

California Municipal Treasurers Association



Investment Policy Certification



Issued on 04/09/2021

City of Chico

The California Municipal Treasurers Association certifies that the investment policy of City of Chico complies with the current State statutes governing the investment practices of local government entities located within the State of California.





President

04/09/2021

Date

**CITY OF CHICO
INVESTMENT POLICY**

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I. INTRODUCTION

The purpose of this document is to identify various policies and procedures that enhance opportunities for a prudent and systematic investment policy and to organize and formalize investment-related activities.

The investment policies and practices of the City of Chico (City) are based on state law and prudent money management. All funds will be invested in accordance with this investment policy and Article 2 of Chapter 4 of the California Government Code. This policy seeks to follow the provisions of the California Government Code, Sections 53600 through 53659, the authority governing investments for municipal governments.

II. SCOPE

The investment policy applies to all financial assets of the City as accounted for in the Annual Comprehensive Financial Report. Policy statements outlined in this document focus on the City's pooled funds but will also apply to all other funds under the City's Administrative Services Director's span of control unless specifically exempted by statute or ordinance.

Proceeds of debt issuance shall be invested in accordance with the permitted investment provisions of their specific bond indentures. If, in the opinion of the City's Administrative Services Director, matching the segregated investment portfolio of the bond reserve fund with the maturity schedule of an individual bond issue is prudent given current economic analysis, the investment policy authorizes beyond the five-year maturity limitation as outlined in this document. The intent to invest in securities with longer maturities shall be disclosed in the permitted investment language authorized by the City Council in an indenture of trust.

The policy does not cover funds held by the Public Employees Retirement System, funds in the Deferred Compensation program or the Pension Stabilization Trust.

III. PRUDENCE

The standard of care to be used by investment officials shall be the "prudent investor" standard and shall be applied in the context of managing an overall portfolio. The "prudent investor" standard states that:

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 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.

Investment officers acting in accordance with written procedures and the 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 fashion and appropriate action is taken to control adverse developments.

IV. OBJECTIVES

The primary objectives, in priority order, of the investment activities of the City shall be:

A. Safety

Safety of principal is the foremost objective of the investment program. City investments shall be undertaken in a manner that seeks to ensure preservation of Capital in the portfolio. To further achieve the safety objective, the amount invested in all investment categories is limited to a percentage of the portfolio as defined in section VIII Permitted Investment Instruments.

B. Liquidity

The investment portfolio of the City will remain sufficiently liquid to enable the City to meet its cash flow requirements.

C. Return on Investment

The investment portfolio of the City shall be designed with the objective of attaining a market rate of return on its investments consistent with the constraints imposed by its safety objective and cash flow considerations.

V. DELEGATION OF AUTHORITY

The City Council hereby delegates management responsibilities of the investment program to the Administrative Services Director. The Administrative Services Director shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials. The Administrative Services Director may delegate investment decision making and execution to the Deputy Director of Finance in absence of the Administrative Services Director. No person may engage in an investment transaction except as provided under the limits of this policy unless specifically exempted by statute or ordinance.

VI. ETHICS AND CONFLICT OF INTEREST

Officers and employees involved in the investment process shall refrain from personal business activities that could conflict with proper execution of the investment program, or which could impair their ability to make impartial decisions. All bond issue participants, including but not limited to, underwriters, bond counsel, financial advisors, brokers and dealers will disclose any fee sharing arrangements or fee splitting to the Administrative Services Director prior to the execution of any transactions.

VII. AUTHORIZED FINANCIAL DEALERS AND INSTITUTIONS

The Administrative Services Director and/or his/her designee will maintain a list of approved financial institutions authorized to provide investment services to the City in the State of California. The broker/dealer firms should have the ability to meet all their financial obligations in dealing with the Public Agency. The firms, and individuals covering the agency, should be knowledgeable and experienced in Public Agency investing and the investment products involved. No public deposit shall be made except in a qualified public depository as established by the applicable state laws. In addition, broker/dealer must certify annually of having read the City's investment policy.

VIII. PERMITTED INVESTMENT INSTRUMENTS

The City shall limit investments in any one non-government issuer, except investment pools, to no more than 5% of total investments regardless of security type. Percentage of holdings evaluation date is at date of purchase.

- A. **U.S. Treasury obligations** for which the full faith and credit of the United States are pledged for the payment of principal and interest. Up to 100% of the City's investment portfolio may be invested in government obligations.
- B. **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. This shall include any mortgage pass through security issued and guaranteed by a Federal Agency with a maximum final maturity of five years. Purchase of Federal Agency issued mortgage-backed securities authorized by this subdivision may not exceed 20% of the City's surplus money; all other investments in Federal Agency securities are unrestricted.
- C. **Municipal obligations of the State of California or any local agency within the state**, including bonds payable solely out of revenues from a revenue producing property owned, controlled or operated by the state or any local agency or by a department, board, agency or authority of the state or any local agency, provided that the obligations are rated in one of the two highest categories by a nationally recognized statistical-rating organization (NRSRO). Up to 100% of the City's investment portfolio may be invested in California municipal obligations.

D. **Municipal obligations of any of the other 49 states**, 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 these states.

E. **Commercial paper** of “prime” quality of the highest ranking or of the highest letter and number rating as provided for by a NRSRO. The entity that issues the commercial paper shall meet all the following conditions in section VIII Permitted Investment Instruments, paragraph (E1) or (E2).

1. The entity meets the following criteria:

- a. Is organized and operating in the United States as a general corporation.
- b. Has total assets in excess of five hundred million dollars (\$500,000,000).
- c. Has debt other than commercial paper, if any, that is rated “A” or higher 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 collateralizations, letters of credit, or surety bond.
- 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 maturity nor represent more than 10% of the outstanding paper of an issuing corporation.

Purchases of commercial paper may not exceed 25% of the City’s investment portfolio.

F. **Medium-term corporate notes** issued by corporations organized and operating within the United States or by depository institutions licensed by the U.S. or any state and operating within the U.S. Medium-term corporate notes shall be rated in a rating category "A" or its equivalent or better by a nationally recognized rating service. Purchase of medium-term corporate notes may not exceed 30% of the City’s investment portfolio.

- G. **Federal Deposit Insurance Corporation (FDIC hereafter) insured or fully collateralized time certificates of deposit.** Purchases of time certificates of deposit in combination with negotiable certificates of deposit may not exceed 100% of the City's investment portfolio.
- H. **Negotiable certificates of deposit or deposit notes** issued by a nationally or state-chartered bank, a state or federal savings and loan association, a state or federal credit union, or a federally-licensed or state-licensed branch of a foreign bank provided that the senior debt obligations of the issuing institution are rated "A" or better by a NRSRO.

The legislative body of a local agency and the treasurer or other official of the local agency having legal custody of the money are prohibited from investing local agency funds, or funds in the custody of the local agency, in negotiable certificates of deposit issued by a state or federal credit union if a member of the legislative body of the local agency or any person with investment decision making authority in the administrative office manager's office, budget office, auditor-controller's office, or treasurer's office of the local agency also serves on the board of directors, or any committee appointed by the board of directors, or the credit committee or the supervisory committee of the state or federal credit union issuing the negotiable certificates of deposits.

All certificates of deposit must be properly collateralized in accordance with Section 53652 of the California Government Code or fully insured by the FDIC.

Purchase of time certificates of deposit in combination with negotiable certificates of deposit may not exceed 30% of the City's investment portfolio.

- I. **State of California's Local Agency Investment Fund**

The Local Agency Investment Fund (LAIF) portfolio should be reviewed periodically. Investment in LAIF may not exceed the legally authorized limits.

- J. **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 (15 U.S.C. Sec. 80a-1, et seq.). To be eligible for investment pursuant to this subdivision these companies shall either: (1) have attained the highest ranking or the highest letter and numerical rating provided by not less than two nationally recognized statistical rating organizations or (2) have an investment advisor registered or exempt from registration with the Securities and Exchange Commission with not less than five years' experience managing money market mutual funds and with assets under management in excess of \$500,000,000.

The purchase price of shares of beneficial interest purchased shall not include any commission that the companies may charge and shall not exceed 20% of the City's

investment portfolio. Further, no more than 10% of the City's investment portfolio may be invested in shares of beneficial interest of any one money market fund.

- K. **Supranationals** 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 "AA", its equivalent, or better by a NRSRO.

Purchases of supranationals shall not exceed 30% of the investment portfolio of the City. Supranationals are permitted by California Government Code § 53601 (q).

- L. **Exceptions**

Where this section specifies a percentage limitation for a particular category of investment, that percentage is applicable only on the date of purchase. Credit criteria listed in this section refers to the credit of the issuing organization at the time the security is purchased. If an investment falls below the minimum purchase rating, the City Manager will perform a timely review to sell or hold the investment.

- M. **Prohibited Investments**

Any security type or structure not specifically approved by this policy is hereby specifically prohibited. For purposes of this policy, a derivative is defined as any security where the value is linked to or derived from an underlying asset or benchmark. The City will not use such derivatives as range notes, dual index notes, inverse floating rate notes, deleveraged notes, or notes linked to lagging indices or to long term indices, nor will the City invest in reverse repurchase agreements, interest-only strips that are derived from a pool of mortgages, or any security that could result in zero interest accrual if held to maturity. This policy does not preclude the use of repurchase agreements and callable securities, as they do not fall within the definition of a derivative as described herein.

Summary of Maximum Percentage Limitations of Investments by Investment Type

Authorized Investment Type	Maximum Maturity	Minimum Credit at Time of Purchase	Maximum Percentage Allowed	Maximum Investment in One Issuer
U.S. Treasury Obligations	5 years	None	100%	None
U.S. Agency (Mortgage Backed Securities)	5 years	None	20%	None
U.S. Agency Securities	5 years	None	100%	None
Municipal Obligations (California)	5 years	None	100%	None
Municipal Obligations (Out of State)	5 years	None	100%	None
Commercial Paper	270 days	A-1	25%	10%
Medium-Term Notes	5 years	A	30%	5%
Collateralized Time Deposits	5 years	None	30%	None
FDIC Insured Certificates of Deposit/ Savings Accounts	5 years	None	100%	None
Negotiable Certificates of Deposit	5 years	A	30%	None
Local Agency Investment Fund (LAIF)	N/A	None	None	Per LAIF Guideline Maximums
Money Market Mutual Funds	N/A	None	20%	10%
Supranationals	5 years	AA	30%	None

IX. REVIEW OF INVESTMENT PORTFOLIO

The securities held by the City must be in compliance with Permitted Investments at the time of purchase. Because some securities may not comply subsequent to the date of purchase, the Administrative Services Director shall at least annually review the portfolio to identify those securities that do not comply. The Administrative Services Director shall report major and critical incidences of noncompliance identified through the review of the portfolio along with a plan to resolve these incidences of noncompliance to the City Manager.

X. INVESTMENT POOLS

A thorough investigation of any investment pool is required prior to investing and should be monitored on an ongoing basis. The following information should be obtained and analyzed:

- A. A description of eligible investment securities.
- B. A written statement of investment policies and objectives.

- C. A description of interest calculations and their distribution, and the treatment of gains and losses.
- D. A description of how the securities are safeguarded (including the settlement processes), how often the securities are priced, and the program audited.
- E. A description of who may invest in the program, how often, and what size of deposits and withdrawals are allowed.

XI. COLLATERALIZATION

Collateral for Non-negotiable Certificates of Deposit and Negotiable Certificates of Deposit must comply with California Government Code section 53652. In addition, if the Certificate of Deposit is not FDIC insured, collateral is required equal to 110% of principal.

XII. SAFEKEEPING AND CUSTODY

The City 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 Administrative Services Director of the City; the Administrative Services Director 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 Administrative Services Director. Third-party safekeeping arrangements will be approved by the Administrative Services Director and will be corroborated by a written custodial agreement.

XIII. DIVERSIFICATION

The City's investment pool will be diversified to avoid incurring unreasonable and avoidable risks. The investments will be diversified by security type, maturities of those investments, and institutions in which those investments are made in accordance with Section VIII Permitted Investment Instruments. No more than 5% of the total portfolio may be invested in securities of any single issuer for Municipal Obligations within and outside the State of California.

XIV. MAXIMUM MATURITY

Investment maturities shall be based on a review of cash flow forecasts. Maturities will be scheduled so as to permit the City to meet all reasonably anticipated obligations while minimizing interest rate risk and maximizing earnings. Unless specified below, the maximum maturity will be no more than five years from purchase date to maturity date.

XV. INTERNAL CONTROLS

The Administrative Services Director is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the City are protected from loss, theft, fraud or misuse. An analysis by an external independent accounting firm shall be conducted annually to review internal controls, account activity, and compliance with the investment policies.

XVI. PERFORMANCE STANDARDS

The investment portfolio shall be managed in accordance with the parameters specified within this policy and always within consistently safe and prudent treasury management procedures.

Market Yield (Benchmark)

The investment portfolio shall be managed in accordance with the parameters specified within this policy and always within consistently safe and prudent treasury management procedures.

Marking to Market

The market value of the portfolio shall be calculated monthly. This will ensure that review of the investment portfolio, in terms of value and price volatility, is performed. In defining market value, consideration shall be given to pronouncements from the Government Accounting Standards Board (GASB) that address the reporting of investment assets and investment income for all investment portfolios held by governmental entities. The fair value of all securities reported in the City's portfolio is based on currently quoted market prices.

XVII. REPORTING REQUIREMENTS

The Administrative Services Director shall submit monthly investment reports to the City Manager and make these reports available to the City Council in the Finance Department office. Reporting will be in accordance with Government Code requirements.

XVIII. INVESTMENT POLICY ADOPTION

The City's investment policy shall be adopted by resolution by the City Council. The policy shall be reviewed annually by the Administrative Services Director and/or his/her designee and any modifications made thereto must be approved by the City Council.

XIX. GLOSSARY

Agencies - Federal agency and instrumentality securities.

Asked - The price at which securities are offered.

Bid - The price offered by a buyer of securities (when one sells securities, one asks for a bid). See "Offer."

Benchmark - A comparative base for measuring the performance or risk tolerance of the investment portfolio. A benchmark should represent a close correlation to the level of risk and the average duration of the portfolio's investments.

Broker/Dealer – A person or a firm who can act as a broker or a dealer depending on the transaction. A broker brings buyers and sellers together for a commission. They do not take a position. A dealer acts as a principal in all transactions, buying and selling for his own account.

Certificate of Deposit (CD) – A time deposit with a specific maturity evidenced by a Certificate. Large-denomination CDs are typically negotiable.

Collateral – Securities, evidence of deposit or other property, which a borrower pledges to secure repayment of a loan. Also refers to securities pledged by a bank to secure deposits of public monies.

Custody – Safekeeping services offered by a bank, financial institution or trust company, referred to as the "custodian." Service normally includes the holding and reporting of the customer's securities, the collection and disbursement of income, securities settlement and market values.

Delivery Versus Payment – A type of securities transaction in which the purchaser pays for the securities when they are delivered either to the purchaser or custodian. It ensures that securities are deposited in an eligible financial institution prior to the release of funds. Securities should be held by a third-party custodian as evidenced by safekeeping receipts.

Diversification – Dividing investment funds among a variety of securities offering independent returns.

Investment Review Committee – The Committee meets quarterly to discuss the investments in the City's portfolios. The Investment Review Committee consists of the City Manager, Administrative Services Director and members of the Finance Department.

Liquidity – An investment that can be converted easily and rapidly into cash without a substantial loss of value.

Local Agency Investment Fund (LAIF) – The aggregate of all funds from political subdivisions that are placed in the custody of the State Treasurer for investment and reinvestment.

Market Value – The price at which a security is trading and could presumably be purchased or sold on a specific date.

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

Money Market Fund – a type of safe investment comprising a variety of short-term securities with high quality and high liquidity.

NRSRO – Nationally recognized statistical rating organization.

Offer - The price asked by a seller of securities (when one buys securities, one asks for an offer). See “Asked” and “Bid.”

Portfolio – Collection of securities held by an investor.

Principal – The bond face value.

Prudent Investor Standard – An investment standard that all investments should be made 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.

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, the current income return.

U.S. Treasury – Government debt issued by the United States Department of the Treasury through the Bureau of the Public Debt. Treasury securities are the debt financing instruments of the United States federal government, and they are often referred to simply as Treasuries. All the marketable Treasury securities are very liquid and are heavily traded on the secondary market.

Yield - The rate of annual income return on an investment, expressed as a percentage.

Yield-To-Call (YTC) - The rate of return an investor earns from a bond assuming the bond is redeemed (called) prior to its nominal maturity date.

Yield-To-Maturity - The current income yield minus any premium above par or plus any discount from par in purchase price, with the adjustment spread over the period from the date of purchase to the date of maturity.