



Watsonville
CALIFORNIA

CITY OF WATSONVILLE
INVESTMENT POLICY FOR CALENDAR YEAR 2024

CITY OF WATSONVILLE

INVESTMENT POLICY

Introduction

The investment objective of the City of Watsonville is to ensure the safety and liquidity, while maintaining a competitive yield, of the City's temporarily idle funds.

The purpose of this policy is to provide guidelines to the officers of the City charged with responsibility for investments. This policy and State law (government section 53600 et seq.) govern the execution of the investment responsibility.

The City Council, after each annual review, delegates investment authority to the City's Treasurer (Finance Director). The Treasurer (Finance Director), under the direction of the City Manager, is responsible for administering the City's investments.

Scope

This policy applies to the investment of all City funds not required for immediate expenditure, excluding proceeds from certain bond issues that are covered by bond documents. The City will concentrate cash and reserve balances from all funds to maximize investments earnings. Investment income will be allocated to funds, other than the General Fund, as required by the funds restrictions, based upon their respective pool participation and in accordance with general accepted accounting principles.

Objectives

Funds of the City will be invested in accordance with California Government code Sections 53600 et. seq. The objectives of the Investment Policy are to meet the short and long-term cash flow demands of the City. The portfolio will be structured to provide the following (in priority order):

- 1) **Safety** The safety and risk associated with an investment refers to the potential loss of principal, interest or combination of these items. The City controls credit risk by investing only in specified, quality investments listed in the City's investment policy, which have little chance of principal loss. Interest rate risk or market risk refers to potential economic risk, which occurs when interest rates increase, devaluing the principal of fixed income investments. To limit this risk, the City normally invests in securities with an ultimate maturity of 5 years or less, except as authorized by City Council.
- 2) **Liquidity** This concept refers to the ability to raise cash for City operations at any moment. Liquidity achieved by purchasing securities, which are traded by a large number of market makers and have relatively short maturities.
- 3) **Yield** Refers to the potential dollar earnings an investment can provide from

both interest payments and capital appreciation. To obtain the highest yield, Finance will seek competitive quotes on like investments when purchasing an investment. Yields of investments are to be independently calculated and verified by Finance on all transactions.

It is the City's intent, at the time of purchase, to hold all investments until maturity. However, investments may be sold prior to maturity for cash flow purposes or to take advantage of principal appreciation.

Prudence

The standard of prudence to be used by the City Treasurer (Finance Director) or designee shall be the "prudent person" standard and shall be applied in the context of managing an overall portfolio. The City Treasurer (Finance Director) or designee acting in accordance with this 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 to the City Council in a timely fashion and the liquidity and the sale of securities are carried out in an accordance with the terms of this policy.

The "prudent person" standard state that, "Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived from the investment."

Ethics and Conflicts of Interest

Officers or employees involved in the investment process shall refrain from personal business activity that could conflict with the proper execution and management of the investment program, or that could impair their ability to make impartial decisions. Employees and investment officials shall disclose any personal financial/investment positions that could be related to the performance of the investment portfolio. Employees and officers shall refrain from undertaking personal investment transactions with the same individual with which business is conducted on behalf of the City.

Delegation of Authority

The Director of Finance, in the capacity of City Treasurer, is designated as the Chief Investment Officer of the City and is responsible for investment decisions and activities, under the direction of the City Manager. The Director of Finance shall develop and maintain written administrative procedures for the operation of the investment program by qualified Finance Department staff, consistent with the Statement of Investment and Portfolio Policy.

No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the Director of Finance. The Director of

Finance shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials. Use of an investment advisor shall be only under contract approved by City Council.

Investment Committee

There is hereby created an Investment Committee, consisting of the City Manager or their designee, the Director of Finance, Assistant Director of Finance, and investment staff. Members of the Investment Committee shall serve without compensation, and shall meet as needed. The Investment Committee shall include in its deliberations such topics as: economic outlook, portfolio diversification, maturity structure, potential risks to the City's funds, authorized depositories, and selection of banks and primary dealers.

Safekeeping

All securities shall be kept in the custody of the City or by a qualified safekeeping institution. If securities are kept by a safekeeping institution, the City shall have access to buy and sell such securities independently of any broker.

Delivery vs. Payment

All trades of market securities will be executed by delivery versus payment (DVP) to ensure that securities are deposited in an eligible institution prior to the release of funds.

Authorized Financial Dealers and Institutions

The City shall transact business only with banks, associations, and with broker/dealers licensed by the State of California.

Authorized Investment Types

This approach affords the City a broad spectrum of investment opportunities allowable under current State of California law (Government Code 53600 et seq.). Investments shall be made only in securities for which market value information is generally available. Investments may be made in the following instruments:

<u>Limit</u>	<u>Investment Type</u>
No limit	Portfolio Securities of the US government or its agencies
No limit	Local Agency Investment Fund (State Pool) demand deposits
No limit	Passbook savings account demand deposits
No limit	Debt of the City of Watsonville
No limit	California Asset Management Program (CAMP JPA)
20%	Money Market Mutual Fund – (funds containing securities issued or

guaranteed by the U.S. Government; fund dollar-weighted average maturity of ninety (90) days or less, with no single instrument with more than thirteen (13) months, and consist only of dollar-denominated securities)

- 20% Repurchase agreements (repos) for a term of one year or less
- 30% Certificates of Deposit (or time deposits) placed with commercial banks or like institutions such as credit unions. Certificates of deposit in financial institutions with local branches shall be made only to the extent warranted by the offered yield, liquidity and safety compared to that available from other institutions.
- 30% Negotiable Certificates of Deposits issued by nationally or state-chartered commercial banks, federally insured credit unions, or the state licensed branch of a foreign bank.
- 40% Bankers Acceptances not to exceed 180 days maturity; no more than 30 percent of the City's surplus funds may be invested in any one commercial bank.
- 25% Commercial Paper of corporations having total assets of \$500 million or more and having an "A" or higher rating for the issuer's debt from Moody's or Standard & Poor's, not to exceed 270 days in maturity and the City shall not purchase more than 10% of the outstanding commercial paper of any one issuer.
- 30% Medium term corporate notes, with a maximum 5-year maturity.

Prohibited Investment Types

In accordance with Section 53601.6 of the California Government Code, the City shall not invest any funds in inverse floaters, range notes, or mortgage-derived interest only strips. In addition, the City shall not invest any funds in any security that could result in zero interest accrual if held to maturity.

Diversification

Investments shall be diversified among institutions, type of securities and maturities to maximize safety and yield with changing market conditions; investments with a maturity at purchase of more than 5 years shall be approved by City Council.

Reporting

The Treasurer (Finance Director) shall report quarterly to the City Manager and City Council the following information on investments owned by the City:

- Investment
- Face Value
- Purchase Date
- Portfolio Maturity
- Coupon
- Purchase Price
- Maturity Date
- Yield
- Market Value
- Portfolio Yield

This policy shall be reviewed each calendar year by City Council.

First Investment Policy adopted by Council Resolution No. 18-89 (CM). Replaced by Resolution No. 244-92 (CM), 388-96 (CM), 296-97 (CM), 216-98 (CM), 295-99 (CM), 129-00 (CM), 262-01 (CM), 280-02 (CM), 87-03 (CM), 254-04 (CM), 242-05 (CM), 36-07 (CM), 16-08 (CM), 13-09 (CM), 202-11 (CM), 143-12 (CM), 167-13(CM), 155-15 (CM), 174-15 (CM), 165-17 (CM), 1-19 (CM), 96-20 (CM), 44-21 (CM), 6-22 (CM) and 195-23 (CM)