I. **Purpose**

This policy is intended to provide guidelines for the prudent investment of the City’s temporary idle cash and reserves, and to outline the procedures for managing the City’s treasury.

II. **Scope**

This investment policy applies to all financial assets of the City. These funds are accounted for in the City’s Comprehensive Annual Financial Report and include:

A. General Fund
B. Special Revenue Funds
C. Capital Project Funds
D. Internal Service Funds
E. Enterprise Funds
F. Trust and Agency Funds

III. **Standard of Care**

In accordance with California Government Code, Section 53600.3, the “prudent investor” standard of care shall be applied to managing the City’s investment portfolio. Pursuant to this standard, when investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds, the investor shall act with care, skill, prudence, and diligence under the circumstances then prevailing. This includes, 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, with similar aims, to safeguard the principal and maintain liquidity needs of the agency.

IV. **Objective**

The City’s investment objective is to enhance the economic condition of the City while ensuring the safety of the funds invested. The City attempts to obtain the highest yield on its investments consistent with the criteria established for safety and liquidity. The City’s cash management system is designed to accurately monitor and forecast expenditures and revenues, thus enabling the City to invest funds to the fullest extent possible.

The three principal factors that are considered when making investments, are listed below based on their level of priority:
A. **Safety.** Safety means limiting the potential for loss of principal, interest, or a combination of the two.

B. **Liquidity.** Liquidity refers to the ability to convert an investment to cash promptly with a minimal risk of losing principal or interest. A portion of the portfolio should be maintained in liquid short-term securities that can be converted to cash if necessary to meet disbursement requirements.

C. **Yield.** Yield is the average annual return on an investment based on the interest rate, price, and length of time to maturity. The City attempts to obtain the highest yield possible, provided that the basic criteria of safety and liquidity have been met.

V. **Investment Responsibility**

The City Treasurer is responsible for investing the City’s funds in accordance with California Government Code, Sections 53600, et seq. and 53635, et seq. The City’s Administrative Services Director serves as the City Treasurer. Staff members of the Finance Department may be assigned to perform day-to-day treasury activities related to investments. The Deputy Director of Finance (Senior Program Manager) may serve as Acting City Treasurer in the absence of the Administrative Services Director.

VI. **Internal Controls**

The City Treasurer is responsible for establishing and maintaining an internal control structure designed to ensure the assets of the City are protected from loss, theft, or misuse. The internal control structure shall be designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that (1) the cost of a control should not exceed the benefits likely to be derived and (2) the valuation of costs and benefits require estimates and judgement management. The internal controls shall include the following:

A. Dual approval of wire transfers from the City to any approved investment brokerage account by the City Treasurer and the City Clerk
B. Separation of transaction authority from accounting and recordkeeping
C. Custodial safekeeping
D. Clear delegation of authority to subordinate staff members
E. Documentation confirming each investment transaction
F. Establishment of wire authorization approval levels with the lead bank and the third-party custodian
G. Reconciliation of investment transactions and statements to the City’s general ledger
H. Independent review by the external auditor as part of the City’s annual audit
VII. Ethics and Conflict of Interest

Officers and employees involved in the investment process shall refrain from any activity that could conflict with proper execution or management of the investment program or which could impair their ability to make impartial investments decisions. This includes refraining from undertaking personal investment transactions with the same individual who is conducting business with the City.

The Administrative Services Director and the Deputy Director of Finance (Senior Program Manager) shall file a State Fair Political Practices Commission’s Statement of Economic Interests annually.

VIII. Permitted Investment Instruments

The Treasurer shall invest in the following investments and only under the guidelines as provided herein:

A. Certificates of Deposit. Non-Negotiable Certificates of Deposits will be made only in FDIC or FSLIC insured accounts. For deposits in excess of the insured maximum of $250,000, approved collateral shall be required in accordance with Government Code 53652 and/or 53651 (m) (1). Investment in these instruments shall be limited to financial institutions that in the Treasurer’s judgment are of high quality and shall not have a term exceeding five years from the date of purchase.

B. Securities of the U.S. Government or its Agencies. Includes obligations issued by Federal Home Loan Banks, Government National Mortgage Association, Farm Credit System, the Federal Home Loan Bank, Federal Home Loan Mortgage Association, Federal National Mortgage Association, or obligations or other instruments of or issued by a federal agency or a United States Government sponsored enterprise. Investment in these instruments shall not have a term exceeding five years from the date of purchase.

C. Treasury Bills and Notes. U.S. Treasury Bills, Notes, Bonds, or Certificates of Indebtedness, or those for which the full faith and credit of the United States are pledged for the payment of principal and interest. The term of such securities shall not exceed five years from the date of purchase.

D. Local Agency Investment Fund (LAIF). Investment of funds in the California LAIF which allows the State Treasurer to invest through the Pooled Money Investment Account (PMIA). Maximum investment is subject to state regulation. LAIF investments are available for City use.
E. **Repurchase Agreements.** A purchase of securities by the City pursuant to an agreement by which the seller will repurchase such securities on or before a specified date, or on demand of either party, and for a specified amount. Investments in repurchase agreements will be used solely as short-term investments not to exceed 30 days.

F. **Other.** Other investments that are, or may become, legal investments through the State of California Government Code, only with prior approval of the City Council.

IX. **Investment Pools**

The City’s investment policy authorizes participation in the California LAIF investment pool. A review of this pool should be conducted on a periodic basis. Best efforts will be made to acquire the following information:

A. Description of eligible investment securities, and a written statement of policy
B. Description of interest calculations and method of distribution; and how gains and losses are treated.
C. Description of how the securities are safeguarded
D. Copy of the most recent independent audit report
E. Description of who may invest in the program
F. Schedule for receiving statements and portfolio listings
G. Information on how and when fees are assessed
H. Acceptance or eligibility to receive bond proceeds

Section VIII (F) allows investments in other instruments with City Council approval. This could include the placement of funds in an additional investment pool or mutual fund. The documentation referenced within this section shall be evaluated prior to recommending participation in a new investment pool or a mutual fund.

X. **Diversification**

Investments shall be diversified among institutions, types of securities, and maturities to maximize safety and yield with changing market conditions. Local financial institutions will be given preferential consideration for investment of City funds consistent with the City’s objective of attaining market rates of return, and consistent with constraints imposed by its safety objectives, cash flow considerations, and state laws.

XI. **Safekeeping**

All investments of the City shall have the City of Pacific Grove as registered owner or shall be kept in the custody of the City or by a qualified safekeeping institution.
XII. Investment Reports

The City Treasurer shall submit an investment report to the City Manager and City Council, as frequently as directed (but not less than quarterly). The report shall include, but not be limited to, the following information, for each investment:

A. Name of Financial Institution
B. Type of Investment
C. Amount of Deposit
D. Rate of Interest
E. Maturity Date
F. Current Market Value
G. Percentage of the portfolio represented by each investment category
H. Other Data as Requested

XIII. Investment Policy Adoption

The City Treasurer shall review this Investment Policy from time to time, identifying any concerns or recommended changes for Council consideration. The Treasurer shall bring this Policy to Council for formal review at least once every two years.

Adopted September 15, 2010, Resolution 10-078
Amended October 21, 2015, Resolution 15-055
Amended August 17, 2016, Resolution 16-047
Amended June 19, 2019, Resolution 19-016
Amended August 4, 2021, Resolution 21-025