



City Council Staff Report

From: City Manager

Report Type: CONSENT CALENDAR

Lead Department: Administrative Services

Meeting Date: June 17, 2024

Report #:2402-2592

TITLE

Adoption of Fiscal Year 2025 Investment Policy as Recommended by the Finance Committee

RECOMMENDATION

The Finance Committee and Staff recommend the City Council adopt the Fiscal Year 2025 Investment Policy (Policy) (Attachment A) with the following changes:

1. A report of transactions, including but not limited to investments, reinvestment, sold, and exchanged securities, will be made available to the City Council on a monthly basis, per California Government Code Section 53607, and
2. Annually, require brokers and dealers provide documentation of financial condition and relevant registration and certify that they have reviewed relevant California Government Code Section and the City's Investment Policy.

ANALYSIS

The Investment Policy (Policy) and California Government Code Section 53646(a)(2)¹ requires that the Policy be reviewed, and any changes proposed by staff be review and approved annually by the City Council at a public meeting, which the City has done during the annual budget process. The Finance Committee discussed the Policy at its May 21, 2024, meeting (Report # 2402-2588)² and unanimously recommended Council approval.

The City Auditor's Office performed the Investment Management Audit in spring 2023 and transmitted this report to the Council on January 16, 2024 (Report # 2312-2402)³. The Policy has been updated to include the City Auditor's recommended changes.

¹ FindLaw.com - California Code, Government Code - GOV § 53646: <https://codes.findlaw.com/ca/government-code/gov-sect-53646/>

² Finance Committee, May 21, 2024, Agenda Item #3: <https://cityofpaloalto.primegov.com/Portal/Meeting?meetingTemplateId=14280>

³ City Council, January 16, 2024, Agenda Item #9:

Monthly Report of Transactions

California Government Code Section 53607⁴ requires that a monthly report of transactions (investments, reinvestment, sold, and exchanged securities) be transmitted to the agency's legislative body. This reporting requirement is separate and distinct from the more detailed quarterly investment activity report submitted under California Government Code Section 53646(b)⁵. Staff concurs with this recommendation and will make this information available for the month beginning July 2024.

Broker and Dealer Financial Condition and Registration

The Administrative Services Department maintains a list of authorized investment brokers and dealers. The Policy outlines two criteria for a dealer to be eligible as an authorized investment broker or dealer:

1. At least three years' experience operating with California municipalities
2. Maintain an inventory of trading securities of at least \$10 million

Section 53601.5 of the California Government Code states that if an investment is not purchased directly from the issuer, the purchase shall be from either an institution licensed by the state as a broker dealer or from a member of a federal regulated securities exchange, from a national or state-chartered bank, from a savings association or federal association, or from a brokerage firm designated as a primary government dealer by the Federal Reserve bank.

To address the City Auditor's recommendations, the Policy has been updated to include the following:

1. Annually require that brokers and dealers who wish to sell and buy securities to/from the City to provide documentation showing their financial condition and relevant registration.
2. Annually require broker dealers to certify in writing that they reviewed the applicable California Government Code sections and the City's Investment Policy.

⁴ FindLaw.com - California Code, Government Code - GOV § 53607: <https://codes.findlaw.com/ca/government-code/gov-sect-53607/>

⁵ FindLaw.com - California Code, Government Code - GOV § 53601.5: <https://codes.findlaw.com/ca/government-code/gov-sect-53601-5/>

FISCAL/RESOURCE IMPACT

Approval of the recommendation will not have a financial impact. It will require existing staff resources for the additional reporting.

STAKEHOLDER ENGAGEMENT

Staff works internally, with the City Auditor's Office (BakerTilly auditor), and reviews the Government Code and publications by the California Debt and Investment Advisory Commission (CDIAC).

ENVIRONMENTAL REVIEW

This activity is not a project under California Environmental Quality Act (CEQA) as defined in CEQA Guidelines, section 15378, because it has no potential for resulting in either a direct or reasonably foreseeable indirect physical change in the environment.

ATTACHMENTS

Attachment A: FY 2025 Proposed Investment Policy

APPROVED BY:

Lauren Lai, Director of Administrative Services