



City Council Redevelopment Successor Agency Report

City Council Meeting: February 25, 2020
Agenda Item: 3.I

To: Redevelopment Successor Agency, Mayor and City Council
From: Gigi Decavalles-Hughes, Director, Finance Department, Revenue
Subject: Annual Update on City Investment Policy

Recommended Action

Staff recommends that the City Council:

1. Review and approve the City's revised Investment Policy;
2. Extend the delegation of investment authority to the Director of Finance, as City Treasurer, from March 1, 2020 through February 28, 2021.

Staff also recommends that the Successor Agency Governing Board:

1. Review and approve the City Investment Policy for Successor Agency Investments;
2. Extend investment authority to the Treasurer of the Successor Agency, from March 1, 2020 through February 28, 2021.

Summary

For purposes of cash flow, savings for future capital expenditures and to provide adequate reserves for City operations and fiscal sustainability, the City invests significant funds in a variety of safe and prudent ways. Per State law, the treasurer or chief fiscal officer of a local agency may annually render an investment policy to its governing body for consideration at a public meeting. While not required, staff believes that it is important to follow best practices and provide transparency by submitting the City's Investment Policy (Attachments A and B) to Council annually for consideration and approval at a public meeting. The Santa Monica City Charter designates the Director of Finance (as the City Treasurer) as the custodian of all public funds. Additionally, State law requires that the Council delegate investment authority to the City Treasurer for a one-year period, renewable annually. The current delegation of authority carries through February 29, 2020.

Discussion

City investments are made only in those instruments specifically authorized by California State laws, primarily Sections 53601, 16429.1, and 53684 et seq. of the Government Code. Within these legal guidelines, the three primary objectives of the City's Investment Policy and Investment practices, in priority order are:

1. Safety – Safety of principal is the foremost objective of the City's investment program. City investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio by diversifying its investments among a variety of securities offering independent returns.
2. Liquidity – City investments are kept sufficiently liquid to enable the City to meet all operating requirements which might be reasonably anticipated by structuring the portfolio so that securities mature concurrently with anticipated cash needs to the extent possible. Investments are primarily made in securities with active secondary or resale markets. Additionally, an adequate liquidity buffer is maintained for extraordinary circumstances.
3. Rate of Return – The City's investment portfolio is designed with the objective of attaining a benchmark rate of return throughout budgetary and economic cycles taking into account safety and liquidity requirements. The benchmark may vary from time to time depending on the economic and budgetary conditions present.

The City continues to abide by the highest professional standards in the management of public funds. While the investment strategy is flexible and can change based on market and economic conditions, the legal and policy guidelines governing these investment decisions remain relatively static. In addition, the City Investment Policy includes socially responsible investment principles. In recent years, the City has added divestment from fossil fuels and from banks providing funding to fossil fuel companies to these principles. In addition, the City considers Economic, Social, and Governance (ESG) ratings and performance when making investment decisions. On an on-going basis, staff also reviews public agency investment best practices and regulatory or legal changes to ensure City compliance. Staff has reviewed the latest

Local Agency Investment Guidelines Report issued by the California Debt and Investment Advisory Commission. There were two statutory changes of note made in 2019:

- Per AB 857, the list of eligible investments has been expanded to include commercial paper, debt securities, or other obligations of a public bank, as defined in Government Code Section 57600.” In addition, the bill adds public banks to the list of depository institutions to which local agency deposits can be made.
- AB 945 essentially relates to the use of a private sector placement service for the deposit of an agency’s surplus, whether those investments are in certificates of deposit or another form. The bill, from January 1, 2020, until January 1, 2026, increases to 50 percent the percentage of surplus funds that may be invested in this manner. On and after January 1, 2026, the provisions of this bill would return the portfolio limitation to 30%.

The City’s Investment Policy has been updated to reflect these changes. However, staff does not expect these changes to have an immediate impact on City investment practices.

Financial Impacts & Budget Actions

There is no immediate financial impact or budget action necessary as a result of the recommended actions. Staff provides monthly reports to the City Council and the City Manager describing the present status of City investments and monies held by the City, as well as summarizing all investment transactions for the month. Interest earnings from the City’s pooled investment portfolio are allocated to the various City funds based upon each fund’s share of total City cash and investments. Projected investment earnings for each fund are included in the FY 2019-20 Revised Budget. No budget action is required at this time.

Prepared By: David Carr, Assistant City Treasurer

Approved

Forwarded to Council



Gigi Decavalles-Hughes, Director

2/12/2020



Rick Cole, City Manager

2/17/2020

Attachments:

- A. Annual Update on City Investment Policy-redlined
- B. Annual Update on City Investment Policy-Final 2020.02