

INVESTMENT POLICY
FOR
CITY OF GILROY

Revised: November 2022

I. STATEMENT OF OBJECTIVES

The purpose of this Investment Policy (“Policy”) is to identify elements that will foster a prudent and systematic investment program that meet the City of Gilroy’s objectives through a diversified investment portfolio. This policy also serves to organize and formalize the City’s investment related activities, while complying with all applicable statutes governing the investment of public funds.

Temporarily idle or surplus funds of the City of Gilroy shall be invested in accordance with principles of sound treasury management and in accordance with the provisions of California Government Code Sections 53600, et seq., the Municipal Code, guidelines established by the California Municipal Treasurer's Association and the California Society of Municipal Finance Officers, and this Investment Policy.

A. Overall Risk Profile

The three basic objectives of Gilroy's Investment Program are, in order of priority:

1. Safety of invested funds;
2. Maintenance of sufficient liquidity to meet cash flow needs of the City; and
3. Attainment of the maximum yield possible consistent with the first two objectives.

The achievement of these objectives shall be accomplished in the manner described below:

1. Safety of Invested Funds

The City shall ensure the safety of its invested idle funds by limiting credit and interest rate risks. Credit risk is the risk of loss due to the failure of the security issuer or backer. Interest rate risk is the risk that the market value portfolio securities will fall due to an increase in general interest rates.

a. Credit risk will be mitigated by:

- i. Limiting investments to the safest types of securities as outlined in this policy;
- ii. By prequalifying the financial institutions with which it will do business; and
- iii. By diversifying the investment portfolio so that the failure of any one issuer or backer will not place an undue financial burden on the City.

b. Interest rate risk will be mitigated by:

- i. Maintaining adequate sums in 30 day or less funds.
 - ii. Structuring the City's portfolio so that securities mature to meet the City's cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to their maturation to meet those specific needs; and
 - iii. Investing primarily in shorter term securities (five years or less).
- c. The physical security or safekeeping of the City's investments is also an important element of safety. Detailed safekeeping requirements are defined in Section III of this Policy.

2. Liquidity

The City's investment portfolio shall be structured in a manner which strives to achieve that securities mature at the same time as cash is needed to meet anticipated demands (static liquidity). Additionally, since all possible cash demands cannot be anticipated, the portfolio should consist largely of securities with active secondary or resale markets (dynamic liquidity).

Funds equal to 20% of the total annual expenditure budget less any capital expenditures for which bond proceeds are available, less internal service fund charges and less Trust and Agency fund expenditures, as first adopted for each fiscal year, shall be invested in the California State LAIF or other 30 day or less securities for call requirements. However, this provision shall not require the sale of any investment due solely to the adoption of a new budget, or amendment to a budget, which would have the effect of increasing the dollar amount needed to maintain this 20% requirement in 30 day or less funds. At such time that the 30 day or less funds falls below 20% of the annual expenditure budget, the City Treasurer, within 30 days, will notify the Investment Committee with a proposed action plan. The City Council will be subsequently notified of the action taken. The specific percentage mix of different investment instruments and maturities is described in Section II of this Policy.

3. Yield

Yield on the City's investment portfolio is of secondary importance compared to the safety and liquidity objectives described above. Investments are limited to relatively low risk securities in anticipation of earning a fair return relative to the risk being assumed. While it may occasionally be necessary or strategically prudent of the City to sell a security prior to maturity to either meet unanticipated cash needs or to restructure the portfolio, this Policy specifically prohibits trading securities for the sole purpose of speculating on the future direction of interest rates.

B. Time Frame for Investment Decisions

The City's investment portfolio shall be structured to provide that sufficient funds from investments are available every month to meet the City's anticipated cash needs. Subject

to the safety provisions outlined above, the choice in investment instruments and maturities shall be based upon an analysis of anticipated cash needs, existing and anticipated revenues, interest rate trends, and specific market opportunities. No investment should have a maturity of more than five (5) years from its date of purchase without receiving City Council approval within the prior 90 days.

C. Pooling of Funds

The City will consolidate cash and reserve balances from all funds to maximize investment earnings and to increase efficiencies with regard to investment pricing, safekeeping and administration. Investment income will be allocated to the various funds based on their respective participation and in accordance with generally accepted accounting principles.

D. Definition of Idle or Surplus Funds

Idle or surplus funds for the purpose of this Policy are all City funds which are available for investment at any one time, including the estimated checking account float, excepting those minimum balances required by the City's banks to compensate them for the cost of banking services. This Policy also applies to the idle or surplus funds included in the general fund, special revenue funds, debt service funds, capital projects funds, enterprise funds, internal service funds, trust/agency funds and of other entities for which the City of Gilroy personnel provide financial management services.

E. Applicability of Policy

This policy does not apply to:

1. The City's Deferred Compensation Plan, the investments in which are directed by the participating employees; and
2. Monies held by a trustee or fiscal agent and pledged to the payment or security of bonds or other indebtedness, or obligations under agreements, of a local agency, or certificates of participation in such bonds, indebtedness or agreements, the investment of which may be in accordance with the statutory provisions governing the issuance of those bonds, indebtedness or agreements, or to the extent not inconsistent therewith, or if there are no specific statutory provisions, in accordance with the ordinance, resolution, indenture or agreement of the local agency providing for the issuance.
3. Monies held in a Section 115 trust for Post-Employment Benefits Trust (the "Program") for the purpose of pre-funding pension obligations and/or OPEB obligations. Investment of such section 115 trust/s are directed by the separate Investment Guidelines Document (IGD) as approved by the Plan Sponsor.

F. Benchmark and Performance Standards

The investment portfolio shall be designed to attain a market-average rate of return throughout budgetary and economic cycles, taking into account the City's risk constraints, the cash flow needs, and state and local laws. The performance of the investment portfolio shall be compared to the average yield on the U.S. Treasury bill that most closely corresponds to the investment portfolio's weighted average effective maturity.

II. INVESTMENTS

This section of the Investment Policy identifies policies, types of investments, and related matters pertaining to instruments in which the City will invest its idle funds.

A. Investment Standards

The City of Gilroy operates its temporary pooled idle cash investments under the Prudent Investor Standard, California Government Code, Section 53600.3¹, and with additional guidance from the provisions of the Uniform Prudent Investor Act, California Probate Code Section 16045, et seq.². This affords the City a broad spectrum of investment opportunities as long as the investment is deemed prudent and is allowable under current legislation of the State of California (Government Code Section 53600, et seq).

B. Eligible Securities

Subject to the Prudent Investor Standard and other applicable laws and regulations, this policy permits investment in the following:

- Insured Certificates of Deposit (CD's) of California banks and/or savings and loan associations, and/or savings with a Superior or Excellent ranking of 165 or more as provided by IDC Financial Publishing Inc. or similar rating publication) which mature in five (5) years or less, provided that the City's investments shall not exceed Two Hundred Fifty Thousand Dollars (\$250,000.00) per institution. If the investment exceeds the insured \$250,000.00, the funds are to be collateralized at 110% of the deposit in government securities or 150% in mortgages. *(limited to 15% of the portfolio)*

¹Governing bodies of local agencies (e.g., a City Council) or persons authorized to make investment decisions on behalf of those local agencies investing public funds pursuant to this chapter are trustees and therefore fiduciaries subject to the prudent investor standard. When investing, reinvesting, purchasing, acquiring, exchanging, selling, and 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 agency, 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 agency. Within the limitations of this section and considering individual investments as part to an overall strategy, a trustee is authorized to acquire investments as authorized by law.

²The standard of care for trustees investing and managing trust assets is the Prudent Investor Standard and takes into consideration the purposes, terms, distribution requirements and other circumstances of the trust, and in satisfying this standard, the trustee is required to exercise reasonable care, skill, and caution in light of the facts and circumstances existing at the time of a trustee's decision or action.

- Local Agency Investment Fund (State Pool) Demand Deposits
- Securities of the U.S. Government, or its agencies
- Negotiable Certificates of Deposit (NCDs) placed with federal and state savings and loan associations and federal and state chartered banks with an office in the State of California. *(limited to 15% of the portfolio)*
- Bankers Acceptances *(limited to 15% of the portfolio)*
- Commercial paper *(limited to 10% of the portfolio)*
- Passbook Savings or Money Market Demand Deposits
- Securities or bonds purchased under a prior investment policy, which may or may not meet the standards of this policy. (Such securities or bonds may be held or sold under this Policy but additional purchases shall not be made.)
- Money Market Mutual Fund (with \$1.00 net asset value and which invests only in instruments allowed under Government Code Section 53600, et seq.) - *(limited to 5% of the portfolio)*

C. Investments Deemed Not Appropriate at this Time

The City of Gilroy Investment Policy does not permit investment in the following instruments or securities:

- Corporate bonds or stocks
- Repurchase agreements or reverse repurchase agreements
- Interest only or principal only strips
- Certificates of Deposit issued by institutions not operating within California
- Inverse floaters and range notes
- Financial futures or financial option contracts
- Securities lending or leveraging any portion of the portfolio

D. Collateralization Requirements

Uninsured Time Deposits with banks and savings and loans shall be collateralized in the manner prescribed by law for depositories accepting municipal investment funds.

E. Preformatted Wire Transfers

Wherever possible, the City will use preformatted wire transfers to restrict the transfer of funds to preauthorized accounts only. When transferring funds to an account not previously approved, the bank is required to call back a second employee for confirmation that the transfer is authorized.

F. Qualification of Brokers, Dealers and Financial Institutions

The City Treasurer shall investigate brokers and dealers who wish to do business with the City to determine if they are adequately capitalized, have any pending legal actions against the firm or the individual broker, and that they market securities appropriate to the City's needs.

The City shall annually send a copy of the current edition of the Policy to all institutions and broker/dealers which are approved to handle City of Gilroy investments. Receipt of the Policy, including confirmation that it has been received by persons handling the City's accounts, shall be acknowledged in writing within thirty (30) days.

G. Diversification

The portfolio should consist of a prudent mix of various types of securities, issues and maturities.

H. Confirmation

Receipts for confirmation of purchase or sale of authorized securities should be received by the City Treasurer within five (5) days and include the following information: trade date, par value, rate, price, yield, settlement date, description of securities purchased, agency's name, net amount due, third party custodial information. These are minimum information requirements.

I. Internal Controls

Investment duties shall be separated by having at least three persons perform the following functions for any particular investment: the recordation of investments and disbursements, confirmation receipts, the preparation of Treasurer's reports, wire transfers, bank reconciliations and treasury reconciliations. An independent analysis by the external auditor shall be conducted annually to screen internal control, account activity, including verification of all securities, and compliance with policies and procedures.

J. Interest Earnings

All interest earned on investments authorized by this Policy shall be allocated quarterly

to all City funds based on the positive cash balances in each fund as a percentage of the entire pooled portfolio.

III. SAFEKEEPING OF SECURITIES

A. Safekeeping Agreement

The City shall contract with a bank or banks with federally insured deposits for the safekeeping services through a third party custodial agreement, (California Government Code Section 53601)³ which includes delivery versus payment provisions, for securities which are owned by the City as part of its investment portfolio.

B. Handling of City-Owned Securities and Time Deposit Collateral

All securities owned by the City shall be held by the City or by its third-party custodian, except the collateral for time deposits in banks, savings banks, and savings and loan associations. The collateral for time deposits in banks and savings and loans shall be held in a trust account in the City of Gilroy's name. Dealers or brokers shall not hold any securities for the City. A broker is not an approved depository under California Government Code Section 53630⁴ and Section 53608⁵

C. Security Transfers

The authorization to release City's securities will be telephoned to the appropriate depository or custodian by a Finance Department member other than the person who initiated the transaction. A written confirmation outlining the details for the transaction and confirming the telephone instructions will be sent to the bank within five (5) working days. A confirming notice documenting the transaction will be sent by the bank to the City within five (5) working days of the transaction.

³Section 53601. Authorized Investments, circumstances. A local agency purchasing or obtaining any security . . . shall require delivery of the securities to the local agency . . . by book entry, physical delivery or by third party custodial agreement.

⁴Section 53630(c) allows state or national banks, state or federal savings banks or savings and loan associations, state or federal credit unions and federally insured industrial loan companies as approved depositories.

⁵Section 53608. Deposit of securities; delegation of authority. The legislative body of a local agency may deposit for safekeeping with a federal or state association, a trust company or a state or national bank located within this state or with the Federal Reserve Bank of San Francisco or any branch thereof within this state, or with any Federal Reserve Bank or with any state or national bank located in any city designated as a reserve city by the Board of Governors of the Federal Reserve System, the bonds, notes, bills, debentures, obligations, certificates or indebtedness, warrants, or other evidences of indebtedness in which the money of the local agency is invested pursuant to this article or pursuant to other legislative authority. The local agency shall take from such financial institution a receipt for securities so deposited. The authority of the legislative body to deposit for safekeeping may be delegated by the legislative body to the treasurer of the local agency; the treasurer shall not be responsible for securities delivered to and receipted for by a financial institution until they are withdrawn from the financial institution by the treasurer.

D. Verification of Security

Securities held by an agent of depository as collateral securing time deposits will be verified in writing during the year by the City's independent auditors as part of the City's annual independent audit. The City's independent auditors confirm the collateral directly with the bank holding that collateral. Those securities held by that depository or custodian as collateral are subject to audit by the bank's auditors.

IV. STRUCTURE AND RESPONSIBILITY

This section of the Policy defines the overall structure of the investment management program.

A. Responsibilities of the Finance Department

The Finance Department, through its officers and representatives, is charged with the responsibility for maintaining custody of all public funds and securities belonging to or under the control of the City and for the deposit and investment of those funds in accordance with principles of sound treasury management and in accordance with applicable laws and ordinances.

B. Responsibilities and Ethics of the City Treasurer

1. Delegation of Authority

The authority to manage the City's investment program is derived from the California Government Code Section 53600, et seq. The City Council is responsible for the management of the City's funds, including the administration of this investment policy. The authority of the City Council to invest or to reinvest funds, or to sell or exchange securities so purchased, is hereby delegated to the City Treasurer, who shall thereafter assume full responsibility for those transactions until the delegation is revoked and shall make quarterly reports of those transactions to the City Council. (California Government Code Section 53607).

2. Responsibilities

The City Treasurer is appointed by the City Administrator and is subject to his direction and supervision. The City Treasurer is charged with the responsibility for the purchase, sale, custody and investment of City funds, and the development of procedures to implement this Investment Policy. In fulfilling his responsibilities, the City Treasurer is subject to the Prudent Investor Standard and shall render reports regarding compliance with the Investment Policy. The City Treasurer is further responsible for the duties and subject to the powers imposed by and applicable to City Treasurers under the general laws of the State of California.

3. Ethical Conduct

The City Treasurer will demonstrate integrity in all public and personal relationships, protect the public trust, and seek no favor or accept any personal gain which would influence or appear to influence the conduct of the office of Treasurer.

C. Responsibilities of the City Administrator

The City Administrator is responsible for directing and supervising the City Treasurer. He is responsible further to keep the City Council fully advised as to the financial condition of the City and its compliance with this Policy.

D. Responsibilities of the City Council

The City Council shall consider and annually adopt a written investment policy. As provided in that policy, the Council shall receive and review quarterly investment reports and may annually delegate investment authority to the City Treasurer pursuant to California Government Code Section 53607.

E. Responsibilities of the Investment Committee

There shall be an Investment Committee consisting of the City Administrator, City Treasurer/Finance Director, and the Finance Manager. The committee shall meet quarterly to discuss cash flow requirements, monthly and quarterly investment reports, investment strategy, investment and banking procedures, significant investment related work projects being undertaken in each department which will affect the cash flow management of the City Treasurer and to review compliance with the investment policies adopted by the City Council. This will require timely reports from the department heads to the City Treasurer concerning significant future cash flow requirements.

V. REPORTING

The City Treasurer shall prepare a quarterly investment report, including a succinct management summary that provides a clear picture of the status of the current investment portfolio and transactions made over the past quarter by month. This management summary will be prepared in a manner which will allow the City Administrator and City Council to ascertain whether investment activities during the reporting period are in conformance with the City's Investment Policy.

The quarterly investment report will include the following:

- A. A listing of individual securities held at the end of the reporting quarter showing the:
 - 1. type of investment
 - 2. institution
 - 3. date of maturity

4. amount of deposit or cost of the security
 5. rate of return
- B.** Unrealized gain or loss resulting from appreciation or depreciation by listing the cost and market value of securities over one year in duration.
 - C.** Average yield of return on the City's investments.
 - D.** Maturity aging for the investments.
 - E.** Compliance of the investment portfolio with the Investment Policy.
 - F.** A statement denoting the ability of the City to meet expenditure requirements for the next six months.

VI. REVIEW OF INVESTMENT MANAGEMENT

A. Statement of Policy

As set forth in California Code Section 53646(a), the City Administrator shall annually render to the City Council a statement of investment policy, which shall be considered by the Council at a public meeting.

B. Policy Review

This Investment Policy shall be reviewed annually by the City Council at a public meeting in accordance with state law to ensure its consistency with respect to the overall objectives of safety, liquidity, and yield. Proposed amendments to the Policy shall be prepared by the City Treasurer and after review by the Investment Committee shall be forwarded to the City Council for consideration at a public meeting.

Any recommended modifications or amendments shall be presented to the City Council for their consideration and adoption.

VII. AUTHORITY

This Policy was duly adopted by authority of the City Council of the City of Gilroy on the 1st day of July 2015 and was most recently re-adopted on November 7, 2022.