



STAFF REPORT

CITY of YORBA LINDA

FINANCE DEPARTMENT

DATE: FEBRUARY 15, 2022

TO: HONORABLE MAYOR AND MEMBERS OF THE CITY COUNCIL

FROM: DIANNA HONEYWELL, FINANCE DIRECTOR / CITY TREASURER

SUBJECT: INVESTMENT POLICY UPDATE

RECOMMENDATION

It is recommended that City Council adopt the revised Investment Policy for FY 2021/22

FINANCE COMMITTEE RECOMMENDATION

The Finance Committee met on February 1, 2022, and recommended that the City Council adopt the changes set forth in Policy F-10 as it relates to “split rated” securities.

BACKGROUND

Each year in June when the budget is adopted, the City Council adopts the City’s Investment Policy for the following fiscal year. The most recent version of the policy was adopted in June 2021 with no changes from the prior policy which had been adopted in June 2020.

During the annual review of the portfolio with the Finance Committee in October 2021, it was noted that there were a handful of Medium-Term Notes held in the portfolio that had a “split rating”, with one rating agency rating various securities with a BBB+ which is lower than the “A” rating mentioned in the Investment Policy. Generally, the securities in the City’s portfolio are rated by both S&P and Moody’s and most of the time these ratings are the same. Occasionally, they differ, and this is called a “split rating”. While these securities are still in compliance with the Policy and California Government Code, it was a cause for concern among the members of the Finance Committee. The Committee members directed staff to revise the Policy to eliminate purchases of securities with a split rating where one rating agency rates it lower than “A”.

At its meeting on February 1, 2022, the Finance Committee met to discuss updated language in the City’s Investment Policy which addresses the issue of split rated securities in the City’s portfolio.

DISCUSSION

Staff in the Finance Department have worked with PFM Asset Management, LLC (PFM), the City’s investment management consultants, to revise language in the Policy to prohibit

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a split rated security to be purchased when one rating agency rates it below an “A” rating. It also addresses the situation if a security is downgraded after the initial purchase. The following additional language has been added to section IV(F)

Credit ratings, where shown, specify the minimum credit rating category required at purchase. For purposes of this Policy, the minimum rating will be determined by the lowest rating by Standard & Poor’s, Moody’s, or Fitch. In the event that an investment originally purchased within Policy guidelines is downgraded below the Policy requirements, the course of action to be followed by the City Treasurer will then be decided on a case-by-case basis, considering such factors as the reason for the downgrade, prognosis for recovery or further rating downgrades, and the market price of the security.

There is one other small change in the same section of the Policy. There is a reference to section 53635 in the California Government Code related to allowable investments. There are no permitted investments in Section 53635 that the City can purchase, but Local Agency Investment Fund (LAIF), which is permitted, is described in Section 16429.1. The reference to Section 53635 has been deleted and the reference to Section 16429.1 has been added.

Staff will work with PFM to determine the best course of action for the current holdings in the portfolio with a split rating where one rating agency rates the security BBB+.

The Finance Committee members agreed with Staff and recommended that the City Council adopt the attached revised Investment Policy.

FISCAL IMPACT

There is no direct fiscal impact with this change.

ALTERNATIVES

Leave the Investment Policy “as is” and permit split rated investments where one rating agency may rate a security below “A”.

ATTACHMENTS

1. Revised Policy – F-10 Investment Policy (Red Line Version)
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