for Fiscal Year 2022/2023. The largest component of the City's Sales Tax revenue is General Use Sales

Tax budgeted at \$11.9 million, while Measure C Sales tax predominately makes up the difference at \$3.3 million. Through the end of Quarter 2, the City has received four months of revenue totaling \$5.7 million or 37% of budget.

Hotel Tax (TOT)

Hotel Tax is received in quarterly installments throughout the year and is budgeted at \$1.5 million for Fiscal Year 2022/2023. We have received \$611K or 39% through Quarter 2. Receipts for Quarter 1 were received in Quarter 2, this timing is consistent with prior years. Overall, TOT is returning to pre-pandemic levels.

Grants, Fines, Int. Earnings, Other Revenue

This category is under budget due to losses on investments; depending on market conditions, the losses may be reversed as the year progresses.

It is important to note that this category includes \$1 million in revenue tied to the updated fee schedule (effective in September 2022). Staff will reallocate the \$1 million amongst the respective departments at mid-year. Doing this will align the projected revenue increase to the originating departments. Revenue related to the updated fees is primarily reflected in the Community Development category.

Community Development

See notes above (Grants, Fines, Int. Earnings, Other Revenue) related to the updated fee schedule and impact on Community Development revenue.

Park, Recreation and Community Services Fees

The City has taken on programming at the Hamilton Pool for 2023; programs were previously provided under contract by the City of San Rafael. In anticipation of new aquatics revenue being received beginning Quarter 3, this budget was amended by \$117,780. Revenue for all other programs is at 57% of budget indicating that the demand for Parks, Recreation and Community Services programs has returned.

Expense

Non-Departmental

Non-Departmental Operating expenses are budgeted at \$2.4 million and 66% has been expended in Quarter 2. This is anticipated as transfers out to other funds makes up the majority of this category; some of the transfers are completed at the beginning of the year for the annual amount as the funds are needed for approved capital improvement projects.

Personnel Costs – All Departments

Personnel costs, comprised of employee salaries and benefits, are budgeted at \$33.2 million and are expended throughout City departments at 52% through Quarter 2. This expense includes a one-time lump sum payment of \$4.7 million payable to CalPERS for unfunded accrued liability. Salary and benefit expenses are currently trending as anticipated.

Operating Costs – All Departments

Operating costs throughout City departments are budgeted at \$16.8 million and are at 50% of budget as of Quarter 2. This includes Risk Management which is over budget as insurance costs are trending higher than anticipated, but overall spending is lower than anticipated so expenses are on target.

RECOMMENDATION

Receive and file report.

ATTACHMENTS

1. FY 22.23 Qtr. 2 Budget Report

General Fund Quarterly Budget Report

Period 07/01/2022-12/31/2022
Through Qtr. 2

	Amended Budget	Actual	FYTD	% of Budget FYTD	Variance Analysis
Revenues					
Non Departmental					
Property Taxes	17,714,010	9,503,760		54%	a
Sales Tax	15,177,020	5,666,144		37%	b
Hotel Tax TOT	1,580,000	611,347		39%	c
Other Taxes	3,015,000	452,958		15%	d
Grants, Fines, Int. Earnings, Other Rev	1,183,486	(174,842)		-15%	e
Transfers in from Other Funds	1,523,000	722,313		47%	f
Other Financing Sources	1,795,330	-		0%	g
Rents	80,500	30,590		38%	h
Central Administration - General	15,200	200,519		1319%	i
Central Administration - City Attorney	13,300	22,147		166.5%	j
Central Administration - Risk Management	4,400	-		0.0%	
Finance Operations	33,210	85,126		256%	k
Finance Special Programs	50,000	(107,258)		-215%	l
Police	1,452,845	469,255		32%	m
Community Development	1,795,550	1,575,920		88%	n
Public Works	315,850	413,928		131%	o
Parks, Recreation & Community Services	1,903,856	1,016,496		53%	p
General Fund Gross Revenue	47,652,557	20,488,403		43%	

Expense

Non Departmental

Personnel	(250,000)	-		0%	
Operating	2,393,612	1,571,801		66%	q
Central Administration - General					
Personnel	2,066,600	913,466.42		44%	
Operating	768,576	190,279.68		25%	
Central Administration - City Attorney					
Personnel	-	-			
Operating	687,600	351,114		51%	
Central Administration - Risk Management					
Personnel	33,394	4,081		12%	r
Operating	1,839,476	2,427,589		132%	s
Central Administration - Human Resources					
Personnel	518,895	294,239		57%	

	Amended Budget	Actual	FYTD	% of Budget FYTD	Variance Analysis
Operating	537,372		145,042	27%	
Information Technology					
Personnel	865,507		457,215	53%	
Operating	627,500		243,034	39%	
Finance Operations					
Personnel	1,492,250		700,121	47%	
Operating	795,712		344,377	43%	
Finance Special Programs					
Personnel	-		-		
Operating	2,050,890		780,100	38%	
Police					
Personnel	16,750,441		9,286,696	55%	
Operating	1,643,097		598,865	36%	
Community Development					
Personnel	3,190,101		1,534,761	48%	
Operating	2,201,873		517,306	23%	
Public Works					
Personnel	5,896,705		2,737,296	46%	
Operating	2,402,268		1,043,361	43%	
Parks, Recreation & Community Services					
Personnel	2,640,669		1,212,983	46%	
Operating	822,235		201,074	24%	
General Fund Expenditures	49,974,773		25,554,799	51%	

	Budget	Actual	
Personnel	33,204,562.00	17,140,856.70	52%
Operating	16,770,211.00	8,413,942.36	50%
	49,974,773.00	25,554,799.06	

Variance Analysis

Period 07/01/2022-12/31/2022
Through Qtr. 2

- a. The City's property taxes are received twice a year. The City received its first substantial installment in Quarter 2.
- b. 4 months of sales tax revenue have been received.
- c. Q1 TOT installment has been received. Comparing Q1 2023 to Q1 2019 receipts are now largely comparable by hotel to pre-pandemic levels, though not all of the hotels have fully recovered.
- d. Business license fees make up 42% of this category; only 15% of fees were received in Quarter 2, the majority of the fees will be received in Quarter 3. Other items in this category such as franchise fees always lag one quarter or are received annually.
- e. \$1M or 84.5% budgeted increase for the fee study revenue will be spread to the appropriate departments at midyear. Credit balance is due to loss on sale of investments in Q1 only (\$141K). Investment information is received and recorded the month after quarter end. There was also a (\$43K) reversal of an erroneous accrual from FY22.
- f. Transfers in are scheduled transfers in from other funds to support General Fund activities.
- g. Other financing sources is the carryover of one time funds; this category is used to identify the source of funds being used as the revenue was collected in prior years.
- h. Rent slightly under as one rent check was received but not deposited until January so will be reflected in Q3.
- i. Economic Development and Sustainability now reside in this department. Mid-year adjustments needed for unanticipated revenue including: EV charging rebates @ \$54K; County funding for homeless initiatives @ \$125K.
- j. Cost Recovery higher than budgeted, will be adjusted at mid-year.
- k. Unbudgeted revenue of \$73k received from LAD/CFD Administrative Fees. This will be a revenue received quarterly and will need to be budgeted for at mid-year.
- l. Marin Valley Mobile Country Club (MVMCC) administrative services charges in the amount of \$359K were brought current. There was an over accrual of (\$116K) leaving a credit balance. FY22/23 administrative fees will be billed in Q4.
- m. Police budgeted revenue contains two large grant that are generally reimbursed in arrears, fines and court fees received through the county lag by 2-3 months.
- n. Higher than budget due to fee study / structure change; for example plan checks are now fee based rather than deposit accounts.

Variance Analysis

Period 07/01/2022-12/31/2022
Through Qtr. 2

- o.** Budgeted revenue for permits in the Public Works department is based on the trend of revenue received over the last few fiscal years. We are currently at 131% of our projected revenue in Public Works due unanticipated project resulting in increased Permit Revenue. Permit revenue is unpredictable and can vary from one fiscal year to the next.
- p.** PRCS revenue is exceeding budget. Gymnastics makes up 40% of the revenue stream. Demand for programs has returned.
- q.** Operating transfers out contain annual transfers of \$750K that are completed at the beginning of the year to fund capital improvement projects.
- r.** Position vacancy in Quarters 1-2.
- s.** Insurance activity trending higher than budget by \$591K, premiums higher than expected.

STAFF REPORT

MEETING

DATE: January 19, 2023

TO: Finance Advisory Commission

FROM: Amy Cunningham, Director of Administrative Services
Carla Carvalho-Degraff, Deputy Director of Administrative Services

SUBJECT: Update on Finance Department Activities

REQUEST

Receive report.

DISCUSSION

Staff will provide the Finance Advisory Commission (Commission) with updates on current finance department activities including:

- Staffing Update – All vacancies filled
- FY19/20 Audit – To Council 02/28/23, FAC review March 2023
- FY20/21 Close and Audit Preparation - In progress, auditor review fall
- FY21/22 Close and Audit Preparation – In progress
- CIP Reconciliation Project – Complete
- FY23/24 Budget – Preparation underway
- Policies – Credit Card, Purchase Orders

Staff recommends the Commission receive the report and provide any feedback on the above areas.