



City of Emeryville

CALIFORNIA

MEMORANDUM

DATE: September 5, 2023
TO: Paul Buddenhagen, City Manager
FROM: Lawrence Chiu, Finance Director
SUBJECT: **Resolution Of The City Council Of The City Of Emeryville Adopting The Annual Statement Of Investment Policy And Delegation Of Authority To The Finance Director/Treasurer**

RECOMMENDATION

Staff recommends that the City Council adopt the resolution approving the attached annual Statement of Investment Policy and delegate authority for investment transactions to the Finance Director/Treasurer.

BACKGROUND

California Government Code Section 53646 requires a Statement of Investment Policy (Investment Policy) to be submitted annually to the local agency legislative body for consideration at a public meeting. At its meeting on June 16, 2020, the City Council adopted the Statement of Investment Policy (Resolution No. 20-67).

The Investment Policy places a high priority on ensuring the safety of principal investments first and then ensuring that the liquidity needs for payment of City obligations are met prior to considering any yield on investments. The City continues to abide by the highest professional standards for the management of public funds. While 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.

Prior to the dissolution of the Emeryville Redevelopment Agency (RDA), the City and RDA pooled cash and investments; after dissolution, the former RDA cash and investment balances are classified as accounts under the control of the City as Successor Agency to the RDA and not pooled with City assets.

On July 19, 2022, the City Council approved a contract with a registered investment adviser, Chandler Asset Management, for professional investment advisory services. In addition to a review of investment policy for compliance with the California Government Code, the review this year also focused on the inclusion of industry best practices.

DISCUSSION

The proposed Investment Policy reflects the most recent changes to California Government Code 53601 (Code), adds additional asset classes allowed by the Code, but not utilized by the City, and includes language to strengthen risk measures and increase safety in the City's investment program.

The following proposed changes, organized by section and shown in redline, are included in the attached Investment Policy.

Delegation of Authority

California Government Code Section 53607 authorizes a legislative body to delegate its authority over investment transactions to the Treasurer of the local agency. The authority may be delegated for a one-year period. Subject to review, the legislative body may renew its delegation of authority each year.

The City Council adopted the current Investment Policy in June 2020. As part of its approval, the City Council delegated authority for investment transactions to the Treasurer as authorized by Government Code Section 53607. The proposed updated Investment Policy continues this delegation of investment transaction authority to the Treasurer.

In addition, language was added to the proposed Investment Policy that the City may engage the services of external investment advisers who are registered under the Investment Advisers Act of 1940, to assist in the management of the City's investment portfolio.

Authorized and Suitable Investments

The proposed Investment Policy also added language to:

- (a) specify that concentration limits and credit requirements apply at time of purchase as provided for by the Code; and
- (b) tighten requirements for certain asset classes, and include additional securities eligible under the Code, whose risk will be analyzed and mitigated by the City's investment manager.

It is anticipated that the inclusion of additional securities eligible under the Code will allow the City to increase diversification to the City's investment portfolio.

Additional changes to the proposed Investment Policy include:

Federal Agency Obligations

Updated the Investment Policy's existing language related to Federal Agency obligations to more closely mirror language used in the Code. Additionally, placing a 30% limit per issuer to avoid overexposure to any single Agency issuer, including a five (5) year maximum maturity to limit market risk, and adding a 20% limit on federal agency callable securities to better control interest rate risk.

Asset-Backed Securities (ABS) and Mortgage-Backed Securities (MBS)

Added language to include ABS and MBS in the investment portfolio. ABS and MBS are passthrough securities allowed for investment under the Code that comprise pools of receivables where the City's principal and interest payments are made by debtors included in the pool.

The City's investment adviser has extensive experience in managing ABS and MBS, and only purchases the highest, most liquid structures in practice. The City will increase diversification and may enhance long-term return by including pass-through securities in the City's investment program.

Medium-Term Investment Grade Corporate Notes

The City's investment policy currently allows for the investment of high credit quality corporate medium-term notes, but currently limits the investment to no more than 15% of the City's portfolio.

The language was updated to increase the sector limit to 30% and limit exposure to any single issuer to 5% of the portfolio. The investment advisor will mitigate credit risks associated with this asset type through an extensive credit review process. This change will increase the City's ability to diversify the investment portfolio.

Diversification and Other Guidelines

Added language to specify that when using a benchmark to compare risk and return, the duration of the City's investments will be kept near the duration of the City's risk and performance-measuring benchmark.

Added language that sale of assets may occur before maturity. The City's Investment Policy is to generally hold the assets until maturity. There are periodic sales before maturity in order to rebalance the investment portfolio and improve credit quality.

Performance Standards

Added language to adopt the use of a performance and risk-measuring benchmark to quantify investment outcomes.

FISCAL IMPACT

The proposed updated Investment Policy conforms to California Government Code 53601 and reflects best practices designed to meet the City's investment objectives and cash flow needs by managing safety, liquidity and return on investments in a prudent manner.

ADVISORY BODY REVIEW

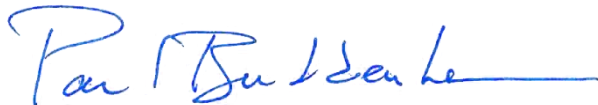
The Budget and Governance Committee reviewed the proposed Statement of Investment Policy on July 18, 2023 and approved the staff's recommendation.

CONCLUSION

Staff recommends that the City Council approve the updated Statement of Investment Policy and delegate authority for investment transactions to the Finance Director/Treasurer.

PREPARED BY: Lawrence Chiu, Finance Director

**APPROVED AND FORWARDED TO THE
CITY COUNCIL OF THE CITY OF EMERYVILLE:**



Paul Buddenhagen, City Manager

ATTACHMENTS

- Draft Statement of Investment Policy (Redline)
- Draft Resolution
- Exhibit A – Statement of Investment Policy (Clean)