



# **AGENDA**

## **SPECIAL MEETING**

### **BUDGET/AUDIT COMMITTEE**

**\*\*\*\*\***

**Monday, February 27, 2023**

**4:00 p.m.**

*Members of the public will be able to participate either in-person at  
Hoyer Hall, Clayton Community Library  
6125 Clayton Road, Clayton, CA 94517  
or  
remotely via Zoom.*

**Committee Members**  
Mayor Jeff Wan  
Councilmember Kim Trupiano

- A complete packet of information containing staff reports and exhibits related to each public item is available for public review on the City's website at [www.claytonca.gov](http://www.claytonca.gov)
- Agendas are posted at: 1) City Hall, 6000 Heritage Trail; 2) Library, 6125 Clayton Road; 3) Ohm's Bulletin Board, 1028 Diablo Street, Clayton; and 4) City Website at [www.claytonca.gov](http://www.claytonca.gov)
- Any writings or documents provided to a majority of the City Council after distribution of the Agenda Packet and regarding any public item on this Agenda is available for review on the City's website at [www.claytonca.gov](http://www.claytonca.gov)
- If you have a physical impairment that requires special accommodations to participate, please call the City Clerk's office at least 72 hours in advance of the meeting at (925) 673-7300.

## Instructions for Virtual Budget/Audit Committee Meeting – February 27, 2023

This meeting via videoconferencing is open to the public. The following options are provided as a courtesy for those who would prefer to view, listen to, or provide comments remotely for the meeting. While City staff will make every effort to facilitate remote participation in the meeting, the City cannot guarantee that the public's access to teleconferencing technology will be uninterrupted, and technical difficulties may occur from time to time.

**Videoconference or Phone:** To follow or participate in the meeting on-line, click the link below, or in the Zoom application or by phone, enter the Webinar ID below:

Please click the link below to join the webinar:

<https://us02web.zoom.us/j/85100473080>

No Passcode Needed

Or One tap mobile:

US: +16699009128,86968637841# or +16694449171,86968637841#

Or Telephone:

Dial (for higher quality, dial a number based on your current location):

US: +1 669 900 9128 or +1 346 248 7799 or +1 253 215 8782 or +1 301 715 8592 or +1 312 626 6799 or +1 646 558 8656 or 888 475 4499 (Toll Free) or 877 853 5257 (Toll Free)

Webinar ID: 851 0047 3080

**E-mail Public Comments:** If preferred, please e-mail public comments to the Community Development Director, Dana Ayers, at [danaa@claytonca.gov](mailto:danaa@claytonca.gov) by noon on the day of the Budget/Audit Committee meeting. All E-mail Public Comments will be forwarded to the entire Budget/Audit Committee.

Those who choose to attend the meeting via videoconferencing or telephone shall have 3 minutes each for public comments.

# **\* CLAYTON BUDGET/AUDIT COMMITTEE \***

**February 27, 2023**

**4:00 P.M.**

**1. CALL TO ORDER AND ROLL CALL**

**2. PUBLIC COMMENT ON NON - AGENDA ITEMS**

*Members of the public may address the Budget/Audit Committee on items within the Committee's jurisdiction, (which are not on the agenda) at this time. To ensure an orderly meeting and an equal opportunity for everyone, each speaker is limited to 3 minutes, enforced at the Budget/Audit Committee's discretion. In accordance with State Law, no action may take place on any item not appearing on the posted agenda. The Budget/Audit Committee may respond to statements made or questions asked or may at its discretion request Staff to report back at a future meeting concerning the matter.*

*Public comment and input on Public Hearing, Action Items and other Agenda Items will be allowed when each item is considered by the City Council.*

**3. ACTION ITEMS**

(a) The Fiscal Year 2022-23 Mid-Year Budget Update. (Finance Director)

**RECOMMENDATION:**

The Budget and Audit Committee:

1. Receive the Finance Director's report on the mid-year budget for the Fiscal Year 2022-2023; and
2. Provide direction to staff on the proposed adjustments to the Fiscal Year 2022-23 mid-year budget update; and
3. Approve the submission of the proposed mid-year budget for the Fiscal Year 2022- 23 to the City Council for formal action.

**4. ADJOURNMENT**

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# STAFF REPORT

**TO: HONORABLE COMMITTEE MEMBERS**

**FROM: ANGELINE LOEFFLER, FINANCE DIRECTOR  
NITISH SHARMA, FINANCE CONSULTANT**

**DATE: FEBRUARY 27, 2023**

**SUBJECT: THE FISCAL YEAR 2022-23 MID-YEAR BUDGET UPDATE**

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## **RECOMMENDATION**

The Budget and Audit Committee:

1. Receive the Finance Director's report on the mid-year budget for the Fiscal Year 2022-2023; and
2. Provide direction to staff on the proposed adjustments to the Fiscal Year 2022-23 mid-year budget update; and
3. Approve the submission of the proposed mid-year budget for the Fiscal Year 2022-23 to the City Council for formal action.

## **BACKGROUND**

On June 21, 2022, the City Council adopted a balanced budget for the Fiscal Year 2022-23. It is the City's practice that at the end of the first half of the year, the City reports to the City Council on the status of the revenues and expenses along with any recommendations for adjustments in the remainder of the budget period.

Budget planning intends to resource and allocate the available funding for the period covered and, if possible, to address future economic contingencies. The expectation is that mid-year budget adjustments will address changing conditions unknown from the budget adoption period and adjust for anticipated economic trends.

This report is also in alignment with the City's Mission Statement and Values of being dedicated to serving the needs and desires of our citizens by:

- Mission Statement: Enhance the City of Clayton by providing quality of service through:
  - Responsible Stewardship
  - Effective Collaboration
  - Continuous Progress

- Values
  - Excellence
  - Integrity
  - Respect
  - Teamwork

Cities across California continue to face mounting short and long-term budgetary challenges. Local contributions to PERS costs are escalating because of lower-than-expected returns on investment and retirees living longer, costs of providing municipal services have outpaced revenue growth, the emergence of online retail has introduced uncertainty for local sales tax projections, deferred maintenance of aging infrastructure looms on the horizon, and instability at the federal level threatens to undermine both longstanding and new local funding sources. Calistoga is not immune to these and other financial challenges, but the City is fortunate to have a solid budgetary foundation that should allow it to better withstand the impacts.

The purpose of this report is to present the Finance Director's analysis of the General Fund outlook, identifying problems before they occur and recommending solutions that aim to balance the fiscal outlook. The government finances short-term and long-term financial outlook is based on fiscal cornerstones that are consistent from year over year and achieve the goals and vision of the City Council. The four fiscal cornerstones are described below:

1. Adequate funding to meet required service levels.
  - a) Promote economic development;
  - b) Secure grant opportunities and expand the use of local funds;
  - c) Invest excess funds over current reserve balance to create capacity or opportunities;
  - d) Seeking new revenue to continue to fund the aging infrastructure needs.
2. Cost Containment: Making efficient use of existing tax dollars.
  - a) Continue to implement efficiencies and innovations to reduce operating costs;
  - b) Continue to look for opportunities to reduce or limit the increase in City's long-term obligations (labor costs, including pension and other-post employment benefits);
  - c) Continue to monitor and look for opportunities to reduce spending by departments by reorganization or review of the cost allocation plan for general city services to ensure sufficient revenues are generated to reduce the burden on the General Fund; and
  - d) Invest in employee professional training to better utilize technology to create efficiencies and innovation.
3. Build and maintain a prudent reserve fund balance.
  - a) Review and evaluate the current reserve policy and return to the City Council with any recommendations for adjustments to ensure adequate funding for emergencies or economic downturns; and
  - b) Set reserve requirements for the utility funds consistent w/ the costs of service study used to develop the rate structures.

4. Foster a climate of sincerity, transparency, and accountability.

- a) Enhance customer service, using metrics when possible, to ensure the funds are allocated and spent accordingly;
- b) Enhance and promote open data and use results to communicate to Council and citizens on financial matters; and
- c) Promote accountability of the allocation of resources.

## **DISCUSSION**

The analysis below addresses the operating funds for Fiscal Year (FY) 2022-23, including the General Fund, and American Rescue Plan Act.

### **General Fund**

#### **General Fund Revenues**

The total General Fund revenue budget adopted for the Fiscal Year 2022-23 was \$5.4 million excluding funds from the American Recovery Plan Act (ARPA) funds of approximately \$1.7 million while the appropriations budget, including capital improvement budget, was \$5.4 million. It is important to note that the original projection for the General Fund was a net deficit of \$127,542. The City Council approved several adjustments to allocate funds from the Pandemic Reserve Fund (ARPA), as illustrated in Table 1 below to approve a balanced General Fund Budget for the Fiscal Year 2022-23.

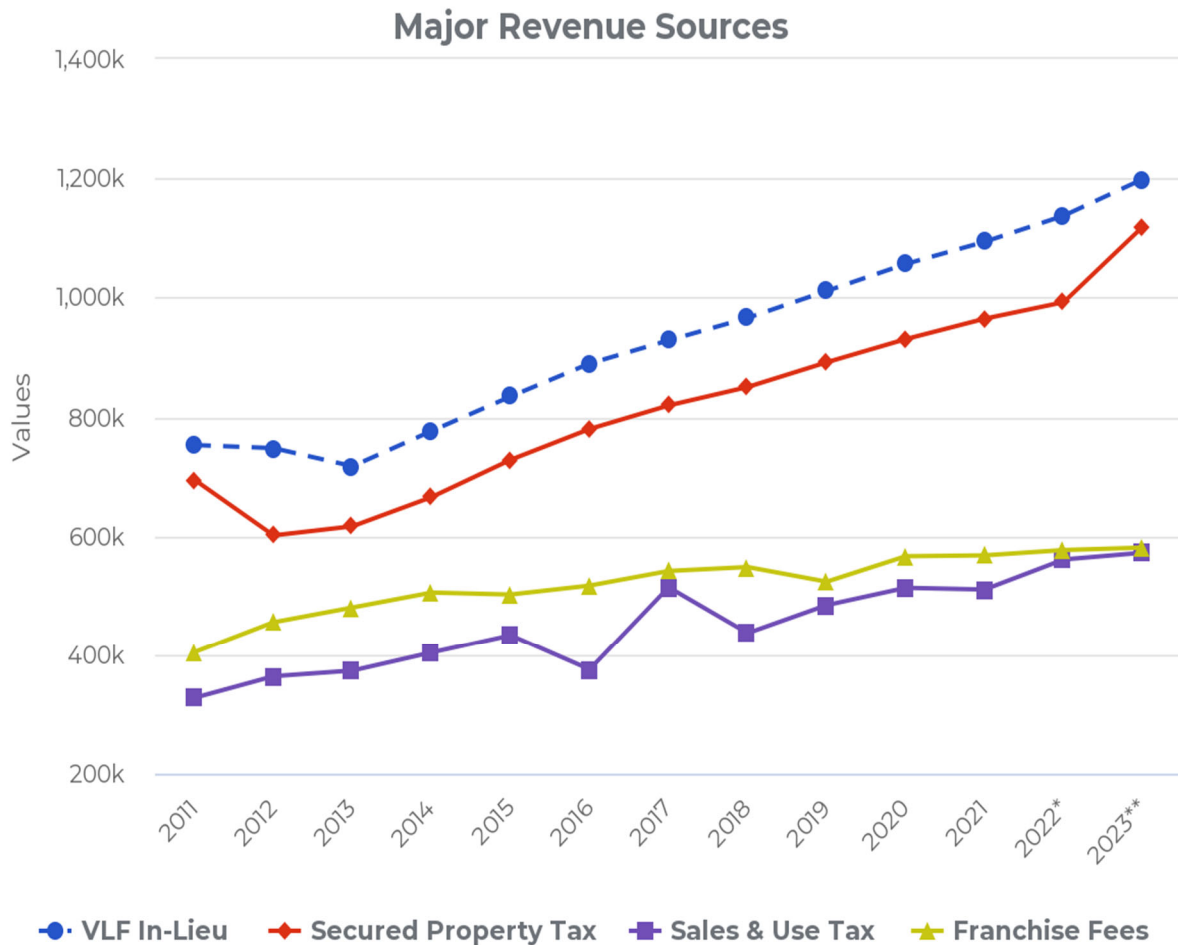
**Table 1**

Fiscal Year 2022-23 Budget Adoption	
Projected Surplus (Deficit)	-127,542
Budget Actions Approved from the Pandemic Reserve Fund:	
Transfer into the General Fund	37,139
Police Vehicle Replacement	70,000
Neighborhood Streetlight Maintenance	20,403
Net General Fund:	127,542

The total General Fund revenues (not including ARPA Funds) appropriated included for key revenue source: (1) property tax in-lieu of vehicle license fees (VLF), (2) local secured ad valorem property taxes (secured property taxes), (3) sales and use taxes, and (4) franchise fees. Each of

these revenue sources are described in detail below. Chart 1 below illustrates the major revenue sources for the General Fund for the last 10 years.

**Chart 1: General Fund Revenues<sup>1</sup>**



<sup>1</sup>Note: This table highlights the material General Fund revenue categories.

1. Property Taxes: Property tax is an ad valorem tax imposed on real property, such as land, buildings, and tangible personal property. Property tax revenue is collected by the County and allocated according to state law among cities, counties, school districts and special districts. Clayton property owners pay a basic tax equal to 1% of the assessed value on real property. The City receives approximately 6.6¢ of every dollar collected with larger shares going to local schools, community colleges and Contra Costa County. For Fiscal Year 2022-23, the total assessed valuation of property values within the Contra Costa County increased by 7.79%. The City of Clayton included some of the increase in the property tax growth as part of the

approved budget for the Fiscal Year 2022-23. **The City's share of the property tax revenues increased by \$41,289 or 3.6% from the approved budget for the Fiscal Year 2022-23.** (6.6 cents of every dollar). The City works with a property tax consultant, HDL Coren & Cone, in projecting property tax revenue, an estimate made with five factors in mind: property turnover rate, pricing and appeals exposure, new construction activity, Proposition 8 administrative reductions and Proposition 13's annual inflation adjustment.

2. Vehicle License Fee (VLF): The largest revenue source, making up 22.1% of General Fund budgeted revenues for FY 2022/23, is property tax in-lieu of vehicle license fees (VLF). The VLF is an annual value tax on the ownership of registered vehicles. It is collected by the California Department of Motor Vehicles and then distributed to cities and counties. As part of the State Budget Act of 2004, the legislature reduced VLF revenue allocations to cities, replacing this funding with additional property tax allocations that change proportionately with the City's annual assessed valuation (property tax in-lieu of VLF revenue). **Total VLF estimated for the Fiscal Year 2022-23 are projected to increase by \$12,774, or 1.07% from the approved budget.**
3. Sales Tax: California sales tax is imposed on the total retail price of any tangible personal property (excluding a variety of state mandated exemptions), while use tax is imposed on the purchaser for eligible transactions when sales tax has not been collected. Although the unadjusted general state-wide sales tax rate applied to transactions is 7.25%, the basic local rate (aka "Bradley-Burns" rate) returned to local agencies (i.e., City of Clayton) is only one percent (1%). This local share is unrestricted and must be received into the General Fund. In the City of Clayton, the applicable sales tax rate is currently 8.75% due to a combination of other additional local and regional voter-approved measures. The City to-date has received \$228,000 or 39% of the budgeted sales tax for the year. The sales tax receipts are two months in arrears. The City staff received a sales tax projection report from the City's consultant, HDL Coren & Cone, for the Fiscal Year 2022-23. HDL projects the City's sales tax revenues will be slightly over the approved budget; however, staff will not propose any adjustment in the mid-year budget due to the uncertainty in sales tax receipts during the first half of the fiscal year. Staff will continue to monitor the sales tax revenues during the year and will update as part of the annual budget for Fiscal Year 2023-24.
4. Franchise Fees: The third largest revenue source, making up 10.7% of General Fund budgeted revenues for FY 2022/23, is franchise fees. Franchise fees are rent paid by utilities or other businesses for the privilege of using the City's right-of-way (i.e., streets, sidewalks, etc.) to locate utility lines, operate vehicles, and/or conduct private business for profit. The City currently collects a 1% franchise fee from Pacific Gas & Electric and a 5% franchise fee from cable operators (i.e., Comcast and AT&T/Pacific Bell). In addition, the City collects a 10% franchise fee from Republic Services for its collection, transportation, disposal and diversion of solid waste and recyclable materials. For Fiscal Year 2022-23, the **Franchise Fee revenues are projected to**



**increase by a total of \$11,577** when compared to the adopted budget. This revenue source can fluctuate for the cable television franchise fees due to a shift from customers to change to digital streaming.

5. Interest Earnings: Actual interest earning for the prior year was \$148,649. The City has been reinvesting the current securities that have matured into new securities with a higher yield. The average returns on these securities are greater than 4% with a longer than one-year term. The City has earned and collected to date a total of \$106,256 and projected to receive approximately \$69,000 through June 30, 2023. The General Fund portion of the interest earnings from the portfolio is approximately sixty percent (60%). **Staff is projecting an increase of \$16,300 in interest earning for the proposed budget for the Fiscal Year 2022-23.**

### General Fund Expenditures

Total General Fund expenditures approved by the Council for Fiscal Year 2022-23 was \$5.4 million, a balanced budget after a contribution of approximately \$127,542 from the Pandemic Reserve Fund (ARPA). The chart below illustrates the General Fund analysis for the Fiscal Year 2022-23:

**Table 2: General Fund Operational Expenditures<sup>2</sup>**

	FY 22-23	FY 22-23	FY 22-23
Expenses	Approved Appropriations	Supplemental Request	Proposed Appropriations
Personnel Costs	3,549,556		3,549,556
Operations and Maintenance	1,870,879		1,870,879
Transfers Out	1,467,024	-	1,467,024
Total	6,887,459	-	6,887,459

<sup>2</sup>*Note: This table does not include all General Fund expenditure categories.*

1. Personnel Costs: Mandatory personnel expenses, such as salaries, overtime, retirement, retiree health, and group insurance, make up approximately 63.12% of the City's total operating budget. The City does not expect a personnel cost increase in FY 2022-23; however, there is **one-time cost of approximately \$16,145.63 in payouts associated with the separation of the City Manager**. The proposed budget includes a supplemental request for these mandatory costs that has been incurred.
2. Operations and Maintenance: Increase in Operations and Maintenance for FY 2022-23 will primarily be offset with the current revenue budget as adopted. The proposed budget for the Fiscal Year 2022-23 includes no new increases in the cost adjustments related to materials and supplies. The new costs that are unanticipated will be brought

forward to the Council if it cannot be absorbed within the allocated budget.

**The net change in the General Fund after accounting for the proposed changes to the revenues and expenditures for the Fiscal Year 2022-23 is \$81,940.** The table below illustrates the original budget and the proposed budget.

**Table 3: General Fund Summary**

	Original Budget (Adopted June 21, 2022)	Supplemental Budget Adjustments	Proposed Revised Budget for Fiscal Year 2022-23
<b>Revenues</b>			
Property Taxes	1,118,781	41,289	1,160,070
Sales Taxes	571,816	12,774	584,590
Vehicle License Fees (VLF)	1,198,595	11,577	1,210,172
Franchise Fees	580,380		580,380
Interest Earnings	86,000	16,300	102,300
Other Revenues	1,652,289		1,652,289
Transfer In: Grant Funds	1,510,549		1,510,549
Transfers In: Administrative Support	169,049		169,049
<b>Total Revenues</b>	<b>6,887,459</b>	<b>81,940</b>	<b>6,969,399</b>
<b>Expenditures</b>			
Salaries	2,351,230		2,351,230
Benefits	1,187,676		1,187,676
Operations and Maintenance	1,881,529		1,881,529
Transfers Out	1,467,024		1,467,024
<b>Total Expenditures</b>	<b>6,887,459</b>	<b>-</b>	<b>6,887,459</b>
<b>Net Operating Surplus (Deficit)</b>	<b>-</b>	<b>81,940</b>	<b>81,940</b>

Capital Improvement Program (CIP): The City Council approved \$1,362,497 in capital improvement projects for the Fiscal Year 2022-23. There is no new budget request for the CIP in the Fiscal Year 2022-23 budget.

#### **AMERICAN RECOVERY PLAN ACT (ARPA) FUND**

Signed into law on March 11, 2021, The American Rescue Plan Act of 2021 ("ARPA") provides \$350 billion in additional funding for state and local governments. The state funding portion is approximately \$195 billion with \$25.5 billion distributed equally among the fifty states and the District of Columbia and the remaining amount distributed according to a formula based on unemployment.

Eligible uses of these funds include:

- Revenue replacement for the provision of government services to the extent of the reduction in revenue due to the COVID-19 public health emergency, relative to revenues collected in the most recent fiscal year prior to the emergency,
- COVID-19 expenditures or negative economic impacts of COVID-19, including assistance to small businesses, households, and hard-hit industries, and economic recovery,
- Premium pay for essential workers,
- Investments in water, sewer, and broadband infrastructure.

The following table illustrates the status of the ARPA Fund for the Fiscal Year 2022-23.

**Table 4: ARPA Fund Analysis through FYE 21-23 though FYE 22-23**

		General Operating Fund
Revenue	1st ARPA Received on July 1, 2021	\$1,467,024
	<b>Total Revenue FYE 21/22:</b>	<b>\$1,467,024</b>
Expenditure	Professional services	\$41,744
	Office Supplies (COVID Test kits)	\$3,251
	DocuSign part of Clayton Cares	\$432
	Clayton Cares	\$800,000
	Hero Pay	\$247,082
	IT Expenses	\$42,052
	Street Lighting	\$20,403
	Fund 502 CERF for Police Vehicle Replacement	\$70,000
	Transfer to General Fund	\$37,139
	<b>Total Expenditure:</b>	<b>\$1,262,103</b>
	<b>Net Ending Balance as of FYE 21/22</b>	<b>\$204,921</b>
	Proposed Expenditures in FY23 (allocation)	
	Full time Senior Accountant limited one year term	\$135,348
	Software and Services to Digitize Records	\$35,000
	City Council Recommended Organizational Assessments	\$35,000
	<b>Subtotal:</b>	<b>\$205,348</b>
Revenue	2nd ARPA received on July 1, 2022	\$1,467,024
	<b>Net Balance as of FYE 22/23:</b>	<b>\$1,466,597</b>

## **INVESTMENT POLICY**

On December 5, 2022, the City's Interim Finance Director presented an updated purchasing policy to the Finance/Audit Committee for their review and feedback. The Committee Members had extensive discussion and had different thoughts on the investment types and how much of the portfolio it represents. Staff has included the current investment policy (Attachment 1) and the revised investment policy (Attachment 2) to seek further direction from the Committee members. Staff will address the comments/feedback from the Committee members and will bring a revised Investment Policy for review and consideration at the March 27, 2023 Budget and Audit Committee meeting.

The new investment policy includes the following new updates:

- Added Standard of Care Section
  - Prudent Investor Standard as authorized under 53600.3 of the California Government Code
  - Public Trust
  - Ethics and Conflicts of Interest
  - Delegation of Authority
  - Internal Control
  - Review of Investment portfolio
- Clarified authorized investments- we added more specific categories of investments in compliance with the California Government Code
- Updated reporting to the City Council: A more detail analysis of the report to be presented to Council in compliance with the California Government Code Sections 53607 and 53646.
- Added Annual Statement of Investment Policy: Investment policy to be frequently updated by the Finance Director.

## **FEES STUDY**

On January 23, 2023, the Interim Finance Director presented to the Finance/Audit Committee the proposed update to the City of Clayton's master fee schedule. On February 17, 2023, the City's team met with the representatives from the ClearGov team to review the total labor cost by position for the City. The City team discussed the inclusion of full cost method, including the unfunded accrued liability, for the active positions as part of the cost recovery efforts. Below is a tentative calendar of the key deliverables:

Dates	Description
27-Feb-23	Project kick-off. Meeting with City Team to review calendar and full cost recovery methodology for labor costs.
17-Mar-23	First Draft Due to the City for Review
27-Mar-23	Presentation of the first draft Book of Fees to the Finance/Audit Committee
4-Apr-23	Second draft of the Book of Fees - Calculate new revenues for the new annual budget for Fiscal Year 2023-24
24-Apr-23	Presentation of the second draft of the Book of Fees to the Finance/Audit Committee
16-May-23	City Council Budget Workshop

## **ATTACHMENTS**

Attachment 1: 2018 Investment Policy

Attachment 2: 2022 Updated Investment Policy

Attachment 3: Mid-Year Budget Presentation PowerPoint

## **INVESTMENT POLICY**

### **CITY OF CLAYTON, CALIFORNIA**

#### **I. POLICY**

It is the policy of the City of Clayton [and the Redevelopment Agency of the City of Clayton] {together, referred to as the "City"} to meet the short and long-term cash flow demands of the City in a manner which will provide for the safety of principal monies with sufficient liquidity, while providing a reasonable investment return. The purpose of this Investment Policy is to identify and outline various methods and procedures for the prudent and systematic investment of public funds.

#### **II. SCOPE**

This Investment Policy applies to all investment activities and financial assets of the City {hereinafter, the "Funds"}. The following Funds are covered by this Investment Policy and are accounted for in the City's Comprehensive Annual Financial Report:

- (A) General Fund
- (B) Special Revenue Fund
- (C) Debt Service Fund
- (D) Capital Project Funds
- (E) Enterprise Funds
- (F) Internal Services Funds
- (G) Trust and Agency Funds
- (H) Any new funds created by the City Council.

Bond proceeds shall be invested in accordance with the requirements and restrictions outlined in the bond documents. Bond proceeds are not considered part of the Funds nor subject to this Investment Policy.

#### **III. DELEGATION OF AUTHORITY**

The City Treasurer is expressly authorized to invest the City's Funds, pursuant to California Government Code Sections 53600, 16429.1 and 53684 et seq. The City Treasurer will meet with, and obtain the approval of, the City Manager prior to investment of the Funds. Investments made routinely by the Finance Manager are restricted to the State Pool [Local Agency Investment Fund, LAIF], California Asset Management Program (CAMP), or to securities maturing within six (6) months. Prior to investing in securities, the Finance Manager will consider the cash flow requirements of the City and may invest in securities maturing over six (6) months if directed by the City Treasurer or the City Manager in writing or verbally, if confirmed in writing within thirty (30) days.

#### IV. ASSIGNMENTS AND DUTIES

- A. **City Council.** The City Council is elected by the registered voters of Clayton. The Council establishes policies for the City and approves the expenditure of City Funds.
- B. **City Manager.** The City Manager is appointed by the City Council and implements policies established by the City Council. The City Manager is responsible for all City departments and is also the Chief Fiscal Officer and is responsible for general management of all investments of Funds.
- C. **City Treasurer.** The City Treasurer is appointed by the City Council and serves at the will and pleasure of the Council. Pursuant to the California Government Code, the City Treasurer is primarily responsible for the proper and prudent investment of Funds, and periodically reviews, makes recommendations regarding, and approves the investments of Funds and investment policies.
- D. **Finance Manager.** The Finance Manager is appointed by the City Manager and is responsible for the daily supervision of all financial transactions of the City, including but not limited to the administration, monitoring, reporting and the restricted placement of Fund investments.

Together, the City Treasurer, City Manager and the Finance Manager function and operate as a check-and-balance system for the prudent and proper investment of all Funds.

#### V. PRUDENCE

Investments shall be made pursuant to the “Prudent Investor” standard, mandated by California Government Code Section 53600.3, which states:

“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, 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. Within the limitations of this section and considering individual investments as part of an overall strategy, a trustee is authorized to acquire investments as authorized by law.”

The “Prudent Investor” standard shall be applied in the context of managing the Funds. The City Treasurer and each investment employee, acting within the intent and scope of this Investment Policy and other written procedures 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 manner and appropriate action is taken to control adverse developments.

## **VI. INVESTMENT OBJECTIVES**

The objective of the investment portfolio is to meet the short and long-term cash flow demands of the City. To achieve this objective, the portfolio will be structured to provide Safety of Principal, Liquidity and Return on Investments.

### **A. Safety of Principal.**

Safety of the City's investments is the primary objective. Investments of the Funds shall be undertaken in a manner that seeks to ensure that capital losses are minimized, whether from institution default, broker-dealer default, or erosion of the market value of securities. The City shall seek to preserve principal by mitigating two types of risk, in order of importance:

1. Credit Risk. Credit risk, defined as the risk of loss due to failure of an issuer of a security, shall be mitigated by purchasing Treasuries or high-grade securities. All investments beyond Treasury securities will be diversified so that the failure of any one issuer would not unduly harm the City's cash flow. Credit risk shall also be mitigated by pre-qualifying financial institutions, broker-dealers, intermediaries and advisors with which the City does business.
2. Market or Interest Rate Risk. Interest rate risk is the risk the market value of securities in the portfolio will fall due to changes in general interest rates. Interest rate risk may be mitigated by structuring Funds so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity, and by investing operating funds primarily in shorter-term securities. The cash flow is updated on a daily basis and will be considered prior to investment of securities in order to limit the need to sell investments for liquidity purposes.

Long-term securities shall not be purchased for the sole purpose of short-term speculation. Securities shall not be sold prior to maturity with the following exceptions: 1). A declining credit security would be sold early to minimize loss of principal; 2). A security swap would improve the quality, yield, or target duration in the portfolio; or 3). Liquidity needs of the portfolio require the security be sold.



The weighted average maturity of the Funds is limited to three (3) years or less. Purchases of investments will be restricted to securities with a final stated maturity not to exceed five (5) years.

**B. Liquidity.**

Liquidity is the second most important objective of City investments. The Funds shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated. This is accomplished by structuring the portfolio so that securities mature concurrent with cash needs to meet anticipated demands (static liquidity). Since all possible cash demands cannot be anticipated, the Funds will maintain a liquidity buffer and invest primarily in securities with active secondary or resale markets (dynamic liquidity).

**C. Return on Investments.**

Return on investment should be considered and maximized after the basic objectives of safety and liquidity have been met. The Funds shall be designed to attain a return on investments through budgetary and economic cycles, taking into account the investment risk constraints and liquidity needs. The core of investments is limited to relatively low risk securities in anticipation of earning a fair return relative to the risk being assumed.

## **VII. AUTHORIZED INVESTMENTS**

The investments set forth in this section are authorized investments pursuant to Section 53601 of the California Government Code and are herewith authorized investments for City Funds:

- A. The State of California Investment Pool, known as the Local Agency Investment Fund (LAIF);
- B. Passbook savings accounts, demand deposits;
- C. Certificate of Deposit placed with insured banks, savings and loans, or credit unions up to a maximum of \$250,000 per insured depository institution for each account ownership category;
- D. Bonds issued by the City, including bonds payable solely out of, controlled, or operated by the City or by an agency or authority of the City;
- E. United States Treasury notes, bonds bills or certificates of indebtedness, or those for which the faith and credit of the United States are pledged for the payment of principal and interest;

- F. Registered state warrants or treasury notes or bonds of the State of California, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the state or by a department, board, agency or authority of the state; and/or
- G. Mortgage pass-through security, collateralized mortgage obligation, mortgage-backed or other pay-through bond, or U. S. corporate bond of a maximum of five (5) years maturity. Securities eligible for investment under this subdivision shall be issued by an issuer having an "A" or higher rating for the issuers debt, as provided by a nationally recognized rating service and rated in a rating category of "AA" or its equivalent or better by a nationally recognized rating service.

*Purchase of securities authorized by this subdivision may not exceed twenty percent (20%) of the City's surplus money that may be invested pursuant to this Section.*

- H. 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. There are no limits on the dollar amount or percentage that the City may invest in government-sponsored enterprises.
- I. Shares of beneficial interest issued by a joint powers authority organized pursuant to Section 6509.7 that invests in the securities and obligations authorized in subdivisions (a) to (q), inclusive, and including but not limited to CAMP. Each share shall represent an equal proportional interest in the underlying pool of securities owned by the joint powers authority. To be eligible under this section, the joint powers authority issued the shares shall have retained an investment adviser that meets all of the following criteria:
  - 1. The adviser is registered or exempt from registration with the Securities and Exchange Commission.
  - 2. The adviser has not less than five years of experience investing in the securities and obligations authorized in subdivisions (a) to (q), inclusive.
  - 3. The adviser has assets under management in excess of five hundred million dollars (\$500,000,000).

For all other recommended investment of Funds by the City Treasurer and the City Manager, the City Council shall adopt the individual authorized instrument by resolution at a regular public meeting thereof.

## **VIII. PROHIBITED INVESTMENTS AND TRANSACTIONS**

- A. The City shall not invest any Funds in inverse floaters, range notes, or interest-only strips that are derived from a pool of mortgages or reverse purchase agreements.
- B. The City shall not purchase or sell securities on margin.
- C. The City shall not invest any Funds in any security that could result in zero interest accrual if held to maturity date.

## **IX. ALLOCATION OF INTEREST EARNINGS**

When a single investment is made from a single Fund, interest on that investment is to be credited to that source Fund. When an investment represents multiple Funds, the interest shall be distributed based on the proportionate share of each Fund included in the aggregate investment.

When investments result in interest paid for a period greater than one (1) month, the interest shall be distributed proportionately based on the average of the monthly beginning balances of each involved Fund.

## **X. DIVERSIFICATION**

The investment portfolio will be diversified to avoid incurring unreasonable and avoidable risks regarding specific security types or individual financial institutions. In a diversified portfolio it is recognized that occasional measured losses are inevitable, and must be considered within the context of the overall portfolio's investment return, provided that adequate diversification has been implemented.

## **XI. PUBLIC TRUST**

All participants in the investment process shall act as custodians of the public trust. Investment officials shall recognize the investment portfolio is subject to public review, scrutiny and evaluation. The overall program shall be designed and managed with a degree of professionalism that is worthy of the highest ideals of the public trust.

## **XII. ETHICS AND CONFLICTS OF INTEREST**

The City Treasurer and other employees or elected officials involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment program or which could impair their ability to make impartial investment decisions. The City Treasurer and investment employees and elected

officials shall disclose any material interests in financial institutions with which they conduct business. They shall further disclose any personal financial/investment positions that could be related to the performance of the investment portfolio and shall refrain from undertaking personal investment transactions with the same individual with whom business is conducted on behalf of their entity.

During the course of the year, if there is an event subject to disclosure that could impair the ability of the City Treasurer or investment employees to make impartial decisions, the City Council shall be notified in writing within ten (10) days of the event.

### **XIII. REPORTING REQUIREMENTS**

The Finance Manager shall submit a quarterly investment report to the City Council. This report will include the following elements:

- A. Type of each investment.
- B. Financial institution.
- C. Date of Maturity.
- D. Amount of deposit or cost of security.
- E. Current market value of securities.
- F. Rate of Interest
- G. Weighted average maturity of the investments.

### **XIV. INTERNAL CONTROLS**

The City Manager shall ensure the development of a system of internal investment controls and a segregation of duties and responsibilities of investment functions in order to assure an adequate system of internal control over the investment function. This segregation of duties will take into account the authorized staffing levels of the City. Internal control procedures shall address wire controls, separation of duties, delivery of securities to a third party for custodial safekeeping, and written procedures for placing investment transactions.

### **XV. GENERAL FUND RESERVE CONTINGENCY**

The City Manager shall set aside Funds designated as *General Fund Reserve Contingency (GFRC)* to protect the City from unexpected financial expenses and to absorb the impact of deficiencies in cash flow not anticipated at the time the fiscal year budget was adopted.

The General Fund Reserves of the City shall include \$250,000.00 (two hundred fifty thousand dollars) designated as *GFRC – Emergency Component*. Further, the City will make every effort to maintain a *GFRC*, cash flow component, in an amount not less than fifty percent (50%) of the adopted annual General Fund budget. The amounts of

the *GFRCs* will be reviewed annually prior to adoption of the General Fund budget. City Council approval shall be required for any expenditure that would decrease the amount of the *GFRC* below the level established at the time of budget adoption.

## **XVI. POLICY REVIEW**

The Investment Policy shall be reviewed at least annually by the City Treasurer and the City Council to ensure its consistency with the overall objectives of preservation of principal, liquidity, and return on investments, along with its relevance to current law, financial and economic trends, and meets the needs of the City.

\* \* \* \* \*

Established: 30 July 2002

City Council adopted revisions: 21 April 2015  
03 August 2010  
05 May 2005  
06 August 2002  
21 April 2015  
20 November 2018

## **Attachment 2**



**City of Clayton**

**Investment Policy**

**December, 2022**

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**I. PURPOSE**

The purpose of this Investment Policy is to provide guidance and direction for the prudent investment of City funds and to foster the creation of a systematic and controlled investment process. The ultimate goal of this Investment Policy is to maximize the efficiency of the City's cash management system and to enhance the economic status of the City while protecting its invested funds.

**II. POLICY**

It is the policy of the City of Clayton ("City") to invest public funds in a prudent manner that will provide maximum security, adequate liquidity and sufficient yield, while meeting the daily cash flow demands of the City and conforming to all statutes and regulations governing the investment of public funds.

**III. SCOPE**

This investment policy applies to all short-term operating funds and investment activities under the direct authority of the City of Clayton. These funds are accounted for in the City's Annual Comprehensive Financial Report and include: General Fund, Special Revenue Funds, Capital Project Funds, Enterprise Fund, Internal Service Funds and Fiduciary Funds. Funds excluded from this policy include the City's Retiree Healthcare Plan which is administered and managed separately by the California Employers' Retiree Benefit Trust (CERBT) Fund under the California Government Code Section 53620-53622 and bond proceeds which are subject to the conditions and restrictions of bond documents and are not governed by this policy.

**IV. GENERAL OBJECTIVES**

The primary objectives, in priority order, of the City's investment activities are safety, liquidity and yield.

**A. Safety**

Preservation of principal is the foremost objective of the investment program. Investments of the City shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. The objective shall be to mitigate credit risk and interest rate risk. To attain this objective, the City shall diversify its investments by investing funds among several financial institutions and a variety of securities offering independent returns.

**1. Credit Risk**

The City shall minimize credit risk, the risk of loss due to the failure of the security issuer or backer, by:

- Limiting investments to the most creditworthy types of securities.
- Pre-qualifying the financial institutions, broker/dealers, intermediaries, and advisers with which the City will do business.
- Diversifying the investment portfolio so that the potential failure of any one issue or issuer will not place an undue financial burden on the City.

**2. Interest Rate Risk**

To minimize the negative impact of material changes in the market value of securities in the portfolio, the City shall:



- Structure the investment portfolio so that securities mature concurrent with cash needs to meet anticipated demands, thereby avoiding the need to sell securities on the open market prior to maturity.
- Invest operating funds primarily in shorter-term securities, money market mutual funds, and the State of California's Local Agency Investment Fund ("LAIF").

**B. Liquidity**

The City's investment portfolio shall remain sufficiently liquid to enable the City to meet all operating requirements that might be reasonably anticipated without requiring a sale of securities. Since all possible cash demands cannot be anticipated, the portfolio shall consist largely of securities with active secondary or resale markets. A portion of the portfolio also may be placed in money market mutual funds or LAIF, which offer same-day liquidity for short-term funds.

**C. Yield (Return on Investment)**

The City's investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, commensurate with the City's investment risk constraints and the liquidity characteristics of the portfolio. Return on investment is of secondary importance compared to the safety and liquidity objectives described above. The core of investments is limited to relatively low risk securities in anticipation of earning a fair return relative to the risk being assumed.

**V. STANDARDS OF CARE****A. Prudence**

The standard of prudence to be used by City investment officials in the management of City moneys shall be the Prudent Investor Standard as authorized under Section 53600.3 of the California Government Code, which shall be applied in the context of managing all aspects of the overall portfolio. Investments shall be made with the care, skill, prudence, and diligence, under 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. This standard shall be applied in the context of managing the overall portfolio. City 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.

**B. Public Trust**

All participants in the investment process shall act as custodians of the public trust. Investment officials shall recognize that the investment portfolio is subject to public review, scrutiny and evaluation. The overall program shall be designed and managed with a degree of professionalism that is worthy of the highest ideals of the public trust.

**C. Ethics and Conflicts of Interest**

Officers and employees involved in the City investment process shall refrain from personal business activity that could conflict with proper execution of the investment

program, or that could impair their ability to make impartial investment decisions. City employees and investment officials shall disclose any material financial interests in financial institutions that conduct business within their jurisdiction, and they shall further disclose any personal financial/investment positions that could be related to the performance of the City immediately to the Clayton City Manager and annually to the Fair Political Practices Commission. City employees and officers shall refrain from undertaking personal investment transactions with the same individual with whom business is conducted on behalf of the City.

**D Delegation of Authority**

The City Council delegates to the Finance Director the authority to invest or to reinvest funds, or to sell or exchange securities. The Finance Director shall thereafter assume full responsibility for those transactions until the delegation of authority is revoked or expires.

**E. Internal Controls**

The Finance Director is responsible for establishing and maintaining a system of written internal controls. The internal controls shall be designed to prevent losses of public funds arising from fraud, employee error, and misrepresentation by third parties, unanticipated changes in financial markets, or imprudent action by City employees and officers. The internal 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 requires estimates and judgments by management.

The internal controls shall address the following points:

1. Segregation of Duties
2. Custodial Safekeeping
3. Delivery versus Payment (DVP)
4. Delegation of Authority
5. Documentation of Transactions

**F. Review of Investment Portfolio**

The securities held by the City must be in compliance with Section VIII (Suitable and Authorized Investments) at the time of purchase. Because some securities may not comply with Section VIII subsequent to the date of purchase, the Treasurer shall at least quarterly review the portfolio to identify those securities that do not comply. The Finance Director shall establish procedures to report to the City Council, major and critical incidences of noncompliance identified through the review of the portfolio.

**VI. AUTHORIZED FINANCIAL DEALERS AND INSTITUTIONS**

The Treasurer shall establish selection criteria for pre-approval of financial institutions and security broker/dealers to do business with the City. The Finance Director shall maintain a list of City approved financial institutions, registered investment advisors and security broker/dealers who are authorized to provide investment services to the City. These may include primary dealers, or regional dealers that qualify under Securities & Exchange Commission Rule 15C3-1 (uniform net capital rule).

If a third-party investment advisor is authorized to conduct investment transactions on the City's behalf, the investment advisor may use their own list of broker/dealers and financial institutions. The investment advisor's list must be available to the City upon request.

## VII. SAFEKEEPING AND CUSTODY

All security transactions, including collateral for repurchase agreements, entered into by the City shall be conducted on a delivery-versus-payment (DVP) basis, which will ensure that securities are deposited in an eligible financial institution prior to the release of funds. Securities shall be held by a third-party custodian or broker/dealer designated by the Finance Director. The only exception to the foregoing shall be depository accounts and securities purchases made with: State of California Local Agency Investment Fund (LAIF), time certificates of deposit and money market mutual funds, since the purchased securities are not deliverable. The Finance Director shall be bonded to protect the public against possible embezzlement and malfeasance.

## VIII. SUITABLE AND AUTHORIZED INVESTMENTS

The City shall be governed by the California Government Code, Sections 53600 et seq. If the Code is amended to allow additional investments or is changed regarding the limits on certain categories of investments, the City is authorized to conform to the changes in the revised Code, provided that the changes are not specifically prohibited by the City's policy. The City shall be required to present those changes in the annual review of the policy and to incorporate the new legislation within the policy. For purposes of compliance with the California Government Code and the City's Investment Policy, the credit rating requirement for invested funds shall be based on the quality ratings at the time of purchase. If the quality rating of the issuer is downgraded, subsequent to purchase, by any of the Nationally Recognized Statistical-Rating Organizations below "A", or its equivalent, it shall be reported to the City Council with a recommendation, and ongoing information shall be provided if the bond is not sold. Where there is a specified percentage limitation for a particular category of investments, that percentage is applicable only at the date of purchase. A later increase or decrease in a percentage resulting from a change in values or assets shall not constitute a violation of that restriction.

The City's funds may not be invested in those prohibited funds described in California Government Code 53601.6, but must only be invested in any of the following instruments as permitted by law (California Government Code Section 53601):

The City is empowered by statute to invest in the following types of securities:

### A. Investment Types

1. **U.S. TREASURY BILLS.** Commonly referred to as T-Bills, these are short-term marketable securities sold as obligations of the U.S. Government. They are offered in three-month, six-month, and one-year maturities. T-Bills do not accrue interest but are sold at a discount to pay face value at maturity. There are no limits on the dollar amount or percentage that the City may invest in U.S. Treasury Bills.
2. **U.S. TREASURY NOTES.** These are marketable, interest-bearing securities sold as obligations of the U.S. Government with original maturities of one to ten years at issuance. Interest is paid semiannually. Purchases of these assets are limited to a remaining maturity of 5 years or less. There are no limits on the dollar amount or percentage that the City may invest in U.S. Treasury Notes.
3. **U.S. TREASURY BONDS.** These are the same as U.S. Treasury Notes except they have original maturities of ten years or longer at issuance. Purchases of these assets are limited to a remaining maturity of 5 years or less, unless

specifically approved by the City Council in accordance with California Government Code section 53601. There are no limits on the dollar amount or percentage that the City may invest in U.S. Treasury Bonds.

4. **U.S. GOVERNMENT AGENCY ISSUES AND GOVERNMENT SPONSORED ENTERPRISES.** This includes obligations, participations, or other instruments of, or issued by, a federal government agency or a United States government-sponsored enterprise. Purchase of U.S. Government Agency securities may not exceed 50% of the City's portfolio. No more than 30% of the portfolio may be invested in any single Agency/Government Sponsored Enterprise.

The allowable securities fall into two categories: 1) Issues which are backed by the full faith and credit of the United States, 2) Issues which are implicitly backed by the full faith and credit of the United States and/or are in conservatorship.

These Issues include, but are not limited to:

- Issues, which are unconditionally backed by the full faith and credit of the United States, including: Government National Mortgage Association (GNMA), Small Business Administration (SBA) and General Services Administration (GSA).
  - Issues, which are not backed by the full faith and credit of the United States including but are not limited to: Federal National Mortgage Association (FNMA), Federal Home Loan Mortgage Corporation (FHLMC), Federal Home Loan Bank (FHLB), Farm Credit System, Banks for Cooperation (Co-ops), Federal Lands Banks (FLB), Federal Intermediate Credit Banks (FICB), and Tennessee Valley Authority (TVA).
5. **LOCAL AGENCY INVESTMENT FUND (LAIF).** As authorized in Government Code Section 16429.1, local agencies may invest in the Local Agency Investment Fund (LAIF), a pooled investment money market fund established by the State of California, and overseen by the State Treasurer, which allows local agencies to pool their investment resources. Principal may be withdrawn on a one-day notice. Interest earned is paid quarterly. The fees charged are limited to one-quarter of one percent of the earnings of the fund. Current policies of LAIF set minimum and maximum amounts of monies that may be invested as well as maximum numbers of transactions that are allowed per month. The City may invest up to the maximum amount permitted by LAIF. The LAIF is in trust in the custody of the State Treasurer. The City's right to withdraw its deposited monies from LAIF is not contingent upon the State's ability to adopt a State Budget by July 1<sup>st</sup> of each new fiscal year.
  6. **BANKER'S ACCEPTANCE.** Otherwise known as bills of exchange or time drafts, are negotiable instruments with a maturity of six months or less drawn on and accepted by a commercial bank. These instruments must be rated "A-1" or its equivalent or better by at least one Nationally Recognized Statistical Rating Organization (NRSRO); or long-term debt obligations which are rated in a category of "A" or its equivalent or better by at least one NRSRO. Banker's Acceptances are usually created to finance the import or export of goods, or the shipment of goods within the United States. No more than 40% of the portfolio may be invested in Banker's Acceptances. No more than 5% of the portfolio may

be invested in any single issuer. The maximum maturity may not exceed 180 days.

7. **NON-NEGOTIABLE CERTIFICATE OF DEPOSIT (CD).** As authorized in Government Code Section 53601.8, local agencies may invest in Certificates of Deposit. These instruments must comply with Government Code Sections 16500 or 16600. This is a receipt for funds deposited in a Bank or Savings and Loan Association for a specified period at a specified rate of interest. The first \$250,000 of a CD is insured by the FDIC; as such, the City Manager may waive collateral requirements for CD investments up to this amount. Investments in CD's in excess of \$250,000 must be collateralized by Treasury Department Securities, which must be at least 110% of the face value of the CD's in excess of the first \$250,000, or by first mortgage loans, which must be at least 150% of the face value of the CD balance in excess of the first \$250,000. No more than 20% of the portfolio may be invested in certificates of deposit. Maturities may not exceed five years.

All institutions must: (1) have a minimum of \$100 million in assets; (2) have a demonstrated history of positive earnings; and, (3) must carry a minimum 3.5% equity ratio and hold that ratio for at least one year prior to the City's investment. All institutions must be located within the State of California. For collateralized or negotiable certificates of deposit, the institution must have a minimum \$1 billion in assets, in addition to meeting the above criteria.

8. **NEGOTIABLE CERTIFICATE OF DEPOSIT (NCD).** Allowable certificates of deposits must be issued by a nationally or state-chartered bank or a state or federal association, a state or federal credit union, or by a federally licensed or state licensed branch of a foreign bank. The amount of the NCD insured up to the FDIC limit does not require any credit ratings. Any amount above the FDIC insured limit must be issued by institutions which have short-term debt obligations rated "A-1" or its equivalent or better by at least one NRSRO; or long-term obligations rated in a rating category of "A" or its equivalent or better by at least one NRSRO. The maturity period for this investment vehicle may not exceed five years unless approved by the Council. No more than 30% of the total portfolio may be invested in these securities. No more than 5% of the portfolio may be invested in any single issuer.
9. **COMMERCIAL PAPER.** As authorized in Government Code Section 53601(h), 25% of the City's portfolio may be invested in "prime" quality commercial paper. The securities must be rated "A-1" or its equivalent or better by at least one NRSRO and issued by a corporation which has long-term obligations with a rating of "A" or better by at least one NRSRO with maturities not to exceed 270 days. These notes are secured promissory notes of industrial corporations, utilities and bank holding companies. The issuer must be a corporation organized and operating in the United States with assets in excess of \$500 million. The City may not purchase more than 10% of the outstanding commercial paper of any single issuer. No more than 5% of the portfolio may be invested in any single issuer.
10. **REPURCHASE AGREEMENTS.** As authorized in Government Code Section 53601(j), repurchase agreements are agreements between the local agency and seller for the purchase of government securities to be resold at a specific date and for a specific amount. Repurchase agreements are generally used for short-term

investments for the City's daily automatic sweep account and will generally not exceed 30 days. The legal limitation on the maturity period for a repurchase agreement is for one year with the required market value underlying the agreement at 102% of the funds borrowed with the value adjusted quarterly.

11. **MUNICIPAL BONDS OF THE STATE OF CALIFORNIA OR LOCAL AGENCIES.** As authorized in Government Code Section 53601(e), local agencies may invest in Bonds of the State of California and any local government in the State of California, which are rated in the "A" category or better by one NRSRO at the time of investment. In no event shall this classification of investment exceed 30% of the value of the portfolio. No more than 5% of the portfolio may be invested in any single issuer.

12. **MUTUAL FUNDS and MONEY MARKET MUTUAL FUNDS.** Mutual Funds are referred to in California Government Code Section 53601(l), as "shares of beneficial interest issued by diversified management companies." Mutual Funds and Money Market Mutual Funds that are registered with the Securities and Exchange Commission under the Investment Company Act of 1940 are authorized investments for funds subject to the following provisions:

- **Mutual Funds** that invest in the securities and obligations as authorized under California Government Code Section 53601(a) to (k) and (m) to (q) inclusive and that meet either of the following criteria:
  - Attained the highest ranking or the highest letter and numerical rating provided by not less than two (2) Nationally Recognized Statistical Rating Organizations (NRSROs); or
  - Have retained an investment advisor registered or exempt from registration with the Securities and Exchange Commission with not less than five years' experience investing in the securities and obligations authorized by California Government Code Section 53601 and with assets under management in excess of \$500 million.
    - No more than 10% of the total portfolio may be invested in Mutual Funds.
    - No more than 5% of the total portfolio may be invested in any one issuer.
- **Money Market Mutual Funds** registered with the Securities and Exchange Commission under the Investment Company Act of 1940 and issued by diversified management companies and meet either of the following criteria:
  - Have attained the highest ranking or the highest letter and numerical rating provided by not less than two (2) NRSROs; or
  - Have retained 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 with assets under management in excess of \$500 million.
  - No more than 10% of the total portfolio may be invested in Money Market Mutual Funds.
  - No more than 5% of the total portfolio may be invested in any one issuer.

- All Money Market Mutual Funds must be compliant with Rule 2a-7 of the Investment Company Act of 1940.

13. **MEDIUM TERM NOTES.** As authorized in Government Code Section 53601(k), local agencies may invest in medium term notes issued by corporations organized and operating in the United States or by depository institutions licensed by the United States that are rated in the rating category of “A” or its equivalent or higher rating for the issuer’s debt as provided by one NRSRO and having a maximum remaining maturity period of five years or less in an amount not to exceed 30% of the agency’s portfolio. Furthermore, the maximum principal amount in any one issuer will not exceed 5% of the City’s portfolio.

14. **GOVERNMENT INVESTMENT POOLS.** Shares of beneficial interest issued by a joint powers authority organized pursuant to Section 6509.7 that invests in securities and obligations authorized in subdivisions (a) to (q), inclusive and including, but not limited to, CAMP (California Asset Management Program). Each share shall represent an equal proportional interest in the underlying pool of securities owned by the joint powers authority. To be eligible under this section, the joint powers authority issuing the shares shall have retained an investment advisor that meets all of the following criteria:

- The advisor is registered or exempt from registration with the Securities and Exchange Commission.
- The advisor has not less than five years of experience investing in the securities and obligations authorized in subdivisions (a) to (q), inclusive.
- The advisor has assets under management in excess of five hundred million dollars (\$500,000,000).

While local government investment pools generally provide significant safety and liquidity, the Finance Director shall complete a thorough investigation prior to making any such investment. Due diligence in investigations shall generally include a review of written statements of investment policies, objectives, fees schedules, and reporting schedules, as well as issues related to (1) eligible investors and securities, (2) the permitted frequencies and sizes of deposits and withdrawals, (3) security safeguards, including settlement processes, (4) the frequency with which securities are priced and the program audited, (5) the treatment of gains and losses, including interest calculations and distribution, (6) whether and, if so, how reserves, retained earnings, and similar funds are utilized by the investment pool, and (7) whether the investment pool is eligible for and, if so, accepts bond proceeds. In addition, only local government investment pools with at least five years’ experience providing similar services to other California municipalities may be utilized.

## **B. Collateralization**

Collateralization will be required on two types of investments: certificates of deposit and repurchase agreements. In order to anticipate market changes and provide a level of security for all funds, the collateralization level for any amount exceeding FDIC coverage shall be in accordance with California Government Code Section 53652 and/or 53651 (m)(1).

The City chooses to limit acceptable collateral to the following: Cash, U.S. Treasury Bills, Notes and Bonds, and Federal Agency issues.

Collateral will always be held in the City's name by an independent third party with whom the City of Clayton has a current custodial agreement. A clearly marked evidence of ownership (safekeeping receipt) must be supplied to the City.

The right of collateral substitution is reserved by the City.

**C. Investments Not Approved**

Any security type or structure not specifically approved by this policy is hereby prohibited.

**D. Exceptions to Prohibited and Restricted Investments**

The City shall not be required to sell securities prohibited or restricted in this policy, or any future policies, or prohibited or restricted by new State regulations, if purchased prior to their prohibition and/or restriction. Insofar as these securities provide no notable credit risk to the City, holding of these securities until maturity is approved. At maturity or liquidation, such monies shall be reinvested only as provided by this policy.

**IX. INVESTING PARAMETERS**

**A. Diversification**

The City shall diversify its investments by security type, issuer, maturity, and financial institutions. No percentage limitations are established for United States government, United States government agencies and United States government sponsored enterprises; however, percentage limitations are established for other permitted investments, as noted in Section VIII of this policy. The investments shall be diversified by limiting investments to avoid over-concentration in securities from a specific issuer or business sector (excluding U.S. Treasury and Federal Agency securities), limiting investment in securities that have higher credit risks, and investing in securities with varying maturities.

**B. Maximum Maturities**

To the extent possible, the City will attempt to match its investments with anticipated cash flow requirements. Where there is no specified maturity limitation on an investment, no investment shall be made in any security, which, at the time of the investment, has a term remaining to maturity in excess of five (5) years, unless the City Council has granted express authority to make that investment no less than three months prior to the investment.

**X. REPORTING**

The Finance Director shall submit investment reports to the City Council that provide a clear picture of the status of the current investment portfolio and shall contain sufficient information to permit an independent organization to evaluate the performance of the investment program.

**A. Reporting to City Council**

In accordance with California Government Code Sections 53607 and 53646, the Finance Director shall submit to the City Council a monthly report of portfolio transactions and a quarterly investment report, which summarizes all securities in the portfolio. The quarterly report shall include:

1. Investment type
2. Issuer
3. Purchase date
4. Maturity date
5. Credit quality



6. Coupon and yield
7. Book value
8. Market value
9. Interest Earnings
10. Average days to maturity
11. Discussion of the current economic climate
12. Statement that the portfolio is in compliance with this Investment Policy or the manner in which the portfolio is not in compliance.
13. Statement of the City's ability to meet anticipated expenditure requirements for the next six months, or an explanation as to why sufficient money may not be available.

## **XI. 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.

### **A. Market Yield**

The City's overall investment strategy is passive: Investments are generally held to maturity. If an investment advisory firm is retained by the City, the City portfolio shall be compared to a customized benchmark in order to determine whether market yields are being achieved. In addition, the quarter-to-date LAIF apportionment rate and the two-year U.S. Treasury Note shall also be considered useful benchmarks of the City's portfolio performance.

### **B. Marking to Market**

The market value of the portfolio shall be calculated at least quarterly. This will ensure that review of the investment portfolio, in terms of value and price volatility, has been 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.

## **XII. INVESTMENT POLICY COMPLIANCE AND ADOPTION**

### **A. Policy Compliance and Changes**

Any deviation from the policy shall be reported to City Council at the next scheduled meeting. The Finance Director shall promptly notify the City Council of any material change in the policy, and any modifications to the policy must be approved by the City Council.

### **B. Annual Statement of Investment Policy**

The Finance Director shall render a written Investment Policy that shall be reviewed at least annually by the City Council to ensure its consistency with the overall objectives of preservation of principal, liquidity and return, and its relevance to current law and financial and economic trends. The City Council shall consider the annual Investment Policy and any changes therein at a public meeting. The Investment Policy shall be adopted by resolution of the City Council.

### **C. Legislative Changes**

Any State of California legislative action that further restricts allowable maturities, investment types or percentage allocations will be incorporated into the City of

Clayton Investment Policy and will supersede any and all previous applicable language. If the City is holding an investment that is subsequently prohibited by a legislative change, the City may hold that investment until the maturity date, if it is deemed prudent by the Finance Director/Treasurer.

## APPENDIX

### GLOSSARY OF INVESTMENT TERMS

**AGENCY:** A debt security issued by a federal or federally sponsored agency. Federal agencies are backed by the full faith and credit of the U.S. Government (i.e. Government National Mortgage Association). Federally sponsored agencies (FSA's) are backed by each particular agency with a market perception that there is an implicit government guarantee (i.e., Federal National Mortgage Association).

**BOOK VALUE:** The value at which a debt security is shown on the holder's balance sheet. Book value is often acquisition cost plus/minus amortization and accretion, which may differ significantly from the security's current value in the market.

**BROKER:** Someone who brings buyers and sellers together and is compensated for his/her service.

**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.

**CREDIT QUALITY:** The measurement of the financial strength of a bond issuer. This measurement helps an investor to understand an issuer's ability to make timely interest payments and repay the loan principal upon maturity. Generally, the higher the credit quality of a bond issuer, the lower the interest rate paid by the issuer because the risk of default is lower. Credit quality ratings are provided by a Nationally Recognized Statistical-Rating Organization.

**CREDIT RISK:** The risk to an investor that an issuer will default in the payment of interest and/or principal on a security.

**CUSTODIAN:** A bank or other financial institution that keeps custody of stock certificates and other assets.

**DEALER:** A dealer, as opposed to a broker, acts as a principal in all transactions, by buying and selling for his/her own account.

**DELIVERY VERSUS PAYMENT:** There are two methods of delivery of securities: delivery versus payment and delivery versus receipt. Delivery versus payment is delivery of securities with an exchange of money for the securities. Delivery versus receipt is delivery of securities with an exchange of a signed receipt for the securities.

**FAIR VALUE:** The amount at which an investment could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

**FEDERAL DEPOSIT INSURANCE CORPORATION (FDIC):** A federal agency that insures bank deposits currently up to \$250,000 per deposit.

**FEDERAL HOME LOAN BANKS (FHLB):** Government sponsored wholesale banks (currently 12 regional banks) that lend funds and provide correspondent banks services to member commercial banks, thrift institutions, credit unions and insurance companies.

**FEDERAL NATIONAL MORTGAGE ASSOCIATION (FNMA):** FNMA is a federal corporation working under the auspices of the Department of Housing and Urban Development (HUD). It is the largest single provider of residential mortgage funds in the United States. Fannie Mae, as the corporation is called, is a private stockholder-owned corporation. The corporation's purchases include a variety of adjustable mortgages and second loans, in addition to fixed-rate mortgages.

**FEDERAL RESERVE SYSTEM:** The central bank of the United States created by Congress and consisting of a seven-member Board of Governors in Washington, D.C., twelve Regional Banks and about 5,700 commercial banks that are members of the system.

**GOVERNMENT ACCOUNTING STANDARDS BOARD (GASB):** A standard-setting body, associated with the Financial Accounting Foundation, which prescribes standard accounting practices for governmental units.

**GOVERNMENT NATIONAL MORTGAGE ASSOCIATION (GNMA or Ginnie Mae):** Securities influencing the volume of bank credit guaranteed by GNMA and issued by mortgage bankers, commercial banks, savings and loan associations, and other institutions. Security holder is protected by full faith and credit of the U.S. Government. Ginnie Mae securities are backed by the FHA, VA, or FMHA mortgages. The term “pass-throughs” is often used to describe Ginnie Maes.

**GOVERNMENT SECURITIES:** An obligation of the U.S. government, backed by the full faith and credit of the government. These securities are regarded as the highest quality of investment securities available in the U.S. securities market. See "Treasury Bills, Notes, and Bonds."

**INTERNAL CONTROLS:** An internal control structure designed to ensure that the assets of the entity are protected from loss, theft, or misuse. The internal control structure is 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 requires estimates and judgments by management. Internal controls should address the following points:

- **Control of collusion** - Collusion is a situation where two or more employees are working in conjunction to defraud their employer.
- **Separation of transaction authority from accounting and record keeping** - By separating the person who authorizes or performs the transaction from the people who record or otherwise account for the transaction, a separation of duties is achieved.
- **Custodial safekeeping** - Securities purchased from any bank or dealer including appropriate collateral (as defined by state law) shall be placed with an independent third party for custodial safekeeping.
- **Avoidance of physical delivery securities** - Book-entry securities are much easier to transfer and account for since actual delivery of a document never takes place. Delivered securities must be properly safeguarded against loss or destruction. The potential for fraud and loss increases with physically delivered securities.
- **Clear delegation of authority to subordinate staff members** - Subordinate staff members must have a clear understanding of their authority and responsibilities to avoid improper actions. Clear delegation of authority also preserves the internal control structure that is contingent on the various staff positions and their respective responsibilities.
- **Written confirmation of transactions for investments and wire transfers** - Due to the potential for error and improprieties arising from telephone and electronic transactions, all transactions should be supported by written communications and approved by the appropriate person. Written communications may be via fax if on letterhead and if the safekeeping institution has a list of authorized signatures.
- **Development of a wire transfer agreement with the lead bank and third-party custodian** - The designated official should ensure that an agreement will be entered into and will address the following points: controls, security provisions, and responsibilities of each party making and receiving wire transfers.

**LIQUIDITY:** A liquid asset is one that can be converted easily and rapidly into cash without a substantial loss of value. In the money market, a security is said to be liquid if the spread between bid and asked prices is narrow and reasonable size can be done at those quotes.

**LOCAL AGENCY INVESTMENT FUND (LAIF):** Chapter 730, Statutes of 1976 of the State of California, established the Local Agency Investment Fund. This fund enables local governmental agencies to remit money not required for immediate needs to the State Treasurer for the purpose of investment. In order to derive the maximum rate of return possible, the State Treasurer has elected to invest these monies with State monies as a part of the Pooled Money Investment Account (PMIA). Each local governmental unit has the exclusive determination of the length of time its money will be on deposit with the State Treasurer. At the end of each calendar quarter, all earnings derived from investments are distributed by the State Controller to the participating government agencies in proportion to each agency's respective amounts deposited in the Fund and the length of time such amounts remained therein. Prior to the distribution, the State's costs of administering the program are deducted from the earnings.

**MARK-TO-MARKET:** The process whereby the book value or collateral value of a security is adjusted to reflect its current market value.

**MARKET VALUE:** The current price at which a security is trading and could presumably be purchased or sold at that particular point in time.

**MASTER REPURCHASE AGREEMENT:** A written contract covering all future transactions between the parties to repurchase-reverse repurchase agreements that establish each party's rights in the transactions. A master agreement will often specify, among other things, the right of the buyer-lender to liquidate the underlying securities in the event of default by the seller-borrower.

**MATURITY:** The date upon which the principal or stated value of a financial obligation is due and payable.

**MONEY MARKET MUTUAL FUND:** Mutual funds that invest solely in money market instruments (short-term debt instruments, such as Treasury bills, commercial paper, bankers' acceptances, repos and federal funds).

**MUTUAL FUND:** An investment company that pools money and can invest in a variety of securities, including fixed-income securities and money market instruments. Mutual funds are regulated by the Investment Company Act of 1940 and must abide by Securities and Exchange Commission (SEC) disclosure guidelines.

**NATIONALLY RECOGNIZED STATISTICAL-RATING ORGANIZATION (NRSRO):** Standard and Poor's, Moody's, and Fitch Financial Services are examples of such organizations.

**PAR VALUE:** The amount of principal that must be paid at maturity. Also referred to as the face amount of a bond, normally quoted in \$1,000 increments per bond.

**PORTFOLIO:** Combined holding of more than one stock, bond, commodity, real estate investment, cash equivalent, or other asset. The purpose of a portfolio is to reduce risk by diversification.

**PRINCIPAL:** The face value or par value of a debt instrument, or the amount of capital invested in a given security.

**PRIMARY DEALER:** A group of government securities dealers who submit daily reports of market activity and monthly financial statements to the Federal Reserve Bank of New York and are subject to its informal oversight. Primary dealers include Securities and Exchange Commission (SEC) registered securities broker/dealers, banks and a few unregulated firms.

**PRINCIPAL:** (1) The face amount or par value of a debt instrument. (2) One who acts as a dealer buying and selling for his own account.

**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 or the current income return.

**REPURCHASE AGREEMENT (RP OR REPO):** A holder of securities sells these securities to an investor with an agreement to repurchase them at a fixed price on a fixed date. The security

"buyer" in effect lends the "seller" money for the period of the agreement, and the terms of the agreement are structured to compensate the buyer for this. Dealers use RP extensively to finance their positions. Exception: When the Fed is said to be doing RP, it is lending money that is increasing bank reserves.

**RISK:** Degree of uncertainty of return on an asset.

**RULE 2A-7 OF THE INVESTMENT COMPANY ACT:** Applies to all money market mutual funds and mandates such funds to maintain certain standards, including a 13-month maturity limit and a 90-day average maturity on investments, to help maintain a constant net asset value of one dollar (\$1.00).

**TREASURY BILLS:** Short-term U.S. government non-interest-bearing discounted debt securities with maturities of no longer than one year and issued in minimum denominations of \$10,000. Auctions of three- and six-month bills are weekly, while auctions of one-year bills are monthly. The yields on these bills are monitored closely in the money markets for signs of interest rate trends.

**TREASURY BOND:** A long-term coupon-bearing U.S. Treasury security issued as a direct obligation of the U.S. Government and having an initial maturity of more than 10 years and issued in minimum denominations of \$1,000.

**TREASURY NOTE:** A medium-term coupon-bearing U.S. Treasury security issued as a direct obligation of the U.S. Government and having an initial maturity of from one to ten years and issued in denominations ranging from \$1,000 to \$1 million or more.

**UNIFORM NET CAPITAL RULE:** Securities and Exchange Commission (SEC) Rule 15C3-1 outlining requirements that member firms as well as nonmember broker-dealers in securities maintain a maximum ratio of indebtedness to liquid capital of 15 to 1; also called net capital rule and net capital ratio. Indebtedness covers all money owed to a firm, including margin and commitments to purchase securities, one reason new public issues are spread among members of underwriting syndicates. Liquid capital includes cash and assets easily converted into cash.

**VOLATILITY:** A degree of fluctuation in the price and valuation of securities.

**YIELD:** The current rate of return on an investment security generally expressed as a percentage of the security's current price. (a) **INCOME YIELD** is obtained by dividing the current dollar income by the current market price for the security. (b) **NET YIELD** or **YIELD TO MATURITY** is 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 of the bond.





# Fiscal Year 2022-23 Budget Update





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## City of Clayton

Mission Statement: Enhance the City of Clayton by providing quality of service through:

Responsible Stewardship

Effective Collaboration

Continuous Progress

### Values

Excellence

Integrity

Respect

Teamwork

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## General Fund Analysis

	Original Budget (Adopted June 21, 2022)	Supplemental Budget Adjustments	Proposed Revised Budget for Fiscal Year 2022-23
<b><u>Revenues</u></b>			
Property Taxes	1,118,781	41,289	1,160,070
Sales Taxes	571,816	12,774	584,590
Vehicle License Fees (VLF)	1,198,595	11,577	1,210,172
Franchise Fees	580,380		580,380
Interest Earnings	86,000	16,300	102,300
Other Revenues	1,652,289		1,652,289
Transfer In: Grant Funds	1,510,549		1,510,549
Transfers In: Administrative Support	169,049		169,049
<b>Total Revenues</b>	<b>6,887,459</b>	<b>81,940</b>	<b>6,969,399</b>
<b><u>Expenditures</u></b>			
Salaries	2,351,230		2,351,230
Benefits	1,187,676		1,187,676
Operations and Maintenance	1,881,529		1,881,529
Transfers Out	1,467,024		1,467,024
<b>Total Expenditures</b>	<b>6,887,459</b>	<b>-</b>	<b>6,887,459</b>
<b>Net Operating Surplus (Deficit)</b>	<b>-</b>	<b>81,940</b>	<b>81,940</b>

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## General Fund Analysis

General Operating Fund Deficit: Fiscal Year 2023 Budget		
		General Operating Fund
Budget	Surplus(Deficit)	\$ (127,542)
Budget Actions		
	Police Vehicle Replacement	70,000
	Pandemic Reserve Transfer	37,139
	Pandemic Reserve Allocation- Neighborhood Streetlight Maintenance	20,403
	Total Budget Actions	127,542
	Net General Fund	\$ -

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## Pandemic Reserve Fund Analysis - ARPA

		General Operating Fund
Revenue	1st ARPA Received on July 1, 2021	\$1,467,024
	<b>Total Reveune FYE 21/22</b>	<b>\$1,467,024</b>
Expenditure	Professional services	\$41,744
	Office Supplies (COVID testkits)	\$3,251
	Docu Sign part of Clayton Cares	\$432
	Clayton Cares	\$800,000
	Hero Pay	\$247,082
	IT Expenses	\$42,052
	Street Lighting	\$20,403
	Fund 502 CERF for Police Vehicle Replacement	\$70,000
	Transfer to General Fund	\$37,139
	<b>Total Expenditure</b>	<b>\$1,262,103</b>
	<b>Net Ending Balance as of FYE 21/22</b>	<b>\$204,921</b>
	Proposed Expenditures in FY23 (allocation)	
	Full time Senior Accountant limited one year term	\$135,348
	Software and Services to Digitize Records	\$35,000
	City Council Recommended Organizational Assessments	\$35,000
	<b>Subtotal</b>	<b>\$205,348</b>
Revenue	2nd ARPA received on July 1, 2022	\$1,467,024
	<b>Net Balance as of FYE 22/23</b>	<b>\$1,466,597</b>

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## Fee Schedules

Dates	Description
27-Feb-23	Project kick-off. Meeting with City Team to review calendar and full cost recovery methodology for labor costs.
17-Mar-23	First Draft Due to the City for Review
27-Mar-23	Presentation of the first draft Book of Fees to the Budget and Audit Committee
4-Apr-23	Second draft of the Book of Fees - Calculate new revenues for the new annual budget for Fiscal Year 2023-24
24-Apr-23	Presentation of the second draft of the Book of Fees to the Budget and Audit Committee
16-May-23	City Council Budget Workshop
20-Jun-23	Fiscal Year 2023-2024 Adoption

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**Thank you**

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