

**AGENDA ITEM #4.H**

TOWN OF LOS ALTOS HILLS  
Staff Report to the City Council

February 16, 2023

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**SUBJECT:** RESOLUTION ADOPTING THE REVISED INVESTMENT POLICY

**FROM:** Sarina Revillar, Administrative Services Director *S.R.*

**APPROVED:** Peter Pirnejad, City Manager *P.P.*

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**RECOMMENDATION:** That the City Council:

Approve resolution adopting the revised investment policy.

**DISCUSSION:**

The investment policy guides the Town's staff and its advisors for all investment activities. State law requires that local government Treasurers render to their legislative body for consideration at a public meeting a statement of investment policy. The Town's investment policy, including the listing of eligible securities and maturities, was last approved by the City Council on October 15, 2020.

To comply with California Government Code 53646, the Town will report a Quarterly Investment Report to include all the Town's investments. Providing this information will provide transparency to the public on the Town's securities according to the Investment Policy.

On February 6, 2023, the Finance and Investment Committee reviewed, discussed, and recommended acceptance of changes. Attachment 2 contains the entire Investment Policy with markups.

**ENVIRONMENTAL REVIEW:**

This action does not qualify as a "Project" as defined in California Government Code Section 15378(b) of the Guidelines for California Environmental Quality Act."

**2022 CITY COUNCIL STRATEGIC PRIORITIES:**

The policy is not on the City Council's priorities in 2022.

**FISCAL IMPACT:**

This is for reporting purposes. There is no fiscal impact.

**ATTACHMENTS**

1. Resolution
2. Investment Policy with Redlines

**RESOLUTION No. xx-23**

**RESOLUTION OF THE CITY COUNCIL OF THE TOWN OF LOS ALTOS HILLS ADOPTING THE REVISED INVESTMENT POLICY**

**WHEREAS**, on October 15, 2020 the City Council reviewed and adopted the Revised Town of Los Altos Hills Investment Policy; and

**WHEREAS**, investment policies guide staff and their advisors for all investment activities on behalf of local government agencies; and

**WHEREAS**, those investment activities are primarily governed by the individual entity's adopted investment policy and by California state law (Government Code sections 53600-53610); and

**WHEREAS**, the Investment Policy for the Town of Los Altos Hills is consistent with state law and, for the purpose of added safety and liquidity, is more restrictive than the state law; and

**WHEREAS**, the Finance and Investment Committee (FIC) has reviewed changes to the Investment Policy (Attachment A) and voted in favor of sending the amended policy to Council for its review and approval; and

**NOW THEREFORE**, resolved by the City Council of the Town of Los Altos Hills that the Council hereby adopts the Town's Revised Investment Policy as presented.

The above and foregoing Resolution was passed and adopted by the City Council of the Town of Los Altos Hills at a regular meeting held on the 16th day of February 2023 by the following vote:

AYES:

NOES:

ABSTAIN:

ABSENT:

BY: \_\_\_\_\_  
Linda Swan, Mayor

ATTEST:

\_\_\_\_\_  
Deborah Padovan, City Clerk

**TOWN OF LOS ALTOS HILLS**  
**2022-2023 INVESTMENT POLICY**

**1.0 Philosophy**

It is the policy of the Town of Los Altos Hills to invest public funds in a manner that will provide a reasonable rate of investment return while minimizing exposure to loss of capital and thereby maintaining a consistent source of revenues for the Town. This policy establishes the parameters for the Town's investment strategies.

**2.0 Delegation of Authority**

Authority to manage the Town of Los Altos Hills' investment program is derived from the California Government Code Section 53600 et seq. The City Council shall approve all modifications to the investment strategy and the selection or dismissal of an investment advisor. Administration of the Council-approved investment strategy is hereby delegated to the City Manager, who shall be responsible for supervising all treasury activities of the Town's Finance Director and who shall establish written procedures for the operation of the investment program consistent with this investment policy. Procedures should include reference to: safekeeping, delivery vs. payment, investment accounting, wire transfer agreements, banking service contracts and collateral/depository agreements. Such procedures shall include explicit delegations of authority to persons responsible for investment transactions. No person may engage in any investment transactions except as provided under the terms of this policy and the procedures established by the City Manager or her/his designee. The City Manager or her/his designee shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials.

**3.0 Scope**

This investment policy applies to all financial assets of the Town of Los Altos Hills. These funds are accounted for in the Town of Los Altos Hills' [Comprehensive Annual Financial Report/Annual Comprehensive Financial Report \(ACFR\)](#) and include:

**3.1 Funds**

General Fund	Enterprise Funds
Special Revenue Funds	Capital Projects Funds
Trust and Agency Funds	

Any new fund, unless specifically exempted

**Commented [MB1]:** Term and acronym change per GASB Statement No. 98, effective Oct. 2021.

**3.2 The following financial assets are excluded:**

Deferred Compensation Plans – Investments are directed by the individual plan participants.

Debt Service Funds Held by Trustees – Investments are placed in accordance with bond indenture provisions.

Notes and Loans – Investments are authorized by separate agreements approved by City Council.

Retiree and Retiree Medical Plans

Except as noted, the Town of Los Altos Hills will consolidate cash balances from all funds to maximize investment earnings. Investment income will be allocated to the various funds based on their respective participation and in accordance with generally accepted accounting principles.

**4.0 Prudence**

Investments shall be made with judgment and care – under circumstances then prevailing – which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investments, considering the probable safety of their capital as well as the probable income to be derived.

**4.1 Standard of prudence:** The standard of prudence to be used by investment officials shall be the “prudent investor” standard and shall be applied in the context of managing an overall portfolio. When investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds, a trustee shall act with care, skill, prudence, and diligence under the circumstances then prevailing, including, but not limited to, the general economic conditions and the anticipated needs of the agency, that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the agency.

**5.0 Objective**

The primary objectives, in priority order, of the Town of Los Altos Hills’ investment activities shall be:

**5.1 Safety:** Safety of principal is the foremost objective of the investment program. Investments of the Town of Los Altos Hills shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. The objective is to minimize (1) credit risk, through diversifying the portfolio among the authorized investment types with pre-qualifying financial institutions and broker dealers, and (2) interest rate risk, by

structuring portfolio maturities to match cash requirements and investing operating funds in shorter-term securities.

5.2 **Liquidity:** The Town of Los Altos Hills' investment portfolio will remain sufficiently liquid to enable the Town of Los Altos Hills to meet all operating requirements which might be reasonably anticipated. In addition to structuring the portfolio so that securities mature concurrent with cash needs, suitable investments (Section 6.0) consist largely of securities with active secondary or resale markets.

5.3 **Return on Investments:** The Town of Los Altos Hills' investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, commensurate with the Town of Los Altos Hills' investment risk constraints and the cash flow characteristics of the portfolio.

#### 6.0 Authorized and Suitable Investments

Where this section specifies a percentage limitation for a particular security type, that percentage is applicable only on the date of purchase. Credit criteria listed in this section refers to the credit rating at the time the security is purchased. Where credit requirements in this section refer to a minimum credit rating, this minimum is regardless of any category modifiers such as "+" or "-". If an investment's credit rating falls below the minimum rating required at the time of purchase, the City Manager will perform a timely review and decide whether to sell or hold the investment.

The Town of Los Altos Hills is empowered by Government Code Section 53601, 53601.6, 53601.8, 53635, 53635.2, 53638, and 53684 which includes a number of requirements on how and where public money may be invested. Within the context of limitations, the following investments are authorized, as further limited herein. A security purchased in accordance with this section shall not have a forward settlement date exceeding 45 days from the time of investment. The Town is empowered by statute to invest in the following type of securities; and further limited by this investment policy, to invest in the following types of securities:

1. 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.
2. 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.
- ~~3. Obligations of the State of California or any local agency within the state, including bonds payable solely out of revenues from a revenue-producing property owned, controlled or operated by the state or any local agency or by a department, Commission, agency or authority of the state or any local agency;~~

**Commented [MB2]:** Senate Bill 1489 amended language recommended to est. settlement date.

provided that the obligations are rated in one of the three highest categories by a nationally recognized statistical rating organization (NRSRO). Purchases of municipal obligations in sections 3 and 4 combined may not exceed 30 percent of the Town's investment portfolio.

3. Registered treasury notes or bonds of any of the other 49 states in addition to California, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by a state, or by a department, board, agency, or authority of any of these states; provided that the obligations are rated in one of the three highest categories by a NRSRO. Purchases of municipal obligations in sections 3 and 4 combined may not exceed 30 percent of the Town's investment portfolio.

4.

5.4. Bankers' Acceptances with a rating of the highest ranking or highest letter and number rating as provided for by a NRSRO. Purchases of bankers' acceptances may not exceed 180 days. No more than 40% of the Town's investment portfolio may be invested in bankers' acceptances and no more than 30% of the Town's investment portfolio may be invested in the bankers' acceptances of any one commercial bank.

6.5. Commercial paper of "prime" quality of the highest ranking or of the highest letter and number rating as provided for by a ~~nationally recognized statistical rating organization~~ (NRSRO). The entity that issues the commercial paper shall meet all of the following conditions in either paragraph (1) or (2):

(1) The entity meets the following criteria:

(A) Is organized and operating in the United States as a general corporation.

(B) Has total assets in excess of five hundred million dollars (\$500,000,000).

(C) Has debt other than commercial paper, if any, that is rated in a rating category of "A" or its equivalent or higher by a NRSRO.

(2) The entity meets the following criteria:

(A) Is organized within the United States as a special purpose corporation, trust, or limited liability company.

(B) Has program-wide credit enhancements including, but not limited to, overcollateralization, letters of credit, or a surety bond.

(C) Has commercial paper that is rated "A-1" or higher, or the equivalent, by an NRSRO.

Eligible commercial paper associated with less than \$100,000,000 of investments shall have a maximum maturity of 270 days or less. Local agencies, other than counties or a city and county, may invest no more than 25% of their moneys and no more than 5% per issuer in eligible commercial paper.

Eligible commercial paper associated with more than or equal to \$100,000,000 of investments and Pooled Funds shall have a maximum maturity of 270 days or less. Local Agencies other than counties or a city and county, may invest no more than 40% of their moneys and no more than 5% per issuer in eligible commercial paper.

**Commented [WLE1]:** Senate Bill 998, effective January 1, 2021-January 1, 2026

**Commented [MB3]:** Per code 53601 (k), the minimum legal requirement per issuer is 10% of the towns total investment assets in commercial paper of any single issuer. Would recommend 5% to stay at a safe level of precaution with this rule.

**Commented [MB4R3]:** Senate Bill 998.

**Commented [MB5]:** Per code section 53601(h)(2)(c); CP issuer limit is 10% but to be conservative, recommending 5%.

Also recommend inserting language between total investment based commercial paper since they have two different percentage limits permitted by the state.

~~The Town may purchase no more than 10% of the outstanding commercial paper of any single issuer.~~

~~7.6.~~ FDIC insured or fully collateralized time certificates of deposit in financial institutions located in California, including U.S. branches of foreign banks licensed to do business in California. All time deposits must be collateralized

in accordance with California Government Code section 53651. Purchase of FDIC insured or fully collateralized **time certificate**s of deposit may not exceed 50% of the Town's investment portfolio.

~~8.7.~~ Negotiable Certificates of Deposit (CD) issued by a nationally or state-chartered bank, a savings association or a federal association (as defined by Section 5102 of the Financial Code), a state or federal credit union, or by a federally- or state-licensed branch of a foreign bank. No more than 30% of the Town's portfolio may be invested in negotiable CDs and eligible CDs must be rated in one of the three highest categories by a NRSRO.

~~9.8.~~ Local Agency Investment Fund (LAIF). Investments in LAIF shall not exceed \$75 million.

~~10.9.~~ Insured savings account or bank money market account. In accordance with California Government Code Section 53635.2 to be eligible to receive local agency deposits a financial institution must have received a minimum overall "satisfactory" rating for meeting the credit needs of California communities in its most recent evaluation.

~~10.~~ Shares of beneficial interest issued by diversified management companies that are money market funds registered with the Securities and Exchange Commission under the Investment Company Act of 1940 (15 U.S.C. Sec. 80a-1, et seq.). To be eligible for investment pursuant to this subdivision these companies shall either: (1) attain the highest ranking letter or numerical rating provided by not less than two of the three largest nationally recognized rating services or (2) have an investment advisor registered or exempt from registration with the Securities and Exchange Commission with not less than five years' experience managing money market mutual funds and with assets under management in excess of \$500,000,000. The purchase price of shares shall not exceed 20% of the investment portfolio and 10% per money market fund.

~~11.~~ ~~12.~~ California Asset Management Program. (CAMP) as long as the portfolio is rated among the top two rating categories by a NRSRO. There is no limit on the percentage of CAMP that may be held in the Districts's portfolio.

~~13.~~ ~~12.~~ Medium-term notes, defined as all corporate and depository institution debt securities with a maximum remaining maturity of five years or less, issued by corporations organized and operating within the United States or by depository institutions licensed by the United States or any state and operating within the United States. Notes eligible for investment under this subdivision shall be rated in a rating category of "A" or its equivalent or better by a ~~nationally-recognized rating service~~ NRSRO. Purchases of medium-term notes shall not include other instruments authorized by this section and may not exceed 30% of the agency's money and 5% per issuer that may be invested pursuant to this section.

**Commented [MB6]:** (Optional): Consider removing this section since there isn't any information here and seems redundant with JPA.

**Commented [MB7R6]:** Or inserting language as that implemented as a recommendation.

**Commented [MB8]:** Per code 53601 (k), the minimum legal requirement per issuer is 10% of the town's total investment assets in the medium-term notes of any single issuer. Would recommend 5% to stay at a safe level of precaution with this rule.

~~14.~~ ~~13.~~ United States dollar denominated senior unsecured unsubordinated obligations issued or unconditionally guaranteed by the International Bank for

Reconstruction and Development, International Finance Corporation, or Inter-American Development Bank, with a maximum remaining maturity of five years or less, and eligible for purchase and sale within the United States. Investments under this subdivision shall be rated in a rating category of "AA" or its equivalent or better by an NRSRO and shall not exceed 30% of the agency's moneys that may be invested pursuant to this section. (Supranationals).

14. Mortgage Pass-Through and Asset-Backed Securities including equipment lease-backed certificates, consumer receivable passthrough certificates, or consumer receivable-backed bonds of a maximum remaining maturity of five year. Securities eligible for investment under this subdivision shall be rated in a rating category of "AA," its equivalent or better by at least one NRSRO. Purchase of securities authorized by this subdivision may not exceed 20 percent of the Town's total portfolio.

**Commented [MB9]:** Based on Government Code 53601(o), we recommend inserting language that matches the investment title to match the change to Bill 882, that was passed January 1, 2024.

Summary Table of Permitted Investments		
Investment Instruments	Calif. Code Limitation (Maturity, % of Portfolio, Rating)	Town Policy Limitation (Maturity, % of Portfolio, Rating)
U.S. Treasury	5 years 100% of portfolio	5 years 100% of portfolio
Federal Agency (including mortgage-backed securities and callable securities)	5 years 100% of portfolio	5 years 100% of portfolio
Municipal Obligations (including notes issued by the State of California, California local agencies, and the other 49 states)	5 years 100% of portfolio	5 years 30% of portfolio Credit rating category of "A" or its equivalent or higher by a NRSRO
Bankers' Acceptances	180 days 40% of portfolio <del>30%</del> per issuer	180 days 40% of portfolio <del>30%</del> per issuer

**Commented [MB10]:** Based on code section 536019 (g), state code limits Banker Acceptances to 40% not 30%

**Commented [MB11]:** (Optional) If the town prefers 30%, we also recommend this in order to stay conservative.

<p>Commercial Paper (<u>under \$100,000,000 of investments</u>)</p>	<p>270 days 25% of portfolio <u>10% per issuer</u> Long term credit rating category of "A" and short term rating of "A-1" or its equivalent or higher by a NRSRO</p>	<p>270 days 25% of portfolio 5% per issuer Long term credit rating category of "A" and short term rating of "A-1" or its equivalent or higher by a NRSRO</p>
<p>Commercial Paper (min. \$100,000,000 of investments) and Pooled Funds</p>	<p><u>270 days</u> <u>40% of portfolio</u> <u>10% per issuer</u> <u>Long term credit rating category of "A" and short term rating of "A-1" or its equivalent or higher by a NRSRO</u></p>	<p><u>270 days</u> <u>40% of portfolio</u> <u>5% per issuer</u> <u>Long term credit rating category of "A" and short term rating of "A-1" or its equivalent or higher by a NRSRO</u></p>

Summary Table of Permitted Investments		
Investment Instruments	Calif. Code Limitation (Maturity, % of Portfolio, Rating)	Town Policy Limitation (Maturity, % of Portfolio, Rating)
Deposits (Collateralized/FDIC)	100% <sup>1</sup> of portfolio	5 years 50% of portfolio
Negotiable CDs	5 years 30% of portfolio	5 years 30% of portfolio 5% per issuer Credit rating category of "A" or its equivalent or higher by a NRSRO
LAIF	\$75 million	\$75 million
Money Market Funds	20% of portfolio 10% <sup>2</sup> per fund AAAm	20% of portfolio 10% <sup>2</sup> per fund
JPA (CAMP)	100% of portfolio	100% of portfolio
Medium-Term Notes	5 years 30% of portfolio 10% per issuer Credit rating category of "A" or its equivalent or higher by a NRSRO	5 years 30% of portfolio 5% per issuer Credit rating category of "A" or its equivalent or higher by a NRSRO
Supranationals	5 years 30% of portfolio Credit rating category of "AA" or its equivalent or higher by a NRSRO	5 years 30% of portfolio Credit rating category of "AA" or its equivalent or higher by a NRSRO

**Commented [MB12]:** Per state code 53630(n), Collateralized Bank Deposits do not have a limit in CA code.

**Commented [MB13]:** Per state code 53601(l), the state limit per fund for Money Market Funds is 10%. There is also no mention of having a credit rating needing to be AAAM.

<a href="#">Mortgage Pass-through and Asset-Backed Securities</a>	<a href="#">5 years or less</a> <a href="#">20% of portfolio</a> <a href="#">Credit rating category of "AA" or its equivalent or higher by a NRSRO</a>	<a href="#">5 years or less</a> <a href="#">20% of portfolio</a> <a href="#">Credit rating category of "AA" or its equivalent or higher by a NRSRO</a>
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**Commented [MB14]:** Permitted per code section 53601 (o)

<sup>1</sup> For deposit placement services.

**7.0 Authorized Financial Dealers and Institutions**

To provide for the optimum yield in the Town's portfolio, the Town's procedures shall be designed to encourage competitive bidding on transactions from an approved list of broker/dealers.

The Town may engage the services of an external investment advisor to assist in the management of the Town's investment portfolio in a manner consistent with this investment policy. If the Town hires an investment adviser to provide investment management services, the adviser is authorized to transact with its direct dealer relationships on behalf of the Town.

Approved investment adviser firms must provide their services to the Town on a fiduciary capacity and be registered with the Securities and Exchange Commission (SEC) under the Investment Advisor's Act of 1940. The advisor shall have more than five years' experience in managing public funds, and shall have at minimum \$1 billion under management.

The City Manager, or the Town's investment advisor, shall maintain a list of authorized broker/dealers and financial institutions that are approved for investment purposes. This list will be developed after a comprehensive credit and capitalization analysis indicates the firm is adequately financed to conduct business with public entities. It shall be the policy of the Town to purchase securities only from those authorized institutions or firms.

#### **8.0 Safekeeping and Custody**

To protect against potential fraud and embezzlement, or losses caused by a collapse of an individual securities dealer All security transactions entered into by the Town of Los Altos Hills shall be conducted on a delivery-versus-payment (DVP) basis. Securities will be held by a third-party custodian, in the Town of Los Altos Hills' name and control, designated by the City Manager or her/his designee and evidenced by safekeeping receipts.

#### **9.0 Collateralization**

Collateralization will be required on certificates of deposit as specified under Government Code Section 63630 et seq in order to anticipate market changes and provide a level of security for all funds. All time deposits must be collateralized in accordance with California Government Code section 53651.

The Town of Los Altos Hills chooses to limit collateral to the following:

Collateral will always be held by an independent third party. A clearly marked evidence of ownership (safekeeping receipt) must be supplied to the Town of Los Altos Hills and retained.

The right of collateral substitution is granted.

#### **10.0 Internal Control**

The Town of Los Altos Hills is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the Town are protected from loss, theft or misuses. 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 requires estimates and judgments by the City Manager and staff.

The City Manager or designee shall arrange for an annual audit by an external CPA firm in compliance with the requirements of state law and generally accepted accounting principles as pronounced by the Government Accounting Standards Board (GASB). As a part of the audit, investment transactions will be tested. The annual audit will be an integral part, but not the sole part of management's program of monitoring internal controls.

The internal controls shall address the following points:

- Control of collusion
- Separation of transaction authority from accounting and recordkeeping
- Custodial safekeeping
- Avoidance of physical delivery securities
- Clear delegation of authority to subordinate staff members
- Written confirmation of transactions for investments and wire transfers

- Development of a wire transfer agreement with the lead bank and third-party custodian

**11.0 Ethics and Conflicts of Interest**

Officers and employees 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. These officers and employees involved in the investment process shall disclose to the City Manager any material financial interest in financial institutions that conduct business with this jurisdiction, and they shall further disclose any large personal financial/investment positions that could be related to the performance of the Town of Los Altos Hills, particularly with regard to the time of purchases and sales. Employees and investment officials shall refrain from undertaking personal investment transactions with the same individual with whom business is conducted on behalf of the Town of Los Altos Hills.

**12.0 Diversification**

The Town of Los Altos Hills will diversify its investments by security type and institution. Limits are provided for in Section 6.0. With the exception of U.S. Treasury and Federal Agency securities, municipal bonds, supranational bonds, and authorized pools such as CAMP or LAIF, no more than 5% of the Town of Los Altos Hills' total investment portfolio will be invested in a single issuer.

**13.0 Maximum Maturities**

To the extent possible, the Town of Los Altos Hills will attempt to match its investments with anticipated cash flow requirements. The Town of Los Altos Hills will not directly invest in securities maturing more than five (5) years from the ~~settlement date of purchase~~ unless City Council has provided approval for a specific purpose at least three (3) months before the investment is ~~made-made~~. The calculation of an investments remaining maturity/term is to be measured from the settlement date to final maturity.

Commented [WLE2]: Senate Bill 1489, effective January 1, 2023

Commented [MB15]: Recommended language per amended Senate Bill 1489.

Debt reserve funds may be invested in securities exceeding five (5) years if the maturities of such investments are made to coincide as nearly as practicable with the expected use of the funds.

The Town of Los Altos Hills will retain operating reserves as adopted by the City Council. The amount of active deposits and inactive investments with a maturity of one year or less shall always be equal to greater than any draw on these reserves required by the annual operating budget.

Securities may be sold prior to maturity to accommodate the Town's cash flow requirements, to reposition the portfolio to perform well in the current market, or to take advantage of market opportunities to increase the Town's rate of return.

**14.0 Performance Standards**

The investment portfolio shall be designed with the objective of obtaining a market rate of return throughout budgetary and economic cycles, commensurate with the Town's investment risk constraints and ~~the~~ cash flow needs.

**14.1 Market Yield (Benchmark):** Suitability should be the standard for evaluating the success of the Town's investment portfolio. Given this strategy and the active investment management utilized by the Town, the basis used to determine whether market yields are adequate shall be the ICE BofAML 1-5 year U.S. Treasury Index.

**15.0 Reporting**

The City Manager is charged with the responsibility of including a market report on investment activity and returns in the Town of Los Altos Hills' Cash and Investment Report. The Report will be in compliance with California Government Code Section 5360746 and will include:

- [The monthly report shall include an accounting of all receipts, disbursements, and fund balances.](#)
- [The quarterly reports shall include the book and market value of the cash investment, the classification of the investment, the name of the institution or entity, the rate of interest, and the maturity dates for all securities.](#)
- [The quarterly report will include a statement of compliance of the portfolio with the investment policy or an explanation as to why the portfolio is not in compliance per Government Code 53646\(b\)\(2\).](#)
- [The quarterly report will include a statement on availability of funds to meet its obligations within the next six months per Government Code 53646\(b\)\(3\).](#)

[As a good reporting practice, the Report will be submitted on a quarterly basis and provided to the Council within 45 days following the end of the month.](#)

**16.0 Investment Policy Adoption**

The Town of Los Altos Hill-s' investment policy shall be adopted by the City Council. The policy shall be reviewed annually by the Finance and Investment Committee and any modifications made thereto must be approved by the City Council.

**Commented [WLE3]:** The Town may wish to specify a reporting frequency, as well as the information to be contained within the reports.

**Commented [MB16]:** Recommend including language of Senate Bill 1489 amended language for quarterly reporting; previously 30 days, now extended to 45 days.

## GLOSSARY

### Bankers' Acceptances

Short-term credit arrangements that enable businesses to obtain funds to finance commercial transactions. They are time drafts drawn on a bank by an exporter or importer to obtain funds to pay for specific merchandise. By its acceptance, the bank becomes primarily liable for the payment of the draft at maturity. An acceptance is a high-grade negotiable instrument.

### Benchmark

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

### Broker

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

### California Asset Management Program (CAMP)

CAMP is a joint powers authority which provides investment services to local governments through its investment pool. The pool is AAAM-rated by [Standard and Poor's S&P Global's](#) and provides same-day availability to funds up to 11:00AM Pacific. The pool strives to maintain stable asset value.

### Certificates of Deposit

- 1. Negotiable Certificates of Deposit** are large-denomination CDs. They are issued at face value and typically pay interest at maturity, if maturing in less than 12 months. CDs that mature beyond this range pay interest semi-annually. Negotiable CDs are issued by U.S. banks (domestic CDs), U.S. branches of foreign banks (Yankee CDs), and thrifts. There is an active secondary market for negotiable domestic and Yankee CDs. However, the negotiable thrift CD secondary market is limited. Yields on CDs exceed those on U.S. treasuries and agencies of similar maturities. This higher yield compensates the investor for accepting the risk of reduced liquidity and the risk that the issuing bank might fail. State law does not require the collateralization of negotiable CDs.
- 2. Non-negotiable Certificates of Deposit** are time deposits with financial institutions that earn interest at a specified rate for a specified term. Liquidation of the CD prior to maturity incurs a penalty. There is no secondary market for these instruments; therefore, they are not liquid. They are classified as public deposits, and financial institutions are required to collateralize them. Collateral may be waived for the portion of the deposits that are covered by FDIC insurance.

**Commented [MB17]:** Recommend changing name for Standard and Poor's.

**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.

**Collateralization**

Process by which a borrower pledges securities, property or other deposits for the purpose of securing the repayment of a loan and/or security. Also refers to securities pledged by a bank to secure deposits of public monies.

**Dealer**

Someone who acts as a principal in all transactions, including buying and selling from her/his own account.

**Delivery v. payment**

The preferred method of delivering securities, with an exchange of money for the securities.

**Demand deposits**

A deposit of monies which are payable by the bank upon demand of the depositor.

**Derivative**

Securities that are based on, or derived from, some underlying asset, reference date, or index.

**Diversification**

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

**Federal Depository Insurance Corporation (FDIC)**

A federal agency that insures bank deposits, currently up to \$250,000 per deposit.

**Federal Home Loan Bank (FHLB)**

A federal agency that provides credit and liquidity in the housing market. FHLB issues discount notes and semi-annual pay coupon securities.

**Federal Home Loan Mortgage Corporation (FHLMC)**

A federal agency that provides credit and liquidity in the housing market. FHLMC, also called "Freddie Mac," issues discount notes, semi-annual pay coupon securities and mortgage-backed securities.

**Federal National Mortgage Association (FNMA)**

A federal agency that provides credit and liquidity in the housing market. FHLMC, also called "Fannie Mae," issues discount notes, semi-annual pay coupon securities and mortgage-backed securities.

**Liquidity**

An asset that can easily and rapidly be converted into cash without significant loss of value.

**Local Agency Investment Fund (LAIF)**

The LAIF was established by the State of California to enable treasurers to place funds in a pool for investments. There is a limitation of \$50 million per agency subject to a maximum of fifteen total transactions per month. The Town uses this fund when market interest rates are declining as well as for short-term investments and liquidity. Town funds in LAIF are limited to \$40 million.

**Maturity**

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

**Mortgage-Backed Security**

Debt obligations that represent claims to the cash flows from pools of mortgage loans, most commonly on residential property.

[NRSRO: This acronym stands for Nationally Recognized Statistical Rating Organization, which is a credit rating agency that issues credit ratings that the U.S. Securities and Exchange Commission \(SEC\) permits other financial firms to use for certain regulatory purposes. NRSROs include S&P Global, Moody's, and Fitch ratings.](#)

**Portfolio**

Combined holding of more than one stock, bond, commodity, cash equivalent or other asset. The purpose of a portfolio is to reduce risk ~~by~~-through diversification.

**Repurchase Agreement**

A form of collateralized loan involving the sale of a security with a simultaneous agreement by the seller to buy the same security back from the purchaser at an agreed-on price and future date. The party who sells the security at the inception of the repurchase agreement and buys it back at maturity is borrowing money from the other party, and the security sold and subsequently repurchased represents the collateral.

**Safekeeping**

Offers storage and protection of assets provided by an institution serving as an agent.

**Supranational Bonds**

A bond issued by a supranational agency such as the World Bank.

**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.

**U.S. Treasury Notes**

Updated 11/14/22

These are marketable, medium-term interest-bearing securities sold as obligations of the U.S. Government with original maturities of one to ten years. Interest is paid semi-annually.

**U.S. Government Agency Issues**

Issues which are unconditionally backed by the full faith and credit of the United States.

**Yield**

The rate of annual income return on an investment, expressed as a percentage. **Income yield** is obtained by dividing the current dollar income by the current market price for the security. **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.