

## RESOLUTION NO. 2020-125

### A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF ELK GROVE ADOPTING THE FISCAL YEAR 2020-21 BUDGET, THE FISCAL YEAR 2020-21 THROUGH FISCAL YEAR 2024-25 CAPITAL IMPROVEMENT PROGRAM, THE ANNUAL APPROPRIATIONS LIMIT, AND THE FISCAL YEAR 2020-21 INVESTMENT POLICY

**WHEREAS**, the City Manager has submitted the Fiscal Year 2020-21 Budget to the City Council for consideration and comment; and

**WHEREAS**, the Fiscal Year 2020-21 Budget was prepared in accordance with the City Council's goals, Departmental Work Plans, budget assumptions and policies; and

**WHEREAS**, the Fiscal Year 2020-21 Budget is balanced and does not require additional taxes; and

**WHEREAS**, Article XIII B of the California State Constitution and Government Code Section 7910 requires a City to establish its appropriations limit for each fiscal year; and

**WHEREAS**, as required by state law, on April 16, 2020, the Planning Commission adopted a resolution finding the Fiscal Year 2020-21 through 2024-25 Capital Improvement Program to be consistent with the General Plan; and

**WHEREAS**, a duly noticed public hearing was held on June 10, 2020 to consider information presented by staff and to receive public comment regarding adoption of the proposed Fiscal Year 2020-21 through 2024-25 Capital Improvement Program.

**NOW, THEREFORE, BE IT RESOLVED** that the City Council of the City of Elk Grove hereby:

- A. Adopts the FY 2020-21 Budget and the FY 2020-21 through FY 2024-25 Capital Improvement Program as defined in Section 2.1, and the Appropriations Limit as described in Section 6.1 and presented on June 10, 2020; and
- B. Authorizes the City Manager to exercise the authority and undertake the responsibilities set forth in Sections 1 through 9 to implement the Approved Budget.
- C. Adopts the FY 2020-21 City-Wide Performance Measures and Targets as described in Section 8.3 and authorizes execution of modifications to City-Wide Performance Measures and Targets also described in Section 8.3 and attached hereto as Exhibit A.
- D. Adopts the FY 2020-21 Investment Policy attached hereto as Exhibit B.

#### SECTION 1. SCOPE

- 1.1 This resolution defines the authority and responsibilities of the City Manager in implementing the Approved Budget of the City of Elk Grove.

## **SECTION 2. DEFINITIONS**

- 2.1 "Approved Budget" includes the following documents:  
The FY 2020-21 Proposed Budget and FY 2020-21 through FY 2024-25 Proposed Capital Improvement Program as presented to/amended by the City Council.
- 2.2 "City Manager" means the City Manager or, if so designated, the Director of Finance or the Budget Manager.

## **SECTION 3. AUTHORIZED APPROPRIATIONS**

- 3.1 The City Manager is authorized to make any expenditure and resource adjustments to the Approved Budget based on final City Council action to adopt the Budget.
- 3.2 The City Manager is authorized to establish the appropriations and staffing as indicated in the Budget.
- 3.3 Adjustments to appropriated expenditures that result in an increase or decrease in the overall Approved City Budget is considered an amendment to the Adopted Budget and must be approved by City Council unless such authority is granted to the City Manager within this resolution.
- 3.4 Operating appropriation transfers within the same fund must be approved by the City Manager; transfers between funds (except "like funds", see 3.5 below) must be approved by City Council.
- 3.5 Operating appropriation transfers between like funds must be approved by the City Manager. "Like Funds" are essentially extensions of other funds within the same Department or Program and are defined specifically below.
  - a. Like funds within the General Fund are 101, 105, 106, 107, and 108.
  - b. Like funds within the Recycling and Waste Department are 501, 502 and 506.
  - c. Like funds within the Transit Department are 511, 512, 514, 515, and 516.
- 3.6 Appropriations within the City's Asset Seizure funds can be amended based on available funds during the Fiscal Year if authorized by the City Manager.
- 3.7 Capital Outlay appropriation transfers within the same Capital Improvement Program Project, Minor Public Works Project or Study within the same fund must be authorized by the City Manager.
- 3.8 Capital Outlay appropriation transfers from a Capital Improvement Program project to another Capital Improvement Program Project must be approved by City Council unless such authority is granted to the City Manager within this resolution.
- 3.9 Capital Outlay appropriation transfers from a project, where the total project budget is \$250,000 or less, to a Capital Improvement Program Project, and both projects are within the same fund must be approved by the City Manager.

- 3.10 If inconsistencies exist in the Approved Budget that result in incorrect budget amounts being implemented, the City Manager is authorized to make amendments to the Adopted Budget to correct such inconsistencies based on Staff's conclusion and determination of the correct budgeted amount(s).
- 3.11 A Sales Tax Sharing agreement (C-17-161) exists between the City and THE RIDGE EG EAST, LP, a California Limited Partnership, that results in 50% of the non-fuel (warehouse only) sales tax revenue generated by Costco to be paid to Pappas Investments on a quarterly basis. The funding mechanism for the payment to Pappas is a transfer-out from the General Fund into the Economic Development Fund (Fund 105). The City Manager is authorized to amend the General Fund and Economic Development Fund budgets during the fiscal year to reflect the actual activity (payments made) based on the actual sales tax activity of Costco.
- 3.12 The City Manager is authorized to amend repayments in interfund loan transfer-out expenditures and transfer-in revenue budgets for Funds 261, 265, 315, 324, 330, 331, 332, 344, for the interfund loans authorized on February 13, 2019, Agenda Item No. 10.1 based on actual revenue activity in those funds. Essentially, the ability to repay and potentially accelerate interfund loan payments are contingent upon available funds to make debt service payments.
- 3.13 The City Manager is authorized to amend budgeted revenues and expenditures in the Police Off-Duty Fund (Fund 213) during the fiscal year based on actual revenue activity and available funding.
- 3.14 Per section 2.0.5 of the amended Fund Balance Reserve Policy adopted on April 24, 2019, when the City successfully retains a Reserve for Economic Uncertainty amount beyond 25% and an Opportunity Reserve beyond 5% of Adjusted Appropriations for a given Budget Year, the close out of the Fiscal Year will include the reallocation of reserves over the 30% to two purposes: one half to Capital Reserves (Fund 106) and one half to Economic Development Programs (Fund 105). Maintaining the target level funding for the projected fund balance amounts in the next Fiscal Year will be considered before a transfer of reserves is initiated. Upon the close out of the Fiscal Year, if the amount beyond 25% for the Reserve for Economic Uncertainty and beyond 5% for the Opportunity Reserve are not necessary to maintain target level funding for the projected fund balance amounts in the next Fiscal Year, then the City Manager is authorized to amend that fiscal year's General Fund transfer-out expenditures budget by up to this amount and the transfer-in revenue budgets in the Capital Reserve Fund (Fund 106) and Economic Development Fund (Fund 105) up to half of this amount each. Reallocation transfers of reserves to the Capital Reserve Fund (Fund 106) and to the Economic Development Fund (Fund 105) are suspended for FY 2020-21 to to maintain target level funding for the projected fund balance amounts in the subsequent Fiscal Year.
- 3.15 The City Manager is authorized to amend the budget in the Animal Services Donations Fund (Fund 735) during the fiscal year to gratify specific spending expectations associated with designated donations deposited into the Fund.

## **SECTION 4. STAFFING AND COMPENSATION INCREASES**

- 4.1 Any increase by department and fund in staffing count or staffing compensation as authorized in the Approved or Amended Budget for a department must be approved by the City Council.

## **SECTION 5. UNSPENT APPROPRIATIONS AND ENCUMBRANCES**

- 5.1 All appropriations in the FY 2019-20 Budget which remain unencumbered or unexpended on June 30, 2020, shall revert to the fund balance of the respective funds, with the exception of those outlined in section 5.3.
- 5.2 All purchase order commitments outstanding on June 30, 2020, and associated appropriations are hereby continued for FY 2019-20 expenditures.
- 5.3 Unencumbered or unexpended appropriations:
  - a) Unencumbered or unexpended appropriations for Capital Outlay expenditures within the Capital Improvement Program, Minor Public Works Projects and Studies in FY 2019-20 are eligible to be re-authorized in FY 2020-21 by project by fund in addition to the Adopted Capital Outlay appropriations in the FY 2020-21 Budget.
  - b) Unencumbered or unexpended appropriations for Facilities project expenditures in Funds 106 and 602 (Building and non-Building improvements) are eligible to be re-authorized in FY 2020-21 by project by fund.
  - c) Unencumbered or unexpended appropriations in the City's Asset Seizure funds are eligible to be re-appropriated in FY 2020-21.
  - d) Any FY 2020-21 encumbered purchase orders included in the calculation of FY 2020-21 year-end projected expenditures in which the City Manager determines that the authorized equipment, goods and services is needed for continued and efficient City operations is authorized to be re-appropriated and 'rolled over' to FY 2020-21.
  - e) Unencumbered or unexpended appropriations in Fund 242 State Homeless Appropriation are eligible to be re-appropriated in future Fiscal Years.
  - f) Unencumbered or unexpended appropriations from the Summer at City Hall or Civic Summer grant, awarded by the Institute of Local Government, are eligible to be re-appropriated in FY 2020-21.
  - g) Reaffirms the authorization received in Grant authorization resolutions that unencumbered or unexpended appropriations from non-capital project Grants are approved for re-appropriation in subsequent Fiscal Years if any Grant funds were not expended in a prior fiscal year.
  - h) Unencumbered or unexpended appropriations in Fund 231 Affordable Housing designated to provide loan financing for development of the Bow Street Apartments are eligible to be re-appropriated in FY 2020-21.

- i) Unencumbered or unexpended appropriations within the Community Service Grants division in the General Fund specifically associated with the Arts Commission are eligible to be re-appropriated in FY 2020-21.
- j) On January 22, 2020 the City Council authorized the acceptance of a cash donation in the amount of \$98,600 from Apple, Inc. on behalf of the Elk Grove Police Department (EGPD) to be used for dispatch equipment and training. Spending of the donations from Apple, Inc. are associated with, and tracked, using the project code APPLE20101. The City Manager is authorized to re-appropriate any unencumbered or unexpended donations associated with the APPLE20101 project in future fiscal years.
- k) To comply with Ordinances issued and executed by the County of Sacramento as a response to the COVID-19 pandemic, several City lead or sponsored Community Events that were included in the FY 2019-20 Budget have been cancelled or postponed to the following fiscal year. The City Manager is authorized to re-appropriate in FY 2020-21 any unencumbered or unspent appropriations within the Community Events (Events Sponsorship) Division in the General Fund contingent upon the re-appropriated amounts being spend on postponed or rescheduled events.
- l) Unencumbered or unexpended appropriations within the Strategic Planning & Innovation Division in the General Fund and in the Development Services Fund that are associated with the following list of Special Projects are eligible to be re-appropriated in FY 2020-21.

<b>Project Number</b>	<b>Project Title</b>	<b>Fund Lines</b>
SPG002	Economic Analysis Housing Market (Missing Middle)	1011241-5202101
SP0002	Climate Action Plan (CAP) Implementation	1011240-5202101
SPG003	Resiliency Plan	1011240-5202101, 1011241-5202101
SP0003	Old Town SPA Update	2953150-5202101
SP0004	Civic Center North Master Plan (Elevate)	1011240-5202101, 1011220-5202101
SP0005	Kammerer Urban Design Study	1011240-5202101, 2953150-5202101
SPG004	Housing Element Update	1011241-5202101, 2953150-5202101
SPG005	Objective Design Standards for larger RHNA Sites	1011241-5202101
SPG006	High-density residential feasibility analysis	1011241-5202101
SP0006	Rural Area Market Analysis	2953150-5202101
SP0007	Smart City	1011240-5152006, 1011240-5202101
WFC004	Sports Complex Annexation	1064120-5152006, 1064120-5456605, 1064120-5456606, 1064120-5456613

## **SECTION 6. APPROPRIATION LIMITS**

- 6.1 The appropriation limitation established for FY 2020-21 shall be \$115,082,527 and the adopted FY 2020-21 Budget has not exceeded the appropriation limit.
- 6.2 Elect the growth in per capita income calculation method to determine the cost of living factor for the 2020-21 fiscal year. Per the California Department of Finance, the growth in Per Capita Personal Income for FY 2020-21 is 3.73%; hence the cost of living factor is 1.0373. The Annual Percent Change in Population for Elk Grove per the California Department of Finance is 1.22% (greater than for the County of Sacramento which is .58%); hence the population factor is 1.0122. Thus, the combined adjustment factor for the appropriation limit is calculated by multiplying the cost of living factor (1.0373) by the population factor (1.0122), equaling 1.05.
- 6.3 The actual appropriation for FY 2020-21 has not exceeded the appropriation limitation that was adopted for FY 2020-21.

## **SECTION 7. MID-YEAR PERFORMANCE AND FINANCIAL REPORT**

- 7.1 The City Council shall be provided a Mid-Year Performance and Financial Report including a revised estimate of the financial condition of operating funds, prior year actual fund balances, revised estimated revenues and expenditures, projected ending fund balances or deficits, recommendations for eliminating any projected fund deficits, and a progress report on performance measures as compared to Council adopted targets.

## **SECTION 8. MISCELLANEOUS CONTROLS / CONSIDERATIONS**

- 8.1 No expenditures shall exceed the Approved or Amended Budget, by fund.
- 8.2 The City Manager is authorized to adjust budgets in the Capital Project funds during the current fiscal year based on previous actions of City Council for projects on a multi-year basis.
- 8.3 Performance targets presented for City Wide Performance Measures and Targets within each department and division of the FY 2020-21 Budget are hereby adopted by the City Council and both fiscal and human resources shall be directed to pursue those targeted performance levels. Exhibit A, attached hereto and incorporated by reference, presents a listing of modifications to the City-Wide Performance Measures and is hereby adopted.
- 8.4 The City Manager is authorized to amend budgets and journal activity between the Roadway Fee Fund (Fund 328) and the Community Facilities District 2002-1 East Franklin Fund (Fund 341) associated with Capital Improvement Program projects related to improvements on and around Kammerer Road to take advantage of prioritized funding from more restricted funding sources over less restricted funding sources.

- 8.5 The City Manager is authorized to amend budgets for the repayment of funds from the Southeast Policy Area (SEPA) Drainage Impact Fees (Fund 334 and Funds 353 through 357), New Growth Area infrastructure, SEPA Planning/formation fee, and the Roadway Fee to the various funds that have funded monies including the General Fund and Laguna Ridge Community Facilities District. The repayment will likely happen over an extended period of time.
- 8.6 The City Manager is authorized to amend the transfer-out expenditure budget in the Animal Shelter Capital Improvement Fund (Fund 346) by an increase equal to the amount of the available fund balance in the fund, and to jointly amend the transfer-in revenue budget in the Debt Service Elk Grove Finance Authority – Animal Shelter and Parkland Fund (Fund 406) by an increase in the same amount. Granting the authorization for the above budget amendment is contingent upon Council approval of the Notice of Completion of, and upon the completion and recording of all activity associated with, the Elk Grove Animal Shelter capital improvement project (WFC012).

## **SECTION 9. REQUESTED CHANGES TO FY 2019-20 BUDGET AUTHORITY**

- 9.1 Amends the FY 2019-20 expenditure budget in the Risk Management fund by an increase of \$1 million to account for any unanticipated expenditures. Staff has received reimbursement of these expenditures from outside sources within the fiscal year, and appropriate budget adjustments shall be made to align with these reimbursements.
- 9.2 Amends the FY 2019-20 revenue and expenditure budgets for account associations (line items) containing “contra” object codes by decreasing the budgeted amounts to zero. Contra account associations are used as an internal accounting tool to balance loan principle payment payables and receivables in journal vouchers that process interfund loan payments and re-payments. The activity in these account associations do not reflect any actual revenues being received by the City nor do they reflect any actual good or services being provided to residents.
- 9.3 To help mitigate the impacts of the revenue shortfall experienced in the General Fund during FY 2019-20, as a result of the COVID-19 pandemic, the City Manager is authorized to amend the FY 2019-20 transfer-out expenditure budget in the Economic Development Fund (Fund 105) by an increase in an amount equaling at least \$1,600,000, but no greater than \$2,000,000, and to jointly amend the transfer-in revenue budget in the General Fund by an increase in the same amount.

This resolution will take effect immediately.

**PASSED AND ADOPTED** by the City Council of the City of Elk Grove this 10<sup>th</sup> day of June 2020



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STEVE LY, MAYOR of the  
CITY OF ELK GROVE

ATTEST:



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JASON LINDGREN, CITY CLERK

APPROVED AS TO FORM:



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JONATHAN P. HOBBS,  
CITY ATTORNEY



## RESOLUTION EXHIBIT A - Changes to Performance Measures

Division	Measure	Proposed Change	Annual Target
Economic Development	Jobs to housing ratio.	<b>Change Measure from Citywide to Departmental.</b> The data for which this measure relies is updated every two years and as such does not represent a truly measurable metric with the constructs of an Annual Budget cycle. This measure will continue to be tracked, the data recorded and stored, and can be reported out by the Department when updates occur.	1.025
Public Works - Capital Projects	Number of construction contract bid openings	<b>Change Target.</b> Target reduced from 16 to 15. The decrease in the annual target is due to anticipating that the City will award slightly fewer construction contracts in the coming fiscal year translating to less bid openings. Although there are expected to be slightly less projects some of the projects are quite big in scope.	15
	Dollar value of grant awards received	<b>Change Target.</b> Target increased from \$6M to \$7.5M. The increase in the annual target is due to the anticipation of a large SACOG round where funds will be announced in December of this fiscal year. Our fair share minimum is \$7.5 million.	7,500,000

# CITY OF ELK GROVE



## INVESTMENT POLICY

Fiscal Year 2020-2021

# CITY OF ELK GROVE INVESTMENT POLICY

## **I. PURPOSE**

This statement is intended to provide guidelines for the prudent investment of the City's surplus money in its treasury (hereinafter "Investment Cash") and to outline policies for maximizing the efficiency of the City's Investment Cash management system. The ultimate goal is to enhance the economic status of the City while protecting its pooled Investment Cash.

## **II. POLICY**

It is the policy of the City of Elk Grove to invest public funds in a manner which will provide a sound investment return with maximum security while meeting the daily cash flow demands of the entity and conforming to all state and local statutes governing the investment of public funds. The City of Elk Grove's investment policy has three objectives: (1) protect principal, (2) provide for liquidity needs, and (3) obtain the most reasonable rate of return possible within the first two objectives. The City operates its investment activities under the "prudent investor" standard (see discussion below). This affords a broad spectrum of investment opportunities so long as the investment is deemed prudent and is permissible under current state and local law.

## **III. SCOPE**

This investment policy applies to all liquid financial assets of the City of Elk Grove.

## **IV. PRUDENT INVESTOR STANDARD**

The City Council and all persons authorized to make investment decisions on behalf of the City are trustees and therefore fiduciaries subject to the prudent investor standard. When investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds, a trustee shall act with care, prudence, and diligence considering existing circumstances, general economic conditions and the anticipated needs of the City, 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, investments may be acquired as authorized by law.

It is the City's full intent, at the time of purchase, to hold all investments until maturity to ensure the return of all invested principal dollars. However, it is realized that market prices of securities will vary depending on economic and interest rate conditions at any point in time. It is further recognized, that in a well diversified investment portfolio, occasional measured losses are inevitable due to economic, bond market or individual security credit analysis. These occasional losses must be considered within the context of the overall investment program objectives and the resultant long term rate-of-return.

The City Treasurer and other individuals assigned to manage the investment portfolio, acting within the intent and scope of the investment policy and other written procedures and exercising due diligence, shall be relieved of personal responsibility and liability 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.

## **V. OBJECTIVES**

The City's cash management system is designed to accurately monitor and forecast expenditures and revenues, thus enabling the City to invest Investment Cash to the fullest extent possible. The City strives to obtain the most reasonable yield possible as long as investments meet the criteria for safety and liquidity.

### **Safety**

Safety of principal is the foremost objective of the investment program. Investments of the City shall be undertaken in a manner which seeks to ensure the preservation of principal in the overall portfolio. To attain this objective, diversification is required in order that potential losses on individual securities do not exceed the income generated from the remainder of the portfolio. Risk associated with an investment refers to the potential loss of principal, interest or a combination of both. The City shall seek to preserve principal by mitigating the two types of risk - credit risk and market risk.

Credit risk - Defined as the risk of loss due to failure of the issuer of a security. Credit risk shall be mitigated by investing in investment grade securities and by diversifying the investment portfolio so that the failure of any one issuer does not unduly harm the City's cash flow.

Market Risk - Defined as market value fluctuations due to overall changes in the general level of interest rates. Market risk shall be mitigated by limiting the weighted average maturity of the City's investment portfolio to three and one-half years, the maximum maturity of any one security to five years, and structuring the portfolio based on historic and current cash flow analysis eliminating the need to sell securities prior to maturity.

### **Liquidity**

The City's investment portfolio shall remain sufficiently liquid to enable the City to meet all operating requirements which might be reasonably anticipated. This goal shall be achieved by maintaining a prudent portion of the City's portfolio in liquid, short-term instruments which can readily be converted to cash if necessary.

### **Return on Investment**

The City's investment portfolio shall be designed with the objective of attaining a sound rate of return throughout budgetary and economic cycles, commensurate with the City's investment risk constraints and the cash flow characteristics of the portfolio. The City will attempt to obtain the most reasonable yield possible when selecting an investment, provided the criteria for safety and liquidity are met.

## **VI. DELEGATION OF AUTHORITY**

In accordance with California Government Code Section 53607, the Elk Grove City Council has authorized the City Treasurer to invest on behalf of the City, to manage the City's investment program consistent with this investment policy, and to maintain a system of internal controls to regulate the activities of subordinate officials.

## **VII. PUBLIC TRUST**

All participants in the investment process shall act as custodians of public funds. Investment officials shall recognize that the investment portfolio is subject to public review and evaluation.

The overall program shall be designed and managed with a degree of professionalism that is worthy of the public trust. In a diversified portfolio it must be 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.

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

Officers and employees involved in the investment process shall refrain from personal business activity that conflicts with proper execution of the investment program, or impairs their ability to make impartial investment decisions. Additionally the City Treasurer (Finance Director) and other key finance personnel are required to annually file applicable financial disclosures as required by the Fair Political Practices Commission (FPPC).

## **IX. QUALIFIED BROKER/DEALERS**

The City shall transact business only with qualified banks, savings and loans, and broker/dealers. Investment staff shall investigate dealers who wish to do business with the City to determine that they are adequately capitalized, have no pending legal action against the firm or the individual broker and that they participate in markets appropriate to the City's needs.

The City shall send a copy of the current investment policy to all broker/dealers approved to do business with the City. Confirmation of receipt of this policy shall be considered evidence that the dealer understands the City's investment policies and intends to sell the City only appropriate investments authorized by this investment policy.

## **X. AUTHORIZED INVESTMENTS**

Investment of City funds is governed by the California Government Code Sections 53600 et. seq. Within the context of code limitations, the following investments and their respective additional limitations are authorized:

1. United States Treasury Bills, Bonds, and Notes are those for which the full faith and credit of the United States are pledged for payment of principal and interest. There is no percentage limitation of the portfolio which can be invested in this category.
2. Federal Agency or United States government-sponsored enterprise obligations, participations or other instruments, such as but not exclusively, issued by the Government National Mortgage Association (GNMA), the Federal Farm Credit System (FFCB), the Federal Home Loan Bank Board (FHLB), the Federal National Mortgage Association (FNMA), and the Federal Home Loan Mortgage Association (FHLMC) whose principal and interest is fully guaranteed by federal agencies or United States government-sponsored enterprises. There is no percentage limitation of the portfolio which can be invested in this category.
3. Local Agency Investment Fund (LAIF) which is a State of California managed investment pool may be used up to the maximum permitted by California State Government Code, Title 2, Division 4, Part 2, Chapter 2, Article 11, commencing with section 16429.1.

Investments detailed in items 4 through 11 are further restricted to a maximum of 15 percent of the City's Investment Cash, at the time of purchase, in any one issuer name unless further

restricted by this policy. A five year maximum maturity limitation is applicable unless further restricted by this policy.

4. Shares of Beneficial Interest issued by a Joint Powers Authority, including the Investment Trust of California, CalTRUST which is a Joint Powers Authority managed investment pool permitted as an investment type by California State Government Code, Section 6500 and 6509.7. The city can invest in this category, provided the City is a member of the Joint Powers Authority and therefore a voting member. Each of the Short Term, Medium Term or Long Term Account managed by CalTRUST is an eligible investment. Investments in any one fund or in the aggregate of this investment type, shall not exceed 30% of the City's investment portfolio at the time of purchase.

5. Bills of exchange or time drafts drawn on and accepted by commercial banks, otherwise known as bankers' acceptances. Bankers' acceptances purchased may not exceed 180 days to maturity or 40% of the City's Investment Cash at the time of purchase.

6. Commercial paper of "prime" quality of the highest ranking or of the highest letter and numerical rating of P1/A1 or A1+/F1 or F1+ as provided for by Moody's Investors Service, Inc., Standard and Poor's Corporation, or Fitch Ratings. Additionally, the entity issuing the commercial paper must have a long term credit rating of A2/A/A by one of either Moody's Investors Service, Inc., Standard and Poor's Corporation, or Fitch Ratings, respectively. Purchases of commercial paper may not exceed 25% of the City's Investment Cash, nor may those purchases exceed 270 days to maturity, nor represent more than 10% of the outstanding paper of the issuing corporation. Investment in any one institution may not exceed more than 10% of the City's Investment Cash at the time of purchase.

7. Negotiable certificates of deposit issued by nationally or state chartered banks or state or federal savings institutions. Purchases of negotiable certificates of deposit may not exceed 30% of the City's Investment Cash at the time of purchase. Investment in any one institution may not exceed more than 5% of the City's Investment Cash at the time of purchase.

8. Repurchase agreements which specify terms and conditions may be transacted with banks and broker/dealers. Investment in repurchase agreements may not exceed 20% of the City's Investment Cash at the date entered into. The maturity of the repurchase agreements shall not exceed 90 days. The market value of the securities used as collateral for the repurchase agreements shall be monitored by the investment staff and shall not be allowed to fall below 102% of the value of the repurchase agreement. A Master Repurchase Agreement must be executed with the bank or dealer prior to investing in a Repurchase Agreement.

9. Reverse repurchase agreements which specify terms and conditions may be transacted with broker/dealers and financial institutions but can not exceed 20% of the portfolio value on the date entered into.

10. Time deposits, non negotiable and collateralized in accordance with the California Government Code, may be purchased through banks or savings and loan associations. Since time deposits are not liquid, no more than 25% of the investment portfolio may be invested in this investment type. Investment in any one institution may not exceed more than 5% of the City's Investment Cash at the time of purchase.

11. Medium Term Corporation Notes, with a maximum maturity of five years may be purchased. Securities eligible for investment shall be rated A2/A/A or better by at least one of either Moody's, Standard & Poor's or Fitch Ratings, respectively. Purchase of medium term notes may not exceed 30% of the City's Investment Cash at the time of purchase and no more than 15% of the City's Investment Cash, at the time of purchase, may be invested in notes issued by one corporation. Commercial paper holdings, as identified by item 6 in this section, should also be included when calculating the 15% limitation.

12. Shares of beneficial interest issued by diversified management companies (Money market and mutual funds) may have no more than 10% of total assets in any one mutual fund investing in instruments as authorized above. Various daily cash funds administered for or by trustees, paying agents and custodial banks contracted by the City of Elk Grove may be purchased as allowed under State of California Government Code. Only funds holding U.S. Treasury or government agency obligations can be utilized. Investment in money market and mutual funds may not exceed 20% of the City's Investment Cash at the time of purchase.

13. Municipal Securities of any California Local Agency including bonds, notes, warrants, or other indebtedness, provided the issuer has a minimum credit rating of A2/A/A by either Moody's, Standard & Poor's or Fitch Ratings. The City may also purchase its own issued debt, but may not resell its own debt before maturity without first obtaining a tax exempt redetermination opinion from legal counsel. Purchases of Municipal Securities shall not exceed 20% of the City's investment portfolio at the time of purchase. Investment in any one issuer shall not exceed 5% at the time of purchase. Maturity shall be limited to a maximum of 60 months from the date of purchase. Purchases of Municipal Securities of any local agency outside of California are not permitted.

14. Municipal Securities of the State of California, or 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 the State of California, or any of the other 49 states, in addition to California. Provided the issuer has a minimum credit rating of A2/A/A by either Moody's, Standard & Poor's or Fitch Ratings.

15. Supranationals, United States dollar denominated senior unsecured unsubordinated obligations issued, assumed or guaranteed by the International Bank for Reconstruction and Development, Inter-American Development Bank, or the International Finance Corporation, 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 Moody's, Standard & Poor's, or Fitch Ratings. Investments shall not exceed ten percent of the City's portfolio.

Ineligible investments, those that are not described herein, including but not limited to, common stocks or long term (over five years in maturity) notes and bonds, are prohibited from use in this portfolio.

Following is a table summarizing allowable investments for the City:

INVESTMENT TYPE	MAXIMUM % OF PORTFOLIO	MINIMUM QUALITY REQUIREMENTS
U.S. Treasury Bills, Notes and Bonds	0 to 100%	None
Federal Agency/U.S. Government-sponsored obligations	0 to 100%	None
Local Agency Investment Fund (LAIF)	Per Govt. Code 16429.1	None
Joint Powers Authority Pool	0 to 30%	None
Bankers' Acceptances	0 to 40%	None
Commercial Paper	0 to 25%	Credit rating of P1/A1 or A1+/F1 or F1+ or higher by Moody's, S&P or Fitch
Certificates of Deposit	0 to 30%	National or State-chartered banks or Fed. Savings institutions
Repurchase Agreements	0 to 20%	None
Reverse Purchase Agreements	0 to 20%	None
Time Deposits	0 to 25%	None
Medium Term Corporation Notes	0 to 30%	A/A2/A or better
Money Market and Mutual Funds	0 to 20%	Only funds holding U.S. Treasury or Govt. agency obligations may be used
Municipal Securities (50 States or California Local Agencies)	0 to 20%	Minimum A2/A/A credit rating by Moody's, S&P or Fitch
Supranationals	10%	Minimum AA credit rating by Moody's, S&P or Fitch

## XI. INVESTMENT POOLS/MUTUAL FUNDS

Government sponsored pools and money market mutual funds are excellent short-term cash management facilities. These pools/funds can provide safety, liquidity and yield in a single investment instrument. In addition, these funds provided additional diversity in that each share of the fund is a composite of the funds entire portfolio of various maturity lengths, asset classes and specific investments.



## **XII. COLLATERALIZATION**

Collateralization shall be required on two types of investments:

1. Certificates of Deposit in excess of the amount federally insured, and
2. Repurchase agreements.

For Certificates of Deposit in excess of the amount federally insured, the general collateralization level shall be 110% of the amount invested. If the security used for collateral is a mortgage backed security, the collateralization level shall be 150% of the amount invested (government code sec. 53652).

For repurchase agreements, the collateralization level shall be at least 102% of the market value of the agreement.

The collateral shall be held by an independent third party with whom the entity has a current custodial agreement and the right of collateral substitution is granted. In order to conform with the provisions of the Federal bankruptcy code which provides for liquidation of securities held as collateral, the only securities acceptable as collateral shall be certificates of deposit, commercial paper, eligible bankers' acceptances, medium term notes or securities that are the direct obligations of, or are fully guaranteed as to principal and interest by the United States or any agency of the United States.

## **XIII. 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, and shall be delivered to the City or the City's designated custodian upon receipt of payment by the City.

All securities that may be purchased, including collateral for repurchase agreements, shall be held by a third party custodian designated by the Treasurer. These securities shall be held in the City's name and control and third party custody shall be evidenced by safekeeping receipts. The third party custodian shall send the City, on a monthly basis, a statement of what is safe-kept and this statement shall be reconciled to the City's record on a monthly basis.

## **XIV. DIVERSIFICATION INVESTMENT**

The City's investment portfolio shall be diversified to avoid incurring unreasonable and avoidable risks with regard to specific investment types. Within investment types, the City shall also maintain a mix of securities to avoid concentrations within individual financial institutions, geographic areas, industry types and maturity dates.

## **XV. MAXIMUM MATURITIES**

To the extent possible, the City of Elk Grove shall attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, the City shall not directly invest in securities maturing more than 5 years from the date of purchase.

## **XVI. INTERNAL CONTROL**

The City Treasurer shall conduct an annual review of the investment program. This process may include testing of the investment program by the City's external auditor to determine the extent of compliance with the Investment Policy.

All wire transfers initiated by the Finance Department will be confirmed to the appropriate financial institution. Proper documentation obtained from confirmations and cash disbursement wire transfers is required for each investment transaction. Timely bank reconciliations are conducted to ensure proper handling of all transactions.

## **XVII. PERFORMANCE STANDARDS**

The City's investment portfolio shall be designed with the objective of attaining a sound rate of return throughout budgetary and economic cycles, taking into account the City's investment risk constraints and the cash flow characteristics of the portfolio.

## **XVIII. PORTFOLIO MANAGEMENT ACTIVITY**

The investment program shall seek to attain returns consistent with the intent of this policy, identified risk limitations and prudent investment principals. These objectives shall be achieved by use of the following strategies:

### **Active Portfolio Management**

Through active fund and cash-flow management taking advantage of current economic and interest rate trends, the portfolio yield may be enhanced with limited and measurable increases in risk by extending the weighted maturity of the City's Investment Cash.

### **Portfolio Maturity Management**

When structuring the maturity composition of the portfolio, the city shall evaluate current and expected interest rate yields and necessary cash flow requirements. It is recognized that in normal market conditions longer maturities produce higher yields. However, the securities with longer maturities also experience greater price fluctuations when the level of interest rates change.

### **Security Swaps**

The City may take advantage of security swap opportunities to improve the overall portfolio yield. A swap which improves the portfolio yield may be selected even if the transactions result in an accounting loss. Documentation for swaps shall be included in the City's permanent investment file documents.

## **XIX. PERIODIC TREASURY REPORTS**

The City Treasurer shall review and render monthly reports to the City Manager and City Council which shall include the par value and cost of the investment, the type of investment, the name of the issuer, the coupon rate of interest, the maturity date, and the current market value.

## **XX. LEGISLATIVE CHANGES**

Any State of California legislative action, that further restricts allowable maturities, investment type or percentage allocations, shall be incorporated into the City of Elk Grove's Investment Policy and shall supersede any and all previous applicable language.

## **XXI. INTEREST EARNINGS**

All interest earned and collected from investments authorized in this policy shall be allocated monthly to all pooled cash funds based on the cash balance in each fund as a percentage of the entire pooled portfolio.

## **XXII. LIMITING MARKET VALUE EROSION**

It is the general policy of the City to limit the potential effects from erosion in market values by adhering to the following guidelines:

- All immediate and anticipated liquidity requirements shall be addressed prior to purchasing investments.
- Maturity dates for investments shall coincide with significant cash flow requirements, where possible, to assist with cash requirements at maturity.
- All securities shall be purchased with the intent to hold all investments to maturity. However, economic or market conditions may change, making it in the City's best interest to sell or trade a security prior to maturity.

## **XXIII. STATEMENT OF INVESTMENT POLICY**

The City of Elk Grove's Investment Policy shall be adopted by Resolution of the City Council. This investment policy shall be reviewed at least annually to ensure its consistency with the overall objectives of preservation of principal, liquidity and yield, and its relevance to current law and financial and economic trends. Any amendments to the policy shall be forwarded to the City Council for approval.

## **XXIV. GLOSSARY OF TERMS**

**Bankers' Acceptance (BA)** - A draft or bill or exchange accepted by a bank or trust company. The accepting institution guarantees payment of the bill, as well as the issuer.

**Broker** - A broker brings buyers and sellers together for a commission.

**Certificate of Deposit** – A time deposit with a specific maturity evidenced by a certificate. Large-denomination CD's are typically negotiable. CD's may be eligible for FDIC insurance.

**Collateral** - Securities, evidence of deposit or pledges to secure repayment of a loan. Also refers to securities pledged by a bank to secure deposit of public moneys.

**Custody** - A banking service that provides safekeeping for the individual securities in a customer's investment portfolio under a written agreement which also calls for the bank to collect and pay out income, to buy, sell, receive and deliver securities when ordered to do so by the principal.

**Delivery vs. Payment (DVP)** - Delivery of securities with a simultaneous exchange of money for the securities.

**Diversification** - Dividing investment funds among a variety of securities offering independent returns and risk profiles.

**Federal Home Loan Banks (FHLB)** - Government sponsored wholesale banks which lend funds and provide correspondent banking services to member commercial banks, thrifty institutions, credit unions and insurance companies. The mission of the FHLBs is to liquefy the housing related assets of its members who must purchase stock in their district Bank.

**Federal Home Loan Mortgage Corporation (FHLMC)** – The FHLMC was created under the Federal Home Loan Mortgage Act, Title III of the Emergency Home Finance Act of 1970 as a stockholder owned government-sponsored enterprise. Freddie Mac, as the corporation is called, is charged with providing stability and assistance to the secondary home mortgage market by buying first mortgages and participation interests and reselling these securities in the form of guaranteed mortgage securities. Although agency obligations are not explicitly guaranteed by the federal government, the rating agencies believe that in the unlikely event of financial difficulties, the federal government will support the agency to the extent necessary to provide for full and timely payment on their securities.

**Federal National Mortgage Association (FNMA)** - FNMA, like GNMA was chartered under the Federal National Mortgage Association Act in 1938. 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. FNMA's securities are also highly liquid and are widely accepted. FNMA assumes and guarantees that all security holders will receive timely payment of principal and interest.

**Government National Mortgage Association (GNMA)** – 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 the 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.

**Interest Rate** - The annual yield earned on an investment, expressed as a percentage.

**Liquidity** - Refers to the ability to rapidly convert an investment into cash with minimal risk of losing some portion of principal and/or interest.

**Master Repurchase Agreement** - A written contract covering all future transactions between the parties to repurchase and/or reverse repurchase agreements that establish each party's rights in the transactions. A master agreement will offer 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 an investment becomes due and payable.

**Money Market** - The market in which short-term debt instruments (bills, commercial paper, banker's acceptances, etc.) are issued and traded.

**Municipal Securities of Local Agencies** – Debt securities issued by states, cities, counties and other governmental entities to fund day-to-day obligations and to finance capital projects. The purchase of municipal securities is a loan to the bond issuer in exchange for regular interest payments and the return of the original investment.

**Prudent Investor** - An investment standard. In some states the law requires that a fiduciary, such as a trustee, may invest money only a list of securities selected by the custody state - the so-called legal list. In other states the trustee may invest in a security if it is one which would be brought by a prudent person of discretion and intelligence who is seeking a reasonable income and preservation of capital.

**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 him 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.

**Reverse Repurchase Agreement (Reverse REPO)** - A transaction where the seller (City) agrees to buy back from the buyer (bank) the securities at an agreed upon price after a stated period of time.

**Risk** - Degree of uncertainty of return on an asset.

**Treasury Bills** – A non-interest bearing discount security issued by the U.S. Treasury to finance the national debt. Most bills are issued to mature in three months, six months, or one year.

**Treasury Bonds** - Long-term coupon-bearing U. S. Treasury securities issued as direct obligations of the U. S. Government and having initial maturities of more than ten years.

**Treasury Notes** - Medium-term coupon-bearing U. S. Treasury securities issued as direct obligations of the U. S. Government and having initial maturities from two to ten years.

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

**Yield to Maturity** - The rate of income return on an investment, minus any premium or plus any discount, with the adjustment spread over the period from the date of purchase to the date of maturity of the bond, expressed as a percentage.

(Place on letterhead, sign, and return to City)

### Investment Firm Certification Form

As an authorized representative of the undersigned firm, I hereby certify that our firm has received a copy of the City of Elk Grove's Investment Policy, has read it, and will work within the guidelines of the policy when conducting business with, and providing services to the City.

All employees of the firm dealing with the City of Elk Grove have been and will be routinely informed of the City's investment objectives, policies, risk constraints and other pertinent factors.

\_\_\_\_\_  
Name of Authorized Representative

\_\_\_\_\_  
Title

\_\_\_\_\_  
Signature

\_\_\_\_\_  
Date

**CERTIFICATION**  
**ELK GROVE CITY COUNCIL RESOLUTION NO. 2020-125**

**STATE OF CALIFORNIA            )**  
**COUNTY OF SACRAMENTO        )        ss**  
**CITY OF ELK GROVE             )**

***I, Jason Lindgren, City Clerk of the City of Elk Grove, California, do hereby certify that the foregoing resolution was duly introduced, approved, and adopted by the City Council of the City of Elk Grove at a regular meeting of said Council held on June 10, 2020 by the following vote:***

**AYES:            COUNCILMEMBERS:        *Ly, Detrick, Hume, Nguyen, Suen***

**NOES:           COUNCILMEMBERS:        *None***

**ABSTAIN:       COUNCILMEMBERS:        *None***

**ABSENT:        COUNCILMEMBERS:        *None***

  
**Jason Lindgren, City Clerk**  
**City of Elk Grove, California**