



# STAFF REPORT

## CITY of YORBA LINDA

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### FINANCE DEPARTMENT

**DATE:** JUNE 21, 2022

**TO:** HONORABLE MAYOR AND MEMBERS OF THE CITY COUNCIL

**FROM:** DIANNA HONEYWELL, FINANCE DIRECTOR / CITY TREASURER

**SUBJECT:** FISCAL YEAR 2022/23 INVESTMENT POLICY

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### **RECOMMENDATION**

It is recommended that the City Council approve and adopt the annual Investment Policy for fiscal year 2022/23.

### **BACKGROUND**

Effective January 1, 2006, Section 53646(a)(2) of the Government Code was modified to allow local agencies the option of adopting an annual Investment Policy or to adopt an Investment Policy that would remain in effect until changed. In June 2006, the City Council opted to adopt an Investment Policy each year, regardless of whether it changed or not.

### **DISCUSSION**

The Investment Policy was recently updated in February 2022. 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 so the Finance Committee, and later the City Council, directed staff to revise the Policy to eliminate purchases of securities with a split rating where one rating agency rates it lower than "A". The policy now contains the following language to address the issue of split ratings:

*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.*

Additionally, a small change was made to reference the correct Government Code which addresses allowable investments. There was a reference to section 53635 in the California

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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 was deleted and the reference to Section 16429.1 was added.

At this time, there are no further changes to the Policy.

### **FISCAL IMPACT**

There is no direct fiscal impact associated with adoption of the Investment Policy.

### **ALTERNATIVES**

None.

### **ATTACHMENTS**

1.) Proposed City Council Policy F-10 for Fiscal Year 2022/23

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