**TOWN OF LOS GATOS**
**FINANCE COMMISSION AGENDA**
**FEBRUARY 13, 2023**
**TELECONFERENCE**
**5:00 PM**

*Rick Tinsley, Chair*
*Stacey Dell, Commissioner*
*Andrew Howard, Commissioner*
*Phil Koen, Vice Chair*
*Linda Reiners, Commissioner*
*Maria Ristow, Mayor*
*Rob Rennie, Council Member*

## IMPORTANT NOTICE

This meeting is being conducted utilizing teleconferencing and electronic means consistent with Government Code Section 54953, as Amended by Assembly Bill 361, in response to the state of emergency relating to COVID-19 and enabling teleconferencing accommodations by suspending or waiving specified provisions in the Ralph M. Brown Act (Government Code § 54950 et seq.). Consistent with AB 361 and Town of Los Gatos Resolution 2021-044, this meeting will not be physically open to the public and the Council will be teleconferencing from remote locations. Members of the public can only participate in the meeting by joining the Zoom webinar (log in information provided below).

## PARTICIPATION

To provide oral comments in real-time during the meeting:

During the meeting:

- **Zoom webinar:** Join from a PC, Mac, iPad, iPhone or Android device: Please click this URL to join: https://losgatosca-gov.zoom.us/j/87815622661?pwd=cVg3elVreWJjTmxIS25FQmsxS1Y4QT09 Passcode: 754629. You can also type in 878 1562 2661 in the "Join a Meeting" page on the Zoom website at https://zoom.us/join and use passcode 754629.
- **Join by Telephone:** Dial: USA 636 651 0008 US Toll-free or 877 336 1839 US Toll. Conference code: 686100.

During the meeting:

- When the Chair announces the item for which you wish to speak, click the "raise hand" feature in Zoom. If you are participating by phone on the Zoom app, press *9 on your telephone keypad to raise your hand. If you are participating by calling in, press #2 on your telephone keypad to raise your hand.
- When called to speak, you will be asked to provide your full name and your town/city of residence. This identifying information is optional and not a requirement for participation. Please limit your comments to three (3) minutes, or such other time as the Chair may decide, consistent with the time limit for speakers at a Council meeting.

If you are unable to participate in real-time, you may email to Clerk@losgatosca.gov and in the subject line "Finance Commission Public Comment Item #__ " (insert the item number relevant to your comment). Comments received by 11:00 a.m. the day of the meeting will be reviewed and distributed before the meeting. All comments received will become part of the record.

**TOWN OF LOS GATOS**
**FINANCE COMMISSION AGENDA**
**FEBRUARY 13, 2023**
**TELECONFERENCE**
**5:00 PM**

**REMOTE LOCATION PARTICIPANTS** The following Commissioners are listed to permit them to appear electronically or telephonically at the Finance Commission meeting: CHAIR RICK TINSLEY, COMMISSIONER STACEY DELL, COMMISSIONER ANDREW HOWARD, VICE CHAIR PHIL KOEN, COMMISSIONER LINDA REINERS, MAYOR MARIA RISTOW, and COUNCIL MEMBER ROB RENNIE. All votes during the teleconferencing session will be conducted by roll call vote.

**RULES OF DECORUM AND CIVILITY**
To conduct the business of the community in an effective and efficient manner, please follow the meeting guidelines set forth in the Town Code and State law.

The Town does not tolerate disruptive conduct, which includes but is not limited to:
- Addressing the Finance Commission without first being recognized;
- Interrupting speakers, Finance Commissioners, or Town staff;
- Continuing to speak after the allotted time has expired;
- Failing to relinquish the microphone when directed to do so;
- Repetitiously addressing the same subject.

Town Policy does not allow speakers to cede their commenting time to another speaker. Disruption of the meeting may result in a violation of Penal Code Section 403.

**MEETING CALLED TO ORDER**

**ROLL CALL**

**CONSENT ITEMS** *(Items appearing on the Consent Items are considered routine Town business and may be approved by one motion. Any member of the Commission may request to have an item removed from the Consent Items for comment and action. Members of the public may provide input on any or multiple Consent Item(s) when the Chair asks for public comments on the Consent Items. If you wish to comment, please follow the Participation Instructions contained on Page 2 of this agenda. If an item is removed, the Chair has the sole discretion to determine when the item will be heard.)*

1. Approve Draft Minutes of the January 10, 2023, Special Finance Commission Meeting.
2. Receive Monthly Investment Reports for October and November 2022

**VERBAL COMMUNICATIONS** *(Members of the public are welcome to address the Commission on any matter that is not listed on the agenda, pursuant to the Participation Instructions on Page 1 of this agenda. To ensure all agenda items are heard and unless additional time is authorized by the Chair, this portion of the agenda is limited to 30 minutes and no more than three (3) minutes per speaker. In the event additional speakers were not able to be heard during the initial Verbal Communications portion of the agenda, an additional Verbal Communications will be opened prior to adjournment.)*

**OTHER BUSINESS** *(Up to three minutes may be allotted to each speaker on any of the following items.)*

3. Review and Recommend to the Town Council Changes to the Town's Investment Policy
4. Review and Recommend Changes for Town Council Consideration Regarding the Proposed Additional Information for the Monthly Financial and Investment Report (December 2022)
5. Review and Provide Comments to the Town Council Regarding Mid-Year Budget Report
6. Review and Provide Comments to the Town Council Regarding the Five-Year Forecast (FY 2023/24 – 2027/28) and Scenarios and Provide Input for the FY 2023/24 Budget Direction
7. Review the Finance Commission 2022 Workplan and Discuss the 2023 Workplan

**ADJOURNMENT**

***IN COMPLIANCE WITH THE AMERICANS WITH DISABILITIES ACT, IF YOU NEED SPECIAL ASSISTANCE TO PARTICIPATE IN THIS MEETING, PLEASE CONTACT THE CLERK DEPARTMENT AT (408) 354-6834. NOTIFICATION 48 HOURS BEFORE THE MEETING WILL ENABLE THE TOWN TO MAKE REASONABLE ARRANGEMENTS TO ENSURE ACCESSIBILITY TO THIS MEETING [28 CFR §35.102-35.104]***



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**TOWN OF LOS GATOS**
**FINANCE COMMISSION**
**AGENDA REPORT**

MEETING DATE: 2/13/2023
ITEM NO: 1

**DRAFT**
**Minutes of the Finance Commission Special Meeting**
**January 10, 2023**

The Finance Commission of the Town of Los Gatos conducted a special meeting utilizing teleconference and electronic means consistent with Government Code Section 54953, as Amended by Assembly Bill 361, in response to the state of emergency relating to COVID-19 and enabling teleconferencing accommodations by suspending or waiving specified provisions in the Ralph M. Brown Act (Government Code § 54950 et seq.) and Town of Los Gatos Resolution 2021-044 on Tuesday, January 10, 2023, at 4:00 p.m.

## MEETING CALLED TO ORDER AT 4:01 P.M.

## ROLL CALL

Present: Chair Ron Dickel, Commissioner Stacey Dell, Commissioner Andrew Howard, Commissioner Phil Koen, Commissioner Rick Tinsley, Mayor Maria Ristow, and Council Member Rob Rennie (all participating remotely).

Staff Present: Town Manager Laurel Prevetti, Assistant Town Manager Arn Andrews, and Finance Director Gitta Ungvari.

## CONSENT ITEM (TO BE ACTED UPON BY A SINGLE MOTION)

1. Approve Draft Minutes of the December 12, 2022, Special Finance Commission Meeting
2. Receive Monthly Investment Reports for October and November 2022

Commissioner Koen pulled Item 2 from the Consent Calendar

**MOTION:** **Motion** by **Commissioner Dell** to approve the consent item 1. **Seconded** by **Commissioner Tinsley.**

**VOTE:** **Motion passed 3-0-2. Commissioners Koen and Howard abstained.**

## VERBAL COMMUNICATIONS

-Jak Van Nada – Commented on the Pedestrian Bike Bridge Project cost and that the Commission should give training to Commissioner Howard to be able to participate in the Finance Commission effectively.

## OTHER BUSINESS

3. Selection of Finance Commission Chair and Vice Chair

**MOTION:** **Motion** by **Chair Dickel** to nominate Commissioner Tinsley to Chair. **Seconded** by **Commissioner Koen.**

**VOTE:** **Motion passed 5-0.**

-Jak Vannada – Commented that he is pleased the Rick Tinsley accepted the nomination and that he will be a good Chair.

Chair Dickel announced his resignation from the Finance Commission.

**MOTION:** **Motion** by **Chair Tinsley** to nominate Commissioner Koen to Vice Chair. **Seconded** by **Commissioner Dell.**

**VOTE:** **Motion passed 5-0.**

4. Approve the Finance Commission Meeting Dates and Times for 2023

Opened Public Comment.

None.

Closed Public Comment.

The Commission accepted the regular meeting schedule as the second Monday of each month from 5 p.m. to 7 p.m.

5. Review the Town's Draft Financial Transactions Report for Submittal to the State Controller.

Arn Andrews, Assistant Town Manager, introduced the item. Staff addressed Commissioners' questions.

Opened Public Comment.

None

Closed Public Comment.

6. Discussion of First Quarter Key Performance Indicators (KPIs)

Gitta Ungvari, Finance Director introduced the item. Staff addressed Commissioners' questions.

Opened Public Comment.

None.

Closed Public Comment.

7. Review and Recommend to the Town Council Changes to the Town's Operating Portfolio Investment Policy

Gitta Ungvari, Finance Director, introduced the item. Staff addressed Commissioners' questions.

Opened Public Comment.

None.

Closed Public Comment.

The Finance Commission reviewed the proposed changes provided by staff and suggested one additional change to clarify that the monthly report will comply with Government Code Section 41004 (Attachment 2). The Finance Commission plans to review additional elements of the Investment Policy and potentially recommend supplemental reporting.

Items continued to February 13, 2023 regular meeting:
8. Review the Finance Commission 2022 Workplan and Discuss the 2023 Workplan

Pulled Consent Item 2 -Receive Monthly Investment Reports for October and November 2022

**ADJOURNMENT**:
The meeting adjourned at 5:00 p.m.

This is to certify that the foregoing is a true and correct copy of the minutes of the January 10, 2023 meeting as approved by the Finance Commission.

_____
Gitta Ungvari, Finance Director

**TOWN OF LOS GATOS**

**FINANCE COMMISSION REPORT**

MEETING DATE: 02/13/2023

ITEM NO: 2

DATE: February 6, 2023

TO: Finance Commission

FROM: Laurel Prevetti, Town Manager

SUBJECT: Receive Monthly Investment Reports for October and November 2022

REMARKS:

This item is continued from the January 10, 2023 Finance Commission meeting. The staff report with attachments is being provided as Attachment 1.

Attachment:

1. January 10, 2023 Monthly Investment Reports for October and November 2022 with Attachments

PREPARED BY: Gitta Ungvari
Finance Director

Reviewed by: Town Manager and Town Attorney

**TOWN OF LOS GATOS**

**FINANCE COMMISSION REPORT**

MEETING DATE: 01/10/2023

ITEM NO: 2

DATE: January 5, 2023

TO: Finance Commission

FROM: Laurel Prevetti, Town Manager

SUBJECT: Receive Monthly Investment Reports for October and November 2022

RECOMMENDATION:

Receive Monthly Investment Reports for October and November 2022.

DISCUSSION:

Staff is changing the frequency of the reporting from quarterly to monthly to comply with California Government Code Section 41004.

As of November 30, 2022, the Town's weighted portfolio yield was 2.03% which exceeded by 2 basis points the Local Agency Investment Fund (LAIF) yield of 2.01% as of the same reporting period. Currently the LAIF portfolio weighted average maturity (WAM) is 304 days versus the Town's longer WAM of 435 days. The Town's weighted average rate of return of 2.03% at the close of November was 23 basis points higher when compared to the First quarter return of 1.80% reported as of September 30, 2022.

Since September 30, 2022, LAIF yields had climbed from 151 basis points (1.51%) to 201 basis points (2.01%) through the end of November 2022. Staff in coordination with the Town's investment advisor primarily replaced maturing investments in shorter to medium term maturities in the two- to three-year maturity range. These investments capture current yields that exceed the rates expected to be earned in the State LAIF pool during that same time period. The State LAIF pool typically lags the market when current market yields are either increasing or decreasing.

At its most recent meeting in December 2022, the Fed indicated it expected to raise interest rates further in 2023 to approximately 5.25% from its current rate of 4.25% to 4.5%, with the Fed anticipating that 5.25% rate to hold steady for the remainder of calendar year 2023.

PREPARED BY: Gitta Ungvari
Finance Director

Reviewed by: Town Manager, Town Attorney, and Assistant Town Manager

SUBJECT: Receive the Monthly Investment Reports for October and November 2022
DATE: January 5, 2023

CONCLUSION:

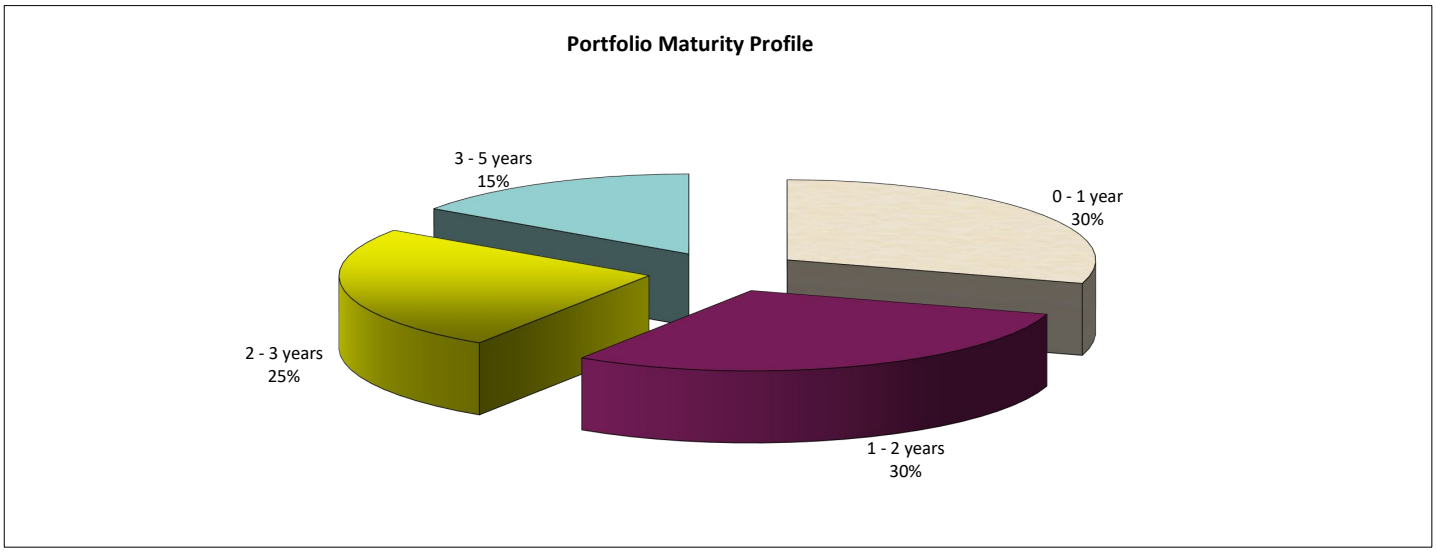
Staff recommends that the Finance Commission receive the Monthly Investment Reports for October and November 2022.

Attachments:
1. Monthly Investment Report for October 2022
2. Monthly Investment Report for November 2022

**Town of Los Gatos**
**Summary Investment Information**
**October 31, 2022**

**Weighted Average YTM Portfolio Yield:** **1.82%** **Weighted Average Maturity (days)** **425**

| | This Month | Last Month | One year ago |
|---|---|---|---|
| **Portfolio Balance** | $62,569,240 | $62,736,952 | $59,763,609 |
| **Benchmarks/ References:** | | | |
| Town's Average Yield | 1.82% | 1.80% | 1.24% |
| LAIF Yield for month | 1.77% | 1.51% | 0.20% |
| 3 mo. Treasury | 4.09% | 3.29% | 0.06% |
| 6 mo. Treasury | 4.55% | 3.97% | 0.06% |
| 2 yr. Treasury | 4.49% | 4.28% | 0.50% |
| 5 yr. Treasury (most recent) | 4.23% | 4.09% | 1.19% |
| 10 Yr. Treasury | 4.05% | 3.84% | 1.56% |

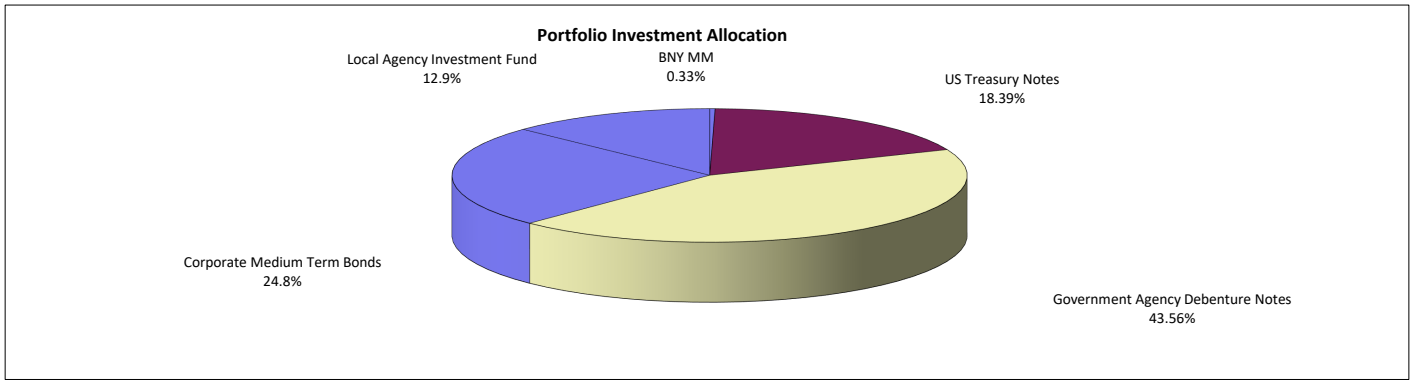


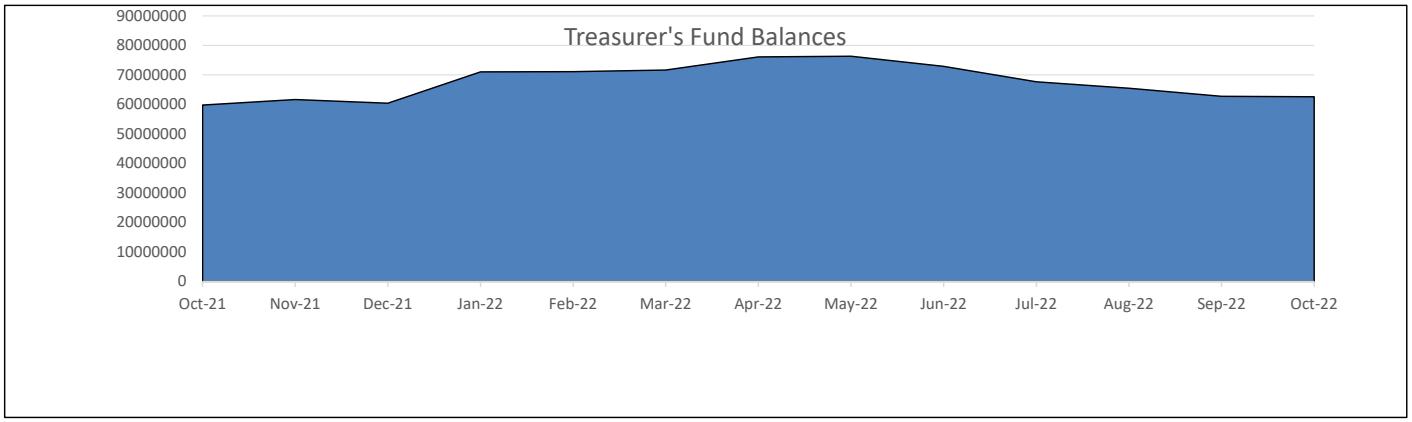

**Compliance:** The Town's investments are in compliance with the Town's investment policy dated September 21, 2021 and also in compliance with the requirements of Section 53601 of the California State Code. Based on the information available, the Town has sufficient funds to meet the cash demands for the next six months.

**Town of Los Gatos**
**Portfolio Allocation & Treasurer's Fund Balances**
**October 31, 2022**

| | Month | YTD |
|---|---|---|
| Fund Balances - Beginning of Month/Period | $62,736,951.51 | $72,886,942.83 |
| Receipts | 2,970,841.52 | 14,361,634.16 |
| Disbursements | (3,138,553.40) | (24,679,337.36) |
| Fund Balances - End of Month/Period | $62,569,239.63 | $62,569,239.63 |

| Portfolio Allocation: | | % of Portfolio | Max. % 0r $ Allowed Per State Law or Policy |
|---|---|---|---|
| BNY MM | $179,619.69 | 0.33% | 20% of Town Portfolio |
| US Treasury Notes | $9,883,589.53 | 18.39% | No Max. on US Treasuries |
| Government Agency Debenture Notes | $23,416,349.00 | 43.56% | No Max. on Non-Mortgage Backed |
| Corporate Medium Term Bonds | $13,336,173.01 | 24.81% | 30% of Town Portfolio |
| Local Agency Investment Fund | $6,941,939.56 | 12.91% | $75 M per State Law |
| Subtotal - Investments | 53,757,670.79 | 100.00% | |
| Reconciled Demand Deposit Balances | 8,811,568.84 | | |
| Total Treasurer's Fund | $62,569,239.63 | | |



**Town of Los Gatos**
**Non-Treasury Restricted Fund Balances**
**October 31, 2022**

| Non-Treasury Funds: | Beginning Balance | OCT 22 Deposits Realized Gain/Adj. | OCT 22 Interest/ Earnings | OCT 22 Withdrawals | Ending Balance | |
|---|---|---|---|---|---|---|
| Cert. of Participation 2002 Series A Reserve Fund | 688,224.79 | | $ 1,029.47 | $ 1,973.79 | $ 687,280.47 | Note 1 |
| Cert. Of Participation 2010 Ser A Lease Pymt Fund | 132.26 | | 0.27 | | $ 132.53 | Note 1 |
| Cert. of Participation 2002 Lease Payment Fund | 65.79 | 1,973.79 | | | $ 2,039.58 | Note 1 |
| Cert. of Participation 2010 Series Reserve Fund | 1,282,093.98 | | 2,396.58 | | 1,284,490.56 | Note 2 |
| Total Restricted Funds: | $ 1,970,516.82 | $ 1,973.79 | $ 3,426.32 | $ 1,973.79 | $ 1,973,943.14 | |
| CEPPT IRS Section 115 Trust | 638,355.08 | | 5,466.39 | 0.00 | $ 643,821.47 | |
| Grand Total COP's and CEPPT Trust | $ 2,608,871.90 | $ 1,973.79 | $ 8,892.71 | $ 1,973.79 | $ 2,617,764.61 | |

These accounts are not part of the Treasurer's fund balances reported elsewhere in this report, as they are for separate and distinct entities.

**Note 1:** The three original funds for the Certificates of Participation 2002 Series A consist of construction funds which will be expended over the next few years, reserve funds which will guarantee the payment of lease payments, and a third fund for the disbursement of lease payments and initial delivery costs.

**Note 2:** The 2010 COP Funds are all for the Library construction, reserves to guarantee lease payments, and a lease payment fund for the life of the COP issue. The COI fund was closed in September 2010.

**Note 3**: The CEPPT Section IRS Section 115 Trust was established as an irrevocable trust dedicated to accumulate resources to fund the Town's unfunded liabilities related to pension and other p

**Town of Los Gatos**
**Statement of Interest Earned**
**October 31, 2022**

| Interest by Month | |
|---|---|
| July 2022 | $60,107.76 |
| August 2022 | 61,456.65 |
| September 2022 | 60,153.38 |
| October 2022 | 68,965.25 |
| November 2022 | |
| December 2022 | |
| January 2023 | |
| February 2023 | |
| March 2023 | |
| April 20203 | |
| May 2023 | |
| June 2023 | |
| | $250,683.04 |

# Town of Los Gatos Investment Schedule

**October**

**2022**

| Institution | CUSIP # | Security | Deposit Date | Par Value | Original Cost | Market Value | Purchased Interest | Maturity Date or Call Date | Yield to Maturity or Call | Interest Received to Date | Interest Earned Prior Yrs. | Interest Earned Current FY | Days to Maturity |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Treasury | 91282CAP6 | US Treasury Note | 6/30/2021 | 1,000,000.00 | 995,390.63 | 957,734.38 | | 10/15/2023 | 0.33% | $ 1,615.44 | $ 3,260.06 | $ 1,098.60 | 349 |
| Toyota Motor Credit | 89236THA6_1 | Corporate Bond | 04/12/21 | 500,000.00 | 510,580.00 | 485,471.94 | | 8/25/2023 | 0.45% | $ 9,243.75 | $ 2,780.30 | $ 770.22 | 298 |
| Toyota Motor Credit | **89236THA6** | Corporate Bond | 1/11/2022 | 1,100,000.00 | 1,107,315.00 | 1,068,038.27 | | 8/25/2023 | 0.94% | $ 9,240.00 | $ 4,812.29 | $ 3,481.84 | 298 |
| US Treasury | **91282CDD0** | US Treasury Note | 1/13/2022 | 1,100,000.00 | 1,090,675.78 | 1,054,023.43 | | 10/31/2023 | 0.85% | $ 3,281.77 | $ 4,286.54 | $ 3,138.36 | 365 |
| US Treasury | **91282CCN9** | US Treasury Note | 1/13/2022 | 1,200,000.00 | 1,188,375.00 | 1,160,250.00 | | 7/31/2023 | 0.75% | $ 823.37 | $ 4,153.18 | $ 3,040.72 | 273 |
| FFCB | 3133EKMX1 | Gov. Agency Debenture | 8/2/2019 | 1,000,000.00 | 1,014,400.00 | 968,808.22 | | 2/23/2024 | 1.90% | $ 73,775.83 | $ 55,756.94 | $ 6,451.65 | 480 |
| FFCB | 3133EMBE1 | Gov. Agency Debenture | 10/8/2020 | 1,600,000.00 | 1,598,000.00 | 1,504,220.59 | | 3/28/2024 | 0.34% | $ 9,453.34 | $ 9,279.41 | $ 1,811.69 | 514 |
| FFCB | 3133EMCQ3 | Gov. Agency Debenture | 10/16/2020 | 2,000,000.00 | 1,998,000.00 | 1,912,165.36 | | 10/13/2024 | 0.31% | $ 11,153.33 | $ 10,396.24 | $ 2,055.85 | 713 |
| BankAmerica Corp | 06051GHC6 | Corporate Bond | 10/9/2020 | 1,300,000.00 | 1,366,287.00 | 1,295,318.96 | | 12/20/2023 | 0.66% | $ 66,279.92 | $ 31,569.88 | $ 6,173.44 | 415 |
| Home Depot | 437076BM3 | Corporate Bond | 8/4/2022 | 1,000,000.00 | 991,960.00 | 939,937.13 | | 1/1/2026 | 3.04% | $ 4,750.00 | $ - | $ 7,800.71 | 1158 |
| Home Depot | 912828ZW3 | US Treasury Note | 8/9/2022 | 350,000.00 | 322,096.88 | 313,960.94 | 95.11 | 6/30/2025 | 3.16% | $ (95.11) | $ - | $ 2,392.12 | 973 |
| IBM | 459200JY8 | Corporate Bond | 3/25/2021 | 1,000,000.00 | 1,071,040.00 | 970,339.39 | | 5/15/2024 | 0.71% | $ 34,166.67 | $ 9,358.41 | $ 2,491.52 | 562 |
| US Treasury | 912828R28 | US Treasury Note | 7/2/2019 | 500,000.00 | 497,246.09 | 493,261.72 | | 4/30/2023 | 1.77% | $ 27,046.54 | $ 26,507.80 | $ 2,980.31 | 181 |
| Freddie Mac | 3137EAEN5 | Gov. Agency Debenture | 7/19/2019 | 2,000,000.00 | 2,072,358.00 | 1,976,295.56 | | 6/19/2023 | 1.79% | $ 160,416.67 | $ 107,829.55 | $ 12,314.80 | 231 |
| FFCB | 3133EKVF0 | Gov. Agency Debenture | 7/22/2019 | 1,000,000.00 | 999,630.00 | 994,936.65 | | 1/17/2023 | 1.89% | $ 55,989.58 | $ 55,482.90 | $ 6,354.19 | 78 |
| Treasury | 91282CBT7 | US Treasury Note | 9/30/2022 | 800,000.00 | 712,565.18 | 707,875.00 | | 3/31/2026 | 4.14% | $ - | $ - | $ 2,630.46 | 1247 |
| FFCB | 3133ENP95 | Gov. Agency Debenture | 9/30/2022 | 900,000.00 | 900,939.60 | 891,494.81 | | 9/30/2025 | 4.14% | $ - | $ - | $ 3,222.05 | 1065 |
| US Treasury | **91282CDA6** | Gov. Agency Debenture | 1/31/2022 | 1,100,000.00 | 1,085,222.44 | 1,057,031.25 | | 9/30/2023 | 1.07% | $ 1,820.74 | $ 4,781.92 | $ 3,921.18 | 334 |
| US Treasury | 91282CAW1 | Gov. Agency Debenture | 7/15/2021 | 1,200,000.00 | 1,199,437.50 | 1,146,796.87 | | 11/15/2023 | 0.27% | $ 2,502.72 | $ 3,107.52 | $ 1,092.07 | 380 |
| American Honda | 02665WCZ2 | Corporate Bond | 11/27/2019 | 1,000,000.00 | 1,012,410.01 | 957,536.74 | | 6/27/2024 | 2.12% | $ 72,733.34 | $ 55,189.68 | $ 7,175.82 | 605 |
| JP Morgan Chase | 46625HRS1 | Gov. Agency Debenture | 9/23/2022 | 500,000.00 | 474,660.00 | 462,877.42 | 4,355.56 | 3/15/2026 | 4.70% | $ (4,355.56) | $ - | $ 2,424.56 | 1231 |
| Honeywell Int'l. | 438516BW5 | Corporate Bond | 11/20/2019 | 1,000,000.00 | 1,014,660.00 | 957,664.07 | | 7/15/2024 | 1.64% | $ 62,483.33 | $ 51,828.99 | $ 6,689.37 | 623 |
| Caterpillar Financial Serv | 14913Q2V0 | Corporate Bond | 2/23/2021 | 1,000,000.00 | 1,077,370.00 | 970,099.77 | | 5/17/2024 | 0.44% | $ 35,150.00 | $ 6,129.72 | $ 1,532.43 | 564 |
| FNMA | 3135G0V75 | Gov. Agency Debenture | 10/17/2019 | 1,100,000.00 | 1,105,833.30 | 1,050,134.43 | | 7/2/2024 | 1.63% | $ 52,456.25 | $ 48,706.74 | $ 6,069.84 | 610 |
| US Bancorp | 91159HHV5 | Corporate Bond | 12/24/2019 | 1,000,000.00 | 1,049,040.00 | 979,313.57 | | 1/5/2024 | 2.12% | $ 88,218.75 | $ 54,380.13 | $ 7,278.30 | 431 |
| FHLB | 3133834G3 | Gov. Agency Debenture | 3/11/2021 | 1,400,000.00 | 1,460,522.00 | 1,377,991.73 | | 6/9/2023 | 0.19% | $ 37,022.22 | $ 3,664.98 | $ 947.04 | 221 |
| FFCB | 3133EKQA7 | Gov. Agency Debenture | 10/21/2019 | 1,000,000.00 | 1,019,780.00 | 954,400.43 | | 9/10/2024 | 1.66% | $ 60,031.11 | $ 45,130.78 | $ 5,647.09 | 680 |
| PNC Financial | 69349LAM0 | Corporate Bond | 2/7/2022 | 1,000,000.00 | 1,033,470.00 | 989,670.62 | | 6/25/2023 | 1.49% | $ 17,733.33 | $ 5,372.34 | $ 4,620.97 | 237 |
| FHLB | 3135G05X7 | Gov. Agency Debenture | 6/10/2022 | 1,200,000.00 | 1,102,952.40 | 1,069,830.90 | | 8/25/2025 | 3.04% | $ 937.50 | $ 1,902.68 | $ 11,701.47 | 1029 |
| Treasury | 912828ZL7 | Gov. Agency Debenture | 4/12/2022 | 1,700,000.00 | 1,583,927.57 | 1,539,296.88 | | 4/30/2025 | 2.72% | $ 3,504.49 | $ 9,611.14 | $ 14,964.18 | 912 |
| JP Morgan Chase | 46625HJT8 | Corporate Bond | 9/23/2019 | 1,400,000.00 | 1,485,414.00 | 1,382,875.52 | | 2/1/2024 | 2.39% | $ 154,913.89 | $ 96,022.89 | $ 11,682.31 | 458 |
| American Honda | 02665WDH1 | Corporate Bond | 2/14/2020 | 600,000.00 | 603,756.00 | 591,047.52 | | 5/10/2023 | 1.75% | $ 28,145.00 | $ 25,034.14 | $ 3,551.56 | 191 |
| Treasury | 912828V23 | US Treasury Note | 11/29/2021 | 1,000,000.00 | 1,032,933.04 | 972,968.75 | | 12/31/2023 | 0.66% | $ 13,206.52 | $ 3,924.44 | $ 2,266.23 | 426 |
| Treasury | 91282CBE0_2 | Gov. Agency Debenture | 10/7/2021 | 1,000,000.00 | 994,768.98 | 947,070.31 | | 1/15/2024 | 0.36% | $ 964.67 | $ 2,587.41 | $ 1,196.43 | 441 |
| FHLB | 3130ALH98 | Gov. Agency Debenture | 2/26/2021 | 1,000,000.00 | 997,610.00 | 940,126.43 | | 2/26/2024 | 0.33% | $ 3,750.00 | $ 4,416.63 | $ 1,110.93 | 483 |
| Treasury | 912828M80 | US Treasury Note | 7/22/2019 | 1,000,000.00 | 1,006,175.23 | 998,690.43 | | 11/30/2022 | 1.81% | $ 57,158.47 | $ 53,444.10 | $ 6,120.69 | 30 |
| Treasury | 912828U57 | US Treasury Note | 7/31/2019 | 1,000,000.00 | 1,011,875.00 | 973,789.06 | | 11/30/2023 | 1.84% | $ 60,208.33 | $ 54,014.24 | $ 6,238.26 | 395 |
| Treasury | 912828X70 | US Treasury Note | 12/30/2019 | 1,000,000.00 | 1,010,589.29 | 961,679.69 | | 4/30/2024 | 1.75% | $ 62,703.30 | $ 48,922.73 | $ 6,590.90 | 547 |
| Treasury | 912828XT2 | US Treasury Note | 10/31/2019 | 1,000,000.00 | 1,015,667.41 | 960,000.00 | | 5/31/2024 | 1.64% | $ 51,639.34 | $ 44,208.50 | $ 5,588.54 | 578 |
| American Honda | 02665WCQ2 | Corporate Bond | 9/14/2021 | 950,000.00 | 1,012,871.00 | 937,058.14 | | 10/10/2023 | 0.41% | $ 36,924.65 | $ 3,232.93 | $ 1,375.95 | 344 |
| FFCB | 3133EJ3Q0 | Gov. Agency Debenture | 8/28/2019 | 1,500,000.00 | 1,587,503.75 | 1,465,477.95 | | 12/21/2023 | 2.12% | $ 121,348.96 | $ 64,945.24 | $ 7,703.24 | 416 |
| Freddie Mac | 3133EKKT2 | Gov. Agency Debenture | 6/24/2019 | 1,550,000.00 | 1,573,188.00 | 1,542,347.67 | | 2/8/2023 | 1.82% | $ 117,606.25 | $ 86,008.42 | $ 9,599.85 | 100 |
| Treasury | 91282CBE0 | Gov. Agency Debenture | 9/15/2021 | 650,000.00 | 647,615.46 | 615,595.70 | | 1/15/2024 | 0.28% | $ 675.62 | $ 1,447.14 | $ 618.05 | 441 |
| Subtotal | | | | $ 46,200,000.00 | $ 46,636,111.54 | $ 44,495,504.20 | $ 4,450.67 | | | $ 1,606,624.32 | $ 1,103,488.93 | $ 205,915.78 | |
| BNY MM | | Money Market | | | 179,619.69 | 179,619.69 | | | 0.00% | | | | 1 |
| LAIF | | State Investment Pool | | | 6,941,939.56 | 6,941,939.56 | | | 1.77% | | | 33,791.70 | 1 |
| | | | | | **$53,757,670.79** | **$51,617,063.45** | | | | $ 1,606,624.32 | $ 1,103,488.93 | $ 239,707.48 | |
| Matured Assets | | | | | | | | | | | | | |
| IBM | 459200HG9 | Corporate Bond | 8/8/2019 | 1,000,000.00 | 995,010.00 | | | 8/1/2022 | 2.05% | $ 55,885.42 | $ 59,141.32 | $ 1,790.47 | |
| JP Morgan Chase | 46625HJE1 | Gov. Agency Debenture | 2/11/2020 | 900,000.00 | 934,587.00 | | | 9/23/2022 | 1.74% | $ 76,537.50 | $ 38,210.60 | $ 3,733.22 | |
| Treasury | 912828L57 | US Treasury Note | 7/22/2019 | 1,200,000.00 | 1,197,988.40 | | | 9/30/2022 | 2.09% | $ 67,016.39 | $ 63,644.66 | $ 5,451.87 | |

Total Investments "Matured" $ 10,975.56

Total Interest FY 22_23 Matured and Current $ 250,683.04

**Maturity Profile**

| | Amount |
|---|---|
| 0-1 year | $23,358,334.42 |
| 1-2 years | $24,310,234.74 |
| 2-3 years | $3,909,916.45 |
| 3-5 years | $ 2,179,185.18 |
| | $53,757,670.79 |

**Market to Cost Position Report**

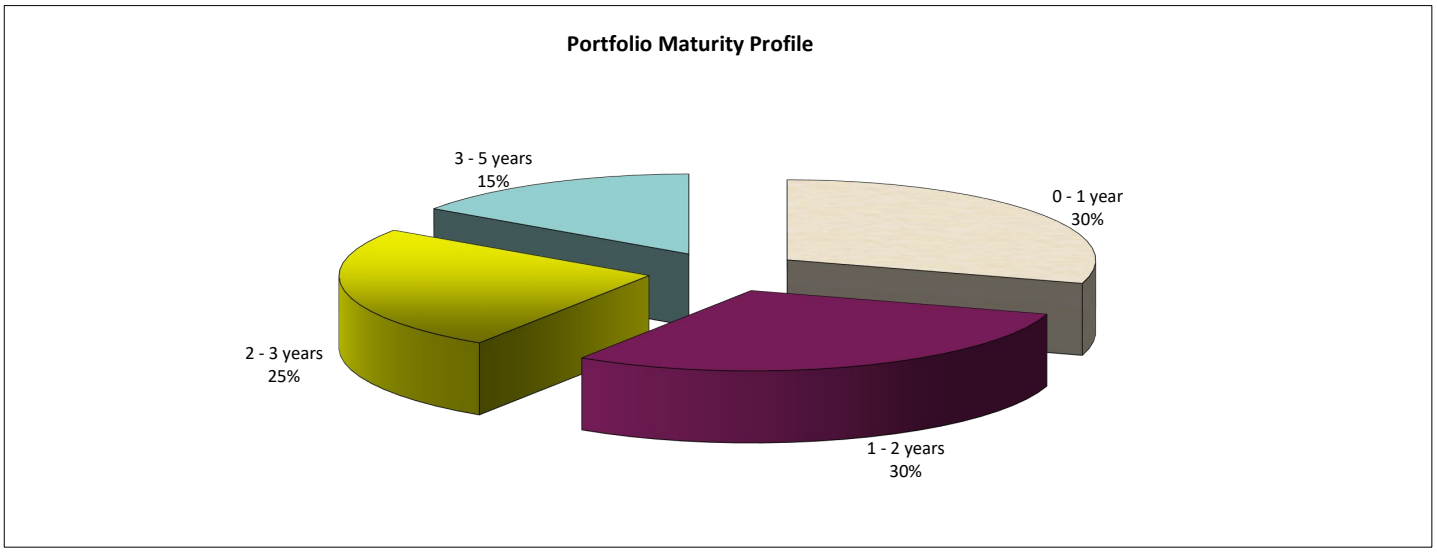
| Institution | Amortized Cost |
|---|---|
| BNY Assets | $46,636,111.54 |
| BNY MM | 179,619.69 |
| LAIF | 6,941,939.56 |
| Totals: | $53,757,670.79 |

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**Town of Los Gatos**
**Summary Investment Information**
**November 30, 2022**

**Weighted Average YTM Portfolio Yield:** **2.03%** **Weighted Average Maturity (days)** **435**

| | This Month | Last Month | One year ago |
|---|---|---|---|
| **Portfolio Balance** | $65,273,987 | $62,569,240 | $61,676,887 |
| **Benchmarks/ References:** | | | |
| Town's Average Yield | 2.01% | 1.82% | 1.21% |
| LAIF Yield for month | 1.77% | 1.77% | 0.20% |
| 3 mo. Treasury | 4.38% | 4.09% | 0.05% |
| 6 mo. Treasury | 4.71% | 4.55% | 0.10% |
| 2 yr. Treasury | 4.31% | 4.49% | 0.52% |
| 5 yr. Treasury (most recent) | 3.74% | 4.23% | 1.15% |
| 10 Yr. Treasury | 3.61% | 4.05% | 1.45% |

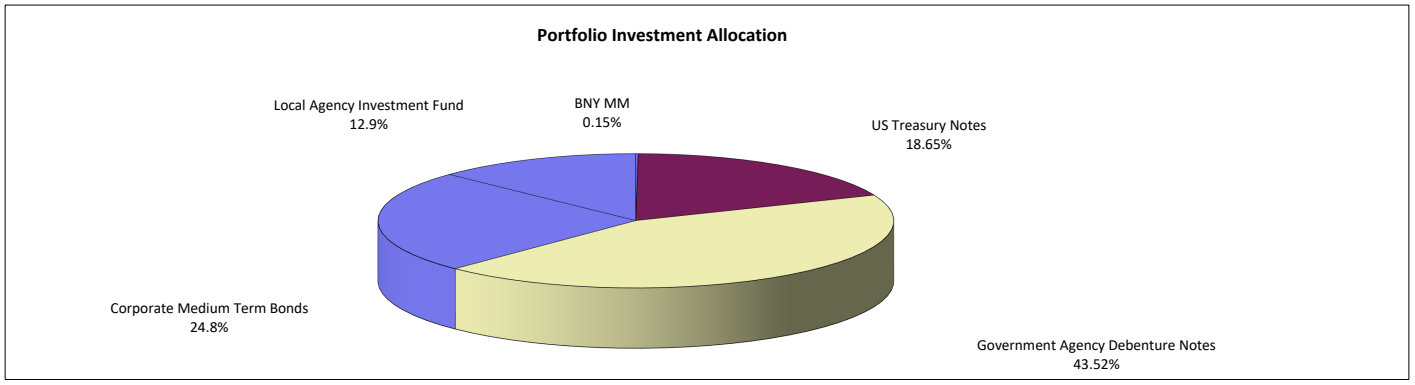


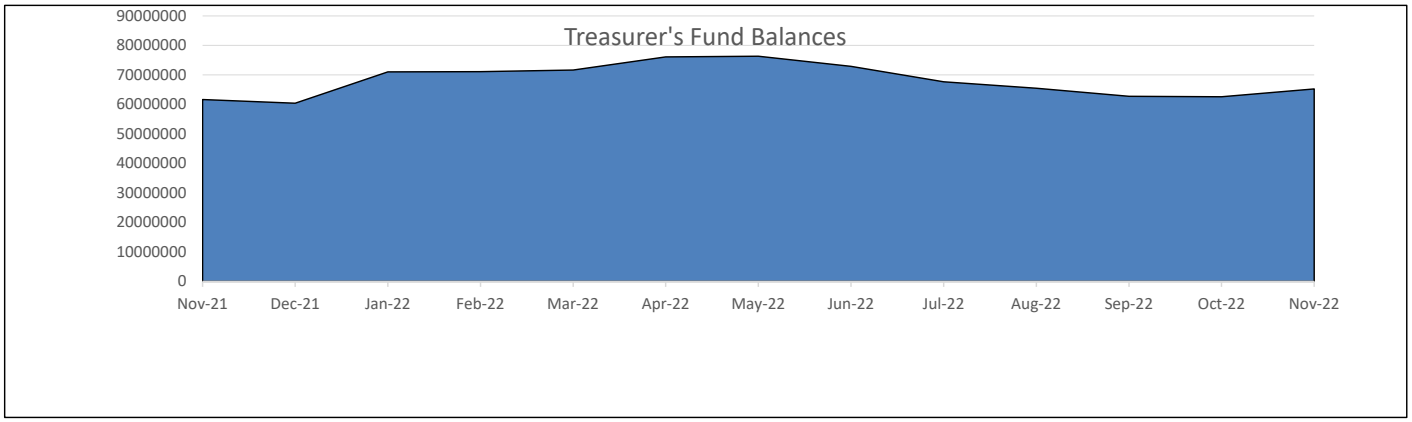

**Compliance:** The Town's investments are in compliance with the Town's investment policy dated September 21, 2021 and also in compliance with the requirements of Section 53601 of the California State Code. Based on the information available, the Town has sufficient funds to meet the cash demands for the next six months.

**Town of Los Gatos**
**Portfolio Allocation & Treasurer's Fund Balances**
**November 30, 2022**

| | Month | YTD |
|---|---|---|
| Fund Balances - Beginning of Month/Period | $62,569,239.63 | $72,886,942.83 |
| Receipts | 5,801,425.93 | 20,163,060.09 |
| Disbursements | (3,096,678.62) | (27,776,015.98) |
| Fund Balances - End of Month/Period | $65,273,986.94 | $65,273,986.94 |

| Portfolio Allocation: | | % of Portfolio | Max. % 0r $ Allowed Per State Law or Policy |
|---|---|---|---|
| BNY MM | $79,480.09 | 0.15% | 20% of Town Portfolio |
| US Treasury Notes | $10,037,973.70 | 18.65% | No Max. on US Treasuries |
| Government Agency Debenture Notes | $23,416,349.00 | 43.52% | No Max. on Non-Mortgage Backed |
| Corporate Medium Term Bonds | $13,336,173.01 | 24.78% | 30% of Town Portfolio |
| Local Agency Investment Fund | $6,941,939.56 | 12.90% | $75 M per State Law |
| Subtotal - Investments | 53,811,915.36 | 100.00% | |
| Reconciled Demand Deposit Balances | 11,462,071.58 | | |
| Total Treasurer's Fund | $65,273,986.94 | | |



**Town of Los Gatos**
**Non-Treasury Restricted Fund Balances**
**November 30, 2022**

| Non-Treasury Funds: | Beginning Balance | NOV 22 Deposits Realized Gain/Adj. | NOV 22 Interest/ Earnings | NOV 22 Withdrawals | Ending Balance | |
|---|---|---|---|---|---|---|
| Cert. of Participation 2002 Series A Reserve Fund | 687,280.47 | | $ 1,399.90 | | $ 688,680.37 | **Note 1** |
| Cert. Of Participation 2010 Ser A Lease Pymt Fund | 132.53 | | 0.31 | | $ 132.84 | **Note 1** |
| Cert. of Participation 2002 Lease Payment Fund | 2,039.58 | | 3.78 | | $ 2,043.36 | **Note 1** |
| Cert. of Participation 2010 Series Reserve Fund | 1,284,490.56 | | 3,008.68 | | 1,287,499.24 | **Note 2** |
| Total Restricted Funds: | $ 1,973,943.14 | $ - | $ 4,412.67 | $ - | $ 1,978,355.81 | |
| CEPPT IRS Section 115 Trust | 643,821.47 | | 29,920.82 | 0.00 | $ 673,742.29 | |
| Grand Total COP's and CEPPT Trust | $ 2,617,764.61 | $ - | $ 34,333.49 | $ - | $ 2,652,098.10 | |

These accounts are not part of the Treasurer's fund balances reported elsewhere in this report, as they are for separate and distinct entities.

**Note 1:** The three original funds for the Certificates of Participation 2002 Series A consist of construction funds which will be expended over the next few years, reserve funds which will guarantee the payment of lease payments, and a third fund for the disbursement of lease payments and initial delivery costs.

**Note 2:** The 2010 COP Funds are all for the Library construction, reserves to guarantee lease payments, and a lease payment fund for the life of the COP issue. The COI fund was closed in September 2010.

**Note 3**: The CEPPT Section IRS Section 115 Trust was established as an irrevocable trust dedicated to accumulate resources to fund the Town's unfunded liabilities related to pension and other p

**Town of Los Gatos**
**Statement of Interest Earned**
**November 30, 2022**

Interest by Month

| | |
|---|---|
| July 2022 | $60,107.76 |
| August 2022 | 61,456.65 |
| September 2022 | 60,153.38 |
| October 2022 | 68,965.25 |
| November 2022 | 68,430.71 |
| December 2022 | |
| January 2023 | |
| February 2023 | |
| March 2023 | |
| April 20203 | |
| May 2023 | |
| June 2023 | |
| | $319,113.75 |

# Town of Los Gatos Investment Schedule November 2022

| Institution | CUSIP # | Security | Deposit Date | Par Value | Original Cost | Market Value | Purchased Interest | Maturity Date or Call Date | Yield to Maturity or Call | Interest Received to Date | Interest Earned Prior Yrs. | Interest Earned Current FY | Days to Maturity |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Treasury | 91282CAP6 | US Treasury Note | 6/30/2021 | 1,000,000.00 | 995,390.63 | 960,468.75 | | 10/15/2023 | 0.33% | $ 1,615.44 | $ 3,260.06 | $ 1,366.55 | 319 |
| Toyota Motor Credit | 89236THA6_1 | Corporate Bond | 04/12/21 | 500,000.00 | 510,580.00 | 487,892.44 | | 8/25/2023 | 0.45% | $ 9,243.75 | $ 2,780.30 | $ 958.08 | 268 |
| Toyota Motor Credit | **89236THA6** | Corporate Bond | 1/11/2022 | 1,100,000.00 | 1,107,315.00 | 1,073,363.37 | | 8/25/2023 | 0.94% | $ 9,240.00 | $ 4,812.29 | $ 4,331.06 | 268 |
| US Treasury | **91282CDD0** | US Treasury Note | 1/13/2022 | 1,100,000.00 | 1,090,675.78 | 1,056,988.28 | | 10/31/2023 | 0.85% | $ 3,281.77 | $ 4,286.54 | $ 3,903.81 | 335 |
| US Treasury | **91282CCN9** | US Treasury Note | 1/13/2022 | 1,200,000.00 | 1,188,375.00 | 1,163,859.37 | | 7/31/2023 | 0.75% | $ 823.37 | $ 4,153.18 | $ 3,782.36 | 243 |
| FFCB | 3133EKMX1 | Gov. Agency Debenture | 8/2/2019 | 1,000,000.00 | 1,014,400.00 | 970,232.63 | | 2/23/2024 | 1.90% | $ 73,775.83 | $ 55,756.94 | $ 8,025.22 | 450 |
| FFCB | 3133EMBE1 | Gov. Agency Debenture | 10/8/2020 | 1,600,000.00 | 1,598,000.00 | 1,508,219.33 | | 3/28/2024 | 0.34% | $ 9,453.34 | $ 9,279.41 | $ 2,253.57 | 484 |
| FFCB | 3133EMCQ3 | Gov. Agency Debenture | 10/16/2020 | 2,000,000.00 | 1,998,000.00 | 1,917,840.74 | | 10/13/2024 | 0.31% | $ 11,153.33 | $ 10,396.24 | $ 2,557.27 | 683 |
| BankAmerica Corp | 06051GHC6 | Corporate Bond | 10/9/2020 | 1,300,000.00 | 1,366,287.00 | 1,298,477.34 | | 12/20/2023 | 0.66% | $ 66,279.92 | $ 31,569.88 | $ 7,679.16 | 385 |
| Home Depot | 437076BM3 | Corporate Bond | 8/4/2022 | 1,000,000.00 | 991,960.00 | 957,879.31 | | 1/1/2026 | 3.04% | $ 4,750.00 | $ - | $ 10,460.04 | 1128 |
| Home Depot | 912828ZW3 | US Treasury Note | 8/9/2022 | 350,000.00 | 322,096.88 | 317,269.53 | 95.11 | 6/30/2025 | 3.16% | $ (95.11) | $ - | $ 3,256.74 | 943 |
| IBM | 459200JY8 | Corporate Bond | 3/25/2021 | 1,000,000.00 | 1,071,040.00 | 975,063.37 | | 5/15/2024 | 0.71% | $ 49,166.67 | $ 9,358.41 | $ 3,099.21 | 532 |
| US Treasury | 912828R28 | US Treasury Note | 7/2/2019 | 500,000.00 | 497,246.09 | 493,847.66 | | 4/30/2023 | 1.77% | $ 27,046.54 | $ 26,507.80 | $ 3,707.22 | 151 |
| Freddie Mac | 3137EAEN5 | Gov. Agency Debenture | 7/19/2019 | 2,000,000.00 | 2,072,358.00 | 1,977,773.54 | | 6/19/2023 | 1.79% | $ 160,416.67 | $ 107,829.55 | $ 15,318.40 | 201 |
| FFCB | 3133EKVF0 | Gov. Agency Debenture | 7/22/2019 | 1,000,000.00 | 999,630.00 | 996,621.89 | | 1/17/2023 | 1.89% | $ 55,989.58 | $ 55,482.90 | $ 7,903.99 | 48 |
| Treasury | 91282CBT7 | US Treasury Note | 9/30/2022 | 800,000.00 | 712,565.18 | 719,406.25 | | 3/31/2026 | 4.14% | $ - | $ - | $ 5,176.08 | 1217 |
| FFCB | 3133ENP95 | Gov. Agency Debenture | 9/30/2022 | 900,000.00 | 900,939.60 | 898,884.76 | | 9/30/2025 | 4.14% | $ - | $ - | $ 6,340.17 | 1035 |
| US Treasury | **91282CDA6** | Gov. Agency Debenture | 1/31/2022 | 1,100,000.00 | 1,085,222.44 | 1,059,867.18 | | 9/30/2023 | 1.07% | $ 1,820.74 | $ 4,781.92 | $ 4,877.56 | 304 |
| US Treasury | 91282CAW1 | Gov. Agency Debenture | 7/15/2021 | 1,200,000.00 | 1,199,437.50 | 1,149,656.26 | | 11/15/2023 | 0.27% | $ 4,002.72 | $ 3,107.52 | $ 1,358.43 | 350 |
| American Honda | 02665WCZ2 | Corporate Bond | 11/27/2019 | 1,000,000.00 | 1,012,410.01 | 962,210.06 | | 6/27/2024 | 2.12% | $ 72,733.34 | $ 55,189.68 | $ 8,926.03 | 575 |
| JP Morgan Chase | 46625HRS1 | Gov. Agency Debenture | 9/23/2022 | 500,000.00 | 474,660.00 | 475,651.94 | 4,355.56 | 3/15/2026 | 4.70% | $ (4,355.56) | $ - | $ 4,338.68 | 1201 |
| Honeywell Int'l. | 438516BW5 | Corporate Bond | 11/20/2019 | 1,000,000.00 | 1,014,660.00 | 963,960.61 | | 7/15/2024 | 1.64% | $ 62,483.33 | $ 51,828.99 | $ 8,320.92 | 593 |
| Caterpillar Financial Serv | 14913Q2V0 | Corporate Bond | 2/23/2021 | 1,000,000.00 | 1,077,370.00 | 974,035.65 | | 5/17/2024 | 0.44% | $ 49,400.00 | $ 6,129.72 | $ 1,906.19 | 534 |
| FNMA | 3135G0V75 | Gov. Agency Debenture | 10/17/2019 | 1,100,000.00 | 1,105,833.30 | 1,053,545.45 | | 7/2/2024 | 1.63% | $ 52,456.25 | $ 48,706.74 | $ 7,550.29 | 580 |
| US Bancorp | 91159HHV5 | Corporate Bond | 12/24/2019 | 1,000,000.00 | 1,049,040.00 | 984,049.79 | | 1/5/2024 | 2.12% | $ 88,218.75 | $ 54,380.13 | $ 9,053.49 | 401 |
| FHLB | 3133834G3 | Gov. Agency Debenture | 3/11/2021 | 1,400,000.00 | 1,460,522.00 | 1,382,160.43 | | 6/9/2023 | 0.19% | $ 37,022.22 | $ 3,664.98 | $ 1,178.03 | 191 |
| FFCB | 3133EKQA7 | Gov. Agency Debenture | 10/21/2019 | 1,000,000.00 | 1,019,780.00 | 957,952.26 | | 9/10/2024 | 1.66% | $ 60,031.11 | $ 45,130.78 | $ 7,024.42 | 650 |
| PNC Financial | 69349LAM0 | Corporate Bond | 2/7/2022 | 1,000,000.00 | 1,033,470.00 | 993,945.43 | | 6/25/2023 | 1.49% | $ 17,733.33 | $ 5,372.34 | $ 5,748.03 | 207 |
| FHLB | 3135G05X7 | Gov. Agency Debenture | 6/10/2022 | 1,200,000.00 | 1,102,952.40 | 1,083,265.30 | | 8/25/2025 | 3.04% | $ 937.50 | $ 1,902.68 | $ 14,555.48 | 999 |
| Treasury | 912828ZL7 | Gov. Agency Debenture | 4/12/2022 | 1,700,000.00 | 1,583,927.57 | 1,551,914.05 | | 4/30/2025 | 2.72% | $ 3,504.49 | $ 9,611.14 | $ 18,613.99 | 882 |
| JP Morgan Chase | 46625HJT8 | Corporate Bond | 9/23/2019 | 1,400,000.00 | 1,485,414.00 | 1,386,956.65 | | 2/1/2024 | 2.39% | $ 154,913.89 | $ 96,022.89 | $ 14,531.65 | 428 |
| American Honda | 02665WDH1 | Corporate Bond | 2/14/2020 | 600,000.00 | 603,756.00 | 592,837.25 | | 5/10/2023 | 1.75% | $ 33,995.00 | $ 25,034.14 | $ 4,417.79 | 161 |
| Treasury | 912828V23 | US Treasury Note | 11/29/2021 | 1,000,000.00 | 1,032,933.04 | 973,671.88 | | 12/31/2023 | 0.66% | $ 13,206.52 | $ 3,924.44 | $ 2,818.97 | 396 |
| Treasury | 91282CBE0_2 | Gov. Agency Debenture | 10/7/2021 | 1,000,000.00 | 994,768.98 | 950,742.19 | | 1/15/2024 | 0.36% | $ 964.67 | $ 2,587.41 | $ 1,488.24 | 411 |
| FHLB | 3130ALH98 | Gov. Agency Debenture | 2/26/2021 | 1,000,000.00 | 997,610.00 | 943,234.98 | | 2/26/2024 | 0.33% | $ 3,750.00 | $ 4,416.63 | $ 1,381.89 | 453 |
| FHLB | 3130AQF65 | US Treasury Note | 11/30/2022 | 1,300,000.00 | 1,160,559.40 | 1,166,829.33 | 7,177.08 | 12/21/2026 | 4.15% | $ (7,177.08) | $ - | $ - | 1482 |
| Treasury | 912828U57 | US Treasury Note | 7/31/2019 | 1,000,000.00 | 1,011,875.00 | 974,335.94 | | 11/30/2023 | 1.84% | $ 70,833.33 | $ 54,014.24 | $ 7,759.79 | 365 |
| Treasury | 912828X70 | US Treasury Note | 12/30/2019 | 1,000,000.00 | 1,010,589.29 | 964,218.75 | | 4/30/2024 | 1.75% | $ 62,703.30 | $ 48,922.73 | $ 8,198.44 | 517 |
| Treasury | 912828XT2 | US Treasury Note | 10/31/2019 | 1,000,000.00 | 1,015,667.41 | 962,734.38 | | 5/31/2024 | 1.64% | $ 61,639.34 | $ 44,208.50 | $ 6,951.59 | 548 |
| American Honda | 02665WCQ2 | Corporate Bond | 9/14/2021 | 950,000.00 | 1,012,871.00 | 936,168.88 | | 10/10/2023 | 0.41% | $ 36,924.65 | $ 3,232.93 | $ 1,711.55 | 314 |
| FFCB | 3133EJ3Q0 | Gov. Agency Debenture | 8/28/2019 | 1,500,000.00 | 1,587,503.75 | 1,466,647.35 | | 12/21/2023 | 2.12% | $ 121,348.96 | $ 64,945.24 | $ 9,582.08 | 386 |
| Freddie Mac | 3133EKKT2 | Gov. Agency Debenture | 6/24/2019 | 1,550,000.00 | 1,573,188.00 | 1,544,142.57 | | 2/8/2023 | 1.82% | $ 117,606.25 | $ 86,008.42 | $ 11,941.28 | 70 |
| Treasury | 91282CBE0 | Gov. Agency Debenture | 9/15/2021 | 650,000.00 | 647,615.46 | 617,982.42 | | 1/15/2024 | 0.28% | $ 675.62 | $ 1,447.14 | $ 768.79 | 411 |
| Subtotal | | | | $ 46,500,000.00 | $ 46,790,495.71 | $ 44,846,805.54 | $ 11,627.75 | | | $ 1,599,513.77 | $ 1,050,044.83 | $ 255,122.55 | |
| BNY MM | | Money Market | | | 79,480.09 | 79,480.09 | | | 0.00% | | | | 1 |
| LAIF | | State Investment Pool | | | 6,941,939.56 | 6,941,939.56 | | | 2.01% | | | 45,402.09 | 1 |
| | | | | | **$53,811,915.36** | **$51,868,225.19** | | | | $ 1,599,513.77 | $ 1,050,044.83 | $ 300,524.64 | |
| Matured Assets | | | | | | | | | | | | | |
| IBM | 459200HG9 | Corporate Bond | 8/8/2019 | 1,000,000.00 | 995,010.00 | | | 8/1/2022 | 2.05% | $ 55,885.42 | $ 59,141.32 | $ 1,790.47 | |
| JP Morgan Chase | 46625HJE1 | Gov. Agency Debenture | 2/11/2020 | 900,000.00 | 934,587.00 | | | 9/23/2022 | 1.74% | $ 76,537.50 | $ 38,210.60 | $ 3,733.22 | |
| Treasury | 912828L57 | US Treasury Note | 7/22/2019 | 1,200,000.00 | 1,197,988.40 | | | 9/30/2022 | 2.09% | $ 67,016.39 | $ 63,644.66 | $ 5,451.87 | |
| Treasury | 912828M80 | US Treasury Note | 7/22/2019 | 1,000,000.00 | 1,006,175.23 | | | 11/30/2022 | 1.81% | $ 67,158.47 | $ 53,444.10 | $ 7,613.55 | |

Total Investments "Matured" $ 18,589.10

Total Interest FY 22_23 Matured and Current $ 319,113.75

**Maturity Profile**

| | Amount |
|---|---|
| 0-1 year | $24,463,332.09 |
| 1-2 years | $22,098,922.24 |
| 2-3 years | $3,909,916.45 |
| 3-5 years | $ 3,339,744.58 |
| | $53,811,915.36 |

**Market to Cost Position Report**

| Institution | Amortized Cost |
|---|---|
| BNY Assets | $46,790,495.71 |
| BNY MM | 79,480.09 |
| LAIF | 6,941,939.56 |
| Totals: | $53,811,915.36 |

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**TOWN OF LOS GATOS**

**FINANCE COMMISSION REPORT**

MEETING DATE: 01/10/2023

ITEM NO: 2

ADDENDUM

DATE: January 9, 2023

TO: Finance Commission

FROM: Laurel Prevetti, Town Manager

SUBJECT: Receive Monthly Investment Reports for October and November 2022

REMARKS:

A commissioner requested documents be distributed to the Commission prior to the meeting. Attachment 3 contains the emails and documents.

Attachment previously received with the Staff Report:

1. Monthly Investment Report for October 2022
2. Monthly Investment Report for November 2022

Attachment received with this Addendum:

3. Commissioner Emails and Documents

PREPARED BY: Gitta Ungvari
Finance Director

Reviewed by: Town Manager, Town Attorney, and Assistant Town Manager

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**From:** Phil Koen
**To:** Arn Andrews; Ron Dickel
**Cc:** Laurel Prevetti
**Subject:** Treasurer_Report_for_October_2022.pdf
**Date:** Saturday, January 7, 2023 8:44:15 AM
**Attachments:** Treasurer_Report_for_October_2022.pdf

EXTERNAL SENDER

Hello Arn and Ron,

Could you please distribute the attached City of Saratoga Treasurer's Report to the FC to discuss during agenda item #2 and #7.

Also I would like to pull agenda item #2 from the consent items because I have a number of questions I would like to ask/discuss.

Thank you.

Phil Koen

# SARATOGA CITY COUNCIL

**MEETING DATE:** December 7, 2022

**DEPARTMENT:** Administrative Services

**PREPARED BY:** Ann Xu, Accountant
Agnes Pabis, Finance Manager

**SUBJECT: Treasurer's Report for the Month Ended October 31, 2022**

## RECOMMENDED ACTION:

Review and accept the Treasurer's Report for the month ended October 31, 2022.

## BACKGROUND:

California government code section 41004 requires that the City Treasurer submits to the City Clerk and the legislative body a written report and accounting of all receipts, disbursements, and fund balances. The Municipal Code of the City of Saratoga, Article 2-20, Section 2-20.035 designates the City Manager as the City Treasurer. This report is prepared to fulfill this requirement.

The following attachments provide various financial transaction data for the City of Saratoga's Funds collectively as well as specifically for the City's General (Operating) Fund, including an attachment from the State Treasurer's Office of Quarterly LAIF rates from the 1st Quarter of 1977 to the present.

## FISCAL STATEMENT:

***Cash and Investments Balance by Fund***

As of October 31, 2022, the City's unaudited cash and investments totaled $34,998,784. The City Council's adopted policy on the Working Capital Reserve Fund states that effective July 1, 2016: for cash flow purposes and to avoid the occurrence of dry period financing, pooled cash from all funds should not be allowed to fall below $1,000,000. The total pooled cash balance of $34.9 million exceeds the minimum amount required.

**Cash Summary**

| | | |
|---|---|---|
| Comerica Bank | $ | 2,366,778 |
| Deposit with LAIF | $ | 32,632,006 |
| **Total Cash** | **$** | **34,998,784** |

***City's Current Financial Position***

In accordance with California government code section 53646 (b) (3), the City is financially well positioned and able to meet its estimated expenditure requirements for the next six months. As of October 31, 2022, the City's financial position (Assets $35.2M, Liabilities $4.9M, and Fund Equity $30.3M) remains very strong and there are no issues in meeting financial obligations now or in the foreseeable future.

The following Fund Balance schedule represents actual funding available for all funds at the end of the monthly period. This amount differs from the above Cash Summary schedule as assets and liabilities are components of the fund balance. As illustrated in the summary below, *Total Cash* is adjusted by the addition of *Total Assets* less the amount of *Total Liabilities* to arrive at the *Ending Fund Balance* – which represents the actual amount of funds available.

**Adjusting Cash to Ending Fund Balance**

| | | |
|---|---|---|
| Total Cash | $ | 34,998,784 |
| Plus: Assets | | 177,614 |
| Less: Liabilities | | (4,876,570) |
| **Ending Fund Balance** | **$** | **30,299,828** |

**ATTACHMENTS:**

Table 1 – Change in Total Fund Balances by Fund
Table 2 – Change in Total Fund Balances by CIP Project
Chart 1 – Change in Investment Pool Balance by Month
Chart 2 – Local Agency Investment Fund (LAIF) Quarterly Apportionment Rates

# TABLE 1: CHANGES IN TOTAL FUND BALANCE

| Fund Description | Prior Year Carryforward 7/1/2022 | Increase/ (Decrease) Jul - Sep | Current Revenue | Current Expenditure | Transfer In | Transfer Out | Fund Balance 10/31/2022 | |
|---|---|---|---|---|---|---|---|---|
| **General Fund** | | | | | | | | |
| Committed Fund Balances: | | | | | | | | |
| Hillside Stability Reserve | 1,000,000 | - | - | - | - | - | 1,000,000 | |
| Assigned Fund Balances: | | | | | | | | |
| Future Capital Replacement & Efficiency Project Reserve | 3,509,000 | - | - | - | - | - | 3,509,000 | |
| Carryforwards Reserve | 20,000 | - | - | - | - | - | 20,000 | |
| Facility Reserve | 3,700,000 | - | - | - | - | - | 3,700,000 | |
| Unassigned Fund Balances: | | | | | | | | |
| Working Capital Reserve | 1,000,000 | - | - | - | - | - | 1,000,000 | |
| Fiscal Stabilization Reserve | 3,250,000 | - | - | - | - | - | 3,250,000 | |
| Compensated Absences Reserve | 330,000 | - | - | - | - | - | 330,000 | |
| Other Unassigned Fund Balance Reserve (Pre YE distribution) | 2,601,458 | (3,928,371) | 1,162,030 | (1,551,359) | - | | (1,716,242) | * |
| **General Fund Total** | 15,410,458 | (3,928,371) | 1,162,030 | (1,551,359) | - | - | 11,092,758 | |
| **Special Revenue** | | | | | | | | |
| Landscape/Lighting Districts | 977,231 | (57,805) | 847 | (17,579) | - | - | 902,694 | |
| ARPA Federal Grants | 7,127,589 | - | - | - | - | - | 7,127,589 | |
| **Special Revenue Fund Total** | 8,104,820 | (57,805) | 847 | (17,579) | - | - | 8,030,283 | |
| **Debt Service** | | | | | | | | |
| Library Bond | 805,311 | (710,933) | 2,754 | - | - | - | 97,132 | |
| Arrowhead Bond | 124,402 | (69,541) | - | (767) | - | - | 54,094 | |
| **Debt Service Fund Total** | 929,714 | (780,474) | 2,754 | (767) | - | - | 151,226 | |
| **Internal Service Fund** | | | | | | | | |
| Liability/Risk Management | 641,403 | (588,061) | - | (11,324) | - | - | 42,018 | |
| Workers Compensation | 232,829 | (226) | 1,535 | (55,007) | - | - | 179,130 | |
| Office Support Fund | 155,443 | 4,072 | 615 | (1,473) | - | - | 158,658 | |
| Information Technology Services | 661,159 | (6,254) | 797 | (50,198) | - | - | 605,505 | |
| Vehicle & Equipment Maintenance | 278,317 | 17,846 | - | (23,027) | - | - | 273,136 | |
| Building Maintenance | 764,302 | 30,844 | - | (62,168) | - | - | 732,977 | |
| Vehicle & Equipment Replacement | 905,217 | 24,738 | - | - | - | - | 929,954 | |
| Technology Replacement | 798,337 | 37,263 | - | - | - | - | 835,600 | |
| Facility FFE Replacement | 941,400 | 46,334 | - | - | - | - | 987,735 | |
| **Internal Service Fund Total** | 5,378,407 | (433,444) | 2,947 | (203,197) | - | - | 4,744,713 | |
| **Trust/Agency** | | | | | | | | |
| WVCWP Agency Fund | 558,655 | 197,263 | - | (47,148) | - | - | 708,769 | |
| **Trust/Agency Fund Total** | 558,655 | 197,263 | - | (47,148) | - | - | 708,769 | |
| **Capital Project** | | | | | | | | |
| Street Projects | 3,381,066 | (432,231) | 132,561 | (86,642) | - | - | 2,994,755 | |
| Park and Trail Projects | 849,562 | (1,824) | - | (16,720) | - | - | 831,019 | |
| Facility Projects | 623,475 | (155,704) | 5,029 | (2,098) | - | - | 470,702 | |
| Administrative Projects | 1,429,921 | (50,295) | 5,226 | (14,050) | - | - | 1,370,802 | |
| Tree Fund Projects | 52,541 | - | - | - | - | - | 52,541 | |
| Park In-Lieu Projects | 1,172,555 | 30,098 | - | (62,663) | - | - | 1,139,991 | |
| CIP Grant Street Projects | (46,912) | (2,131) | - | (12,228) | - | - | (61,271) | * |
| CIP Grant Park & Trail Projects | - | 100,000 | - | (196,841) | - | - | (96,841) | * |
| CIP Grant Administrative Projects | (164,574) | - | - | - | - | - | (164,574) | * |
| CIP Grant ARPR/SLFRF Projects | - | (142,725) | - | (182,105) | - | - | (324,830) | * |
| Gas Tax Fund Projects | 247,731 | 258,409 | 127,538 | (1,273,891) | - | - | (640,213) | * |
| **CIP Fund Total** | 7,545,366 | (396,402) | 270,354 | (1,847,238) | - | - | 5,572,079 | |
| **Total City** | **37,927,419** | **(5,399,234)** | **1,438,931** | **(3,667,288)** | **-** | **-** | **30,299,828** | |

*Negative fund balance due to authorized spending of anticipated revenues

# TABLE 2: FUND BALANCES BY CIP PROJECT

| CIP Funds/Projects | Prior Year Carryforward 7/1/2022 | Increase/ (Decrease) Jul - Sep | Current Revenue | Current Expenditure | Transfer In | Transfer Out | Fund Balance 10/31/2022 | |
|---|---|---|---|---|---|---|---|---|
| **Street Projects** | | | | | | | | |
| Annual Road Improvements | 1,009,556 | (137,971) | 132,561 | (37,196) | - | - | 966,951 | |
| Roadway Safety & Traffic Calming | 147,118 | - | - | - | - | - | 147,118 | |
| Citywide Traffic Signal Battery Backup | 266,315 | - | - | - | - | - | 266,315 | |
| Portable Radar Feedback Sign | 1,548 | - | - | - | - | - | 1,548 | |
| Local Roadway Safety Plan | 3,410 | (237) | - | (126) | - | - | 3,047 | |
| Prospect/Saratoga Median Improvement | 309,379 | - | - | - | - | - | 309,379 | |
| Village Clock | 8,626 | (6,066) | - | - | - | - | 2,560 | |
| Big Basin Way/Blaney Trash Can Replacement | 50,802 | - | - | - | - | - | 50,802 | |
| Annual Infrastructure Maintenance & Repairs | 41,431 | (13,705) | - | - | - | - | 27,726 | |
| Guava Court Curb & Gutter Replacement | 280,000 | - | - | - | - | - | 280,000 | |
| El Camino Grande Storm Drain Pump | 104 | - | - | - | - | - | 104 | |
| Saratoga Village Crosswalk & Sidewalk Rehabilitation | 49,055 | (1,052) | - | - | - | - | 48,004 | |
| Quito Road Sidewalk Improvements | 43,370 | - | - | - | - | - | 43,370 | |
| Saratoga/Sunnyvale Road Sidewalk | 92,158 | - | - | - | - | - | 92,158 | |
| Quito Road Sidewalk Rehabilitation and Gap Closure | 182,609 | - | - | - | - | - | 182,609 | |
| Fourth Street Bridge Widening | 99,837 | - | - | (1,438) | - | - | 98,399 | |
| Quito Road Bridge Replacement | 132,197 | - | - | (162) | - | - | 132,035 | |
| Quito Road Bridge - ROW Acquisition | 3,662 | - | - | - | - | - | 3,662 | |
| Annual Retaining Wall Maintenance & Repairs | 222,450 | 3,209 | - | (333) | - | - | 225,327 | |
| Mt. Eden Erosion Repair | 59,622 | (3,209) | - | - | - | - | 56,412 | |
| Continental Circle Landslide Stabilization | 57,447 | - | - | - | - | - | 57,447 | |
| Pierce Road Retainment | 300,290 | (273,200) | - | (47,389) | - | - | (20,299) | * |
| Mt. Eden Emergency Landslide | 20,080 | - | - | - | - | - | 20,080 | |
| **Total Street Projects** | 3,381,066 | (432,231) | 132,561 | (86,642) | - | - | 2,994,755 | |
| **Parks & Trails Projects** | | | | | | | | |
| Park/Trail Repairs | 32,873 | - | - | - | - | - | 32,873 | |
| Hakone Gardens Infrastructure Improvements | 16,599 | - | - | - | - | - | 16,599 | |
| Hakone Pond Reconstruction | 300,000 | - | - | - | - | - | 300,000 | |
| Beauchamps Park Playground Replacement | 35,131 | - | - | (11,418) | - | - | 23,713 | |
| Guava/Fredericksburg Entrance | 235,970 | (1,824) | - | (5,302) | - | - | 228,844 | |
| Saratoga Village to Quarry Park Walkway - Design | 228,989 | - | - | - | - | - | 228,989 | |
| **Total Parks & Trails Projects** | 849,562 | (1,824) | - | (16,720) | - | - | 831,019 | |
| **Facility Projects** | | | | | | | | |
| Open Work Space | 80,000 | - | - | - | - | - | 80,000 | |
| Civic Theater Improvements | - | 4,458 | 5,029 | - | - | - | 9,486 | |
| PEG Funded Project | 113,650 | - | - | - | - | - | 113,650 | |
| Community Center Improvement | 24,513 | (3,351) | - | - | - | - | 21,162 | |
| Community Center Generator and EV Charging Stations | 395,312 | (156,811) | - | (2,098) | - | - | 236,404 | |
| Library Building Exterior Maintenance | 10,000 | - | - | - | - | - | 10,000 | |
| **Total Facility Projects** | 623,475 | (155,704) | 5,029 | (2,098) | - | - | 470,702 | |
| **Administrative and Technology Projects** | | | | | | | | |
| Safe Routes to School | - | (1,245) | - | - | - | - | (1,245) | * |
| City Website/Intranet | 16,948 | - | - | - | - | - | 16,948 | |
| Development Technology | 20,538 | 552 | 13 | (9,455) | - | - | 11,648 | |
| Software Technology Management | 118,695 | 20,916 | 5,213 | - | - | - | 144,824 | |
| LLD Initiation Match Program | 25,000 | - | - | - | - | - | 25,000 | |
| Horseshoe Beautification | 13,295 | (290) | - | - | - | - | 13,005 | |
| Business Renewal Program | 6,643 | - | - | (2,345) | - | - | 4,298 | |
| Citywide Accessibility Assessment | 28,066 | - | - | - | - | - | 28,066 | |
| City Art Program | 53,669 | - | - | - | - | - | 53,669 | |
| Safe Routes to School Needs Assessment | 15,748 | - | - | - | - | - | 15,748 | |
| El Quito Neighborhood Improvements | 284,507 | - | - | - | - | - | 284,507 | |
| Parking District ADA Improvements and Rehabilitation | 250,000 | - | - | - | - | - | 250,000 | |
| Storm Drain Master Plan | 300,000 | - | - | - | - | - | 300,000 | |
| ADA Self Assessment | - | - | - | (2,250) | - | - | (2,250) | * |
| General Plan Update | 238,592 | (70,228) | - | - | - | - | 168,364 | |
| Wildfire Mitigation Program | 4,067 | - | - | - | - | - | 4,067 | |
| Risk Management Project Funding | 54,153 | - | - | - | - | - | 54,153 | |
| **Total Administrative and Technology Projects** | 1,429,921 | (50,295) | 5,226 | (14,050) | - | - | 1,370,802 | |

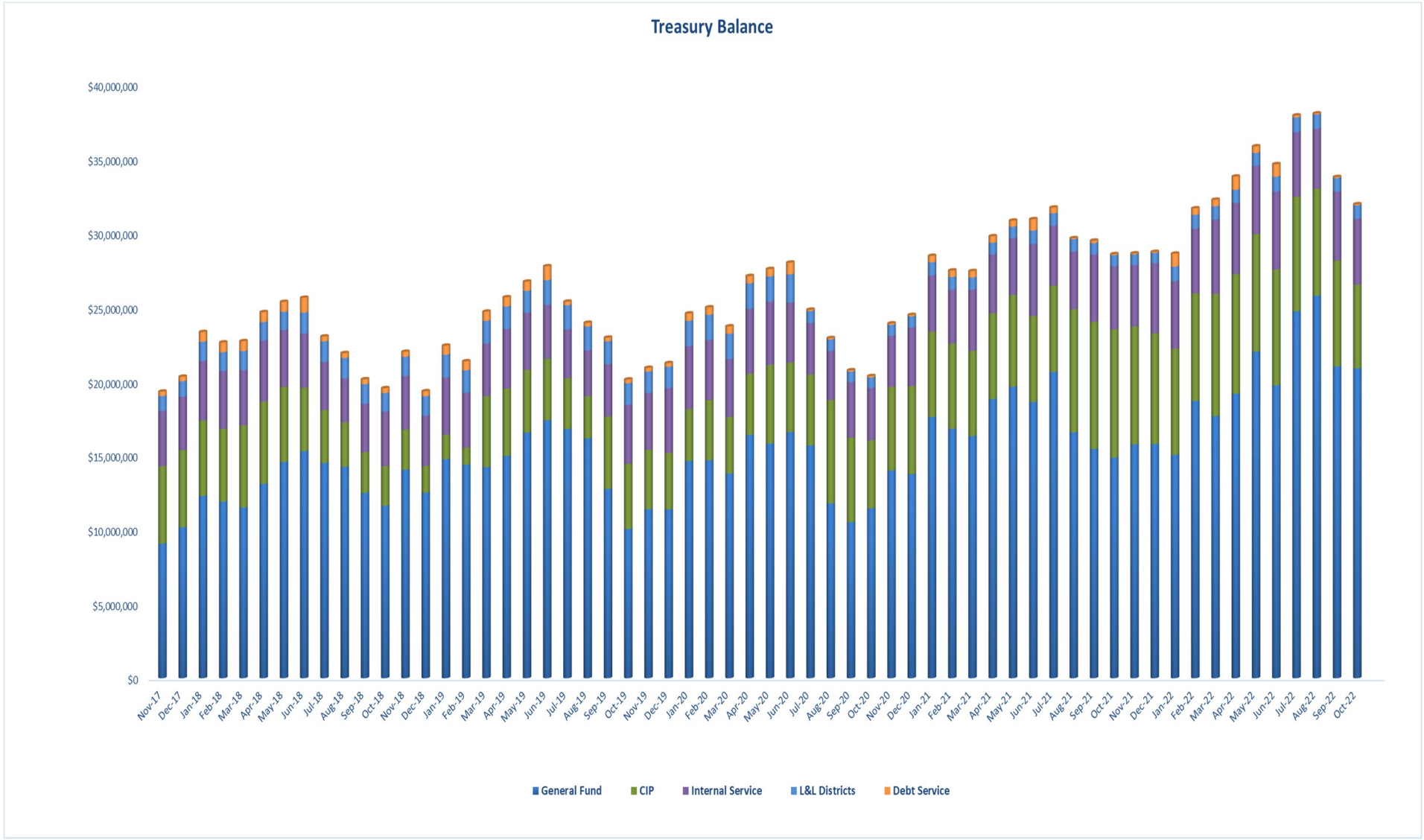
*Negative fund balance due to authorized spending of anticipated revenues

# TABLE 2 (cont.): FUND BALANCES BY CIP PROJECT

| CIP Funds/Projects | Prior Year Carryforward 7/1/2022 | Increase/ (Decrease) Jul - Sep | Current Revenue | Current Expenditure | Transfer In | Transfer Out | Fund Balance 10/31/2022 | |
|---|---|---|---|---|---|---|---|---|
| **Tree Fund Projects** | | | | | | | | |
| Citywide Tree Planting Program | 26,666 | - | - | - | - | - | 26,666 | |
| Tree Dedication Program | 25,875 | - | - | - | - | - | 25,875 | |
| **Total Tree Fund Projects** | 52,541 | - | - | - | - | - | 52,541 | |
| **Park In-Lieu Projects** | | | | | | | | |
| Orchard Irrigation & Tree Planting | 10,947 | - | - | - | - | - | 10,947 | |
| Hakone Gardens Infrastructure | 82,420 | - | - | - | - | - | 82,420 | |
| Trail Pet Stations | 25,000 | - | - | - | - | - | 25,000 | |
| Saratoga Village to Quarry Park Walkway - Design | 73,810 | - | - | - | - | - | 73,810 | |
| Unallocated Park In-Lieu Funds | 970,299 | 31,343 | - | - | - | - | 1,001,642 | |
| **Total Park In-Lieu Projects** | 1,172,555 | 30,098 | - | (62,663) | - | - | 1,139,991 | |
| **CIP Grant Street Projects** | | | | | | | | |
| Local Roadway Safety Plan | (1,619) | (2,131) | - | (1,132) | - | - | (4,882) | * |
| Prospect/Saratoga Median Improvement | (19,217) | - | - | - | - | - | (19,217) | * |
| Citywide Signal Upgrade II | 18 | - | - | - | - | - | 18 | |
| Saratoga Ave Sidewalk | (34,146) | - | - | - | - | - | (34,146) | * |
| Village Sidewalk, Curb & Gutter - Phase II Construction | (91) | - | - | - | - | - | (91) | * |
| Saratoga Village Crosswalk & Sidewalk Rehabilitation | (834) | - | - | - | - | - | (834) | * |
| 4th Street Bridge | - | - | - | (11,096) | - | - | (11,096) | * |
| Quito Bridge Replacement | 18,597 | - | - | - | - | - | 18,597 | |
| Quito Road Bridges - ROW Acquisition | (9,619) | - | - | - | - | - | (9,619) | * |
| **Total CIP Grant Street Projects** | (46,912) | (2,131) | - | (12,228) | - | - | (61,271) | |
| **CIP Grant Park & Trail Projects** | | | | | | | | |
| Beauchamps Park Playground | - | - | - | (196,841) | - | - | (196,841) | * |
| Park and Trail Fire Mitigation | - | 100,000 | - | - | - | - | 100,000 | |
| **Total CIP Grant Park & Trail Projects** | - | 100,000 | - | (196,841) | - | - | (96,841) | |
| **CIP Grant Administrative Projects** | | | | | | | | |
| CDD Software/ADA | (14,574) | - | - | - | - | - | (14,574) | * |
| General Plan Update (LEAP) | (150,000) | - | - | - | - | - | (150,000) | * |
| **Total CIP Grant Administrative Projects** | (164,574) | - | - | - | - | - | (164,574) | |
| **CIP Grant ARPA/SLFRF Projects** | | | | | | | | |
| Storm Water Master Plan | - | (88,055) | - | (139,398) | - | - | (227,453) | * |
| Saratoga Village Water Improvement | - | (54,670) | - | (42,707) | - | - | (97,377) | * |
| **Total CIP Grant ARPA/SLFRF Projects** | - | (142,725) | - | (182,105) | - | - | (324,830) | |
| **Gas Tax Fund Projects** | | | | | | | | |
| Annual Roadway Improvements | 194,170 | 258,409 | 127,538 | (1,273,891) | - | - | (693,774) | * |
| Prospect/Saratoga Median Improvements | 48,278 | - | - | - | - | - | 48,278 | |
| Big Basin Way Sidewalk Repairs | (1,802) | - | - | - | - | - | (1,802) | * |
| Quito Road Bridges | 7,085 | - | - | - | - | - | 7,085 | |
| **Total Gas Tax Fund Projects** | 247,731 | 258,409 | 127,538 | (1,273,891) | - | - | (640,213) | |
| **Total CIP Funds** | **7,545,366** | **(396,402)** | **270,354** | **(1,847,238)** | **-** | **-** | **5,572,079** | |

*Negative fund balance due to authorized spending of anticipated revenues

## CHART 1: CHANGE IN INVESTMENT POOL BALANCE BY MONTH



# CHART 2

## Local Agency Investment Fund
## Quarterly Apportionment Rates

| | March | June | September | December |
|---|---|---|---|---|
| **1977** | 5.68 | 5.78 | 5.84 | 6.45 |
| **1978** | 6.97 | 7.35 | 7.86 | 8.32 |
| **1979** | 8.81 | 9.10 | 9.26 | 10.06 |
| **1980** | 11.11 | 11.54 | 10.01 | 10.47 |
| **1981** | 11.23 | 11.68 | 12.40 | 11.91 |
| **1982** | 11.82 | 11.99 | 11.74 | 10.71 |
| **1983** | 9.87 | 9.64 | 10.04 | 10.18 |
| **1984** | 10.32 | 10.88 | 11.53 | 11.41 |
| **1985** | 10.32 | 9.98 | 9.54 | 9.43 |
| **1986** | 9.09 | 8.39 | 7.81 | 7.48 |
| **1987** | 7.24 | 7.21 | 7.54 | 7.97 |
| **1988** | 8.01 | 7.87 | 8.20 | 8.45 |
| **1989** | 8.76 | 9.13 | 8.87 | 8.68 |
| **1990** | 8.52 | 8.50 | 8.39 | 8.27 |
| **1991** | 7.97 | 7.38 | 7.00 | 6.52 |
| **1992** | 5.87 | 5.45 | 4.97 | 4.67 |
| **1993** | 4.64 | 4.51 | 4.44 | 4.36 |
| **1994** | 4.25 | 4.45 | 4.96 | 5.37 |
| **1995** | 5.76 | 5.98 | 5.89 | 5.76 |
| **1996** | 5.62 | 5.52 | 5.57 | 5.58 |
| **1997** | 5.56 | 5.63 | 5.68 | 5.71 |
| **1998** | 5.70 | 5.66 | 5.64 | 5.46 |
| **1999** | 5.19 | 5.08 | 5.21 | 5.49 |
| **2000** | 5.80 | 6.18 | 6.47 | 6.52 |
| **2001** | 6.16 | 5.32 | 4.47 | 3.52 |
| **2002** | 2.96 | 2.75 | 2.63 | 2.31 |
| **2003** | 1.98 | 1.77 | 1.63 | 1.56 |
| **2004** | 1.47 | 1.44 | 1.67 | 2.00 |
| **2005** | 2.38 | 2.85 | 3.18 | 3.63 |
| **2006** | 4.03 | 4.53 | 4.93 | 5.11 |
| **2007** | 5.17 | 5.23 | 5.24 | 4.96 |
| **2008** | 4.18 | 3.11 | 2.77 | 2.54 |
| **2009** | 1.91 | 1.51 | 0.90 | 0.60 |
| **2010** | 0.56 | 0.56 | 0.51 | 0.46 |
| **2011** | 0.51 | 0.48 | 0.38 | 0.38 |
| **2012** | 0.38 | 0.36 | 0.35 | 0.32 |
| **2013** | 0.28 | 0.24 | 0.26 | 0.26 |
| **2014** | 0.24 | 0.22 | 0.24 | 0.25 |
| **2015** | 0.26 | 0.28 | 0.32 | 0.37 |
| **2016** | 0.46 | 0.55 | 0.60 | 0.68 |
| **2017** | 0.78 | 0.92 | 1.07 | 1.20 |
| **2018** | 1.51 | 1.90 | 2.16 | 2.40 |
| **2019** | 2.55 | 2.57 | 2.45 | 2.29 |
| **2020** | 2.03 | 1.36 | 0.84 | 0.63 |
| **2021** | 0.44 | 0.33 | 0.24 | 0.23 |
| **2022** | 0.32 | 0.75 | 1.35 | |

**From:** Phil Koen
**To:** Arn Andrews; Ron Dickel
**Cc:** Laurel Prevetti
**Subject:** Pages from FY-202122-ACFR - (2)(1).pdf
**Date:** Saturday, January 7, 2023 10:19:38 AM
**Attachments:** Pages from FY-202122-ACFR - (2)(1).pdf

EXTERNAL SENDER

Hello Arn and Ron,

Could you please include the attached in the FC packet to be discussed during agenda item #2.

Thank you,

Phil Koen

# TOWN OF LOS GATOS, CALIFORNIA
# GOVERNMENTAL FUNDS
# BALANCE SHEET
# JUNE 30, 2022

| | General | Appropriated Reserves | Other Nonmajor Governmental Funds | Total Governmental Funds |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Cash & investments | $ 33,524,572 | $ 17,435,006 | $ 9,419,042 | $ 60,378,620 |
| Restricted cash & investments | 690,000 | - | - | 690,000 |
| Receivables: | | | | |
| Accounts | 1,813,336 | 396,644 | 63,244 | 2,273,224 |
| Interest | 193,357 | - | - | 193,357 |
| Intergovernmental | 1,938,789 | 47 | 237,941 | 2,176,777 |
| Other assets | 136,908 | - | - | 136,908 |
| Lease receivable | - | 331,696 | - | 331,696 |
| Long term note receivable | 1,359,000 | - | 78,752 | 1,437,752 |
| **Total Assets** | $ 39,655,962 | $ 18,163,393 | $ 9,798,979 | $ 67,618,334 |
| **LIABILITIES** | | | | |
| Accounts payable | $ 1,453,060 | $ 982,744 | $ 4,450 | $ 2,440,254 |
| Accrued payroll and benefits | 1,109,010 | - | 5,096 | 1,114,106 |
| Due to other governments | 62,712 | 100,000 | 42 | 162,754 |
| Unearned revenue | 3,240,516 | 2,007,096 | 64,795 | 5,312,407 |
| Deposits | 6,893,875 | - | - | 6,893,875 |
| **Total Liabilities** | 12,759,173 | 3,089,840 | 74,383 | 15,923,396 |
| **DEFERRED INFLOWS OF RESOURCES** | | | | |
| Leases | - | 327,100 | - | 327,100 |
| Unavailable revenue | - | 505,700 | - | 505,700 |
| **Total Deferred Inflows of Resources** | - | 832,800 | - | 832,800 |
| **FUND BALANCE** | | | | |
| Nonspendable: | | | | |
| Loans receivable | 159,000 | - | - | 159,000 |
| Restricted for: | | | | |
| Library | - | - | 555,253 | 555,253 |
| Capital projects | - | - | 8,357,393 | 8,357,393 |
| Repairs and maintenance | - | - | 174,239 | 174,239 |
| Pensions | 690,000 | - | - | 690,000 |
| VTA | - | 296,598 | - | 296,598 |
| Committed to: | | | | |
| Budget stabilization | 5,991,566 | - | - | 5,991,566 |
| Catastrophic | 5,991,566 | - | - | 5,991,566 |
| Pensions/OPEB | 300,000 | - | - | 300,000 |
| Special revenue funds | - | - | 637,711 | 637,711 |
| Assigned to: | | | | |
| Open Space | 410,000 | 152,000 | - | 562,000 |
| Parking | - | 100,000 | - | 100,000 |
| Sustainability | 140,553 | - | - | 140,553 |
| Capital/Special projects | 11,071,231 | 13,642,155 | - | 24,713,386 |
| Carryover encumbrances | 33,145 | - | - | 33,145 |
| Comcast PEG | - | 50,000 | - | 50,000 |
| Compensated Absences | 1,519,147 | - | - | 1,519,147 |
| Measure G 2018 district sales tax | 590,581 | - | - | 590,581 |
| **Total Fund Balances** | 26,896,789 | 14,240,753 | 9,724,596 | 50,862,138 |
| **Total Liabilities, Deferred Inflows of Resources and Fund Balances** | $ 39,655,962 | $ 18,163,393 | $ 9,798,979 | $ 67,618,334 |

*The notes to the financial statements are an integral part of this statement.*

**TOWN OF LOS GATOS**

**FINANCE COMMISSION REPORT**

MEETING DATE: 2/13/2023

ITEM NO: 3

DATE: February 6, 2023

TO: Finance Commission

FROM: Laurel Prevetti, Town Manager

SUBJECT: Review and Recommend to the Town Council Changes to the Town's Investment Policy

RECOMMENDATION:

Review and recommend to the Town Council changes to the Town's Investment Policy.

DISCUSSION:

The Town's Investment Policy for its operating portfolio was last reviewed by the Finance Committee in January 2023 and adopted by Council in January of 2023, changing the frequency of the reporting from quarterly to monthly to comply with California Government Code Section 41004.

The Investment Policy establishes the investment scope, objectives, delegation of authority, standards of prudence, reporting requirements, internal controls, State mandated eligible investments, transactions, diversification requirements, risk tolerance, and safekeeping and custodial procedures for the investment of the operating funds of the Town. All Town funds are invested and/or will be invested in accordance with the Investment Policy and with applicable sections of the California Government Code.

At the January 10, 2023 meeting, the Finance Commission requested to further review the Investment Policy and reporting format. This item is on the agenda to facilitate additional review and recommendations.

FISCAL IMPACT:

There is no fiscal impact of reviewing and modifying the Investment Policy.

PREPARED BY: Gitta Ungvari
Finance Director

Reviewed by: Town Manager and Town Attorney

Attachment:

1. Town Investment Policy
2. Commissioner Communication

TOWN OF LOS GATOS CALIFORNIA

# COUNCIL POLICY MANUAL

*Small Town Service* *Community Stewardship* *Future Focus*

| | |
|---|---|
| **TITLE: Investment Policy** | **POLICY NUMBER: 4-02** |
| **EFFECTIVE DATE: 11/1/16** | **PAGES: 8** |
| **ENABLING ACTIONS: 2016-063** | **REVISED DATES: 5/16/17;5/15/2018; 9/3/2019; 11/03/2020, 1/17/2023** |
| **APPROVED:** | |

## PURPOSE

The Town of Los Gatos (the "Town"), incorporated in 1887, is located approximately 60 miles south of San Francisco, in the southwestern portion of Santa Clara County. The Town operates under the Council/Manager form of government. The Town Council is the legislative body for the Town. It has five members elected to serve staggered four year terms. The Town Manager is appointed by the Town Council.

The Town Council has adopted this Investment Policy in order to establish the investment scope, objectives, delegation of authority, standards of prudence, reporting requirements, internal controls, eligible investments and transactions, diversification requirements, risk tolerance, and safekeeping and custodial procedures for the investment of the funds of the Town. All Town funds will be invested in accordance with this Investment Policy and with applicable sections of the California Government Code.

This Investment Policy was originally adopted by the Town Council of the Town of Los Gatos November 1, 2016. Town Council adopted revisions replace any previous investment policy or investment procedures of the Town.

## SCOPE

This Investment Policy applies to all of the Town's short-term operating funds. These funds are described in the Town's annual financial report and include, but are not limited to:

General Fund

**Special Revenue Funds**

Capital Project Funds
Debt Service Funds
Enterprise Fund
Internal Service Funds
Fiduciary Funds

Specifically excluded from this Investment Policy are amounts which are held by a trustee or fiscal agent and pledged as payment or security for bonds or other indebtedness, obligations under a lease, or obligations under certificates of participation. Such funds are invested in accordance with statutory provisions, ordinance, resolution, or indenture governing the issuance of the obligations. In addition, this Investment Policy is not applicable to the Town's Deferred Compensation Plan. These investments are directed by each employee participant in accordance with the rules of the Deferred Compensation Plan.

## POLICY

### OBJECTIVES

The Town's funds shall be invested in accordance with all applicable Town policies and codes, State statutes, and Federal regulations, and in a manner designed to accomplish the following objectives, which are listed in priority order:

1. Preservation of capital and protection of investment principal.
2. Maintenance of sufficient liquidity to meet anticipated cash flows.
3. Attainment of a market value rate of return.
4. Diversification to avoid incurring unreasonable market risks.

### DELEGATION OF AUTHORITY

Management responsibility for the Town's investment program is delegated annually by the Town Manager to the Town Treasurer/Finance Director (the "Treasurer") pursuant to California Government Code Section 36510. The Treasurer may delegate the authority to conduct investment transactions and to manage the operation of the investment portfolio to other specifically authorized staff members. The Treasurer shall maintain a list of persons authorized to transact securities business for the Town. No person may engage in an investment transaction except as expressly provided under the terms of this Investment Policy.

The Treasurer shall develop written administrative procedures and internal controls, consistent with this Investment Policy, for the operation of the Town's investment program. Such procedures shall be designed to prevent losses arising from fraud, employee error, misrepresentation by third parties, or imprudent actions by employees.

The Town may engage the support services of outside investment advisors in regard to its investment program, so long as it can be demonstrated that these services produce a net financial advantage or necessary financial protection of the Town's financial resources.

### PRUDENCE

The standard of prudence to be used for managing the Town's investments shall be California Government Code Section 53600.3, the prudent investor standard which states, "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."

The Town's overall investment program shall be designed and managed with a degree of professionalism that is worthy of the public trust. The Town recognizes that no investment is totally without risk and that the investment activities of the Town are a matter of public record. Accordingly, the Town recognizes that occasional measured losses may occur in a diversified portfolio and shall be considered within the context of the overall portfolio's return, provided that adequate diversification has been implemented and that the sale of a security is in the best long-term interest of the Town.

The Treasurer and authorized investment personnel acting in accordance with written procedures and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided that the deviations from expectations are reported in a timely fashion to the Town Council and appropriate action is taken to control adverse developments.

## ETHICS AND CONFLICTS OF INTEREST

Elected officials and Town employees involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment program or could impair or create the appearance of an impairment of their ability to make impartial investment decisions. Elected officials and Town employees shall disclose to the Town Council any business interests they have in financial institutions that conduct business with the Town and they shall subordinate their personal investment transactions to those of the Town. In addition, the Town Manager and the Treasurer shall file a Statement of Economic Interests each year pursuant to California Government Code Section 87203 and regulations of the Fair Political Practices Commission.

## SOCIALLY RESPONSIBLE INVESTING

In addition to and subordinate to the objectives set forth above, investment of funds should be guided by the following socially responsible investment goals when investing in corporate securities and depository institutions. Investments shall be made in compliance with the responsible investment goals to the extent that such investments achieve substantially equivalent safety, liquidity and yield compared to other investments permitted by state law.

(1) Environmental, Social Responsibility and Governance Concerns
Investments are encouraged in entities that support community well-being through safe and environmentally sound practices and fair labor practices. Investments are encouraged in entities that support equality of rights regardless of sex, race, age, disability or sexual orientation. All corporate securities within the portfolio will be monitored by an independent third-party who will provide the Town with an ESG (Environmental, Social Responsibility, and Governance) rating. The Town will prefer companies when appropriate that maintain a higher ESG rating as opposed to those companies that have a lower ESG Rating.

(2) Community Investments
Investments are encouraged in entities that promote community economic development, and investments are discouraged in entities that finance high-cost check-cashing and deferred deposit (payday-lending) businesses. Investments are encouraged in entities that have a demonstrated involvement in the development or rehabilitation of low-income affordable housing and have a demonstrated commitment to reducing predatory mortgage lending and increasing the responsible servicing of mortgage loans. Securities investments are encouraged in financial institutions that have a Community Reinvestment Act (CRA) rating of either Satisfactory or Outstanding, as well as financial institutions that are designated as a Community Development Financial Institution (CDFI) by the United States Treasury Department, or otherwise demonstrate commitment to community economic development.

## AUTHORIZED SECURITIES AND TRANSACTIONS

All investments and deposits of the Town shall be made in accordance with California Government Code Sections 16429.1, 53600-53609 and 53630-53686, except that pursuant to California Government Code Section 5903(e), proceeds of bonds and any moneys set aside or pledged to secure payment of the bonds may be invested in securities or obligations described in the ordinance, resolution, indenture, agreement, or other instrument providing for the issuance of the bonds. Any revisions or extensions of these code sections will be assumed to be part of this Investment Policy immediately upon being enacted. However, in the event that amendments to these sections conflict with this Investment Policy and past Town investment practices, the Town may delay adherence to the new requirements when it is deemed in the best interest of the Town to do so. In such instances, after consultation with the Town's attorney, the Treasurer will present a recommended course of action to the Town Council for approval. All investment limits specified in the Policy are calculated at the time of investment.

The Town has further restricted the eligible types of securities and transactions as follows:

1. United States Treasury bills, notes, bonds, or certificates with a final maturity not exceeding five years from the date of trade settlement.

2. Federal Agency Obligations for which the faith and credit of the United States are pledged for the payment of principal and interest and which have a final maturity not exceeding five years from the date of trade settlement. There is no limit on the percentage of the

portfolio that can be invested in this category, however, no more than 20% of the town's total portfolio shall be invested in the combination of Government National Mortgage Association (GNMA), Federal National Mortgage Association (FNMA) and Federal Home Loan Mortgage Corporation (FHLMC) mortgage-backed securities.

3. Federal Instrumentality (government sponsored enterprise) debentures, discount notes, callable securities, step-up securities, and mortgage-backed securities (including FNMA and FHLMC) with a final maturity not exceeding five years from the date of trade settlement. There is no limit on the percentage of the portfolio that can be invested in this category, however, no more than 20% of the town's total portfolio shall be invested in the combination of GNMA, FNMA, and FHLMC mortgage-backed securities.

4. Prime Commercial Paper with a maturity not exceeding 270 days from the date of trade settlement with 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 sub-paragraph A. or sub-paragraph B. below:

   A. The entity shall (1) be organized and operating in the United States as a general corporation, (2) have total assets in excess of five hundred million dollars ($500,000,000) and (3) Have debt other than commercial paper, if any, that is rated "A" or higher by a NRSRO.

   B. The entity shall (1) be organized within the United States as a special purpose corporation, trust, or limited liability company, (2) have program wide credit enhancements, including, but not limited to, over collateralization, letters of credit or surety bond and (3) have commercial paper that is rated "A-1" or higher, or the equivalent, by a NRSRO.

   Purchases of eligible commercial paper shall not exceed:
   - 10% of the outstanding commercial paper of any single corporate issuer,
   - 5% of the Town's total portfolio in the commercial paper of any one issuer, and
   - 25% of the Town's total portfolio.

5. Eligible Bankers Acceptances with a maturity not exceeding 180 days from the date of trade settlement, issued by a state or national bank with combined capital and surplus of at least $250 million, whose deposits are insured by the FDIC, and whose senior long-term debt is rated at least A or the equivalent by a NRSRO at the time of purchase. No more than 5% of the Town's total portfolio shall be invested in banker's acceptances of any one issuer, and the aggregate investment in banker's acceptances shall not exceed 30% of the Town's total portfolio.

6. Medium Term Notes (Corporate Notes) 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, with a final maturity not exceeding five years from the date of trade settlement and rated at least "A" or the equivalent by a NRSRO. No more than 5% of the Town's total portfolio shall be invested in the medium-term notes of any one issuer and the aggregate investment in medium term notes shall not exceed 30% of the Town's total portfolio.

7. Municipal & State Obligations:

   A. Municipal bonds including registered notes or bonds of any of the 50 states, 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 the 50 states.
   B. In addition, bonds, notes, warrants, or other evidences of indebtedness of any local agency in California, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, operated by the local agency, or by a department, board, agency, or authority of the local agency.

   Municipal bonds must be rated at least "A" or the equivalent by a NRSRO with maturities not exceeding five years from the date of the trade settlement. No more than 5% of the Town's total portfolio shall be invested in "A" rated bonds or in the bonds of any one municipality. In addition, the aggregate investment in municipal bonds may not exceed 30% of the total portfolio.

8. Certificates of Deposit with a final maturity not exceeding five years from the date of trade settlement. The aggregate investment in certificates of deposit shall not exceed 30% of the Town's portfolio, and no more than 5% of the portfolio shall be held in any one deposit or allocated to any one issuer. Certificates of Deposit shall be issued by a nationally or state-chartered bank or a state or federal savings and loan association or by a state-licensed branch of a foreign bank or by a federally licensed branch of a foreign bank provided that the senior debt obligations of the issuing institution are rated at least "A" or the equivalent by a NRSRO.

   Negotiable certificates of deposit issued by a nationally or state-chartered bank, or by a federally licensed or state-licensed branch of a foreign bank. Purchases of negotiable certificates of deposits are subject to the limitations of Section 53601(i), shall be fully insured by the FDIC with a corresponding FDIC certification number, and shall be delivered through the Depository Trust Company.

   Non-Negotiable certificates of deposit issued by a nationally or state-chartered bank, or by a federally licensed or state-licensed branch of a foreign bank. Purchases of non-negotiable certificates of deposit are subject to the limitations of Sections 53601(n) and 53638 and shall be fully insured by the FDIC with a corresponding FDIC certification number.

Private sector entities may be used to place certificates of deposit subject to the limitations of Section 53601.8.

9. State of California's Local Agency Investment Fund (LAIF), pursuant to California Government Code Section 16429.1. The aggregate amount invested in LAIF shall not exceed the maximum allowed by the fund.

10. Money Market Funds registered under the Investment Company Act of 1940 that (1) are "no-load" (meaning no commission or fee shall be charged on purchases or sales of shares); (2) have a constant net asset value per share of $1.00; (3) invest only in government securities,-and (4) have a rating of at least AAA or the equivalent by at least two NRSROs. No more than 10% of the Town's total portfolio shall be invested in money market funds of any one issuer, and the aggregate investment in money market funds shall not exceed 20% of the Town's total portfolio.

Securities that have been downgraded to a level that is below the minimum ratings described herein may be sold or held at the Town's discretion. The portfolio will be brought back into compliance with Investment Policy guidelines as soon as is practical.

The foregoing list of authorized securities and transactions shall be strictly interpreted. Any deviation from it must be preapproved by resolution of the Town Council.

## PORTFOLIO MATURITIES AND LIQUIDITY

To the extent possible, investments shall be matched with anticipated cash flow requirements and known future liabilities. The Town will not invest in securities maturing more than five years from the date of trade settlement, unless the Town Council has by resolution granted authority to make such an investment at least three months prior to the date of investment.

## SELECTION OF BROKER/DEALERS

The Treasurer shall maintain a list of broker/dealers approved for investment purposes, and it shall be the policy of the Town to purchase securities only from those authorized firms. To be eligible, a firm must meet at least one of the following criteria:

- Be recognized as a Primary Dealer by the Federal Reserve Bank of New York or have a primary dealer within their holding company structure; or
- Report voluntarily to the Federal Reserve Bank of New York; or
- Qualify under Securities and Exchange Commission (SEC) Rule 15c3-1 (Uniform Net Capital Rule).

In addition, authorized broker/dealers must be licensed by the State of California as a broker/dealer as defined in Section 25004 of the California Corporations Code.

The Town may engage the services of investment advisory firms to assist in the management of the portfolio and investment advisors may utilize their own list of approved broker/dealers.

Such broker/dealers will comply with the selection criteria above and the list of approved firms shall be provided to the Town on an annual basis or upon request.

In the event that an external investment advisor is not used in the process of recommending a particular transaction in the Town's portfolio, authorized broker/dealers shall attest in writing that they have received and reviewed a copy of the this Investment Policy and shall be required to submit and annually update a Town approved Broker/Dealer Information request form, which includes the firm's most recent financial statements.

The Town may purchase commercial paper from direct issuers even though they are not on the approved broker/dealer list as long as they meet the criteria outlined in Item 4 of the Authorized Securities and Transactions section of this Investment Policy.

## COMPETITIVE TRANSACTIONS

Each investment transaction shall be competitively transacted with authorized broker/dealers. At least three broker/dealers shall be contacted for each transaction and their bid and offering prices shall be recorded.

If the Town is offered a security for which there is no other readily available competitive offering, the Treasurer will document quotations for comparable or alternative securities.

## SELECTION OF BANKS

The Treasurer shall maintain a list of banks and savings banks approved to provide banking services for the Town. To be eligible, a bank must be a member of the Federal Deposit Insurance Corporation, must qualify as a depository of public funds in the State of California as defined in California Government Code Section 53630.5 and shall secure deposits in excess of FDIC coverage in accordance with California Government Code Section 53652.

Authorized banks that accept deposits from the Town shall meet high standards with regard to liquidity, asset quality, profitability and capital adequacy. The Treasurer shall utilize a commercial bank rating service to perform credit analysis on banks seeking authorization. Banks that in the judgment of the Treasurer no longer offer adequate safety to the Town shall be removed from the Town's list of authorized banks.

## SAFEKEEPING AND CUSTODY

The Treasurer shall select one or more financial institutions to provide safekeeping and custodial services for the Town. A Safekeeping Agreement shall be executed with each custodian bank prior to utilizing that bank's safekeeping services.

Custodian banks will be selected on the basis of their ability to provide services for the Town's account and the competitive pricing of their safekeeping related services.

The purchase and sale of securities and repurchase agreement transactions shall be settled on a delivery versus payment basis. All securities shall be perfected in the name of the Town. Sufficient evidence to title shall be consistent with modern investment, banking and commercial practices.

All investment securities, purchased by the Town, will be delivered by book entry and will be held in third-party safekeeping by a Town approved custodian bank or its Depository Trust Company (DTC) participant account.

All Fed wireable book entry securities owned by the Town shall be held in the Federal Reserve System in a customer account for the custodian bank which will name the Town as "customer."

All DTC eligible securities shall be held in the custodian bank's DTC participant account and the custodian bank shall provide evidence that the securities are held for the Town as "customer."

## PORTFOLIO PERFORMANCE

The investment portfolio shall be designed to attain a market rate of return throughout budgetary and economic cycles, taking into account prevailing market conditions, risk constraints for eligible securities, and cash flow requirements. The performance of the Town's investments shall be compared to the average yield on the U.S. Treasury security that most closely corresponds to the portfolio's weighted average effective maturity. When comparing the performance of the Town's portfolio, its rate of return will be computed net of all fees and expenses.

## REPORTING

Every month, the Treasurer shall prepare a report that conforms to Government Code Section 41004. The report shall be submitted to the Town Clerk within 45 days after the end of each month for inclusion as an agenda item at the next scheduled Town Council meeting. The report shall include the following information:

1. Investment type, issuer, date of maturity, par value and dollar amount invested in all securities, and investments and monies held by the Town;
2. A market value as of the date of the report (or the most recent valuation as to assets not valued monthly) and the source of the valuation;
3. Realized and unrealized gains or losses calculated by amortized cost and by fair value;
4. The weighted average maturity of the portfolio and a percentage breakdown of the total portfolio by maturity;
5. A description of the funds, investments and programs that are under the management of contracted parties;
6. The Town of Los Gatos Environmental, Social and Governance (ESG) scores;
7. A statement of compliance with this Investment Policy or an explanation for non-compliance; and

| TITLE: Investment Policy | PAGE: 10 of 10 | POLICY NUMBER: 4-02 |
|---|---|---|

8. A statement of the ability to meet expenditure requirements for the next six months, and an explanation of why money will not be available if that is the case.

## PROCEDURES

This Investment Policy shall be adopted by resolution of the Town Council. Annually the Town Manger shall present this Investment Policy to the Town Council and the Finance Commission for review to ensure its consistency with the Town's investment objectives, current law and economic trends. Any amendments to this Investment Policy shall be approved by the Town Council.

APPROVED AS TO FORM:

Gabrielle Whelan, Town Attorney

**Subject:** FW: Local agency investment guidelines - 2022.pdf
**Attachments:** Local agency investment guidelines - 2022.pdf

**From:** Phil Koen
**Sent:** Wednesday, February 8, 2023 9:50 AM
**To:** Laurel Prevetti <LPrevetti@losgatosca.gov>; Rick Tinsley
**Cc:** Gabrielle Whelan <GWhelan@losgatosca.gov>; Gitta Ungvari <GUngvari@losgatosca.gov>
**Subject:** Local agency investment guidelines - 2022.pdf

[EXTERNAL SENDER]

Hello Laurel and Rick,

I understand that the FC will be discussing the Town's Investment Policy this coming Monday. I respectfully request the attached document "Local Agency Investment Guidelines" which is published by the California Debt and Debt Advisory Commission be included in the Finance Commission package. It would be valuable background reading for all commissioners.

Additionally, the guideline spells out in Chapter III "Reporting Requirements", the disclosure necessary for local jurisdictions to comply with the reporting requirements in Govt Code section 53646 and 53607. This is an area where changes should be made to our current policy.

Lastly, please note that the reporting requirements under Govt Code section 53646 and 53607 are different and distinct from the reporting requirements under Govt Code section 41004. The difference is Govt Code section 41004 requires monthly disclosure of all receipts, disbursements and fund balances, while Govt Code Section 53646 require disclose on the status of the Town's investment portfolio either monthly or quarterly. It is important to recognize that the Town's investment portfolio is not the same as the Town's fund balances, of which there are over 30 funds.

Hopefully the attached guideline will bring clarity to the reporting required for proper disclosure of the status of the Town's portfolio.

Thank you,

Phil Koen



# LOCAL AGENCY INVESTMENT GUIDELINES

## CALIFORNIA DEBT AND INVESTMENT ADVISORY COMMISSION

Update for 2022

Reflects state law changes effective as of January 1, 2022
CDIAC 22.02

# California Debt and Investment Advisory Commission

The California Debt and Investment Advisory Commission (CDIAC) provides information, education, and technical assistance on debt issuance and public fund investments to local agencies and public finance professionals. CDIAC also serves as the State's clearinghouse for public debt issuance information.

**FIONA MA, CPA**
*State Treasurer and Chair*

**GAVIN NEWSOM**
*Governor*

**BETTY T. YEE**
*State Controller*

**SABRINA CERVANTES**
*Assemblymember*

**COTTIE PETRIE-NORRIS**
*Assemblymember*

**STEVEN BRADFORD**
*Senator*

**PATRICIA BATES**
*Senator*

**SANDIE ARNOTT**
*Treasurer-Tax Collector*
*County of San Mateo*

**LAKSHMI KOMMI**
*Director of Debt Management*
*City of San Diego*

**ROBERT BERRY**
*Executive Director*

Additional information concerning this report or CDIAC programs may be obtained by contacting CDIAC directly via phone (916) 653-3269, fax (916) 654-7440, e-mail (cdiac@treasurer.ca.gov) or by visiting CDIAC's website: ***www.treasurer.ca.gov/cdiac***.

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# About the Local Agency Investment Guidelines

The *Local Agency Investment Guidelines* is intended to aid local officials in their efforts to implement existing laws pertaining to the investment of public funds. Each year, CDIAC staff convenes a working group of public- and private-sector professionals to support its efforts to revise and update these *Guidelines*.

## THOSE PARTICIPATING IN THE 2022 GUIDELINES INCLUDE:

- Constantine Baranoff, *Attorney, Lozano Smith*
- Bill Blackwill, *Managing Director, Stifel, Nicolaus & Company, Inc.*
- Deborah Higgins, *President, Higgins Capital Management*
- John Johnson, *Chief Deputy Treasurer, San Bernardino County*
- Carol Lew, *Shareholder, Stradling, Yocca, Carlson & Rauth, P.C.*
- Philip Marr, *Senior Portfolio Manager, City of Los Angeles*
- Kent Morris, MBA, CTP, *Chief Investment Officer, City of San Diego*
- Laura Parisi, CPA, CFIP, *City Treasurer, City of Laguna Beach*
- Rick Phillips, CCM, *President and Chief Investment Officer, FHN Financial Main Street Advisors*

This document briefly describes each issue, offers an interpretation of the minimum compliance requirements, and provides consensus recommendations where the working group deemed them necessary. These interpretations represent the best judgment of the professionals involved and are intended only as a guide for local agencies in their compliance. Agencies should rely only on their legal counsel for legal advice.

The *Local Agency Investment Guidelines: Update for 2022* reflects current investment statutes. It is divided into chapters on investment policy, fund management, reporting requirements, and the treasury oversight committee. Please note that one issue may not fit neatly into the following four chapters.

Generally speaking, all local agencies are subject to the reporting, fund management, and investment policy requirements. Only county governments may be

subject to the county oversight committee requirements. Any jurisdiction that assumes it is not covered by these provisions should seek legal counsel. California Government Code Section 53600 states:

> *As used in this article, "local agency" means a county, city, city and county, including a chartered city or county, school district, community college district, public district, county board of education, county superintendent of schools, or any public or municipal corporation.*

# Summary of Statutory and Federal Regulatory Changes

This report provides current information on the Government Code sections that affect the daily investment practices of California local agencies. There were no approved changes to the local agency investment related codes during the 2021 Legislative session. Therefore, the *Local Agency Investment Guidelines: 2022 Update* reflects the most current investment statutes.

However, the 2022 Local Agency Investment Guidelines (LAIG) does reflect minor changes which include minor formatting and grammatical corrections as well as the addition of a discussion in Chapter 2 on securities issued by departments or authorities of the State of California. In addition, a paragraph related to a 2020 temporary federal rule change (IRS Notice 2020-25) that extended the holding period for variable rate debt subject to a qualified tender purchased by the issuing agency was deleted. The time-limited authority of the temporary rule change expired.

# Chapter I. The Annual Investment Policy

A good investment policy encompasses the cash, treasury, and investment management functions of an agency. It serves as a guide for setting and achieving program objectives, defines rules and establishes benchmarks, and reduces the exposure to liability of both the investment staff and the governing board. It is also important to note that rating agencies pay close attention to an agency's investment policy and portfolio in determining its credit rating.

From this point forward, all references to the word "section" refers to the California Government Code unless otherwise stated.

## I. A Should local agencies produce an investment policy? Should the investment policy be presented to the local agency's legislative body? [Section 53646(a)][1]

The investment policy serves as the foundation of a local agency's investment goals and priorities. If the investment policy is carefully researched, effectively drafted, and reviewed regularly to assure that it continues to meet the agency's goals/priorities for its portfolio, it can help protect the assets of the organization. The existence of an approved investment policy demonstrates that the governing body is performing its fiduciary responsibilities, thereby, inspiring trust and confidence among the public that it serves.

### MINIMUM LEGAL REQUIREMENTS:

Section 53646(a)(1) states that the treasurer of a county government may annually render to their board of supervisors and oversight committee an investment policy, which the board shall review and approve at a public meeting. In addition, the board shall review and approve any changes to the investment policy at a public meeting.

Section 53646(a)(2) states that the treasurer or chief fiscal officer of any other local agency may annually render to their legislative body and any oversight committee an investment policy, that the legislative body shall consider at a public

[1] *All statutory references are to the California Government Code unless otherwise noted.*

meeting. This raises questions about whether or not the policy should be adopted officially by the legislative body, and the time during the year that this "consideration" should take place.

### CONSENSUS RECOMMENDATION:

An investment policy should always be in place. While not required by statute, it is in the best interest of the local agency to present and discuss the policy with the agency's legislative body or oversight committee, and then have the policy approved by a vote of the legislative body. A public vote signifies that the legislative body shares fiduciary responsibility with the treasurer, increases the authority and legitimacy of the investment policy, and provides transparency and disclosure.

## I. B When should the investment policy be reviewed and updated? How should the investment policy be rendered to the legislative body? [Section 53646(a)]

The size and complexity of the investment policy, portfolio, agency and the agency's staff are factors that may affect the frequency of the investment policy review and revision.

### MINIMUM LEGAL REQUIREMENT:

Section 53646(a) provides that if an investment policy is submitted to the local agency's legislative body, it must be an agenda item at a public meeting. If submitted to a county board of supervisors, the board is required to review and approve the investment policy and any changes to it at the public meeting. The statute does not place the same specific approval requirements on other local agencies, but it does require consideration. The statute does not specify, however, when during the year that consideration or approval should occur.

### CONSENSUS RECOMMENDATION:

Both the Association of Public Treasurers of the United States & Canada and the Government Finance Officers Association have established policy standards that recommend investment policies be reviewed annually. At a minimum, the internal treasury staff should conduct a review annually. Ideally, the review should be timed to coincide with the end of the state legislative cycle so that consideration may be given to any changes in statute that may impact the agency's policy.

An update in the investment policy is warranted if treasury staff's review results in a material change in policy due to either a change in statute or a change in the agency's goals and objectives for safety, liquidity and yield. A change in statute, however, may not necessarily require a change in the policy. Many agencies' policies are already more restrictive than statute. Likewise, an agency may choose to update its policy to restrict the purchase of a new investment product that is allowable by statute but that the agency deems to be too risky for its investment portfolio.

Although rendering the investment policy to the legislative body or oversight committee is not required, it is highly recommended. If it is done, it should be done annually, on an established schedule, such as after the annual review and update.

For newly-elected legislative body members, election terms may not coincide with the investment policy review. But, because of the fiduciary responsibility of the legislative body, any newly-elected members should be made aware of the existence of the investment policy and its contents as soon as possible.

## I. C What information should be included in the investment policy? [Section 27133]

### MINIMUM LEGAL REQUIREMENTS:

Except for county governments, the California Government Code does not contain any provisions specifying what must be included in the investment policy of a local agency. Section 27133 provides that county investment policies must contain:

- A list of securities or other instruments in which the county treasury may invest, according to the law, including the maximum percentage by type of security, and the maximum term of any security purchased;
- The manner of calculating and apportioning the authorized costs of investing, depositing, banking, auditing, reporting, handling, and managing of funds;
- Limits on the receipt of honoraria, gifts, and gratuities for county treasury oversight members from advisors, brokers, dealers, bankers, or other persons with whom the county treasury conducts business;
- Criteria for selecting brokers and dealers (including prohibitions against selecting any broker, dealer, or security firm within any consecutive 48-month period of making a campaign contribution exceeding the limitations contained in Rule G-37 of the Municipal Securities Rulemaking Board);
- A requirement that the treasurer provide the county treasury oversight committee with an investment report as required by the Board of Supervisors;
- Terms and conditions under which other local agencies that are not required to deposit funds may deposit funds in the county treasury if they so choose; and
- Criteria for considering requests to withdraw funds from the county treasury.

The last two of the above elements directly refer to the duties counties have in maintaining a local government investment pool.

### CONSENSUS RECOMMENDATION:

Although statute does not specify the contents of the investment policy for local agencies other than counties, it should include at a minimum, the first five elements required of counties. In addition, the policy should specify the funds to which the policy will and will not apply. For instance, bond proceeds are usually guided by the bond documents and thus, may not be a part of the investment policy. Similarly, pension funds are guided by other code sections and may have different investment objectives.

The Association of Public Treasurers of the United States & Canada offers an Investment Policy Program that provides public investors with guidance and technical assistance in developing a comprehensive written investment policy at **www.aptusc.org**. The California Municipal Treasurers Association (CMTA) has sample investment policies that were certified through **CMTA's Investment Policy Certification Program**. Additional sources for recommended elements of an investment policy can be found in CDIAC's ***California Public Fund Investment Primer*** and ***Investment Policy Reporting Practices: An Informational Guide***, and the Government Investment Officers Association's **Investment Policy Certification Program and Application**.

## I. D How is the limit on a political contribution determined when selecting brokers and dealers? [Section 27133 (c) and MSRB Rule G-37]

The county treasury shall not select brokers and dealers who individually, or as a firm, have contributed more than the current limit established under Municipal Securities Regulatory Board (MSRB) Rule G-37.

### MINIMUM LEGAL REQUIREMENT:

The county treasury is prohibited from selecting those brokers, brokerage firms, dealers, or securities firms having made political contributions within the last four years, which exceed the amount set forth in MSRB Rule G-37. For 2022, the limit is $250. This limit applies to the local treasurer, any member of the governing board of the local agency, or any candidate for those offices.

In addition to the provisions outlined in Section 27133 and MSRB Rule G-37, local agencies, the state, and the Fair Political Practices Commission (FPPC) may adopt additional standards on acceptable political contribution limits. For reference, the local treasurer, any member of the governing board of the local agency, and treasury staff are required to report any gift of $50 or more on his or her annual Form 700 submission to the FPPC.

### CONSENSUS RECOMMENDATION:

All treasury staff should be knowledgeable of the specific state and local laws and ordinances governing their receipt of political contributions, gifts, and honoraria. Although the MSRB Rule G-37 applies to the local treasurer and the governing board of the local agency, treasury staff are likely subject to additional rules set forth by the FPPC and the local agency. If there is no policy on the receipt of political contributions, gifts, or honoraria at the local agency level, establish one and educate all agency employees who affect treasury decisions.

## I. E What constraints can county pools place on voluntary depositors? [Section 27133(g)]

County treasurers have difficulty predicting withdrawals of voluntary funds made by pool participants. As a result, questions commonly arise regarding how county pools should treat funds from voluntary depositors. In the absence of information on a depositor's cash flow, an unanticipated withdrawal can create potential liquidity problems for the pool.

### MINIMUM LEGAL REQUIREMENT:

State law does not require county pools to accept voluntary deposits.

### CONSENSUS RECOMMENDATION:

Allow voluntary deposits only under a clearly written contract or memorandum of understanding. This agreement should spell out the exact rules for participating in the pool and provide the county treasurer with reasonable predefined discretion to establish the frequency and amount of voluntary funds that can be removed from the pool at a particular time. Another option is to ban voluntary deposits altogether if the county has confidence that other local agencies have reasonable investment alternatives.

# Chapter II. Fund Management

For the investment of county funds in a county treasury, Section 27000.3 establishes the Board of Supervisors as a fiduciary that is subject to the prudent investor standard unless it delegates its investment duties to the county treasurer. For other local agencies' funds invested in the county treasury, the county treasurer serves as a fiduciary and is subject to the prudent investor standard.

Except as provided for in Section 27000.3, Section 53600.3 declares as a trustee each person, treasurer, or governing body authorized to make investment decisions on behalf of local agencies. As trustees these individuals are subject to the prudent investor standard. That is, they shall act with care, skill, prudence, and diligence under the circumstances then prevailing when investing, reinvesting, purchasing, acquiring, exchanging, selling, and managing funds. Section 53600.5 further stipulates that the objectives of any person investing public funds is to, first, safeguard principal; second, to meet the liquidity needs of the depositor; and lastly, to achieve a return or yield on the funds under its control (Section 27000.5 specifies the same objectives for county treasurers and boards of supervisors).

Risk is inherent throughout the investment process. There is investment risk associated with any investment activity and opportunity risk related to inactivity. Market risk is derived from exposure to overall changes in the general level of interest rates while credit risk is the risk of loss due to the failure of the issuer of a security. The market value of a security varies inversely with the level of interest rates. If an investor is required to sell an investment with a five percent yield in a comparable seven percent rate environment, that security will be sold at a loss. The magnitude of that loss will depend on the amount of time until maturity.

Purchasing certain allowable securities with a maturity of greater than five years requires approval of the governing board (see Section 53601). Part of that approval process involves assessing and disclosing the risk and possible volatility associated with longer-term investments.

Another element of risk is liquidity risk. Instruments with extraordinary or special call features, sinking fund redemption structures, or those issued by little known issuers, are examples of "story bonds" and often are thinly traded. Their uniqueness often makes finding prospective buyers in a secondary market more difficult and, consequently, the securities' marketability and prices may be dis-

counted. However, under certain market conditions, gains may also be possible with these types of securities.

Default risk represents the possibility that the borrower may be unable to repay the obligation as scheduled. Generally, securities issued by the federal government and its agencies are considered the most secure, while securities issued by private corporations, or negotiable certificates of deposit issued by commercial banks have a greater degree of risk. Securities with additional credit enhancements, such as bankers' acceptances, collateralized repurchase agreements, and collateralized bank deposits, are somewhere between the two on the risk spectrum.

The vast majority of local agency portfolios are managed with a buy and hold investment strategy. Investments are purchased with the intent and capacity to hold them until maturity. At times, market forces or operations may dictate exchanging one security for another or selling a security before maturity. Continuous analysis and fine tuning of the investment portfolio are considered part of prudent investment management. This passive investment strategy is different from one in which securities are purchased with the intent to sell them before maturity at a profit or the use of leverage to enhance yield.

California Government Code contains specific provisions regarding the types of investments and practices permitted after considering the broad requirement of preserving principal and maintaining liquidity before seeking yield. These provisions are intended to promote the use of reliable, diverse, and safe investment instruments to better ensure a prudently managed portfolio worthy of public trust.

## II. A Which investments are permissible? Which are prohibited? [Sections 16340, 16429.1, 27133, 53601, 53601.6, 53601.8, 53635, 53635.2, 53635.8, 53638, 53684, and 57603]

### MINIMUM LEGAL REQUIREMENT:

Local agencies may invest only in those instruments specified in State law.

Sections 16340, 16429.1, 27133, 53601, 53601.6, 53601.8, 53635, 53635.2, 53635.8, 53638, 53684, and 57603 include a number of requirements on how and where public money may be invested. Figure 1 provides a synopsis of the permitted investment instruments and limitations on each, in which all local agencies may invest.

Prohibited investments include securities not listed in Figure 1, as well as inverse floaters, range notes, and interest only strips derived from a pool of mortgages. This restriction does not apply to local agency investments in shares of beneficial interest issued by diversified management companies registered under the Invest-

ment Company Act of 1940 that are authorized for investment pursuant to subdivision (l) of Government Code Section 53601

Section 53601.6(b) prohibits investment by a local agency in any security that could result in a zero-interest accrual if held to maturity. However, beginning January 1, 2020, Section 53601.6(b), as amended by the Legislature, authorized local agencies to invest in securities issued by, or backed by the United States government that could result in zero- or negative-interest accrual if held to maturity, in the event of, and for the duration of, a period of negative market interest rates. A local agency may hold these instruments until their maturity date. This limited code exception allows local agencies the option of buying and holding onto zero- or negative-interest accrual United States government securities, if it would preserve more principal. This provision will sunset January 1, 2026.

Section 53601 provides that public agencies may invest in bonds issued by the local agency itself. In 2008, the Legislature added Section 5925 to clarify that the purchase of bonds by the local agency that issued the bonds does not cancel or otherwise affect the bonds. This addressed concerns that the purchased bonds would be considered defeased or refunded under certain Treasury rules. With the addition of Section 5925 the repurchased or acquired bonds may be treated as outstanding bonds under state law to the extent provided by the issuer or the documents defining the rights of the bondholders.

In 2019, the Legislature added Section 57600 et seq. authorizing local agencies to form a public bank. Furthermore, under 57603, local agencies that do not pool money in deposits or investments with other local agencies that have separate governing bodies as well as local agencies that pool money in deposits or investments with other local agencies, including local agencies that have the same governing body, are permitted to invest in debt securities or other obligations of a public bank.

### CONSENSUS RECOMMENDATION:

Local agencies should include the list of permissible securities in the investment policy and modify the list to meet its unique needs. These modifications may include additional restrictions on the type and amount of specific authorized securities to reflect current federal tax and securities regulations and an agency's risk tolerance.

The addition of Section Code 5925 authorizing state and local agencies to purchase their own bonds was intended to be complementary to Internal Revenue Service (IRS) Notice 2008-41 and 2008-88 that allowed municipal issuers to temporarily hold certain types of their own tax-exempt debt without extinguishment or loss of tax-exempt status. However, these IRS provisions were meant to be temporary and sunset on December 31, 2010, with some remaining exceptions for certain variable rate debt subject to a qualified tender. Given the incongruity between Section 5925 and IRS rules, a local agency should seek legal guidance on the potential tax implications of purchasing its own debt especially if that debt does not clearly fall within the remaining IRS exceptions.

## FIGURE 1

ALLOWABLE INVESTMENT INSTRUMENTS PER STATE GOVERNMENT CODE (AS OF JANUARY 1, 2022)[A] APPLICABLE TO ALL LOCAL AGENCIES[B]

See "Table of Notes for Figure 1" on the next page for footnotes related to this figure.

| INVESTMENT TYPE | MAXIMUM MATURITY[C] | MAXIMUM SPECIFIED % OF PORTFOLIO[D] | MINIMUM QUALITY REQUIREMENTS | GOV'T CODE SECTIONS |
|---|---|---|---|---|
| Local Agency Bonds | 5 years | None | None | 53601(a) |
| U.S. Treasury Obligations | 5 years | None | None | 53601(b) |
| State Obligations—CA And Others | 5 years | None | None | 53601(c) 53601(d) |
| CA Local Agency Obligations | 5 years | None | None | 53601(e) |
| U.S Agency Obligations | 5 years | None | None | 53601(f) |
| Bankers' Acceptances | 180 days | 40%[E] | None | 53601(g) |
| Commercial Paper—Non-Pooled Funds[F] (under $100,000,000 of investments) | 270 days or less | 25% of the agency's money[G] | Highest letter and number rating by an NRSRO[H] | 53601(h)(2)(c) |
| Commercial Paper—Non-Pooled Funds (min. $100,000,000 of investments) | 270 days or less | 40% of the agency's money[G] | Highest letter and number rating by an NRSRO[H] | 53601(h)(2)(c) |
| Commercial Paper—Pooled Funds[I] | 270 days or less | 40% of the agency's money[G] | Highest letter and number rating by an NRSRO[H] | 53635(a)(1) |
| Negotiable Certificates of Deposit | 5 years | 30%[J] | None | 53601(i) |
| Non-negotiable Certificates of Deposit | 5 years | None | None | 53630 et seq. |
| Placement Service Deposits | 5 years | 50%[K] | None | 53601.8 and 53635.8 |
| Placement Service Certificates of Deposit | 5 years | 50%[K] | None | 53601.8 and 53635.8 |
| Repurchase Agreements | 1 year | None | None | 53601(j) |
| Reverse Repurchase Agreements and Securities Lending Agreements | 92 days[L] | 20% of the base value of the portfolio | None[M] | 53601(j) |
| Medium-Term Notes[N] | 5 years or less | 30% | "A" rating category or its equivalent or better | 53601(k) |
| Mutual Funds And Money Market Mutual Funds | N/A | 20% | Multiple[P,Q] | 53601(l) and 53601.6(b) |
| Collateralized Bank Deposits[R] | 5 years | None | None | 53630 et seq. and 53601(n) |
| Mortgage Pass-Through and Asset-Backed Securities | 5 years or less | 20% | "AA" rating category or its equivalent or better | 53601(o) |
| County Pooled Investment Funds | N/A | None | None | 27133 |
| Joint Powers Authority Pool | N/A | None | Multiple[S] | 53601(p) |
| Local Agency Investment Fund (LAIF) | N/A | None | None | 16429.1 |
| Voluntary Investment Program Fund[T] | N/A | None | None | 16340 |
| Supranational Obligations[U] | 5 years or less | 30% | "AA" rating category or its equivalent or better | 53601(q) |
| Public Bank Obligations | 5 years | None | None | 53601(r), 53635(c) and 57603 |

## TABLE OF NOTES FOR FIGURE 1

[A] *Sources: Sections 16340, 16429.1, 27133, 53601, 53601.6, 53601.8, 53630 et seq., 53635, 53635.8, and 57603.*

[B] *Municipal Utilities Districts have the authority under the Public Utilities Code Section 12871 to invest in certain securities not addressed here.*

[C] *Section 53601 provides that the maximum term of any investment authorized under this section, unless otherwise stated, is five years. However, the legislative body may grant express authority to make investments either specifically or as a part of an investment program approved by the legislative body that exceeds this five year remaining maturity limit. Such approval must be issued no less than three months prior to the purchase of any security exceeding the five-year maturity limit.*

[D] *Percentages apply to all portfolio investments regardless of source of funds. For instance, cash from a reverse repur-chase agreement would be subject to the restrictions.*

[E] *No more than 30 percent of the agency's money may be in bankers' acceptances of any one commercial bank.*

[F] *Includes agencies defined as a city, a district, or other local agency that do not pool money in deposits or investment with other local agencies, other than local agencies that have the same governing body.*

[G] *Local agencies, other than counties or a city and county, may purchase no more than 10 percent of the outstanding commercial paper and medium-term notes of any single issuer.*

[H] *Issuing corporation must be organized and operating within the U.S., have assets in excess of $500 million, and debt other than commercial paper must be in a rating category of "A" or its equivalent or higher by a nationally recognized statistical rating organization, or the issuing corporation must be organized within the U.S. as a special purpose corporation, trust, or LLC, have program wide credit enhancements, and have commercial paper that is rated "A-1" or higher, or the equivalent, by a nationally recognized statistical rating agency.*

[I] *Includes agencies defined as a county, a city and county, or other local agency that pools money in deposits or investments with other local agencies, including local agencies that have the same governing body. Local agencies that pool exclusively with other local agencies that have the same governing body must adhere to the limits set forth in Section 53601(h)(2)(C).*

[J] *No more than 30 percent of the agency's money may be in negotiable certificates of deposit that are authorized under Section 53601(i).*

[K] *Effective January 1, 2020, no more than 50 percent of the agency's money may be invested in deposits, including certificates of deposit, through a placement service as authorized under 53601.8 (excludes negotiable certificates of deposit authorized under Section 53601(i)). On January 1, 2026, the maximum percentage of the portfolio reverts back to 30 percent. Investments made pursuant to 53635.8 remain subject to a maximum of 30 percent of the portfolio.*

[L] *Reverse repurchase agreements or securities lending agreements may exceed the 92-day term if the agreement includes a written codicil guaranteeing a minimum earning or spread for the entire period between the sale of a security using a reverse repurchase agreement or securities lending agreement and the final maturity dates of the same security.*

[M] *Reverse repurchase agreements must be made with primary dealers of the Federal Reserve Bank of New York or with a nationally or state chartered bank that has a significant relationship with the local agency. The local agency must have held the securities used for the agreements for at least 30 days.*

[N] *"Medium-term notes" are defined in Section 53601 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."*

[O] *No more than 10 percent invested in any one mutual fund. This limitation does not apply to money market mutual funds.*

[P] *A mutual fund must receive the highest ranking by not less than two nationally recognized rating agencies or the fund must retain an investment advisor who is registered with the SEC (or exempt from registration), has assets under management in excess of $500 million, and has at least five years' experience investing in instruments authorized by Sections 53601 and 53635.*

[Q] *A money market mutual fund must receive the highest ranking by not less than two nationally recognized statistical rating organizations or retain an investment advisor registered with the SEC or exempt from registration and who has not less than five years' experience investing in money market instruments with assets under management in excess of $500 million.*

[R] *Investments in notes, bonds, or other obligations under Section 53601(n) require that collateral be placed into the custody of a trust company or the trust department of a bank that is not affiliated with the issuer of the secured obligation, among other specific collateral requirements.*

[S] *A joint powers authority pool must retain an investment advisor who is registered with the SEC (or exempt from registration), has assets under management in excess of $500 million, and has at least five years' experience investing in instruments authorized by Section 53601, subdivisions (a) to (o).*

[T] *Local entities can deposit between $200 million and $10 billion into the Voluntary Investment Program Fund, upon approval by their governing bodies. Deposits in the fund will be invested in the Pooled Money Investment Account.*

[U] *Only those obligations issued or unconditionally guaranteed by the International Bank for Reconstruction and Development (IBRD), International Finance Corporation (IFC), and Inter-American Development Bank (IADB), with a maximum remaining maturity of five years or less.*

As a result of amendments to Government Code Sections 53601.8 and 53635.8, local agencies should review portfolio limitations for CDs and negotiable CDs in their investment policies.

Some investments, such as straight floaters or floating rate notes that are not otherwise prohibited, have the potential to result in zero-interest accrual. Before purchasing these types of investments, the local agency should evaluate all possible outcomes, and, as a safeguard, should consider including in its investment policy a statement establishing an acceptable positive spread or floor for all securities, which pay interest based on a spread to an index.

Also, while not expressly prohibited by State law, unregistered securities, such as **Rule 144A** securities, may not be purchased by local agencies that do not meet the threshold of $5 million investments and $100 million in securities. On August 26, 2020 the Securities and Exchange Commission expanded the definition of Qualified Institutional Buyers (QIB)[2] to include any institution that qualifies as an accredited investor under Rule 501(a) under the Securities Act that are not otherwise stated in the definition of "qualified institutional buyer" provided they satisfy the $100 million threshold.

[2] *CDIAC's **Issue Brief: Rule 144A Securities**, provides a summary of securities in this class.*

## II. B What requirements must a financial institution satisfy before a local agency may deposit its money in it? [Section 53635.2]

Section 53635.2 states that all local agency money may be invested in investments set forth in 53601 or deposited for safekeeping in state or national banks, public banks, savings associations, federal associations, credit unions, or federally insured industrial loan companies in this state. It also specifies certain requirements that such financial institutions must satisfy to hold local agency money.

### MINIMUM LEGAL REQUIREMENT:

To be eligible to receive local agency money, a financial institution must receive an overall rating of not less than "satisfactory" from the appropriate federal supervisory agency for meeting the criteria specified in Section 2906 of Title 12 of the U.S. Code (Community Reinvestment Act of 1977). The Community Reinvestment Act of 1977 (Act) requires financial institutions to demonstrate their commitment to meeting the credit needs of local communities in which they are chartered to do business. For the purpose of the Act, the appropriate federal supervisory agency includes:

- The Comptroller of the Currency with respect to national banks;
- The Board of Governors of the Federal Reserve System with respect to state chartered banks that are members of the Federal Reserve system and bank holding companies;
- The Federal Deposit Insurance Corporation (FDIC) with respect to state chartered banks, public banks, and savings banks that are not members of the Federal Reserve system and the deposits of which are insured by the FDIC; and
- The Director of Office of Thrift Supervision with respect to savings associations (the deposits of which are insured by the FDIC) and savings holding companies.

### CONSENSUS RECOMMENDATION:

A local agency should contact the appropriate federal supervisory agency to determine if its financial institution meets the overall rating requirement.

Local agencies should be aware that in some instances ratings from federal supervisory agencies may not be current, as financial institutions are evaluated only every year or two. Additional inquiry may be necessary to obtain updated information if the last published rating is more than one year old.

## II. C When must the composition and credit rating of investments contained in a local agency investment portfolio be in compliance with state law? [Section 53601]

California Government Code provides a description of the types of instruments permissible for local agency investment and specifies the timing of compliance with state law. Questions arise concerning the timing of any test of compliance with these requirements.

### MINIMUM LEGAL REQUIREMENT:

Where Section 53601specifies a percentage restriction on a certain category of investment, this share of the investment portfolio must be in compliance with state law at the time that investment is purchased. The law does not specify that the *entire* portfolio must be in compliance when new instruments are purchased. It also does not require "rebalancing" when subsequent maturities, sales, withdrawals, or similar non-purchase activities result in the remaining portfolio having one or more of the categories of investment rise above the percentage restrictions applicable at the time of purchase.

### CONSENSUS RECOMMENDATION:

The portfolio must be in compliance with statute at the time that the investment is purchased. It is recommended that the portfolio be monitored, as practical,

for subsequent changes in percentages resulting from non-purchase activity or changes in credit rating of existing securities.

In the event the portfolio or individual investments are deemed to be out of compliance with either statute or the investment policy, the local agency should have procedural guidelines in place that outline actions to take under various scenarios. Due to its fiduciary responsibility, early communication with and involvement of the legislative body concerning a major or critical event is of utmost importance. Therefore, the procedural guidelines should identify circumstances under which communication and discussion of the treasurer's analysis and recommended course of action to the legislative body or oversight committee is warranted.

## II. D Must bond proceeds be invested in the securities set forth in statute? [Section 53601(m)]

Section 53601(m) allows greater flexibility with respect to the types of investments that may be made with bond proceeds. Specifically, the law permits money from bond proceeds, obligations under a lease, installment sales, or other agreements of a local agency to be invested in any security that meets the statutory provisions governing the issuance of the bond or other agreements made by the issuing agency. In so doing, this section of the code recognizes that outstanding contracts between issuers and bond holders may not comply with the investment statutes and gives local agencies greater discretion in how to invest bond proceeds.

### MINIMUM LEGAL REQUIREMENT:

Bond proceeds may be invested in accordance with statutes or they may be invested in alternative vehicles if authorized by bond documents.

### CONSENSUS RECOMMENDATION:

The agency's investment policy should either require that bond proceeds be invested in accordance with statutes, reference applicable bond documents (such as, the indenture or rating agency requirements), or specify the types of investments authorized for bond proceeds. Bond proceeds may be invested in instruments with maturities longer than five years. Applying the five-year maturity limitation found in statute may result in less yield. When investing bond proceeds, maturities should match the cash flow needs of the project or fund.

## II. E How does the Municipal Advisor (MA) Rule affect investment of bond proceeds?

As a part of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Pub. L. 111-203) (Dodd-Frank Act), the Securities and Exchange Commission (SEC) enacted regulations addressing the apparent conflict of interest between municipal bond underwriters providing both underwriting and advice on the investment of bond proceeds for the same debt issue. These regulations were incorporated in the Municipal Advisor Rule (MA Rule). The MA Rule states that broker-dealers providing advice to government clients have a fiduciary duty to their clients and must be registered as a municipal advisor. In order to avoid becoming a fiduciary to municipal issuers, many broker-dealers, who have a significant municipal underwriting business, have adopted policies prohibiting brokers from providing investment advice. The MA Rule provides specific exemptions to public agencies seeking to receive investment advice from broker-dealers, including receiving advice through a request for proposal (RFP) process or by entering into a formal relationship with an independent registered municipal advisor for advice.

### MINIMUM LEGAL REQUIREMENT:

The MA Rule places no legal obligations on public agencies. The regulations address only the responsibilities of broker-dealers with respect to the bond proceeds.

### CONSENSUS RECOMMENDATION:

Although the MA Rule does not specifically regulate the investment of bond proceeds by a local agency, it has materially affected the investment processes of many agencies. For example, treasury staff may have to adopt procedures, including the use of a mini-RFP that would exempt their brokers-dealer from being defined as a fiduciary. Local agency treasury staff should understand the MA Rule and its exemptions; have knowledge of the limitations of their broker-dealer firms as a result of the MA Rule; and address the MA Rule by adopting a policy regarding the investment of bond proceeds. The SEC and the Government Finance Officers Association (GFOA) offer more information.[3]

[3] *Information on the MA Rule can be found at the SEC and GFOA websites.*

## II. F Are all U.S. Agency bonds legal investments for California local agencies? [Sections 53601(f) and 53601.6]

There has been a lot of discussion about the risk profile of certain products and derivatives issued by U.S. Agencies and U.S. government sponsored enterprises (GSEs). These Agencies and GSEs issue both traditional fixed-income securities (notes and bonds) as well as more complex, structured products including customized mortgage- and asset-backed securities and derivatives. The State's investment laws, however, place no restrictions on these types of investments other than the prohibitions against inverse floaters, range notes, and interest-only strips derived from mortgage pools. Until January 1, 2026, local agencies are authorized to invest in securities, issued by, or backed by, the United States government that could result in zero- or negative-interest accrual if held to maturity, in the event of, and for the duration of, a period of negative market interest rates. A local agency may hold these instruments until their maturity dates.

In recent years, some GSE debt has been privatized and is now structured like corporate debt yet still falls under the limits of 53601(f) and 53601.6. The most commonly traded GSE debt includes that from the Federal Home Loan Bank (FHLB), Federal Farm Credit Bank (FFCB), Federal Home Loan Mortgage Corporation (Freddie Mac), Federal National Mortgage Association (Fannie Mae) and Federal Agricultural Mortgage Corporation (Farmer Mac). Other less common GSEs include Government National Mortgage Association (Ginnie Mae), Community Development Corporation (CDC), Student Loan Marketing Association (Sallie Mae)[4], Small Business Administration (SBA), Overseas Private Investment Corporation (OPIC), and Tennessee Valley Authority (TVA).

### MINIMUM LEGAL REQUIREMENT:

Obligations, including bonds, notes, certificates of participation, or other instruments issued as U.S. Agencies or GSE debt are permissible investments under Section 53601(f). These investments are, however, subject to the prohibition against inverse floaters, range notes, and interest-only strips derived from a pool of mortgages in Section 53601.6. Until January 1, 2026, local agencies are authorized to invest in securities, issued by, or backed by, the United States government that could result in zero- or negative-interest accrual if held to maturity, in the event of, and for the duration of, a period of negative market interest rates. A local agency may hold these instruments until their maturity dates.

[4] *SLMA (Sallie Mae) terminated its ties to the federal government in 2004; bonds issued prior to 2005 are GSE debt; bonds issued in 2005 and after are corporate debt issued by the SLM Corporation.*

### CONSENSUS RECOMMENDATION:

Local agencies should institute restrictions that recognize the different characteristics and risk profile of the variety of U.S. Agency and GSE debt instruments. Factors such as the repayment pledge, size of the issue, prominence of the issuer in the market, and the complexity of the issue (such as call features, timing of interest and principal payments, or other options) will impact the risk profile and, thus, the balance of safety, liquidity, and yield in a local agency's portfolio. With SBA loans or pools, for example, the principal and interest may be guaranteed by the U.S. Government, but the prepayment or premium risk can be substantial. Investments in these types of products should only be entered into with a clear awareness, by both the legislative body and treasurer, of the risks involved and only if the local agency's staff have sufficient expertise and resources to manage such investments.

## II. G What are supranationals? [Section 53601 (q)]

A supranational organization is formed by a group of countries through an international treaty with specific objectives such as promoting economic development. Supranational organizations also issue debt in the United States. The most commonly recognized supranational debt is issued by the International Bank for Reconstruction and Development (IBRD or World Bank).

Section 53601 (q) allows local agencies to invest in bonds issued by one of three supranationals: World Bank, International Finance Corporation (IFC) and Inter-American Development Bank (IADB), which were established by international treaties, incorporated into U.S. federal law by Congressional Acts and headquartered in Washington, D.C. Currently, these entities carry the highest credit ratings (AAA) based on their financial structure, policies, performance and capital support from shareholders. Securities issued by these supranationals include benchmark bonds, global bonds, structured notes, plain fixed and floating rate notes, discount notes as well as green bonds

### MINIMUM LEGAL REQUIREMENT:

In order for local agencies to invest in bonds issued by supranationals, the bonds must meet the following criteria:

- Maturity of five years or less;
- Eligible for purchase and sale within the US;
- In a rating category of "AA" or its equivalent or better by a nationally recognized statistical rating orginization (NRSRO); and
- Cannot exceed 30 percent of the agency's investment portfolio.

## II. H Can a local agency invest in an investment pool administered by another state? [Section 53601 (d)]

Section 53601 is prescriptive of the types of investments permissible for local agency investment. It specifies, among other things, the issuer of the security, the type of obligation and the maturity of the security.

### MINIMUM LEGAL REQUIREMENT:

Section 53601 (d) allows local agencies to invest in the debt of another state or department, board, agency or authority and 53601(p) allows joint powers authorities (JPA) established pursuant to Section 6509.7 to invest in securities and obligations authorized under 53601 (a)-(q) as long as each member of the JPA has an equal proportional interest in the purchased securities. Furthermore, members of the JPA may include public agencies outside of California. However, local agencies are not permitted to invest in an investment pool administered by another state.

### CONSENSUS RECOMMENDATION:

Local agency permissible investments do not include investment pools administered by another state as an investment option.

## II. I What are "medium-term notes?" [Section 53601(k)]

Until recently, the statutes defined medium-term notes as those instruments meeting certain term-length and quality requirements. Amendments to Section 53601(k) have attempted to clarify some of the ambiguity surrounding this definition. A variety of reasons account for this past confusion. One is that the SEC treats "corporate notes" slightly differently than "medium-term notes." Another is that brokers often refer to corporate obligations that have an original term to maturity longer than five years as corporate rather than medium-term notes, even though the remaining term to maturity for these notes may be less than five years.

### MINIMUM LEGAL REQUIREMENT:

Section 53601(k) defines medium-term notes as "all corporate and depository institution debt securities with a maximum remaining maturity of five years or less, issued by corporations organized and operating in the United States." Therefore, investments in any corporate or depository institution debt securities that mature within five years from the time of purchase are legal as long as they meet the minimum quality standards. Moreover, the statute specifies that local agencies may not classify investments as medium-term notes if they satisfy the definition of

other allowable investments authorized under state law. For example, a local agency could not consider a security that satisfies the definition of commercial paper as a medium-term note in its portfolio. In addition, a local agency, other than a county or a city and a county, may invest no more than 10% of its total investment assets in the commercial paper and the medium-term notes of any single issuer.

### CONSENSUS RECOMMENDATION:

With many companies and depository institutions operating worldwide, the interpretation of the phrases "organized and operating in the United States" and "licensed by the United States or any state" comes into question. The terms organized, operating, and licensed are not specifically defined by statutes nor are they legal terms that hold specific meaning. For the purpose of applying Section 53601(k), the following interpretations, based upon usage and context, are offered as guidance to local agencies.

- Organized - An entity organized as a corporation in the United States.
- Operating - Engaged in business activities for which it was organized and maintaining a functioning office (other than a representative office).
- Licensed - Permitted by the appropriate regulatory agency to operate and conduct business in the United States (federal license) or a specific state (state license).

Given that even the above interpretations do not provide certainty, local agencies should establish a method of determining whether a purchase of medium-term notes meets the requirements of Section 53601(k) in consultation with their legal counsel. The following provides additional general guidance and recommendations to consider:

- If an issuing entity is incorporated in the U.S., but is a subsidiary of a foreign-owned parent company the stability of either the parent company or the economy of the country of the parent company should be considered when purchasing debt issued by these types of entities.
- Alternately, a local agency may hold securities in a U.S. company that is subsequently purchased by or merges with a foreign company (for example, the InBev merger with Anheuser Busch in 2008). The local agency should monitor the merger or purchase to determine if it remains a prudent for the agency to hold the security.
- Identifying the venue for any legal recourse in the event of a bankruptcy or credit event would assist the local agency in determining whether the organization is organized and operating in the U.S. If the security is backed by assets that are in the U.S., then the investor may attempt to attach a claim on them in a U.S. court in the event of a bankruptcy or default. If the security is not backed by assetsin the U.S., then the initial financing documents of the underlying security may provide a possible source to assist with determining the legal venue.

## II. J Are bonds issued by departments and financing authorities of the State of California permissible investments for local agencies?[Section 53601(c)]

Securities issued by the State of California are permissible investments for local agencies under Section 53601(c). However, questions arise when considering whether bonds issued by departments or financing authorities of the State are also permissible under this section.

### MINIMUM LEGAL REQUIREMENTS:

Section 53601(c) permits a local agency to invest in registered state warrants or treasury notes or bonds of this state, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the state or by a department, board, agency, or authority of the state.

### CONSENSUS RECOMMENDATION:

There are two conditions that a bond could meet to be a permissible investment under Section 53601(c). The first part of Section 53601(c), "state warrants, treasury notes and bonds of this state", refers to bonds issued by the State of California, for instance, general obligation bonds. This was the operative code section prior to the state's issuance of revenue bonds.

The last part of the code section broadens the definition of permissible investments to include, "bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the state or a department, board, agency, or authority of the state". This describes state-issued revenue bonds. Issuance by a state authority or instrumentality alone is inadequate to meet the conditions in Section 53601(c) as the source of revenue for repayment must meet the qualifier included in the code section. For a security issued by a state authority or department, are the underlying agreements considered property owned/controlled/operated by the state? In general, if a public agency intends to purchase bonds issued by a state authority or department that are not clearly revenue bonds, an agency should consult counsel on the permissibility of such an investment.

## II. K What are the rules regarding the use of reverse repurchase agreements and securities lending agreements? Are shorting strategies allowed? [Section 53601(j)]

The intent of Section 53601(j) is to limit the imprudent use of reverse repurchase agreements (reverse repos) and securities lending agreements. In 1995, the Legislature, concerned about the use of reverse repurchase agreements for enhancing yield, imposed a number of restrictions on local governments.

## MINIMUM LEGAL REQUIREMENTS:

Section 53601(j) imposes the following restrictions on reverse repos:

- Reverse repos cannot constitute more than 20 percent of the "market value" of an agency's portfolio;[5]
- Reverse repos are limited to 92 days unless the minimum spread between the rate on investment and cost of funds is guaranteed in writing; and
- Securities used to make reverse repos must be held for a minimum of *30* days prior to the transaction.

Section 53601(j) also applies the above restrictions to securities lending agreements with the exception that a local agency portfolio may not hold more than 20 percent of its base value in reverse repos and securities lending agreements combined.

Section 53601(j)(5) provides specific definitions for repurchase agreements, reverse repurchase agreements, and securities lending agreements. Agreements not meeting these specific definitions are therefore not authorized.

## CONSENSUS RECOMMENDATION:

Both reverse repurchase agreements and securities lending agreements may be used to take advantage of certain short-term opportunities to improve yield and mitigate cash flow shortages. They should be entered into only when there is a clear understanding by both the legislative body and treasurer of the risks inherent in these types of agreements. The agency's staff must have sufficient expertise in the arrangement and management of these transactions.[6]

Although reverse repurchase agreements and securities lending agreements can be an effective short-term portfolio management tool in certain circumstances, they should not be confused with "short selling" or "margin selling." Reverse repurchase agreements are used to address cash flow concerns by entering into an agreement in which a counterparty will buy securities from a local agency. At the end of the agreement, the counterparty that purchased the securities will resell the securities to the local agency at a specified date and price. With a securities lending agreement, securities owned by the local agency are loaned to a borrower who provides an agreed-upon return and collateral to the local agency. At the conclusion of the agreement, the loaned securities are returned to the local agency and the collateral is returned to the borrower.

"Short selling" or "margin selling" is a practice where a margin account is established with delivery versus payment (DVP) settlement and securities are loaned by a broker/dealer to the local agency. The loaned securities may be immediately

[5] *For reverse repos purchased under Section 53601, the calculation is based upon the "base value" of the agency's portfolio, which is defined as the dollar amount obtained by totaling all cash balances in the portfolio from all sources, excluding any amounts from reverse repos or similar borrowing methods.*

[6] *Please see CDIAC Issue Brief,* ***Securities Lending Agreements****, for a detailed discussion of these types of transactions.*

sold with the intent of purchasing the securities back when market prices are lower to close out the margin position, thus profiting on the decline in value of the securities. Shorting strategies carry a high degree of risk of not only a zero return, but significant loss of asset value. They do not meet the risk-limiting intent of the legislature in the adoption of 53601(j), and are not considered a prudent investment for the public portfolio.

## II. L What are the rules regarding the use of mutual funds and money market funds? [Sections 53601(l) And 53601.6(b)]

Local agencies have the authority to invest in shares of mutual funds as described in Section 53601 (l) and 53601.6 (b) and in money market mutual funds as specified in the federal Investment Company Act of 1940. The permissible investments and strategies of the mutual fund or money market fund should be reviewed to determine whether or not they adhere to the parameters contained in both federal and state law.

### MINIMUM LEGAL REQUIREMENT:

Local agencies can invest in shares of mutual funds that invest in the securities and obligations as authorized by subdivisions (a) to (k), inclusive, and subdivisions (m) to (q), inclusive, of Section 53601 and that comply with the investment restrictions of Section 53630. Local agencies can also invest in shares of mutual funds that are defined as money market mutual funds that follow regulations specified by the SEC under the Investment Company Act of 1940 (15 U.S.C. Sec. 80a-1, et seq.). The purchase price of shares shall not include any commission that the fund manager may charge and shall not exceed 20 percent of the agency's funds that may be invested pursuant to this Section 53601.

In addition, no more than 10 percent of the agency's funds may be invested in shares of any single mutual fund.[7] Both mutual and money market mutual funds require that they have attained the highest ranking or the highest letter and numerical rating provided by not less than two NRSROs.[8] In addition they have retained an investment advisor registered or exempt from registration with the SEC with not less than five years' experience managing their specific category of fund and have assets under management in excess of $500,000,000.

### CONSENSUS RECOMMENDATION:

The investment policy should specify criteria for selection of both mutual funds and money market funds by the investment official. Local agencies

[7] *Mutual fund as defined in Government Code Section 53601(1)(1).*

[8] *Nationally Recognized Statistical Rating Organization.*

should review the permissible investments and strategies of the mutual fund or money market fund to determine whether or not they adhere to both federal and state law.

### FIGURE 2

GOVERNMENT CODE REQUIREMENTS FOR LOCAL AGENCY INVESTMENT IN MONEY MARKET AND MUTUAL FUNDS

| CONDITIONS ALLOWING FOR INVESTMENT | MONEY MARKET FUNDS | MUTUAL FUNDS |
|---|---|---|
| I. Must receive the highest ranking or the highest letter and numerical rating by no less than two nationally recognized rating services;<br>—or—<br>Must retain an investment advisor who is registered or exempt from registration with the SEC and has at least five years' experience investing in specified securities and managing assets in excess of $500 million.[A] | ● | ● |
| | ● | ● |
| II. Must abide by the same investment restrictions and regulations that apply to public agencies in California [Section 53601(a-k, m-o)]. | | ● |
| III. Must follow regulations specified by the SEC under the investment company act of 1940 (15 U.S.C. Section 80a-1, et seq.). | ● | |

[A] *The requirement for mutual funds is an investment advisor with experience investing in securities and obligations authorized in Sections 53601 and 53635. For money market funds, the advisor must have experience in managing the types of investments that can be purchased by money market funds as specified in SEC Regulation 2a-7.*

## II. M What are the rules affecting the investment of tax and revenue anticipation note (TRAN) and grant anticipation note (GAN) proceeds? [Sections 53821.5, 53841.5, 53852.5 and 53859.02(b)]

Existing statutes prevent agencies from using the proceeds of their temporary borrowing, specifically TRANs and GANs, to purchase long-term securities in order to achieve higher investment yields in a manner which could limit liquidity needed to ensure sufficient cash to repay the temporary borrowing when due.

### MINIMUM LEGAL REQUIREMENT:

Government Code Sections 53821.5, 53841.5, 53852.5 and 53859.02(b) prohibit the investment of the proceeds of temporary borrowing in securities that have terms exceeding those of the temporary borrowing itself. In other words, proceeds from a temporary borrowing due June 20 may not be invested in securities that

mature after June 20. The minimum legal requirements are clear for securities that have an identifiable term to maturity. However, the law is ambiguous when an agency invests the proceeds of temporary borrowing in items that do not have a specific maturity date, such as investments in county pools or other funds that may have an average maturity that is longer than the temporary borrowing.

### CONSENSUS RECOMMENDATION:

The proceeds of temporary borrowing can be placed in investments that have no specific term to maturity so long as the proceeds can be removed within the term of the temporary borrowing without a penalty. Therefore, cash equivalent shares in liquid funds such as LAIF or county pools—where an agency has relatively quick access to its deposits—are legitimate investments for the proceeds of temporary borrowing, as long as withdrawals in amounts sufficient to repay the temporary borrowing when due are not restricted or penalized.

## II. N What is an appropriate safekeeping arrangement for securities? [Sections 53601 and 53608]

Sections 53601 and 53608 address the appropriate safekeeping arrangements for securities. While a third party institution is the standard used in safekeeping arrangements, securities may be held by the same firm from which they were purchased as long as the securities for safekeeping are in the name of or under the control of the local agency and kept in a legally separate trust department.

### MINIMUM LEGAL REQUIREMENT:

Section 53601 specifically allows local agencies to use a counterparty bank's trust department or separate safekeeping department for the physical delivery of a security if the security is held in the name of the local agency. Section 53608 authorizes general safekeeping arrangements that allows local agencies to use for deposit for safekeeping a federal or state association (as defined by Section 5102 of the Financial Code), a trust company or a state or national bank located within this state or with the Federal Reserve Bank of San Francisco or any branch thereof within this state, or with any Federal Reserve bank or with any state or national bank located in any city designated as a reserve city by the Board of Governors of the Federal Reserve System, the bonds, notes, bills, debentures, obligations, certificates of indebtedness, warrants, or other evidences of indebtedness in which the money of the local agency is invested pursuant to this article or pursuant to other legislative authority. The local agency shall take from such financial institution a receipt for securities so deposited.

### CONSENSUS RECOMMENDATION:

Industry standard is to set up a third-party (an institution other than the party that sold the agency the investment) safekeeping agreement. In order for the securities to be held by the same institution that sold the security, they must be

kept in a separate area of the institution such as its trust department. The security must be in the local agency's name or "perfected" by transferring the security through a signed agreement that contains a description of the security.

## II. O How does the Municipal Advisor (MA) Rule affect a local agency's relationship with an investment advisor? [Section 53600.3]

The MA Rule states that broker-dealers providing advice to government clients on the investment of bond proceeds have a fiduciary duty to their clients and must be registered as a municipal advisor. In order to avoid becoming a fiduciary to municipal issuers, many broker-dealers, who have a significant municipal underwriting business, have adopted policies prohibiting brokers from providing investment advice. The MA Rule provides specific exemptions to public agencies seeking to receive investment advice from broker-dealers, including receiving advice through a request for proposal (RFP) process or by entering into a formal relationship with another independent registered municipal advisor who provides investment advice.

### MINIMUM LEGAL REQUIREMENT:

The MA Rule places no legal obligations on public agencies. The regulations address only the responsibility of broker-dealers with respect to bond proceeds.

It is important to note that a local agency's fiduciary responsibilities cannot be delegated regardless of the fiduciary standards imposed on other members of the municipal market. Section 53600.3 provides that a finance officer or treasurer can delegate duties to an external investment manager via a principal-agent relationship, but they cannot delegate fiduciary responsibility.

### CONSENSUS RECOMMENDATION:

Local agencies rely on municipal advisors to help make decisions about issuing municipal securities and investing bond proceeds. Registered investment advisors hold a fiduciary responsibility to their clients by virtue of their registration with the SEC under the Investment Advisor Act of 1940. Nonetheless, the fiduciary responsibility that ultimately rests with the legislative body and the treasurer cannot be wholly delegated to an external investment manager.

Under the MA Rule, when an investment adviser consents to act in the capacity of an Independent Registered Municipal Advisor (IRMA), the local agency is able to exchange information with broker-dealers that do not have a fiduciary duty to the agency. When a local agency retains an IRMA, it agrees to consult the IRMA when considering information provided by broker-dealers. Further, when a local agency has an IRMA they should communicate that information to the market. Local agencies should ensure that the professionals they use are registered with the SEC and MSRB by checking the MSRB's Municipal Advisor Registration webpage.

## II. P What are the rules regarding the payment of interest earned on non-general fund deposits to an agency's general fund? [Section 53647]

Many local agencies have the opportunity to earn interest on funds held in governmental accounts other than the general fund.

### MINIMUM LEGAL REQUIREMENT:

Section 53647 provides that interest earned on a local agency's deposits shall be paid quarterly to the general fund of the agency unless otherwise directed by law. Alternatively, if directed by the governing body of the local agency, interest shall be paid to the fund containing the principle upon which the interest accrued.

### CONSENSUS RECOMMENDATION:

Although all interest earned on its deposits should be paid to the agency's general fund on a quarterly basis, the governing body may direct that the interest be allocated to the fund in which the interest earning principle was deposited. It is important to note that other directives provided in law or contract for the payment of interest to a specific fund (e.g., funds held by a trustee) are overriding exceptions.

## II. Q Should local agencies invest in financial futures and option contracts? If so, in what manner should they be utilized? [Sections 53601.1]

In addition to the permitted investments in Section 53601 such as treasuries, agencies, money markets, medium-term notes, and pooled investments, local agencies are permitted to invest in financial futures and option contracts in relation to any of these authorized investments. Local agencies can use a financial futures contract to potentially hedge risk because the buyer/seller are obligated to purchase/sell an asset at a predetermined future date and price thereby limiting a local agency's exposure to price fluctuations.[9] Financial options contracts, which allows the buyer to buy or sell an obligation at a specified price for a specified time, are more risky and usually expire with a zero value.[10]

### MINIMUM LEGAL REQUIREMENT:

Section 53601.1 states that the authority of a local agency to invest funds pursuant to Section 53601 includes, in addition thereto, authority to invest in fi-

[9] *Nicole Sargent. How are Futures Used to Hedge a Position? Investopedia (January 29, 2018). Accessed December 2019.*

[10] *Beth Gaston Moon. Understanding Options Risk. InvestorPlace (April 12, 2012). Accessed December 2019.*

nancial futures or financial option contracts in any of the investment categories enumerated in that section.

### CONSENSUS RECOMMENDATION:

Although the language in Section 53601.1 is very broad in its application to execute option and futures contracts on any investment categories enumerated in Section 53601, extreme care should be taken when using these strategies. Option and futures strategies are complicated and should only be used to hedge matched positions in securities currently held in the portfolio as a means to limit the risk of adverse price movements of a given security. Option and futures contracts should not be utilized in the public portfolio as a high-yield strategy.

An imprudent high-yield options and future strategy involves taking "naked" positions. "Naked" positions are those option and futures contract strategies placed on securities that are not covered by matched positions held in the portfolio. A "naked" position will require acquisition of securities in the marketplace at the prevailing market price in order to close out the position, which could result in unlimited risk and large asset losses. A high-risk, high-yield option and futures strategy is not consistent with the prudent investor standards established in Section 53600.3 and safety-liquidity-yield objectives established under Section 53600.5.

## II. R How long should a local agency retain trade ticket information?

Pursuant to SEC's Rules 17a-3 and 17a-4 detailing the record-keeping requirements for broker-dealers, trade blotters or records of sales and purchases are required to be retained for six years. Trade confirmations, on the other hand, are required to be kept for three years. Given that there is no specific state requirement requiring a period of time that trade ticket information should be retained, local agencies may consider adopting such guidelines.

### MINIMUM LEGAL REQUIREMENT:

There are no existing legal requirements pertaining to the retention of trade tickets.

### CONSENSUS RECOMMENDATION:

Trade ticket information includes the price, yield, Committee on Uniform Securities Identification Procedures (CUSIP) reference number of the security as well as net money including principal, accrued interest, and total money. It also identifies the broker-dealer with whom the trade was done. It is important to retain trade ticket information for several reasons, most importantly for compliance and audit reasons. In addition, if there are any ques-

tions regarding a particular trade, it would be beneficial to have documentation. To be prudent, trade tickets should be kept for at least six years. Local agencies should consider adopting their own agency guidelines for retention of financial records, including trade ticket information.

# Chapter III. Reporting Requirements

Reporting requirements and recommendations are imposed on local agencies in Sections 53646 and 53607.

Section 53646 states that the treasurer or chief fiscal officer of a local agency may file reports on the status of their investment portfolios with their respective legislative body, internal auditor, and chief executive officer. These reports generally are intended to provide the legislative body the ability to meet its fiduciary obligations as a trustee and to increase the disclosure of the agency's investment activities to those outside the agency. Section 53646 states that if the quarterly investment portfolio report is submitted, it must contain, among other things, a listing of investments, fund balances, activity, and return on investments made by the local agency. Quarterly reports should reflect the current positions and past performance of a portfolio of investments for the period of time under consideration.

Section 53646(e) states that for local agency funds that have been placed in a county investment pool, LAIF, FDIC-insured bank deposits, National Credit Union Shared Insurance Fund-insured accounts in a credit union, accounts insured or guaranteed pursuant to California Financial Code Section 14858, or some combination of the above, the treasurer may substitute the most recent account statement received from those entities in lieu of the information on these investments that is otherwise required by this section. Section 53646(f) states that securities, investments, or monies held by a school district or county office of education in individual accounts that are less than twenty-five thousand dollars ($25,000) may be excluded from the report.

Local agency treasurers to whom the authority to invest or reinvest funds or to sell or exchange securities has been delegated by the legislative body of a local agency are required by Section 53607 to submit a monthly report of transactions to the legislative body.

## III. A What specific information regarding portfolio investments needs to be included in the report to the legislative body? [Section 53646(b)(1-4) and 53607]

Section 53646 specifically encourages treasurers to prepare the quarterly investment report to enable the legislative body to perform its fiduciary duty and provide full disclosure of the public entity's investment activities.

### MINIMUM LEGAL REQUIREMENTS:

If the treasurer or chief fiscal officer of a local agency elects to submit or if the legislative body mandates the submission of a quarterly investment report to the legislative body pursuant to Section 53646, it must do so within 30 days after the end of the quarter and include the following information:

- Type of investment (i.e. U.S. Treasury security, commercial paper);[11]
- Issuer name;
- Date of maturity;
- Par amount;
- Dollar amount invested in all securities, and investments and monies held by the local agency;[12]
- A description of the funds, investments, and programs (including lending programs) managed by contracted parties (i.e. LAIF, investment pools, outside money managers, and securities lending agents);
- Current market value as of the date of the report of all funds held by the local agency and under the management of any outside party that is not also a local agency or LAIF and the source of the valuation;
- A statement of compliance with the investment policy or an explanation for non-compliance; and
- A statement of the local agency's ability to meet its pool's expenditure requirements for the next six months, as well as an explanation of why sufficient money will not be available if that is the case.

The legislative body of the local agency may elect to require this report on a monthly basis. Furthermore, the legislative body may require the treasurer to provide additional information beyond that listed above.

[11] *Refer to CDIAC publication "California Public Fund Investment Primer" for definitions of investment types.*

[12] *"Dollar amount invested" is defined as cost, however, best practice uses amortized cost or book value. Confusion exists as to the meaning of the words "held by the local agency" found in Government Code Section 53646(b)(1). Several standards have been suggested to clarify this phrase, including "ownership," "control," "under direct management by," "possession," and "accountability for the funds." Each of these suggestions would lead to different determinations as to the specific funds required to be reported. The apparent intent of the Legislature in enacting this requirement was to provide for comprehensive disclosure of local agency investments.*

If the local agency's legislative body delegates, to the local agency's treasurer, its authority to invest or reinvest the agency's funds or sell or exchange the agency's securities, the treasurer shall make a monthly report of those transactions to the legislative body, pursuant to Section 53607. The delegation of authority may be made for a period of one year. The requirement to submit the transaction report lasts until the authority is revoked or expires. In contrast to the specific information required in the quarterly report under Section 53646(b), the contents of the monthly report of transactions required under Section 53607 are not enumerated.

### CONSENSUS RECOMMENDATION:

Based upon the public benefits achieved by reporting, it is recommended that the treasurer or designated official provide the local agency's legislative body a quarterly investment report that provides a clear picture of the status of the current investment portfolio. The quarterly investment report should include the following:

1. A listing of individual securities held at the end of the reporting period by authorized investment category.
2. Average life and final maturity of all investments listed.
3. Coupon, discount or earnings rate.
4. Par value, amortized book value and market value.
5. Percentage of the portfolio represented by each investment category.
6. A description of the funds, investments, and programs (including lending programs) managed by contracted parties (i.e. LAIF, investment pools, outside money managers, and securities lending agents).
7. A statement of compliance with the investment policy or an explanation for non-compliance.
8. A statement of the local agency's ability to meet its pool's expenditure requirements for the next six months, as well as an explanation of why sufficient money will not be available if that is the case.

Local agency funds that have been placed in a county investment pool, LAIF, FDIC insured bank deposits, National Credit Union Shared Insurance Fund-insured accounts in a credit union, accounts insured or guaranteed pursuant to California Financial Code Section 14858, or some combination of the above, may substitute the most recent account statement received from those entities in lieu of the information recommended above.

In addition to the reporting requirement set forth by Section 53646, a local agency treasurer who has been delegated authority to invest or reinvest funds of the local agency by the legislative body under Section 53607 must submit a report to the legislative body accounting for transactions made during the month. This reporting requirement is separate and distinct from the quarterly report submitted under Section 53646. If the legislative body has delegated authority to the treasurer and has elected to require the quarterly report under Section 53646

on a monthly basis, it may be very practical and efficient to merge the elements of the quarterly report with the month's transactions and provide a combined report on a monthly basis. While the elements of each reporting requirement may be different they may be combined in one report.

## III. B Should the report include market value measures for individual securities? [Section 53646(b)(1)]

The market value of each security in a portfolio must be computed before determining the portfolio's overall market value.

### MINIMUM LEGAL REQUIREMENT:

Section 53646(b)(1) states: "With respect to all securities held by the local agency, and under management of any outside party that is not also a local agency or the LAIF, the report shall also include a current market value as of the date of the report, and shall include the source of this same valuation."

### CONSENSUS RECOMMENDATION:

The law is not clear whether "all" securities implies the market value of the overall portfolio or each security. The level of detail to be presented in the report depends on the portfolio activity and the audience. The report for internal treasury staff and the oversight committee should list the individual market value for each security. This approach gives a more complete picture of the health of a portfolio and brings individual investment performance to the attention of those responsible for compliance oversight. For the legislative body, the report should be a summary with aggregate market value listed and include a footnote stating that data on particular investments is available upon request.

### HOW SHOULD THE MARKET VALUE OF THE PORTFOLIO BE DETERMINED?

In establishing market value of the portfolio as required by Section 53646(b)(1), the GFOA recommends that local entities obtain independent third party assessment of investments and risk from a reputable source.

The most common approach is to request pricing information from the agency's safekeeping service, custodial service, or trustee. Agencies may need to contract with pricing service companies for more complex securities. These companies specialize in giving the current market price for a broad range of securities.

An alternative way to determine the value of securities in a portfolio is to perform an in-house analysis by collecting information from different sources such as dealer quotes, online computer information, and certain publications that provide

price estimates. These sources may not be as up-to-date or accurate as a pricing service, but they offer a relatively inexpensive method to make price estimates. Finally, to assess the value of securities where specific prices are not available, a treasurer can either tie the spread of a recent investment to a benchmark security that is easy to value or use a matrix pricing formula. A matrix pricing formula displays the prices of a variety of different securities which are then used as a basis for approximating the value of the security in question. These formulas are particularly useful for short-term securities that mature between 90 and 180 days.

### MINIMUM LEGAL REQUIREMENT:

Section 53646(b)(1) provides that the agency shall include the current market value as of the reporting period date and the source of the valuation.

### CONSENSUS RECOMMENDATION:

To provide the most unbiased method of reporting current market values, the local agency should obtain an independent valuation of the portfolio from a reputable source, such as, a broker or other financial institution, custodial bank, available publications or other pricing services. The independent sources should not be a party to the transaction. For example, the broker that sold the security should not be used to provide the valuation. The agency should use the best sources of market price information available. Prices for securities are estimates that carry a certain degree of error regardless of the approach used and will fluctuate over time due to market conditions. It is imperative that local officials pay extra attention to estimates on complex, infrequently traded, or highly customized securities.

## HOW FREQUENTLY SHOULD MARKET VALUE BE CHECKED?

### MINIMUM LEGAL REQUIREMENT:

None. Government Code does not specify frequency of market valuation.

### CONSENSUS RECOMMENDATION:

Frequency of market valuation will be dependent on the complexity of the securities in the portfolio and the frequency of trading. For infrequent or passive investors, market value should be “marked-to-market” quarterly at a minimum. For a more active portfolio, the industry standard is monthly.

## III. C Should an analysis of cash flows be prepared by the local agency in order to validate the six-month liquidity certification? [Section 53646]

A public agency is required to include a statement indicating that the projected cash flow is adequate to meet expected obligations over the next six months or provide an explanation as to why sufficient money may or may not be available.

### MINIMUM LEGAL REQUIREMENT:

Section 53646(b)(3) addresses the requirement for the local agency to include a statement denoting the ability of the local agency to meet its pool's expenditure requirements for the next six months or provide an explanation as to why sufficient money may or may not be available. There are no other requirements for identifying cash flows and setting liquidity targets at the local agency.

Section 53646(c) requires the treasurer or chief fiscal officer to report whatever additional information or data may be required by the legislative body of the local agency.

### CONSENSUS RECOMMENDATION:

An analysis of cash flows is not required. However, the treasurer should be prepared to discuss cash flow projections and methodology at the request of legislative or oversight bodies. This analysis may list basic projections—based on historical data, market sensitivity or other relevant information—that support the cash flow liquidity statement. There are no guarantees when it comes to predicting future obligations. A sound justification for the expenditure statement gives the finance officer added protection against decisions that originally looked good but turned out poorly because of unforeseen circumstances.

The nature of the analysis will vary greatly depending on the size, sophistication, and complexity of the local agency staff and portfolio. Best practices dictate that cash flow statements should be prepared on a regular basis. However, in some agencies it may not be practicable or necessary, for instance, for LAIF-only participants. An analysis of cash flows is the precursor to portfolio management and should be prepared and updated, as needed, at least for internal investment staff use.

Those who manage investment pools need to pay close attention to the needs and accuracy of the requests of participants to ensure accurate cash flow projections. Incomplete information about a pool's investors not only compromises the legitimacy of the six-month cash flow statement, but also adds substantially to the liquidity risk of the pool.

In the case of investment pools, all participants' cash flow needs must be taken into account in preparing the six month cash flow statement. The pool administrator or manager should keep close tabs on mandatory and voluntary pool

participants' cash flows needs and establish clear criteria for the deposit and withdrawal of their funds. Also, the pool administrator or manager should obtain expected deposit/disbursement information from pool participants at the time of major fund deposits or updates of cash flow projections.

## III. D What tools can be used to measure interest rate risk?

Interest rate risk, also known as market risk, is the risk that a security's value or price will decline as interest rates rise in the general market. Weighted average maturity (WAM) and duration are commonly used measures of interest rate risk. WAM measures the portfolio's "average life." Duration considers all of the cash flow receipts not just the last cash flow as in WAM and provides an approximate percentage change in the value of a security or portfolio for a given change in interest rates.[13] Some local agencies have inquired whether they should include this information in their report.

### MINIMUM LEGAL REQUIREMENT:

Existing statutes do not require local agencies to report an interest rate risk measure in their portfolios. Section 16480.7 requires the State Treasurer to submit a quarterly report to the Pooled Money Investment Board that includes the weighted average maturity of the investments in the Pooled Money Investment Account.

### CONSENSUS RECOMMENDATION:

Local agencies should consider including the WAM or duration measurement in the report. The type of duration measure (e.g. modified and/or effective duration) used will depend on the type of investments being analyzed and the capacity of the agency to perform or source the calculations. While duration will present greater precision than WAM in the measurement of interest rate risk, given the need for specialized software to perform calculations or an external source for duration information, an agency may find greater utility in the easier to calculate WAM. The decision on which metric to use will be based on the needs and resources of the local agency.

Local agencies also should consider whether their investment policies should provide guidance on acceptable ranges or limits for the respective measure used. These figures trigger a number of valuable considerations about the status of the portfolio for both internal and external purposes including liquidity, cash flow, and average maturity (for example, WAM). WAM is a relatively simple calcula-

[13] *For further information regarding duration, please see CDIAC's publications* ***California Public Fund Investment Primer*** *and* ***Duration Basics****.*

tion which may be determined by dividing the sum of the days to maturity multiplied by the book value for each security by the total book value of the portfolio. Figure 3 shows an example of how WAM is calculated:

**FIGURE 3**

CALCULATION OF WEIGHTED AVERAGE MATURITY

| PAR VALUE | SECURITY DESCRIPTION | DAYS TO MATURITY | BOOK VALUE | DAYS BY BOOK VALUE |
|---|---|---|---|---|
| $1,350,000 | Repurchase Agreements | 1 | $1,350,000 | 1,350,000 |
| 5,000,000 | Local Agency Inv. Fund | 1 | 5,000,000 | 5,000,000 |
| 5,000,000 | Fed Natl. Mtg. Assn. | 185 | 4,886,108 | 903,930,041 |
| 5,000,000 | Fed Home Loan Bank | 550 | 5,000,000 | 2,750,000,000 |
| 5,000,000 | U.S. Treasury Note | 720 | 4,985,156 | 3,589,312,500 |
| 5,000,000 | Fed Natl. Mtg. Assn. | 822 | 5,000,000 | 4,110,000,000 |
| 5,000,000 | Fed Farm Credit Bank | 910 | 4,988,941 | 4,539,936,255 |
| TOTAL | | | $31,210,206 | 15,899,528,796 |

$$\text{WAM} = \frac{\textit{Σ Days to Maturity Multiplied by Book Value of Each Investment}}{\textit{Total Book Value}} = \frac{\textit{15,899,528,796}}{\textit{\$31,210,206}} = \textit{509 Days or 1.42 Years}$$

Duration is a more complex computation and requires the proper software to perform the specific calculations for each security and then for the entire portfolio. Three types of duration are commonly used.

MACAULAY DURATION. The simplest method of calculating duration which measures the number of years required to recover the true cost of a security and is the only type of duration measurement quoted in "years."

MODIFIED DURATION. Builds upon Macaulay duration to measure the price sensitivity of an investment to interest rate changes and assumes the cash flows of an investment do not change as interest rates change. Modified duration is quoted as a percentage of value change as interest rates change. Figure 4 is an example of a basic modified duration application.

EFFECTIVE DURATION. Further refines modified duration using an iterative estimation process and is typically used with floating rate, asset-backed, and pass-through securities and more generally, with securities that have call option features. Effective duration takes into account embedded options of a security (e.g., call features or sinking fund schedule) and adjusts the price of the investment to reflect changes in the value of those embedded options. Thus, effective duration requires simulations of many possible interest rate scenarios to calculate the duration to call and provides a wider assessment of risk for a portfolio containing more than fixed rate securities. Due to the complexity of calculating effective duration, no example appears below.

FIGURE 4

DURATION–GAIN/LOSS OF MARKET VALUE MATRIX
FOR A $100,000,000 PORTFOLIO

| | | PORTFOLIO MODIFIED DURATION | | | |
|---|---|---|---|---|---|
| | | 1.2 | 2.7 | 5.0 | 6.0 |
| RATE CHANGE | .25% | $300,000 | $675,000 | $1,250,000 | $1,500,000 |
| | .50% | 600,000 | 1,350,000 | 2,500,000 | 3,000,000 |
| | 1.50% | 1,800,000 | 4,050,000 | 7,500,000 | 9,000,000 |
| | 2.00% | 2,400,000 | 5,400,000 | 10,000,000 | 12,000,000 |
| | 5.00% | 6,000,000 | 13,500,000 | 25,000,000 | 30,000,000 |

Modified duration measures the approximate change in the market value of assets as a result of a change in market interest rates. Thus, for a portfolio with a market value of $100,000,000 and a duration of 1.2, as interest rates increase by 1.5 percent, the portfolio's market value would be expected to decrease by $1,800,000. Specifically:

$$\frac{\$100{,}000{,}000}{\text{portfolio size}} \times \frac{1.2}{\text{duration}} \times \frac{0.015}{\text{interest rate increase}} = \frac{\$1{,}800{,}000}{\text{portfolio market value decrease}}$$

Conversely, for the same portfolio, if interest rates were to decrease by 2 percent, the portfolio's market value increases by approximately $2,400,000. Specifically:

$$\frac{\$100{,}000{,}000}{\text{portfolio size}} \times \frac{1.2}{\text{duration}} \times \frac{0.02}{\text{interest rate increase}} = \frac{\$2{,}400{,}000}{\text{portfolio market value increase}}$$

Securities or portfolios with higher duration carry more interest rate risk and have higher price volatility (i.e., sensitivity of the security's price to changes in market interest rates) than those with lower durations. For example, if the same $100,000,000 portfolio had a duration of 2.7, a 1.5 percent increase in market interest rates will produce a greater change in the portfolio's market value:

$$\frac{\$100{,}000{,}000}{\text{portfolio size}} \times \frac{2.7}{\text{duration}} \times \frac{0.015}{\text{interest rate increase}} = \frac{\$4{,}050{,}000}{\text{portfolio market value decrease}}$$

For a 2 percent decrease in interest rates:

$$\frac{\$100{,}000{,}000}{\text{portfolio size}} \times \frac{2.7}{\text{duration}} \times \frac{0.02}{\text{interest rate increase}} = \frac{\$5{,}400{,}000}{\text{portfolio market value decrease}}$$

## III. E What action should the legislative body take with the report? [Section 53646]

Section 53646(b) states that the "treasurer or chief fiscal officer may render a quarterly report to the chief executive officer, internal auditor, and the legislative body" within 30 days of the quarter's end. Questions arise as to whether the legislative body needs to discuss and approve the report during a regular meeting, have it placed on the consent calendar, or only receive a copy.

### MINIMUM LEGAL REQUIREMENT

Section 53646(b) only states that the report may be rendered to the legislative body. It does not require the legislative body to take action on this report.

### CONSENSUS RECOMMENDATION

If presented to the legislative body of the local agency, it should discuss the report as necessary and take action on the report in public session. The report could be listed as a consent calendar item or as a non-consent calendar item, depending on the preferences of the legislative body. Possible actions of the governing body on the report could include: receiving and filing the report, approving or disapproving the report (with or without amendments), or asking staff for further information/clarification. In addition, if presented to an investment oversight body, the oversight body should discuss the reports at their own meetings.

## III. F How should agencies address difficulties in meeting the 30-day requirement for submitting quarterly investment reports to the legislative body? [Section 53646(b)]

It can be difficult for an agency to collect all the appropriate information for the report, have an oversight committee (if a jurisdiction has one) review or approve it, and present it to the legislative body within 30 days of the quarter's end. Various factors such as the length and diversity of the portfolio, size of staff, and type and availability of computer software can influence the amount of time it takes to compile a report.

### MINIMUM LEGAL REQUIREMENT:

Section 53646(b) requires that if the quarterly investment report is submitted to the legislative body, it may be rendered within 30 days of the end of the quarter.

### CONSENSUS RECOMMENDATION:

A report, as complete as possible, should be submitted within the allotted 30 days. If current values for certain investments are not available within the time frame to complete the report in a timely fashion, submit the report on time and indicate in the report the most recent valuation and its date and then submit updated values to the legislative body at the soonest possible date thereafter. It should be available for individual legislative body members to review within 30 days of quarter end. This may include providing a copy to each member, including it in agenda materials for a public meeting, or actually presenting the report at a public meeting of the legislative body.

# Chapter IV. Treasury Oversight Committees

Section 27131 and 27132 through 27132.4 consider the formation, composition, and role of a county treasury oversight committee. These code sections provide that the function of the treasury oversight committee is to monitor and review the county investment policy by conducting or causing an annual audit and discussing its findings at a public meeting. The rationale behind the creation of an oversight committee is to give local agencies and private sector citizens a say in the policies governing the investment pool.

## IV. A What options are available for structuring the county treasury oversight committee? [Sections 27131 and 27132 through 27132.4]

The statutes governing the structure of county treasury oversight committees are meant to bring together a representative and knowledgeable committee while limiting conflicts of interest with the treasurer and the treasury functions subject to oversight. However the composition is subject to specific requirements that can make it difficult for local agencies to recruit and staff a committee. Specifically, the statutes prohibit individuals from employment with or securing employment within one year of serving on a county treasury oversight committee with underwriting, bond counsel or broker-dealer firms doing business with the county treasurer. Committee members are also prohibited from making individual political contributions to, or being employed by an entity that makes political contributions to, or from doing any fund raising on behalf of any candidate for office of the governing board of any agency that deposits funds in the county treasury in the previous three years.

### MINIMUM REQUIREMENT:

Section 27131(a) states that the board of supervisors in any county that invests surplus money may establish a treasury oversight committee. If established, the committee must consist of three to eleven members, the exact number determined by the board of supervisors in consultation with the county treasurer. Members must be appointed from the following categories:

1. County treasurer.
2. County auditor, auditor-controller, or finance director as the case may be.
3. A representative appointed by the board of supervisors.
4. A representative selected by a majority of the presiding officers of the governing bodies of the school districts and community college districts in the county.
5. County superintendent of schools or their designee.
6. A representative selected by a majority of the presiding officers of the legislative bodies of the special districts that are required or authorized to deposit funds in the county treasury.

A majority of the public members of the committee shall have expertise in or an academic background in public finance. The other public members shall be economically diverse and bipartisan in political registration. Committee members cannot:

- Be employed by an entity that has contributed to the campaign of a candidate for the office of local treasurer;
- Be employed by an entity that has contributed to the campaign of a candidate for membership on a legislative body of any local agency that has deposited funds in the county treasury in the previous three years or during the period the employed person is a member of the committee;
- Directly or indirectly raise money for a candidate for local treasurer or a member of the governing board of any local agency that has deposited funds in the county treasury while a member of the committee; and
- Secure employment with, or be employed by, bond underwriters, bond counsel, security brokerages or dealers, or financial services firms, with whom the treasurer is doing business during the period that the person is a member of the committee or for one year after leaving the committee.

### CONSENSUS RECOMMENDATION:

County legislative bodies should decide if an oversight committee is necessary and if they should have private sector individuals from the restricted firm types serve on the committee. If so, the county may choose one of three options to compose the committee (Figure 5).

If the committee is composed of public and private sector members (Option 1), the members, for their term of service and one year following, cannot work for firms doing business with the treasurer. As a way to obtain the participation of private sector professions employed by firms doing business with the treasurer, a county may create an advisory board of the county treasury oversight committee (Option 2). However, a county that chooses Option 2 and forms an advi-

FIGURE 5

APPROACHES TO ESTABLISHING THE COUNTY TREASURY OVERSIGHT COMMITTEE

| VARIOUS OPTIONS AVAILABLE TO LOCAL GOVERNMENTS |
| --- |
| 1. A committee of both public and private sector members. |
| 2. A committee of public sector officials that has an advisory board made up of private sector professionals and citizens. |
| 3. A committee that only consists of individuals who work for agencies that have funds invested in the pool. |

sory board whose membership criteria is less stringent than the criteria used to compose an oversight committee is advised to consult legal counsel. Finally, the county may establish an oversight committee composed exclusively of individuals unaffiliated with private sector firms doing business with the treasurer. The easiest way to do so is to draw members of the committee from the public agencies investing funds with the county treasurer (Option 3).

## IV. B Does the appointment of the treasurer to the county treasury oversight committee create a conflict of interest? [Sections 27131 and 27132]

Since the oversight committee's central task is to oversee the treasurer's policies, some believe that allowing the treasurer to sit on the oversight committee represents a conflict of interest. Others claim that a treasurer who donates money to their own campaign cannot be on the county treasury oversight committee because the law bars those who contribute to the campaign of someone running for treasurer while serving on the committee from participation.

### MINIMUM LEGAL REQUIREMENT:

None. Sections 27131 and 27132 do not specify whether or not the county treasurer should be a member of the oversight committee. Section 27132 specifically lists the county treasurer as a potential member of the county treasury oversight committee.

### CONSENSUS RECOMMENDATION:

The question of whether or not a county treasurer should sit on the treasury oversight committee must be made by the county board of supervisors and the treasurer. Their answer should consider the advantages and disadvantages of having someone with the treasurer's influence and expertise sit on the committee and the future employment implications to the treasurer since any person who serves on a county treasury oversight committee is prohibited from seeking employment with the financial services industry for one year after leaving the

committee. It should not in any way hinge on whether a treasurer donated money to his or her own campaign. Contributing money to one's own campaign does not represent a legitimate conflict of interest in the context of the treasury oversight committee.

Specifying that the treasurer does not serve as the chair of the oversight committee is one approach to lessening the "conflict of interest" concern.

## IV. C What is the role of the county treasury oversight committee? [Sections 27134 and 27137]

### MINIMUM LEGAL REQUIREMENT:

Sections 27134 and 27137 limit the oversight committee's functions to monitoring and reviewing the county treasury's compliance with the investment policy and reporting provisions of the Government Code through an annual audit.

### CONSENSUS RECOMMENDATION:

The statutes address concerns that individuals serving on the treasury oversight committees may try to micro-manage decisions that should be left to the treasurer. Considerations by the committee regarding the risk and structure of a portfolio are permitted in the law, however, any attempts to direct individual investment decisions, select individual investment advisors, brokers, or dealers, or impinge on the day-to-day operations of the county treasurer are discouraged. The local agency should clearly stipulate that the responsibilities of the treasury oversight committee are to focus on investment policy issues and to audit the portfolio for compliance with the policy.

## IV. D Should other local agencies have treasury oversight committees?

It is not uncommon to find treasury oversight committees in cities and other local agencies even though the law does not require them to have such a committee. An important issue in the decision to establish a committee is the level of discretion accorded the agency treasurer in making investment decisions: the more discretion, the greater the need for oversight procedures. However, even in situations where an agency has a great deal of discretion, some believe an oversight committee merely duplicates work that can be better performed by the governing board or auditors. Others support the view that an oversight committee provides valuable information to the investment staff and involves

members of the community in an important government function. If other local agencies decide that they want to engage an oversight committee, its role with respect to reviewing investment policies and quarterly investment reports should be clearly specified.

### MINIMUM LEGAL REQUIREMENT:

There are no legal requirements for local agencies to have oversight committees.

### CONSENSUS RECOMMENDATION:

Local agencies that are not counties should consider if an oversight committee is appropriate based on its current oversight procedures, complexity of its portfolio, frequency with which it purchases securities, and skill level of its staff. The limitations and restrictions associated with membership on a county treasury oversight committee do not apply to committees formed by other local government entities.

# California Government Code

| CODE SECTION | TITLE DESCRIPTION |
|---|---|
| **ACQUISITION OF BONDS** | |
| 5925 | Repurchase investment |
| **LOCAL AGENCY INVESTMENT FUND (LAIF)** | |
| 16340 | Voluntary Investment Program Fund |
| 16429.1 | Creation, maintenance, and operation |
| 16429.2 | Local investment advisory board |
| 16429.3 | Deposits; prohibited transfers and loans; impoundment or seizure |
| 16429.4 | Right of withdrawal |
| **COUNTY TREASURER - DUTIES GENERALLY** | |
| 27000 | Custody and payment of moneys |
| 27000.1 | Investment of county funds; delegation and revocation of authority by board of supervisors; responsibility for transactions |
| 27000.3 | Prudent investor standard; use in transactions with public funds |
| 27000.5 | Objectives; managing public funds |
| 27000.6 | Effective date of specified provisions; candidate eligibility and continuing education programs; county ordinances; authority to repeal ordinances |
| 27000.7 | Eligibility for offices of county treasurer and tax collector; criteria; application of section |
| 27000.8 | County treasurers and tax collectors serving on January 1, 1996; service for remaining term; continuing education; certification; violation |
| 27000.9 | Continuing education; requirements beginning in 2000; certification; violation |
| 27001 | Certificates of auditor; filing; preservation |
| 27002 | Accounts of receipts and expenditures; requisites |
| 27002.1 | Photographic records of receipts and expenditures |
| 27003 | Separate accounts; general account |

| | |
|---|---|
| 27005 | Disbursements on warrants; checks or electronic funds transfers; exception |
| 27006 | Disbursements on warrants based on orders; payment of warrants |
| 27007 | Possession of money; special deposits |
| 27008 | Certificates of auditor necessary for receipt of money |
| 27009 | Receipt for deposit of moneys into county treasury |
| 27010 | Receipt of gifts and bequests |
| 27011 | Deposit of private money prohibited; penalty |
| 27012 | Conferences between controller and treasurers regarding administration of applicable law; expenses |
| 27013 | Administrative cost of investing, depositing or handling funds; reimbursement of county |

## COUNTY TREASURY OVERSIGHT COMMITTEES

| | |
|---|---|
| 27130 | Legislative findings and declarations |
| 27131 | Establishment; determinations of size and membership |
| 27132 | Membership; pool of candidates |
| 27132.1 | Member employment by campaign contributors |
| 27132.2 | Member fundraising |
| 27132.3 | Member employment in financial services industry |
| 27132.4 | Open meetings; Ralph M. Brown Act |
| 27133 | Periodic investment policy; preparation by treasurer; committee review and oversight |
| 27134 | Periodic audits by committee; article compliance |
| 27135 | Costs of compliance; reimbursement |
| 27136 | Withdrawal of funds from county treasury pool; requests; evaluation; approval criteria |
| 27137 | Day-to-day operations and decisions; committee involvement |

## INVESTMENT OF SURPLUS

| | |
|---|---|
| 53600 | Local agency |
| 53600.3 | Prudent investor standard; investments on behalf of local agencies |
| 53600.5 | Objectives; managing public funds |
| 53600.6 | Legislative findings and declarations; solvency and creditworthiness |
| 53601 | Local agencies; authorized investments |
| 53601.1 | Investment in financial futures or financial option contracts |
| 53601.2 | Limited liability corporation |
| 53601.5 | Investments; qualified purchase agent |
| 53601.6 | Prohibited investments |
| 53601.8 | Investment in placement service assisted deposits, including certificates of deposit |

| | |
|---|---|
| 53602 | Investment in legal investments for savings banks; securities of public districts |
| 53603 | Direct purchase of securities |
| 53604 | Sale or exchange of securities; reinvestment of proceeds |
| 53605 | Sale of securities; application of proceeds to original purposes |
| 53606 | Cancellation of bonds issued by purchaser; resale |
| 53607 | Delegation of duties to treasurer; monthly report |
| 53608 | Deposit of securities; receipt; delegation of authority |
| 53609 | Eligible securities for investment of funds held by local agency pursuant to deferred compensation plans |
| 53610 | Proposition 1A receivables; purchase by local agency |
| 57603 | Investments in public bank obligations |

## HEALTH FUND INVESTMENTS

| | |
|---|---|
| 53620 | Investment funds designated for employee retiree health benefits' payments |
| 53621 | Delegation of the governing body's investment authority to designated officers |
| 53622 | Funds to pay employee retiree health benefits; discharge of duties of the governing body or designated officer |

## DEPOSIT OF FUNDS

| | |
|---|---|
| 16340 | The Voluntary Investment Program Fund |
| 53630 | Definitions |
| 53630.1 | Legislative findings and declarations; solvency and creditworthiness |
| 53630.5 | Additional definitions |
| 53631 | Deposits to pay principal, interest or warrants of bonds; electronic funds disbursement |
| 53632 | Classes of deposits |
| 53632.5 | Classes of security for deposits |
| 53633 | Determination of amounts to be deposited in each class |
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## Government Code Section 5925

5925

The purchase or other acquisition of bonds by or on behalf of the state or local government that issued the bonds does not cancel, extinguish, or otherwise affect the bonds and the bonds shall be treated as outstanding bonds for all purposes except to the extent otherwise determined by the issuer or otherwise provided in the constituent instruments defining the rights of the holders of the bonds.

## Government Code Section 16340

16340

(a) (1) The Voluntary Investment Program Fund is hereby created within the State Treasury, for the receipt of voluntary deposits from local entities.

(2) For purposes of this section, a "local entity" includes, but is not limited to, any city, county, school district, or special district.

(b) Each local entity that is approved by its governance body to deposit moneys in the fund shall deposit no less than a total of two hundred million dollars ($200,000,000). The total amount of moneys that may be deposited in the fund from all eligible sources shall not exceed, at any point in time, a total of ten billion dollars ($10,000,000,000), or lesser amount as determined by the Director of Finance, in consultation with the Treasurer.

(c) The terms and conditions of deposits made into the fund shall be set by the Director of Finance, in consultation with the Treasurer. Those terms shall include, but not be limited to, the size of the deposit from a particular local entity, the length of time those moneys shall be held in deposit in the fund, the availability of funds for withdrawal by the local entity depositing the funds, and the annual rate of interest paid on deposits, as described in subdivision (e). However, the director and the Treasurer may only permit deposits that do not exceed funds needed to address an actual or anticipated cash shortfall in the General Fund not exceeding the amounts of existing appropriations, including continuing and continuous appropriations, to which resulting proceeds are to be applied.

(d) Moneys held in the Fund shall be invested by the Treasurer in investments authorized pursuant to Sections 16430 and 16480 through the Pooled Money Investment Account, and whenever the Controller determines that moneys in the General Fund, after allowing for internal borrowing from other funds are, or are expected to be, insufficient for the payment of all appropriations made by the Legislature which are to be paid out of the moneys in the General Fund, the State Controller may, based upon his or her estimate of the probable income to the General Fund during the then fiscal year and the probable dates of receipt thereof, may draw a demand or demands against appropriations made from the General Fund to be paid in the then current fiscal year prior to the receipt of the income, and deliver the demand or demands to the Treasurer. The Treasurer

shall register the demand or demands for nonpayment and may borrow moneys from the fund in an amount or amounts that is no greater than the demand or demands provided. The borrowing, together with the interest owed upon the account thereon, shall be paid exclusively from moneys in the General Fund on probable or reasonably anticipated revenues that are expected to be forthcoming within a short period of time, but not excepting recourse to internal borrowing from other funds in the event insufficient moneys are available from the General Fund. Repayment of any of those borrowings shall be considered a priority payment, equivalent to any other loan repayment made from the General Fund to another state fund.

(e) Notwithstanding any other law, the rate of interest to be earned by the depositors shall be the base apportionment rate based on their pro rata share of the earnings of the Pooled Money Investment Account on a quarterly basis at the end of each quarter plus an enhanced amount. The pro rata share shall be determined by a dollar day participation. The base apportionment rate applied to dollar day participation in the fund shall be the quarter-to-date average yield of the Pooled Money Investment Account for the current quarter. The enhancement amount paid to depositors in the fund shall be determined by the Director of Finance, in consultation with the Treasurer, and shall be added to the base rate earned by the Pooled Money Investment Account at the time the apportionment is made. The total interest cost described in this subdivision shall not exceed that provided for in paragraph (1) of subdivision (d) of Section 16731.

(f) Notwithstanding Section 13340, moneys in the fund are hereby continuously appropriated for payment of interest expenditures to depositors calculated in accordance with subdivision (e), other related expenses as determined by the Department of Finance, and return of deposits to depositors according to terms and conditions set by the Director of Finance, in consultation with the Treasurer. The amounts paid for interest and other related expenses shall be attributable to the fiscal year in which the borrowing occurred which is also the fiscal year upon which the appropriations against which the demand or demands were made.

(g) The Department of Finance shall determine the budget items to be used for the recording and reporting of interest expenditures and other related expenses pursuant to this section.

(h) Deposits in the fund shall be tracked separately for each participant in the state's accounting system, and shall be deemed to be assets of each participant. These assets shall be reflected as such on each participant's individual financial statements.

(i) These deposits are, and may only be used, to cover short-term cash needs of the state and are, and shall be, in compliance with the provisions of Proposition 58 of March 2004 as stated in subdivision (c), Section 1.3 of Article XVI of the California Constitution. Deposits and borrowing from the fund shall comply with the state's debt limit restrictions.

(j) Actions by the Director of Finance, in consultation with the Treasurer, in implementing and administering the investment program provided for in this

section and the Treasurer's and Controller's actions in borrowing from the fund shall be exempt from the provisions of the Administrative Procedure Act (Chapter 3.5 (commencing with Section 11340) of Part 1 of Division 3).

(k) Upon projection of insufficient cash in the General Fund, the Director of Finance, in consultation with the Treasurer and Controller, may utilize provisions similar to Section 16381 to facilitate the implementation of the program.

## Government Code Section 16429.1-16429.4

16429.1

(a) There is in trust in the custody of the Treasurer the Local Agency Investment Fund, which fund is hereby created. The Controller shall maintain a separate account for each governmental unit having deposits in this fund.

(b) Notwithstanding any other provisions of law, a local governmental official, with the consent of the governing body of that agency, having money in its treasury not required for immediate needs, may remit the money to the Treasurer for deposit in the Local Agency Investment Fund for the purpose of investment.

(c) Notwithstanding any other provisions of law, an officer of any nonprofit corporation whose membership is confined to public agencies or public officials, or an officer of a qualified quasi-governmental agency, with the consent of the governing body of that agency, having money in its treasury not required for immediate needs, may remit the money to the Treasurer for deposit in the Local Agency Investment Fund for the purpose of investment.

(d) Notwithstanding any other provision of law or of this section, a local agency, with the approval of its governing body, may deposit in the Local Agency Investment Fund proceeds of the issuance of bonds, notes, certificates of participation, or other evidences of indebtedness of the agency pending expenditure of the proceeds for the authorized purpose of their issuance. In connection with these deposits of proceeds, the Local Agency Investment Fund is authorized to receive and disburse moneys, and to provide information, directly with or to an authorized officer of a trustee or fiscal agent engaged by the local agency, the Local Agency Investment Fund is authorized to hold investments in the name and for the account of that trustee or fiscal agent, and the Controller shall maintain a separate account for each deposit of proceeds.

(e) The local governmental unit, the nonprofit corporation, or the quasi-governmental agency has the exclusive determination of the length of time its money will be on deposit with the Treasurer.

(f) The trustee or fiscal agent of the local governmental unit has the exclusive determination of the length of time proceeds from the issuance of bonds will be on deposit with the Treasurer.

(g) The Local Investment Advisory Board shall determine those quasi-governmental agencies which qualify to participate in the Local Agency Investment Fund.

(h) The Treasurer may refuse to accept deposits into the fund if, in the judgment of the Treasurer, the deposit would adversely affect the state's portfolio.

(i) The Treasurer may invest the money of the fund in securities prescribed in Section 16430. The Treasurer may elect to have the money of the fund invested through the Surplus Money Investment Fund as provided in Article 4 (commencing with Section 16470) of Chapter 3 of Part 2 of Division 4 of Title 2.

(j) Money in the fund shall be invested to achieve the objective of the fund which is to realize the maximum return consistent with safe and prudent treasury management.

(k) All instruments of title of all investments of the fund shall remain in the Treasurer's vault or be held in safekeeping under control of the Treasurer in any federal reserve bank, or any branch thereof, or the Federal Home Loan Bank of San Francisco, with any trust company, or the trust department of any state or national bank.

(l) Immediately at the conclusion of each calendar quarter, all interest earned and other increment derived from investments shall be distributed by the Controller to the contributing governmental units or trustees or fiscal agents, nonprofit corporations, and quasi-governmental agencies in amounts directly proportionate to the respective amounts deposited in the Local Agency Investment Fund and the length of time the amounts remained therein. An amount equal to the reasonable costs incurred in carrying out the provisions of this section, not to exceed a maximum of 5 percent of the earnings of this fund and not to exceed the amount appropriated in the annual Budget Act for this function, shall be deducted from the earnings prior to distribution. The amount of this deduction shall be credited as reimbursements to the state agencies, including the Treasurer, the Controller, and the Department of Finance, having incurred costs in carrying out the provisions of this section.

(m) The Treasurer shall prepare for distribution a monthly report of investments made during the preceding month.

(n) As used in this section, "local agency," "local governmental unit," and "local governmental official" includes a campus or other unit and an official, respectively, of the California State University who deposits moneys in funds described in Sections 89721, 89722, and 89725 of the Education Code.

16429.2

There is created the Local Investment Advisory Board consisting of five members. The chairman shall be the State Treasurer or his or her designated representative. Two members who are qualified by training and experience in the field of investment or finance, shall be appointed by the State Treasurer. Two members who are treasurers, finance or fiscal officers or business managers, employed by any county, city or local district or municipal corporation of this state, shall be appointed by the Treasurer.

The term of office of each appointed member of the board is two years, but each appointed member serves at the pleasure of the appointing authority. A vacancy

in the appointed membership, occurring other than by expiration of term, shall be filled in the same manner as the original appointment, but for the unexpired term only.

Members of the board who are not state officers or employees shall not receive a salary, but shall be entitled to a per diem allowance of fifty dollars ($50) for each day's attendance at a meeting of the board, not to exceed three hundred dollars ($300) in any month. All members shall be entitled to reimbursement for expenses incurred in the performance of their duties under this part, including travel and other necessary expenses.

The board's primary purpose shall be to advise and assist the State Treasurer in formulating the investment and reinvestment of moneys in the Local Agency Investment Fund, and the acquisition, retention, management, and disposition of investments of the fund. The board, from time to time, shall review those policies and advise therein as it considers necessary or desirable. The board shall advise the State Treasurer in the management of the fund and consult the State Treasurer on any matter relating to the investment and reinvestment of moneys in the fund.

16429.3

Moneys placed with the Treasurer for deposit in the Local Agency Investment Fund by cities, counties, special districts, nonprofit corporations, or qualified quasi-governmental agencies shall not be subject to either of the following:

(a) Transfer or loan pursuant to Sections 16310, 16312, or 16313.

(b) Impoundment or seizure by any state official or state agency.

16429.4

The right of a city, county, city and county, special district, nonprofit corporation, or qualified quasi-governmental agency to withdraw its deposited moneys from the Local Agency Investment Fund, upon demand, may not be altered, impaired, or denied, in any way, by any state official or state agency based upon the state's failure to adopt a State Budget by July 1 of each new fiscal year.

## Government Code Section 27000-27013

27000

The county treasurer shall receive and keep safely all money belonging to the county and all other money directed by law to be paid to him and apply and pay it out, rendering the account as required by law.

27000.1

Subject to Section 53607, the board of supervisors may, by ordinance, delegate to the county treasurer the authority to invest or reinvest the funds of the county

and the funds of other depositors in the county treasury, pursuant to Chapter 4 (commencing with Section 53600) of Part 1 of Division 2 of title 5. The county treasurer shall thereafter assume full responsibility for those transactions until the board of supervisors either revokes its delegation of authority, by ordinance, or decides not to renew the annual delegation, as provided in Section 53607. Nothing in this section shall limit the county treasurer's authority pursuant to Section 53635 or 53684.

27000.3

(a) With regard to county funds deposited in the county treasury, the board of supervisors is the agent of the county who serves as a fiduciary and is subject to the prudent investor standard, unless a delegation has occurred pursuant to Section 53607 in which case the county treasurer shall be the agent of the county with respect to these funds, serve as a fiduciary, and be subject to the prudent investor standard and the board of supervisors shall not be the agent, serve as a fiduciary, or be subject to the prudent investor standard.

(b) With regard to funds deposited in the county treasury that are deposited by local agencies other than the county and at the discretion of those local agencies, the county treasurer serves as a fiduciary subject to the prudent investor standard.

(c) When investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds, the county treasurer or the board of supervisors, as applicable, shall act with care, skill, prudence, and diligence under the circumstances then prevailing, specifically including, but not limited to, the general economic conditions and the anticipated needs of the county and other depositors, 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 county and the other depositors. Within the limitations of this section and considering individual investments as part of an overall investment strategy, investments may be acquired as authorized by law. Nothing in this chapter is intended to grant investment authority to any person or governing body except as provided in Sections 53601, 53607, and 53635.

27000.5

When investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds, the primary objective of the county treasurer or the board of supervisors, as the case may be, shall be to safeguard the principal of the funds under the treasurer's or the board's control. The secondary objective shall be to meet the liquidity needs of the depositor. The third objective shall be to achieve a return on the funds under his or her control.

27000.6

The provisions of Sections 27000.7, 27000.8, and 27000.9 shall become effective only in those counties in which, prior to the first date of the period for filing declarations of candidacy for the office of county treasurer, county tax collector, or county treasurer-tax collector, the board of supervisors by majority vote at

a regular meeting with all members present, enact an ordinance adopting the provisions of those sections. That ordinance may be repealed by the board of supervisors at any time.

27000.7

(a) No person shall be eligible for election or appointment to the office of county treasurer, county tax collector, or county treasurer-tax collector of any county unless that person meets at least one of the following criteria:

(1) The person has served in a senior financial management position in a county, city, or other public agency dealing with similar financial responsibilities for a continuous period of not less than three years, including, but not limited to, treasurer, tax collector, auditor, auditor-controller, or the chief deputy or an assistant in those offices.

(2) The person possesses a valid baccalaureate, masters, or doctoral degree from an accredited college or university in any of the following major fields of study: business administration, public administration, economics, finance, accounting, or a related field, with a minimum of 16 college semester units, or their equivalent, in accounting, auditing, or finance.

(3) The person possesses a valid certificate issued by the California Board of Accountancy pursuant to Chapter 1 (commencing with Section 5000) of Division 3 of the Business and Professions Code, showing that person to be, and a permit authorizing that person to practice as, a certified public accountant.

(4) The person possesses a valid charter issued by the Institute of Chartered Financial Analysts showing the person to be designated a Chartered Financial Analyst, with a minimum of 16 college semester units, or their equivalent, in accounting, auditing, or finance.

(5) The person possesses a valid certificate issued by the Treasury Management Association showing the person to be designated a Certified Cash Manager, with a minimum of 16 college semester units, or their equivalent, in accounting, auditing, or finance.

(b) This section shall only apply to any person duly elected or appointed as a county treasurer, county tax collector, or county treasurer-tax collector on or after January 1, 1998.

27000.8

Any duly elected county treasurer, county tax collector, or county treasurer-tax collector serving in that office on January 1, 1996, may serve for his or her remaining term of office during which period of time the requirements of this section shall not apply. After the election of a county treasurer, county tax collector, or county treasurer-tax collector to office, that person shall complete a valid continuing course of study as prescribed in this section, and shall during the person's four-year term of office on or before June 30 of the fourth year, render to the Controller a certification indicating that the person has successfully completed

a continuing education program consisting of, at a minimum, 48 hours, or an equivalent amount of continuing education units within the discipline of treasury management, tax collection, public finance, public administration, governmental accounting, or directly related subjects, offered by a recognized state or national association, institute, or accredited college or university, or the California Debt and Investment Advisory Commission, that provides the requisite educational programs prescribed in this section. The willful or negligent failure of any elected county treasurer, county tax collector, or county treasurer-tax collector to comply with the requirements of this section shall be deemed a violation of this section.

27000.9

Notwithstanding any other requirement of law, any duly appointed county officer serving in the capacity of county treasurer, county tax collector, or county treasurer-tax collector shall, beginning in 2000, complete a valid continuing course of study as prescribed in this section, and shall, on or before June 30 of each two-year period, render to the Controller, a certification indicating that the county officer has successfully completed a continuing education program consisting of, at a minimum, 24 hours or an equivalent amount of continuing education units within the discipline of treasury management, tax collection, public finance, public administration, governmental accounting, or directly related subjects, offered by a recognized state or national association, institute, or accredited college or university, or the California Debt and Investment Advisory Commission, that provides the requisite educational programs prescribed in this section. The willful or negligent failure of any county officer serving in the capacity of county treasurer, county tax collector, or county treasurer-tax collector to comply with the requirements of this section shall be deemed a violation of this section.

27001

The treasurer shall file and keep the certificates of the auditor delivered to him or her when money is paid into the treasury.

Notwithstanding Sections 26201, 26202, and 26205, the treasurer may destroy any certificate pursuant to this section under either of the following circumstances:

(a) The certificate has been filed for more than five years.

(b) The certificate has been filed for more than one year, and all of the following conditions are complied with:

(1) The record, paper, or document is photographed, microphotographed, reproduced by electronically recorded video images on magnetic surfaces, or recorded on optical disk or reproduced on any other medium that does not permit additions, deletions, or changes to the original document and is produced in compliance with Section 12168.7 for recording of permanent records or nonpermanent records if the copy is kept or maintained for five years from the date of the document.

(2) The device used to reproduce the record, paper, or document on film or any other medium is one that accurately reproduces the original thereof in all details. A duplicate copy of any record reproduced in compliance with Section 12168.7

for recording of permanent or nonpermanent records, whichever applies, shall be deemed an original.

(3) The photographs, microphotographs, or other reproductions on film or any other medium are placed in conveniently accessible files and provision is made for preserving, examining, and using the same.

(4) The record, paper, or document is reproduced and preserved utilizing other information technology.

27002

The treasurer shall keep an account of the receipt and expenditure of all money received or paid out by him or her in books provided for the purpose. He or she shall enter in the books the amount, the time, from whom, and on what account all money was received by him or her, and the warrant number, the amount, time, and on what account all disbursements were made by him or her.

27002.1

(a) The treasurer may, in lieu of entering in books an account of the receipt and expenditure of all money received or paid out by him or her as provided in Section 27002, photograph, microphotograph, photocopy, or enter into an electronic data-processing system that utilizes optical transmission and filing, all receipts for money received by him or her and all warrants paid out by him or her.

(b) Every reproduction described in subdivision (a) shall be deemed and considered an original, and a transcript, exemplification, or certified copy of any of those reproductions shall be deemed and considered a transcript, exemplification, or certified copy, as the case may be, of the original.

(c) All reproductions described in subdivision (a) shall be properly indexed and placed in convenient, accessible files. Each roll of microfilm shall be deemed and constitute a book, and shall be designated and numbered, and provision shall be made for preserving, examining, and using it. A duplicate of each roll of microfilm shall be made and kept in a safe and separate place.

27003

The treasurer shall keep his or her books or any other authorized form of record so that the amounts received and paid out on account of separate funds or specific appropriations are exhibited in separate and distinct accounts, and the whole receipts and expenditures shown in one general or cash account.

27005

The treasurer shall disburse the county money and all other money placed in his or her custody by official authority only on county warrants, checks, or electronic fund transfers issued by the county auditor, except for the making of legal investments.

27006

The treasurer shall disburse the money in the treasury on county warrants only when they are based on orders of the board of supervisors, upon order of the superior court, or as otherwise provided by law. In the payment of the warrants he may issue his order, check, or draft drawn upon proper funds that are on deposit in any bank.

27007

The treasurer shall keep all money belonging to the State, or any county of the State in his own possession until disbursed according to law. He shall not place the money in the possession of any person to be used for any purpose, nor shall he loan or in any manner use, or permit any person to use it, except as provided by law. This section does not prohibit him from making special deposits for the safe-keeping of public money, but he is liable therefore on his official bond.

27008

(a) The treasurer shall not receive money into the treasury or for deposit with him or her as treasurer, unless it is accompanied by the certificate of the auditor.

(b) Notwithstanding subdivision (a), the auditor and treasurer may establish alternate control procedures for the treasurer to receive or deposit money without the certificate of the auditor.

27009

The treasurer shall give a receipt to each person who deposits money into the county treasury.

27010

The treasurer may receive any money constituting gift, bequest, or devise, and pay it out in accordance with the terms thereof, or, if none are fixed, according to law.

27011

Any county officer who knowingly accepts or allows any deposit in the county treasury of money from any private and unofficial source is guilty of a misdemeanor, punishable by imprisonment in the county jail for not less than six months nor more than one year, or by a fine of not less than five hundred dollars ($500) and not more than five thousand dollars ($5,000), or by both that fine and imprisonment, and shall forfeit his or her office.

27012

The Controller may summon county treasurers or the authorized representative of any county treasurer to meet with the Controller or his or her duly

authorized representatives, in those groups and at that place or those places within the state as may be designated by the Controller for the purpose of discussing the interpretation, procedures, uniformity of operation, and efficient administration of the Revenue and Taxation Code and the Government Code. The actual and necessary expenses of any county officer or his or her authorized representative that are incurred while traveling to and from or while attending any meeting called pursuant to this section by the Controller shall be a charge against the county, to be paid in the same manner as other county charges are paid, provided that prior approval of the board of supervisors has been obtained.

27013

Notwithstanding any other provision of law, any treasurer, or other authorized county officer, who invests, deposits or otherwise handles funds for public agencies for the purpose of earning interest or other income on such funds as permitted by law, may deduct from such interest or income, before distribution thereof, the actual administrative cost of such investing, depositing or handling of funds and of distribution of such interest or income. Such cost reimbursement shall be paid into the county general fund.

## Government Code Section 27130-27137

27130

The Legislature finds and declares that local agencies, including school districts, should participate in reviewing the policies that guide the investment of those funds. The Legislature further finds and declares that by pooling deposits from local agencies and other participants, county treasuries operate in the public interest when they consolidate banking and investment activities, reduce duplication, achieve economies of scale, and carry out coherent and consolidated investment strategies. The Legislature further finds and declares that the creation of county treasury oversight committees will promote the public interest by involving depositors in the management of their funds and by enhancing the security and investment return on their funds by providing a more stable and predictable balance for investment by establishing criteria for the withdrawal of funds.

27131

(a) The board of supervisors in each county or city and county may, if the county or city and county is investing surplus funds, establish a county treasury oversight committee. The board of supervisors, in consultation with the county treasurer, shall determine the exact size of the committee, which shall consist of from 3 to 11 members, and the categories from which the members shall be represented, as specified in subdivisions (a) to (g), inclusive, of Section 27132. Members shall be nominated by the treasurer and confirmed by the board of supervisors.

(b) In recognition of the state and local interests served by the action made optional in subdivision (a), the Legislature encourages local agencies to continue taking the action formerly mandated by this section. However, nothing in this subdivision may be construed to impose any liability on a local agency that does not continue to take the formerly mandated action.

27132

The county treasury oversight committee, pursuant to Section 27131, shall consist of members appointed from the following:

(a) The county treasurer.

(b) The county auditor, auditor-controller, or finance director, as the case may be.

(c) A representative appointed by the county board of supervisors.

(d) The county superintendent of schools or his or her designee.

(e) A representative selected by a majority of the presiding officers of the governing bodies of the school districts and community college districts in the county.

(f) A representative selected by a majority of the presiding officers of the legislative bodies of the special districts in the county that are required or authorized to deposit funds in the county treasury.

(g) Up to five other members of the public.

(1) A majority of the other public members shall have expertise in, or an academic background in, public finance.

(2) The other public members shall be economically diverse and bipartisan in political registration.

27132.1

A member may not be employed by an entity that has (a) contributed to the campaign of a candidate for the office of local treasurer, or (b) contributed to the campaign of a candidate to be a member of a legislative body of any local agency that has deposited funds in the county treasury, in the previous three years or during the period that the employee is a member of the committee.

27132.2

A member may not directly or indirectly raise money for a candidate for local treasurer or a member of the governing board of any local agency that has deposited funds in the county treasury while a member of the committee.

27132.3

A member may not secure employment with, or be employed by, bond underwriters, bond counsel, security brokerages or dealers, or financial services firms,

with whom the treasurer is doing business during the period that the person is a member of the committee or for one year after leaving the committee.

27132.4

Committee meetings shall be open to the public and subject to the Ralph M. Brown Act (Chapter 9 (commencing with Section 54950) of Part 1 of Division 2 of Title 5).

27133

In any county that establishes a county treasury oversight committee pursuant to this article, the county treasurer shall annually prepare an investment policy that will be reviewed and monitored by the county treasury oversight committee. The investment policy shall include all of the following:

(a) A list of securities or other instruments in which the county treasury may invest, according to law, including the maximum allowable percentage by type of security.

(b) The maximum term of any security purchased by the county treasury.

(c) The criteria for selecting security brokers and dealers from, to, or through whom the county treasury may purchase or sell securities or other instruments. The criteria shall prohibit the selection of any broker, brokerage, dealer, or securities firm that has, within any consecutive 48-month period following January 1, 1996, made a political contribution in an amount exceeding the limitations contained in Rule G-37 of the Municipal Securities Rulemaking Board, to the local treasurer, any member of the governing board of the local agency, or any candidate for those offices.

(d) Limits on the receipt of honoraria, gifts, and gratuities from advisors, brokers, dealers, bankers, or other persons with whom the county treasury conducts business by any member of the county treasury oversight committee. These limits may be in addition to the limits set by a committee member's own agency, by state law, or by the Fair Political Practices Commission.

(e) A requirement that the county treasurer provide the county treasury oversight committee with an investment report as required by the board of supervisors.

(f) The manner of calculating and apportioning the costs, authorized by Section 27013, of investing, depositing, banking, auditing, reporting, or otherwise handling or managing funds.

(g) The terms and conditions under which local agencies and other entities that are not required to deposit their funds in the county treasury may deposit funds for investment purposes.

(h) Criteria for considering requests to withdraw funds from the county treasury, pursuant to Section 27136. The criteria shall include an assessment of the effect of a proposed withdrawal on the stability and predictability of the investments in the county treasury.

27134

The county treasury oversight committee shall cause an annual audit to be conducted to determine the county treasury's compliance with this article. The audit may include issues relating to the structure of the investment portfolio and risk.

27135

The costs of complying with this article shall be county charges and may be included with those charges enumerated under Section 27013.

27136

(a) Notwithstanding any other provision of law, any local agency, public agency, public entity, or public official that has funds on deposit in the county treasury pool and that seeks to withdraw funds for the purpose of investing or depositing those funds outside the county treasury pool, shall first submit the request for withdrawal to the county treasurer before withdrawing funds from the county treasury pool.

(b) The county treasurer shall evaluate each proposed withdrawal for its consistency with the criteria adopted pursuant to subdivision (h) of Section 27133. Prior to approving a withdrawal, the county treasurer shall find that the proposed withdrawal will not adversely affect the interests of the other depositors in the county treasury pool.

27137

Nothing in this article shall be construed to allow the county treasury oversight committee to direct individual investment decisions, select individual investment advisors, brokers, or dealers, or impinge on the day-to-day operations of the county treasury.

## Government Code Section 53600-53610

53600

As used in this article, "local agency" means county, city, city and county, including a chartered city or county, school district, community college district, public district, county board of education, county superintendent of schools, or any public or municipal corporation.

53600.3

Except as provided in subdivision (a) of Section 27000.3, all governing bodies of local agencies or persons authorized to make investment decisions on behalf of those local agencies investing public funds pursuant to this chapter 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, 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. Within the limitations of this section and considering individual investments as part of an overall strategy, investments may be acquired as authorized by law.

53600.5

When investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds, the primary objective of a trustee shall be to safeguard the principal of the funds under its control. The secondary objective shall be to meet the liquidity needs of the depositor. The third objective shall be to achieve a return on the funds under its control.

53600.6.

The Legislature hereby finds that the solvency and creditworthiness of each individual local agency can impact the solvency and creditworthiness of the state and other local agencies within the state. Therefore, to protect the solvency and creditworthiness of the state and all of its political subdivisions, the Legislature hereby declares that the deposit and investment of public funds by local officials and local agencies is an issue of statewide concern.

53601.

This section shall apply to a local agency that is a city, a district, or other local agency that does not pool money in deposits or investments with other local agencies, other than local agencies that have the same governing body. However, Section 53635 shall apply to all local agencies that pool money in deposits or investments with other local agencies that have separate governing bodies. The legislative body of a local agency having moneys in a sinking fund or moneys in its treasury not required for the immediate needs of the local agency may invest any portion of the moneys that it deems wise or expedient in those investments set forth below. A local agency purchasing or obtaining any securities prescribed in this section, in a negotiable, bearer, registered, or nonregistered format, shall require delivery of the securities to the local agency, including those purchased for the agency by financial advisers, consultants, or managers using the agency's funds, by book entry, physical delivery, or by third-party custodial agreement. The transfer of securities to the counterparty bank's customer book entry account may be used for book entry delivery.

For purposes of this section, "counterparty" means the other party to the transaction. A counterparty bank's trust department or separate safekeeping department may be used for the physical delivery of the security if the security is held in the name of the local agency. Where this section specifies a percentage

limitation for a particular category of investment, that percentage is applicable only at the date of purchase. Where this section does not specify a limitation on the term or remaining maturity at the time of the investment, no investment shall be made in any security, other than a security underlying a repurchase or reverse repurchase agreement or securities lending agreement authorized by this section, that at the time of the investment has a term remaining to maturity in excess of five years, unless the legislative body has granted express authority to make that investment either specifically or as a part of an investment program approved by the legislative body no less than three months prior to the investment:

(a) Bonds issued by the local agency, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the local agency or by a department, board, agency, or authority of the local agency.

(b) 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.

(c) Registered state warrants or treasury notes or bonds of this state, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the state or by a department, board, agency, or authority of the state.

(d) 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 the other 49 states, in addition to California.

(e) Bonds, notes, warrants, or other evidences of indebtedness of a local agency within this state, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the local agency, or by a department, board, agency, or authority of the local agency.

(f) 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.

(g) Bankers' acceptances otherwise known as bills of exchange or time drafts that are drawn on and accepted by a commercial bank. Purchases of bankers' acceptances shall not exceed 180 days' maturity or 40 percent of the agency's moneys that may be invested pursuant to this section. However, no more than 30 percent of the agency's moneys may be invested in the bankers' acceptances of any one commercial bank pursuant to this section.

This subdivision does not preclude a municipal utility district from investing moneys in its treasury in a manner authorized by the Municipal Utility District Act (Division 6 (commencing with Section 11501) of the Public Utilities Code).

(h) 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 an 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 shall have a maximum maturity of 270 days or less. Local agencies, other than counties or a city and county, that have less than one hundred million dollars ($100,000,000) of investment assets under management, may invest no more than 25 percent of their moneys in eligible commercial paper. Local agencies, other than counties or a city and county, that have one hundred million dollars ($100,000,000) or more of investment assets under management may invest no more than 40 percent of their moneys in eligible commercial paper. A local agency, other than a county or a city and a county, may invest no more than 10 percent of its total investment assets in the commercial paper and the medium-term notes of any single issuer. Counties or a city and county may invest in commercial paper pursuant to the concentration limits in subdivision (a) of Section 53635.

(i) Negotiable certificates of deposit 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 licensed or state-licensed branch of a foreign bank. Purchases of negotiable certificates of deposit shall not exceed 30 percent of the agency's moneys that may be invested pursuant to this section. For purposes of this section, negotiable certificates of deposit do not come within Article 2 (commencing with Section 53630), except that the amount so invested shall be subject to the limitations of Section 53638. The legislative body of a local agency and the treasurer or other official of the local agency having legal custody of the moneys are prohibited from investing local agency funds, or funds in the custody of the local agency, in negotiable certificates of deposit issued by a state or federal credit union if a member of the legislative body of the local agency, or a person with investment decision making authority in the administrative office manager's office, budget office, auditor-controller's office, or treasurer's office of the local agency also serves on the board of directors, or any committee appointed by the board of directors, or the credit committee or the supervisory committee of the state or federal credit union issuing the negotiable certificates of deposit.

(j)(1) Investments in repurchase agreements or reverse repurchase agreements or securities lending agreements of any securities authorized by this section, as long as the agreements are subject to this subdivision, including the delivery requirements specified in this section.

(2) Investments in repurchase agreements may be made, on an investment authorized in this section, when the term of the agreement does not exceed one year. The market value of securities that underlie a repurchase agreement shall be valued at 102 percent or greater of the funds borrowed against those securities and the value shall be adjusted no less than quarterly. Since the market value of the underlying securities is subject to daily market fluctuations, the investments in repurchase agreements shall be in compliance if the value of the underlying securities is brought back up to 102 percent no later than the next business day.

(3) Reverse repurchase agreements or securities lending agreements may be utilized only when all of the following conditions are met:

(A) The security to be sold using a reverse repurchase agreement or securities lending agreement has been owned and fully paid for by the local agency for a minimum of 30 days prior to sale.

(B) The total of all reverse repurchase agreements and securities lending agreements on investments owned by the local agency does not exceed 20 percent of the base value of the portfolio.

(C) The agreement does not exceed a term of 92 days, unless the agreement includes a written codicil guaranteeing a minimum earning or spread for the entire period between the sale of a security using a reverse repurchase agreement or securities lending agreement and the final maturity date of the same security.

(D) Funds obtained or funds within the pool of an equivalent amount to that obtained from selling a security to a counterparty using a reverse repurchase agreement or securities lending agreement shall not be used to purchase another security with a maturity longer than 92 days from the initial settlement date of the reverse repurchase agreement or securities lending agreement, unless the everse repurchase agreement or securities lending agreement includes a written codicil guaranteeing a minimum earning or spread for the entire period between the sale of a security using a reverse repurchase agreement or securities lending agreement and the final maturity date of the same security.

(4)(A) Investments in reverse repurchase agreements, securities lending agreements, or similar investments in which the local agency sells securities prior to purchase with a simultaneous agreement to repurchase the security may be made only upon prior approval of the governing body of the local agency and shall be made only with primary dealers of the Federal Reserve Bank of New York or with a nationally or state-chartered bank that has or has had a significant banking relationship with a local agency.

(B) For purposes of this chapter, "significant banking relationship" means any of the following activities of a bank:

(i) Involvement in the creation, sale, purchase, or retirement of a local agency's bonds, warrants, notes, or other evidence of indebtedness.

(ii) Financing of a local agency's activities.

(iii) Acceptance of a local agency's securities or funds as deposits.

(5)(A) "Repurchase agreement" means a purchase of securities by the local agency pursuant to an agreement by which the counterparty seller will repurchase the securities on or before a specified date and for a specified amount and the counterparty will deliver the underlying securities to the local agency by book entry, physical delivery, or by third-party custodial agreement. The transfer of underlying securities to the counterparty bank's customer book-entry account may be used for book-entry delivery.

(B) "Securities," for purposes of repurchase under this subdivision, means securities of the same issuer, description, issue date, and maturity.

(C) "Reverse repurchase agreement" means a sale of securities by the local agency pursuant to an agreement by which the local agency will repurchase the securities on or before a specified date and includes other comparable agreements.

(D) "Securities lending agreement" means an agreement under which a local agency agrees to transfer securities to a borrower who, in turn, agrees to provide collateral to the local agency. During the term of the agreement, both the securities and the collateral are held by a third party. At the conclusion of the agreement, the securities are transferred back to the local agency in return for the collateral.

(E) For purposes of this section, the base value of the local agency's pool portfolio shall be that dollar amount obtained by totaling all cash balances placed in the pool by all pool participants, excluding any amounts obtained through selling securities by way of reverse repurchase agreements, securities lending agreements, or other similar borrowing methods.

(F) For purposes of this section, the spread is the difference between the cost of funds obtained using the reverse repurchase agreement and the earnings obtained on the reinvestment of the funds.

(k) 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 an NRSRO. Purchases of medium-term notes shall not include other instruments authorized by this section and shall not exceed 30 percent of the agency's moneys that may be invested pursuant to this section. A local agency, other than a county or a city and a county, may invest no more than 10 percent of its total investment assets in the commercial paper and the medium-term notes of any single issuer.

(l)(1) Shares of beneficial interest issued by diversified management companies that invest in the securities and obligations as authorized by subdivisions (a) to (k), inclusive, and subdivisions (m) to (q), inclusive, and that comply with the

investment restrictions of this article and Article 2 (commencing with Section 53630). However, notwithstanding these restrictions, a counterparty to a reverse repurchase agreement or securities lending agreement is not required to be a primary dealer of the Federal Reserve Bank of New York if the company's board of directors finds that the counterparty presents a minimal risk of default, and the value of the securities underlying a repurchase agreement or securities lending agreement may be 100 percent of the sales price if the securities are marked to market daily.

(2) 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.).

(3) If investment is in shares issued pursuant to paragraph (1), the company shall have met either of the following criteria:

(A) Attained the highest ranking or the highest letter and numerical rating provided by not less than two NRSROs.

(B) Retained an investment adviser registered or exempt from registration with the Securities and Exchange Commission with not less than five years' experience investing in the securities and obligations authorized by subdivisions (a) to (k), inclusive, and subdivisions (m) to (q), inclusive, and with assets under management in excess of five hundred million dollars ($500,000,000).

(4) If investment is in shares issued pursuant to paragraph (2), the company shall have met either of the following criteria:

(A) Attained the highest ranking or the highest letter and numerical rating provided by not less than two NRSROs.

(B) Retained an investment adviser registered or exempt from registration with the Securities and Exchange Commission with not less than five years' experience managing money market mutual funds with assets under management in excess of five hundred million dollars ($500,000,000).

(5) The purchase price of shares of beneficial interest purchased pursuant to this subdivision shall not include any commission that the companies may charge and shall not exceed 20 percent of the agency's moneys that may be invested pursuant to this section. However, no more than 10 percent of the agency's funds may be invested in shares of beneficial interest of any one mutual fund pursuant to paragraph (1).

(m) Moneys held by a trustee or fiscal agent and pledged to the payment or security of bonds or other indebtedness, or obligations under a lease, installment sale, or other agreement of a local agency, or certificates of participation in those bonds, indebtedness, or lease installment sale, or other agreements, may be invested in accordance with the statutory provisions governing the issuance of those bonds, indebtedness, or lease installment sale, or other agreement, or to the extent not inconsistent therewith or if there are no specific statutory provisions, in accordance with the ordinance, resolution, indenture, or agreement of the local agency providing for the issuance.

(n) Notes, bonds, or other obligations that are at all times secured by a valid first priority security interest in securities of the types listed by Section 53651 as eligible securities for the purpose of securing local agency deposits having a market value at least equal to that required by Section 53652 for the pupose of securing local agency deposits. The securities serving as collateral shall be placed by delivery or book entry into the custody of a trust company or the trust department of a bank that is not affiliated with the issuer of the secured obligation, and the security interest shall be perfected in accordance with the requirements of the Uniform Commercial Code or federal regulations applicable to the types of securities in which the security interest is granted.

(o) A mortgage passthrough security, collateralized mortgage obligation, mortgage-backed or other pay-through bond, equipment lease-backed certificate, consumer receivable passthrough certificate, or consumer receivable-backed bond. Securities eligible for investment under this subdivision shall be rated in a rating category of "AA" or its equivalent or better by an NRSRO and have a maximum remaining maturity of five years or less. Purchase of securities authorized by this subdivision shall not exceed 20 percent of the agency's surplus moneys that may be invested pursuant to this section.

(p) Shares of beneficial interest issued by a joint powers authority organized pursuant to Section 6509.7 that invests in the securities and obligations authorized in subdivisions (a) to (q), inclusive. Each share shall represent an equal proportional interest in the underlying pool of securities owned by the joint powers authority. To be eligible under this section, the joint powers authority issuing the shares shall have retained an investment adviser that meets all of the following criteria:

(1) The adviser is registered or exempt from registration with the Securities and Exchange Commission.

(2) The adviser has not less than five years of experience investing in the securities and obligations authorized in subdivisions (a) to (q), inclusive.

(3) The adviser has assets under management in excess of five hundred million dollars ($500,000,000).

(q) 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 percent of the agency's moneys that may be invested pursuant to this section.

(r) Commercial paper, debt securities, or other obligations of a public bank, as defined in Section 57600.

This section shall remain in effect only until January 1, 2026, and as of that date is repealed.

53601.1

The authority of a local agency to invest funds pursuant to Section 53601 includes, in addition thereto, authority to invest in financial futures or financial option contracts in any of the investment categories enumerated in that section.

53601.2

As used in this article, "corporation" includes a limited liability company.

53601.5

The purchase by a local agency of any investment authorized pursuant to Section 53601 or 53601.1, not purchased directly from the issuer, shall be purchased either from an institution licensed by the state as a broker-dealer, as defined in Section 25004 of the Corporations Code, or from a member of a federally regulated securities exchange, from a national or state-chartered bank, from a savings association or federal association (as defined by Section 5102 of the Financial Code) or from a brokerage firm designated as a primary government dealer by the Federal Reserve bank.

53601.6

(a) A local agency shall not invest any funds pursuant to this article or pursuant to Article 2 (commencing with Section 53630) in inverse floaters, range notes, or mortgage-derived, interest-only strips.

(b) (1) Except as provided in paragraph (2), a local agency shall not invest any funds pursuant to this article or pursuant to Article 2 (commencing with Section 53630) in any security that could result in zero interest accrual if held to maturity. However, a local agency may hold prohibited instruments until their maturity dates. The limitation in this subdivision shall not apply to local agency investments in shares of beneficial interest issued by diversified management companies registered under the Investment Company Act of 1940 (15 U.S.C. Sec. 80a-1 et seq.) that are authorized for investment pursuant to subdivision (l) of Section 53601.

(2) Notwithstanding the prohibition in paragraph (1), a local agency may invest in securities issued by, or backed by, the United States government that could result in zero- or negative-interest accrual if held to maturity, in the event of, and for the duration of, a period of negative market interest rates. A local agency may hold these instruments until their maturity dates.

(c) This section shall remain in effect only until January 1, 2026, and as of that date is repealed.

53601.8

Notwithstanding any other provision of this code, a local agency that has the authority under law to invest funds, at its discretion, may invest a portion of its surplus funds in deposits at a commercial bank, savings bank, savings and loan

association, or credit union that uses a private sector entity that assists in the placement of deposits. The following conditions shall apply:

(a) The local agency shall choose a nationally or state-chartered commercial bank, savings bank, savings and loan association, or credit union in this state to invest the funds, which shall be known as the "selected" depository institution.

(b) The selected depository institution may use a private sector entity to help place local agency deposits with one or more commercial banks, savings banks, savings and loan associations, or credit unions that are located in the United States and are within the network used by the private sector entity for this purpose.

(c) The selected depository institution shall request that the local agency inform it of depository institutions at which the local agency has other deposits, and the selected depository institution shall provide that information to the private sector entity.

(d) Any private sector entity used by a selected depository institution to help place its local agency deposits shall maintain policies and procedures requiring all of the following:

(1) The full amount of each deposit placed pursuant to subdivision (b) and the interest that may accrue on each such deposit shall at all times be insured by the Federal Deposit Insurance Corporation or the National Credit Union Administration.

(2) Every depository institution where funds are placed shall be capitalized at a level that is sufficient, and be otherwise eligible, to receive such deposits pursuant to regulations of the Federal Deposit Insurance Corporation or the National Credit Union Administration, as applicable.

(3) At the time of the local agency's investment with a selected depository institution and no less than monthly thereafter, the private sector entity shall ensure that the local agency is provided with an inventory of all depository institutions in which deposits have been placed on the local agency's behalf, that are within the private sector entity's network.

(4) Within its network, the private sector entity shall ensure that it does not place additional deposits from a particular local agency with any depository institution identified pursuant to subdivision (c) as holding that local agency's deposits if those additional deposits would result in that local agency's total amount on deposit at that depository institution exceeding the Federal Deposit Insurance Corporation or the National Credit Union Administration insurance limit.

(e) If a selected depository uses two or more private sector entities to assist in the placement of a local agency's deposits, the selected depository shall ensure that it does not place additional deposits from a particular local agency with a depository institution if those additional deposits would result in that local agency's total amount on deposit at that depository institution exceeding the Federal Deposit Insurance Corporation or the National Credit Union Administration insurance limit.

(f) The selected depository institution shall serve as a custodian for each such deposit.

(g) On the same date that the local agency's funds are placed pursuant to subdivision (b) by the private sector entity, the selected depository institution shall receive an amount of insured deposits from other financial institutions that, in total, are equal to, or greater than, the full amount of the principal that the local agency initially deposited through the selected depository institution pursuant to subdivision (b).

(h) Notwithstanding subdivisions (a) to (g), inclusive, a credit union shall not act as a selected depository institution under this section unless both of the following conditions are satisfied:

(1) The credit union offers federal depository insurance through the National Credit Union Administration.

(2) The credit union is in possession of written guidance or other written communication from the National Credit Union Administration authorizing participation of federally insured credit unions in one or more deposit placement services and affirming that the moneys held by those credit unions while participating in a deposit placement service will at all times be insured by the federal government.

(i) It is the intent of the Legislature that this section shall not restrict competition among private sector entities that provide placement services pursuant to this section.

(j) The deposits placed pursuant to this section shall be subject to Section 53638 and shall not, in total, exceed 30 percent of the agency's funds that may be invested for this purpose.

(k) This section shall become operative on January 1, 2026.

53602

The legislative body shall invest only in notes, bonds, bills, certificates of indebtedness, warrants, or registered warrants which are legal investments for savings banks in the State, provided, that the board of supervisors of a county may, by a four-fifths vote thereof, invest in notes, warrants or other evidences of indebtedness of public districts wholly or partly within the county, whether or not such notes, warrants, or other evidences of indebtedness are legal investments for savings banks.

53603

The legislative body may make the investment by direct purchase of any issue of eligible securities at their original sale or after they have been issued.

53604

The legislative body may sell, or exchange for other eligible securities, and reinvest the proceeds of, the securities purchased.

53605

From time to time, the legislative body shall sell the securities so that the proceeds may be applied to the purposes for which the original purchase money was placed in the sinking fund or the treasury of the local agency.

53606

The bonds purchased, which were issued by the purchaser, may be canceled either in satisfaction or sinking fund obligations or otherwise. When canceled, they are no longer outstanding, unless in its discretion, the legislative body holds then uncanceled. While held uncanceled, the bonds may be resold.

53607

The authority of the legislative body to invest or to reinvest funds of a local agency, or to sell or exchange securities so purchased, may be delegated for a one-year period by the legislative body to the treasurer of the local agency, who shall thereafter assume full responsibility for those transactions until the delegation of authority is revoked or expires, and shall make a monthly report of those transactions to the legislative body. Subject to review, the legislative body may renew the delegation of authority pursuant to this section each year.

53608

The legislative body of a local agency may deposit for safekeeping with a federal or state association (as defined by Section 5102 of the Financial Code), a trust company or a state or national bank located within this state or with the Federal Reserve Bank of San Francisco or any branch thereof within this state, or with any Federal Reserve bank or with any state or national bank located in any city designated as a reserve city by the Board of Governors of the Federal Reserve System, the bonds, notes, bills, debentures, obligations, certificates of indebtedness, warrants, or other evidences of indebtedness in which the money of the local agency is invested pursuant to this article or pursuant to other legislative authority. The local agency shall take from such financial institution a receipt for securities so deposited. The authority of the legislative body to deposit for safekeeping may be delegated by the legislative body to the treasurer of the local agency; the treasurer shall not be responsible for securities delivered to and receipted for by a financial institution until they are withdrawn from the financial institution by the treasurer.

53609

Notwithstanding the provisions of this chapter or any other provisions of this code, funds held by a local agency pursuant to a written agreement between the agency and employees of the agency to defer a portion of the compensation otherwise receivable by the agency's employees and pursuant to a plan for such deferral as adopted by the governing body of the agency, may be invested in the types of investments set forth in Sections 53601 and 53602 of this code, and may additionally be invested in corporate stocks, bonds, and securities, mutual funds, savings and loan accounts, credit union accounts, life insurance policies, annuities, mortgages, deeds

of trust, or other security interests in real or personal property. Nothing herein shall be construed to permit any type of investment prohibited by the Constitution.

Deferred compensation funds are public pension or retirement funds for the purposes of Section 17 of Article XVI of the Constitution.

53610

(a) For purposes of this section, "Proposition 1A receivable" means the right to payment of moneys due or to become due to a local agency, pursuant to clause (iii) of subparagraph (B) of paragraph (1) of subdivision (a) of Section 25.5 of Article XIII of the California Constitution and Section 100.06 of the Revenue and Taxation Code.

(b) Notwithstanding any other law, a local agency may purchase, with its revenue, Proposition 1A receivables sold pursuant to Section 53999.

(c) A purchaser of Proposition 1A receivables pursuant to this section shall not offer them for sale pursuant to Section 6588.

## Government Code Section 53620-53622

53620

Notwithstanding Section 53601 or 53635, the governing body of a local agency may invest funds designated for the payment of employee retiree health benefits in any form or type of investment deemed prudent by the governing body pursuant to Section 53622.

53621

The authority of the governing body to invest or to reinvest funds intended for the payment of employee retiree health benefits, or to sell or exchange securities purchased for that purpose, may be delegated by the governing body to designated officers.

53622

(a) Funds intended for the payment of employee retiree health benefits shall only be held for the purpose of providing benefits to participants in the retiree health benefit plan and defraying reasonable expenses of administering that plan.

(b) The governing body or designated officer, when making investments of the funds, shall discharge its duties with respect to the investment of the funds.

(1) Solely in the interest of, and for the exclusive purposes of providing benefits to, participants in the retiree health benefit plan, minimizing employer contributions thereto, and defraying reasonable expenses of administering the plan.

(2) With the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with these matters would use in the conduct of an enterprise of a like character and with like aims.

(3) Shall diversify the investments of the funds so as to minimize the risk of loss and to maximize the rate of return, unless under the circumstances it is clearly prudent not to do so.

## Government Code Section 53630-53686

53630

As used in this article:

(a) "Local agency" means county, city, city and county, including a chartered city or county, a community college district, or other public agency or corporation in this state.

(b) "Treasurer" means treasurer of the local agency.

(c) "Depository" means a state or national bank, savings association or federal association, a state or federal credit union, or a federally insured industrial loan company, in this state in which the moneys of a local agency are deposited.

(d) "Agent of depository" means a trust company or trust department of a state or national bank located in this state, including the trust department of a depository where authorized, and the Federal Home Loan Bank of San Francisco, which is authorized to act as an agent of depository for the purposes of this article pursuant to Section 53657.

(e) "Security" means any of the eligible securities or obligations listed in Section 53651.

(f) "Pooled securities" means eligible securities held by an agent of depository for a depository and securing deposits of one or more local agencies.

(g) "Administrator" means the Administrator of Local Agency Security of the State of California.

(h) "Savings association or federal association" means a savings association, savings and loan association, or savings bank as defined by Section 5102 of the Financial Code.

(i) "Federally insured industrial loan company" means an industrial loan company licensed under Division 7 (commencing with Section 18000) of the Financial Code, the investment certificates of which are insured by the Federal Deposit Insurance Corporation.

(j) "Corporation" includes a limited liability company.

53630.1

The Legislature hereby finds that the solvency and creditworthiness of each individual local agency can impact the solvency and creditworthiness of the state and other local agencies within the state. Therefore, to protect the solvency and creditworthiness of the state and all of its political subdivisions, the Legislature hereby declares that the deposit and investment of public funds by local officials and local agencies is an issue of statewide concern.

53630.5

(a) The definitions in Section 1750 of, and Chapter 1 (commencing with Section 99) of Division 1 of, the Financial Code apply to this section.

(b) In this article, for purposes of being a depository of moneys belonging to or being in the custody of a local agency, the phrases "state or national bank located in this state," "state or national bank," "state or national bank in this state," and "state or national banks in the state" include, without limitation, any of the following:

(1) Any California branch office of a foreign (other state) state bank that the bank is authorized to maintain under the law of its domicile and federal law.

(2) Any California branch office of a foreign (other state) national bank that the bank is authorized to maintain under federal law.

(3) Any California branch office of a foreign (other nation) bank that the bank is licensed to maintain under Article 3 (commencing with Section 1800) of Chapter 20 of Division 1.1 of the Financial Code.

(4) Any California federal branch of a foreign (other nation) bank that the bank is authorized to maintain under federal law.

53631

Under those conditions as the treasurer of a local agency fixes with the approval of the legislative body, he or she may establish accounts at banks within or without the state and deposit money in those accounts to the extent necessary to pay the principal and interest of bonds to pay any warrant that has been presented for payment, or to fund any electronic disbursement of funds from the treasury of the local agency. This article does not apply to deposits for those purposes.

53632

There are three classes of deposits:

(a) Inactive deposits.

(b) Active deposits.

(c) Interest-bearing active deposits.

53632.5

There are three classes of security for deposits:

(a) Securities described in subdivision (m) of Section 53651.

(b) Securities described in subdivision (p) of Section 53651.

(c) Securities enumerated in Section 53651, except for those described in subdivisions (m) and (p) of that section.

53633

The treasurer shall determine the amounts of money to be deposited as inactive, active, and interest-bearing active deposits, except as otherwise provided in Section 53679.

53634

The treasurer may call in money from inactive deposits and place it in active deposits as current demands require. When there is money in his possession for which there is no demand as inactive deposits, he may place it as active deposits.

53635

(a) This section shall apply to a local agency that is a county, a city and a county, or other local agency that pools money in deposits or investments with other local agencies, including local agencies that have the same governing body. However, Section 53601 shall apply to all local agencies that pool money in deposits or investments exclusively with local agencies that have the same governing body.

This section shall be interpreted in a manner that recognizes the distinct characteristics of investment pools and the distinct administrative burdens on managing and investing funds on a pooled basis pursuant to Article 6 (commencing with Section 27130) of Chapter 5 of Division 2 of Title 3.

A local agency that is a county, a city and county, or other local agency that pools money in deposits or investments with other agencies may invest in commercial paper pursuant to subdivision (h) of Section 53601, except that the local agency shall be subject to the following concentration limits:

(1) No more than 40 percent of the local agency's money may be invested in eligible commercial paper.

(2) No more than 10 percent of the total assets of the investments held by a local agency may be invested in any one issuer's commercial paper.

(b) Notwithstanding Section 53601, the City of Los Angeles shall be subject to the concentration limits of this section for counties and for cities and counties with regard to the investment of money in eligible commercial paper.

(c) A local agency subject to this section may invest in commercial paper, debt securities, or other obligations of a public bank, as defined in Section 57600.

53635.2

As far as possible, all money belonging to, or in the custody of, a local agency, including money paid to the treasurer or other official to pay the principal, interest, or penalties of bonds, shall be deposited for safekeeping in state or national banks, public banks, savings associations, federal associations, credit unions, or federally insured industrial loan companies in this state selected by the treasurer or other official having legal custody of the money; or may be invested in the investments set forth in Section 53601. To be eligible to receive local agency money, a bank, savings association, federal association, or federally insured industrial loan company shall have received an overall rating of not less than "satisfactory" in its most recent evaluation by the appropriate federal financial supervisory agency of its record of meeting the credit needs of California's communities, including low- and moderate-income neighborhoods, pursuant to Section 2906 of Title 12 of the United States Code. Sections 53601.5 and 53601.6 shall apply to all investments that are acquired pursuant to this section.

53635.7

In making any decision that involves borrowing in the amount of one hundred thousand dollars ($100,000) or more, the legislative body of the local agency shall discuss, consider, and deliberate each decision as a separate item of business on the agenda of its meeting as prescribed in Chapter 9 (commencing with Section 54950). As used in this section, "borrowing" does not include bank overdrafts or security lending.

53635.8

Notwithstanding any other provision of this code, a local agency that has the authority under law to invest funds, at its discretion, may invest a portion of its surplus funds in deposits at a commercial bank, savings bank, savings and loan association, or credit union that uses a private sector entity that assists in the placement of deposits. The following conditions shall apply:

(a) The local agency shall choose a nationally or state-chartered commercial bank, savings bank, savings and loan association, or credit union in this state to invest the funds, which shall be known as the "selected" depository institution.

(b) The selected depository institution may use a private sector entity to help place local agency deposits with one or more commercial banks, savings banks, savings and loan associations, or credit unions that are located in the United States and are within the network used by the private sector entity for this purpose.

(c) The selected depository institution shall request that the local agency inform it of depository institutions at which the local agency has other deposits, and the selected depository institution shall provide that information to the private sector entity.

(d) Any private sector entity used by a selected depository institution to help place its local agency deposits shall maintain policies and procedures requiring all of the following:

(1) The full amount of each deposit placed pursuant to subdivision (b) and the interest that may accrue on each such deposit shall at all times be insured by the Federal Deposit Insurance Corporation or the National Credit Union Administration.

(2) Every depository institution where funds are placed shall be capitalized at a level that is sufficient, and be otherwise eligible, to receive such deposits pursuant to regulations of the Federal Deposit Insurance Corporation or the National Credit Union Administration, as applicable.

(3) At the time of the local agency's investment with a selected depository institution and no less than monthly thereafter, the private sector entity shall ensure that the local agency is provided with an inventory of all depository institutions in which deposits have been placed on the local agency's behalf, that are within the private sector entity's network.

(4) Within its network, the private sector entity shall ensure that it does not place additional deposits from a particular local agency with any depository institution identified pursuant to subdivision (c) as holding that local agency's deposits if those additional deposits would result in that local agency's total amount on deposit at that depository institution exceeding the Federal Deposit Insurance Corporation or the National Credit Union Administration insurance limit.

(e) If a selected depository uses two or more private sector entities to assist in the placement of a local agency's deposits, the selected depository shall ensure that it does not place additional deposits from a particular local agency with a depository institution if those additional deposits would result in that local agency's total amount on deposit at that depository institution exceeding the Federal Deposit Insurance Corporation or the National Credit Union Administration insurance limit.

(f) The selected depository institution shall serve as a custodian for each such deposit.

(g) On the same date that the local agency's funds are placed pursuant to subdivision (b) by the private sector entity, the selected depository institution shall receive an amount of insured deposits from other financial institutions that, in total, are equal to, or greater than, the full amount of the principal that the local agency initially deposited through the selected depository institution for investment pursuant to subdivision (b).

(h) Notwithstanding subdivisions (a) to (g), inclusive, a credit union shall not act as a selected depository institution under this section unless both of the following conditions are satisfied:

(1) The credit union offers federal depository insurance through the National Credit Union Administration.

(2) The credit union is in possession of written guidance or other written communication from the National Credit Union Administration authorizing participation of federally insured credit unions in one or more deposit placement services and affirming that the moneys held by those credit unions while participating in a deposit placement service will at all times be insured by the federal government.

(i) It is the intent of the Legislature that this section shall not restrict competition among private sector entities that provide placement services pursuant to this section.

(j) The deposits placed pursuant to this section shall be subject to Section 53638 and shall not, in total, exceed 30 percent of the agency's funds that may be invested for this purpose.

53636

Money so deposited is deemed to be in the treasury of the local agency.

53637

The money shall be deposited in any bank, savings association or federal association, state or federal credit union, or federally insured industrial loan company with the objective of realizing maximum return, consistent with prudent financial management, except that money shall not be deposited in any state or federal credit union if a member of the legislative body of a local agency, or any person with investment decision making authority of the administrative office, manager's office, budget office, auditor-controller's office, or treasurer's office of the local agency, also serves on the board of directors, or any committee appointed by the board of directors, or the credit committee or supervisory committee, of the state or federal credit union.

53638

(a) The deposit shall not exceed the shareholder's equity of any depository bank. For the purposes of this subdivision, shareholder's equity shall be determined in accordance with Section 463 of the Financial Code, but shall be deemed to include capital notes and debentures.

(b) The deposit shall not exceed the total of the net worth of any depository savings association or federal association, except that deposits not exceeding a total of five hundred thousand dollars ($500,000) may be made to a savings association or federal association without regard to the net worth of that depository, if such deposits are insured or secured as required by law.

(c) The deposit to the share accounts of any regularly chartered credit union shall not exceed the total of the unimpaired capital and surplus of the credit union, as defined by rule of the Commissioner of Business Oversight, except that the deposit to any credit union share account in an amount not exceeding five hundred thousand dollars ($500,000) may be made if the share accounts of

that credit union are insured or guaranteed pursuant to Section 14858 of the Financial Code or are secured as required by law.

(d) The deposit in investment certificates of a federally insured industrial loan company shall not exceed the total of the unimpaired capital and surplus of the insured industrial loan company.

53639

Except as otherwise provided in Section 53682, the depository shall bear the expenses of transportation of money to and from the depository.

53640

Except as otherwise provided in Section 53682, the depository shall handle, collect, and pay all checks, drafts, and other exchange without cost to the local agency.

53641

When money is deposited in a depository, the treasurer or other authorized official shall take and preserve a receipt, certificate of deposit, or other evidence of the deposit as he or she requires.

53642

The money deposited may be drawn out by check or order of the treasurer or other official authorized to make such deposit.

53643

The treasurer may deposit any part of the money as agreed upon between the treasurer and the depository.

53644

If an agreement is not made:

(a) Active deposits and interest thereon are subject to withdrawal upon the demand of the treasurer or other authorized official, subject to any penalties which may be prescribed by federal law or regulation.

(b) Inactive deposits are subject to notice of at least thirty days before withdrawal.

53645

Interest shall be computed and paid by the depository, as follows:

(a) For active deposits upon which interest is payable, interest shall be computed on the average daily balance for the calendar quarter, and shall be paid quarterly.

(b) For inactive deposits, interest shall be computed on a 360-day basis, and shall be paid quarterly.

53646

(a)(1) In the case of county government, the treasurer may annually render to the board of supervisors and any oversight committee a statement of investment policy, which the board shall review and approve at a public meeting. Any change in the policy shall also be reviewed and approved by the board at a public meeting.

(2) In the case of any other local agency, the treasurer or chief fiscal officer of the local agency may annually render to the legislative body of that local agency and any oversight committee of that local agency a statement of investment policy, which the legislative body of the local agency shall consider at a public meeting. Any change in the policy shall also be considered by the legislative body of the local agency at a public meeting.

(b)(1) The treasurer or chief fiscal officer may render a quarterly report to the chief executive officer, the internal auditor, and the legislative body of the local agency. The quarterly report shall be so submitted within 30 days following the end of the quarter covered by the report. Except as provided in subdivisions (e) and (f), this report shall include the type of investment, issuer, date of maturity par and dollar amount invested on all securities, investments and moneys held by the local agency, and shall additionally include a description of any of the local agency's funds, investments, or programs, that are under the management of contracted parties, including lending programs. With respect to all securities held by the local agency, and under management of any outside party that is not also a local agency or the State of California Local Agency Investment Fund, the report shall also include a current market value as of the date of the report, and shall include the source of this same valuation.

(2) The quarterly report shall state compliance of the portfolio to the statement of investment policy, or manner in which the portfolio is not in compliance.

(3) The quarterly report shall include a statement denoting the ability of the local agency to meet its pool's expenditure requirements for the next six months, or provide an explanation as to why sufficient money shall, or may, not be available.

(4) In the quarterly report, a subsidiary ledger of investments may be used in accordance with accepted accounting practices.

(c) Pursuant to subdivision (b), the treasurer or chief fiscal officer shall report whatever additional information or data may be required by the legislative body of the local agency.

(d) The legislative body of a local agency may elect to require the report specified in subdivision (b) to be made on a monthly basis instead of quarterly.

(e) For local agency investments that have been placed in the Local Agency Investment Fund, created by Section 16429.1, in National Credit Union Share Insurance Fund-insured accounts in a credit union, in accounts insured or guaranteed pursuant to Section 14858 of the Financial Code, or in Federal Deposit

Insurance Corporation-insured accounts in a bank or savings and loan association, in a county investment pool, or any combination of these, the treasurer or chief fiscal officer may supply to the governing body, chief executive officer, and the auditor of the local agency the most recent statement or statements received by the local agency from these institutions in lieu of the information required by paragraph (1) of subdivision (b) regarding investments in these institutions.

(f) The treasurer or chief fiscal officer shall not be required to render a quarterly report, as required by subdivision (b), to a legislative body or any oversight committee of a school district or county office of education for securities, investments, or moneys held by the school district or county office of education in individual accounts that are less than twenty-five thousand dollars ($25,000).

(g) In recognition of the state and local interests served by the actions made optional in subdivisions (a) and (b), the Legislature encourages the local agency officials to continue taking the actions formerly mandated by this section. However, nothing in this subdivision may be construed to impose any liability on a local agency that does not continue to take the formerly mandated action.

53647

(a) Interest on all money deposited belongs to, and shall be paid quarterly into the general fund of, the local agency represented by the officer making the deposit, unless otherwise directed by law.

(b) Notwithstanding the provisions of subdivision (a), and except as otherwise directed by law, if the governing body of the local agency represented by the officer making the deposit so directs, such interest shall be paid to the fund which contains the principal on which the interest accrued.

53647.5

Notwithstanding any other provision of law, interest earned on any bail money deposited by a court in a bank account pursuant to Section 1463.1 of the Penal Code and Section 53679 of this code shall, be allocated for the support of that court.

53648

Notwithstanding this article, the treasurer may deposit moneys in, and enter into contracts with, a state or national bank, savings association or federal association, federal or state credit union, or federally insured industrial loan company, pursuant to a federal law or a rule of a federal department or agency adopted pursuant to the law if the law or rule conflicts with this article in regulating the payment of interest on deposits of public moneys by any of the following:

(a) Banks which are Federal Reserve System members or whose deposits are insured by the Federal Deposit Insurance Corporation.

(b) Savings associations or federal associations which are federal home loan bank members or whose deposits are insured by the Federal Savings and Loan Insurance Corporation.

(c) State or federal credit unions whose accounts are insured by the National Credit Union Share Insurance Fund or guaranteed by the California Credit Union Share Guaranty Corporation or insured or guaranteed pursuant to Section 14858 of the Financial Code, unless a member of the legislative body of a local agency, or any person with investment decision making authority of the administrative office, manager's office, budget office, auditor-controller's office, or treasurer's office of the local agency, also serves on the board of directors, or any committee appointed by the board of directors, or the credit committee or supervisory committee, of the state or federal credit union.

(d) A federally insured industrial loan company.

53648.5

Upon the removal by federal law of the conflicting federal law or rule the agreement between the treasurer or other authorized official and a depository may be terminated by either party.

53649

The treasurer is responsible for the safekeeping of money in his or her custody and shall enter into any contract with a depository relating to any deposit which in his or her judgment is to the public advantage. The depository, and the agent of depository to the extent the agent of depository has been notified of deposits and the amount thereof, are responsible for securing moneys deposited pursuant to such a contract in accordance with Section 53652. One copy of each contract shall be filed with the auditor, controller, secretary, or corresponding officer of the local agency. The contract shall:

(a) Fix the duration of deposits, if appropriate.

(b) Fix the interest rate, if any.

(c) Provide conditions for withdrawal and repayment.

(d) Provide for placement of pooled securities in a named agent of depository in accordance with Section 53656.

(e) Grant authority for agent of depository to place securities for safekeeping in accordance with Section 53659.

(f) Set forth in accordance with Section 53665 the conditions upon which the administrator shall order pooled securities converted into money for the benefit of the local agency, and the procedure therefor.

(g) Provide for compliance in all respects with the provisions of this article and other applicable provisions of law.

(h) Provide, upon notice to the treasurer from the administrator, that a treasurer may withdraw deposits in the event a depository fails to pay the assessments, fines, or penalties assessed by the administrator or may withdraw authorization for the placement of pooled securities in an agent of depository

in the event that the agent of depository fails to pay the fines or penalties assessed by the administrator.

53651

Eligible securities are any of the following:

(a) United States Treasury notes, bonds, bills or certificates of indebtedness, or obligations for which the faith and credit of the United States are pledged for the payment of principal and interest, including the guaranteed portions of small business administration loans, so long as the loans are obligations for which the faith and credit of the United States are pledged for the payment of principal and interest.

(b) Notes or bonds or any obligations of a local public agency (as defined in the United States Housing Act of 1949) or any obligations of a public housing agency (as defined in the United States Housing Act of 1937) for which the faith and credit of the United States are pledged for the payment of principal and interest.

(c) Bonds of this state or of any local agency or district of the State of California having the power, without limit as to rate or amount, to levy taxes or assessments to pay the principal and interest of the bonds upon all property within its boundaries subject to taxation or assessment by the local agency or district, and in addition, limited obligation bonds pursuant to Article 4 (commencing with Section 50665) of Chapter 3 of Division 1, senior obligation bonds pursuant to Article 5 (commencing with Section 53387) of Chapter 2.7, and revenue bonds and other obligations payable solely out of the revenues from a revenue-producing property owned, controlled or operated by the state, local agency or district or by a department, board, agency or authority thereof.

(d) Bonds of any public housing agency (as defined in the United States Housing Act of 1937, as amended) as are secured by a pledge of annual contributions under an annual contribution contract between the public housing agency and the Public Housing Administration if such contract shall contain the covenant by the Public Housing Administration which is authorized by subsection (b) of Section 22 of the United States Housing Act of 1937, as amended, and if the maximum sum and the maximum period specified in the contract pursuant to that subsection 22(b) shall not be less than the annual amount and the period for payment which are requisite to provide for the payment when due of all installments of principal and interest on the obligations.

(e) Registered warrants of this state.

(f) Bonds, consolidated bonds, collateral trust debentures, consolidated debentures, or other obligations issued by the United States Postal Service, federal land banks or federal intermediate credit banks established under the Federal Farm Loan Act, as amended, debentures and consolidated debentures issued by the Central Bank for Cooperatives and banks for cooperatives established under the Farm Credit Act of 1933, as amended, consolidated obligations of the federal home loan banks established under the Federal Home Loan Bank Act, bonds, debentures and other obligations of the Federal National Mortgage Association or of the Government National Mortgage Association established under the Na-

tional Housing Act, as amended, bonds of any federal home loan bank established under that act, bonds, debentures and other obligations of the Federal Home Loan Mortgage Corporation established under the Emergency Home Finance Act of 1970, and obligations of the Tennessee Valley Authority.

(g) Notes, tax anticipation warrants or other evidence of indebtedness issued pursuant to Article 7 (commencing with Section 53820), Article 7.5 (commencing with Section 53840) or Article 7.6 (commencing with Section 53850) of this Chapter 4.

(h) State of California notes.

(i) Bonds, notes, certificates of indebtedness, warrants or other obligations issued by: (1) any state of the United States (except this state), or the Commonwealth of Puerto Rico, or any local agency thereof having the power to levy taxes, without limit as to rate or amount, to pay the principal and interest of such obligations, or (2) any state of the United States (except this state), or the Commonwealth of Puerto Rico, or a department, board, agency or authority thereof except bonds which provide for or are issued pursuant to a law which may contemplate a subsequent legislative appropriation as an assurance of the continued operation and solvency of the department, board, agency or authority but which does not constitute a valid and binding obligation for which the full faith and credit of such state or the Commonwealth of Puerto Rico are pledged, which are payable solely out of the revenues from a revenue-producing source owned, controlled or operated thereby; provided the obligations issued by an entity described in (1), above, are rated in one of the three highest grades, and such obligations issued by an entity described in (2), above, are rated in one of the two highest grades by a nationally recognized investment service organization that has been engaged regularly in rating state and municipal issues for a period of not less than five years.

(j) Obligations issued, assumed or guaranteed by the International Bank for Reconstruction and Development, Inter-American Development Bank, the Government Development Bank of Puerto Rico, the Asian Development Bank, the International Finance Corporation, or the African Development Bank.

(k) Participation certificates of the Export-Import Bank of the United States.

(l) Bonds and notes of the California Housing Finance Agency issued pursuant to Chapter 7 (commencing with Section 51350) of Part 3 of Division 31 of the Health and Safety Code.

(m) Promissory notes secured by first mortgages and first trust deeds which comply with Section 53651.2.

(n) Any bonds, notes, warrants, or other evidences of indebtedness of a nonprofit corporation issued to finance the construction of a school building or school buildings pursuant to a lease or agreement with a school district entered into in compliance with the provisions of Section 39315 or 81345 of the Education Code, and also any bonds, notes, warrants or other evidences of indebtedness issued to refinance those bonds, notes, warrants, or other evidences of indebtedness as specified in Section 39317 of the Education Code.

(o) Any municipal securities, as defined by Section 3(a)(29) of the Securities Exchange Act of June 6, 1934, (15 u.s.c. Sec. 78, as amended), which are issued by this state or any local agency thereof.

(p) With the consent of the treasurer, letters of credit issued by the Federal Home Loan Bank of San Francisco which comply with Section 53651.6.

53651.2

(a) To be an eligible security under subdivision (m) of Section 53651, a promissory note placed in a securities pool on or after January 1, 1987, shall comply with all of the following provisions:

(1) Each promissory note shall be secured by a first mortgage or first trust deed on improved 1 to 4 unit residential real property located in California, shall be fully amortized over the term of the note, and shall have a term of no more than 30 years. Any first mortgage or first trust deed which secures a promissory note providing for negative amortization shall be removed from the securities pool and replaced with an eligible security under subdivision (m) of Section 53651 if the loan to value ratio exceeds 85 percent of the original appraised value of the security property as a consequence of negative amortization.

(2) Each promissory note shall be eligible for sale to the Federal National Mortgage Association, the Government National Mortgage Association, or the Federal Home Loan Mortgage Corporation; provided, however, that up to 25 percent of the total dollar amount of any promissory note securities pool established pursuant to Section 53658 may consist of promissory notes with loan amounts which exceed the maximum amounts eligible for purchase by the Federal National Mortgage Association, the Government National Mortgage Association, or the Federal Home Loan Mortgage Corporation, but which do not exceed: (i) five hundred thousand dollars ($500,000) in the case of a single family dwelling; (ii) one million dollars ($1,000,000) in the case of a 2, 3, or 4 unit dwelling.

(b) The following shall not constitute eligible securities under subdivision (m) of Section 53651:

(1) Any promissory note on which any payment is more than 60 days past due.

(2) Any promissory note secured by a mortgage or deed of trust as to which there is a lien prior to the mortgage or deed of trust. For the purposes of this paragraph, no lien specified in Section 766 of the Financial Code shall be considered a prior encumbrance unless any installment or payment thereunder (other than a rental or royalty under a lease) is due and delinquent.

(3) Any promissory note secured by a mortgage or deed of trust as to which a notice of default has been recorded pursuant to Section 2924 of the Civil Code or an action has been commenced pursuant to Section 725a of the Code of Civil Procedure.

(c) The depository may exercise, enforce, or waive any right granted to it by the promissory note, mortgage, or deed of trust.

(d) For purposes of this article, the market value of a promissory note which is an eligible security under subdivision (m) of Section 53651, shall be determined in accordance with the regulations adopted by the Treasurer under paragraph (2) of subdivision (m) of Section 53651, as the regulations and statute were in effect on December 31, 1986. However, if and when regulations on the subject are adopted by the administrator, the market value shall be determined in accordance with those regulations of the administrator.

53651.4

(a) A depository that uses eligible securities of the class described in subdivision (m) of Section 53651 shall, within 90 days after the close of each calendar year or within a longer period as the administrator may specify, file with the administrator a report of an independent certified public accountant regarding compliance with this article and with regulations and orders issued by the administrator under this article with respect to eligible securities of that class. The report shall be based upon the audit, shall contain the information, and shall be in the form the administrator may prescribe. The depository shall provide a copy of the report to the treasurer on request.

(b) If a depository that is a state bank files with the administrator, not less than 90 days before the beginning of the calendar year, a notice that it elects to be examined by the administrator instead of filing a report of an independent certified public accountant under subdivision (a) for that calendar year, the depository shall be exempt from subdivision (a) for that calendar year and shall for that calendar year be subject to examination by the administrator regarding compliance with this article and with regulations and orders under this article with respect to eligible securities of the class described in subdivision (m) of Section 53651. The administrator shall provide a report to a treasurer with deposits in the examined state bank upon request of the treasurer.

(c) A national bank may apply to the administrator to be examined, and the administrator, in his or her discretion, may examine a national bank for the purposes of satisfying the requirements of subdivision (a). The administrator shall provide a report to a treasurer with deposits in the examined national bank upon request of the treasurer.

(d) Whenever the administrator examines a depository pursuant to subdivision (b) or (c), the depository shall pay, within 30 days after receipt of a statement from the administrator, a fee of seventy-five dollars ($75) per hour for each examiner engaged in the examination.

53651.6

(a) To be an eligible security under subdivision (p) of Section 53651, a letter of credit shall be in such form and shall contain such provisions as the administrator may prescribe, and shall include all of the following terms:

(1) The administrator shall be the beneficiary of the letter of credit.

(2) The letter of credit shall be clean and irrevocable and shall provide that the administrator may draw upon it up to the total amount in the event of the failure of the depository savings association or federal association or if the depository savings association or federal association refuses to permit the withdrawal of funds by a treasurer.

53652

To secure active or inactive deposits a depository shall at all times maintain with the agent of depository eligible securities in securities pools, pursuant to Sections 53656 and 53658, in the amounts specified in this section. Uncollected funds shall be excluded from the amount deposited in the depository when determining the security requirements for the deposits.

(a) Eligible securities, except eligible securities of the classes described in subdivisions (m) and (p) of Section 53651, shall have a market value of at least 10 percent in excess of the total amount of all deposits of a depository secured by the eligible securities.

(b) Eligible securities of the class described in subdivision (m) of Section 53651 shall have a market value at least 50 percent in excess of the total amount of all deposits of a depository secured by those eligible securities.

(c) Eligible securities of the class described in subdivision (p) of Section 53651 shall have a market value of at least 5 percent in excess of the total amount of all deposits of a depository secured by those eligible securities. For purposes of this article, the market value of a letter of credit which is an eligible security under subdivision (p) of Section 53651 shall be the amount of credit stated in the letter of credit.

53653

When in his or her discretion local conditions so warrant, the treasurer may waive security for the portion of any deposits as is insured pursuant to federal law, notwithstanding this article. For deposits equivalent to and not less than the maximum amount insured pursuant to federal law for which a treasurer has waived security under this section, a treasurer at his or her discretion may also waive security for the interest accrued on the deposits which, when added to the deposits, would cause the sum of the interest and deposits to exceed the maximum amount insured pursuant to federal law, provided that the interest is computed by the depository on the average daily balance of the deposits, paid monthly and computed on a 360-day basis.

53654

(a) The depository may add securities to the pool or substitute securities of equal value for those in the pool at any time, but shall not interchange classes of security, as defined in Section 53632.5, without prior approval of the treasurer.

(b) Withdrawal of securities from the pool without replacement at equal value may be ordered only by two duly authorized officers or employees of the depository who satisfy the requirements as may be set by the administrator.

(c) The agent of depository is responsible for the safekeeping and disbursement of securities placed in its custody by a depository. It shall release securities only upon presentation by the depository of the most reasonably current statement of the total deposits subject to this article held by the depository, such statement to be verified and countersigned by two duly authorized officers, other than those who ordered the withdrawal of securities. A copy of this statement shall be forwarded to the administrator concurrently by the agent of depository.

53655

A placement of securities by a depository with an agent of depository pursuant to this article shall have the effect of perfecting a security interest in those securities in the local agencies having deposits in that depository notwithstanding provisions of the Uniform Commercial Code to the contrary and notwithstanding that the agent of depository may be the trust department of the depository.

53656

(a) At the time the treasurer enters into a contract with the depository pursuant to Section 53649, he or she shall authorize the agent of depository designated by the depository, but including the trust department of the depository only when acceptable to both the treasurer and the depository, to hold securities of the depository in accordance with this article to secure the deposit of the local agency.

(b) Only those trust companies and trust departments, or the Federal Home Loan Bank of San Francisco, which have been authorized by the administrator pursuant to Section 53657 shall be authorized by treasurers to act as agents of depository.

(c) The securities are subject to order of the depository in accordance with Section 53654 except when the provisions of subdivision (i) of Section 53661 and Section 53665 are in effect.

(d) An agent of depository shall not release any security held to secure a local agency deposit in a depository unless the administrator issues an order authorizing the release where either of the following occurs:

(1) A state or federal regulatory agency has taken possession of the depository.

(2) A conservator, receiver, or other legal custodian has been appointed for the depository.

53657

(a) No person shall act as an agent of depository unless that person is a trust company located in this state, the trust department of a bank located in this state, or the Federal Home Loan Bank of San Francisco, and is authorized by the administrator to act as an agent of depository.

(b)(1) An application for authorization shall be in such form, shall contain such information, shall be signed in such manner, and shall (if the administrator so requires) be verified in such manner, as the administrator may prescribe.

(2) The fee for filing an application for authorization with the administrator shall be five hundred dollars ($500).

(3) If the administrator finds, with respect to an application for authorization, that the applicant is competent to act as an agent of depository and that it is reasonable to believe the applicant will comply with all applicable provisions of this article and of any regulation or order issued under this article, the administrator shall approve the application. If the administrator finds otherwise, the administrator shall deny the application.

(4) When an application for authorization has been approved, the applicant shall file with the administrator an agreement to comply with all applicable provisions of this article and of any regulation or order issued under this article. The agreement shall be in such form, shall contain such provisions, and shall be signed in such manner as the administrator may prescribe.

(5) When an application for authorization has been approved, the applicant has complied with paragraph (4), and all conditions precedent to authorizing the applicant to act as agent of depository have been fulfilled, the administrator shall authorize the applicant to act as agent of depository.

53658

An agent of a depository may hold and pool securities to secure deposits for one or more depositories pursuant to Section 53656, but shall maintain a separate pool for each said depository. Each local agency shall have an undivided security interest in the pooled securities in the proportion that the amount of its deposits bears to the total amount of deposits secured by the pooled securities.

53659

Whenever an agent of depository accepts securities pursuant to Section 53656 it may, with the authorization of the depository, place such securities for safekeeping with a Federal Reserve Bank or branch thereof or with any bank located in a city designated as a reserve city by the Board of Governors of the Federal Reserve System or with the Federal Home Loan Bank of San Francisco or with a trust company located in this state. Authority for such placement together with the names of the banks or, including the Federal Home Loan Bank of San Francisco, trust companies to be so used, shall be contained in the contract between the treasurer and the depository required in Section 53649.

53660

When deposits of a local agency are secured by pooled securities pursuant to Section 53656, the agent of depository shall make available to the treasurer for review at a mutually agreed upon time and location all of the following information which may be in the form of a copy of the report required in subdivision (e) of Section 53661:

(a) A certification that there are securities in the pool in the amounts required by Section 53652 to secure deposits.

(b) A certified report of the individual securities then on deposit in the pool with the location and total market value thereof.

(c) The total amount of deposits then reported by the depository to be secured by the pool.

53661

(a) The Commissioner of Business Oversight shall act as Administrator of Local Agency Security and shall be responsible for the administration of Sections 53638, 53651, 53651.2, 53651.4, 53651.6, 53652, 53654, 53655, 53656, 53657, 53658, 53659, 53660, 53661, 53663, 53664, 53665, 53666, and 53667.

(b) The administrator shall have the powers necessary or convenient to administer and enforce the sections specified in subdivision (a).

(c)(1) The administrator shall issue regulations consistent with law as the administrator may deem necessary or advisable in executing the powers, duties, and responsibilities assigned by this article. The regulations may include regulations prescribing standards for the valuation, marketability, and liquidity of the eligible securities of the class described in subdivision (m) of Section 53651, regulations prescribing procedures and documentation for adding, withdrawing, substituting, and holding pooled securities, and regulations prescribing the form, content, and execution of any application, report, or other document called for in any of the sections specified in subdivision (a) or in any regulation or order issued under any of those sections.

(2) The administrator, for good cause, may waive any provision of any regulation adopted pursuant to paragraph (1) or any order issued under this article, where the provision is not necessary in the public interest.

(d) The administrator may enter into any contracts or agreements as may be necessary, including joint underwriting agreements, to sell or liquidate eligible securities securing local agency deposits in the event of the failure of the depository or if the depository fails to pay all or part of the deposits of a local agency.

(e) The administrator shall require from every depository a report certified by the agent of depository listing all securities, and the market value thereof, which are securing local agency deposits together with the total deposits then secured by the pool, to determine whether there is compliance with Section 53652. These reports may be required whenever deemed necessary by the administrator, but shall be required at least four times each year at the times designated by the Comptroller of the Currency for reports from national banking associations. These reports shall be filed in the office of the administrator by the depository within 20 business days of the date the administrator calls for the report.

(f) The administrator may have access to reports of examination made by the Comptroller of the Currency insofar as the reports relate to national banking association trust department activities which are subject to this article.

(g)(1) The administrator shall require the immediate substitution of an eligible security, where the substitution is necessary for compliance with Section 53652, if (i) the administrator determines that a security listed in Section 53651 is not qualified to secure public deposits, or (ii) a treasurer, who has deposits secured by the securities pool, provides written notice to the administrator and the administrator confirms that a security in the pool is not qualified to secure public deposits.

(2) The failure of a depository to substitute securities, where the administrator has required the substitution, shall be reported by the administrator promptly to those treasurers having money on deposit in that depository and, in addition, shall be reported as follows:

(A) When that depository is a national bank, to the Comptroller of the Currency of the United States.

(B) When that depository is a state bank, to the Commissioner of Business Oversight.

(C) When that depository is a federal association, to the Office of the Comptroller of the Currency.

(D) When that depository is a savings association, to the Commissioner of Business Oversight.

(E) When that depository is a federal credit union, to the National Credit Union Administration.

(F) When that depository is a state credit union or a federally insured industrial loan company, to the Commissioner of Business Oversight.

(h) The administrator may require from each treasurer a registration report and at appropriate times a report stating the amount and location of each deposit together with other information deemed necessary by the administrator for effective operation of this article. The facts recited in any report from a treasurer to the administrator are conclusively presumed to be true for the single purpose of the administrator fulfilling responsibilities assigned to him or her by this article and for no other purpose.

(i)(1) If, after notice and opportunity for hearing, the administrator finds that any depository or agent of depository has violated or is violating, or that there is reasonable cause to believe that any depository or agent of depository is about to violate, any of the sections specified in subdivision (a) or any regulation or order issued under any of those sections, the administrator may order the depository or agent of depository to cease and desist from the violation or may by order suspend or revoke the authorization of the agent of depository. The order may require the depository or agent of depository to take affirmative action to correct any condition resulting from the violation.

(2)(A) If the administrator makes any of the findings set forth in paragraph (1) with respect to any depository or agent of depository and, in addition, finds that the violation or the continuation of the violation is likely to seriously prejudice the interests of treasurers, the administrator may order the depository or agent of depository

to cease and desist from the violation or may suspend or revoke the authorization of the agent of depository. The order may require the depository or agent of depository to take affirmative action to correct any condition resulting from the violation.

(B) Within five business days after an order is issued under subparagraph (a), the depository or agent of depository may file with the administrator an application for a hearing on the order. The administrator shall schedule a hearing at least *30* days, but not more than 40 days, after receipt of an application for a hearing or within a shorter or longer period of time agreed to by a depository or an agent of depository. If the administrator fails to schedule the hearing within the specified or agreed to time period, the order shall be deemed rescinded. Within 30 days after the hearing, the administrator shall affirm, modify, or rescind the order; otherwise, the order shall be deemed rescinded. The right of a depository or agent of depository to which an order is issued under subparagraph (a) to petition for judicial review of the order shall not be affected by the failure of the depository or agent of depository to apply to the administrator for a hearing on the order pursuant to this subparagraph.

(3) Whenever the administrator issues a cease and desist order under paragraph (1) or (2), the administrator may in the order restrict the right of the depository to withdraw securities from a security pool; and, in that event, both the depository to which the order is directed and the agent of depository which holds the security pool shall comply with the restriction.

(4) In case the administrator issues an order under paragraph (1) or (2) suspending or revoking the authorization of an agent of depository, the administrator may order the agent of depository at its own expense to transfer all pooled securities held by it to such agent of depository as the administrator may designate in the order. The agent of depository designated in the order shall accept and hold the pooled securities in accordance with this article and regulations and orders issued under this article.

(j) In the discretion of the administrator, whenever it appears to the administrator that any person has violated or is violating, or that there is reasonable cause to believe that any person is about to violate, any of the sections specified in subdivision (a) or any regulation or order issued thereunder, the administrator may bring an action in the name of the people of the State of California in the superior court to enjoin the violation or to enforce compliance with those sections or any regulation or order issued thereunder. Upon a proper showing a permanent or preliminary injunction, restraining order, or writ of mandate shall be granted, and the court may not require the administrator to post a bond.

(k) In addition to other remedies, the administrator shall have the power and authority to impose the following sanctions for noncompliance with the sections specified in subdivision (a) after a hearing if requested by the party deemed in noncompliance. Any fine assessed pursuant to this subdivision shall be paid within 30 days after receipt of the assessment.

(1) Assess against and collect from a depository a fine not to exceed two hundred fifty dollars ($250) for each day the depository fails to maintain with the agent of depository securities as required by Section 53652.

(2) Assess against and collect from a depository a fine not to exceed one hundred dollars ($100) for each day beyond the time period specified in subdivision (b) of Section 53663 the depository negligently or willfully fails to file in the office of the administrator a written report required by that section.

(3) Assess against and collect from a depository a fine not to exceed one hundred dollars ($100) for each day beyond the time period specified in subdivision (e) that a depository negligently or willfully fails to file in the office of the administrator a written report required by that subdivision.

(4) Assess and collect from an agent of depository a fine not to exceed one hundred dollars ($100) for each day the agent of depository fails to comply with any of the applicable sections specified in subdivision (a) or any applicable regulation or order issued thereunder.

(l)(1) In the event that a depository or agent of depository fails to pay a fine assessed by the administrator pursuant to subdivision (k) within 30 days of receipt of the assessment, the administrator may assess and collect an additional penalty of 5 percent of the fine for each month or part thereof that the payment is delinquent.

(2) If a depository fails to pay the fines or penalties assessed by the administrator, the administrator may notify local agency treasurers with deposits in the depository.

(3) If an agent of depository fails to pay the fines or penalties assessed by the administrator, the administrator may notify local agency treasurers who have authorized the agent of depository as provided in Sections 53649 and 53656, and may by order revoke the authorization of the agent of depository as provided in subdivision (i).

(m) The amendments to this section enacted by the Legislature during the 1999–2000 Regular Session shall become operative on January 1, 2001.

53663

(a) Each agent of depository shall report in writing to the administrator within two business days after any withdrawal, substitution or addition of pooled securities and shall state the name and market value of the securities withdrawn, substituted or added together with the total deposits then secured by the pool. This information shall be available from the administrator to the treasurer upon request.

(b) Each depository shall report in writing to the administrator weekly, giving the total amount of all deposits held by the depository pursuant to this article. The report shall be as of close of business on Wednesday of each week and shall be delivered to the office of the administrator, deposited in the United States mail, postage prepaid, or delivered electronically via email, or other electronic means approved by the administrator, addressed to the office of the administrator, within five business days. Where there has occurred no change in the deposits required to be held by the depository pursuant to this article, the report required by this subdivision need only state that fact.

53664

The individual reports specified in Sections 53654, 53660, 53661, and 53663 are not public documents and are not open to inspection by the public.

53665

If a depository fails to pay all or part of the deposits of a local agency secured by pooled securities in accordance with the contract provided for in Section 53649, and on demand of its treasurer or other authorized official and the treasurer files a report with the administrator, or if the depository fails:

(a) In case the pooled securities consist of securities other than securities of the class described in subdivision (p) of Section 53651, the administrator shall order the agent of depository holding the pooled securities to convert into money that portion of the pooled securities necessary to produce an amount equal to the sum of (i) the deposits of the local agency, (ii) any accrued interest due on the deposits, and (iii) the reasonable expenses of the agent of depository in complying with the order of the administrator and to pay the sum of items (i) and (ii) to the treasurer in satisfaction of the deposits. The agent of depository shall be reimbursed out of the proceeds of the conversion for its reasonable expenses in complying with the order of the administrator, as approved by the administrator. Any excess moneys resulting from the conversion shall be retained by the agent of depository as part of the securities pool until the depository substitutes for the excess moneys securities having a market value sufficient to bring the total of pooled securities up to the amount required by Section 53652.

(b) In case the pooled securities consist of a security of the class described in subdivision (p) of Section 53651, the administrator shall draw on the letter of credit an amount equal to the sum of (i) the deposits of the local agency, (ii) any accrued interest on the deposits, and (iii) the reasonable expenses of the administrator in paying the deposits and pay the sum of items (i) and (ii) to the treasurer in satisfaction of the deposits.

53666

The only liability that shall attach to the administrator as the result of the operation of this article is that which would attach as a result of other laws of this state.

53667

(a) Expenses incurred by the administrator in carrying out the duties and responsibilities assigned to the administrator by the sections specified in subdivision (a) of Section 53661, shall be borne by the Local Agency Deposit Security Fund, which is hereby created and continuously appropriated to the administrator for the administration of the sections specified in subdivision (a) of Section 53661. This fund shall consist of fines levied pursuant to Section 53661, fees collected pursuant to the sections specified in subdivision (a) of Section 53661, and assessments levied pursuant to this section.

(b) Each fiscal year the administrator shall levy an assessment on a pro rata basis on those depositories which at any time during the preceding fiscal year held local agency deposits. The total assessment levied on all of those depositories shall be in an amount which, when added to the amount of fines and fees that the administrator estimates will be collected during the fiscal year when the assessment is levied, is sufficient in the judgment of the administrator to meet the expenses of the administrator in administering the sections specified in subdivision (a) of Section 53661 and to provide a reasonable reserve for contingencies. The basis of the apportionment of the assessment among the depositories assessed shall be the proportion that the average amount of local agency deposits held by each of those depositories bears to the average total amount of local agency deposits held by all of those depositories as shown by the reports of depositories to the administrator for the preceding fiscal year, as required in subdivision (e) of Section 53661; provided, however, that the amount of the assessment levied on each of those depositories shall be not less than twenty-five dollars ($25).

(c) The administrator shall notify each depository by mail of the amount levied against it. The depository shall pay the amount levied within 20 days after such notice into the Local Agency Deposit Security Fund for the administration of the sections specified in subdivision (a) of Section 53661. If payment is not made to the administrator within such time, the administrator shall assess and collect, in addition to the annual assessment, a penalty of 5 percent of the assessment for each month or part thereof that the payment is delinquent. If a depository fails to pay the assessment or penalties assessed by the administrator, the administrator may notify local agency treasurers with deposits in the depository.

53669

The treasurer or other authorized official is not responsible for money while it is deposited pursuant to this article.

53676

The treasurer is not responsible for securities delivered to and receipted for by any bank, savings and loan association, credit union, federally insured industrial loan company, or trust company.

53678

The charges for the handling and safekeeping of any such securities are not a charge against the treasurer but shall be paid by the depository owning the securities.

53679

So far as possible, all money belonging to a local agency under the control of any of its officers or employees other than the treasurer shall, and money deposited as bail coming into the possession of a judge or officer of a superior court may, be

deposited as active deposits in the state or national bank, inactive deposits in the state or national bank or state or federal association, federal or state credit union, or federally insured industrial loan company in this state selected by the officer, employee, or judge of the court. For purposes of this section, an officer or employee of a local agency and a judge or officer of a superior court are prohibited from depositing local agency funds or money coming into their possession into a state or federal credit union if an officer or employee of the local agency, or a judge or officer of a superior court, also serves on the board of directors, or any committee appointed by the board of directors, or the credit committee or supervisory committee, of the particular state or federal credit union. That money is subject to this article except:

(a) Deposits in an amount less than that insured pursuant to federal law are not subject to this article.

For deposits in excess of the amount insured under any federal law a contract in accordance with Section 53649 is required and the provisions of this article shall apply.

(b) Interest is not required on money deposited in an active deposit by a judge or officer of a superior court.

(c) Interest is not required on money deposited in an active deposit by an officer having control of a revolving fund created pursuant to Chapter 2 (commencing with Section 29300) of Division 3 of Title 3.

(d) Interest is not required on money deposited in an active deposit by an officer having control of a special fund established pursuant to Article 5 (commencing with Section 29400) or Article 6 (commencing with Section 29430) of Chapter 2 of Division 3 of Title 3.

53679.1

Notwithstanding any other provision of law, the accounting practices of each county utilized prior to the effective date of this section relating to interest on trust funds shall be deemed appropriate and to have been made under the direction of the board of supervisors of that county. This section is declaratory of the law in existence prior to the enactment of this section.

53680

A tax collector of a local agency shall immediately deposit with the treasurer all money under his control, unless he deposits the money in a depositary pursuant to this article under permission and instructions of the treasurer having authority to make such deposit.

53681

An officer or employee of a local agency who deposits money belonging to, or in the custody of, the local agency in any other manner than that prescribed in this article is subject to forfeiture of his office or employment.

53682

Notwithstanding any other provision in this article except Section 53652, the treasurer may deposit moneys in and enter into contracts with any depository, as defined in subdivision (c) of Section 53630, for services to be rendered by that depository that in the treasurer's judgment are to the public advantage. One copy of each contract entered into under this section shall be filed with the auditor or corresponding officer of the local agency. The contract shall:

(a) Fix the duration of compensating deposits, if any.

(b) Fix the interest rate of that compensating deposit, if any.

(c) Specify the services to be rendered by the depository.

(d) Indicate whether the depository shall bear the expenses of transportation of the money to and from the depository.

(e) Fix the consideration payable by the agency for such services.

(f) Specify who may deposit moneys into the treasurer's active account and how those persons are to make those deposits.

53683

Notwithstanding any other provision in this article, the consideration payable by the agency as specified in subdivision (e) of Section 53682 shall be paid by the treasurer by applying such consideration as costs applied on a pro rata basis against the interest earned by all the agencies for which the treasurer invests.

53684

(a) Unless otherwise provided by law, if the treasurer of any local agency, or other official responsible for the funds of the local agency, determines that the local agency has excess funds which are not required for immediate use, the treasurer or other official may, upon the adoption of a resolution by the legislative or governing body of the local agency authorizing the investment of funds pursuant to this section and with the consent of the county treasurer, deposit the excess funds in the county treasury for the purpose of investment by the county treasurer pursuant to Section 53601 or 53635, or Section 20822 of the Revenue and Taxation Code.

(b) The county treasurer shall, at least quarterly, apportion any interest or other increment derived from the investment of funds pursuant to this section in an amount proportionate to the average daily balance of the amounts deposited by the local agency and to the total average daily balance of deposits in the investment pool. In apportioning and distributing that interest or increment, the county treasurer may use the cash method, the accrual method, or any other method in accordance with generally accepted accounting principles. Prior to distributing that interest or increment, the county treasurer may deduct the actual costs incurred by the county in administering this section in proportion to the average daily balance of the amounts depos-

ited by the local agency and to the total average daily balance of deposits in the investment pool.

(c) The county treasurer shall disclose to each local agency that invests funds pursuant to this section the method of accounting used, whether cash, accrual, or other, and shall notify each local agency of any proposed changes in the accounting method at least 30 days prior to the date on which the proposed changes take effect.

(d) The treasurer or other official responsible for the funds of the local agency may withdraw the funds of the local agency pursuant to the procedure specified in Section 27136.

(e) Any moneys deposited in the county treasury for investment pursuant to this section are not subject to impoundment or seizure by any county official or agency while the funds are so deposited.

(f) This section is not operative in any county until the board of supervisors of the county, by majority vote, adopts a resolution making this section operative in the county.

(g) It is the intent of the Legislature in enacting this section to provide an alternative procedure to Section 51301 for local agencies to deposit money in the county treasury for investment purposes. Nothing in this section shall, therefore, be construed as a limitation on the authority of a county and a city to contract for the county treasurer to perform treasury functions for a city pursuant to Section 51301.

53686

(a) Any audit conducted relating to the investment of local agency funds and other funds by the county treasurer in the county fund maintained pursuant to Section 53684 shall be rendered to the depositary, the auditor, the controller, the secretary, or the corresponding officer of the local agency, the treasurer or other official responsible for the funds of any local agency that has funds on deposit in the county treasury, and the presiding judge of any superior court that has ordered, pursuant to Section 3412, Section 3413, or Section 3611 of the Probate Code, that assets of an estate be deposited with the county treasurer for deposit or investment.

(b) Any report rendered pursuant to Section 53646 shall be provided to the treasurer or other official responsible for the funds of any local agency that has funds on deposit in the county treasury.

## Government Code Section 53820 – 53821.5

53820

As used in this article, “local agency” means county, city, regional park district, school district, community college district, or any other municipal or public corporation or district.

53821.

Subsequent to approval of the final budget and levy of taxes, if funds are needed for the immediate requirements of a local agency in any fiscal year to pay obligations lawfully incurred in the fiscal year and before the receipt of income for the fiscal year sufficient to meet the payments, money may be borrowed by:

(a) The legislative body of a county on the recommendation of the auditor and treasurer.

(b) The legislative body of the county having the largest area within the regional park district on the recommendation of the auditor and treasurer.

(c) A school district, county board of education, or community college district on the request of two-thirds of the members of its governing board, approved by the county auditor and treasurer.

(d) A regional park district on the request of four-fifths of the members of its legislative body, approved by the auditor and treasurer of the county having the largest area within the district.

(e) The legislative body of a city on the recommendation of the city treasurer and chief accounting officer.

(f) The legislative body of any other municipal or public corporation or district on the recommendation of the officers performing the functions of auditor and treasurer.

53821.5

Proceeds of sales or funds set aside for the repayment of any notes issued pursuant to this article shall not be invested for a term that exceeds the term of the notes.

## Government Code Section 53840-53841.5

53840

It is hereby declared the intention of the Legislature by the enactment of this article to provide an alternative procedure under which short term loans may be procured by those counties in which the board of supervisors has declared it to be county policy to make advances of current operating requirements to subsidiary political subdivisions required by law to deposit their funds in the county treasury as such advances are authorized by the provisions of Section 25 of Article XIII of the State Constitution. In any such county the board of supervisors, upon recommendation of the county treasurer with the approval of the county auditor, may borrow on July 1st or thereafter such amounts as may be required to meet current obligations payable by the county treasury, pending collection of the revenue provided for the year in progress. Amounts so borrowed shall be evidenced by notes signed by the chairman of the board of supervisors, the county auditor and the county treasurer, and the liability created thereby shall be secured by a lien on all revenue to accrue to the county treasury from any source during the year then in progress.

53841

Any amounts borrowed by a county as provided in the preceding section shall not exceed 85 percent of the total of taxes levied for all purposes on said county's tax roll for the next preceding fiscal year, and at no time during the year for which borrowed shall the unpaid total of the amounts so borrowed as shown by the auditor's accounts at the close of any month be allowed to remain at more than 85 percent of the uncollected balance of taxes for the current year as shown by said accounts.

53841.5

Proceeds of sales or funds set aside for the repayment of any notes issued pursuant to this article shall not be invested for a term that exceeds the term of the notes.

## Government Code Section 53850-53851.5

53850

(a) As used in this article, "local agency" means a county, city and county, city, school district of any type, community college district, county board of education, or any other municipal or public corporation or district.

(b) For purposes of this article only, "local agency" also includes a charter school. This subdivision does not make a charter school a local agency for any purpose other than for this article.

53851

The powers conferred by this article are in addition to and an alternative to any power conferred by any other law for borrowing by a local agency and any amount borrowed hereunder shall not be considered in any limitation on the amount which may be borrowed by any such local agency under any other law.

53852

On or after the first day of any fiscal year a local agency may borrow money pursuant to this article, the indebtedness to be represented by a note or notes issued to the lender pursuant to this article. The money borrowed may be used and expended by the local agency for any purpose for which the local agency is authorized to use and expend moneys, including but not limited to current expenses, capital expenditures, investment and reinvestment, and the discharge of any obligation or indebtedness of the local agency.

53852.5

Proceeds of sales or funds set aside for the repayment of any notes issued pursuant to this article shall not be invested for a term that exceeds the term of the notes.

## Government Code Section 53859-53859.02

53859

As used in this article: (a) "local agency" means county, city and county, city, school district, community college district, or any other municipal or public corporation or district.

(b) "Grant anticipation note" means a note issued upon the security of specified accounts receivable from state or federal governments, including, without limitation, grants, loans, or a combination of both, for which funds have been appropriated and committed to a local agency.

(c) "Loan" includes, but is not limited to, a borrowing by a local agency represented or to be represented by bonds of a local agency.

53859.01

The powers conferred by this article are in addition to an alternative to any powers conferred by any other law for borrowing by a local agency and any amount borrowed hereunder shall not be considered in any limitation on the amount which may be borrowed by any such local agency under any other law.

53859.02

(a) A local agency may borrow money pursuant to this article, the indebtedness to be represented by a grant anticipation note or notes issued to the lender pursuant to this article. The money borrowed may be used and expended by the local agency solely for the purpose for which the grant or loan is to be received.

(b) Proceeds of sales or funds set aside for the repayment of any notes issued pursuant to this article shall not be invested for a term that exceeds the term of the notes.

## Government Code Section 57600-57607

57600

For purposes of this division:

(a) "Local financial institution" means a certified community development financial institution, a credit union, as defined in Section 165 of the Financial Code, or a small bank or an intermediate small bank, as defined in Section 25.12 of Title 12 of the Code of Federal Regulations.

(b) (1) "Public bank" means a corporation, organized under the Nonprofit Mutual Benefit Corporation Law (Part 3 (commencing with Section 7110) of Division 2 of Title 1 of the Corporations Code) or the Nonprofit Public Benefit Corporation Law (Part 2 (commencing with Section 5110) of Division 2 of Title 1 of the Corporations Code) for the purpose of engaging in the commercial banking business or industrial banking business, that is wholly owned by a local

agency, local agencies, or a joint powers authority formed pursuant to the Joint Exercise of Powers Act (Article 1 (commencing with Section 6500) of Chapter 5 of Division 7 of Title 1) that is composed only of local agencies.

(2) A local agency located within a county with a population of less than 250,000 may organize a public bank only if it does so as part of a joint powers authority formed for those purposes.

(3) For purposes of paragraph (2), population shall be based on the most recent estimate of population data determined by the Demographic Research Unit of the Department of Finance.

(c) "Public bank license" means a certificate of authorization to transact business as a bank as described in Section 1042 of the Financial Code.

57601

(a) If a public bank is organized as a nonprofit mutual benefit corporation, the articles of incorporation shall include the following purpose statement: "This corporation is a nonprofit mutual benefit corporation organized under the Nonprofit Mutual Benefit Corporation Law as a public bank. The purpose of the corporation is to engage in the commercial banking business or industrial banking business and any other lawful activities which are not prohibited to a public bank by applicable laws or regulations."

(b) If a public bank is organized as a nonprofit public benefit corporation, the articles of incorporation shall include the following purpose statement: "This corporation is a nonprofit public benefit corporation and is not organized for the private gain of any person. It is organized under the Nonprofit Public Benefit Corporation Law for the public purpose of engaging in the commercial banking business or industrial banking business as a public bank."

(c) Notwithstanding Sections 5410 and 7411 of the Corporations Code, a public bank may make distributions to its members.

(d) All provisions of law applicable to nonprofit corporations generally, including, but not limited to, the Nonprofit Corporation Law (Division 2 (commencing with Section 5000) of Title 1 of the Corporations Code) shall apply to public banks. Whenever a provision of this division applicable to public banks is inconsistent with a provision of law applicable to nonprofit mutual benefit corporations or nonprofit public benefit corporations generally, the provision of this division shall apply, and the inconsistent provision of law applicable to nonprofit mutual benefit corporations or nonprofit public benefit corporations generally shall not apply to a public bank.

57602

(a) A public bank shall obtain and maintain deposit insurance provided by the Federal Deposit Insurance Corporation under the Federal Deposit Insurance Act (12 U.S.C. Sec. 1811 et seq.).

(b) In seeking and retaining insurance, a public bank may do all things and assume and discharge all obligations required of it that are not in conflict with state law.

57603

(a) Before engaging in business, a public bank shall obtain a certificate of authorization to transact business as a bank pursuant to Division 1.1 of the Financial Code (commencing with Section 1000).

(b) A local agency shall comply with the requirements of Section 53638 with respect to its deposits in a public bank unless, with the prior approval of the Commissioner of Business Oversight, the public bank and the local agency depositor agree otherwise.

(c) Notwithstanding Section 23010, a county may lend any of its available funds to any public bank.

(d) Notwithstanding Section 53601, any local agency that does not pool money in deposits or investments with other local agencies that have separate governing bodies may invest in debt securities or other obligations of a public bank.

(e) Notwithstanding Section 53635, any local agency that pools money in deposits or investments with other local agencies, including local agencies that have the same governing body, may invest in debt securities or other obligations of a public bank.

(f) Notwithstanding Section 53635.2, a public bank shall be eligible to receive local agency money.

57604

(a) As used in this section:

(1) “Conducted in partnership with” means pursuant to a written agreement with a local financial institution to provide financial products and services to the public located within the jurisdiction of the public bank.

(2) “Infrastructure lending” means granting a loan or extending credit to a local agency for the purpose of building or improving public infrastructure, including housing projects, as defined in Section 34212 of the Health and Safety Code, and affordable housing, as defined in subdivision (a) of Section 62250.

(3) “Local agency banking” means providing any of the following services to a local agency:

(A) Accepting a deposit of any kind.

(B) Granting a loan or extension of credit of any kind.

(4) “Participation lending” means purchasing or selling an interest in a loan or loans originated by or sold to a local financial institution, or originating, leading, or directing a loan transaction involving a local financial institution pursuant to a written agreement with the local financial institution.

(5) “Person” means a person as defined in Section 127 of the Financial Code, except that a person does not mean a local agency as defined in Section 50001 of the Government Code, but includes any individual employed by a local agency.

(6) “Retail activities” means providing any kind of financial product or service to a person that is typically offered or provided by a local financial institution, including, but not limited to, all of the following:

(A) Accepting a deposit of any kind from a person, including the issuance of shares by a credit union.

(B) Granting a loan or extension of credit, of any kind, to a person.

(7) “Wholesale lending” means granting a loan or extension of credit to a local financial institution.

(b) Except as provided in paragraph (2) of subdivision (c), a public bank shall conduct retail activities in partnership with local financial institutions and shall not compete with local financial institutions.

(c) A public bank may do both of the following:

(1) Engage in all of the following banking activities:

(A) Local agency banking.

(B) Infrastructure lending.

(C) Wholesale lending.

(D) Participation lending.

(2) Engage in retail activities without partnering with a local financial institution, if those retail activities are not offered or provided by local financial institutions in the jurisdiction of the local agency or agencies that own the public bank.

57605

For the purposes of Section 1280 of the Financial Code, any person or entity, including a local agency, that owns, controls, or holds an ownership interest in a public bank is not a bank holding company by reason of that ownership interest.

57606

(a) Before submitting an application to organize and establish a public bank pursuant to Section 1020 of the Financial Code, a local agency shall conduct a study to assess the viability of the proposed public bank. The study shall include, but is not limited to, all of the following elements:

(1) A discussion of the purposes of the bank including, but not limited to, achieving cost savings, strengthening local economies, supporting community economic development, and addressing infrastructure and housing needs for localities.

(2) A fiscal analysis of costs associated with starting the proposed public bank.

(3) An estimate of the initial amount of capital to be provided by the local agency to the proposed public bank.

(4) Financial projections, including a pro forma balance sheet and income statement, of the proposed public bank for at least the first five years of operation. The financial projections shall include an estimate of the time period for when expected revenues meet or exceed expected costs and an estimate of the total operating subsidy that the local agency may be required to provide until the proposed public bank generates sufficient revenue to cover its costs. In addition to projections that assume favorable economic conditions, the analysis shall also include a downside scenario that considers the effect of an economic recession on the financial results of the proposed public bank. The projections may include the downside scenario of continuing to do business with the local government's current banker or bankers.

(5) A legal analysis of whether the proposed structure and operations of the public bank would likely comply with Section 6 of Article XVI of the California Constitution, but nothing herein shall compel the waiver of any attorney-client privilege attaching to that legal analysis.

(6) An analysis of how the proposed governance structure of the public bank would protect the bank from unlawful insider transactions and apparent conflicts of interest.

(b) The study may include any of the following elements:

(1) A fiscal analysis of benefits associated with starting the proposed public bank, including, but not limited to, cost savings, jobs created, jobs retained, economic activity generated, and private capital leveraged.

(2) A qualitative assessment of social or environmental benefits of the proposed public bank.

(3) An estimate of the fees paid to the local agency's current banker or bankers.

(4) A fiscal analysis of the costs, including social and environmental, of continuing to do business with the local agency's current banker or bankers.

(c) (1) The study required by subdivision (a) shall be presented to and approved by the governing body of the local agency, and a motion to move forward with an application for a public banking charter shall be approved by a majority vote of the governing body at a public meeting prior to the local agency submitting an application pursuant to Section 1020 of the Financial Code. In addition, the local agency shall include a copy of the study required by subdivision (a) in the application submitted to the Commissioner of Business Oversight.

(2) Before the local agency submits an application pursuant to Section 1020 of the Financial Code, the motion to move forward with an application for a public banking charter shall be subject to voter approval at the next regularly scheduled election held at least 180 days following the vote of the governing body.

(3) The voter approval requirement described in paragraph (2) shall apply to a local agency entering into a joint powers authority formed pursuant to the Joint Exercise of Powers Act (Article 1 (commencing with Section 6500) of Chapter 5 of Division 7 of Title 1) after the study required in subdivision (a) has been completed and before submitting an application to organize and establish a public bank pursuant to Section 1020 of the Financial Code.

(4) As used in paragraphs (2) and (3), "local agency" does not include a charter city.

(d) The local agency shall make available to the public the financial models and key assumptions used to estimate the elements described in paragraphs (2) through (4) of subdivision (a) before presenting the study to the governing body of the local agency as required by subdivision (c).

57607

(a) The Commissioner of Business Oversight shall not issue more than two public bank licenses in a calendar year.

(b) The Commissioner of Business Oversight shall not issue a public bank license if issuing that public bank license would cause there to be more than 10 public banks authorized to transact business pursuant to Division 1.1 (commencing with Section 1000) of the Financial Code.

(c) The Commissioner of Business Oversight shall conduct a study of public banking in California within two years after the date upon which the commissioner issues the 10th public bank license.

(d) The Commissioner of Business Oversight shall not issue a public bank license after the expiration of a period of seven years from the date upon which the commissioner first promulgates regulations for the purpose of carrying out the commissioner's duties under this division.

# Glossary

## A

### ACTIVE MANAGEMENT STRATEGY

Investment strategy based on a manager or a team of managers actively managing a fund's portfolio with the goal of outperforming benchmarks through analytical research, forecasts, and their own judgment and experience.

### ACCRETION

The accumulation of value that occurs during the duration or time between a bond's issuance and maturity.

### ACCRUED INTEREST

Coupon interest accumulated on a bond or note since the last interest payment or, for a new issue, from the dated date to the date of delivery.

### AMORTIZATION OF COSTS

Reconciliation of the purchase price of a security and par value resulting in net interest.

### ARBITRAGE

Transactions by which securities are bought and sold in different markets at the same time for the sake of the profit arising from a yield difference in the two markets. The 1986 Tax Reform Act made this practice by municipalities illegal solely as a borrowing tactic, except under certain safe-harbor conditions.

### ASSET ALLOCATION

The division of an investment portfolio among different asset categories, such as stocks, bonds, and cash.

### ASSET-BACKED SECURITIES

Securities that are supported by pools of assets, such as installment loans or leases, or by pools of revolving lines of credits. Asset-backed securities are structured as trusts in order to perfect a security interest in the underlying assets.

### AVERAGE

An arithmetic mean of selected stocks intended to represent the behavior of the market or some component of it.

## B

### BANK DEPOSITS

Deposits in banks or other depository institutions that may be in the form of demand accounts (checking) or investments in accounts that have a fixed term and negotiated rate of interest.

### BANK NOTES

A senior, unsecured, direct obligation of a bank or U. S. branch of a foreign bank.

### BANKERS' ACCEPTANCE

A draft or bill or exchange accepted by a bank or trust company. The accepting institution, as well as the issuer, guarantees payment of the bill.

### BASIS POINTS

Refers to the yield on bonds. Each percentage point of yield in bonds equals 100 basis points (1/100% or 0.01%). If a bond yield changes from 7.25% to 7.39%, that is a rate of 14 basis points.

### BENCHMARK

A passive index used to compare the performance, relative to risk and return, of an investor's portfolio.

### BOND PROCEEDS

The money paid to the issuer by the purchaser or underwriter of a new issue of municipal securities. These moneys are used to finance the project or purpose for which the securities were issued and to pay certain costs of issuance as may be provided in the bond contract.

### BONDS

A debt obligation of a firm or public entity. A bond represents the agreement to repay the debt in principal and, typically, in interest on the principal.

### BOOK RETURN

Book return includes interest, amortization/accretion of premiums/discounts, realized gains and losses, over a given period of time.

### BOOK VALUE

The value at which an asset is carried on a balance sheet.

### BROKER

A person or firm that acts as an intermediary by purchasing and selling securities for others rather than for its own account.

### BUY AND HOLD STRATEGY

A strategy based on holding all securities until maturity, regardless of fluctuations in the market.

## C

### CALL OPTION

The terms of the bond contract giving the issuer the right to redeem or call an outstanding issue of bonds prior to its stated date of maturity.

### CALL RISK

The risk to a bondholder that the bond issuer will exercise a callable bond feature and redeem the issue prior to maturity.

### CALLABLE SECURITIES

An investment security that contains an option allowing the issuer to retire the security prior to its final maturity date.

### CASH FLOW

A comparison of cash receipts (revenues) to required payments (debt service, operating expenses, etc.).

### CERTIFICATE OF DEPOSIT

A short-term, secured deposit in a financial institution that usually returns principal and interest to the lender at the end of the loan period. Certificates of Deposit (CDs) differ in terms of collateralization and marketability. Those appropriate to public agency investing include:

*Negotiable Certificates of Deposit*

Generally, short-term debt instrument that usually pays interest and is issued by a bank, savings or federal association, state or federal credit union, or state-licensed branch of a foreign bank. The majority of negotiable CDs mature within six months while the average maturity is two weeks. Negotiable CDs are traded in a secondary market and are payable upon order to the bearer or initial depositor (investor). Negotiable CDs are insured by FDIC up to $250,000, but they are not collateralized beyond that amount.

*Non-Negotiable Certificates of Deposit*

CDs that carry a penalty if redeemed prior to maturity. A secondary market does exist for non-negotiable CDs, but redemption includes a transaction cost that reduces returns to the investor. Non-negotiable CDs issued by banks and savings and loans are insured by the Federal Deposit Insurance Corporation up to the amount of $250,000, including principal and interest. Amounts deposited above this amount may be secured with other forms of collateral through an agreement between the investor and the issuer. Collateral may include other securities including Treasuries or agency securities such as those issued by the Federal National Mortgage Association.

## CDARS (CERTIFICATE OF DEPOSIT ACCOUNT REGISTRY SYSTEM)

A private CD placement service that allows local agencies to purchase more than $250,000 in CDs from a single financial institution (must be a participating institution of CDARS) while still maintaining FDIC insurance coverage. CDARS is currently the only entity providing this service. CDARS facilitates the trading of deposits between the California institution and other participating institutions in amounts that are less than $250,000 each, so that FDIC coverage is maintained.

## CD PLACEMENT SERVICE

A service that allows local agencies to purchase more than $250,000 in CDs from a single financial institution while still maintaining FDIC insurance coverage. See “CDARS”.

## COLLATERALIZATION OF DEPOSITS

Process by which a bank or financial institution pledges securities, or other deposits for the purpose of securing the repayment of deposited funds.

## COMMERCIAL PAPER

An unsecured short-term promissory note issued by corporations or municipalities, with maturities ranging from 2 to 270 days.

## CONVEXITY

A measure of the price sensitivity of a fixed income security to changes in interest rates. Convexity is influenced by such factors as the coupon rate, maturity, and any call options that may or may not exist. Prices rise at increasing rates as yields fall and prices decline at decreasing rates as yields rise.

## CORPORATE NOTES AND BONDS

Debt instruments, typically unsecured, issued by corporations, with original maturities in most cases greater than one year and less than ten years.

## COUNTY POOLED INVESTMENT FUNDS

The aggregate of all funds from public agencies placed in the custody of the county treasurer or chief finance officer for investment and reinvestment.

## COUPON

The annual rate of interest that a bond's issuer promises to pay the bondholder on the bond's face value; a certificate attached to a bond evidencing interest due on a payment date.

## CREDIT RATING

Various alphabetical and numerical designations used by credit rating or nationally recognized statistical rating organizations (NRSROs), institutional investors, Wall Street underwriters, and commercial rating companies to give relative indications of bond and note creditworthiness.

*Long-term Ratings*

The three most commonly used NRSROs are Standard & Poor's, Fitch Ratings, and Moody's. Standard & Poor's and Fitch Ratings use the same system, starting with their high¬est rating, of AAA, AA, A, BBB, BB, B, CCC, CC, C, and D for default. Moody's Investors Service uses Aaa, Aa, A, Baa, Ba, B, Caa, and Ca. Each of the services use pluses (+), minuses (-), or numerical modifiers to indicate steps within each category. The S&P ratings from AA to CCC may be modified by the addition of a plus (+) or minus (-) sign to show relative standing within the major rating categories. Moody's appends numerical modifiers 1, 2, and 3 to each generic rating classification from Aa through Caa. The modifier 1 indicates that the obligation ranks in the higher end of its generic rating category; the modifier 2 indicates a mid-range ranking; and the modifier 3 indicates a ranking in the lower end of that generic rating category. The top four letter categories are considered investment grade ratings.

*Short-term Ratings*

Standard & Poor's short-term ratings system is A-1+, A-3, B, C, and / for default. Fitch Ratings use F1+, F3, B, C, and / for default. Finally, Moody's uses P1 and P3, anything below P3 is considered not prime.

## CREDIT RISK

The chance that an issuer will be unable to make scheduled payments of interest and principal on an outstanding obligation. Another concern for investors is that the market's perception of an issuer/borrower's credit will cause the market value of a security to fall, even if default is not expected.

## CUSIP NUMBER

The Committee on Uniform Security Information Procedures (CUSIP) Number refers to a security's identification number assigned to each publicly traded security by the CUSIP Service Bureau operated by Standard & Poor's for the American Bankers Association. The CUSIP Number is a nine-character identifier unique to the issuer, the specific issue and the maturity, if applicable (the first six characters identifying the issuer, the next two identifying the security and the last digit providing a check digit to validate the accuracy of the preceding CUSIP number).

## CUSTODIAN

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

## D

### DEALER

Someone who acts as a principal in all transactions, including underwriting, buying, and selling securities, including from their own account.

### DEFAULT RISK

The risk that issuers/borrowers will be unable to make the required payments on their debt obligations.

### DEFEASED BOND ISSUES

Issues that have sufficient money to retire outstanding debt when due so that the agency is released from the contracts and covenants in the bond document.

### DELIVERY VS. PAYMENT (DVP)

The payment of cash for securities as they are delivered and accepted for settlement.

### DERIVATIVE

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

### DISCOUNT

Discount means the difference between the par value of a security and the cost of the security, when the cost is below par. Investors purchase securities at a discount when return to the investor (yield) is higher than the stated coupon (interest rate) on the investment.

### DISCOUNT RATE

The interest rate used in discounted cash flow (DCF) analysis to determine the present value of future cash flows. The discount rate in DCF analysis takes into account not just the time value of money, but also the risk or uncertainty of future cash flows; the greater the uncertainty of future cash flows, the higher the discount rate.

### DIVERSIFICATION

The allocation of different types of assets in a portfolio to mitigate risks and improve overall portfolio performance.

### DURATION

A measure of the timing of the cash flows to be received from a security that provides the foundation for a measure of the interest rate sensitivity of a bond. Duration is a volatility measure and represents the approximate percentage change in price divided by the percentage change in interest rates. A high duration measure indicates that for a given level of movement in interest rates, prices of securities will vary considerably.

## E

### EFFECTIVE DURATION

Duration measures the weighted average of the present value of the cash flows of a fixed-income investment. Effective duration measures the price sensitivity of fixed-income investments, especially for those with embedded option features such as call options. As yields rise, the effective duration of a callable investment rises to reflect the fact that it has become less likely to be called. The more rates rise, the longer the effective duration will become, approaching the duration to maturity. The converse is true in a declining interest rate environment (that is, the more rates fall, the shorter the effective duration will become, approaching the duration to call). For securities without an embedded option, the duration to call, maturity, and effective duration

are all the same. The calculation for effective duration is complicated and involves averaging the duration under a simulation of many possible interest rate scenarios in the future.

### EVENT RISK

The risk associated with a changing portfolio value due to a market event causing swings in market prices and/or spreads.

### EXTENDABLE NOTES

Securities with maturity dates that can be extended by mutual agreement between the issuer and investor. When investing in these types of securities, the maturity date plus the stated extendable option must not exceed the time frames that are allowed in California Government Code or the investment policy for the investment type.

## F

### FIDUCIARY

An individual who holds something in trust for another and bears liability for its safekeeping.

### FIRST TIER SECURITIES

Securities that have received short-term debt ratings in the highest category from the requisite nationally recognized statistical-rating organizations (NRSROs), or are comparable unrated securities, or are issued by money market funds, or government securities. [See SEC Rules: Paragraph (A)(12) of rule 2A-7.]

### FLOATING RATE SECURITY

A security that has a variable or "floating" interest rate.

## G

### GOVERNMENT ACCOUNTING STANDARDS BOARD (GASB)

A standard-setting body, associated with the Financial Accounting Foundation, which prescribes standard accounting practices for governmental units.

### GOVERNMENT SPONSORED ENTERPRISES (GSE)

Privately held corporations with public purposes created by the U.S. Congress to reduce the cost of capital for certain borrowing sectors of the economy. Securities issued by GSEs carry the implicit backing of the U.S. Government, but they are not direct obligations of the U.S. Government. For this reason, these securities will offer a yield premium over Treasuries.

### GUARANTEED INVESTMENT CONTRACT (GIC)

An agreement acknowledging receipt of funds for deposit, specifying terms for withdrawal, and guaranteeing a rate of interest to be paid.

## I

### IRMA

An independent registered municipal advisor (IRMA) is registered as a municipal advisor with the SEC and MSRB and has a fiduciary duty to the issuer(s) that he/she advises on the issuance of municipal securities and investment of the proceeds of issued debt.

### IRMA EXEMPTION

Pursuant to the Municipal Advisor Rule (MA Rule), underwriters may provide advice to municipal issuers only where certain exceptions or

exemptions apply. The Independent Registered Municipal Advisor Exemption (IRMA Exemption) applies where: (1) the issuer has retained an IRMA that is not recently associated (within the last two years of seeking to use the exemption) with the underwriter, (2) the underwriter receives a written notice from the issuer that they are represented by the IRMA and will rely on their advice, and the underwriter can reasonably rely on that notice, and (3) the underwriter provides a written notice to the issuer and IRMA stating that the underwriter is not a municipal advisor and has no fiduciary duty to the issuer, and the issuer must have adequate time to review that notice.

### INDEX

An index is an indicator that is published on a periodic basis that shows the estimated price and/or yield levels for various groups of securities.

### INTEREST

The amount a borrower pays to a lender for the use of his or her money.

### INTEREST RATE RISK

Interest rate risk is the risk that an investment's value will change due to a change in the absolute level of interest rates, spread between two rates, shape of the yield curve, or any other interest rate relationship.

### INVESTMENT AGREEMENTS

Investment agreements are contracts with respect to funds deposited by an investor. Investment agreements are often separated into those offered by banks and those offered by insurance companies. In the former case, they are sometimes referred to as "bank investment contracts."

### INVESTMENT OVERSIGHT COMMITTEE

A committee of three to eleven members formed under Section 27131 to monitor and review a county's investment policy by causing an annual audit and discussing its finding at an open meeting. Although cities and other local agencies are not required to compose an investment oversight committee, the State Legislature has declared that all local agencies "should participate in reviewing the policies that guide the investment of those funds."

### INSTITUTIONAL ACCOUNT

As defined by the Financial Industry Regulatory Authority (FINRA), an institutional account includes one of the following: (1) a bank, savings and loan association, insurance company or registered investment company; (2) an investment adviser registered either with the SEC under Section 203 of the Investment Advisers Act or with a state securities commission (or any agency or office performing like functions); or (3) any other person (whether a natural person, corporation, partnership, trust or otherwise) with total assets of at least $50 million.

## L

### LIBOR

Acronym for "London Interbank Offered Rate," which represents the average rate at which a leading bank can obtain unsecured funding in the London interbank market. LIBOR serves as a benchmark for various interest rates. Obligations of parties to such transactions are typically expressed as a spread to LIBOR.

### LIQUIDITY

The measure of the ability to convert an instrument to cash on a given date at full face or par value.

### LIQUIDITY RISK

The risk that a security, sold prior to maturity, will be sold at a loss of value. For a local agency, the liquidity risk of an individual investment may not be as critical as how the overall liquidity of the portfolio allows the agency to meet its cash needs.

### LOCAL AGENCY INVESTMENT FUND

A voluntary investment fund open to government entities and certain non-profit organizations in California that is managed by the State Treasurer's Office.

### LOCAL GOVERNMENT INVESTMENT POOL (LGIP)

Investment pools that range from the State Treasurer's Office Local Agency Investment Fund (LAIF) to county pools, to Joint Powers Authorities (JPAs). These funds are not subject to the same SEC rules applicable to money market mutual funds.

## M

### MARKET RISK

The chance that the value of a security will decline as interest rates rise. In general, as interest rates fall, prices of fixed income securities rise. Similarly, as interest rates rise, prices fall. Market risk also is referred to as systematic risk or risk that affects all securities within an asset class similarly.

### MARKET VALUE

The price at which a security is trading and presumably could be purchased or sold at a particular point in time.

### MATURITY

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

### MEDIUM-TERM NOTE

Corporate or depository institution debt securities meeting certain minimum quality standards (as specified in the California Government Code) with a remaining maturity of five years or less.

### MONEY MARKET MUTUAL FUNDS

MMF's are mutual funds that invest exclusively in short-term money market instruments. MMF's seek the preservation of capital as a primary goal while maintaining a high degree of liquidity and providing income representative of the market for short-term investments.

### MORTGAGE BACKED SECURITIES

Mortgage-backed securities (MBS) are created when a mortgagee or a purchaser of residential real estate mortgages creates a pool of mortgages and markets undivided interests or participations in the pool. MBS owners receive a prorata share of the interest and principal cash flows (net of fees) that are "passed through" from the pool of mortgages. MBS are complex securities whose cash flow is determined by the characteristics of the mortgages that are pooled together. Investors in MBS face prepayment risk associated with the option of the underlying mortgagors to pre-pay or payoff their mortgage. Most MBS are issued and/or guaranteed by federal

agencies and instrumentalities (e.g., Government National Mortgage Association (GNMA), Federal National Mortgage Association (FNMA), and Federal Home Loan Mortgage Corporation (FHLMC)).

### MORTGAGE PASS-THROUGH OBLIGATIONS

Securities that are created when residential mortgages (or other mortgages) are pooled together and undivided interests or participations in the stream of revenues associated with the mortgages are sold.

### MUNICIPAL ADVISOR RULE (MA RULE)

A regulation of non-dealer "municipal advisors" such as financial advisors, swap advisors, GIC brokers, etc. In addition, the rule pertains to banks and broker dealers acting as municipal advisors. Municipal advisors have a fiduciary responsibility to the government agency receiving their services and they must register with the Securities Exchange Commission (SEC). Municipal finance professionals that do not have a fiduciary duty to issuers cannot provide advice to governments unless certain exemptions are met. The SEC has published a list of frequently asked questions: **www.sec.gov/info/municipal/mun-advisors-faqs.pdf**.

### MUNICIPAL NOTES, BONDS, AND OTHER OBLIGATIONS

Obligations issued by state and local governments to finance capital and operating expenses.

### MUTUAL FUNDS

An investment company that pools money and can invest in a variety of securities, including fixed-income securities and money market instruments.

## N

### NET ASSET VALUE

Net asset value (NAV) is a term used in the mutual fund industry to determine the average price per share of a pool or mutual fund. How this measure varies over time provides information on whether the pool is stable or variable. NAV is the market value of all securities in a mutual fund, less the value of the fund's liabilities, divided by the number of shares in the fund outstanding. Shares of mutual funds are purchased at the fund's offered NAV.

### NET PRESENT VALUE

An amount that equates future cash flows with their value in present terms.

### NEW ISSUE

Securities sold during the initial distribution of an issue in a primary offering by the underwriter or underwriting syndicate.

### NOTE

A written promise to pay a specified amount to a certain entity on demand or on a specified date. Usually bearing a short-term maturity of a year or less (though longer maturities are issued—see "Medium-Term Note").

## O

### OPTIONS

An option is a contract that gives the buyer the right to buy or sell an obligation at a specified price for a specified time. Exchange Traded Options are standardized option contracts that are actively traded on the Chicago Board of Exchange on a daily basis whereas Over-the-Counter Options are traded directly between the

buyer and seller at agreed upon prices and conditions (the former type of option is therefore more liquid than the latter).

## P

### PAR AMOUNT OR PAR VALUE

The principal amount of a note or bond which must be paid at maturity. Par, also referred to as the "face amount" of a security, is the principal value stated on the face of the security. A par bond is one sold at a price of 100 percent of its principal amount.

### PLACEMENT SERVICE CERTIFICATES OF DEPOSIT

Certificates of deposit placed with a private sector entity that assists in the placement of certificates of deposit with eligible financial institutions located in the United States.

### PLACEMENT SERVICE DEPOSIT

Deposits at depository institutions placed by a private sector placement service entity.

### PORTFOLIO

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

### PREMIUM

Premium means the difference between the par value of a security and the cost of the security, when the cost is above par. Investors pay a premium to purchase a security when the return to the investor (yield) is lower than the stated coupon (interest rate) on the investment.

### PRICE

Price is the amount of monetary consideration required by a willing seller and a willing buyer to sell an investment on a particular date.

### PRINCIPAL

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

### PROSPECTUS

A disclosure document that must be provided to any prospective purchaser of a new securities offering registered with the SEC that typically includes information on the issuer, the issuer's business, the proposed use of proceeds, the experience of the issuer's management, and certain certified financial statements (also known as an "official statement").

### PRUDENT INVESTOR STANDARD

A standard of conduct where a person acts with care, skill, prudence, and diligence when investing, reinvesting, purchasing, acquiring, exchanging, selling, and managing funds. The test of whether the standard is being met is if a prudent person acting in such a situation would engage in similar conduct to ensure that investments safeguard principal and maintain liquidity.

### PUBLIC BANK

A corporation, organized as either a nonprofit mutual benefit corporation or a nonprofit public benefit corporation for the purpose of engaging in the commercial banking business or industrial banking business, that is wholly owned by a local agency, as specified, local agencies, or a joint powers authority.

## Q

### QUALIFIED INSTITUTIONAL BUYER

Federal regulations define qualified institutional buyer (QIB) as any of the following entities, acting for its own account or the accounts of other QIBs, that in the aggregate owns and invests on a discretionary basis at least $100 million in securities of issuers that are not affiliated with the entity: insurance company, investment company, small business investment company, a Rural Business Investment Company, a plan (established and maintained by a public agency) for the benefit of its employees, employee benefit plan, trust fund (bank or trust company), business development company, 501(c)(3), investment adviser, and dealer, an institution that qualifies as an accredited investor. 17 CFR § 230.144A and 230.145

## R

### REINVESTMENT RISK

The risk that interest rates may be lower than the yield on a fixed income security when the investor seeks to reinvest interest income or repaid principal from the security.

### REPURCHASE AGREEMENTS

An agreement of one party (for example, a financial institution) to sell securities to a second party (such as a local agency) and simultaneous agreement by the first party to repurchase the securities at a specified price from the second party on demand or at a specified date.

### REVERSE REPURCHASE AGREEMENTS

An agreement of one party (for example, a financial institution) to purchase securities at a specified price from a second party (such as a public agency) and a simultaneous agreement by the first party to resell the securities at a specified price to the second party on demand or at a specified date.

### RISK

The uncertainty of maintaining the principal or interest associated with an investment due to a variety of factors.

### RULE G-37 OF THE MUNICIPAL SECURITIES RULEMAKING BOARD

Federal regulations to sever any connection between the making of political contributions and the awarding of municipal securities business.

## S

### SAFEKEEPING SERVICE

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

### SAFETY

In the context of investing public funds, safety relates to preserving the principal of an investment in an investment portfolio; local agencies address the concerns of safety by controlling exposure to risks.

### SECURITIES AND EXCHANGE COMMISSION (SEC)

The federal agency responsible for supervising and regulating the securities industry.

### SECURITIES LENDING AGREEMENT

An agreement of one party (for example, a local agency) to borrow securities at a specified price from a second party (for example, another

local agency) with a simultaneous agreement by the first party to return the security at a specified price to the second party on demand or at a specified date. These agreements generally are collateralized and involve a third party custodian to hold the securities and collateral. Economically similar to reverse repurchase agreement.

### SUPRANATIONAL INSTITUTIONS

International institutions formed by two or more governments that transcend boundaries to pursue mutually beneficial economic or social goals. There are three supranational institutions that issue obligations that are eligible investments for California local agencies: the International Bank for Reconstruction and Development (IBRD), International Finance Corporation (IFC), and Inter-American Development Bank (IADB).

## T

### TAX AND REVENUE ANTICIPATION NOTES (TRANS)

Notes issued in anticipation of receiving tax proceeds or other revenues at a future date.

### TOTAL RETURN

Total return includes interest, realized gains and losses, and unrealized gains and losses over a given period of time.

### TRUSTEE, TRUST COMPANY OR TRUST DEPARTMENT OF A BANK

A financial institution with powers to act in a fiduciary capacity for the benefit of the bondholders in enforcing the terms of the bond contract.

## U

### UNDERWRITER

A dealer that purchases a new issue of municipal securities for resale.

### U.S. TREASURY OBLIGATIONS

Debt obligations of the U.S. Government sold by the Treasury Department in the forms of bills, notes, and bonds. Bills are short-term obligations that mature in one year or less and are sold at a discount. Notes are obligations that mature between one year and ten years. Bonds are long-term obligations that generally mature in ten years or more.

## W

### WEIGHTED AVERAGE MATURITY (WAM)

The average maturity of all the securities that comprise a portfolio, typically expressed in days or years.

## Y

### YIELD

The current rate of return on an investment security generally expressed as a percentage of the securities current price.

### YIELD CURVE

A graphic representation that shows the relationship at a given point in time between yields and maturity for bonds that are identical in every way except maturity.

### YIELD-TO-CALL

The rate of return to the investor earned from payments of principal and interest, with interest compounded semi-annually at the stated yield when the security is redeemed on a specified call date. In addition, if the security is redeemed at a premium call price, the amount of the premium is also reflected in the yield.

### YIELD-TO-MATURITY

The rate of return to the investor earned from payments of principal and interest, with interest compounded semi-annually at the stated yield as long as the security remains outstanding until the maturity date.

### YIELD-TO-WORST

For a given dollar price on a municipal security, the lowest of the yield calculated to the pricing call, par option or maturity.

## Z

### ZERO-COUPON BOND

A bond on which interest is not payable until maturity (or earlier redemption), but compounds periodically to accumulate to a stated maturity amount. Zero-interest bonds are typically issued at a discount and repaid at par upon maturity.

# Index of Statutory Changes Effective 1996 to Present

## 1995

**SB 564** **AUTHOR: JOHNSTON** **SECTION(S): 53646**

Summary of Changes: Requires treasurers to produce an annual investment policy and provide detailed quarterly investment reports.

**SB 866** **AUTHOR: CRAVEN** **SECTION(S): 53601, 53635 AND 53859.02**

Summary of Changes: Authorizes the County Board of Supervisors to delegate investment authority to the County Treasurer and requires board to establish a treasury oversight committee (with specific membership requirements). Requires delivery of securities by book entry, physical delivery or third-party custodial agreement. Specifies funds invested for repayment of notes cannot exceed the term of the notes. Lastly, sets requirements for those elected or appointed to county auditor, director of finance and county treasurer.

## 1996

**SB 864** **AUTHOR: CRAVEN AND KILLEA** **SECTION(S): 27000.7, 27131, 27132.1, 27132.2, 27132.3, 27136, 53601, 53601.6, 53635 AND 53646**

Summary of Changes: Restricts campaign contributions by members of county oversight committees, relaxes restrictions on repurchase agreements, increases the amount of portfolio concentration for investment in mutual funds, and allows for greater use of account statements in quarterly investment reports.

## 1997

No changes

## 1998

**SB 1793** **AUTHOR: GREENE** **SECTION(S): 53601 AND 53635**

Summary of Changes: Authorizes that where there is a percentage limitation for a particular investment, that percentage is applicable only at the date of purchase. In addition, investments in repurchase agreements are considered to be in compliance if the value of the underlying securities is brought back up to 102% no later than the next business day.

## 1999

**AB 323** **AUTHOR: BALDWIN** **SECTION(S): 27132.3**

Summary of Changes: Prohibits a member of an oversight committee from securing employment with a financial service company that does business with the committee's county treasurer for one year after leaving the committee.

**AB 343** **AUTHOR: CAMPBELL** **SECTION(S): 53635.7, 53601.2 AND 53635.2**

Summary of Changes: Authorizes counties to increase the amount of commercial paper (CP) held in their portfolios from 15% to 40%, removes the 31-day dollar-weighted maturity requirement for purchases above the original 15%, limits CP investments with any single issuing corporation to 10% of the county's surplus money, and clarifies that "borrowing" does not include bank overdrafts.

**AB 530** **AUTHOR: PAPAN** **SECTION(S): 53601 AND 53635**

Summary of Changes: Authorizes local governments to enter into securities lending agreements provided they meet the same statutory requirements as reverse-repurchase agreements. No more than 20% of the investment portfolio may be comprised of securities lending agreements.

**AB 1679** **AUTHOR: ASSEMBLY LOCAL GOVERNMENT COMMITTEE** **SECTION(S): 53601 AND 53635**

Summary of Changes: Amends the definition of medium-term notes, specifying that these instruments shall have a remaining maximum maturity of 5 years or less. It also emphasizes that purchases of medium-term notes shall not include other investment instruments allowable under current state law.

## 2000

**AB 2220** **AUTHOR: BATTIN** **SECTION(S): 53601, 53601.2, 53635 AND 53635.2**

Summary of Changes: Revises the maximum maturity for bankers acceptances from 270 to 180 days, and prime quality commercial paper from 180 to 270 days.

**AB 2539** **AUTHOR: ASSEMBLY JUDICIARY COMMITTEE** **SECTION(S): 53601 AND 53635**

Summary of Changes: Non-substantive, technical changes including punctuation.

## 2001

**AB 609** **AUTHOR: KELLEY** **SECTION(S): 53601, 53601.5, 53601.6 AND 53635**

Summary of Changes: Authorizes local agencies to invest non surplus money in a sinking fund provided that the money is not required for immediate needs. The bill also revises the definition of commercial paper and prohibits the legislative body of a local agency and the treasurer or other official having custody of the county's money from investing in negotiable certificates of deposit of a state or federal credit union if a member of the legislative body or any other specified city officer or employee also serves on the board of directors or certain committees of that credit union.

## 2002

**AB 2182** **AUTHOR: CAMPBELL** **SECTION(S): 53601.7**

Summary of Changes: Authorizes a county or city and county to invest in high quality money market funds (direct obligations of the United States Treasury or any other obligation guaranteed as to principal and interest by the United States government, bonds, notes, debentures, or other obligations of, or securities issued by, any federal government agency, instrumentality, or government-sponsored enterprise, and state treasury notes, bonds, or registered state warrants).

**AB 3034** **AUTHOR: ASSEMBLY JUDICIARY COMMITTEE** **SECTION(S): 53601**

Summary of Changes: Non-substantive, technical changes consisting of grammatical and other errors without substantively changing the law.

**SB 1326** **AUTHOR: SENATE LOCAL GOVERNMENT COMMITTEE** **SECTION(S): 53601, 53635 AND 53646**

Summary of Changes: Renames the California Debt and Investment Advisory Commission (CDIAC), deletes a requirement to select a vice-chair and secretary, and requires, by May 1, 2006, a specified report to the Legislature. The bill makes related changes in provisions relating to municipal investments.

## 2003

**SB 787** **AUTHOR: BATTIN** **SECTION(S): 53601 AND 53635**

Summary of Changes: Authorizes local agencies to purchase asset-backed commercial paper of prime quality to be of the highest ranking as provided by a nationally recognized statistical-rating organization and that the entity issuing the commercial paper must meet certain conditions as stated in 53601 (g).

## 2004

**AB 969** **AUTHOR: CORREA** **SECTION(S): 53601**

Summary of Changes: Authorizes a local agency that has surplus money or a sinking fund in its treasury to invest that money in shares of beneficial interest issued by a JPA. In addition, the bill requires a JPA issuing the shares to retain an investment advisor that meets specified criteria.

## 2005

No changes

## 2006

**AB 1794** **AUTHOR: DEVORE** **SECTION(S): 53635 AND 53601.7**

Summary of Changes: Extends the sunset date to January 1, 2011 for local agencies to invest in short-term unsecured promissory notes issued by corporations for maturities of 270 days or less, and amends statue to state that no more than 10% of the total assets of the investments that a local entity makes may be invested in any one issuer's commercial paper.

**AB 2011** **AUTHOR: VARGAS** **SECTION(S): 53601.8 AND 53635.8**

Summary of Changes: The bill authorizes the investment of up to 30% of surplus funds in certificates of deposit at a commercial bank, savings bank, savings and loan association, or credit union that uses a private sector entity that assists in the placement of certificates of deposit under specified conditions, until January 1, 2012.

## 2007

**AB 1745** **AUTHOR: ASSEMBLY REVENUE AND TAXATION COMMITTEE** **SECTION(S): 53601**

Summary of Changes: This bill authorizes local agencies to invest in registered treasury notes and bonds issued by any of the 50 states.

## 2008

**SB 1124** **AUTHOR: SENATE LOCAL GOVERNMENT COMMITTEE** **SECTION(S): 53601, 53635 AND 53635.8**

Summary of Changes: Repeals the requirement for local governments to provide annual statements of investment policies, and quarterly investment reports to the CDIAC. In addition, the bill corrects various incorrect statutory cross-references regarding local agency investments.

**SB 1498** **AUTHOR: SENATE JUDICIARY COMMITTEE** **SECTION(S): 53601**

Summary of Changes: Non-substantive, technical changes consisting mostly of punctuation, correcting spelling errors, updating words, i.e., may to shall, any to a, money to moneys, and use of acronym for Nationally Recognized Statistical Rating Organization.

**SB 344** **AUTHOR: MACHADO** **SECTION(S): 5925**

Summary of Changes: Authorizes state and local governments to repurchase or acquire instruments and outstanding bonds issued by or on their behalf.

## 2009

**SB 113** **AUTHOR: SENATE LOCAL GOVERNMENT COMMITTEE** **SECTION(S): 53601.6, 53601.8 AND 53646**

Summary of Changes: Corrects an incorrect cross reference for local agency investments in certificates of deposits and repeals requirement to submit a statement of investment policy to the CDIAC.

## 2010

**SB 1330** **AUTHOR: SENATE JUDICIARY COMMITTEE** **SECTION(S): 53601**

Summary of Changes: Non-substantive, technical changes consisting of changes to references within 53601 due to re-numeration of subsections of 53601 and changing the word subdivision to subdivisions.

SB 1344 AUTHOR: KEHOE SECTION(S): 53601.8 AND 53635.8

Summary of Changes: Deletes the sunset date associated with the authorization for local agencies to investment up to 30% of their surplus funds in certificates of deposit at a commercial bank, savings bank, savings and loan association, or credit union that uses a private sector entity that assists in the placement of certificates of deposit.

## 2011

SB 194 AUTHOR: SENATE GOVERNANCE AND FINANCE COMMITTEE SECTION(S): 53601

Summary of Changes: Authorizes local agencies to invest in negotiable certificates of deposit issued by a federally licensed branch of a foreign bank.

## 2012

SB 1033 AUTHOR: SENATE BUDGET AND FISCAL REVIEW COMMITTEE SECTION(S): 16340

Summary of Changes: Establishes the Voluntary Investment Program Fund within the State Treasury for the receipt of voluntary deposits from local entities.

## 2013

AB 279 AUTHOR: DICKINSON SECTION(S): 53601.8 AND 53635.8

Summary of Changes: Authorizes local agencies to invest up to 30% of their surplus funds in deposits at a commercial or savings bank, savings and loan, or credit union using a private sector deposit placement service until January 1, 2017.

## 2014

AB 1933 AUTHOR: LEVINE SECTION(S): 53601

Summary of Changes: Authorizes local agencies to invest in United States dollar denominated senior unsecured unsubordinated obligations issued or unconditionally guaranteed by certain banks (supranationals), and would require these investments to be rated "AA" or better and to not exceed 30% of the agency's moneys that may be invested.

**AB 2298** **AUTHOR: RODRIGUEZ** **SECTION(S): 53663**

Summary of Changes: Authorizes state chartered financial institutions that maintain local agency deposits to submit their weekly reports to the Administrator of Local Agency Security of the State of California electronically via email or other electronic means approved by the administrator.

## 2015

**AB 283** **AUTHOR: DABABNEH** **SECTION(S): 53601.8 AND 53635.8**

Summary of Changes: Extends the authority to use a private sector entity to assist placing deposits to January 1, 2021; allows local agencies to invest up to 30% of its surplus funds in placement service certificates of deposit (CDs) and 30% in negotiable certificates of deposit; and enables a local agency to invest up to 30% with the same deposit placement service provider. Upon the sunset date of January 1, 2021, a public agency may no longer use a placement service provider to place deposits; however, the private entity would be able to assist a local agency with the placement of CDs.

## 2016

**SB 974** **AUTHOR: SENATE LOCAL GOVERNMENT COMMITTEE** **SECTION(S): 53601**

Summary of Changes: Clarifies and amends the statutory rating requirements contained in Government Code 53601. Specifically rating requirements now refer to a rating category which is inclusive of any rating modifiers such as "+"/"-" or numbers and to include equivalent ratings from Nationally Recognized Statistical Rating Organizations (NRSRO). The specific sections of code that are amended are Government Code Sections 53601(h)(1)(C) Commercial Paper, 53601(k) Medium Term Notes, 53601(o) Mortgage Passthrough Securities, and 53601(q) Supranationals.

## 2017

No changes

## 2018

**AB 1770** **AUTHOR: STEINORTH** **SECTION(S): 53601(O)**

Summary of Changes: Clarifies the statutory maximum remaining maturity requirement of five years applies to all asset-backed securities enumerated in this subdivision and eliminates the issuer rating requirement.

## 2019

**AB 857** **AUTHOR: CHIU** **SECTION(S): 53601(R), 53635(C) AND 53635.2**

Summary of Changes: Adds to Government Code 53601: "(r) Commercial paper, debt securities, or other obligations of a public bank, as defined in Section 57600." In addition, Government Code 53635 is amended by the addition of "(c) A local agency subject to this section may invest in commercial paper, debt securities, or other obligations of a public bank, as defined in Section 57600." Lastly, Government Code 53635.2 is amended to add public banks to the list of depository institutions.

**AB 945** **AUTHOR: MCCARTY** **SECTION(S): 53601.8 AND 53635.8**

Summary of Changes: Amends a local agency's authorization to invest and deposit surplus funds in deposits, certificates of deposit or another form, at specified types of financial institutions. Beginning January 1, 2020, until January 1, 2026, the percentage of surplus funds that can be invested by a city, district, or other local agency that does not pool money in deposits or investments with other local agencies with a different governing body increases to 50 percent. On and after January 1, 2026, the portfolio limitation of cities, districts, and agencies returns to 30 percent of the agency's surplus funds.

## 2020

**SB 998** **AUTHOR: MOORLACH** **SECTION(S): 53601(H), 53601(K) AND 53601.6**

Summary of Changes: Amends the authorization of local agencies, other than counties or a city and county pursuant to subdivision (a) of Section 53635, to invest no more than 10% of its total investment assets in commercial paper and the medium-term notes of any single issuer. Authorizes federally recognized Indian tribes in California to invest in JPA investment pools. Beginning January 1, 2021, until January 1, 2026, local agencies thathave $100 million or more of investment assets, are authorized to invest up to 40% of their moneys in eligible commercial paper. Also, beginning January 1, 2021, until January 1, 2026, local agencies are authorized to invest in securities issued by, or backed by, the United States government that could result in zero- or negative-interest accrual if held to maturity, in the event of, and for the duration of, a period of negative market interest rates. Local agencies are authorized to hold these instruments until their maturity dates. On and after January 1, 2026, the portfolio limitation of local agencies authorized under 53601(h) returns to 25% of eligible commercial paper and local agencies are no longer permitted to invest any funds in securities that could result in zero interest accrual if held to maturity.

## 2021

No changes

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CALIFORNIA
DEBT AND
INVESTMENT
ADVISORY
COMMISSION

915 Capitol Mall, Room 400
Sacramento, CA 95814
phone: (916) 653-3269
fax: (916) 654-7440
e-mail: cdiac@treasurer.ca.gov
www.treasurer.ca.gov/cdiac

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**TOWN OF LOS GATOS**

**FINANCE COMMISSION REPORT**

MEETING DATE: 2/13/2023

ITEM NO: 3

ADDENDUM

DATE: February 10, 2023

TO: Finance Commission

FROM: Laurel Prevetti, Town Manager

SUBJECT: Review and Recommend to the Town Council Changes to the Town's Investment Policy

REMARKS:

Attachment 3 contains Commissioner communication received between 11:01 a.m. Thursday, February 9, 2023, and 11:00 a.m. Friday, February 10, 2023.

Attachments received with the Staff Report:

1. Town Investment Policy
2. Commissioner Communication

Attachments received with this Addendum:

3. Commissioner Communication

PREPARED BY: Gitta Ungvari
Finance Director

Reviewed by: Town Manager and Town Attorney

**Subject:** FW: City of Irvine Investment Policy .pdf
**Attachments:** City of Irvine Investment Policy .pdf

**From:** Phil Koen
**Date:** February 10, 2023 at 4:49:48 AM PST
**To:** Laurel Prevetti <LPrevetti@losgatosca.gov>, Gitta Ungvari <GUngvari@losgatosca.gov>
**Cc:** Rick Tinsley, Gabrielle Whelan <GWhelan@losgatosca.gov>
**Subject: City of Irvine Investment Policy .pdf**

[EXTERNAL SENDER]

Hello Laurel and Gitta,

We can discuss this when we get together today.

Thank you,

Phil

# City of Irvine

# Annual Investment Policy
# Calendar Year 2022

**Revised May 2022**

**Don Collins**
**City Treasurer**

# City of Irvine
# Annual Investment Policy
## Calendar Year 2022

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## *1. INTRODUCTION*

This statement of Investment Policy is intended to provide specific criteria for the prudent investment of City funds. The ultimate investment goal is to enhance the economic status of the City while protecting funds under management and meeting the daily cash flow demands of the City. This investment policy has been prepared in conformance with all pertinent existing laws of the State of California including California Government Code Sections 53600, et seq.

## *2. SCOPE*

This investment policy applies to the City's Irvine Pooled Investment Portfolio, Bond Proceeds Portfolio, and Special District Funds Portfolio. These portfolios encompass all monies under the direct oversight of the Treasurer and include the General Fund, Reserve Funds, Special Revenue Funds, Debt Service Funds, Capital Project Funds, Permanent Fund, Proprietary Funds, Trust and Agency Funds, including the Successor Agency to the Dissolved Irvine Redevelopment Agency, and any other funds that may be created. These funds are accounted for in the City of Irvine's Comprehensive Annual Financial Report. Where present, bond indenture and guiding resolution documentation for investment of bond proceeds and special district funds will supersede the City of Irvine Investment Policy guidelines.

## *3. DELEGATION OF AUTHORITY*

Authority to manage the City of Irvine's investment program is derived from the Charter of the City of Irvine, Section 2-2-101(B). The authority of the City Council to invest or reinvest monies of the City has been delegated by the City Council to the City Treasurer for one year or until such time the delegation is revoked. The City Treasurer shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials, and their procedures in the absence of the City Treasurer. The City Treasurer may delegate daily investment activity, such as carrying out the Treasurer's investment instructions, confirming treasury transactions, and other routine activities.

The City Treasurer shall establish written investment policy procedures for the operation of the investment program consistent with this policy. The procedures should include reference to: safekeeping, master repurchase agreements, wire transfer agreements, banking service contracts and collateral/depository agreements. Such procedures shall include explicit

delegation of authority to persons responsible for investment transactions. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the City Treasurer.

The Treasurer is responsible for the investment of bond proceeds and special district funds, whether held by the City, a fiscal agent, or trustee. The Bond Proceeds and Special District Funds Portfolios shall be segregated from the Irvine Pooled Investment Portfolio and will be structured with maturities (or maintain an average maturity) sufficient to meet construction drawdowns, debt service payments and other short-term liabilities. For purposes of efficiency, the Treasurer may instruct each fiscal agent or trustee to purchase certain securities regarding the investment of bond proceeds and special district funds in conformance with the permitted investment criteria documented in each bond indenture or guiding resolution. Where present, bond indenture and guiding resolution documentation for investment of bond proceeds and special district funds will supersede the City of Irvine Investment Policy guidelines. The Investment Advisory Committee will be advised of any investments made outside of the Investment Policy, pursuant to bond indentures, and/or guiding resolutions.

Currently, management of the Irvine Pooled Investment Portfolio, Bond Proceeds Portfolio, and Special District Funds Portfolio has been delegated to an investment advisory firm that has full authority to execute investment transactions on behalf of the City. In the event the contract management firm is not able to execute investment transactions, the City Treasurer and Deputy City Treasurer have the authority to execute investment transactions.

## *4. 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 that impairs their ability to make impartial investment decisions. Employees and investment officials shall disclose any material financial interests that could be related to the performance of the City's investment policy annually with the California Fair Political Practices Commission or as necessary under the Political Reform Act and Government Code Section 1090 et seq.

## *5. PRUDENCE/PRUDENT INVESTOR STANDARD*

The Treasurer operates the City's pooled investment program under the Prudent Investor Standard, Government Code Section 53600.3, and applicable State laws. When investing, reinvesting, purchasing, acquiring, exchanging, selling, and managing public funds, the Treasurer 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 City, that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the City. Within the limitations of this section and considering individual investments as part of an overall strategy, investments may be acquired and sold as authorized by law. This affords a broad spectrum of investment opportunities so long as the investment is deemed prudent and permissible by the State of California, various bond indentures and this policy. The Treasurer strives to invest 100 percent of idle funds.

## *6. INTERNAL CONTROLS*

The Treasurer and Manager of Fiscal Services shall establish procedures that separate the internal responsibility for management and accounting of the investment portfolios. An analysis by an external independent auditor shall be conducted annually to review internal controls, account activity and compliance with policies and procedures.

## *7. INVESTMENT OBJECTIVES*

The City's cash management system is designed to accurately monitor and forecast revenues and expenditures, thus enabling the Treasurer to invest funds to the fullest extent possible. The Treasurer maintains a diversified portfolio to accomplish the primary objectives in the order of safety, liquidity, and yield.

Safety: The safety/risk associated with an investment refers to the potential loss of principal, accrued interest or a combination of these. The Treasurer seeks to mitigate credit risk by monitoring financial institutions with which he/she will do business, and by careful scrutiny of the credit worthiness of the investment instruments as well as the institutions. Such resources as a nationally recognized statistical-rating organization (NRSRO) services are utilized for this review. The Treasurer seeks to mitigate interest rate risk through

diversification of instruments as well as maturities.

Liquidity: The portfolio will be structured with sufficient liquidity to allow the Treasurer to meet anticipated cash requirements. This will be accomplished through the purchase of a diversity of instruments to include those with active secondary markets, those that can match maturities to expected cash needs, and the State Local Agency Investment Fund (LAIF) with immediate withdrawal provisions.

Yield: A competitive market rate of return is the third objective of the investment program after the fundamental requirements of safety and liquidity have been met. The portfolio shall be managed to consistently attain a market rate of return throughout budgetary and economic cycles. Whenever possible, and consistent with risk limitations and prudent investment management, the City will seek to augment returns above the market average rate of return through the implementation of active portfolio management strategies.

### 7.1 SOCIAL RESPONSIBILITY

Environmental, Social and Governance ("ESG")
The City supports companies that consider long-term sustainability as part of their operations. ESG factors will be considered when selecting securities. When possible, it is the City's policy to invest in companies that promote ESG factors, subject to the prudent investment standard as set forth above. Additionally, the City discourages direct investments in fossil fuel companies, for-profit prisons, and manufacturers of tobacco, firearms, and alcohol.

## *8. PERFORMANCE EVALUATION*

Investment performance is continually monitored and evaluated by the City Treasurer. Investment portfolio reports are generated on a monthly and quarterly basis and submitted to the City Council, City Manager, and Investment Advisory Committee. A quarterly Treasurer's report is also presented to the City Council, Finance Commission, and Investment Advisory Committee during respective regularly scheduled meetings.

The investment portfolio reports are to be submitted within 30 days of the end of the reporting period. The monthly average yield of the Irvine Pooled Investment Portfolio will be compared to the monthly average 6-month CMT

(Constant Maturity Treasury) as calculated by the Federal Reserve Bank of New York. As an added reference, the monthly average yield of the Irvine Pooled Investment Portfolio will be compared to the monthly average 2-year CMT as calculated by the Federal Reserve Bank of New York.

## *9. DIVERSIFICATION*

The City will diversify use of investment instruments to avoid unreasonable risks inherent in over-investing in specific instruments, individual financial institutions, or maturities.

Market price volatility shall be controlled through maturity diversification, as well as ensuring adequate liquidity is available to meet cash flow requirements, thereby precluding the need to sell instruments at a market loss.

Risk of default will be controlled by acquiring instruments such as Government Securities, or by diversifying the portfolio within the constraints and parameters of Section 17 of this Policy, Authorized and Suitable Investments.

## *10. PORTFOLIO SEGREGATION*

Within the overall funds managed by the Treasurer, bond proceeds and special district funds shall be segregated from the general City pool into their own pool and be invested in conformance with the permitted investment criteria documented in each bond indenture or guiding resolution. Furthermore, bond proceeds held by fiscal agents or trustees shall also be segregated and invested in accordance with each indenture.

The primary purpose of any separately managed bond proceeds and special district funds portfolios is to structure investment maturities to meet current and future liabilities. The preservation of principal and the maintenance of liquidity are the most important factors regarding the investment of bond proceeds and special district funds. Portfolio yield is not a primary factor since the portfolio structure, eligible investment assets and maturity restrictions are governed by draws and expenditure schedules of the issues. Performance will be based upon maximizing permitted positive arbitrage within the context of principal preservation as a first priority (pre-1986 Tax Reform Act issuances) or minimizing or eliminating negative arbitrage (yield-restricted issues).

## *11. BOND ISSUANCE ARBITRAGE REBATE*

The U.S. Tax Reform Act of 1986 requires the City to perform annual arbitrage calculations and rebate excess earnings to the U.S. Treasury for investment returns that exceed the allowable interest earnings limit of each bond issue. The arbitrage calculation process must be conducted for the investment of proceeds of bond issues sold after the effective date of this law. This arbitrage calculation will be contracted out to provide the necessary technical expertise to comply with this regulation. The City's investment position relative to the interest rate arbitrage restrictions is to have safety and the highest permitted return the law allows as the highest priority while ensuring the preservation of principal and liquidity.

## *12. QUALIFIED DEALERS*

The Treasurer shall transact business only with Registered Investment Advisors, national or state-chartered banks, savings and loans, and broker dealers. The dealers should be primary dealers regularly reporting to the New York Federal Reserve Bank, or approved regional or secondary market dealers that qualify under the Securities and Exchange Commission Rule 15C3-1 (uniform net capital rule).

The Treasurer may direct a fiscal agent or trustee to execute investment transactions on behalf of the City for funds held by that fiscal agent or trustee.

The City may purchase "prime" quality rated commercial paper from its direct issuer if it presents a higher return than in the secondary market.

The Treasurer will monitor broker/dealers and their firms, to ensure they are in good standing with the appropriate regulatory agencies. The Treasurer will review financials and report back to the Investment Advisory Committee.

## *13. SAFEKEEPING OF SECURITIES*

To protect against losses caused by the collapse of individual securities dealers, all securities owned by the City, including collateral for repurchase agreements, shall be held in safekeeping by a third party bank trust department acting as agent for the City under the terms of a custody agreement or, in the case of funds held by the fiscal agent or trustee, the fiscal agent or trustee shall segregate and report securities held on the City's

behalf. Any trade executed by a dealer is required to settle on a delivery versus payment basis with the City's safekeeping agent.

Fiscal agents or trustees in receipt of City of Irvine bond proceeds will settle security transactions on a delivery versus payment method based upon instructions provided by the Treasurer or the City's investment advisor. The fiscal agents or trustees will issue monthly custodian statements evidencing securities held in safekeeping, including the receipt of interest and maturity proceeds, the disbursement of funds for the purchase of securities, and the receipt of any sale proceeds.

## *14. COLLATERALIZATION*

All demand deposits, time deposits and repurchase agreements are to be fully collateralized with securities authorized by the California Government Code and the City.

1. The cost value (book value) of collateral pledged for demand deposits must at all time be equal to or greater than the amount on deposit, plus accrued interest, in accordance with the following ratio:

| | |
|---|---|
| U.S. Treasury Securities | 110% |

2. The cost value (book value) of collateral pledged for repurchase agreements must at all time be equal to or greater than the par amount, plus accrued interest, with the following ratios:

| | |
|---|---|
| U.S. Treasury Securities | 102% |
| U.S. Government Agencies | 102% |

3. It is the policy of the City to require reports at least on a quarterly basis from institutions with which the Treasurer has pledged security interest. The Treasurer shall monitor the adequacy of collateralization to ensure that balances are collateralized in accordance with the ratios approved herein.

4. With regard to repurchase agreements, it is the policy of the City to initiate a margin call in the event pledged collateral falls below the appropriate ratio.

5. Collateralized investments and deposits often require substitution of collateral. Any broker or financial institution requesting substitution must contact the City for approval in the event the counterparty to the transaction is not authorized under agreement with the City to make

substitutions.

## *15. MAXIMUM MATURITIES*

1. Pooled Investment Portfolio

In accordance to California Government Code Section 53601, The City will not invest in any securities maturing more than five (5) years from the settlement date of purchase. If the Treasurer desires to make investments longer than five years, express authority to make those investments, either specifically or as part of an investment program, must be approved by the City Council no less than three months prior to the investment. In no event will securities with maximum maturities beyond four years exceed 40 percent of the portfolio's total carrying cost at the time of purchase.

2. Bond Proceeds Portfolio/Special District Funds Portfolio

The Bond Proceeds and Special District Funds Portfolios held by the City, fiscal agents or trustees will be structured with maturities sufficient to meet current and future disbursements and other liabilities consistent with the purpose of each bond issue. The Treasurer may match maturities to defined future liabilities or may structure the portfolio in such a manner as to maintain an average maturity and a defined liquidity percentage necessary to meet estimated liabilities. In no event will securities be purchased with final maturities that exceed a specifically defined future liquidity requirement (such as bond reserve fund availability requirement) or liability.

## *16. INVESTMENT POOLS/MONEY MARKET MUTUAL FUNDS*

A thorough investigation of any government sponsored pool and/or mutual fund is required prior to investing and on a continual basis. There shall be a questionnaire completed which will provide the following information:

- A description of eligible investment securities, and a written statement of investment policy and objectives.
- A description of interest calculations and how it is distributed, and how gains and losses are treated.
- A description of how the securities are safeguarded (including

the settlement processes), and how often the securities are priced and the program audited.
- A description of who may invest in the program, how often, and what size of deposits and withdrawals are allowed.
- A schedule for receiving statements and portfolio listings.
- A description of how the pool/fund utilizes reserves, retained earnings, etc.
- A fee schedule, including when and how fees are assessed.
- The eligibility of the pool/fund to invest in bond proceeds and special district funds, and a description of its practices.

## *17. AUTHORIZED AND SUITABLE INVESTMENTS*

The City is governed by the California Government Code, Sections 53600 et seq. Within the context of these limitations and based on the cost at the time of purchase, the following investments are authorized as further limited herein:

Authorized Investment Summary Matrix

| Category | | Percent |
|---|---|---|
| A. | US Treasuries | no limit |
| B. | US Agencies | no limit |
| C. | Bankers' Acceptances | 40% |
| D. | Commercial Paper | 25% |
| E. | Repurchase Agreements | no limit |
| F. | Reverse Repurchase Agreements | 20% |
| G. | Local Agency Investment Fund (LAIF) | no limit |
| H. | Municipal Bonds | no limit |
| I. | Corporate Medium Term Notes | 30% |
| J. | Money Market Mutual Funds | 20% |
| K. | Supranationals | 30% |
| L. | Mortgage Pass-Through and Asset Backed Securities | 20% |

A. United States Treasury Bills, Bonds, and Notes, or those for which the full faith and credit of the United States are pledged for payment of principal and interest. There is no limitation as to the percentage of the portfolio that can be invested in this category. Per Government Code Section 53601.6(b)(2), which allows a local agency to invest in

securities issued by, or backed by, the United States government that could result in zero- or negative-interest accrual if held to maturity, in the event of, and for the duration of, a period of negative market interest rates.

B. Obligations issued by United States Federal agencies or government-sponsored enterprise obligations, or other instruments, including those issued by or fully guaranteed as to principal and interest by federal agencies or United States government-sponsored enterprises. Although there is no percentage limitation on these issues, the "prudent investor" standard shall apply to investments from a single agency.

C. Bills of exchange or time drafts drawn on and accepted by a commercial bank, otherwise known as Bankers' Acceptances. Bankers' Acceptances purchased may not exceed 180 days to maturity or 40 percent of the cost (book) value of the portfolio. No more than 5 percent of the cost (book) value of the portfolio may be invested in Bankers' Acceptances issued by any one bank. Prior to the purchase of any Banker's Acceptance, the portfolio manager shall review the rating of the issuing bank. Bankers' Acceptances of issuing financial institutions shall have both a short and long term rating in the highest category by at least one nationally recognized rating agency at the time of purchase.

D. Commercial paper ranked of "prime" quality of the highest ranking or of the highest letter and number rating as provided for by NRSRO and issued by a domestic corporation having assets in excess of $500 million. The commercial paper must also have an "A" or better rating for the issuer's debt, other than commercial paper, if any, as provided by a NRSRO. Purchase of commercial paper from corporations on negative credit watch by a major rating agency shall be prohibited. Purchases of eligible commercial paper may not exceed 270 days to maturity. Excluding the Special District Funds Portfolio, purchases of commercial paper may not exceed 25 percent of the cost value of the portfolio at time of purchase, and no more than 5 percent of the cost value of the portfolio may be invested in commercial paper issued by any one corporation. Corporate medium term note and bankers' acceptance holdings shall be considered when calculating the maximum dollar amount in any issuer name.

Upon any announcement of negative credit watch or downgrade by a major rating agency of any issue within the portfolio, the investment

manager should contact the City Treasurer/City Manager and recommend a course of action. If at any time a security falls below "investment grade," the investment manager should obtain the best bid and take the necessary steps toward liquidation.

E. Repurchase agreements. The City may invest in repurchase agreements with banks and primary dealers with whom the City has entered into a master repurchase agreement that specifies terms and conditions of repurchase agreements. The maturity of repurchase agreements shall not exceed 75 days.

The cost value of securities used as collateral for repurchase agreements shall be monitored daily by the Treasurer and will not be allowed to fall below the margin ratios specified in Section 14 (2) of this policy. In order to conform with provisions of the Federal Bankruptcy Code which provides for the liquidation of securities held as collateral for repurchase agreements, the only securities acceptable as collateral shall be securities that are direct obligations of, or that are fully guaranteed as to principal and interest by, the United States Government such as Treasury bills, Treasury notes or Treasury bonds with less than a five year maturity.

F. Reverse repurchase agreements. The City may invest in reverse repurchase agreements only with those banks and primary dealers with whom the City has entered into a master repurchase agreement outlining terms and conditions of repurchase and reverse repurchase agreements. The City may only invest in reverse repurchase agreements for the following purpose:

1. The City may enter into reverse repurchase agreements when funds obtained through the reverse can be reinvested in a higher yielding security to obtain additional interest income for the City at a spread deemed to be acceptable by the Treasurer under then prevailing market conditions. Reverse repurchase agreements entered into in accordance with this paragraph may not exceed 75 days to maturity and must be matched as to maturity and dollars invested with its corresponding reinvestment. No more than 20 percent of the cost value (book value) of the portfolio may be invested in reverse repurchase agreements.

2. Reverse repurchase agreements may be used for liquidity purposes when it is determined that the portfolio has sufficient

additional collateral coming due within the term of the reverse repurchase agreement equal to or exceeding the amount of the reverse repurchase agreement.

G. The City may invest in the LAIF established by the State Treasurer for the benefit of local agencies up to the maximum permitted by State law.

H. Bonds issued by local agencies of the United States, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the local agency or by a department, board, agency, or authority of the local agency rated "A" or better by a NRSRO. ""A" rated bonds shall be limited to 36 months maximum maturity and "AA" rated bonds shall be limited to 60 months maximum maturity.

Upon any announcement of negative credit watch or downgrade by a major rating agency of any issue within the portfolio, the investment manager should contact the City Treasurer/City Manager and recommend a course of action. If at any time a security falls below "investment grade," the investment manager should obtain the best bid and take the necessary steps toward liquidation.

I. Corporate medium term notes issued by a corporation 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, having assets in excess of $500 million and having an "A" or better rating criteria at time of purchase on its long-term debentures as provided by a NRSRO. Purchase of corporate medium term notes from corporations on negative credit watch by a major rating agency shall be prohibited. "A" rated medium term notes shall be limited to 36 months maximum maturity, "AA" rated medium term notes shall be limited to 60 months maximum maturity. The aggregate total of all purchased medium term notes may not exceed 30 percent of the cost value of the portfolio. No more than 5 percent of the cost value of the portfolio may be invested in corporate medium term notes issued by any one corporation. Commercial paper and bankers' acceptance holdings shall be considered when calculating the maximum percentage in any issuer name.

Upon any announcement of negative credit watch or downgrade by a major rating agency of any issue within the portfolio, the investment manager should contact the City Treasurer/City Manager and

recommend a course of action. If at any time a security falls below "investment grade," the investment manager should obtain the best bid and take the necessary steps toward liquidation.

J. Money market mutual funds having a rating of "AAA" or an equivalent by no less than two NRSRO with no load and maintained at $1 par value. No more than 20 percent of the cost value of portfolio value at time of purchase, excluding the Special District Funds Portfolio, should be invested in this category, and the City's investment in any specific mutual fund will not exceed 10 percent of the agency's funds. Supranational securities of 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 "AA" or better by an NRSRO and shall not exceed 30 percent of the agency's moneys that may be invested pursuant to this section.

K. Mortgage Pass-through and Asset Backed Securities - A mortgage passthrough security, collateralized mortgage obligation, mortgage-backed or other pay-through bond, equipment lease-backed certificate, consumer receivable passthrough certificate, or consumer receivable-backed bond. Securities eligible for investment under this subdivision shall be rated in a rating category of "AA" or its equivalent or better by an NRSRO and have a maximum remaining maturity of five years or less. Purchase of securities authorized by this subdivision shall not exceed 20 percent of the agency's surplus moneys that may be invested pursuant to this section.

## *18. INELIGIBLE INVESTMENTS*

Investments not described herein including, but not limited to, equity securities such as common stocks, preferred stocks, convertibles, inverse floaters, range notes and interest-only strips that are derived from a pool of mortgages are prohibited from use in this portfolio. The City is prohibited from entering into a margin agreement and/or borrowing on margin.

## *19. INVESTMENT ADVISORY COMMITTEE*

The City has created a five-member Investment Advisory Committee as a

standing Committee to advise the City on matters relating to the City's Investment Policy and the investment of City funds. The Committee meets at least quarterly with the Treasurer and City staff and reports directly to the City Council. Each Councilmember appoints one person to the Committee. The Committee member's term is concurrent with the term of the appointing Councilmember. The Committee will be governed by a set of Bylaws (Exhibit A) to be reviewed and approved annually.

## *20. PORTFOLIO REPORTING*

In accordance with California Government Code, Sections 53607 and 53646(b), the Treasurer shall provide on a monthly and quarterly basis (or as otherwise requested by the City Manager) an investment portfolio report to the City Council. The report shall include a listing of each of the City's investments (a description that adequately describes the security), the purchase date, maturity date, cost basis, current cost value (book value), interest rate, weighted average maturity, current unrealized loss or gain and a listing of investment transactions that includes purchase/deposit and sale/withdrawal activity. Various investment types will be categorized and grouped in the same structure as the qualified investment categories identified in this policy. The portfolio report shall include a statement certifying the ability of the City to meet its expenditure requirements for the next six months, or provide an explanation as to why sufficient money shall, or may, not be available. The report will also include comments on the fixed income markets and economic conditions, and the effect, if any, on the portfolio structure and investment strategy. The report shall also detail all repurchase and reverse repurchase positions and associated liabilities.

The investment portfolio report shall include market value information for all investments. A monthly market value will be obtained for each security owned by the City. For purposes of reporting, the market value of each security may be obtained from the City's custodian bank or other pricing source(s) utilized by the City's designated investment management firm (registered investment advisor).

The City shall record interest revenue on a modified accrual basis of accounting that is typical for reporting and recording of interest earnings. Securities held by a fiscal agent or trustee shall also be recorded on a modified accrual basis of accounting. The Treasurer will report year-end investments in conformance with Governmental Accounting Standards Board Statement Nos. 31, 40, and 72.

The Treasurer will provide a monthly reconciliation of all funds included in the investment portfolios. The reconciliation shall utilize all available information including the City's books, the Demand Deposit Bank account, the custodian's statement, and the fiscal agent and trustee's statement.

## *21. REVIEW OF INVESTMENT PORTFOLIO*

The securities held by the City must be in compliance with Section 17, Authorized and Suitable Investments, at the time of purchase. The Treasurer shall review the portfolios quarterly to identify any securities that are no longer in compliance. The Treasurer shall report any major and critical incidences of noncompliance in the quarterly treasurer's report to the City Council and Investment Advisory Committee.

## *22. INVESTMENT POLICY ADOPTION*

The City Council shall review and adopt this Investment Policy by resolution annually.

## GLOSSARY

**AGENCIES** – Agencies of the Federal government set up to supply credit to various classes of institutions (e.g., S&L's, small business firms, students, farmers, housing agencies, etc.) Examples include Federal Home Loan Mortgage Corporation (FHLMC), Federal National Mortgage Association (FNMA), Federal Home Loan Bank (FHLB), and Federal Farm Credit Bank (FFCB).

**ASSET BACKED SECURITIES** - Securities supported by pools of installment loans or leases or by pools of revolving lines of credit.

**ASK/OFFER** – The price at which securities are offered. (The price at which a firm will sell a security to an investor)

**BANKERS' ACCEPTANCE (BA)** – A draft or bill of exchange accepted by a bank or trust company. The accepting institution guarantees payment of the bill as well as the issuer.

**BASIS POINT** – One one-hundredth of a percent (i.e., 0.01 percent)

**BEAR MARKET** – A period of generally pessimistic attitudes and declining market prices.

**BID PRICE** – The price at which a broker/dealer will buy securities from an investor.

**BOND EQUIVALENT YIELD** – The basis on which yields on notes and bonds are quoted.

**BOOK VALUE (COST VALUE)** – The purchase price of the security as recorded on the City's books.

**BROKER** – An individual or firm acting as intermediary by purchasing and selling securities for others.

**BULL MARKET** – A period of generally optimistic attitudes and increasing market prices.

**CALLABLES** – Securities that the issuer has the right to redeem prior to maturity.

**CERTIFICATE OF DEPOSIT (CD)** - A time deposit with a specific maturity

evidenced by a certificate. Large denomination CD's are typically negotiable.

**CMT** – Constant Maturity Treasury – An index of the average yield on United States Treasury securities adjusted to a constant maturity.

**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.

**COMPREHENSIVE ANNUAL FINANCIAL REPORT (CAFR)** - The official annual financial report of the City. It includes combined statements for each individual fund and account group prepared in conformity with Generally Accepted Accounting Principles (GAAP). It also includes supporting schedules necessary to demonstrate compliance with finance-related legal and contractual provisions, extensive introductory material, and a detailed Statistical Section.

**CORPORATE MEDIUM TERM NOTE** – A security issued by a corporation doing business in the U.S. with a maturity not to exceed five years.

**COST VALUE (BOOK VALUE)** – The purchase price of the security as recorded on the City's books.

**COUPON** – a) The annual rate of interest that a bond's issuer promises to pay the bondholder on the bond's face value; b) a certificate attached to a bond evidencing interest due on a payment date.

**DEALER** – An individual or firm acting as principal in a security transaction.

**DEBENTURE** - A bond secured only by the general credit of the issuer.

**DELIVERY VS PAYMENT** - Delivery of securities with a simultaneous exchange of money.

**DEMAND ACCOUNT** – An account with a commercial bank from which check withdrawals may be made at any time.

**DERIVATIVES** – Financial products that are dependent for their value on (or derived from) an underlying financial instrument, a commodity, or an index representing values of groups of such instruments or assets.

**DISCOUNT** – The difference between the cost price of a security and its par

value when the cost is lower than par. A security selling below original offering price shortly after sale also is considered to be at a discount.

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

**FEDERAL FUNDS RATE** – Interest rate charged by one institution lending federal funds to another.

**FEDERAL OPEN MARKET COMMITTEE (FOMC)** – Consists of seven members of the Federal Reserve Board and five of the twelve Federal Reserve Bank Presidents. The President of the New York Federal Reserve Bank is a permanent member, while the other presidents serve on a rotating basis. The Committee periodically meets to set Federal Reserve guidelines regarding purchases and sales of Government Securities in the open market as a means of influencing the volume of bank credit and money.

**FINANCIAL ADVISOR** – A firm or bank that acts in a financial advisory capacity with respect to a new issue of municipal securities pursuant to a written contract.

**FISCAL AGENT** – A financial institution which performs payment of principal and interest to bondholders, and certain administrative duties on the bond issuer's behalf.

**GOVERNMENTAL ACCOUNTING STANDARDS BOARD** – The independent organization that establishes and improves standards of accounting and financial reporting for U.S. state and local governments.

**INTERNAL RATE OF RETURN** – Rate of return over the life of a security on variables.

**LOCAL AGENCY INVESTMENT FUND (LAIF)** – The aggregate of all funds from political subdivisions that are placed in the custody of the State Treasurer for investment and reinvestment.

**MARKET VALUE** – The price at which a security is trading, usually the liquidation value.

**MASTER REPURCHASE AGREEEMENT** – A written contract covering all future transactions between the parties to repurchase-reverse repurchase agreements that establishes each party's rights in the transactions. A master agreement will often specify, among other things, the right of the buyer-

lender to liquidate the underlying securities in the event of default by the seller borrower.

**MONEY MARKET MUTUAL FUNDS** – Open-ended mutual fund that invests in commercial paper, banker's acceptances, repurchase agreements, government securities, certificates of deposit and other highly liquid and safe securities, and pays money market rates of interest. The fund's net asset value remains a constant $1 a share, with the interest rate increasing or decreasing.

**MORTGAGE PASS-THROUGH SECURITIES** – A securitized participation in the interest and principal cash flows from a specified pool of mortgages. Principal and interest payments made on the mortgages are passed through to the holder of the security.

**NATIONALLY RECOGNIZED STATISTICAL RATING ORGANIZATION (NRSRO)** – A rating organization designated by the SEC as being nationally recognized.

**OFFER PRICE** – The price at which a broker/dealer will offer securities to an investor.

**OPEN MARKET OPERATIONS** – Federal Reserve activity. Under the Federal Reserve Act, the Fed uses purchases and sales of Government and Federal Agency securities to add to or subtract from commercial bank reserves. Goals are to sustain economic growth, high employment and reasonable price stability.

**PAPER GAIN OR LOSS** – Term used for unrealized gain or loss on securities being held in a portfolio based on comparison of current market quotes and their original cost. This situation exists as long as the security is held while there is a difference between cost value (book value) and the market value.

**PORTFOLIO** – Collection of securities held by an investor.

**PREMIUM** – The difference between the cost price of a security and its par value, when the cost is higher than par.

**PRIMARY DEALER** – A group of government securities dealers that serve as trading counterparties of the New York Fed in its implementation of monetary policy. This role includes the obligations to: (i) participate consistently in open market operations to carry out U.S. monetary policy pursuant to the direction of the Federal Open Market Committee (FOMC); and (ii) provide the New York Fed's trading desk with market information and analysis helpful in the

formulation and implementation of monetary policy. Primary dealers are also required to participate in all auctions of U.S. government debt and to make reasonable markets for the New York Fed when it transacts on behalf of its foreign official account-holders.

**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, the current income return.

**REPURCHASE AGREEMENT (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 them for this.

**REVERSE REPURCHASE AGREEMENT (REVERSE REPO)** – A reverse-repurchase agreement (reverse repo) involves an investor borrowing cash from a financial institution in exchange for securities. The investor agrees to repurchase the securities at a specific date for the same cash value plus an agreed upon interest rate. Although the transaction is similar to repo, the purpose of entering into a reverse repo is quite different. While a repo is a straightforward investment of public funds, the reverse repo is a borrowing.

**SAFEKEEPING** – The service provided by banks and trust companies for clients when the bank or trust company stores the securities, takes in coupon payments, and redeems issues at maturity.

**SECURITIES & EXCHANGE COMMISSION (SEC)** – Agency created by Congress to protect investors in securities transactions by administering securities legislation.

**SEC RULE 15(C) 3-1** – See Uniform Net Capital Rule.

**SPREAD** – a) The yield or price difference between the bid and offer on an issue; b) the yield or price difference between different issues.

**SUPRANATIONALS** – International institutions formed by two or more governments that transcend boundaries to pursue mutually beneficial economic or social goals. There are three supranational institutions that issue obligations that are eligible investments for California local agencies: the International Bank for Reconstruction and Development (IBRD), International Finance Corporation (IFC), and Inter-American Development Bank (IADB).

**SWAP** – The sale of one issue and the simultaneous purchase of another for

some perceived advantage.

**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** – U.S. Treasury securities that have initial maturities of more than 10 years.

**TREASURY NOTES** – Intermediate-term coupon bearing U.S. Treasury securities having initial maturities from one year to ten years.

**TRUSTEE** – A financial institution with trust powers that acts in a fiduciary capacity for the benefit of the bondholders in enforcing the terms of the bond contract.

**UNIFORM NET CAPITAL RULE** – Securities and Exchange Commission requirement that member firms as well as nonmember broker-dealers in securities maintain a maximum ratio of indebtedness to liquid capital of 15 to 1; also called net capital rule and net capital ratio. Indebtedness covers all money owed to a firm, including margin loans and commitments to purchase securities. Liquid capital includes cash and assets easily converted into cash.

**WHEN ISSUED BASIS (WI)** – A term applied to securities that are traded before they are actually issued with the stipulation that transactions are null and void if securities are not issued.

**YIELD CURVE** – Yield calculations of various maturities at a given time to observe spread difference.

**YIELD TO MATURITY** – The current coupon yield minus any premium above par, or plus any discount from par in the purchase price with the adjustment spread over the period from date of purchase to maturity.

# BYLAWS OF THE
# INVESTMENT ADVISORY COMMITTEE OF THE CITY OF IRVINE

## ARTICLE I - PURPOSE

The purpose of the Investment Advisory Committee is to oversee the management of the investment portfolio through regular quarterly meetings. The Committee will review investment transactions, discuss economic conditions and strategies regarding the management of the portfolio, and report to individual Councilmembers on the meetings.

## ARTICLE II - STRUCTURE

The Committee shall be comprised of five members. Each Councilmember shall be responsible for appointing one member to the Committee with the term of the member running concurrent with the term of the Councilmember making the appointment.

The Chairperson and Vice Chairperson of the Committee shall be elected by a majority vote of the members and shall hold the seat for a one-year term. These positions may be elected for two consecutive terms. At the end of the second consecutive term, the members shall elect a new Chairperson and Vice Chairperson.

## ARTICLE III - MEETINGS

The meetings shall be held at least quarterly at Irvine City Hall. Each meeting shall be held prior to the presentation of the quarterly report to Council on the status of the portfolio. Three members of the Committee must be present to constitute a quorum.

## ARTICLE IV - PARLIAMENTARY PROCEDURE

The rules contained in the current edition of Robert's Rules of Order, newly revised, shall govern the Committee in all cases to which they are applicable and where they are not inconsistent with these Bylaws.

## ARTICLE V - AMENDMENT OF BYLAWS

These Bylaws may be amended by a majority vote of the Committee.

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**TOWN OF LOS GATOS**

**FINANCE COMMISSION REPORT**

MEETING DATE:02/13/2023

ITEM NO: 4

DATE: February 6, 2023

TO: Finance Commission

FROM: Laurel Prevetti, Town Manager

SUBJECT: Review and Recommend Changes for Town Council Consideration Regarding the Proposed Additional Information for the Monthly Financial and Investment Report (December 2022).

RECOMMENDATION:

Review and recommend changes for Town Council consideration regarding the proposed additional information for the Monthly Financial and Investment Report (December 2022).

DISCUSSION:

California Government Code Section 41004 requires that the Town Treasurer submits to the Town Clerk and the legislative body a written report and accounting of all receipts, disbursement, and fund balances. The Finance Director assumes the Town Treasurer role. Attachment 1 contains the December 2022 Monthly Financial and Investment Report which fulfills this requirement.

Based on the Finance Commission's comments at the January meeting, Attachment 1 contains a Fund Balance Schedule, representing estimated funding available for all funds at the end of the December 2022. This additional information could be added to the monthly Financial and Investment Report.

Please note that the amount in the Fund Schedule differs from the Portfolio Allocation and Treasurer's Cash Fund Balances Summary schedule because assets and liabilities are components of the fund balance. As illustrated in the summary below, Total Cash is adjusted by the addition of Total Assets less the amount of Total Liabilities to arrive at the Ending Fund Balance – which represents the actual amount of funds available.

PREPARED BY: Gitta Ungvari
Finance Director

Reviewed by: Town Manager and Town Attorney

DISCUSSION (continued):

As of December 31, 2022, the Town's financial position (Assets $77.7M, Liabilities $27.2M and Fund Equity $50.5M) remains strong and there are no issues meeting financial obligation in the near future.

| Reconciling Cash to Fund Balance | | |
|---|---|---|
| Total Cash | $ | 64,463,675 |
| Plus: Asset | $ | 13,240,556 |
| Less: Liabilities | $ | (27,224,306) |
| **Ending Fund Balance** | **$** | **50,479,925** |

As of December 31, 2022, the Town's weighted portfolio yield was 2.28% which exceeded by 11 basis points the Local Agency Investment Fund (LAIF) yield of 2.17% for the same reporting period. Currently the LAIF portfolio's weighted average maturity (WAM) is 304 days versus the Town's longer WAM of 439 days. This slightly longer maturity allows the Town to pick up higher yields available on the later maturities. The Town's weighted average rate of return of 2.28% at the close of December was 25 basis points higher when compared to the prior months return of 2.03% reported as of November 30, 2022.

Since September 30, 2022, LAIF yields had climbed from 151 basis points (1.51%) to 217 basis points (2.17%) through the end of December 2022. Staff in coordination with the Town's investment advisor continued primarily replacing maturing investments with shorter to medium term maturities in the two- to three-year maturity range. These investments capture current yields that exceed the rates expected to be earned in the LAIF pool during that same time period. The State LAIF pool typically lags the market when current market yields are either increasing or decreasing.

Regarding the state of the interest rate environment as of December 2022, the Federal Reserve (Fed), announced a downshift in its policy tightening. It raised the upper bound of its policy rate by 50 basis points from 4% to 4.5% following four consecutive 75 basis points hikes. The Fed indicated that it still has more interest rate hiking to do in calendar year 2023. Federal Reserve chair Powell stated that rates are still "not sufficiently restrictive." The Fed's most notable and anticipated change was to its calendar year 2023 year-end interest rate forecast, now projected at 5.13%, up from latest prior forecast of 4.65%. Only two of the board members projected a lower rate than the consensus rate.

The Town's investments are in compliance with the Town's Investment Policy dated January 17, 2023 and also in compliance with the requirements of Section 53600 at seq. of the California State Code. Based on the information available, the Town has sufficient funds to meet the cash demands for the next six months.

SUBJECT: Monthly Financial and Investment Report (December 2022) for Fiscal Year 2022/23
DATE: February 6, 2023

CONCLUSION:

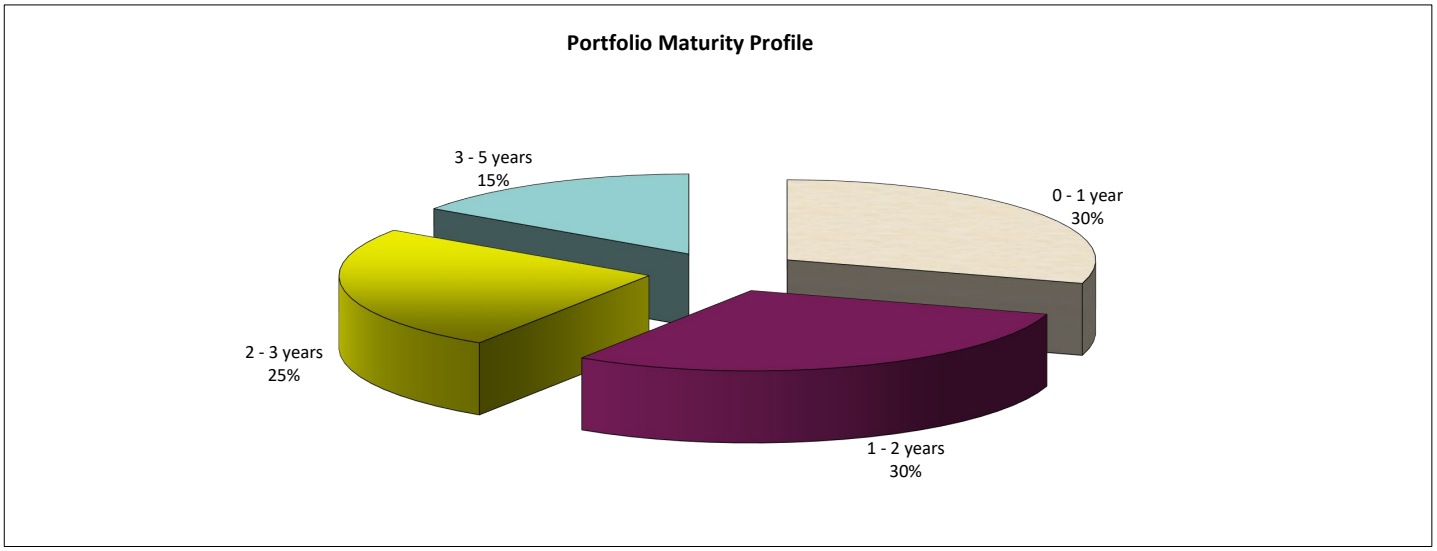
Review and recommend changes for Town Council consideration regarding the proposed new format for the Monthly Financial and Investment Report (December 2022).

Attachments:
1. Financial and Investment Report as of December 31, 2022

**Town of Los Gatos**
**Summary Investment Information**
**December 31, 2022**

**Weighted Average YTM Portfolio Yield:** **2.28%** **Weighted Average Maturity (days)** **439**

| | This Month | Last Month | One year ago |
|---|---|---|---|
| **Portfolio Balance** | $64,463,675 | $65,273,987 | $60,407,357 |
| **Benchmarks/ References:** | | | |
| Town's Average Yield | 2.28% | 2.01% | 1.20% |
| LAIF Yield for month | 2.17% | 1.77% | 0.21% |
| 3 mo. Treasury | 4.41% | 4.38% | 0.06% |
| 6 mo. Treasury | 4.77% | 4.71% | 0.19% |
| 2 yr. Treasury | 4.43% | 4.31% | 0.74% |
| 5 yr. Treasury (most recent) | 4.01% | 3.74% | 1.27% |
| 10 Yr. Treasury | 3.88% | 3.61% | 1.51% |

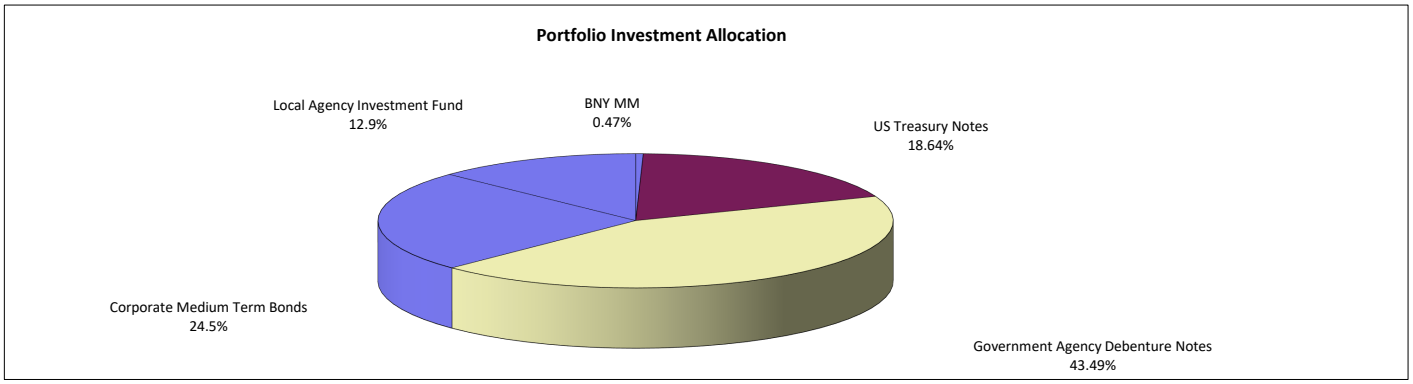


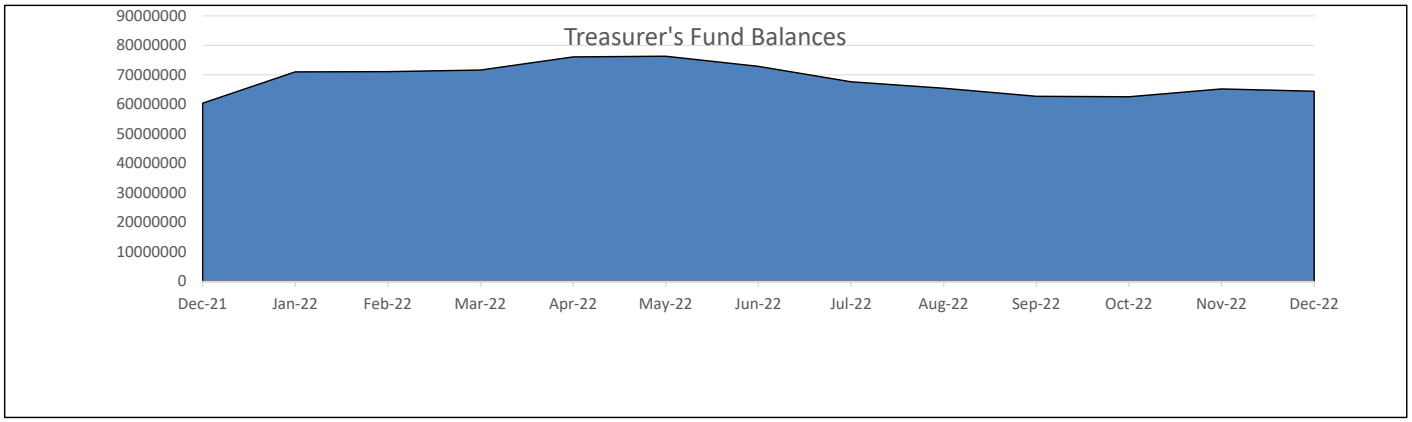

**Compliance:** The Town's investments are in compliance with the Town's investment policy dated January 17, 2023 and also in compliance with the requirements of Section 53600 at seq. of the California State Code. Based on the information available, the Town has sufficient funds to meet the cash demands for the next six months.

**Town of Los Gatos**
**Portfolio Allocation & Treasurer's Cash Fund Balances**
**December 31, 2022**

| | Month | YTD |
|---|---|---|
| Fund Balances - Beginning of Month/Period | $65,273,986.94 | $72,886,942.83 |
| Receipts | 4,407,209.11 | 24,570,269.20 |
| Disbursements | (5,217,521.12) | (32,993,537.10) |
| Fund Balances - End of Month/Period | $64,463,674.93 | $64,463,674.93 |

| Portfolio Allocation: | | % of Portfolio | Max. % 0r $ Allowed Per State Law or Policy |
|---|---|---|---|
| BNY MM | $252,778.29 | 0.47% | 20% of Town Portfolio |
| US Treasury Notes | $10,037,973.70 | 18.64% | No Max. on US Treasuries |
| Government Agency Debenture Notes | $23,416,349.00 | 43.49% | No Max. on Non-Mortgage Backed |
| Corporate Medium Term Bonds | $13,198,477.01 | 24.51% | 30% of Town Portfolio |
| Local Agency Investment Fund | $6,941,939.56 | 12.89% | $75 M per State Law |
| Subtotal - Investments | 53,847,517.56 | 100.00% | |
| Reconciled Demand Deposit Balances | 10,616,157.37 | | |
| Total Treasurer's Fund | $64,463,674.93 | | |



**Town of Los Gatos**
**Non-Treasury Restricted Fund Balances**
**December 31, 2022**

| Non-Treasury Funds: | Beginning Balance | DEC 22 Deposits Realized Gain/Adj. | DEC 22 Interest/ Earnings | DEC 22 Withdrawals | Ending Balance | |
|---|---|---|---|---|---|---|
| Cert. of Participation 2002 Series A Reserve Fund | $ 688,680.37 | | $ 1,776.46 | | $ 690,456.83 | **Note 1** |
| Cert. Of Participation 2010 Ser A Lease Pymt Fund | 132.84 | | 0.34 | | 133.18 | **Note 1** |
| Cert. of Participation 2002 Lease Payment Fund | 2,043.36 | | 5.32 | | 2,048.68 | **Note 1** |
| Cert. of Participation 2010 Series Reserve Fund | 1,287,499.24 | | 3,620.15 | | 1,291,119.39 | **Note 2** |
| Total Restricted Funds: | $ 1,978,355.81 | $ - | $ 5,402.27 | $ - | $ 1,983,758.08 | |
| CEPPT IRS Section 115 Trust | 643,821.47 | | 18,501.50 | 0.00 | $ 662,322.97 | **Just check this with the final quar** |
| Grand Total COP's and CEPPT Trust | $ 2,622,177.28 | $ - | $ 23,903.77 | $ - | $ 2,646,081.05 | |

These accounts are not part of the Treasurer's fund balances reported elsewhere in this report, as they are for separate and distinct entities.

**Note 1:** The three original funds for the Certificates of Participation 2002 Series A consist of construction funds which will be expended over the next few years, reserve funds which will guarantee the payment of lease payments, and a third fund for the disbursement of lease payments and initial delivery costs.

**Note 2:** The 2010 COP Funds are all for the Library construction, reserves to guarantee lease payments, and a lease payment fund for the life of the COP issue. The COI fund was closed in September 2010.

**Note 3**: The CEPPT Section IRS Section 115 Trust was established as an irrevocable trust dedicated to accumulate resources to fund the Town's unfunded liabilities related to pension and other p

**Town of Los Gatos**
**Statement of Interest Earned**
**December 31, 2022**

Interest by Month

| | |
|---|---|
| July 2022 | $60,107.76 |
| August 2022 | 61,456.65 |
| September 2022 | 60,153.38 |
| October 2022 | 68,965.25 |
| November 2022 | 68,430.71 |
| December 2022 | 77,485.61 |
| January 2023 | |
| February 2023 | |
| March 2023 | |
| April 20203 | |
| May 2023 | |
| June 2023 | |
| | $396,599.36 |

# Town of Los Gatos Investment Schedule December 2022

| Institution | CUSIP # | Security | Deposit Date | Par Value | Original Cost | Market Value | Purchased Interest | Maturity Date or Call Date | Yield to Maturity or Call | Interest Received to Date | Interest Earned Prior Yrs. | Interest Earned Current FY | Days to Maturity |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Treasury | 91282CAP6 | US Treasury Note | 6/30/2021 | 1,000,000.00 | 995,390.63 | 964,726.56 | | 10/15/2023 | 0.33% | $ 1,615.44 | $ 3,260.06 | $ 1,643.43 | 288 |
| Toyota Motor Credit | 89236THA6_1 | Corporate Bond | 04/12/21 | 500,000.00 | 510,580.00 | 488,811.04 | | 8/25/2023 | 0.45% | $ 9,243.75 | $ 2,780.30 | $ 1,152.20 | 237 |
| Toyota Motor Credit | **89236THA6** | Corporate Bond | 1/11/2022 | 1,100,000.00 | 1,107,315.00 | 1,075,384.30 | | 8/25/2023 | 0.94% | $ 9,240.00 | $ 4,812.29 | $ 5,208.60 | 237 |
| US Treasury | **91282CDD0** | US Treasury Note | 1/13/2022 | 1,100,000.00 | 1,090,675.78 | 1,060,769.53 | | 10/31/2023 | 0.85% | $ 3,281.77 | $ 4,286.54 | $ 4,694.78 | 304 |
| US Treasury | **91282CCN9** | US Treasury Note | 1/13/2022 | 1,200,000.00 | 1,188,375.00 | 1,168,406.26 | | 7/31/2023 | 0.75% | $ 823.37 | $ 4,153.18 | $ 4,548.72 | 212 |
| FFCB | 3133EKMX1 | Gov. Agency Debenture | 8/2/2019 | 1,000,000.00 | 1,014,400.00 | 971,934.33 | | 2/23/2024 | 1.90% | $ 73,775.83 | $ 55,756.94 | $ 9,651.25 | 419 |
| FFCB | 3133EMBE1 | Gov. Agency Debenture | 10/8/2020 | 1,600,000.00 | 1,598,000.00 | 1,512,321.33 | | 3/28/2024 | 0.34% | $ 9,453.34 | $ 9,279.41 | $ 2,710.18 | 453 |
| FFCB | 3133EMCQ3 | Gov. Agency Debenture | 10/16/2020 | 2,000,000.00 | 1,998,000.00 | 1,927,630.96 | | 10/13/2024 | 0.31% | $ 11,153.33 | $ 10,396.24 | $ 3,075.41 | 652 |
| Apple | 037833DB3 | Corporate Bond | 12/20/2022 | 1,300,000.00 | 1,228,591.00 | 1,213,653.62 | 10,262.78 | 6/21/2027 | 4.19% | $ (10,262.78) | $ - | $ 1,613.96 | 1633 |
| Home Depot | 437076BM3 | Corporate Bond | 8/4/2022 | 1,000,000.00 | 991,960.00 | 952,740.40 | | 1/1/2026 | 3.04% | $ 4,750.00 | $ - | $ 13,208.02 | 1097 |
| Home Depot | 912828ZW3 | US Treasury Note | 8/9/2022 | 350,000.00 | 322,096.88 | 317,310.55 | | 6/30/2025 | 3.16% | $ 342.39 | $ - | $ 4,150.18 | 912 |
| IBM | 459200JY8 | Corporate Bond | 3/25/2021 | 1,000,000.00 | 1,071,040.00 | 972,886.72 | | 5/15/2024 | 0.71% | $ 49,166.67 | $ 9,358.41 | $ 3,727.16 | 501 |
| US Treasury | 912828R28 | US Treasury Note | 7/2/2019 | 500,000.00 | 497,246.09 | 495,351.56 | | 4/30/2023 | 1.77% | $ 27,046.54 | $ 26,507.80 | $ 4,458.35 | 120 |
| Freddie Mac | 3137EAEN5 | Gov. Agency Debenture | 7/19/2019 | 2,000,000.00 | 2,072,358.00 | 1,983,123.36 | | 6/19/2023 | 1.79% | $ 187,916.67 | $ 107,829.55 | $ 18,422.13 | 170 |
| FFCB | 3133EKVF0 | Gov. Agency Debenture | 7/22/2019 | 1,000,000.00 | 999,630.00 | 999,028.21 | | 1/17/2023 | 1.89% | $ 55,989.58 | $ 55,482.90 | $ 9,505.45 | 17 |
| Treasury | 91282CBT7 | US Treasury Note | 9/30/2022 | 800,000.00 | 712,565.18 | 717,875.00 | | 3/31/2026 | 4.14% | $ - | $ - | $ 7,806.54 | 1186 |
| FFCB | 3133ENP95 | Gov. Agency Debenture | 9/30/2022 | 900,000.00 | 900,939.60 | 899,153.96 | | 9/30/2025 | 4.14% | $ - | $ - | $ 9,562.22 | 1004 |
| US Treasury | **91282CDA6** | Gov. Agency Debenture | 1/31/2022 | 1,100,000.00 | 1,085,222.44 | 1,063,433.59 | | 9/30/2023 | 1.07% | $ 1,820.74 | $ 4,781.92 | $ 5,865.83 | 273 |
| US Treasury | 91282CAW1 | Gov. Agency Debenture | 7/15/2021 | 1,200,000.00 | 1,199,437.50 | 1,153,875.00 | | 11/15/2023 | 0.27% | $ 4,002.72 | $ 3,107.52 | $ 1,633.67 | 319 |
| American Honda | 02665WCZ2 | Corporate Bond | 11/27/2019 | 1,000,000.00 | 1,012,410.01 | 963,812.31 | | 6/27/2024 | 2.12% | $ 72,733.34 | $ 55,189.68 | $ 10,734.57 | 544 |
| JP Morgan Chase | 46625HRS1 | Gov. Agency Debenture | 9/23/2022 | 500,000.00 | 474,660.00 | 472,653.08 | | 3/15/2026 | 4.70% | $ 3,644.44 | $ - | $ 6,316.61 | 1170 |
| Honeywell Int'l. | 438516BW5 | Corporate Bond | 11/20/2019 | 1,000,000.00 | 1,014,660.00 | 961,879.02 | | 7/15/2024 | 1.64% | $ 62,483.33 | $ 51,828.99 | $ 10,006.86 | 562 |
| Caterpillar Financial Serv | 14913Q2V0 | Corporate Bond | 2/23/2021 | 1,000,000.00 | 1,077,370.00 | 972,522.93 | | 5/17/2024 | 0.44% | $ 49,400.00 | $ 6,129.72 | $ 2,292.42 | 503 |
| FNMA | 3135G0V75 | Gov. Agency Debenture | 10/17/2019 | 1,100,000.00 | 1,105,833.30 | 1,053,414.19 | | 7/2/2024 | 1.63% | $ 52,456.25 | $ 48,706.74 | $ 9,080.08 | 549 |
| US Bancorp | 91159HHV5 | Corporate Bond | 12/24/2019 | 1,000,000.00 | 1,049,040.00 | 982,424.56 | | 1/5/2024 | 2.12% | $ 88,218.75 | $ 54,380.13 | $ 10,887.86 | 370 |
| FHLB | 3133834G3 | Gov. Agency Debenture | 3/11/2021 | 1,400,000.00 | 1,460,522.00 | 1,384,401.94 | | 6/9/2023 | 0.19% | $ 51,897.22 | $ 3,664.98 | $ 1,416.71 | 160 |
| FFCB | 3133EKQA7 | Gov. Agency Debenture | 10/21/2019 | 1,000,000.00 | 1,019,780.00 | 958,996.01 | | 9/10/2024 | 1.66% | $ 60,031.11 | $ 45,130.78 | $ 8,447.67 | 619 |
| PNC Financial | 69349LAM0 | Corporate Bond | 2/7/2022 | 1,000,000.00 | 1,033,470.00 | 993,122.23 | | 6/25/2023 | 1.49% | $ 17,733.33 | $ 5,372.34 | $ 6,912.67 | 176 |
| FHLB | 3135G05X7 | Gov. Agency Debenture | 6/10/2022 | 1,200,000.00 | 1,102,952.40 | 1,083,218.59 | | 8/25/2025 | 3.04% | $ 937.50 | $ 1,902.68 | $ 17,504.64 | 968 |
| Treasury | 912828ZL7 | Gov. Agency Debenture | 4/12/2022 | 1,700,000.00 | 1,583,927.57 | 1,552,710.95 | | 4/30/2025 | 2.72% | $ 3,504.49 | $ 9,611.14 | $ 22,385.45 | 851 |
| JP Morgan Chase | 46625HJT8 | Corporate Bond | 9/23/2019 | 1,400,000.00 | 1,485,414.00 | 1,382,205.59 | | 2/1/2024 | 2.39% | $ 154,913.89 | $ 96,022.89 | $ 17,475.98 | 397 |
| American Honda | 02665WDH1 | Corporate Bond | 2/14/2020 | 600,000.00 | 603,756.00 | 592,990.07 | | 5/10/2023 | 1.75% | $ 33,995.00 | $ 25,034.14 | $ 5,312.90 | 130 |
| Treasury | 912828V23 | US Treasury Note | 11/29/2021 | 1,000,000.00 | 1,032,933.04 | 975,546.88 | | 12/31/2023 | 0.66% | $ 24,456.52 | $ 3,924.44 | $ 3,390.13 | 365 |
| Treasury | 91282CBE0_2 | Gov. Agency Debenture | 10/7/2021 | 1,000,000.00 | 994,768.98 | 953,710.94 | | 1/15/2024 | 0.36% | $ 964.67 | $ 2,587.41 | $ 1,789.78 | 380 |
| FHLB | 3130ALH98 | Gov. Agency Debenture | 2/26/2021 | 1,000,000.00 | 997,610.00 | 946,443.31 | | 2/26/2024 | 0.33% | $ 3,750.00 | $ 4,416.63 | $ 1,661.88 | 422 |
| FHLB | 3130AQF65 | US Treasury Note | 11/30/2022 | 1,300,000.00 | 1,160,559.40 | 1,165,394.27 | | 12/21/2026 | 4.15% | $ 947.92 | $ - | $ 4,296.91 | 1451 |
| Treasury | 912828U57 | US Treasury Note | 7/31/2019 | 1,000,000.00 | 1,011,875.00 | 976,640.62 | | 11/30/2023 | 1.84% | $ 70,833.33 | $ 54,014.24 | $ 9,332.04 | 334 |
| Treasury | 912828X70 | US Treasury Note | 12/30/2019 | 1,000,000.00 | 1,010,589.29 | 965,156.25 | | 4/30/2024 | 1.75% | $ 62,703.30 | $ 48,922.73 | $ 9,859.56 | 486 |
| Treasury | 912828XT2 | US Treasury Note | 10/31/2019 | 1,000,000.00 | 1,015,667.41 | 963,828.12 | | 5/31/2024 | 1.64% | $ 61,639.34 | $ 44,208.50 | $ 8,360.09 | 517 |
| American Honda | 02665WCQ2 | Corporate Bond | 9/14/2021 | 950,000.00 | 1,012,871.00 | 943,283.17 | | 10/10/2023 | 0.41% | $ 36,924.65 | $ 3,232.93 | $ 2,058.34 | 283 |
| FFCB | 3133EJ3Q0 | Gov. Agency Debenture | 8/28/2019 | 1,500,000.00 | 1,587,503.75 | 1,469,140.89 | | 12/21/2023 | 2.12% | $ 142,911.46 | $ 64,945.24 | $ 11,523.55 | 355 |
| Freddie Mac | 3133EKKT2 | Gov. Agency Debenture | 6/24/2019 | 1,550,000.00 | 1,573,188.00 | 1,546,731.53 | | 2/8/2023 | 1.82% | $ 117,606.25 | $ 86,008.42 | $ 14,360.75 | 39 |
| Treasury | 91282CBE0 | Gov. Agency Debenture | 9/15/2021 | 650,000.00 | 647,615.46 | 619,912.11 | | 1/15/2024 | 0.28% | $ 675.62 | $ 1,447.14 | $ 924.56 | 380 |
| Subtotal | | | | $ 46,500,000.00 | $ 46,652,799.71 | $ 44,818,555.84 | $ 10,262.78 | | | $ 1,614,721.07 | $ 1,018,474.95 | $ 308,970.06 | |
| BNY MM | | Money Market | | | 252,778.29 | 252,778.29 | | | 0.00% | | | | 1 |
| LAIF | | State Investment Pool | | | 6,941,939.56 | 6,941,939.56 | | | 2.17% | | | 59,805.13 | 1 |
| | | | | | **$53,847,517.56** | **$52,013,273.69** | | | | $ 1,614,721.07 | $ 1,018,474.95 | $ 368,775.19 | |
| Matured Assets | | | | | | | | | | | | | |
| IBM | 459200HG9 | Corporate Bond | 8/8/2019 | 1,000,000.00 | 995,010.00 | | | 8/1/2022 | 2.05% | $ 55,885.42 | $ 59,141.32 | $ 1,790.47 | |
| JP Morgan Chase | 46625HJE1 | Gov. Agency Debenture | 2/11/2020 | 900,000.00 | 934,587.00 | | | 9/23/2022 | 1.74% | $ 76,537.50 | $ 38,210.60 | $ 3,733.22 | |
| Treasury | 912828L57 | US Treasury Note | 7/22/2019 | 1,200,000.00 | 1,197,988.40 | | | 9/30/2022 | 2.09% | $ 67,016.39 | $ 63,644.66 | $ 5,451.87 | |
| Treasury | 912828M80 | US Treasury Note | 7/22/2019 | 1,000,000.00 | 1,006,175.23 | | | 11/30/2022 | 1.81% | $ 67,158.47 | $ 53,444.10 | $ 7,613.55 | |
| BankAmerica Corp | 06051GHC6 | Corporate Bond | 10/9/2020 | 1,300,000.00 | 1,366,287.00 | | | 12/20/2023 | 0.66% | $ 85,805.92 | $ 31,569.88 | $ 9,235.07 | |
| Total Investments "Matured" | | | | | | | | | | | | $ 27,824.17 | |
| Total Interest FY 22_23 Matured and Current | | | | | | | | | | | | $ 396,599.36 | |

**Maturity Profile**

| | Amount |
|---|---|
| I | $27,257,067.08 |
| 1-2 years | $18,112,198.45 |
| 2-3 years | $3,909,916.45 |
| 3-5 years | $ 4,568,335.58 |
| | $53,847,517.56 |

**Market to Cost Position Report**

| Institution | Amortized Cost |
|---|---|
| BNY Assets | $46,652,799.71 |
| BNY MM | 252,778.29 |
| LAIF | 6,941,939.56 |
| Totals: | $53,847,517.56 |

## Town of Los Gatos

### Insight ESG Ratings as of December 31, 2022

| Security Description | Maturity Date | Par/Shares | Moody Rating | S&P Rating | Insight ESG Rating | Environment | Social | Governance |
|---|---|---|---|---|---|---|---|---|
| IBM CORP 1.875% 01AUG2022 | 8/1/2022 | $ 1,000,000 | A3 | A- | 2 | 1 | 2 | 5 |
| JPMORGAN CHASE & CO 3.25% 23SEP2022 | 9/23/2022 | $ 900,000 | A1 | A- | 3 | 1 | 2 | 4 |
| AMERICAN HONDA FINANCE 1.95% 10MAY2023 | 5/10/2023 | $ 600,000 | A3 | A- | 2 | 2 | 3 | 3 |
| PNC BANK NA 3.8% 25JUL2023 (CALLABLE 25JUN23) | 7/25/2023 | $ 1,000,000 | A3 | A- | 3 | 2 | 3 | 3 |
| TOYOTA MOTOR CREDIT CORP 1.35% 25AUG2023 | 8/25/2023 | $ 1,600,000 | A1 | A+ | 3 | 3 | 3 | 5 |
| AMERICAN HONDA FINANCE 3.625% 10OCT2023 | 10/10/2023 | $ 950,000 | A3 | A- | 2 | 2 | 3 | 3 |
| JPMORGAN CHASE & CO 3.875% 01FEB2024 | 2/1/2024 | $ 1,400,000 | A1 | A- | 3 | 1 | 2 | 4 |
| US BANCORP 3.375% 05FEB2024 (CALLABLE 05JAN24) | 2/5/2024 | $ 1,000,000 | A2 | A | 3 | 3 | 4 | 4 |
| IBM CORP 3.0% 15MAY2024 | 5/15/2024 | $ 1,000,000 | A3 | A- | 2 | 1 | 2 | 5 |
| CATERPILLAR FIN SERVICES 2.85% 17MAY24 | 5/17/2024 | $ 1,000,000 | A2 | A | 3 | 3 | 2 | 4 |
| AMERICAN HONDA FINANCE 2.4% 27JUN2024 | 6/27/2024 | $ 1,000,000 | A3 | A- | 2 | 2 | 3 | 3 |
| HONEYWELL INTERNATIONAL 2.3% 15AUG2024 (CALLABLE 15JUL24) | 8/15/2024 | $ 1,000,000 | A2 | A | 3 | 3 | 4 | 4 |
| HOME DEPOT INC. 3% 01APR2026 (CALLABLE 01JAN2026) | 4/1/2026 | $ 1,000,000 | A2 | A | 1 | 2 | 2 | 2 |
| APPLE INC. 2.9% 12SEP2027 (CALLABLE 12JUN2027) | 9/12/2027 | $ 1,300,000 | Aaa | AA+ | 3 | 3 | 3 | 5 |
| **Total/Average** | | **$ 14,750,000** | | | **2.5** | **2.1** | **2.7** | **3.9** |

*ESG ratings are from 1 to 5, with 1 as the highest rating and 5 as the lowest. All ratings are weighted by industry rankings, based on the importance of the category within the individual industry.

# Fund Schedule

| Fund Number | Fund Description | Prior Year Carryforward 7/1/2022 | Increase/ (Decrease) July-Nov | December 2022 | | | | Estimated Fund Balance 12/31/2022* |
|---|---|---|---|---|---|---|---|---|
| | | | | Current Revenue | Current Expenditure | Transfer In | Transfer Out | |
| | **GENERAL FUND** | | | | | | | |
| | **Non-Spendable:** | | - | - | - | - | - | |
| | Loans Receivable | 159,000 | | | | | | 159,000 |
| | **Restricted Fund Balances:** | | | | | | | |
| | Pension | 690,000 | | | | | | 690,000 |
| | **Committed Fund Balances:** | | | | | | | |
| | Budget Stablization | 5,991,566 | | | | | | 5,991,566 |
| | Catastrphic | 5,991,566 | | | | | | 5,991,566 |
| | Pension/OPEB | 300,000 | | | | | | 300,000 |
| | **Assigned Fund Balances:** | | | | | | | |
| | Open Space | 410,000 | | - | - | - | | 410,000 |
| | Sustainability | 140,553 | | | | | | 140,553 |
| | Capital/Special Projects | 11,071,231 | | | | | | 11,071,231 |
| | Carryover Encumbrances | 33,145 | - | - | - | - | | 33,145 |
| | Compensated Absences | 1,519,147 | - | - | - | - | | 1,519,147 |
| | Measure G District Sales Tax | 590,581 | - | - | - | - | | 590,581 |
| | **Unassigned Fund Balances:** | | | | | | | |
| 111 | Other Unassigned Fund Balance Reserve (Pre YE distributior | - | (3,355,854) | 6,211,284 | (6,732,033) | | - | (3,876,603) |
| | **General Fund Total** | 26,896,789 | (3,355,854) | 6,211,284 | (6,732,033) | - | - | 23,020,186 |

# Fund Schedule

| Fund Number | Fund Description | Prior Year Carryforward 7/1/2022 | Increase/ (Decrease) July-Nov | December 2022 | | | | Estimated Fund Balance 12/31/2022* |
|---|---|---|---|---|---|---|---|---|
| | | | | Current Revenue | Current Expenditure | Transfer In | Transfer Out | |
| | **SPECIAL REVENUE** | | | | | | | |
| 211/212 | CDBG | 166,654 | - | - | - | - | - | 166,654 |
| 222 | Urban Runoff (NPDES) | 451,558 | 55,835 | 29,996 | (20,719) | - | - | 516,670 |
| 231-236 | Landscape & Lighting Districts | 174,236 | (2,243) | - | (75) | - | - | 171,918 |
| 241 | ARPA | - | 3,614,872 | - | - | - | - | 3,614,872 |
| 251 | Los Gatos Theatre | 19,500 | (3,182) | 17,850 | (192) | - | - | 33,976 |
| 711-714 | Library Trusts | 555,254 | 15,463 | - | (382) | - | - | 570,335 |
| | **Special Revenue Total** | 1,367,202 | 3,680,745 | 47,846 | (21,368) | - | - | 5,074,425 |
| | **CAPITAL PROJECTS** | | | | | | | |
| 411 | GFAR - General Fund Appropriated Reserve | 14,783,787 | 1,314,643 | 82,237 | (310,913) | 33,000 | - | 15,902,754 |
| 421 | Grant Funded Projects | (948,603) | 26,444 | 293,900 | (27,787) | - | - | (656,046) |
| 461-463 | Storm Basin Projects | 3,218,811 | 56,072 | 888 | - | - | - | 3,275,771 |
| 471 | Traffic Mitigation Projects | 405,570 | (1,127) | - | (670,514) | - | - | (266,071) |
| 472 | Utility Undergrounding Projects | 3,302,514 | 60,167 | 159 | - | - | - | 3,362,840 |
| 481 | Gas Tax Projects | 1,836,068 | (1,015,244) | 130,617 | - | - | - | 951,441 |
| | **Capital Projects Total** | 22,598,147 | 440,955 | 507,801 | (1,009,214) | 33,000 | - | 22,570,689 |
| | **INTERNAL SERVICE FUNDS** | | | | | | | |
| 611 | Town General Liability | 803,292 | (624,462) | 46,200 | (600) | - | - | 224,430 |
| 612 | Workers Compensation | 1,295,185 | (212,201) | 111,905 | (128,184) | - | - | 1,066,705 |
| 621 | Information Technology | 2,990,932 | (124,793) | 159,136 | (58,362) | - | - | 2,966,913 |
| 631 | Vehicle & Equipment Replacement | 2,222,395 | (135,356) | 164,209 | - | - | - | 2,251,248 |
| 633 | Facility Maintenance | 928,481 | (171,633) | 234,783 | (12,398) | - | - | 979,233 |
| | **Internal Service Funds Total** | 8,240,285 | (1,268,445) | 716,233 | (199,544) | - | - | 7,488,529 |
| | **Trust/Agency** | | | | | | | |
| 942 | RDA Successor Agency | (7,607,527) | (1,643,350) | 1,893,713 | (1,893,909) | - | - | (9,251,073) |
| | **Trust/Agency Fund Total** | (7,607,527) | (1,643,350) | 1,893,713 | (1,893,909) | - | - | (9,251,073) |
| | **Total Town** | **51,494,896** | **(2,145,949)** | **9,376,877** | **(9,856,068)** | **33,000** | **-** | **48,902,756** |

* Interfund transfers and ARPA funding allocation to be performed as part of the fiscal year end closing entries.

**Deposit Accounts of Interest:**

111-23541 General Plan Update deposit account balance $1,310,890

111-23521 BMP Housing deposit account balance $3,698,538

**TOWN OF LOS GATOS**

**FINANCE COMMISSION REPORT**

MEETING DATE:02/13/2023

ITEM NO: 4

DESK ITEM

DATE: February 6, 2023

TO: Finance Commission

FROM: Laurel Prevetti, Town Manager

SUBJECT: Review and Recommend Changes for Town Council Consideration Regarding the Proposed Additional Information for the Monthly Financial and Investment Report (December 2022).

REMARKS:

Attachment 2 contains Commissioner communication received between 11:01 a.m. Friday, February 10, 2023, and 11:00 a.m. Monday, February 13, 2023.

Attachments received with the Staff Report:

1. Financial and Investment Report as of December 31, 2022

Attachment received with this Desk Item:

2. Commissioner Communication received between 11:01 a.m. Friday, February 10, 2023, and 11:00 a.m. Monday, February 13, 2023.

PREPARED BY: Gitta Ungvari
Finance Director

Reviewed by: Town Manager and Town Attorney

**Subject:** FW: New Monthly Financial Report Format
**Attachments:** LGSUSD Example Capital Project Expenditure Report.pdf

**From:** Rick Tinsley
**Sent:** Friday, February 10, 2023 11:14 AM
**To:** Gitta Ungvari <GUngvari@losgatosca.gov>
**Subject:** New Monthly Financial Report Format

[EXTERNAL SENDER]

Hi Gitta,

Your proposed monthly reporting format looks like a big improvement and I am happy to see the monthly ISF info etc. I will have some more questions in the meeting next week but an addition I would like to see is a regular capital projects update such as in the Saratoga monthly report and also like the attached from LGSUHSD. This is the report I was accustomed to seeing when I served on the Bond Oversight Committee for the high school district.

Proactive Capital project tracking like this is very useful to Council members as well as the public. Everyone can see at a glance how much has been spent to date on a given Capital project and in the case of the LGSUHSD report it gives a rolling view of Completed, In Progress, and Potential/Future/Unallocated capital projects. Given the number of live questions that come up on these issues("How much have we spent to date on Project XYZ?") in Council and FinCom meetings it would be very useful to publish this info proactively.

Thanks,

Rick

# Measure E Project Expenditure Report

| Los Gatos High School Project List | Expenditure Forecast 3-2019 | Expenditure Forecast 3-2020 | Expended to 10-31-20 |
|---|---|---|---|
| **Completed Projects** | | | |
| Historic Stair Restoration | $1,265,583 | $1,265,583 | $1,265,583 |
| Tennis Court Improv Project | $48,828 | $48,828 | $48,828 |
| Artificial turf football field & track | $3,233,104 | $3,233,104 | $3,233,104 |
| Artificial turf baseball field | $2,132,047 | $2,132,047 | $2,132,047 |
| Reconfigure Parking & Maintenance | $2,076,100 | $2,076,100 | $2,076,100 |
| Lower Field Turf FH/Lax, Softball | $5,274,973 | $5,274,973 | |
| Lower Field concessions, restroom, blchr | $434,000 | $434,000 | $6,332,754 |
| Baseball-Softball dugouts | $158,000 | $158,000 | |
| Replace HVAC at the weight room | $79,000 | $79,000 | $66,015 |
| New Classroom Building | $12,653,683 | $12,653,683 | $25,167,707 |
| New Music Building | $12,653,683 | $12,653,683 | |
| Subtotals | $40,009,001 | $40,009,001 | $40,322,138 |
| **Current Projects** | | | |
| Convert Music to Drama | $1,620,010 | $1,675,000 | $1,035,382 |
| Roofing | $565,932 | $565,932 | $345,817 |
| Commons, Café, Library, Class Mod ** | $2,732,269 | $2,732,269 | $336,644 |
| Retaining Walls & Erosion Control | $500,000 | $500,000 | $329,563 |
| Pleasant Ave Parking Lot | $600,000 | $600,000 | $465,247 |
| Subtotals | $6,018,211 | $6,073,201 | $2,512,653 |
| **Planned Projects (Scope, Cost, & Budget TBD)** | | | |
| Site Accessibility Improvements | $150,000 | $150,000 | |
| Energy Management (HVAC Controllers) | $300,000 | $300,000 | |
| Subtotals | $450,000 | $450,000 | $0 |
| **Unallocated Site Funds** | | **$2,897,411** | |
| **Pending Projects** | | | |
| Real Property Acquisition | | TBD | |
| Large Gymnasium Modernization | $402,000 | TBD | |
| New A/C at small and large gyms | $800,000 | TBD | |
| New multipurpose building | $14,950 | $14,950 | $14,950 |
| Tennis court lighting | $98,828 | TBD | |
| Theater additions | TBD | TBD | |
| Campus Storm Drain Repairs | TBD | TBD | |
| Underground Utilities | TBD | TBD | |
| Fitness Center Reconfiguration | TBD | TBD | |
| Energy Effciency | TBD | TBD | |
| Solar Power | TBD | TBD | |
| Subtotals | $1,315,778 | $14,950 | $14,950 |
| **Scheduled Project Totals** | $1,315,778 | $49,444,563 | $42,849,740 |

| Saratoga High School Project List | Expenditure Forecast 3-2019 | Expenditure Forecast 3-2020 | Expended to 10-31-20 |
|---|---|---|---|
| **Completed Projects** | | | |
| Turf at Softball and Multiuse | $4,388,694 | $4,388,694 | $4,388,694 |
| Music Building, Demo H | $16,634,825 | $16,634,825 | $18,063,590 |
| Drama, Stagecraft, Storage, Mod Café | $1,238,336 | $1,398,559 | |
| Mod Wing 800 - Student Support Services | $3,553,782 | $3,537,571 | $3,540,721 |
| Subtotals | $25,815,637 | $25,959,649 | $25,993,005 |
| **Current Projects** | | | |
| Sewer line repairs | $51,421 | $60,000 | $1,421 |
| Mod Wing M | $500,000 | $300,000 | $238,720 |
| HVAC in Wings 100, X, 600, 000, & Locker Rooms | $2,994,452 | $3,500,000 | $146,186 |
| Science Classroom Upgrades | $175,000 | $175,000 | $22,393 |
| Bathroom Improvements | $300,000 | $250,000 | $186,271 |
| PA System Upgrade | $200,000 | $160,000 | $0 |
| Modernize Wing 900, 901 - Offices, STEM, Science | $3,329,098 | $3,650,000 | $374,040 |
| McAfee Improvements | $200,000 | $80,000 | $25,279 |
| Roofing | $3,034,252 | $3,035,000 | $261,202 |
| Subtotals | $10,784,223 | $11,210,000 | $1,255,512 |
| **Planned Projects (Scope, Cost, & Budget TBD)** | | | |
| Replace Fire Alarm System | $50,000 | $50,000 | $6,565 |
| Mod Student Services, Admin, SSGA | $3,203,554 | $260,000 | $101,777 |
| Baseball Field Turf | $2,500,000 | $2,500,000 | $42,908 |
| S-Shop to CTE (Engineering) | $300,000 | $2,600,000 | $26,615 |
| Site Accessibility Improvements | $450,000 | $450,000 | |
| Library Improvements | $150,000 | $175,900 | $390 |
| Quad Enhancements | $200,000 | $200,000 | |
| Subtotals | $6,853,554 | $ 6,235,900 | $178,255 |
| **Unallocated Site Funds** | | **$0** | |
| **Pending Projects** | | | |
| New multipurpose building | TBD | TBD | |
| Security System Upgrade | TBD | TBD | |
| Softball Consessions/Restrooms | TBD | TBD | |
| Minor Track Repairs | TBD | TBD | |
| Reconfig. PE/athl. - Boiler room to AD & Training | TBD | TBD | |
| Convert Fitness to CTE | TBD | TBD | |
| Fitness Center Upgrades | TBD | TBD | |
| Tennis Court Suface and Lighting | TBD | TBD | |
| Solar | TBD | TBD | |
| Energy Management | TBD | TBD | |
| Energy Effciency | TBD | TBD | |
| Subtotals | | $ - | $0 |
| **Scheduled Project Totals** | $43,453,414 | $43,405,549 | $27,426,772 |

** Commons, Café, Library, Class Mod:
Library: Carpet, Finishes, Counters, and Student Center
Café: Flooring, Finishes, Seating, and Counters
Class Mod: Room upgrades, lighting, flooring, finishes
Commons: Quads, Common Areas, Upgrades

**TOWN OF LOS GATOS**

**FINANCE COMMISSION REPORT**

MEETING DATE: 02/13/2023

ITEM NO: 5

DATE: February 8, 2023

TO: Finance Commission

FROM: Laurel Prevetti, Town Manager

SUBJECT: Review and Provide Comments to the Town Council Regarding Mid-Year Budget Report

RECOMMENDATION:

Review and provide comments to the Town Council regarding Mid-Year Budget Report.

DISCUSSION:

With the passage of Measure A, the Finance Commission has been tasked with several mandated duties as described in the provisions of the adopted Ordinance. Section 2.50.225. – Duties states that:

> (a) The Finance Commission shall:
> Serve as an on-going. substantive and expert advisory body to the Town and Town Council so that the Town and Town Council can make informed decisions about the Town's financial, budgetary and investment matters and operations related thereto.

On February 21, 2023, the Town Council will consider the FY 2022/23 Mid-Year Budget Report and recommendations for budget adjustments (see Attachment 1). Staff will provide the Finance Commission comments to the Town Council for the February 21, 2023 meeting.

Attachment:
1. Town Council Draft FY 2022/23 Mid-Year Budget Report
2. Commissioner Communication Received before Publishing the Staff Report

PREPARED BY: Gitta Ungvari
Finance Director

Reviewed by: Town Manager and Town Attorney

# TOWN OF LOS GATOS
# MID-YEAR BUDGET REPORT
# JULY 1 - DECEMBER 31, 2022

**February 9, 2023**

## FINANCIAL OVERVIEW AND EXECUTIVE SUMMARY: STATUS OF FY 2022/23 ADOPTED BUDGET

The purposes of the Mid-Year Report are to provide the Town Council with a status of the Adopted Fiscal Year (FY) 2022/23 Operating Budget after the first six months and to make any adjustments to ensure the continuity of municipal services and operations for the remainder of the fiscal year. The Report is one of several periodic updates to the Town Council on the status of the current year's revenues and expenditures and the projected financial condition of all Town funds compared with the Adopted Operating Budget. The updates typically focus on the Town's General Fund.

On January 24, 2023, the Town Council determined the Strategic Priorities for 2023-2025, providing guidance to Town staff and Commissions on workload prioritization. The Council affirmed its Strategic Priorities to be multi-year efforts focused on Safety, Prudent Financial Management, Traffic/Transportation, and Quality of Life. Under these broad topics, the Council added a few new items including: Hazardous Tree Management, Develop a Five-Year Structurally Balanced and Sustainable Operating Forecast, Develop a Five-Year Full Funded Capital Plan, Traffic Calming/Safety for All Users, Streamline Permit Process, Work with Town Partners to Support Needs of Unhoused Residents, and Redefine Town Commissions in Alignment with Strategic Priorities. (see the following page).

Based on the Town Council's identified Strategic Priorities, staff has started budget development work for the next fiscal year, including an update of the Five-Year Financial Forecast, identification of critical Town needs, contractual obligations, unfunded mandates, potential adjustments to the Fee and Fine Schedule, and other analyses. Staff is actively engaged in the FY 2023/24 budget process with the primary focus of ensuring that the available Town resources are allocated to meet the priority service needs of the community. The Town Council is scheduled to hold a public hearing on the Proposed FY 2023/24 Budget on May 17, 2022.

The prior fiscal year closed with approximately $0.9 million surplus operating revenues over expenditures. The actual net change in fund balance was $2,982,171, of which $2,065,302 are proceeds from the second tranche of American Rescue Plan Act (ARPA) payments that has not been expended yet.

Current fiscal year-end projections for FY 2022/23 reflect an anticipated $0.7 million surplus of operating revenues and planned use of reserves over expenditures compared to the anticipated $3.2 million deficit in the Adopted Budget.

**ATTACHMENT 1**

# Ongoing Strategic Priorities 2023-2025

## SAFETY

- Community Policing
- Emergency Preparedness
  - CERT Recruitment & Training
  - Communications, EOC Readiness & Emergency Plan Development
- Fire Protection
  - Implementation of Ad Hoc Wildfire Mitigation Plan
- Vegetation and Hazardous Tree Management

## PRUDENT FINANCIAL MANAGEMENT

- Address Pension & OPEB Obligations
- Sell or Lease Certain Town Properties
- Develop a Five-Year Structurally Balanced and Sustainable Operating Forecast
  - Explore New Revenue Opportunities
  - Cure Forecasted Structural Deficit
- Develop a Five-Year Full Funded Capital Plan

## TRAFFIC/TRANSPORTATION

- Comprehensive Parking Study
  - Short, Medium, and Long-Term Actions
- Transportation Demand Management
  - Measure B Transportation Projects
  - Bicycle & Pedestrian Improvements
  - Community Shuttle
  - Summer/Rush Hour/School Traffic
  - Regional Transportation Issues
- Traffic Calming/Safety for All Users

## QUALITY OF LIFE

- Community Vitality
  - Diversity, Equity & Inclusion Efforts
  - Community Where Older Adults Thrive
    - Adopt a Senior Road Map
  - Events & Other Town-Wide Efforts
  - Community Engagement
  - Environmental Sustainability/Climate Resiliency
- Economic Vitality & Pandemic Recovery
  - Policies & Ordinances
  - Semi-Permanent Parklets
  - Streamline Permit Process
- Land Use Planning
  - General Plan 2040
  - Housing Element
  - Affordable Housing Partnerships
  - SB9 Implementation
- Work with Town Partners to Support Needs of Unhoused Residents
- Redefine Town Commissions in Alignment with Strategic Priorities

As discussed in greater detail later in this Report, the primary drivers of the reduction in the projected deficit are estimated increases in property tax, business license tax, Transient Occupancy Tax (TOT), and franchise fee distribution. In addition to the improvement in revenue projections, staff is estimating that there will be year-end operating expenditure savings. Staff anticipates savings attributable to Departmental vacancies and lower cost structures associated with retiree replacements. In addition, for FY 2022/23, salaries were again budgeted at actual salary plus a one step increase, which was a significant budgeting methodology change from previous practice.

On June 7, 2023, the Town Council adopted the combined use of ARPA funding, residual Measure G proceeds, and Other Post-Employment Benefits (OPEB) Trust reimbursement to balance the FY 2022/23 budget as illustrated in the table below.

| **Planned Use of One-Time Sources Balancing the FY 2022/23 Operating Budget** | |
|---|---|
| ARPA Replacement Reveneue | $1,643,281 |
| Measure G Residual for Operation | $679,443 |
| OPEB Trust Reimbursement for Retiree Medical | $902,579 |
| **Total** | **$3,225,303** |

The significant revenue increases combined with projected expenditure savings indicate that the approved sources might not be necessary; however it can only be determined at the time of the final close of the fiscal year. Staff recommends not to re-program the proposed sources until the fiscal year is closed. Since it is probable that not all sources will be utilized, staff is asking for Council direction regarding what source should be utilized first to cure current fiscal year deficit, if needed. Due to the fact that OPEB Trust withdrawal should be requested in June, significantly earlier than the final numbers are available, staff recommend to not utilizing the Trust Reimbursement.

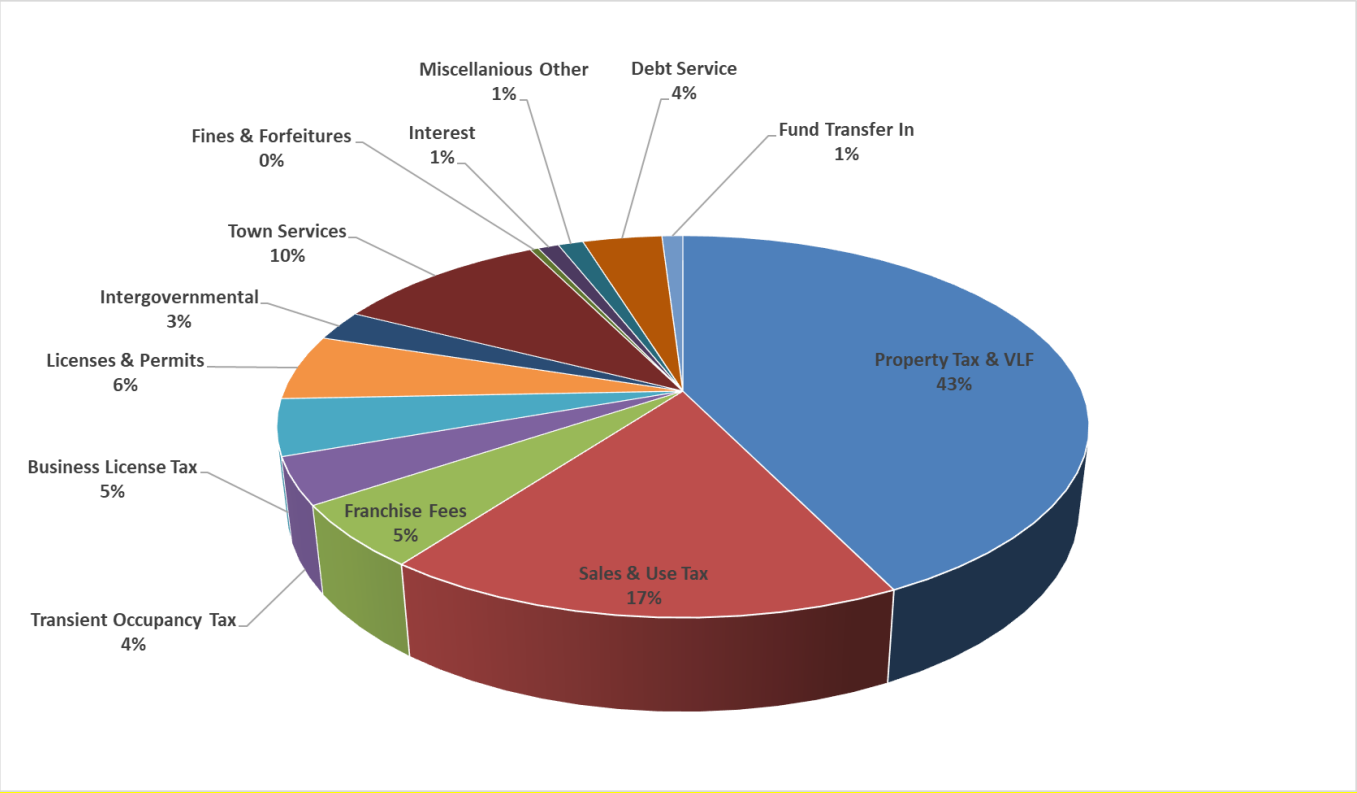
Providing services to the community in this and future fiscal years will require a strong return to pre-pandemic performance of the Town's economically sensitive revenues to offset continued projected cost increases. The FY 2023/24 budget development process will endeavor to maintain essential public services while controlling operational costs in light of the five-year fiscal forecast, which predicts operating revenue shortfalls in subsequent fiscal years.

## CONTENT OVERVIEW

The remainder of this Report focuses on the General Fund and provides analyses of key revenues and expenditures, including historic data by Town Department/Service Area. The next section contains descriptions of recommended revenue and expenditure budget adjustments. The Report also includes financial summaries of other funds as well as a table of General Fund Operating Revenues Versus Operating Expenditures through the second quarter of FY 2022/23 which includes comparison information from the prior year.

## GENERAL FUND - KEY REVENUE ANALYSIS FY 2022/23

The following information provides a recap of the General Fund budgeted significant revenue sources, including estimated year end collection as of the second quarter ending December 31, 2022. Staff is monitoring developments in each major revenue source closely for potential adjustments to budgeted revenues as recommended in this Report.




### Property Tax and Motor Vehicle in Lieu Fee (VLF)

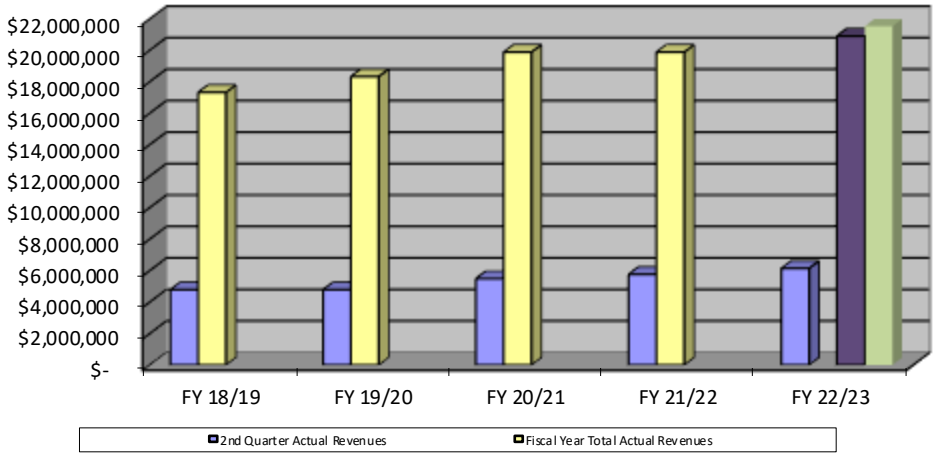
Property tax and VLF are the single largest revenue source for the Town and comprise approximately 42% of total Town General Fund estimated revenues for FY 2022/23. Property tax is levied by the Santa Clara County Assessor's Office at 1% of a property's assessed value, of which the Town receives approximately 9.3 cents per dollar paid on property located within the municipal limits of Los Gatos. In compliance with Proposition 13, the assessed value of real property is based on the 1975/76 assessment roll value, adjusted by a 2% inflation factor annually thereafter. However, when property changes hands or new construction occurs, the property is then reassessed at its current market value.

The County of Santa Clara provides property tax collection updates and projections throughout the year. The current County estimate indicates $617,332 of more than the Adopted Budget. The increase is a combined effect of higher than expected Redevelopment Agency (RDA) Residual Apportionment, and VLF allocation, as well as decreases in secured property tax estimates, and no change to property transfer tax and the Educational Revenue Augmentation Fund (ERAF) estimates.

The Town has been monitoring ongoing developments regarding the distribution of excess ERAF funds. A portion of property tax revenue goes to the ERAF to support local school districts. When the amount contributed to ERAF is more than the minimum cost of funding local schools, excess funds have traditionally been returned to the county, cities, and special districts. Five counties, including Santa Clara, have been using a redistribution allocation formula that has been contested by the State. The Town received the full amount for FY 2021/22; however, the Santa Clara County Assessor's Office recommends budgeting only 70% of the FY 2022/23 projected number. The Adopted FY 2022/23 Budget included a $1. 5 million ERAF estimate, 70% of the current ERAF base revenue estimate is still the same.

Property tax distributions are largely received in the third and fourth quarters. Second quarter receipts are trending similar to those received during the second quarter of the previous fiscal year and are at 29% of budgeted totals. Based on current County projections, staff recommends a $617,332 increase in estimated General Property Tax and Motor Vehicle in Lieu Fee collections.

**Property Tax and VLF - Quarterly and Annual Revenues**
**5-Year History**




| | FY 18/19 | FY 19/20 | FY 20/21 | FY 21/22 | FY 22/23 |
|---|---|---|---|---|---|
| 2nd Quarter Actual Revenues | $ 4,785,479 | $ 4,785,479 | $ 5,481,928 | $ 5,761,081 | $ 6,141,998 |
| Fiscal Year Total Actual Revenues | $ 17,321,346 | $ 18,330,427 | $ 19,878,834 | $ 19,878,834 | |
| Fiscal Year Total Estimated Revenues | | | | | $ 21,525,226 |
| Fiscal Year Budgeted Revenues | | | | | $ 20,907,894 |
| 2nd Quarter Percent of Total | 28% | 26% | 28% | 29% | 29% |
| **Recommended Budget Revision** | | | | | **$ 617,332** |

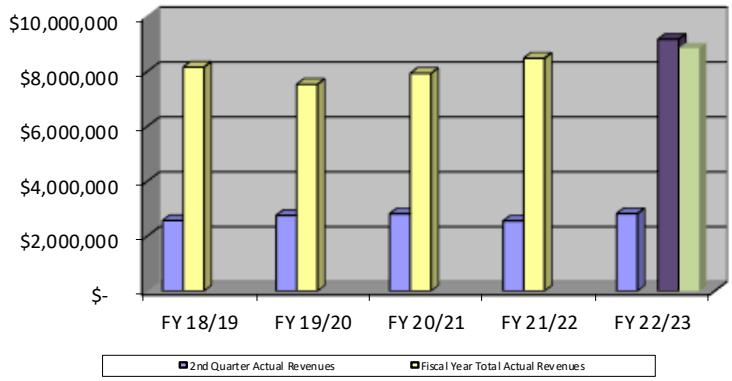
## Sales Tax

Sales tax is the second largest revenue source for the Town's General Fund, accounting for 18% of budgeted General Fund projected revenues for FY 2022/23. The Town currently receives 1.125 cents for every 9.125 cents of sales tax paid per dollar on retail sales and taxable services transacted within Los Gatos, including the Town of Los Gatos residents' approved ballot Measure G in 2018 enacting a one-eighth cent (0.125%) district sales tax for 20 years.

Sales tax estimates are based on actual sales tax data and annual sales tax estimates for five years provided by the Town's consultant, MuniServices. In addition to brick-and-mortar sales tax generation, the MuniServices estimates include several online sales tax projections. The 2018 Wayfair Decision resulted in e-commerce vendors utilizing the Amazon platform to collect sales tax based on destination; however, items shipped directly from Amazon fulfillment centers are collecting sales tax based on the point of distribution. Regular sales tax collected through online transactions are distributed through the Santa Clara County pool for which the Town receives a pro rata share of the sales tax generated in Santa Clara County for that particular quarter. The Town directly receives the one-eighth district tax portion of the sales tax generated by the residents of Los Gatos. Current total sales tax estimates include $7,559,566 ($301,422 decrease) in proceeds from regular sales tax and $1,287,690 ($26,266 decrease) in proceeds from the Measure G one-eighth cent district tax. Actual receipts net of administrative fees collected by the State will be confirmed at the close of the fiscal year and per prior Council direction, the Measure G funds are allocated 50% for capital improvement projects and 50% for operating expenses.

While FY 2022/23 second quarter receipts are trending slightly higher than in the same period last fiscal year, staff recommends a $327,688 budget decrease to reflect the MuniServices current estimates.

**Sales Tax & Measure G Tax - Quarterly and Annual Revenues**
**5-Year History**




| | FY 18/19 | FY 19/20 | FY 20/21 | FY 21/22 | FY 22/23 |
|---|---|---|---|---|---|
| 2nd Quarter Actual Revenues | $ 2,568,415 | $ 2,755,208 | $ 2,813,652 | $ 2,556,341 | $ 2,821,421 |
| Fiscal Year Total Actual Revenue | $ 8,158,152 | $ 7,531,425 | $ 7,933,604 | $ 8,483,673 | |
| Fiscal Year Total Estimated Revenues | | | | | $ 8,847,256 |
| Fiscal Year Budgeted Revenues | | | | | $ 9,174,944 |
| 2nd Quarter Percent of Total | 31% | 37% | 35% | 30% | 31% |
| **Recommended Budget Revision** | | | | | **$ (327,688)** |

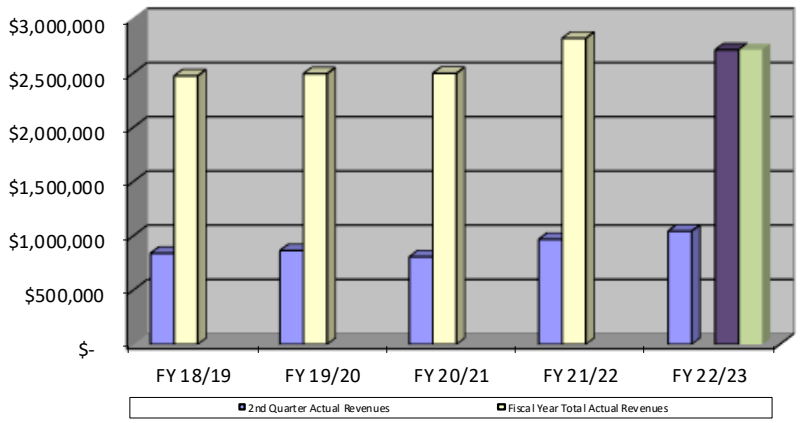
## Franchise Fees

Franchise fees are collected by the Town for the privilege of operating a utility service within Los Gatos, and as a fee in lieu of a business license tax. Franchise fees are currently received from Comcast for cable television, PG&E for gas and electric services, West Valley Collection and Recycling for solid waste collection services, and AT&T and Comcast for video services. Franchise fees represent 5% of projected General Fund revenues in FY 2022/23.

Historically, franchise payments are not remitted equally throughout the fiscal year; therefore, second quarter receipts are not necessarily predictive of future receipts. Total franchise fee revenues are trending higher than those of the second quarter in FY 2021/22 especially in the garbage franchise fee category. Staff recommends a $222,600 budget increase to this revenue source.

As the Town previously enclosed in the FY 2021/22 Annual Comprehensive Financial Report (ACFR), the California Supreme Court recently issued an opinion in a case challenging the franchise fees that the city of Oakland charges to certain waste hauling companies. In Zolly v. City of Oakland, the court concluded that it did not have enough evidence to rule as a matter of law that the fees are exempt from the voter approval requirements that apply to taxes under Proposition 26, Article XIII C of the California Constitution. However, there are several exceptions to the general rule that a tax must be approved by the voters. One exception (Article IIIC, section 1 (e)(1)) is for "a charge imposed for a specific benefit conferred or privileged granted directly to the payor that is not provided to those not charged, and which does not exceed the reasonable costs to the local government of conferring the benefit or granting the privilege." In the event the Town is unable to utilize one of the exceptions, the potential impact is a loss of approximately $2.4 million annually.

**Franhise Fees - Quarterly and Annual Revenues**
**5-Year History**




| | FY 18/19 | FY 19/20 | FY 20/21 | FY 21/22 | FY 22/23 |
|---|---|---|---|---|---|
| 2nd Quarter Actual Revenues | $ 840,555 | $ 864,849 | $ 807,833 | $ 968,181 | $ 1,044,055 |
| Fiscal Year Total Actual Revenues | $ 2,475,916 | $ 2,495,792 | $ 2,499,463 | $ 2,822,515 | |
| Fiscal Year Total Estimated Revenues | | | | | $ 2,716,470 |
| Fiscal Year Budgeted Revenues | | | | | $ 2,493,870 |
| 2nd Quarter Revenue Percent of Total | 34% | 35% | 32% | 34% | 38% |

| | |
|---|---|
| **Recommended Budget Revision** | **$ 222,600** |

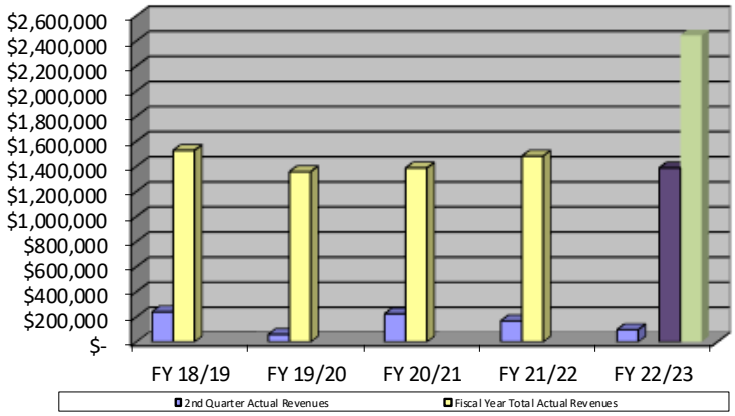
Business License Tax

The Town requires all businesses located within Los Gatos and/or those that operate within Los Gatos to obtain a business license. The amount of business license tax paid by each business is based on its business activity. In November 2022, Los Gatos voters approved Measure J, which modernized the Town's business license tax program. This is the first update to the program since 1991, strengthening funding for core Town services that are enjoyed by Town businesses. Measure J included a 30% increase on flat rate fees, a 40% increase in retailing gross receipts, and a 120% increase in e-commerce, manufacturing, wholesaling, and jobbing gross receipts. Fees for activities such as wholesale sales and manufacturing are charged on a sliding scale based on gross receipts, as is retail, with retail being capped at $1,365. These gross receipt activities account for approximately 25% of annual business licenses, while the remaining 75% are flat fee businesses. Annual renewal payments are due on January 2 of each year. Payments for new flat-fee-based businesses are prorated by quarter.

The Town is partnering with HdL Companies (HdL) to provide dedicated business license support to Los Gatos businesses. The Town's business license application and renewal process is now streamlined by offering online business license applications and renewals. Council authorized the omission of late business license penalties for all businesses in 2023 to assist with the business license management transition.

Business license tax revenue for the current fiscal year was budgeted at the prior tax rate, current estimates based on the updated tax rate predict a significant increase for the business license tax revenue. Staff is recommending a $1,056,500 increase to this revenue source. Staff anticipates collecting the majority of the business license revenue during the third quarter. Staff is closely monitoring the activities and will return with any recommended adjustments in May.

**Business License Tax - Quarterly and Annual Revenues**
**5-Year History**

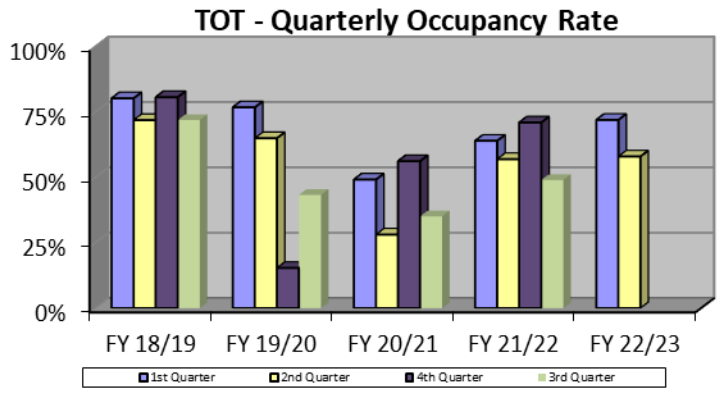



| | FY 18/19 | FY 19/20 | FY 20/21 | FY 21/22 | FY 22/23 |
|---|---|---|---|---|---|
| 2nd Quarter Actual Revenues | $ 240,293 | $ 60,500 | $ 224,388 | $ 167,942 | $ 97,974 |
| Fiscal Year Total Actual Revenues | $ 1,526,894 | $ 1,357,080 | $ 1,386,943 | $ 1,481,667 | |
| Fiscal Year Total Estimated Revenues | | | | | $ 2,444,000 |
| Fiscal Year Budgeted Revenues | | | | | $ 1,387,500 |
| 2nd Quarter Revenue Percent of Total | 53% | 53% | 59% | 11% | 4% |
| **Recommended Budget Revision** | | | | | **$ 1,056,500** |

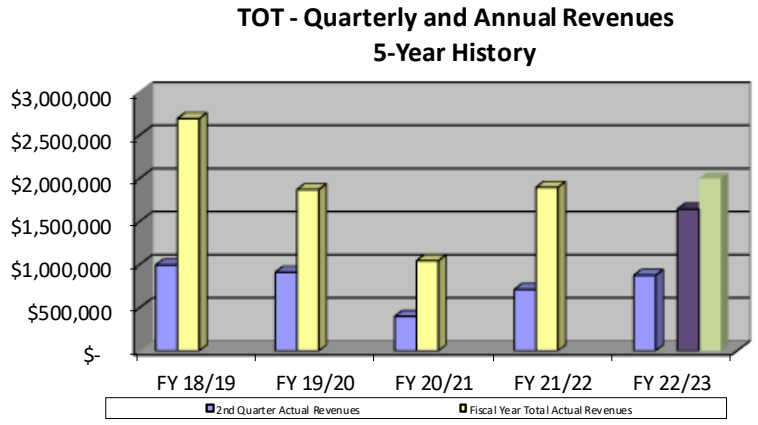
Transient Occupancy Tax

TOT is an important revenue source for the Town and comprises approximately 4% of total Town estimated revenues in the amount of $2.0 million for FY 2022/23. The Town levies a 12% transient occupancy tax (TOT) on all hotel and motel rooms within the municipal limits of Los Gatos. The 12% rate has been in effect since January 1, 2017, after the voters approved a ballot measure to increase in the TOT from 10% to 12% at the November 8, 2016 election.

The FY 2022/23 Adopted Budget modeled a 17.3% increase from FY 2021/22 adjusted budget. During the pandemic, TOT experienced the most significant percentage decline relative to historical adopted budgets. Due to a significant rebound in leisure "staycation" travel and modest improvements in business travel, current TOT collections are trending higher than anticipated and average occupancy rates are rebounding as well.




Staff will continue to monitor this revenue source since current estimates, however, based on the current trend and occupancy data analysis staff is recommending a $357,540 budget increase.




| | FY 18/19 | FY 19/20 | FY 20/21 | FY 21/22 | FY 22/23 |
|---|---|---|---|---|---|
| 2nd Quarter Actual Revenues | $ 994,581 | $ 910,806 | $ 399,620 | $ 711,861 | $ 875,715 |
| Fiscal Year Total Actual Revenues | $ 2,692,043 | $ 1,869,685 | $ 1,044,820 | $ 1,895,064 | |
| Fiscal Year Total Estimated Revenues | | | | | $ 2,000,000 |
| Fiscal Year Budgeted Revenues | | | | | $ 1,642,460 |
| 2nd Quarter Revenue Percent of Total | 37% | 49% | 38% | 38% | 53% |
| **Recommended Budget Revision** | | | | | **$ 357,540** |

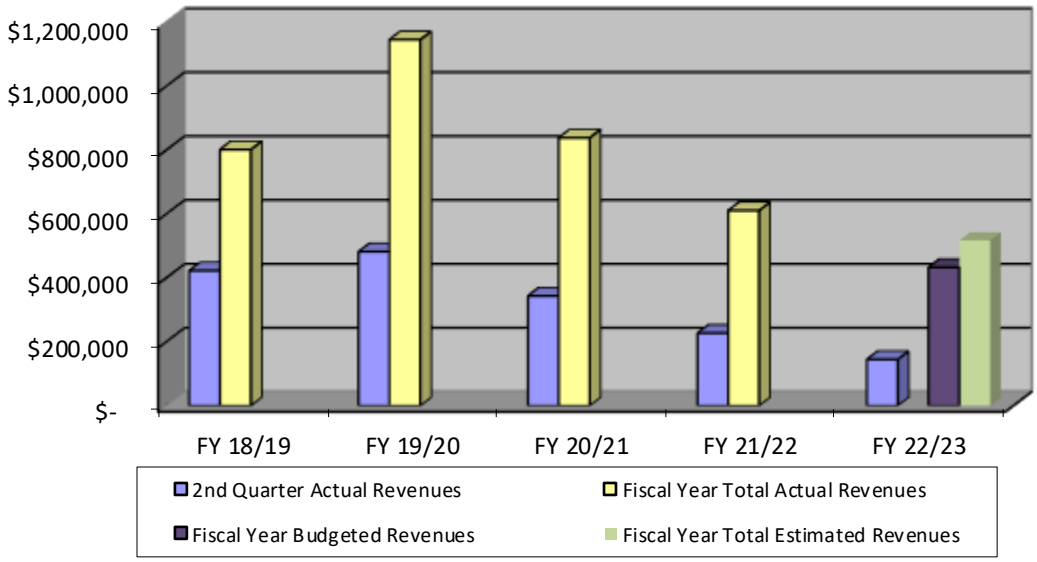
Interest Income

The Town earns interest income by investing monies not immediately required for daily operations in a number of fixed income and money market instruments. These investments are made within the parameters stated in the Town Council's Investment Policy and State regulation. The Town's investment goal is to achieve a competitive rate of return while maintaining sufficient liquidity and protecting the safety of its funds. Interest income revenue is primarily dependent on two factors: the cash balance in the Town's investment portfolio and the yield on those funds.

As of December 31, 2022, the Town's weighted portfolio yield was 2.28% which exceeded by 11 basis points the Local Agency Investment Fund (LAIF) yield of 2.17% for the same reporting period. Currently the LAIF portfolio's weighted average maturity (WAM) is 304 days versus the Town's longer WAM of 439 days. This slightly longer maturity allows the Town to pick up higher yields available on the later maturities. The Town's weighted average rate of return of 2.28% at the close of December was 25 basis points higher when compared to the prior months return of 2.03% reported as of November 30, 2022.

Staff recommends no change to this revenue source at this time.

**Interest - Quarterly and Annual Revenues**
**5-Year History**




| | FY 18/19 | FY 19/20 | FY 20/21 | FY 21/22 | FY 22/23 |
|---|---|---|---|---|---|
| 2nd Quarter Actual Revenues | $ 422,729 | $ 482,517 | $ 343,813 | $ 227,164 | $ 145,002 |
| Fiscal Year Total Actual Revenues | $ 801,729 | $1,145,538 | $ 838,649 | $ 610,975 | |
| Fiscal Year Total Estimated Revenues | | | | | $ 517,379 |
| Fiscal Year Budgeted Revenues | | | | | $ 432,947 |
| 2nd Quarter Revenue Percent of Total | 53% | 42% | 41% | 37% | 33% |

**Recommended Budget Revision**

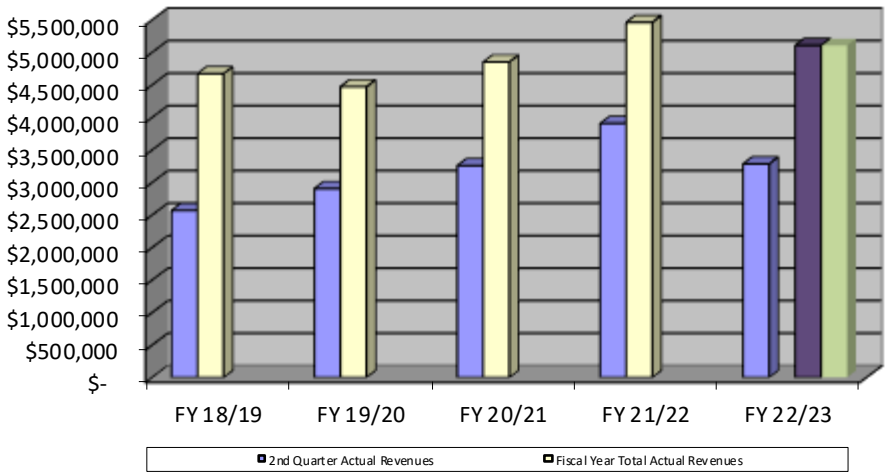
** GASB 31 Market Adjustment is not Included*

Charges for Services

Town Service revenues consist primarily of planning, building, inspections, and engineering fees assessed on local building and development activity. Development fees and charges are assessed based on cost recovery formulas, which reflect approximate costs of providing these regulatory services. This category includes charges for the School Resource Officer and crossing guard services.

Second quarter Town Service revenues, specifically Charges for Services, are trending lower than in the second quarter compared to the previous fiscal year. Typically, development fees are collected in advance for projects and recognized as revenue in the fiscal year the work is performed. Fiscal Year estimated revenues includes all revenue line item in this category. Staff recommends a $660,314 budget increase in selected items to reflect increased activities in planning and engineering services as explained in the next section of this Report.

**Charges for Services - Quarterly and Annual Revenues**
**5-Year History**

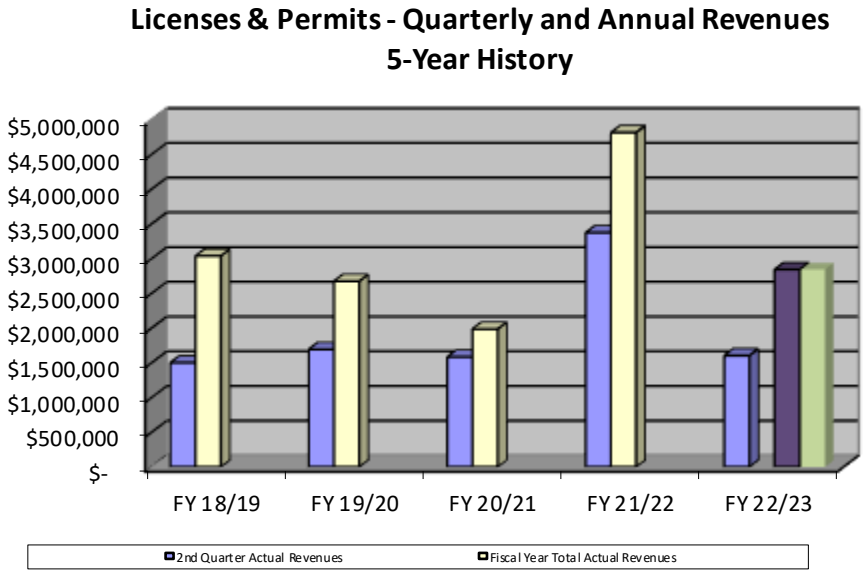



| | FY 18/19 | FY 19/20 | FY 20/21 | FY 21/22 | FY 22/23 |
|---|---|---|---|---|---|
| 2nd Quarter Actual Revenues | $ 2,567,814 | $ 2,905,238 | $ 3,258,027 | $ 3,906,577 | $ 3,284,766 |
| Fiscal Year Total Actual Revenues | $ 4,672,407 | $ 4,469,963 | $ 4,851,273 | $ 5,460,608 | |
| Fiscal Year Total Estimated Revenues | | | | | $ 5,105,701 |
| Fiscal Year Budgeted Revenues | | | | | $ 4,445,635 |
| 2nd Quarter Revenue Percent of Total | 55% | 65% | 67% | 72% | 64% |
| **Recommended Budget Revision** | | | | | **$ 660,314** |

Licenses and Permits

Licenses and Permits consist mainly of planning and building permit fees which are collected by the Town to offset administrative costs associated with evaluating development proposals to ensure compliance with codes and policies. Licenses and Permits revenue was budgeted slightly lower than FY 2021/22 in anticipation of slower development activity.

Second quarter License and Permit revenue is trending 59% of budgeted revenue. Fiscal Year estimated revenues includes all revenue line item in this category. Staff recommends a $95,545 increase in selected items in this category as explained in the next section of this Report.




| | FY 18/19 | FY 19/20 | FY 20/21 | FY 21/22 | | FY 22/23 |
|---|---|---|---|---|---|---|
| 2nd Quarter Actual Revenues | $ 1,498,864 | $ 1,692,252 | $ 1,584,098 | $ 3,373,287 | $ | 1,602,633 |
| Fiscal Year Total Actual Revenues | $ 3,036,390 | $ 2,673,706 | $ 1,984,400 | $ 4,814,650 | | |
| Fiscal Year Total Estimated Revenues | | | | | $ | 2,841,374 |
| Fiscal Year Budgeted Revenues | | | | | $ | 2,735,029 |
| 2nd Quarter Revenue Percent of Total | 49% | 63% | 80% | 70% | | 59% |
| **Recommended Budget Revision** | | | | | **$** | **95,545** |

## GENERAL FUND – EXPENDITURE ANALYSIS

For FY 2022/23, General Fund Operating expenditures (not including debt payment and transfers out) are programmed at $47.7 million. The delivery of Town services is highly dependent on talent which comprises 67.5% of budgeted General Fund expenditures for FY 2022/23. During the fiscal year, the Town Council has approved several budget adjustments, which are tracked against the Adopted Budget. The net effect is an Adjusted Budget. General Fund expenditure totals are trending in accordance with the Adjusted Budget, with total operational expenditures at the end of the second quarter at or about 44% of the Adjusted Budget. With six months of data now available, staff expects that the next six months of expenditures will be within the Adjusted Budget, although unexpected costs can still occur which may require future Council action.

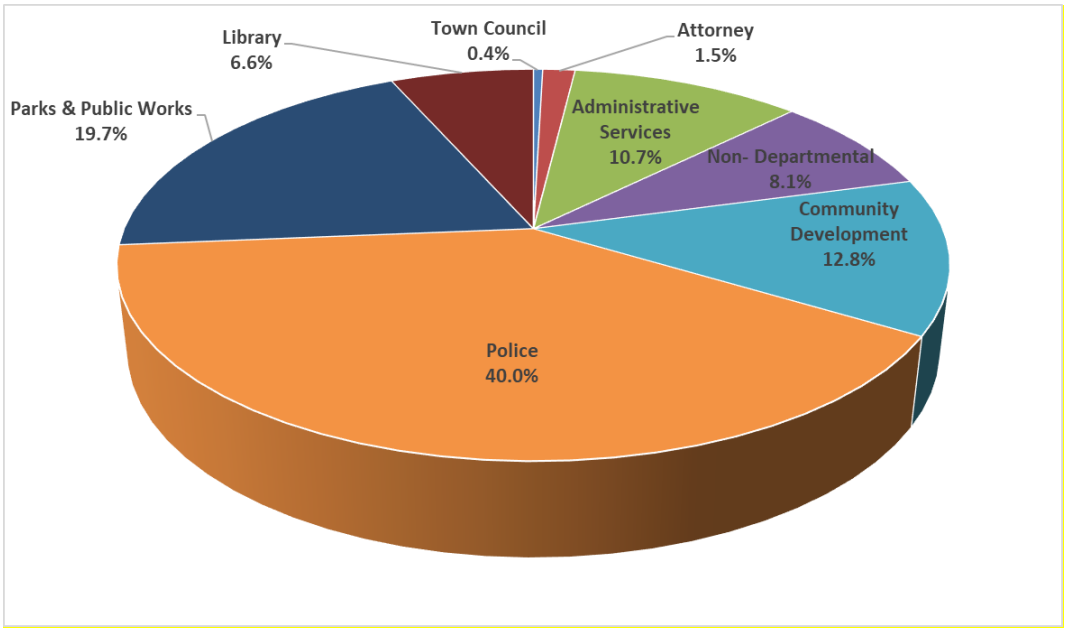
As with most municipalities, services are provided directly by employees to the Town's residents, businesses, and visitors. As a service delivery enterprise, the cost of salaries and benefits are a significant portion of the budget. As the table below illustrates, at mid-year, actual salaries are trending at 46% of budgeted salaries, while pension benefits and other benefits are trending at 46% and 40% respectively to the Adjusted Budget.

| General Fund Salaries & Benefits | | | | | | | |
|---|---|---|---|---|---|---|---|
| | FY 2021/22 Actuals | FY 2021/22 2Q | 2Q % of FY 22021/22 Actuals | 2Q % of FY 2022/23 Adjusted Budget | FY 2022/23 2Q | FY 2022/23 Estimated | FY 2022/23 Adjusted Budget |
| Salaries | $ 19,981,412 | $ 9,805,293 | 49% | 46% | $ 10,801,348 | $ 21,951,228 | $ 23,260,024 |
| Pension Benefits | $ 6,531,958 | $ 3,259,216 | 50% | 46% | $ 3,493,382 | $ 7,128,830 | $ 7,666,660 |
| Other Benefits | $ 3,679,378 | $ 1,868,661 | 51% | 40% | $ 1,841,519 | $ 3,931,260 | $ 4,561,640 |
| Total Salary & Benefit | $ 30,192,748 | $ 14,933,170 | 49% | 45% | $ 16,136,249 | $ 33,011,318 | $ 35,488,324 |

Salaries and benefits savings are anticipated due to vacancies and reduced cost structure due to replacements after retirements. In addition, vacant positions are often filled with temporary unbenefitted positions, which translate into additional benefit savings. Actual vacancies during the course of the first half of fiscal year are illustrated in the table below.

| Department | Position | | Jul-22 | Aug-22 | Sep-22 | Oct-22 | Nov-22 | Dec-22 |
|---|---|---|---|---|---|---|---|---|
| Town Attorney | Legal Admin Assistant | Separation | Filled with Temp | Filled - Permanent | | | | |
| Clerk | Deputy Clerk | Separation | Vacant | | | | | |
| Admin Services | Emergency Manager - Temp | Separation | | | | | Vacant | |
| Admin Services | Finance Director | Retirement | Filled Interim | | | Filled - Permanent | | |
| Admin Services | Finance Manager | Promotion | Vacant | | | | | |
| Admin Services | IT Technician | Separation | Vacant | Filled - Permanent | | | | |
| Admin Services | Events and Mark Specialist | Separation | Vacant | | Filled - Permanent | | | |
| Community Development | Associate Planner | Separation | Vacant | | | Filled - Permanent | | |
| Community Development | Permit Technician | Retirement | | | Vacant | | Filled - Permanent | |
| Police | Police Dispatcher | Separation | | | | Vacant | | |
| Police | Police Dispatcher | Separation | Vacant | | | | | |
| Police | Police Dispatcher | Separation | | | | | Vacant | |
| Police | Police Dispatcher | Separation | Vacant | | | | | |
| Police | Police Officer | Separation | | | | | Filled - Permanent | |
| Police | Police Officer | Separation | | Vacant | | | | Filled |
| Police | Police Officer | Retirement | | | | | | |
| Police | Police Officer | Retirement | | | | | | Filled |
| Police | Police Officer | Retirement | | | | | | Filled |
| Police | Police Officer | Separation | | | | Vacant | | |
| Police | Police Captain | Promotion | Vacant | Filled - Permanent | | | | |
| Police | Records & Com Manager | Separation | Vacant | | | | | |
| Police | Police Record Specialist | Promotion | Vacant | | | | Filled - Permanent | |
| Police | Police Record Specialist | Separation | | | | | Vacant | Filled - Permanent |
| Police | Senior Parking Control Officer | Retirement | Vacant | Filled - Permanent | | | | |
| Parks & Public Works | Parks & Public Works Director | Separation | | Filled - Permanent | | | | |
| Parks & Public Works | Senior Civil Engineer | Separation | Vacant | | | | Filled - Permanent | Vacant |
| Parks & Public Works | Transp and Mob Manager | Separation | | | Vacant | | | Filled |
| Parks & Public Works | Town Engineer | Separation | | | | | | Vacant Interim |
| Library | Senior Library Page | Separation | Filled with Temp | Filled - Permanent | | | | |
| Library | Librarian | Separation | Vacant | | | Filled - Permanent | | |

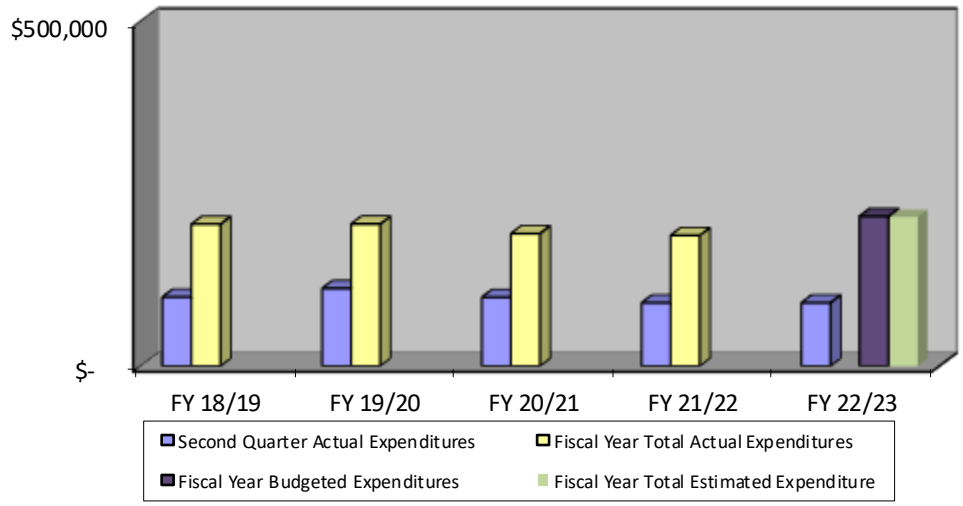
The pie chart below represents the Departmental proportion of Town General Fund estimated operating expenditures. The subsequent pages review program expenditures and any anticipated savings are provided for each program. Also provided are historical program costs, year over year (YOY) percentage changes in actual expenditures, and five-year average changes per the Finance Commission's suggestion. YOY percentage changes are, in many cases, impacted by the timing of one-time expenditures that occur during the fiscal year. Historical analysis has been provided in selected cases to provide explanations for some of the fluctuations between fiscal years. The FY 2022/23 Estimated figures also include analysis on potential salary and other expenditure savings; however, budget adjustments are only recommended as identified in this Report.



## Town Council

The Town Council is the elected legislative body that represents the residents and provides policy direction for the delivery of services and capital improvements for the Town of Los Gatos. Town Council expenditures are trending lower than the same quarter in prior year. Staff anticipates minimal expenditures savings in this program. Savings are anticipated in office supplies and medical benefits. Staff does not recommend any expenditure budget adjustment in this program.

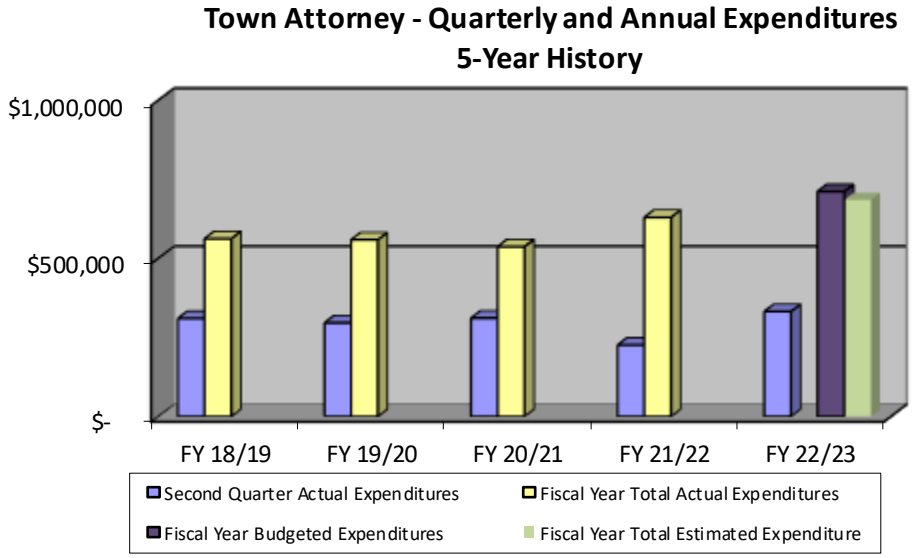
**Town Council - Quarterly and Annual Expenditures**
**5-Year History**




| | FY 18/19 | FY 19/20 | FY 20/21 | FY 21/22 | FY 22/23 |
|---|---|---|---|---|---|
| Second Quarter Actual Expenditures | $ 100,209 | $ 112,711 | $ 99,787 | $ 91,800 | $ 91,822 |
| Fiscal Year Total Actual Expenditures | $ 205,903 | $ 206,163 | $ 192,280 | $ 189,569 | |
| Fiscal Year Total Estimated Expenditure | | | | | $ 216,231 |
| Fiscal Year Budgeted Expenditures | | | | | $ 217,238 |
| Second Quarter Percentage of Total | 49% | 55% | 52% | 48% | 42% |
| **Recommended Budget Revision** | | | | | |
| YOY Percentage Changes | 6.58% | 0.13% | -6.73% | -1.41% | 14.06% |
| 5-year Average Percentage Change | | | | | 2.53% |

## Town Attorney

The Town Attorney is the legal advisor to the Town Council, Successor Agency to the former Redevelopment Agency, and Town staff. In this capacity, the office of the Town Attorney provides a wide range of legal services to ensure that Town actions and activities are legally sound. Town Attorney program expenditures are trending at 47%. Staff estimates approximately $26,000 expenditures savings in this program. Savings is anticipated in staff salaries and benefits, travel and training, and office supplies. Staff does not recommend any expenditure budget adjustment in this program.




| | FY 18/19 | FY 19/20 | FY 20/21 | FY 21/22 | FY 22/23 |
|---|---|---|---|---|---|
| Second Quarter Actual Expenditures | $ 310,219 | $ 296,424 | $ 311,520 | $ 226,377 | $ 332,183 |
| Fiscal Year Total Actual Expenditures | $ 562,542 | $ 559,010 | $ 537,296 | $ 629,935 | |
| Fiscal Year Total Estimated Expenditure | | | | | $ 685,473 |
| Fiscal Year Budgeted Expenditures | | | | | $ 711,426 |
| Second Quarter Percentage of Total | 55% | 53% | 58% | 36% | 47% |
| **Recommended Budget Revision** | | | | | |
| YOY Percentage Changes | 58.82% | -0.63% | -3.88% | 17.24% | 8.82% |
| 5-year Average Percentage Change | | | | | 16.07% |

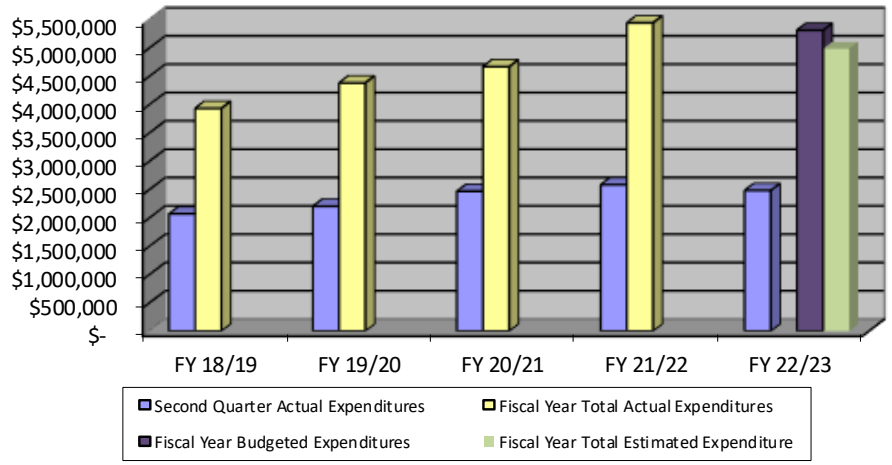
Beginning in FY 2018/19, all personnel costs that were previously budgeted in Internal Service funds were transferred to the General Fund. While overall expenditures did not increase, salary and benefit costs that were formerly reported as an Internal Service Fund expense effective with the change became a General Fund expense.

## Administrative Services

The Town Manager provides overall management, administration, and direction for the entire Town organization, reporting to the full Town Council. Administrative Services incorporates five key programs: Town Manager's Office, Clerk Department, Finance Department, Human Resources Department, and Information Technology.

Administrative Services program expenditures are trending similar compared to the same quarter expenditures in prior year. This program had some vacancies during the course of the first half of the fiscal year including Finance and Accounting Manager, Special Event Coordinator, Deputy Clerk and Temporary Emergency Services Coordinator. The Special Event Coordinator, Deputy Clerk positions are filled and the recruitment for the other two vacant positions has already started. Staff estimates approximately $326,000 expenditures savings in this program. Savings are anticipated in staff salaries and benefits, travel and training, and office supplies.

**Administrative Services - Quarterly and Annual Expenditures**
**5-Year History**



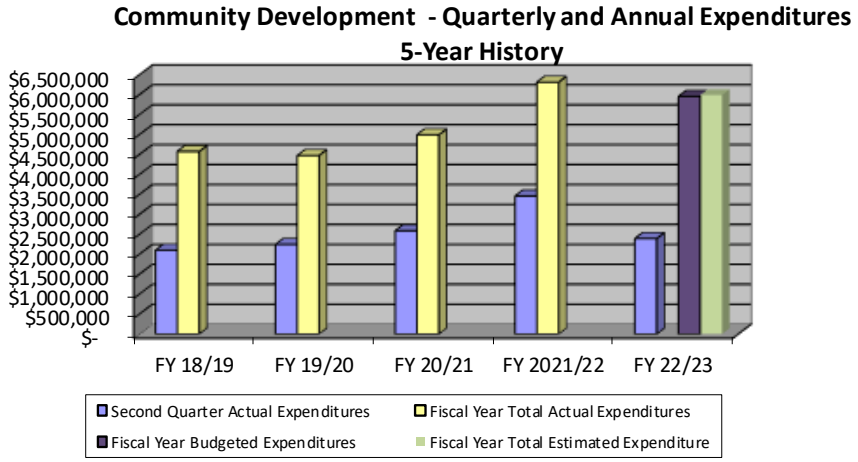

| | FY 18/19 | FY 19/20 | FY 20/21 | FY 21/22 | FY 22/23 |
|---|---|---|---|---|---|
| Second Quarter Actual Expenditures | $2,069,839 | $2,204,552 | $2,467,813 | $2,583,281 | $2,483,472 |
| Fiscal Year Total Actual Expenditures | $3,931,807 | $4,380,504 | $4,667,995 | $5,441,605 | |
| Fiscal Year Total Estimated Expenditure | | | | | $4,983,530 |
| Fiscal Year Budgeted Expenditures | | | | | $5,310,119 |
| Second Quarter Percentage of Total | 53% | 50% | 53% | 47% | 47% |
| **Recommended Budget Revision** | | | | | |
| YOY Percentage Changes | 18.77% | 11.41% | 6.56% | 16.57% | -8.42% |
| 5-year Average Percentage Change | | | | | 8.98% |

Beginning in FY 2018/19, all personnel that were previously budgeted in Internal Service funds were transferred to the General Fund. While overall expenditures did not increase, salary and benefit costs that were formerly reported as an Internal Service Fund expense effective with the change became a General Fund expense. This program budget includes a limited temporary position to assist the Town with its emergency preparedness and response operations since FY 2019/20.

Community Development Services

The Community Development Department works with elected and appointed officials, other Departments, and the community to guide the physical growth, development, and preservation of the Town.

Community Development program expenditures are trending lower than the same quarter expenditures in prior year due to increased development activities in the Department Building and Pass Through programs. The Pass Through program collects the required developer deposits for various review services. The Town provides those services through consultants and the consultants are paid out of the applicant's account. At the close of a project, all remaining fees collected will be refunded to the applicant. This program is fully staffed as of December 31, 2022; however, the Associate Planner and Planning Technician positions were partially vacant during the first half of the fiscal year. Staff is requesting to increase an Associate Planner position form 0.75 Full Time Equivalent (FTE) to 1 FTE to assist the Department with the current and future workload pertaining to unfunded State mandates and other work. In addition, staff recommends expenditure budget adjustments for building permit services ($150,000) and redepositing the first proceed ($300,00) of the affordable loan repayment. Both of these requested items have dedicated revenue sources and cost neutral. Not counting the last two items, staff anticipates approximately $420,000 expenditures savings in this program. Savings are anticipated in staff salaries and benefits, travel and training, and office supplies.




| | FY 18/19 | FY 19/20 | FY 20/21 | FY 2021/22 | FY 22/23 |
|---|---|---|---|---|---|
| Second Quarter Actual Expenditures | $2,104,258 | $2,245,767 | $2,589,502 | $3,460,301 | $2,394,537 |
| Fiscal Year Total Actual Expenditures | $4,577,495 | $4,473,790 | $4,994,391 | $6,313,505 | |
| Fiscal Year Total Estimated Expenditure | | | | | $5,990,576 |
| Fiscal Year Budgeted Expenditures | | | | | $5,960,379 |
| Second Quarter Percentage of Total | 46% | 50% | 52% | 55% | 40% |
| **Recommended Budget Revision** | | | | | **$ 456,962** |
| YOY Percentage Changes | 8.42% | -2.27% | 11.64% | 26.41% | -5.11% |
| 5-year Average Percentage Change | | | | | 7.82% |

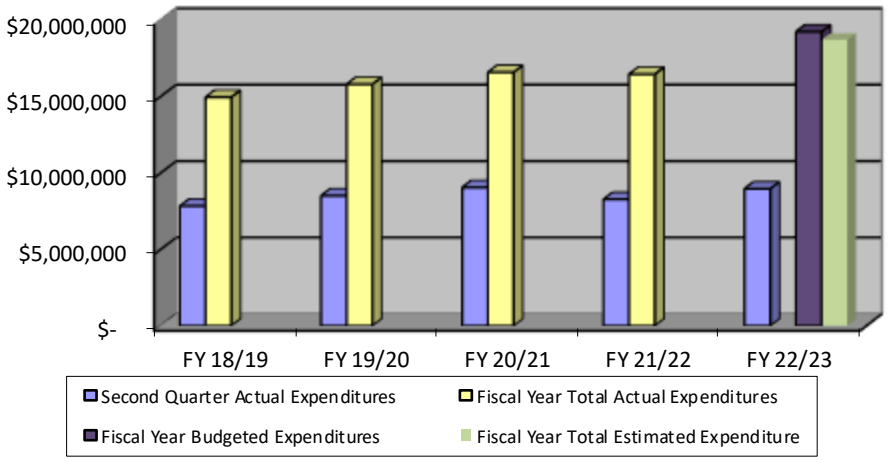
Community Development Department expenditures vary year to year based on the development activity and pass through services.

## Police Services

The Los Gatos-Monte Sereno Police Department provides Police services to the Town of Los Gatos and contractually to the City of Monte Sereno. The Department is committed to ensuring public safety with integrity, compassion, and professionalism, by providing exceptional law enforcement services, building community partnerships, and engaging the community in problem solving.

Staff is continuing to monitor Police service program revenues and expenditures. Staffing levels remain a challenge for the Police Department with dedicated ongoing recruitment for open positions. Whenever feasible, open positions are filled with trainees, per diems, and temporary employees until positions are filled. The Police Department does not anticipate any budgetary concerns at mid-year. Staff anticipates approximately $420,000 expenditures savings in this program. Savings are anticipated in staff salaries and benefits, travel and training, and office supplies. Staff recommends $27,151, expenditure budget increase to expend the proceeds of an Opioid Settlement disbursement for opioid preventative and awareness education and additional costs related to increased parking ticket collection administration.

**Police - Quarterly and Annual Expenditures**
**5-Year History**



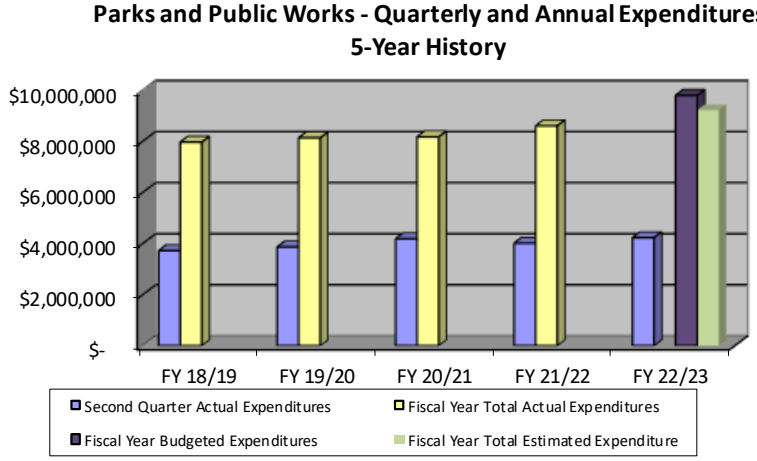

| | FY 18/19 | FY 19/20 | FY 20/21 | FY 21/22 | FY 22/23 |
|---|---|---|---|---|---|
| Second Quarter Actual Expenditures | $ 7,832,251 | $ 8,504,636 | $ 9,041,998 | $ 8,266,432 | $ 8,957,541 |
| Fiscal Year Total Actual Expenditures | $ 14,948,952 | $ 15,793,815 | $ 16,570,836 | $ 16,451,189 | |
| Fiscal Year Total Estimated Expenditure | | | | | $ 18,695,679 |
| Fiscal Year Budgeted Expenditures | | | | | $ 19,225,986 |
| Second Quarter Percentage of Total | 52% | 54% | 55% | 50% | 47% |
| **Recommended Budget Revision** | | | | | **$ 27,151** |
| YOY Percentage Changes | 3.51% | 5.65% | 4.92% | -0.72% | 13.64% |
| 5-year Average Percentage Change | | | | | 5.40% |

## Parks and Public Works Services

The Parks and Public Works Department constructs and maintains the Town's public parks, facilities, roadways, right-of-way, and other infrastructure. Six organizational units work in coordination to achieve the Department's overarching goal of ensuring the Town's facilities are safe, functional, and attractive.

The Parks and Public Works services program expenditures are trending lower than prior year same quarter expenditures. This program experienced vacancies in couple of positions including Parks and Public Works Director, Senior Civil Engineer, Transportation and Mobility Manager, and Town Engineer during the course of the first half of the fiscal year. Staff is requesting the deletion of the hire-ahead one-time Urban Forest Manager position. Funding for the current fiscal year of the position is available from the tree replacement deposit fund while in future years the Department is proposing to reclassify the Town Arborist position as it becomes vacant.

Staff anticipates approximately $570,000 expenditures savings in this program. Savings are anticipated in staff salaries and benefits, travel and training, and office supplies. Staff recommends an expenditure budget increase of $283,112 attributed to the additional contractual obligations, increased pass through activities and defunding the Urban Forest Manager position as explained in the next section of this Report.




| | FY 18/19 | FY 19/20 | FY 20/21 | FY 21/22 | FY 22/23 |
|---|---|---|---|---|---|
| Second Quarter Actual Expenditures | $3,717,900 | $3,864,874 | $4,185,306 | $4,010,181 | $4,226,049 |
| Fiscal Year Total Actual Expenditures | $7,969,631 | $8,139,106 | $8,175,987 | $8,605,455 | |
| Fiscal Year Total Estimated Expenditure | | | | | $9,221,597 |
| Fiscal Year Budgeted Expenditures | | | | | $9,798,966 |
| Second Quarter Percentage of Total | 47% | 47% | 51% | 47% | 43% |
| **Recommended Budget Revision** | | | | | **$ 283,112** |
| YOY Percentage Changes | 10.92% | 2.13% | 0.45% | 5.25% | 7.16% |
| 5-year Average Percentage Change | | | | | 5.18% |

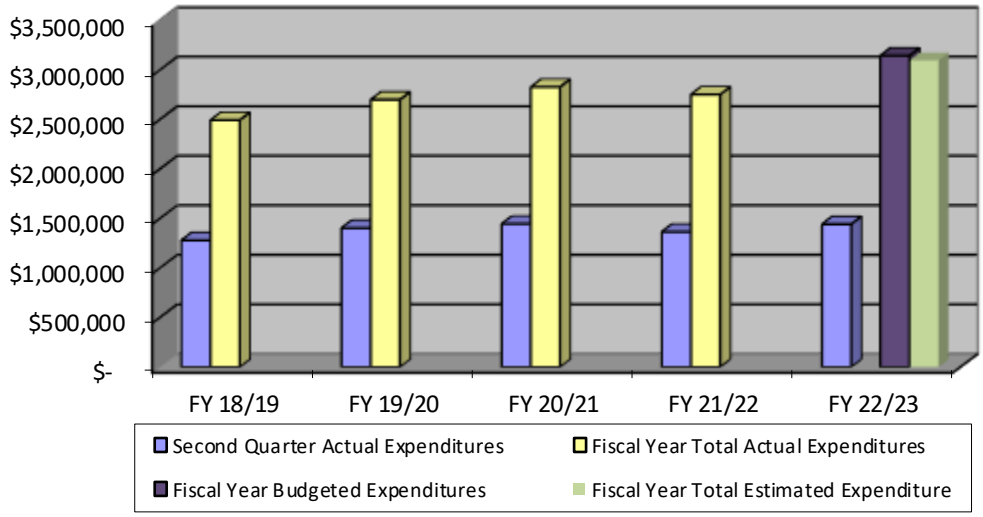
Beginning in FY 2018/19, all personnel that were previously budgeted in Internal Service funds were transferred to the General Fund. While overall expenditures did not increase, salary and benefit costs that were formerly reported as an Internal Service Fund expense effective with the change became a General Fund expense.

Library Services

The Los Gatos Library fosters curiosity and community connection and strives to be at the heart of an engaged and vibrant community.

Library services program expenditures are trending lower than prior year same quarter expenditures. This program had Librarian and Senior Library Page vacancies during the first half of the fiscal year. Staff anticipates approximately $46,000 expenditures savings in this program. Savings are anticipated in temporary employee salaries, travel and training, and office supplies. Staff recommends a $2,735 budget increase to authorize spending of a State Library Grant received by the Department.

**Library - Quarterly and Annual Expenditures**
**5-Year History**




| | FY 18/19 | FY 19/20 | FY 20/21 | FY 21/22 | FY 22/23 |
|---|---|---|---|---|---|
| Second Quarter Actual Expenditures | $1,280,179 | $1,404,285 | $1,445,899 | $1,365,415 | $1,442,555 |
| Fiscal Year Total Actual Expenditures | $2,493,617 | $2,700,802 | $2,828,873 | $2,752,401 | |
| Fiscal Year Total Estimated Expenditure | | | | | $3,097,584 |
| Fiscal Year Budgeted Expenditures | | | | | $3,144,450 |
| Second Quarter Percentage of Total | 51% | 52% | 51% | 50% | 46% |
| **Recommended Budget Revision** | | | | | **$ 2,735** |
| YOY Percentage Changes | -1.42% | 8.31% | 4.74% | -2.70% | 12.54% |
| 5-year Average Percentage Change | | | | | 4.29% |

# FY 2022/23 RECOMMENDED BUDGET ADJUSTMENTS

Budget adjustments are recommended for the following revenues and expenditures at the second quarter as described below:

**FY 2022/23 MID-YEAR BUDGET ADJUSTMENT REQUESTS - GENERAL FUNDS**

| Fund | Program | Account | *General Fund Revenues* | | |
|---|---|---|---|---|---|
| 111 | 1201 | 411XX | Property Tax | $ 417,682 | *Based on Santa Clara County Property Tax Estimates November 2022* |
| 111 | 1201 | 41141 | Motor Vehicle In Lieu Fee | 199,650 | *Based on Santa Clara County Property Tax Estimates November 2022* |
| 111 | 1201 | 41211 | Sales & Use Tax | (301,422) | *Based on MuniServices Most Probable January 2023 Sales Tax Estimates* |
| 111 | 1221 | 41214 | Measure G - District Sales Tax | (36,266) | *Based on MuniServices Most Probable January 2023 Sales Tax Estimates* |
| 111 | 1201 | 41311 | Transient Occupancy Tax | 357,540 | *Funds Received* |
| 111 | 1201 | 41612 | PG&E Franchise Fee | 50,000 | *Funds Anticipated* |
| 111 | 1201 | 41613 | Garbage Franchise Fee | 172,600 | *Funds Anticipated* |
| 111 | 2301 | 41411 | Business License Tax | 1,056,500 | *Funds Anticipated* |
| 111 | 3201 | 44214 | Other Service Fees | (12,500) | *Funds are not Received* |
| 111 | 3201 | 44412 | Plan Check | (45,000) | *Funds are not Received* |
| 111 | 3301 | 44422 | Building Inspections | 150,000 | *Funds Anticipated* |
| 111 | 3501 | 45111 | Affordable Hosuing Loan -Repayment | 300,000 | *Funds Received* |
| 111 | 4202 | 43336 | Prop 172 - Public Safety Sales Tax | 37,300 | *Based on MuniServices Most Probable January 2023 Sales Tax Estimates* |
| 111 | 4301 | 45922 | Opioid Settlement Account | 14,151 | *Funds are Available* |
| 111 | 4304 | 45126 | Online Parking Ticket | 25,000 | *Funds Anticipated* |
| 111 | 5202 | 42514 | Encroachment Permits | 50,000 | *Funds Anticipated* |
| 111 | 5202 | 44621 | Engineering Services | 50,000 | *Funds Anticipated* |
| 111 | 5301 | 43531 | Plan JPA Safety Grant | 7,236 | *Funds Anticipated* |
| 111 | 5301 | 42512 | OMP- Parking Fee | (20,000) | *Funds are not Received* |
| 111 | 5301 | 45421 | Donation - Benches | 10,347 | *Funds are Available* |
| 111 | 5302 | 42522 | HHW Fee | 8,466 | *Funds Anticipated* |
| 111 | 5302 | 42523 | JPA Fee | 126,177 | *Funds Anticipated* |
| 111 | 5302 | 43521 | AB 939 | 2,000 | *Funds Anticipated* |
| 111 | 5401 | 42521 | Street Sweeping Fees | (69,098) | *Funds are not Received* |
| 111 | 5401 | 48621 | From Tree Replacement Deposit - Defund Urban Forest Ma | (234,260) | *Funds are Available* |
| 111 | 5999 | 48416 | Plan Check - Pass Thorugh | 458,575 | *Funds Received* |
| 111 | 7801 | 43343 | Public Library Fund Grant | 2,735 | *Matching Expenditure* |
| | | | ***TOTAL GENERAL FUND REVENUES*** | ***$ 2,777,413*** | |

| Fund | Program | Account | *General Fund Expenditures* | | |
|---|---|---|---|---|---|
| 111 | 1201 | 62113 | Town Share of Retiree Medical | $ 143,130 | *Funds are not Expended* |
| 111 | 1201 | 62119 | Additional Payment to IRS Pension Trust | 300,000 | *From Avaialable Reserve* |
| 111 | 1201 | 72111 | PG&E Loan Principal Payment | 156,034 | *Funds are Partially Expended* |
| 111 | 3301 | 63381 | Building Inspections | 150,000 | *Funds are Partially Expended* |
| 111 | 3201 | 5XXXX | Additional 0.25 FTE Associate Planner | 6,962 | *Funds are not Expended* |
| 111 | 3501 | XXXXX | Loan Repayment to BMP | 300,000 | *Funds are Expended* |
| 111 | 4301 | 64111 | Training | 14,151 | *Funds are not Expended* |
| 111 | 4304 | 62223 | SCC Court and Jail Construction Fee | 10,000 | *Funds are Partially Expended* |
| 111 | 4304 | 63344 | Parking Citation Service | 3,000 | *Funds are Partially Expended* |
| 111 | 5203 | 63332 | Software License Maintenance | 7,460 | *Funds are Partially Expended* |
| 111 | 5301 | 61224 | Playground Safety | 3,756 | *Funds are Expended* |
| 111 | 5301 | 63363 | Landscape Maintenance | 37,234 | *Funds are Partially Expended* |
| 111 | 5301 | 68622 | Benches | 10,347 | *Funds are Expended* |
| 111 | 5401 | 5**** | Urban Forest Manager | (234,260) | *Funds are not Expended* |
| 111 | 5999 | 68416 | Plan Check - Pass Through | 458,575 | *Funds are Partially Expended* |
| 111 | 7801 | 61172 | Youth Collections | 2,735 | *Matching Revenue* |
| | | | ***TOTAL GENERAL FUND EXPENDITURES*** | ***$ 1,369,124*** | |

**FY 2022/23 MID-YEAR BUDGET ADJUSTMENT REQUESTS - OTHER FUNDS**

| Fund | Program | Account | *Other Fund Revenues* | | |
|---|---|---|---|---|---|
| ***251*** | | | ***Los Gatos Theatre*** | | |
| | | | Theatre Tenant Rent | 68,400 | *Funds Anticipated* |
| | | | | **$ 68,400** | |
| ***234*** | | | ***Santa Rosa Heights LLD*** | | |
| 234 | 5504 | 41152 | L&L Assessment | 4,500 | *Funds Anticipated* |
| | 5504 | 42515 | Interest Income | 465 | *Funds Anticipated* |
| | | | | **$ 4,965** | |
| ***481*** | | | ***Gas Tax*** | | |
| 481 | 411-811-6004 | 82405 | Increased Gas Tax Projections for Street Repair | (67,218) | *Based on California City Finance Projection May 2022* |
| | | | | **$ (67,218)** | |
| ***711*** | | | ***Library Trust*** | | |
| 711 | 7301 | 45452 | Additional Donation Received | 5,000 | *Funds Received* |
| | | | | **$ 5,000** | |
| | | | ***TOTAL OTHER FUNDS REVENUES*** | ***$ 11,147*** | |

| Fund | Program | Account | *Other Fund Expenditures* | | |
|---|---|---|---|---|---|
| ***231*** | | | ***Blackwell LLD*** | | |
| 232 | 5501 | 63363 | Landscape Maintenance | (194) | *Funds are not Expended* |
| | | | | **$ (194)** | |
| ***232*** | | | ***Kennedy Meadows LLD*** | | |
| 232 | 5502 | 63363 | Landscape Maintenance | 5,875 | *Funds are Partially Expended* |
| | | | | **$ 5,875** | |
| ***233*** | | | ***Gemini Court LLD*** | | |
| 233 | 5503 | 63363 | Landscape Maintenance | (606) | *Funds are not Expended* |
| | | | | **$ (606)** | |
| ***234*** | | | ***Santa Rosa Heights LLD*** | | |
| 234 | 5504 | 63363 | Landscape Maintenance | 2,270 | *Funds are Partially Expended* |
| | | | | **$ 2,270** | |
| ***235*** | | | ***Vasona Heights LLD*** | | |
| 235 | 5505 | 63363 | Landscape Maintenance | 2,352 | *Funds are not Expended* |
| | | | | **$ 2,352** | |
| ***236*** | | | ***Hillbrook Drive LLD*** | | |
| 236 | 5506 | 63363 | Landscape Maintenance | (75) | *Funds are not Expended* |
| | | | | **$ (75)** | |
| ***251*** | | | ***Los Gatos Theatre*** | | |
| | 5408 | 61214 | General Maintenance Supplies | 1,000 | *Funds are Partially Expended* |
| | | 61241 | Office Furniture Equipment | 3,000 | *Funds are Partially Expended* |
| | | 62371 | Building Maintenance and Repairs | 47,000 | *Funds are Partially Expended* |
| | | 62611 | Utilities - Electric | 4,091 | *Funds are Partially Expended* |
| | | 62612 | Utilities - Gas | 8 | *Funds are Partially Expended* |
| | | 62613 | Utilities - Water | 715 | *Funds are Partially Expended* |
| | | | | **$ 55,814** | |
| ***481*** | | | ***Gas Tax*** | | |
| 481 | 481-811-9901 | 82405 | Decreased Gas Tax Projections for Street Repair | (67,276) | *Based on California City Finance Projection May 2022* |
| | | | | **$ (67,276)** | |
| ***633*** | | | ***Facilities Maintenance*** | | |
| 633 | 5404 | 62161 | WVS Annual Fee | 8,608 | *From Available Facilities Maintenance Internal Service Fund* |
| | | | | **$ 8,608** | |
| ***711*** | | | ***Library Trust Fund*** | | |
| 711 | 7301 | 62420 | Additional Donation Received | 2,500 | *Funds are not Expended* |
| 711 | 7301 | 62424 | Additional Donation Received | 2,500 | *Funds are not Expended* |
| | | | ***TOTAL OTHER FUNDS EXPENDITURES*** | ***$ 9,268*** | |

## SUMMARY OF KEY RECOMMENDED BUDGET ADJUSTMENTS

- General Property Tax and Motor Vehicle in Lieu Fee: Staff recommends a decrease in projected revenues of approximately $417,682 in General Property Tax and an increase of $199,650 Motor Vehicle in Lieu fee which are in line with the estimates and forecasts provided to the Town from Santa Clara County.

- Sales and Use Tax: Staff recommends a $301,422 budget decrease to reflect current sales tax trends based on MuniServices most likely projections.

- Measure G – District Sales Tax: Staff recommends a $36,266 budget decrease to reflect the current trends of the one-eight cent sales tax based on MuniServices most likely projections.

- Transient Occupancy Tax (TOT): Staff recommends a $357,540 budget increase based on the current trends.

- PG&E Franchise Fee:: Staff recommends an increase in projected revenues of approximately $50,000 in cable franchise fee based on last year actuals.

- Garbage Franchise Fee: Staff recommends an increase in projected revenues of approximately $172,600 in cable franchise fee based on current activities and trends.

- Business License Tax: Staff recommends a $1,056,500 budget increase based on the estimated collection per the new business license tax.

- Plan Check and Other Service Fee: Staff recommends a $57,500 budget decrease based on the current plan check activities.

- Building Inspection Services: Staff recommends a $150,000 revenue and budget increase for building inspection services from available developer contribution.

- Additional 0.25 FTE Associate Planner: Staff recommendsan expenditure budget increase in the amount of $6,962 toprovide additional 0.25 FTE Associate Planner hours due to ongoing long range planning efforts and unfunded mandates from yearly State Legislation that has and continues to be enacted.

- Affordable Loan Repayment: Staff recommends $300,000 revenue and budget increase for receiving a partial repayment of the Dittos Lane affordable housing loan and redepositing the proceeds to Below Market Housing Deposit Account.

- Prop 172 – Public Safety Sales Tax: Staff recommends a $37,300 budget increase to reflect the current trends of the Prop 172- Public Safety Sales Tax based on MuniServices projections.

- Opioid Settlement Proceeds: Staff recommends a $14,150 revenue and expenditure budget increase to recognize the receipt of Opioid Settlement disbursement. The Settlement requires funds be used primarily for opioid abatement; the Police Department will follow the fiscal guidelines outlined in the Settlement agreement. The Police Department identified utilizing the funding for specific advancedofficer training in recognition, response, treatment, and management of an opioid overdose crisis, and to supplement opioid preventative and awareness education training for youth through the School Resource Officer drug awareness program.

- Online Parking Ticket: Staff recommends a $25,000 revenue budget increase to reflect recent parking citation revenue and $13,000 expenditure budget increase to increased administrative and processing cost related to inceased parking citation revenue collection.

- Encroachment Permits: Staff recommends a revenue budget increase of $50,000 to recognize increased developments happening in Town.

- Engineering Services: Staff recommends a revenue budget increase of $50,000 to recognize increased developments happening in Town.

- Oak Meadow Park Parking Fee: Staff recommends a decrease in the Oak Meadow Park Parking fee revenue in the amount of $20,000. Staff is in the process of procuring a pay station that will integrate with the Town's current parking enforcement efforts.

- Safety Grant: Staff recommends $10,347 revenue and $3,756 expenditure budget increase to recognize the receipt of safety grant for paygorund safety. The payground safety work was partially budgeted before the grant was identified.

- West Valley Solid Waste Management Joint Powers Agency (JPA) Revenue Realignment between Programs: Staff recommends a revenue budget increase of in the amount of $67,545 to reflect the current contribution for different Town programs based on the agreement signed with the Joint Powers Authority after the original budget was adopted.

- Donation – Benches: Staff recommends revenue and expenditure budget increase of $10,347 to recognize donation received for bench installation.

- Town Share of Retiree Medical: Staff recommends an expenditure budget increase of $143,130 to recognize increased cost related the retiree medical services due to additional recent retirements.

- Additional Payment to IRS Pension Trust: Staff recommends an expenditure budget increase in the amount of $300,000 for additional payment to the IRS Pension Trust from available Pension/OPEB Reserve.

- PG&E Loan Principal Payment: Staff recommends an expenditure budget increase in the amount of $156,034 for PG&E Loan Payment. The Town utilized an interest fee loan from PG&E for energy efficiency improvements for various Town buildings. The payments were suspended by PG&E due to the pandemic during budget development, but the payment schedule was since reinstated.

- Software License Maintenance: Staff recommends an expenditure budget increase of $7,460 for software license maintenance.

- Landscape Maintenance: Staff recommends an expenditure budget increase of $37,234 for increased landscape maintenance services.

- Urban Forest Manager: Staff recommends revenue and expenditure budget decrease of $234,260 to defund the one-time hire ahead Urban Forest Manager position.

- Plan Check Services: Staff recommends a $485,575 revenue and budget increase forplan check services from available developer contribution.

Other Fund Revenues and Expenditures

- Landscape Maintenance: Staff recommends an expenditure budget increase in the amount of $9,622 to the various Park Light and Landscaping Districts for increased landscape maintenance services.

- Theatre Needs: Staff recommends $68,000 revenue increase to recognize the current tenants anticipated rent proceeds and $55,814 expenditure budget increase from available rent proceeds for initial set-up, utility cost and additional expenses related to the Los Gatos Theatre Building maintenance and repairs.

- Gas Tax: Staff recommends revenue and expenditure budget decrease in the amount of $67,218 reflecting most recent gas tax projections.

- West Valley Sanitation District Annual Fee: Staff recommends an expenditure budget increase in the amount of $8,608 to for additional water meter connected and increased water usage fee.

- Library Trust programming: Staff recommends $5,000 revenue and expenditure adjustment to recognize additional donation from the Friends of the Los Gatos Library. The Friends were able to donate an additional of $5,000 this year. Staff anticipated spending $5,000 of the additional donation in the current fiscal year.

American Rescue Plan Act (ARPA) Fund:

In accordance with ARPA, the Town was awarded an ARPA grant in the amount of $7,229,744 paid to the Town in two separate payments, the first payment of $3,618,872 was received in early July 2022 and the second payment of $3,614,872 was received in early July 2023.

Based on initial guidance of eligible uses of ARPA funds the Town allocated these funds to various purposes to respond and support the impacts of the pandemic on Town residents, non-profits, the business community including the construction of downtown parklets, non-profit fee and rent waivers, enhanced senior services, promenades, and increased funding for Town infrastructure capital improvements, among other initiatives.

Upon Treasury's release of the simplified reporting process for entities awarded less than $10 million in ARPA funding and additional guidance received on federal compliance issues, the Town recognized the $3.4 M of FY 2021/22 and the recommending recognizing the second tranche of $3.6M cash collections of ARPA revenues in FY 2022/23 as qualified revenue loss under the Treasury provisions for use in providing government services. To further aid in compliance with federal uniform guidance and Single Audit requirements, staff claimed the lost revenue for use in providing essential government services and accounted for the use of ARPA revenue loss revenues for eligible public safety payroll costs for in FY 2021/22 and proposing the same for FY 2022/23.

The recommended action as illustrated in the below worksheet will allocate all ARPA "replacement" revenues to the General Fund which in turn will unencumber other General Fund operating revenues which were previously dedicated for public safety costs. The newly unencumbered General Fund revenues can then be allocated to the ARPA pandemic responses as identified.

Council has already allocated all the $7.2 million proceeds for various priorities as illustrated in the below table. Staff will bring back any residual balance not used for the original purpose after completing the program for Council re-programming reconsideration

**AMERICAN RESCUE PLAN ACT (ARPA) SUMMARY WORKSHEET**

| | FY 2020/21 | FY 2021/22 | | | FY 2022/23 | | GRAND |
|---|---|---|---|---|---|---|---|
| | ACTUALS | BUDGET ADJ. ESTIMATED | ACTUALS | BAL REMAINING | ESTIMATED | EST. MID-YEAR | TOTAL |
| ARPA FUNDS REVENUE RECOGNIZED | $ 200,911 | $ 3,413,961 | | | $ 3,614,872 | | $ 7,229,744 |
| GOV SERVICES (WAIVERS,CUP&ADA,DIRECT GRANTS) | 200,911 | | | | | | 200,911 |
| REVENUE LOSS -GOV SERVICES (PUBLIC SAFETY) | | 3,413,961 | 3,413,961 | | 3,614,872 | | 7,028,833 |
| | $ 200,911 | $ 3,413,961 | | | $ 3,614,872 | | $ 7,229,744 |
| GENERAL FUND ARPA REPLACEMENT REVENUES AVAILABLE | $ 200,911 | $ 3,413,961 | | | $ 3,614,872 | | $ 7,229,744 |
| LESS APPROVED USES TO BE BUDGETED: | | | | | | | |
| PARKLETS (DOWNTOWN IMPVTS PROJECT) | $ - | $ 680,000 | $ 466,428 | $ 213,572 | $ 250,000 | $ - | $ 930,000 |
| RENT WAIVERS | 121,255 | 341,452 | 341,452 | - | 283,756 | | 746,463 |
| CUP/ADA FEE WAIVERS | 19,656 | 27,672 | 27,672 | - | 27,672 | | 75,000 |
| DESTINATION MARKETING | | 55,000 | 55,000 | - | | | 55,000 |
| K-RAILS (DOWNTOWN IMPVTS PROJECT) | | 68,000 | 88,654 | (20,654) | | | 68,000 |
| PROMENADES | | 80,000 | 69,855 | 10,145 | 120,000 | 90,628 | 200,000 |
| DIRECT GRANTS | 60,000 | 50,000 | 50,000 | - | | | 110,000 |
| ENHANCED SENIOR SERVICES | | 500,000 | 249,597 | 250,403 | | | 500,000 |
| CAPITAL IMPROVEMENT PROGRAM SUPPORT TRANSFERS | | | | | 2,900,000 | 580,000 | 2,900,000 |
| REQUIRED FOR GF BALANCING OF OPERATING REV_EXP | | | | | 1,645,281 | | 1,645,281 |
| TOTAL ALLOCATIONS OF GENERAL FUND ARPA REPLACEMENT REVENUES | $ 200,911 | $ 1,802,124 | $ 1,348,659 | $ 453,465 | $ 5,226,709 | $ 670,628 | $ 7,229,744 |

While the Town already recognized the full first tranche of the ARPA proceeds during FY 2020/21 and FY 2021/22, only $1,549,570 was utilized during those fiscal years, $2,065,302 is part of the General Fund balance and tracked by staff to ensure that the proceeds are spent by Council adopted uses.

The FY 2022/23 budget was adopted prior to the simplified guideline so staff is proposing the following budget adjustments to recognize the revenue and track the Council approved uses.

**FY 2022/23 MID-YEAR BUDGET ADJUSTMENT REQUESTS - ARPA RECLASSIFICATION**

| Fund | Program | Account | *American Rescue Plan Act (ARPA) Fund* | |
|---|---|---|---|---|
| 111 | 4301 | 48219 | ARPA - Intergovernmental Revenue | 3,614,872 |
| 111 | 5301 | 48219 | ARPA - Intergovernmental Revenue | 40,431 |
| 111 | 3201 | 48219 | ARPA - Intergovernmental Revenue | 27,672 |
| 111 | 2101 | 48219 | ARPA - Intergovernmental Revenue | 120,000 |
| 411 | 411-813-0235 | 48219 | ARPA - Intergovernmental Revenue | 250,000 |
| 633 | 5404 | 48219 | ARPA - Intergovernmental Revenue | 243,325 |
| 241 | 1241 | 43217 | ARPA - Intergovernmental Revenue | 2,310,176 |
| | | | | **$ 6,606,476** |
| 241 | 1241 | 68219 | ARPA - Income Replacement Expense | 2,310,176 |
| 111 | 1201 | 68219 | ARPA - Income Replacement Expense | 3,581,428 |
| | | | | **$ 5,891,604** |

## GENERAL FUND FINANCIAL SUMMARIES AND ESTIMATES

The following table is the *Schedule of General Fund Operating Revenues Versus Operating Expenditures* for the second quarter of FY 2022/23which includes comparison information from the prior year.

The FY 2022/23 Adjusted Budget column includes the adopted budget and items that Council approved during the course of the first two quarters of the fiscal year, such as additional funding for legal services, and miscellaneous carry over grants from prior fiscal year.

The FY 2022/23 Estimated column contains projections of final balances for the current fiscal year based upon staff analysis, the early trends observed through the second quarter in sales tax and property tax projections, and the proposed mid-year adjustments as listed in this report.

The FY 2022/23 Estimated figures also include analysis on potential salary and other expenditure savings; however, budget adjustments are only recommended as identified in this Report.

Staff continues to fine tune the detailed analysis of the FY 2022/23 year-end estimated revenue and expenditure numbers and an update will be provided with the presentation of the Proposed Fiscal Year 2023/24 Operating Budget.

The following table illustrates the summary of the General Fund balance status based on current estimates and prior year result.

**GENERAL FUND**

**SUMMARY OF REVENUES AND EXPENDITURES**

| | FY 2021/22 Actuals | FY 2021/22 Q2 | 2Q % of FY 2021/22 Actuals | 2Q % of FY 2022/23 Adjusted Budget as of 12/31/2022 | FY 2022/23 Q2 | FY 2022/23 Adjusted Budget | FY 2022/23 Year End Estimates *Including Proposed Mid-Year Adjustments* |
|---|---|---|---|---|---|---|---|
| **Total Revenues & Transfers In** | $ 54,448,222 | $ 17,978,806 | *33%* | *34%* | $ 17,098,505 | $ 50,266,120 | $ 50,546,861 |
| **Total Expenditures** | 51,466,052 | 21,155,306 | 41% | 40% | 21,105,947 | 52,886,926 | 51,777,130 |
| **Net Increase (Decrease)** | $ 2,982,171 | | | | $ (4,007,441) | $ (2,620,805) | $ (1,230,268) |
| **Beginning Fund Balance** | 23,914,618 | | | | 26,896,789 | 26,896,789 | 26,896,789 |
| **Ending Fund Balance** | $ 26,896,789 | | | | $ 22,889,348 | $ 24,275,983 | $ 25,666,521 |

The table in the following page provides the details of the Revenues and Use of Reserve and Total Expenditures and Reserve Allocations.

**GENERAL FUND**

**SUMMARY OF REVENUES AND EXPENDITURES**

| | FY 2021/22 Actuals | FY 2021/22 Q2 | 2Q % of FY 2021/22 Actuals | 2Q % of FY 2022/23 Adjusted Budget as of 12/31/2022 | FY 2022/23 Q2 | FY 2022/23 Adjusted Budget | FY 2022/23 Year End Estimates *Including Proposed Mid-Year Adjustments* |
|---|---|---|---|---|---|---|---|
| **Revenues** | | | | | | | |
| Property Tax | $ 16,899,618 | $ 5,761,081 | *34.1%* | *37.1%* | $ 6,141,998 | $ 16,551,544 | $ 16,969,226 |
| VLF Backfill Property Tax | 4,229,462 | - | *0.0%* | *0.0%* | - | 4,356,350 | 4,556,000 |
| Sales & Use Tax | 7,177,597 | 2,143,460 | *29.9%* | *30.5%* | 2,398,925 | 7,860,988 | 7,559,566 |
| Measure G Sales & Use Tax | 1,306,076 | 412,881 | *31.6%* | *32.5%* | 426,496 | 1,313,956 | 1,287,690 |
| Franchise Fees | 2,822,515 | 968,181 | *34.3%* | *41.9%* | 1,044,055 | 2,493,870 | 2,716,470 |
| Transient Occupancy Tax | 1,895,064 | 711,861 | *37.6%* | *52.2%* | 857,715 | 1,642,460 | 2,000,000 |
| Business License Tax | 1,481,667 | 167,942 | *11.3%* | *7.1%* | 97,974 | 1,387,500 | 2,444,000 |
| Licenses & Permits | 4,814,650 | 3,373,287 | *70.1%* | *58.6%* | 1,602,633 | 2,735,029 | 2,841,374 |
| Intergovernmental | 1,263,352 | 370,615 | *29.3%* | *33.8%* | 379,739 | 1,124,093 | 1,250,731 |
| Town Services | 5,460,608 | 3,906,577 | *71.5%* | *73.9%* | 3,284,766 | 4,445,635 | 5,105,701 |
| Fines & Forfeitures | 319,170 | 118,809 | *37.2%* | *75.1%* | 151,615 | 201,750 | 232,129 |
| Interest | (1,404,526) | (211,169) | *15.0%* | *33.5%* | 145,003 | 432,947 | 517,379 |
| Use of Property | 32,400 | - | *0.0%* | | - | - | - |
| Miscellanious Other | 311,040 | 150,622 | *48.4%* | *14.0%* | 457,906 | 3,280,749 | 626,066 |
| Park Construction Tax | 14,752 | - | | | 7,680 | 7,000 | 8,280 |
| Debt Service - *Entry Eliminated for ACFR* | 1,899,850 | - | *0.0%* | *0.0%* | - | 1,893,713 | 1,893,713 |
| ARPA Income Replacement - *Entry Eliminated for ACFR* | 556,316 | | | | | | |
| Pension Trust Income - *Entry Eliminated for ACFR* | 690,000 | | | | | | |
| Measure G for Operations - *Entry Eliminated for ACFR* | 629,147 | | | | | | |
| Proceeds for Sales of Assets | 2,151 | - | *0.0%* | | | - | |
| Fund Transfer In | 4,047,313 | 104,659 | *2.6%* | *18.9%* | 102,000 | 538,536 | 538,536 |
| **Total Revenues & Transfers In** | **$ 54,448,222** | **$ 17,978,806** | ***33%*** | ***34%*** | **$ 17,098,505** | **$ 50,266,120** | **$ 50,546,861** |
| **Use of Other Funding Sources:** | | | | | | | |
| Use of Reserves - Capital/Special Projects - Capital | $ 550,000 | $ - | *0.0%* | *0.0%* | $ - | $ 2,350,000 | $ 2,350,000 |
| Use of Reserves - Surplus Property | 1,200,000 | | | | | | |
| Use of Reserve - Pension/OPEB | 300,000 | | | | | | 300,000 |
| Use of Reserve - Accumulated Measure G | 1,100,000 | - | | | - | 679,443 | |
| **Total Other Funding Sources** | **$ 3,150,000** | **$ -** | ***0%*** | ***0%*** | **$ -** | **$ 3,029,443** | **$ 2,650,000** |
| **Total Revenues and Use of Reserves** | **$ 57,598,222** | **$ 17,978,806** | **31%** | **32%** | **$ 17,098,505** | **$ 53,295,563** | **$ 53,196,861** |
| **Expenditures** | | | | | | | |
| Town Council | $ 189,569 | $ 91,800 | *48.4%* | *42.3%* | 91,822 | $ 217,238 | $ 216,231 |
| Attorney | 629,935 | 226,377 | *35.9%* | *46.7%* | 332,183 | 711,426 | 685,473 |
| Administrative Services | 5,441,605 | 2,583,281 | *47.5%* | *45.9%* | 2,438,472 | 5,310,119 | 4,983,530 |
| Non- Departmental | 2,792,857 | 1,160,520 | *41.6%* | *33.8%* | 1,222,789 | 3,617,671 | 3,823,598 |
| Community Development | 6,313,505 | 3,460,301 | *54.8%* | *40.2%* | 2,394,537 | 5,960,379 | 5,990,576 |
| Police | 16,451,189 | 8,266,432 | *50.2%* | *46.6%* | 8,957,541 | 19,225,986 | 18,695,679 |
| Parks & Public Works | 8,605,455 | 4,010,181 | *46.6%* | *43.1%* | 4,226,049 | 9,798,966 | 9,221,597 |
| Library | 2,752,401 | 1,356,415 | *49.3%* | *45.9%* | 1,442,555 | 3,144,450 | 3,097,584 |
| Principal | 156,034 | | | | | | 156,034 |
| **Total Department Expenditures** | **$ 43,332,550** | **$ 21,155,307** | **49%** | **44%** | **$ 21,105,948** | **$ 47,986,235** | **$ 46,870,302** |
| Debt Service - *Entry Eliminated for ACFR* | $ 1,899,850 | $ - | *0.0%* | *0.0%* | $ - | $ 1,893,713 | $ 1,899,850 |
| ARPA Income Replacement - *Entry Eliminated for ACFR* | 556,316 | | | | | | |
| Transfer to Pension Trust Fund - *Entry Eliminated for ACFR* | 690,000 | | | | | | |
| Measure G Transfer - Entry Eliminated for ACFR | 629,148 | | | | | | |
| Transfers Out | 4,358,188 | - | *0.0%* | *0.0%* | - | 3,006,978 | 3,006,978 |
| **Total Additional Non-Departmental Expenditures** | **$ 8,133,502** | **$ -** | **0%** | **0%** | **$ -** | **$ 4,900,691** | **$ 4,906,828** |
| **Total Operating Expenditures** | **$ 51,466,052** | **$ 21,155,307** | **41%** | **40%** | **$ 21,105,948** | **$ 52,886,926** | **$ 51,777,130** |
| Allocate to Budget Stabilization/Catastrophis Reserve | 1,062,162 | | | | | | |
| Allocate to Carryover Encumbrances | 33,145 | | | | | | |
| Allocate to Pension/OPEB Reserve | 300,000 | | | | | | |
| Allocate to Restricted Pension Trust | | | | | | 390,000 | 690,000 |
| **Excess (Deficiency) of Revenues Over Expenditures** | **$ 4,736,863** ** | **$ (3,176,501)** * | | | **$ (4,007,443)** * | **$ 18,637** | **$ 729,731** |

**FY 2021/22 and FY 2022/23 2Q Net Operating Revenues are negative because some revenues budgeted for the entire fiscal year are received in the third or fourth quarters and fund expended in the first or second quarters.*

*** This schedule includes fund balance uses. Total Revenues and Transfers In ($54,448,222) minuesTotal Operating Expenditures ($51,466,052) equals $2,982,171 with rounding.*

## FINANCIAL SUMMARIES OF OTHER FUNDS

The group of financial summaries on the following pages present data by governmental, proprietary and fiduciary fund types. For each, the fund information starts with a beginning fund balance, adds current year revenues, and subtracts current year expenditures, resulting in an ending fund balance. Adopted budget amounts are provided as a basis for comparison of actuals to date.

Special Revenue Funds (Governmental Fund Type)

Special Revenue Funds account for the proceeds derived from specific revenue sources that are legally restricted or assigned to special purposes. The Town's Special Revenue Funds are Community Development Block Grant Fund, Housing Conservation Program Fund, Urban Runoff Source Fund (Non-Point Source), and several Landscaping Lighting District (LLD) Funds, American Recovery Program Act (ARPA) Fund, and Theatre Fund, and Library Trusts Funds. Staff recommends recognizing the second tranche of ARPA in the amount of $3,614,872 as revenue replacement in the current fiscal year following the federal streamlined process. Staff also recommends $68,400 revenue budget adjustment to recognize Theatre tenant lease revenues and $55,814 expenditure budget adjustment for Theatre related expenses from available rent proceeds.

**Special Revenue Funds**
**Budget to Actuals Comparisons**

| | CDBG Grants | Non-Point Source | LLD's | ARPA | THEATRE | LIBRARY TRUSTS |
|---|---|---|---|---|---|---|
| **Beginning Fund Balance** | **$ 166,654** | **$ 451,558** | **$ 174,237** | **$ -** | **$ 19,500** | **$ 555,252** |
| Budgeted Revenues | - | 359,950 | 34,680 | 1,304,696 | 68,400 | 76,250 |
| **Total Actual Revenues - 2nd Qtr** | **$ -** | **$ 160,698** | **$ -** | **$3,614,872** | **$ 17,850** | **$ 45,175** |
| Budgeted Expenditures | - | 190,911 | 100,562 | 1,304,696 | 55,814 | 121,255 |
| **Total Actual Expenditures - 2nd Qtr** | **-** | **95,587** | **2,315** | **-** | **3,375** | **30,093** |
| **2nd Quarter Ending Fund Balance** | **$ 166,654** | **$ 516,669** | **$ 171,922** | **$3,614,872** | **$ 33,975** | **$ 570,334** |

Capital Projects Funds (Governmental Fund Type)

Capital Projects Funds account for resources used for the acquisition and construction of capital facilities by the Town. Funds in this category are the GFAR (General Fund Appropriated Reserve) Fund, Traffic Mitigation Fund, Grant Funded CIP Projects Fund, Utility Underground Fund, Gas Tax Fund, and three Storm Drain Funds. Staff recommends revenue and expenditure budget adjustments in the amount of $67,276 to reflect decreased gas tax projections. Staff will continue to monitor these revenues and expenditures throughout the remainder of the year. The Grant Funded CIP fund displays a deficit balance because this grant fund expends Town dollars first, then provides documentation of these expenditures to the State of California or other granting agencies and is reimbursed for those costs. The reimbursements eventually result with the fund "breaking even" or a zero fund balance.

**Capital Project Funds**
**Budget to Actuals Comparisons**

| | GFAR* Fund | Traffic * Mitigation | Grant Funds* CIP | Storm Drains | Utility Undergd | Gas Tax |
|---|---|---|---|---|---|---|
| **Beginning Fund Balance** | **$ 14,783,787** | **$ 405,570** | **$ (948,604)** | **$ 3,218,811** | **$ 3,302,514** | **$ 1,836,068** |
| Budgeted Revenues | 10,505,492 | 923,455 | 11,984,439 | 105,080 | 52,490 | 1,536,413 |
| **Total Actual Revenues - 2nd Qtr** | **2,111,705** | **671,640** | **744,808** | **58,876** | **60,327** | **625,666** |
| Budgeted Expenditures | 23,414,582 | 923,455 | 10,984,377 | 670,300 | 347,576 | 3,258,618 |
| **Total Actual Expenditures - 2nd Qtr** | **992,728** | **671,640** | **452,251** | **1,916** | **-** | **1,510,293** |
| **2nd Quarter Ending Fund Balance** | **$ 15,902,764** | **$ 405,570** | **$ (656,047)** | **$ 3,275,771** | **$ 3,362,841** | **$ 951,441** |

** GFAR, Traffic Mitigation, and Grant Funds balances are combined in the FY 2022 ACFR. The combined balance of $14,240,753 is presented as an Appropriated Reserve.*

Internal Service Funds (Proprietary Fund Type)

Internal Service Funds finance and account for special activities and services performed by a designated Town Department for other Town Departments on a cost reimbursement basis. Included in this fund type are the Equipment Replacement Fund, Workers' Compensation Fund, Joint Powers Authority Pooled Liability Network (PLAN) Self-Insurance Fund, Information Technology Fund, and the Facilities Maintenance Fund.

Staff recommends a $8,606 expenditure budget adjustment to cover additional expenses related to the West Valley Sanitation District annual fee increase from the available Facilities Maintenance Fund. Staff will continue to monitor expenditures and propose a revised cost allocation if needed during the FY 2023/24 budget preparation.

**Internal Service Funds**
**Budget to Actuals Comparisons**

| | Equipment Replacemt | Workers Compensation | Self Insurance | Information Technology | Facility Maint. |
|---|---|---|---|---|---|
| **Beginning Fund Balance** | **$ 2,222,395** | **$ 1,295,185** | **$ 803,293** | **$ 2,990,931** | **$ 928,481** |
| Budgeted Revenues | 686,837 | 1,033,315 | 429,249 | 714,309 | 1,262,247 |
| **Total Actual Revenues - 2nd Qtr** | **328,419** | **584,101** | **205,798** | **371,373** | **481,561** |
| Budgeted Expenditures | 1,351,124 | 1,840,000 | 846,940 | 1,741,242 | 1,240,344 |
| **Total Actual Expenditures - 2nd Qtr** | **299,565** | **812,582** | **784,661** | **395,392** | **430,810** |
| **2nd Quarter Ending Fund Balance** | **$ 2,251,249** | **$ 1,066,704** | **$ 224,430** | **$ 2,966,912** | **$ 979,232** |

Trust and Agency Funds (Fiduciary Fund Type)

AB1x26 is the "Dissolution Bill" that eliminated the Town's Redevelopment Agency effective February 1, 2012. AB 1484 is the "clean-up" bill that revised and attempted to clarify AB1x26. In accordance with the law, the Successor Agency continues to wind down the affairs and operations of the former Redevelopment Agency by implementing programs and activities in accordance with the State-approved Recognized Obligation payment Schedule (ROPS). The Successor Agency monies are now accounted for in a Private Purpose Trust fund and no longer part of the Town's Financial Statements. The fund balance reported is the actual fund balance that incorporated the full accrual of long term debt related to the outstanding bonds payable to the 2002 and 2010 Certificates of Participations. The approved ROPS schedule includes full funding related to the obligation for this debt.

**Trust & Agency Fund**
**Budget to Actuals Comparisons**

| | SA Trust | |
|---|---|---|
| **Beginning Fund Balance** | **$ (7,607,527)** | * |
| Budgeted Revenues | 3,799,926 | |
| **Total Actual Revenues - 2nd Qtr** | **1,893,713** | |
| Budgeted Expenditures | 3,799,877 | |
| **Total Actual Expenditures - 2nd Qtr** | **3,537,259** | |
| **2nd Quarter Ending Fund Balance** | **$ (9,251,073)** | |

**Subject:** FW: Follow up to Investment Report discussed at the FC meeting
**Attachments:** Pages from FY-202122-ACFR - (5).pdf; July investment report.pdf

**From:** Phil Koen
**Sent:** Friday, January 13, 2023 3:09 PM
**To:** Gitta Ungvari <GUngvari@losgatosca.gov>
**Cc:** Arn Andrews <aandrews@losgatosca.gov>;
**Subject:** Follow up to Investment Report discussed at the FC meeting

EXTERNAL SENDER

Hello Gitta,

It was great to see you on the FC meeting call this past Tuesday. I appreciate your patience in answering my questions. There is a lot to absorb, and I only learn by asking questions. I'll try to keep them to a minimum going forward.

I would like to circle back to the investment report. I have attached a page from the July Investment Report which shows a "beginning funds balances" totaling $72,886,942. I have also attached a portion of footnote #2 from the ACFR which shows the total cash and investments held by the Town and Fiduciary Funds totaling $74,096,537. Can you explain the source of the $72,886,942 shown on the Investment Report?

Also, could you clarify the description "Fund Balances" on the investment report. What does that exactly mean? As far as I can tell this is not the total of all fund balances for the Town. According to the ACFR, the total fund balance for all Governmental Funds was $50,862,138 and the fund balance for all Proprietary Funds was $8,240,282. That would mean the total fund balances for the Town was $59,102,420, leaving an unexplained gap of $13,784,522.

I think it is important that we use terminology which is accurate to avoid any confusion for members of the TC and the public. My concern here is the term "funds balances" as used on the Investment report really means the total of all financial assets being invested. Could you please clarify what the term "funds balances" as used on the investment report means.

All the best,

Phil Koen

The following table summarizes the Towns policy related to maturities and concentration of investments:

| Investment Type | Maximum Maturity | Maximum Portfolio Percentage |
|---|---|---|
| US Treasury Obligations | 5 years | None |
| US Agency Obligations | 5 years | None |
| Bankers Acceptances | 180 days | 30% |
| Commercial Paper | 270 days | 25% |
| Medium Term Notes | 5 years | 30% |
| Collateralized CD's | 5 years | 30% |
| CA LAIF | NA | $65 million |
| Money Market Funds | NA | 20% |

The following is a summary of the Town's Cash and Investments (stated at fair value) as of June 30, 2022:

| Description | Available for Operations | Restricted | Total | Concentration of Credit Risk | Rating | Input Level | Time to Mature (Years) | Weighted Average Maturity |
|---|---|---|---|---|---|---|---|---|
| US Treasury Securities | $ 15,212,639 | $ - | $ 15,212,639 | 29.29% | n/a | 2 | 0-3 | 1.35 |
| Government Agencies | 15,995,919 | - | 15,995,919 | 30.79% | n/a | 2 | 0-4 | 1.52 |
| Corporate Bonds | 13,664,652 | - | 13,664,652 | 26.31% | A3 | 2 | 0-3 | 1.33 |
| Market Mutual Funds | 253,599 | - | 253,599 | 0.49% | Not Rated | 2 | n/a | n/a |
| LAIF | 6,816,565 | - | 6,816,565 | 13.12% | Not Rated | n/a | n/a | n/a |
| Total Investments | 51,943,374 | - | 51,943,374 | 100.00% | | | | |
| Cash Deposits with Banks | 19,349,009 | 2,094,363 | 21,443,372 | | | | | |
| Money Market Accounts | 17,391 | - | 17,391 | | | | | |
| Pension Trust | - | 690,000 | 690,000 | | | | | |
| Cash on Hand at Town | 2,400 | - | 2,400 | | | | | |
| Total Cash and Investments | $ 71,312,174 | $ 2,784,363 | $ 74,096,537 | | | | | |

Cash and investments are classified in the financial statements as shown below, based on whether or not their use is restricted by Town debt or Agency agreements.

| Description | Total Town | Fiduciary Funds | Totals |
|---|---|---|---|
| Cash and Investments Available for Operations | $ 69,392,044 | $ 1,920,130 | $ 71,312,174 |
| Restricted Cash and Investments | 819,929 | 1,964,434 | 2,784,363 |
| Total Cash and Investments | $ 70,211,973 | $ 3,884,564 | $ 74,096,537 |

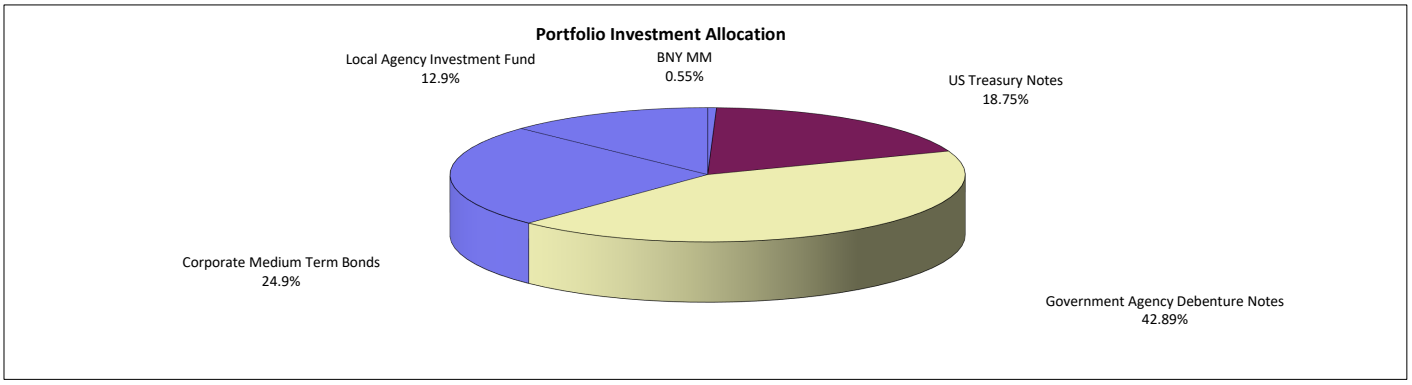
$\Sigma$ = 72,132,103

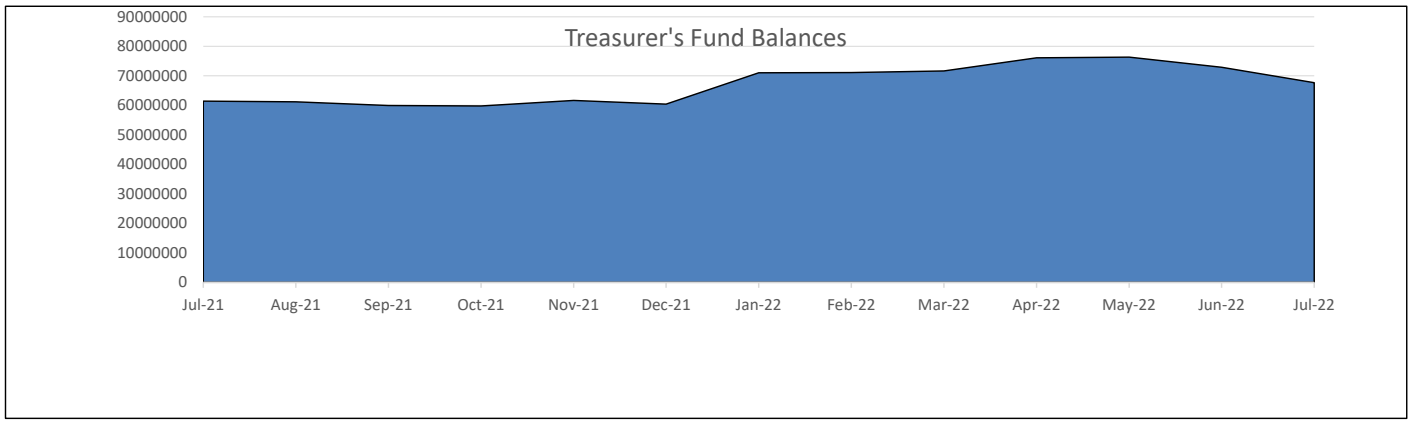
DRAFT

**Town of Los Gatos**
**Portfolio Allocation & Treasurer's Fund Balances**
**July 31, 2022**

| | Month | YTD |
|---|---|---|
| Fund Balances - Beginning of Month/Period | $72,886,942.83 | $72,886,942.83 |
| Receipts | 6,045,229.86 | 6,045,229.86 |
| Disbursements | (11,248,320.72) | (11,248,320.72) |
| Fund Balances - End of Month/Period | $67,683,851.97 | $67,683,851.97 |

| Portfolio Allocation: | | % of Portfolio | Max. % 0r $ Allowed Per State Law or Policy |
|---|---|---|---|
| BNY MM | $292,775.99 | 0.55% | 20% of Town Portfolio |
| US Treasury Notes | $10,046,915.87 | 18.75% | No Max. on US Treasuries |
| Government Agency Debenture Notes | $22,975,336.40 | 42.89% | No Max. on Non-Mortgage Backed |
| Corporate Medium Term Bonds | $13,339,223.01 | 24.90% | 30% of Town Portfolio |
| Local Agency Investment Fund | $6,918,398.79 | 12.91% | $75 M per State Law |
| Subtotal - Investments | 53,572,650.06 | 100.00% | |
| Reconciled Demand Deposit Balances | 14,111,201.91 | | |
| Total Treasurer's Fund | $67,683,851.97 | | |



**Subject:** FW: Mid-Year Update Review Request
**Attachments:** Mid Year revie- General Fund Budget vs Actual.pdf; FY 23 General Fund and Capital Fund - Budget.pdf

**From:** Phil Koen
**Sent:** Thursday, January 19, 2023 10:21 PM
**To:** Laurel Prevetti <LPrevetti@losgatosca.gov>
**Cc:** Gitta Ungvari <GUngvari@losgatosca.gov>; Arn Andrews <aandrews@losgatosca.gov>; Rick Tinsley
**Subject:** Mid-Year Update Review Request

EXTERNAL SENDER

Hello Laurel,

Please find attached two schedules – the first is the mid-year budget vs actual schedule used last year for the budget update discussion in February and the other schedules are the general fund and capital project fund budgets found in the FY 23 budget book.

I would request that the Staff prepare 1 additional schedule for the mid-year budget review which will show FY 22 actuals, FY 23 year to date actuals, a most probable FY 23 year forecast and the adopted FY 23 Budget and variances using the same revenue and expense classifications found in the budget book. This will provide insight into budget vs actual variances for revenue and expense categories (such as salaries and operating expenditure) that were used in preparing the FY 23 budget and the 5-year forecast. Since 67% of the general fund expenditures comprise salary and benefits, being able to gain insight as to how those expenses are tracking would be valuable. This type of analysis has never been presented at a mid-year review.

Additionally, using in the budget book format will highlight the change in fund balances as opposed to the sources and uses format which does not show the impact on fund balances. This will quickly show whether the Town is structurally balanced and will provide the reader with a better understanding of the Town's evolving financial condition.

The information to populate this one additional schedule should not require much effort and the benefits would be significantl. I realize you are concerned about staff workload, but I believe this report is well worth the minimal extra effort to prepare it.

Please let me know if you have any questions. Thank you.

Phil Koen

**GENERAL FUND**

**SUMMARY OF REVENUES AND EXPENDITURES**

| | FY 2020/21 Actuals | FY 2020/21 Q2 | Q2% of FY 2019/20 Actuals | Q2% of FY 2020/21 Adjusted Budget | FY 2021/22 Q2 | FY 2021/22 Adjusted Budget | FY 2021/22 Estimated YE *Including Mid-Year Proposed* |
|---|---|---|---|---|---|---|---|
| **Revenues** | | | | | | | |
| Property Tax | $ 15,826,162 | $ 5,481,928 | *34.6%* | *36.3%* | $ 5,761,081 | $15,881,866 | $15,401,391 |
| VLF Backfill Property Tax | 4,052,672 | - | *0.0%* | *0.0%* | - | 4,154,320 | 4,229,462 |
| Sales & Use Tax | 6,794,218 | 2,429,968 | *35.8%* | *29.7%* | 2,143,460 | 7,213,540 | 7,069,045 |
| Measure G Sales & Use Tax | 1,139,386 | 383,684 | *33.7%* | *42.8%* | 412,881 | 964,319 | 1,173,733 |
| Franchise Fees | 2,499,463 | 807,883 | *32.3%* | *37.3%* | 968,181 | 2,597,630 | 2,503,560 |
| Transient Occupancy Tax | 1,044,820 | 399,620 | *38.2%* | *77.4%* | 711,861 | 920,040 | 1,400,000 |
| Business License Tax | 1,386,943 | 224,388 | *16.2%* | *13.4%* | 167,942 | 1,250,000 | 1,250,000 |
| Licenses & Permits | 2,999,711 | 1,494,487 | *49.8%* | *82.5%* | 2,180,000 | 2,641,779 | 3,065,997 |
| Intergovernmental | 1,573,697 | 818,352 | *52.0%* | *9.5%* | 370,615 | 3,881,836 | 1,130,125 |
| Town Services | 4,835,962 | 3,691,233 | *76.3%* | *100.5%* | 3,854,415 | 3,834,579 | 4,152,549 |
| Fines & Forfeitures | 103,467 | 31,638 | *30.6%* | *58.4%* | 118,809 | 203,450 | 218,120 |
| Interest | 876,460 | (1,485,278) | *-169.5%* | *-15.4%* | (85,001) | 551,233 | 551,233 |
| GASB 31 to Market | (780,399) | 517,744 | *-66.3%* | *114.7%* | (126,168) | (110,000) | (110,000) |
| Use of Property | 36,372 | - | *0.0%* | | - | - | - |
| Miscellanious Other | 335,906 | 1,367,206 | *407.0%* | *24.4%* | 153,036 | 626,631 | 964,163 |
| Park Construction Tax | 14,921 | - | | | 7,680 | 7,000 | 8,280 |
| Debt Service - *Entry Eliminated for ACFR* | 1,908,494 | - | *0.0%* | *0.0%* | - | 1,899,850 | 1,899,850 |
| ARPA Income Replacement - *Entry Eliminated for ACFR* | 79,176 | | | | | | |
| Proceeds for Sales of Assets | 1,201,369 | - | *0.0%* | | | - | |
| Fund Transfer In | 652,056 | 104,659 | *16.1%* | *16.5%* | 104,659 | 633,352 | 633,352 |
| **Total Revenues & Transfers In** | **$ 46,580,856** | **$16,267,512** | ***35%*** | ***36%*** | **$16,743,451** | **$47,151,425** | **$45,540,860** |
| **Use of Other Funding Sources:** | | | | | | | |
| Use of Reserves - Capital/Special Projects - Capital | $ 3,401,479 | $ - | *0.0%* | *0.0%* | $ - | $ 550,000 | $ 550,000 |
| Use of Reserves - Capital/Special Projects - Other | | | | | | $ 250,596 | $ 250,596 |
| Use of Reserve - Pension/OPEB | $ 4,532,500 | | | | | | |
| Use of Reserve - Accumulated Measure G | - | - | | | - | 590,581 | 590,581 |
| Use of Reserves - Surplus Property | - | - | | | - | 1,200,000 | 1,200,000 |
| Use of ARPA - Income Replacement | | | | | | - | 1,444,021 |
| Use of ARPA - Community Grants | | | | | | 550,000 | |
| **Total Other Funding Sources** | **$ 7,933,979** | **$ -** | ***0%*** | ***0%*** | **$ -** | **$ 3,141,177** | **$ 4,035,198** |
| **Total Revenues and Use of Reserves** | **$ 54,514,835** | **$16,267,512** | **30%** | **33%** | **$16,743,451** | **$50,292,602** | **$49,576,058** |
| **Expenditures** | | | | | | | |
| Town Council | $ 192,280 | $ 99,787 | *51.9%* | *45.2%* | 91,800 | $ 202,891 | $ 193,559 |
| Attorney | 537,296 | 311,520 | *58.0%* | *33.8%* | 226,341 | 669,733 | 554,137 |
| Administrative Services | 4,667,995 | 2,467,813 | *52.9%* | *45.3%* | 2,584,905 | 5,701,385 | 5,501,110 |
| Non- Departmental | 8,642,563 | 4,437,554 | *51.3%* | *32.0%* | 1,159,874 | 3,628,466 | 4,046,008 |
| Community Development | 4,994,391 | 2,589,502 | *51.8%* | *63.4%* | 3,460,301 | 5,461,716 | 5,094,473 |
| Police | 16,570,836 | 9,041,998 | *54.6%* | *47.6%* | 8,266,574 | 17,376,333 | 17,289,979 |
| Parks & Public Works | 8,175,987 | 4,185,306 | *51.2%* | *46.7%* | 4,020,953 | 8,605,418 | 8,332,422 |
| Library | 2,828,873 | 1,445,899 | *51.1%* | *44.4%* | 1,356,415 | 3,053,708 | 2,886,606 |
| Capital Outlay | 2,365 | - | | | - | - | - |
| **Total Department Expenditures** | **$ 46,612,586** | **$24,579,379** | **53%** | **47%** | **$21,167,163** | **$44,699,650** | **$43,898,294** |
| Debt Service - *Entry Eliminated for ACFR* | $ 1,908,494 | $ - | *0.0%* | *0.0%* | $ - | $ 1,899,850 | $ 1,899,850 |
| ARPA Income Replacement - *Entry Eliminated for ACFR* | $ 79,176 | | | | | | |
| Transfers Out | 3,401,479 | - | *0.0%* | *0.0%* | - | 2,801,047 | 2,801,047 |
| **Total Additional Non-Departmental Expenditures** | **$ 5,389,149** | **$ -** | **0%** | **0%** | **$ -** | **$ 4,700,897** | **$ 4,700,897** |
| **Total Operating Expenditures** | **$ 52,001,735** | **$24,579,379** | **47%** | **43%** | **$21,167,163** | **$49,400,547** | **$48,599,191** |
| Allocate to Budget Stabilization/Catastrophis Reserve | 65,764 | | | | | | |
| Allocate to Compensated Absences | 110,509 | | | | | | |
| Allocate to Surplus Property Reserve | 1,200,000 | | | | | | |
| Allocate to Sale of Property Reserve | 5,302 | | | | | | |
| Allocate to Pension/OPEB Reserve | 300,000 | | | | | | |
| Allocate to Measure G - Capital | | | | | | 482,160 | 586,867 |
| Allocate to Restricted Pension Trust | | | | | | 390,000 | 390,000 |
| **Excess (Deficiency) of Revenues Over Expenditures** | **$ 831,525** | **$ (8,311,867)** * | | | **$ (4,423,712)** * | **$ 19,895** | **$ -** |

**FY 2020/21 and FY 2021/22 Q2 Net Operating Revenues are negative because some revenues budgeted for the entire fiscal year are received in the third or fourth quarters and fund expended in the first or second quarters.*

*** FY 2021/22 General Fund Budget included the ARPA revenue receipt, now the ARPA revenue is budgeted in a Special Revenue Fund.*

# TOTAL TOWN

## REVENUES AND EXPENDITURES

## GENERAL FUND

| | GENERAL FUND | | | | |
|---|---|---|---|---|---|
| | 2018/19 Actuals | 2019/20 Actuals | 2020/21 Actuals | 2021/22 Estimated | 2022/23 Adopted |
| **REVENUES** | | | | | |
| Property Tax | $ 13,636,099 | $ 14,454,513 | $ 15,826,162 | $ 15,908,858 | $ 16,551,544 |
| VLF Backfill | 3,685,247 | 3,875,914 | 4,052,672 | 4,229,462 | 4,356,350 |
| Sales & Use Tax | 7,930,021 | 6,535,034 | 6,794,218 | 7,497,873 | 7,934,189 |
| Measure G - District Sales Tax | 228,131 | 996,391 | 1,139,386 | 1,173,733 | 1,240,755 |
| Franchise Fees | 2,475,916 | 2,495,792 | 2,499,463 | 2,435,800 | 2,493,870 |
| Transient Occupancy Tax | 2,692,043 | 1,869,685 | 1,044,820 | 1,475,000 | 1,642,460 |
| Other Taxes | 1,526,894 | 1,357,080 | 1,386,943 | 1,425,000 | 1,387,500 |
| Licenses & Permits | 3,059,894 | 2,696,457 | 2,999,711 | 3,065,997 | 2,757,029 |
| Intergovernmental | 945,191 | 1,104,075 | 1,573,697 | 1,130,125 | 1,051,814 |
| Town Services | 4,648,904 | 4,447,213 | 4,835,962 | 4,295,407 | 4,235,261 |
| Internal Srvc Reimbursement | - | - | - | - | - |
| Fines & Forfeitures | 510,266 | 271,117 | 103,467 | 218,120 | 201,750 |
| Interest | 1,682,347 | 2,266,134 | 96,061 | 441,233 | 432,947 |
| Other Sources | 6,093,211 | 1,381,187 | 2,217,072 | 1,140,853 | 3,287,749 |
| Debt Service Reimbursement | 1,909,073 | 1,905,024 | 1,908,494 | 1,899,850 | 1,893,713 |
| Transfers In | 1,578,911 | 599,669 | 1,833,218 | 633,352 | 538,536 |
| **TOTAL REVENUES** | $ 52,602,148 | $ 46,255,285 | $ 48,311,346 | $ 46,970,663 | $ 50,005,467 |
| **EXPENDITURES** | | | | | |
| Salaries & Benefits | $ 26,803,225 | $ 28,933,568 | $ 30,297,504 | $ 30,160,568 | $ 35,472,825 |
| Operating Expenditures | 11,955,327 | 13,397,031 | 14,276,602 | 9,849,151 | 9,318,742 |
| Grants & Awards | 248,533 | 274,249 | 298,303 | 800,000 | 241,000 |
| Fixed Assets | 38,307 | 138,384 | 2,365 | - | - |
| Interest | - | - | 52,011 | - | - |
| Internal Service Charges | 2,527,470 | 2,188,211 | 2,314,305 | 2,619,672 | 2,711,652 |
| Capital Projects | - | - | - | - | - |
| Capital Acquisitions | - | - | - | - | - |
| Debt Service | 1,909,073 | 1,905,024 | 1,908,494 | 1,899,850 | 1,893,713 |
| Transfers Out | 2,785,220 | 8,053,847 | 4,582,641 | 3,423,211 | 3,006,978 |
| **TOTAL EXPENDITURES** | $ 46,267,155 | $ 54,890,314 | $ 53,732,225 | $ 48,752,452 | $ 52,644,910 |
| **Net Increase (Decrease)** | 6,334,993 | (8,635,029) | (5,420,879) | (1,781,789) | (2,639,443) |
| **Beginning Fund Balance** | 31,635,533 | 37,970,526 | 29,335,497 | 23,914,618 | 22,132,829 |
| **Ending Fund Balance** | $ 37,970,526 | $ 29,335,497 | $ 23,914,618 | $ 22,132,829 | $ 19,493,386 |

** Year End Fund Balance represents General Fund 111 (Long Term Compensated Absences were accounted in Fund 961 prior to FY 2018/19, Pension Trust Fund 731 was incorported in FY 2018/19).*

# TOTAL TOWN

## REVENUES AND EXPENDITURES

## CAPITAL PROJECT FUNDS

| | 2018/19 Actuals | 2019/20 Actuals | 2020/21 Actuals | 2021/22 Estimated | 2022/23 Adopted |
|---|---|---|---|---|---|
| **REVENUES** | | | | | |
| Property Tax | $ - | $ - | $ - | $ - | $ - |
| VLF Backfill | - | - | - | - | - |
| Sales & Use Tax | - | - | - | - | - |
| Franchise Fees | - | - | - | - | - |
| Transient Occupancy Tax | - | - | - | - | - |
| Other Taxes | 28,390 | 34,437 | 67,146 | 34,562 | 30,000 |
| Licenses & Permits | 844,064 | 1,153,364 | 1,340,530 | 764,465 | 1,074,300 |
| Intergovernmental | 1,641,511 | 3,161,010 | 1,818,494 | 3,153,295 | 7,789,892 |
| Town Services | 52,094 | 223,318 | 34,417 | 306,210 | - |
| Internal Srvc Reimbursement | - | - | - | - | - |
| Fines & Forfeitures | - | - | - | - | - |
| Interest | 127,251 | 158,756 | 122,705 | 35,801 | 36,405 |
| Other Sources | 784,085 | 325,607 | 2,239,342 | 1,198,207 | 3,016,000 |
| CIP Proj Reimbursement | - | - | - | - | - |
| SCC RPTTF Reimbursement | - | - | - | - | - |
| Transfers In | 2,685,220 | 8,325,591 | 3,401,479 | 3,421,424 | 3,706,978 |
| **TOTAL REVENUES** | $ 6,162,615 | $ 13,382,083 | $ 9,024,113 | $ 8,913,964 | $ 15,653,575 |
| **EXPENDITURES** | | | | | |
| Salaries & Benefits | $ - | $ - | $ 31,085 | $ - | $ - |
| Operating Expenditures | - | - | 496 | - | - |
| Grants & Awards | - | - | - | - | - |
| Fixed Assets | - | - | - | - | - |
| Interest | - | - | - | - | - |
| Internal Service Charges | - | - | - | - | - |
| Capital Projects | 8,987,510 | 7,907,339 | 5,833,758 | 11,847,615 | 15,447,668 |
| Capital Acquisitions | - | - | - | - | - |
| Debt Service | - | - | - | - | - |
| Transfers Out | 533,616 | 569,952 | 533,616 | 533,616 | 533,616 |
| **TOTAL EXPENDITURES** | $ 9,521,126 | $ 8,477,291 | $ 6,398,955 | $ 12,381,231 | $ 15,981,284 |
| **Net Increase (Decrease)** | (3,358,511) | 4,904,792 | 2,625,158 | (3,467,267) | (327,709) |
| **Beginning Fund Balance** | 18,488,574 | 15,130,063 | 20,034,855 | 22,660,013 | 19,192,746 |
| **Ending Fund Balance** | $ 15,130,063 | $ 20,034,855 | $ 22,660,013 | $ 19,192,746 | $ 18,865,037 |

## Wendy Wood

**Subject:** FW: Pre meeting to review mid year review information

From: Phil Koen
Sent: Monday, January 30, 2023 3:08 PM
To: Gitta Ungvari <GUngvari@losgatosca.gov>
Cc: Laurel Prevetti <LPrevetti@losgatosca.gov>; Rick Tinsley
Subject: Re: Pre meeting to review mid year review information

[EXTERNAL SENDER]

Gitta,

Thank you for the quick reply. Understand completely. How about 9am on the 10th?

Also can you confirm you will be able to prepare the additional schedules I requested for the mid-year review?

Thanks.

Phil

Sent from my iPhone

On Jan 30, 2023, at 5:37 PM, Gitta Ungvari <GUngvari@losgatosca.gov> wrote:

Hello Phil,

Our team is working on the February 13th Finance Commission Agenda items. We are publishing the items late Thursday afternoon. We can meet on Friday the 10th of February. I am available on Friday from 9 a.m. to 10:45 a.m. or between noon and 3 p.m.
Let me know what time would work for you to schedule an hour meeting.

Thanks,

Gitta

-----Original Message-----
From: Phil Koen
Sent: Sunday, January 29, 2023 6:03 PM
To: Gitta Ungvari <GUngvari@losgatosca.gov>
Cc: Laurel Prevetti <LPrevetti@losgatosca.gov>; Rick Tinsley
Subject: Pre meeting to review mid year review information

[EXTERNAL SENDER]

Hello Gitta,

I was hoping we could meet on Thursday afternoon Feb 9 to review the FC package with a particular focus on the r
year financial information. I think it would be helpful to jointly review the material in advance of the meeting and address any potential questions. That will make the meeting more efficient.

I have asked Rick to join us, but his schedule may not allow him to join. I'll let him wade in on this. I think we can cover everything in about an hour.

Please let me know if Thursday afternoon would be convenient for you and the best time to meet.

Thank you.

Phil Koen

**Subject:** FW: Pages from FY-202122-ACFR - ARPA Discussion for mid year review
**Attachments:** Pages from FY-202122-ACFR - (11)(1).pdf

**From:** Phil Koen
**Sent:** Tuesday, January 31, 2023 11:46 PM
**To:** Gitta Ungvari <GUngvari@losgatosca.gov>
**Cc:** Laurel Prevetti <LPrevetti@losgatosca.gov>; Rick Tinsley
**Subject:** Pages from FY-202122-ACFR - ARPA Discussion for mid year review

[EXTERNAL SENDER]

Gitta,

As part of the mid-year review I would respectfully request that we review the use of the $3,413,961 ARPA funds recognized as revenue in FY22 and the $3,614,872 recognized as revenue in FY 23. My concern is there is a perception that the Town is on the razor edge and does not have any discretionary funds available for very worthy projects. It is important that the Town provide a complete accounting of the "uses" of the ARPA funds received so there is complete transparency and agreement on how these funds were actually deployed.

Regarding the $3,413,961 in FY 22 revenue, based on the audited financials all of the ARPA revenue was recorded in the other non-major ARPA fund and then transferred to the General Fund. There were no expenses recorded in the ARPA fund, so the entire $3,413,961 was transferred. You can see this in the attached schedules.

In a prior update given to the FC, the plan was to use $1,433,000 of the FY22 ARPA revenue for various expenditures such as destination marketing, k rails, promenades, enhanced senior services, grants and parklets. It appears all of these expenditure were made from the General Fund, not the ARPA Fund, and are an element of the $43.3m in total general fund expenditures for FY 22.

In addition the plan was to "backfill" $369,124 in general fund revenue for the "loss" of rental revenue from rental waivers.The backfill and the incremental expenditures noted above, total $1,802,124 in "uses" earmarked for the FY 22 ARPA funds.

In trying to understand the flow of the $3,413,161, while acknowledging money is fungible, the financial statements show growth in all general fund tax revenues was more than sufficient to fund all of the earmarked expenditures AND all of the rent waivers. Total tax revenues alone exceeded the adopted plan by $2,381,516. That means none of the $3,413,161 in ARPA funds were used as planned. In fact, the General Fund reported a surplus of $3,290,895 in excess revenues over expenditures (note there was no ARPA funds in the General Fund revenues), even after absorbing the planned $1,802,124 in additional uses of funds.

This operating surplus combined with the transfer in of the $3,413,961 in ARPA funds and additional transfers in from other funds of $633,353 combined to create a gross surplus in the General Fund, before transfers out, of $7,338,208. Again, $3,413,961 was directly attributable to ARPA.

It is at this point we lose all traceability for the ARPA funds. All we know is $4,358,188 was transferred out of the General Fund, leaving $2,980,020 of the $7,338,208 in the General Fund balance. This balance was then allocated across

a number of general fund balance reserve accounts. Was some of this ARPA funds? We don't know since the ARPA footnote does not provide the reader with any insight.

Regarding the $4,358,188 that was transferred out, we have no idea if any or all of that was the ARPA funds. Since money is fungible, we could just declare that the entire $3,413,961 was included in that transfer out. That would make it simpler in tracing the funds.

If we make that assumption, that means all $3,413,188 is still available since it is in the GAFR ending fund balance of $14,240,753.

In addition to the FY 22 ARPA revenues, the Town has received $3,614,872 in FY 23. These funds were received in July 2022 and recorded in the ARPA fund as revenue. And like FY 22, most likely no expenses were recorded in the ARPA fund, with all of the funds ultimately being transferred into the General Fund.

As part of the mid-year update it would be helpful to provide an analysis of the use of the FY 23 funds. If FY 23 is like FY 22, the General Fund Tax revenues will most likely be stronger than the adopted plan and therefore no ARPA funds will be necessary to "backfill" rental waivers or planned revenue shortfalls. The revenue over achievement combined with the savings from open positions that could be as much as $2m, suggest the General Fund will experience another year where revenues exceed expenditures. That means that no ARPA funds would be necessary to balance the F23 general fund.

Given the above, It is entirely possible that the full $7m in ARPA funds is still available to the TC for allocation. We need to confirm this.

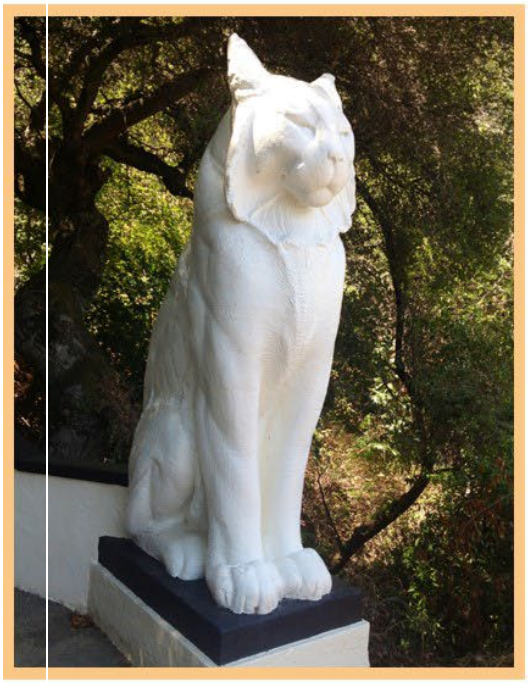
Let's work together to develop the analysis to show what happened in FY 22 and the most likely outcome for FY 23 to the ARPA funds. I am concerned that without better clarity, the Town will miss an opportunity to help many worthy programs.

Thank you,

Phil

# TOWN OF LOS GATOS

## CALIFORNIA










# Annual Comprehensive Financial Report

## For the Fiscal Year ended June 30, 2022

of $1,156,412, increasing beginning fund balance and net position by $0.7 million. See Note 4 for additional information.

- The Town received the first tranche payment of $3,614,872 from the American Rescue Plan Act (ARPA) grant on July 13, 2021. For FY 2020/21, $200K of ARPA proceeds was recognized as revenue to reimburse the Town for qualifying expenditures under the provisions of the Act including boosting economic recovery and providing rent forgiveness and direct grants to non-profit and social welfare organizations. For FY 2021/22, the Town recognized $3.4 million in ARPA revenues related to recovery of revenue loss.

- Despite the ongoing economic impacts resulting from the nationwide pandemic, the Town's economically sensitive major revenues of property tax, sales tax, and business license tax were able to record gains from amounts reported the prior fiscal year. Property taxes collected increased $1.3 million, sales taxes increased $0.6 million, while business license tax increased by a modest $94K from amounts collected the prior year.

- The economic impacts related to the pandemic and initial travel restrictions continued into FY 2021/22. FY 2021/22 Transient Occupancy Tax (TOT) revenue collection increased by $840K compared to the level collected in FY 2020/21. However, the current year proceeds of $1.9 million is still $0.8 million lower than FY 2019/20 level of TOT collection.

- Total expenses as reported in the Statement of Activities increased $2.2 million from the prior year. The increase primarily was driven by a one-time $6.9 million State pass-through grant payment in General Government for wildfire protection. Excluding the one-time payment, total expenses actually decreased from the prior year by $4.7 million primarily due to the $3.1 million calculated pension expense credit, salary and benefit savings, and other miscellaneous operational savings. As previously noted, the pension expense credit was mostly from actual investment earnings in excess of estimated assumed investment earnings and additional discretionary payments in excess of contractually required contributions.

- The cost of all governmental activities as presented in the Statement of Activities this year was $52.7 million. The Town's governmental program revenues were $41.2 million including charges for services of $12.8 million, operating grants and contributions of $6.2 million, and capital grants and contributions of $22.2 million. After taking governmental program revenues into consideration, the net amount of taxpayer supported governmental activities was $11.5 million. The Town paid for the remaining "public benefit" portion of governmental activities from total taxes and general revenues of $35.7 million. This $11.5 million in net cost of governmental activities is net of the $12.2 million Los Gatos Theatre contribution that occurred during FY 2021/22. Excluding the theatre contribution, the net cost of governmental activities would be $23.7 million which represents an approximate 32% decrease from the prior fiscal year ($35.1 million). The decrease reflects reduced costs related to the pension credit and increased governmental grant revenues from the prior year.

- At the end of FY 2021/22, the General Fund balance was $26,896,789 compared to $23,914,618 in the prior year. The ending fund balance of $26,896,789 represents approximately 62% of General Fund expenditures for the current fiscal year excluding

# TOWN OF LOS GATOS, CALIFORNIA
# GOVERNMENTAL FUNDS
# STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
# FOR THE FISCAL YEAR ENDED JUNE 30, 2022

| | General | Appropriated Reserves | Other Nonmajor Governmental Funds | Total Governmental Funds |
|---|---|---|---|---|
| **REVENUES** | | | | |
| Property Taxes | $ 21,129,082 | $ - | $ 38,640 | $ 21,167,722 |
| Sales Taxes | 8,483,673 | - | - | 8,483,673 |
| Other Taxes | 1,909,816 | - | 66,382 | 1,976,198 |
| Licenses & Permits | 5,096,318 | 420,055 | 538,667 | 6,055,040 |
| Intergovernmental | 1,263,352 | 9,400,918 | 4,828,712 | 15,492,982 |
| Charges for Services | 5,460,613 | 1,464,746 | - | 6,925,359 |
| Fines and Forfeitures | 319,170 | - | - | 319,170 |
| Franchise Fees | 2,822,515 | - | - | 2,822,515 |
| Developer Fees | 1,200,000 | 535,571 | - | 1,735,571 |
| Interest | (1,404,527) | 34,805 | 90,739 | (1,278,983) |
| Use of Property | 32,400 | 93,001 | 19,500 | 144,901 |
| Other | 311,040 | - | 38,105 | 349,145 |
| Total Revenues | 46,623,452 | 11,949,096 | 5,620,745 | 64,193,293 |
| **EXPENDITURES** | | | | |
| Current: | | | | |
| General Government | 9,053,968 | 6,900,000 | - | 15,953,968 |
| Public Safety | 16,451,190 | - | - | 16,451,190 |
| Parks and Public Works | 8,605,457 | - | 33,671 | 8,639,128 |
| Community Development | 6,313,511 | - | - | 6,313,511 |
| Library Services | 2,752,397 | - | 74,813 | 2,827,210 |
| Sanitation and Other | - | - | 194,969 | 194,969 |
| Capital Outlay | - | 9,570,780 | 907,890 | 10,478,670 |
| Debt service: | | | | |
| Principal | 156,034 | - | - | 156,034 |
| Total Expenditures | 43,332,557 | 16,470,780 | 1,211,343 | 61,014,680 |
| **EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES** | 3,290,895 | (4,521,684) | 4,409,402 | 3,178,613 |
| **OTHER FINANCING SOURCES (USES)** | | | | |
| Gain from sale of assets | 2,151 | - | - | 2,151 |
| Transfers in | 4,047,313 | 4,074,141 | 32,853 | 8,154,307 |
| Transfers (out) | (4,358,188) | (427,616) | (3,524,881) | (8,310,685) |
| Total Other Financing Sources (Uses) | (308,724) | 3,646,525 | (3,492,028) | (154,227) |
| **NET CHANGES IN FUND BALANCES** | 2,982,171 | (875,159) | 917,374 | 3,024,386 |
| **BEGINNING FUND BALANCES** | 23,914,618 | 15,115,912 | 8,807,222 | 47,837,752 |
| **ENDING FUND BALANCES** | $ 26,896,789 | $ 14,240,753 | $ 9,724,596 | $ 50,862,138 |

*The notes to the financial statements are an integral part of this statement.*

d. Partnerships for the conversion of existing residential developments dedicated to affordable housing
e. Grants to the Santa Clara County Housing Trust for the development of affordable housing.

During the fiscal year ended June 30, 2012, the rights and obligations resulting from this cooperative agreement were transferred to the Successor Agency Trust Fund as a part of the Town's dissolution of its Redevelopment Agency.

## NOTE 15 - COVID-19 PANDEMIC PROGRAMS

On March 11, 2021, the American Rescue Plan Act (ARPA) was signed into law by President Biden. The $1.9 trillion package (the Act) provided financial aid to families, governments, businesses, schools, nonprofits and others impacted by the COVID19 public health crisis. Of the $1.9 trillion, $350 billion is being directed toward state and local governments. All 19,000 municipal governments are entitled to a direct, noncompetitive federal formula grant from the U.S. Treasury Department. The portion allocated to cities, towns, and villages totals $65.1 billion of which $19.5 billion is obligated toward cities with less than 50,000 residents. The Act will allocate $7,229,744 to the Town over a two-year period. The first tranche payment of $3,614,862 was received on July 13, 2021, and the second payment no earlier than 12 months after the first payment.

Section 603. CORONAVIRUS LOCAL FISCAL RECOCERY FUND of the Act identified four eligible uses for funding, as follows:

A. Respond to the public health emergency with respect to the Coronavirus Disease 2019 (COVID–19) or its negative economic impacts, including assistance to households, small businesses, and nonprofits, or aid to impacted industries such as tourism, travel, and hospitality;
B. Respond to workers performing essential work during the COVID–19 public health emergency by providing premium pay to eligible workers of the metropolitan city, nonentitlement unit of local government, or county that are performing such essential work, or by providing grants to eligible employers that have eligible workers who perform essential work;
C. Provide government services to the extent of the reduction in revenue of such metropolitan city, nonentitlement unit of local government, or county due to the COVID–19 public health emergency relative to revenues collected in the most recent full fiscal year of the metropolitan city, nonentitlement unit of local government, or county prior to the emergency; or
D. Make necessary investments in water, sewer, or broadband infrastructure.

During the fiscal year ended June 30, 2022 , the Town recognized $3,413,961 as operating grant revenue in the ARPA special revenue fund and transferred $3,413,961 to other funds, reimbursing the Town for qualifying expenditures under the provisions of the Act. For FY 2020/21, the Town recognized the initial $200K of ARPA proceeds as revenue to reimburse the Town for qualifying expenses.

TOWN OF LOS GATOS
BUDGETED NONMAJOR FUNDS
COMBINING SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL (GAAP)
FOR THE FISCAL YEAR ENDED JUNE 30, 2022

| | ARPA | | | LG Theatre | | |
|---|---|---|---|---|---|---|
| | Budget | Actual | Variance Positive (Negative) | Budget | Actual | Variance Positive (Negative) |
| **REVENUES** | | | | | | |
| Property taxes | $ - | $ - | $ - | $ - | $ - | $ - |
| Other taxes | - | - | - | - | - | - |
| License and permits | - | - | - | - | - | - |
| Intergovernmental | 3,413,961 | 3,413,961 | - | - | - | - |
| Charges for services | - | - | - | - | - | - |
| Fines and forfeitures | - | - | - | - | - | - |
| Interest | - | - | - | - | - | - |
| Use of property | - | - | - | - | 19,500 | 19,500 |
| Other | - | - | - | - | - | - |
| Total Revenues | 3,413,961 | 3,413,961 | - | - | 19,500 | 19,500 |
| **EXPENDITURES** | | | | | | |
| Current: | | | | | | |
| Parks and public works | - | - | - | - | - | - |
| Library services | - | - | - | - | - | - |
| Sanitation and other | - | - | - | - | - | - |
| Capital outlay | - | - | - | - | - | - |
| Total Expenditures | - | - | - | - | - | - |
| **EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES** | 3,413,961 | 3,413,961 | - | - | 19,500 | 19,500 |
| **OTHER FINANCING SOURCES (USES)** | | | | | | |
| Operating transfers in | - | - | - | - | - | - |
| Operating transfers (out) | (3,413,961) | (3,413,961) | - | - | - | - |
| Total Other Financing Sources (Uses) | (3,413,961) | (3,413,961) | - | - | - | - |
| **CHANGE IN FUND BALANCE** | $ - | - | $ - | $ - | 19,500 | $ 19,500 |
| **BEGINNING FUND BALANCE** | | - | | | - | |
| **ENDING FUND BALANCE** | | $ - | | | $ 19,500 | |

(Continued)

**Subject:** FW: Pages from FY-202122-ACFR - ARPA Discussion for mid year review

**From:** Phil Koen
**Sent:** Thursday, February 2, 2023 7:25 AM
**To:** Gitta Ungvari <GUngvari@losgatosca.gov>
**Cc:** Laurel Prevetti <LPrevetti@losgatosca.gov>; Rick Tinsley
**Subject:** Re: Pages from FY-202122-ACFR - ARPA Discussion for mid year review

[EXTERNAL SENDER]

Terrific. Let's review that when we get together.

It is very reasonable to claim that all $7m is still available since the GF ran a very strong operating surplus in FY 22. Understanding how the capital was deployed is really important. We all need to be on the same page so we can make a recommendation to the TC.

Thanks!

Phil

Sent from my iPhone

On Feb 2, 2023, at 3:46 PM, Gitta Ungvari <GUngvari@losgatosca.gov> wrote:

Phil,

Thanks for your email. The Finance Team is already incorporating a recap of the Council Direction regarding ARPA proceeds spending in the mid-year budget review report.

Gitta

**From:** Phil Koen
**Sent:** Tuesday, January 31, 2023 11:46 PM
**To:** Gitta Ungvari <GUngvari@losgatosca.gov>
**Cc:** Laurel Prevetti <LPrevetti@losgatosca.gov>; Rick Tinsley
**Subject:** Pages from FY-202122-ACFR - ARPA Discussion for mid year review

[EXTERNAL SENDER]

Gitta,

As part of the mid-year review I would respectfully request that we review the use of the $3,413,961 ARPA funds recognized as revenue in FY22 and the $3,614,872 recognized as revenue in FY 23. My concern is there is a perception that the Town is on the razor edge and does not have any discretionary funds available for very worthy projects. It is

important that the Town provide a complete accounting of the "uses" of the ARPA funds received so there is comp transparency and agreement on how these funds were actually deployed.

Regarding the $3,413,961 in FY 22 revenue, based on the audited financials all of the ARPA revenue was recorded in the other non-major ARPA fund and then transferred to the General Fund. There were no expenses recorded in the ARPA fund, so the entire $3,413,961 was transferred. You can see this in the attached schedules.

In a prior update given to the FC, the plan was to use $1,433,000 of the FY22 ARPA revenue for various expenditures such as destination marketing, k rails, promenades, enhanced senior services, grants and parklets. It appears all of these expenditure were made from the General Fund, not the ARPA Fund, and are an element of the $43.3m in total general fund expenditures for FY 22.

In addition the plan was to "backfill" $369,124 in general fund revenue for the "loss" of rental revenue from rental waivers.The backfill and the incremental expenditures noted above, total $1,802,124 in "uses" earmarked for the FY 22 ARPA funds.

In trying to understand the flow of the $3,413,161, while acknowledging money is fungible, the financial statements show growth in all general fund tax revenues was more than sufficient to fund all of the earmarked expenditures AND all of the rent waivers. Total tax revenues alone exceeded the adopted plan by $2,381,516. That means none of the $3,413,161 in ARPA funds were used as planned. In fact, the General Fund reported a surplus of $3,290,895 in excess revenues over expenditures (note there was no ARPA funds in the General Fund revenues), even after absorbing the planned $1,802,124 in additional uses of funds.

This operating surplus combined with the transfer in of the $3,413,961 in ARPA funds and additional transfers in from other funds of $633,353 combined to create a gross surplus in the General Fund, before transfers out, of $7,338,208. Again, $3,413,961 was directly attributable to ARPA.

It is at this point we lose all traceability for the ARPA funds. All we know is $4,358,188 was transferred out of the General Fund, leaving $2,980,020 of the $7,338,208 in the General Fund balance. This balance was then allocated across a number of general fund balance reserve accounts. Was some of this ARPA funds? We don't know since the ARPA footnote does not provide the reader with any insight.

Regarding the $4,358,188 that was transferred out, we have no idea if any or all of that was the ARPA funds. Since money is fungible, we could just declare that the entire $3,413,961 was included in that transfer out. That would make it simpler in tracing the funds.

If we make that assumption, that means all $3,413,188 is still available since it is in the GAFR ending fund balance of $14,240,753.

In addition to the FY 22 ARPA revenues, the Town has received $3,614,872 in FY 23. These funds were received in July 2022 and recorded in the ARPA fund as revenue. And like FY 22, most likely no expenses were recorded in the ARPA fund, with all of the funds ultimately being transferred into the General Fund.

As part of the mid-year update it would be helpful to provide an analysis of the use of the FY 23 funds. If FY 23 is like FY 22, the General Fund Tax revenues will most likely be stronger than the adopted plan and therefore no ARPA funds will be necessary to "backfill" rental waivers or planned revenue shortfalls. The revenue over achievement combined with the savings from open positions that could be as much as $2m, suggest the General Fund will experience another year where revenues exceed expenditures. That means that no ARPA funds would be necessary to balance the F23 general fund.

Given the above, It is entirely possible that the full $7m in ARPA funds is still available to the TC for allocation. We need to confirm this.

Let’s work together to develop the analysis to show what happened in FY 22 and the most likely outcome for FY 23 to the ARPA funds. I am concerned that without better clarity, the Town will miss an opportunity to help many worthy programs.

Thank you,

Phil

**Subject:** FW: ARPA Update.pdf
**Attachments:** ARPA Update.pdf

**From:** Phil Koen
**Sent:** Thursday, February 2, 2023 10:05 PM
**To:** Gitta Ungvari <GUngvari@losgatosca.gov>
**Cc:** Laurel Prevetti <LPrevetti@losgatosca.gov>; Rick Tinsley
**Subject:** ARPA Update.pdf

[EXTERNAL SENDER]

Hi Gitta,

I have attached the last update the FC received on the deployment of the ARPA funds.

Let's review what actually happened in FY 22 and discuss the plan for FY 23 taking into consideration our best thinking on most likely outcome for FY 23 operating surplus.

Greatly appreciate you walking me through this.

Phil

Sent from my iPhone

**TOWN OF LOS GATOS**
**FINANCE COMMISSION**

MEETING DATE: 06/13/2022

DATE: June 8, 2022

TO: Finance Commission

FROM: Laurel Prevetti, Town Manager

SUBJECT: Receive Update on American Rescue Plan Act Administration

RECOMMENDATION:

Receive update on American Rescue Plan Act (ARPA) administration.

BACKGROUND:

In accordance with ARPA, the Town was awarded an ARPA grant in the amount of $7,229,744 paid to the Town in two separate payments, the first payment of $3,618,872 was received in early July 2021 and the second payment of $3,614,872 is expected to be received in early July 2022.

Based on initial guidance of eligible uses of ARPA funds the Town allocated these funds to various purposes to respond and support the impacts of the pandemic on Town residents, non-profits, the business community including the construction of downtown parklets, non-profit fee and rent waivers, enhanced senior services, promenades, and increased funding for Town infrastructure capital improvements, among other initiatives.

Since receipt of ARPA funds staff has been following the evolution of the federal guidelines for the use of ARPA funding as well as regularly participating in ARPA focused webinars presented by the US Department of the Treasury (Treasury) staff and the ARPA sub-group sponsored by the Government Finance Officers Association. During the initial ARPA implementation period Treasury received a tremendous number of inquiries from ARPA grant recipients on how best to comply with the complex and evolving federal regulations and guidance for calculating pandemic related revenue loss and complying with federal uniform guidance on eligible uses of ARPA funds. Treasury responded to this demand by revising its initial requirements in their

PREPARED BY: Stephen Conway
Finance Director

Reviewed by: Town Manager and Assistant Town Manager

BACKGROUND (continued):

Final Interim Rule to allow certain non-entitlement units (NEUs) like the Town of Los Gatos a simplified procedure for claiming and reporting revenue loss. To be eligible for the simplified claiming procedures, the NEU must receive a total ARPA award of less than $10 million.

DISCUSSION:

Upon Treasury's release of the simplified reporting process for entities awarded less than $10 million in ARPA funding and additional guidance received through staff review of federal compliance issues, staff recommends that the Town recognize the $3.4 M of FY 2021/22 and the anticipated $3.6M FY 2022/23 cash collections of ARPA revenues as qualified revenue loss under the Treasury provisions for use in providing government services. To further aid in compliance with federal uniform guidance and Single Audit requirements, staff is intending to claim the lost revenue for use in providing essential government services and intends to account for the use of ARPA revenue loss revenues for eligible public safety payroll costs for both FY 2021/22 and FY 2022/23.

The recommended action as illustrated in the below worksheet will allocate all ARPA "replacement" revenues to the General Fund which in turn will unencumber other General Fund operating revenues which were previously dedicated for public safety costs. The newly unencumbered General Fund revenues can then be allocated to the ARPA pandemic responses as identified, approved and allocated by Town Council since receipt of the $7.2 million ARPA award.

AMERICAN RESCUE PLAN ACT (ARPA) SUMMARY WORKSHEET

| | FY 2020/21 ACTUALS | FY 2021/22 BUDGET ADJ. ACTUAL/ESTIMATED | FY 2022/23 ESTIMATED | GRAND TOTAL |
|---|---|---|---|---|
| ARPA FUNDS REVENUE RECOGNIZED | $ 200,911 | $ 3,413,961 | $ 3,614,872 | $ 7,229,744 |
| GOV SERVICES (WAIVERS,CUP&ADA,DIRECT GRANTS) | 200,911 | | | 200,911 |
| REVENUE LOSS -GOV SERVICES (PUBLIC SAFETY) | | 3,413,961 | 3,614,872 | 7,028,833 |
| | $ 200,911 | $ 3,413,961 | $ 3,614,872 | $ 7,229,744 |
| GENERAL FUND ARPA REPLACEMENT REVENUES AVAILABLE | 200,911 | 3,413,961 | 3,614,872 | 7,229,744 |
| LESS APPROVED USES TO BE BUDGETED: | | | | |
| PARKLETS (DOWNTOWN IMPVTS PROJECT) | | 680,000 | 250,000 | 930,000 |
| RENT WAIVERS | 121,255 | 341,452 | 283,756 | 746,463 |
| CUP/ADA FEE WAIVERS | 19,656 | 27,672 | 27,672 | 75,000 |
| DESTINATION MARKETING | | 55,000 | | 55,000 |
| K-RAILS (DOWNTOWN IMPVTS PROJECT) | | 68,000 | | 68,000 |
| PROMENADES | | 80,000 | 120,000 | 200,000 |
| DIRECT GRANTS | 60,000 | 50,000 | | 110,000 |
| ENHANCED SENIOR SERVICES | | 500,000 | | 500,000 |
| CAPITAL IMPROVEMENT PROGRAM SUPPORT TRANSFERS | | | 2,900,000 | 2,900,000 |
| REQUIRED FOR GF BALANCING OF OPERATING REV_EXP | - | | 1,645,281 | 1,645,281 |
| TOTAL ALLOCATIONS OF GENERAL FUND ARPA REPLACEMENT REVENUES | $ 200,911 | $ 1,802,124 | $ 5,226,709 | $ 7,229,744 |
| GENERAL FUND ARPA REPLACEMENT REVENUE UNCOMMITTED | $ - | $ 1,611,837 | $ (1,611,837) | $ - |

CONCLUSION:

The worksheet illustrates budget adjustments related to the necessary ARPA and General Fund revenue and expense adjustments and recaps the total ARPA grant award of $7,229,744 and the Council directed uses approved or proposed through June 7, 2022. In addition, the worksheet provides the detail staff will use to adjust the ARPA and General Fund budgets to recognize the ARPA grant award for revenue loss to be used to reimburse public safety response. It will also be used to recognize and budget FY 2021/22 matching General Fund ARPA replacement revenues and expenditure budgets for use in supporting the ARPA objectives as approved/proposed and directed by Town Council since original receipt of the ARPA grant award.

**Subject:** FW: Follow up to the FC meeting

**From:** Phil Koen
**Sent:** Monday, February 6, 2023 5:49 PM
**To:** Gitta Ungvari <GUngvari@losgatosca.gov>
**Cc:** Laurel Prevetti <LPrevetti@losgatosca.gov>
**Subject:** FW: Follow up to the FC meeting

[EXTERNAL SENDER]

Hello Gitta,

I was going through my open item list and noticed that Arn had never responded to my email below. This was a follow up note for more information coming from the last FC meeting.

If you have time, it would be great if you could provide the information requested.

Phil

**From:** Phil Koen
**Sent:** Thursday, January 12, 2023 5:00 PM
**To:** Arn Andrews <aandrews@losgatosca.gov>
**Cc:**
**Subject:** Follow up to the FC meeting

Hello Arn,

Just a quick follow up note regarding information requests from the FC meeting last Tuesday evening. Staff was going to provide the FC with the gross amount of the market-to-market adjustment that was netted in the "net" investment income of $(1,404,563).

Also, there were a couple of questions regarding the balance of the development deposits for General Plan Revenue ($698,302 in revenue was recognized) and the balance of the development deposits for the Below Market Housing Program ($1,200,000 in revenue was recognized). I am assuming that all these various development fee deposits are consolidated and reported in the $6.8m deposits on the General Fund balance sheet. Is my understanding correct? How many different deposit accounts are consolidated into the $6.8m?

I had one last question which I forgot to ask last. On page 35 of the transactions report, under the private purpose trust fund column there is a $5,899,675 deduction. Could you provide some detail about this deduction?

Thank you.

Phil Koen

**Subject:** FW: Meeting on Friday
**Attachments:** Pages from FY-202122-ACFR - (12).pdf

**From:** Phil Koen
**Sent:** Tuesday, February 7, 2023 11:19 AM
**To:** Gitta Ungvari <GUngvari@losgatosca.gov>
**Cc:** Laurel Prevetti <LPrevetti@losgatosca.gov>; Rick Tinsley
**Subject:** Meeting on Friday

[EXTERNAL SENDER]

Hi Gitta,

I'm looking forward to our meeting on Friday. Since we only have 1 hour, we will need to be efficient with our time. I would propose the following agenda

1. Discuss the mid-year financial update 30 mis
2. Review of $7m in ARPA fund flows 15 mins
3. Discussion of GAFR FY 22 10 mins
4. Information request from Jan FC 5 mins

I have attached a schedule from the 2022 ACFR which shows the budget vs actual for the GAFR. I am interested in understanding the variance from the adopted budget for intergovernmental revenues and the capital outlay. I know that $6.9m of intergovernmental revenue is the pass-through grant for wildfire which was not planned. What were the other $1m in revenues that were recorded as revenue that weren't in the original adopted budget? Also, what projects accounted for the $4.1m more in capital outlay than was originally planned? That is a material increase and I do not know what caused that.

I am asking this so I have a better understanding of what might happen in FY 23 based on how FY 22 played out. Could we receive more intergovernmental revenues that weren't planned but are on the horizon? Could capital outlays be materially different from the adopted FY 23 budget? These are the issues we should explore.

Thanks,

Phil

**TOWN OF LOS GATOS**
**APPROPRIATED RESERVES FUND**
**COMBINING SCHEDULE OF REVENUES, EXPENDITURES**
**AND CHANGES IN FUND BALANCE**
**BUDGET AND ACTUAL (GAAP)**
**FOR THE FISCAL YEAR ENDED JUNE 30, 2022**

| | Original Budget | Final Budget | Actual | Variance Positive (Negative) |
|---|---|---|---|---|
| **REVENUES** | | | | |
| Licenses & permits | 160,000 | 160,000 | 420,055 | 260,055 |
| Intergovernmental | 1,691,069 | 16,912,649 | 9,400,918 | (7,511,731) |
| Charges for services | 755,676 | 2,693,556 | 1,464,746 | (1,228,810) |
| Developer fees | 20,000 | 20,000 | 535,571 | 515,571 |
| Interest | - | - | 34,805 | 34,805 |
| Use of Property | - | - | 93,001 | 93,001 |
| Total Revenues | 2,626,745 | 19,786,205 | 11,949,096 | (7,837,109) |
| **EXPENDITURES** | | | | |
| Current: | | | | |
| General government | - | 7,000,000 | 6,900,000 | 100,000 |
| Capital outlay | 5,414,872 | 10,894,632 | 9,570,780 | 1,323,852 |
| Total Expenditures | 5,414,872 | 17,894,632 | 16,470,780 | 1,423,852 |
| **EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES** | (2,788,127) | 1,891,573 | (4,521,684) | (6,413,257) |
| **OTHER FINANCING SOURCES (USES)** | | | | |
| Transfers in | 2,841,047 | 3,584,047 | 4,074,141 | 490,094 |
| Transfers (out) | (427,616) | (427,616) | (427,616) | - |
| Total Other Financing Sources (Uses) | 2,413,431 | 3,156,431 | 3,646,525 | 490,094 |
| **CHANGE IN FUND BALANCE** | $ (374,696) | $ 5,048,004 | (875,159) | $ (5,923,163) |
| **BEGINNING FUND BALANCE** | | | 15,115,912 | |
| **ENDING FUND BALANCE** | | | $ 14,240,753 | |

**TOWN OF LOS GATOS**

**FINANCE COMMISSION REPORT**

MEETING DATE: 02/13/2023

ITEM NO: 5

DESK ITEM

DATE: February 13, 2023

TO: Finance Commission

FROM: Laurel Prevetti, Town Manager

SUBJECT: Review and Provide Comments to the Town Council Regarding Mid-Year Budget Report

RECOMMENDATION:

Attachment 3 contains Commissioner communication received between 11:01 a.m. Friday, February 10, 2023, and 11:00 a.m. Monday, February 13, 2023.

Attachments received with the Staff Report:

1. Town Council Draft FY 2022/23 Mid-Year Budget Report
2. Commissioner Communication Received before Publishing the Staff Report

Attachment received with this Desk Item:

3. Commissioner Communication received between 11:01 a.m. Friday, February 10, 2023, and 11:00 a.m. Monday, February 13, 2023.

PREPARED BY: Gitta Ungvari
Finance Director

Reviewed by: Town Manager and Town Attorney

**Subject:** FW: ARPA Funds
**Attachments:** ARPA - FY 22.pdf; Pages from MEET-Packet-73dd39da048d496eae5e1d18a27745ed.pdf; ARPA adjustment.xlsx

**From:** Phil Koen
**Date:** February 10, 2023 at 2:52:14 PM PST
**To:** Gitta Ungvari <GUngvari@losgatosca.gov>
**Subject: ARPA Funds**

[EXTERNAL SENDER]

Hi Gitta,

Thank you for your time today. We covered a lot, but there is a lot more to discuss.

I do want to nail down our ARPA discussion and see if we can come to a common understanding. I have attached a spreadsheet which shows the impact of allocating the $1,348,659 programmed ARPA uses to ARPA and away from the GF surplus. By applying the $1,348,659 in programmed uses that are listed on page 228 against the ARPA Transfer In, you reduce the ARPA contribution to total liquidity by that amount. The ending ARPA balance of $2,065,302 is adjusted downward and becomes an element of the year end GF Balance.

Since the total liquidity can not change (it is what it is) the counter entry is to increase the General Fund Surplus by the same $1,348,659. This means that on an adjusted basis, the GF Surplus for FY 2022 was $4,639,554. As you can see pre and post the adjustment for the programmed uses of ARPA , Total Liquidity remains the same at $6,704,856. All you have done is move funds from your left pocket to your right pocket – no liquidity is created by this bookkeeping entry. For this reason, I believe there is still $6.7m of incremental liquidity available to the Town as of June 30, 2022. This analysis does not include the second tranche of ARPA funds received after the fiscal year end,

Please let me know if you agree with this analysis.

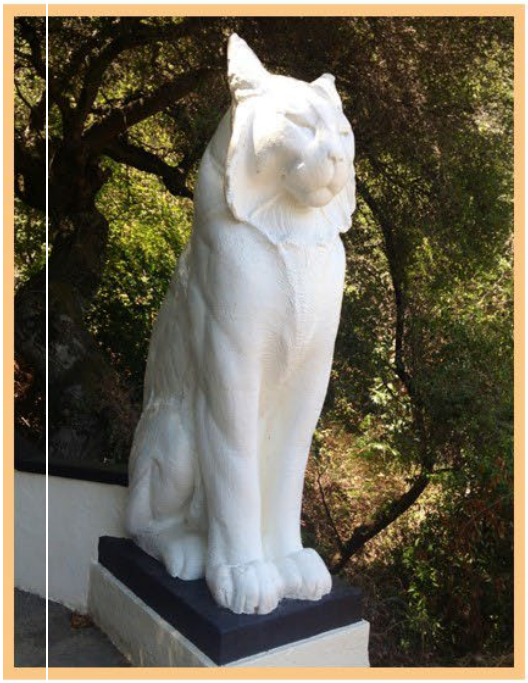
I do have a few other comments I will submit to you over the weekend.

All the best,

Phil

# TOWN OF LOS GATOS

## CALIFORNIA










# Annual Comprehensive Financial Report

## For the Fiscal Year ended June 30, 2022

of $1,156,412, increasing beginning fund balance and net position by $0.7 million. See Note 4 for additional information.

- The Town received the first tranche payment of $3,614,872 from the American Rescue Plan Act (ARPA) grant on July 13, 2021. For FY 2020/21, $200K of ARPA proceeds was recognized as revenue to reimburse the Town for qualifying expenditures under the provisions of the Act including boosting economic recovery and providing rent forgiveness and direct grants to non-profit and social welfare organizations. For FY 2021/22, the Town recognized $3.4 million in ARPA revenues related to recovery of revenue loss.

- Despite the ongoing economic impacts resulting from the nationwide pandemic, the Town's economically sensitive major revenues of property tax, sales tax, and business license tax were able to record gains from amounts reported the prior fiscal year. Property taxes collected increased $1.3 million, sales taxes increased $0.6 million, while business license tax increased by a modest $94K from amounts collected the prior year.

- The economic impacts related to the pandemic and initial travel restrictions continued into FY 2021/22. FY 2021/22 Transient Occupancy Tax (TOT) revenue collection increased by $840K compared to the level collected in FY 2020/21. However, the current year proceeds of $1.9 million is still $0.8 million lower than FY 2019/20 level of TOT collection.

- Total expenses as reported in the Statement of Activities increased $2.2 million from the prior year. The increase primarily was driven by a one-time $6.9 million State pass-through grant payment in General Government for wildfire protection. Excluding the one-time payment, total expenses actually decreased from the prior year by $4.7 million primarily due to the $3.1 million calculated pension expense credit, salary and benefit savings, and other miscellaneous operational savings. As previously noted, the pension expense credit was mostly from actual investment earnings in excess of estimated assumed investment earnings and additional discretionary payments in excess of contractually required contributions.

- The cost of all governmental activities as presented in the Statement of Activities this year was $52.7 million. The Town's governmental program revenues were $41.2 million including charges for services of $12.8 million, operating grants and contributions of $6.2 million, and capital grants and contributions of $22.2 million. After taking governmental program revenues into consideration, the net amount of taxpayer supported governmental activities was $11.5 million. The Town paid for the remaining "public benefit" portion of governmental activities from total taxes and general revenues of $35.7 million. This $11.5 million in net cost of governmental activities is net of the $12.2 million Los Gatos Theatre contribution that occurred during FY 2021/22. Excluding the theatre contribution, the net cost of governmental activities would be $23.7 million which represents an approximate 32% decrease from the prior fiscal year ($35.1 million). The decrease reflects reduced costs related to the pension credit and increased governmental grant revenues from the prior year.

- At the end of FY 2021/22, the General Fund balance was $26,896,789 compared to $23,914,618 in the prior year. The ending fund balance of $26,896,789 represents approximately 62% of General Fund expenditures for the current fiscal year excluding

# TOWN OF LOS GATOS, CALIFORNIA
# GOVERNMENTAL FUNDS
# STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
# FOR THE FISCAL YEAR ENDED JUNE 30, 2022

| | General | Appropriated Reserves | Other Nonmajor Governmental Funds | Total Governmental Funds |
|---|---|---|---|---|
| **REVENUES** | | | | |
| Property Taxes | $ 21,129,082 | $ - | $ 38,640 | $ 21,167,722 |
| Sales Taxes | 8,483,673 | - | - | 8,483,673 |
| Other Taxes | 1,909,816 | - | 66,382 | 1,976,198 |
| Licenses & Permits | 5,096,318 | 420,055 | 538,667 | 6,055,040 |
| Intergovernmental | 1,263,352 | 9,400,918 | 4,828,712 | 15,492,982 |
| Charges for Services | 5,460,613 | 1,464,746 | - | 6,925,359 |
| Fines and Forfeitures | 319,170 | - | - | 319,170 |
| Franchise Fees | 2,822,515 | - | - | 2,822,515 |
| Developer Fees | 1,200,000 | 535,571 | - | 1,735,571 |
| Interest | (1,404,527) | 34,805 | 90,739 | (1,278,983) |
| Use of Property | 32,400 | 93,001 | 19,500 | 144,901 |
| Other | 311,040 | - | 38,105 | 349,145 |
| Total Revenues | 46,623,452 | 11,949,096 | 5,620,745 | 64,193,293 |
| **EXPENDITURES** | | | | |
| Current: | | | | |
| General Government | 9,053,968 | 6,900,000 | - | 15,953,968 |
| Public Safety | 16,451,190 | - | - | 16,451,190 |
| Parks and Public Works | 8,605,457 | - | 33,671 | 8,639,128 |
| Community Development | 6,313,511 | - | - | 6,313,511 |
| Library Services | 2,752,397 | - | 74,813 | 2,827,210 |
| Sanitation and Other | - | - | 194,969 | 194,969 |
| Capital Outlay | - | 9,570,780 | 907,890 | 10,478,670 |
| Debt service: | | | | |
| Principal | 156,034 | - | - | 156,034 |
| Total Expenditures | 43,332,557 | 16,470,780 | 1,211,343 | 61,014,680 |
| **EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES** | 3,290,895 | (4,521,684) | 4,409,402 | 3,178,613 |
| **OTHER FINANCING SOURCES (USES)** | | | | |
| Gain from sale of assets | 2,151 | - | - | 2,151 |
| Transfers in | 4,047,313 | 4,074,141 | 32,853 | 8,154,307 |
| Transfers (out) | (4,358,188) | (427,616) | (3,524,881) | (8,310,685) |
| Total Other Financing Sources (Uses) | (308,724) | 3,646,525 | (3,492,028) | (154,227) |
| **NET CHANGES IN FUND BALANCES** | 2,982,171 | (875,159) | 917,374 | 3,024,386 |
| **BEGINNING FUND BALANCES** | 23,914,618 | 15,115,912 | 8,807,222 | 47,837,752 |
| **ENDING FUND BALANCES** | $ 26,896,789 | $ 14,240,753 | $ 9,724,596 | $ 50,862,138 |

*The notes to the financial statements are an integral part of this statement.*

d. Partnerships for the conversion of existing residential developments dedicated to affordable housing
e. Grants to the Santa Clara County Housing Trust for the development of affordable housing.

During the fiscal year ended June 30, 2012, the rights and obligations resulting from this cooperative agreement were transferred to the Successor Agency Trust Fund as a part of the Town's dissolution of its Redevelopment Agency.

## NOTE 15 - COVID-19 PANDEMIC PROGRAMS

On March 11, 2021, the American Rescue Plan Act (ARPA) was signed into law by President Biden. The $1.9 trillion package (the Act) provided financial aid to families, governments, businesses, schools, nonprofits and others impacted by the COVID19 public health crisis. Of the $1.9 trillion, $350 billion is being directed toward state and local governments. All 19,000 municipal governments are entitled to a direct, noncompetitive federal formula grant from the U.S. Treasury Department. The portion allocated to cities, towns, and villages totals $65.1 billion of which $19.5 billion is obligated toward cities with less than 50,000 residents. The Act will allocate $7,229,744 to the Town over a two-year period. The first tranche payment of $3,614,862 was received on July 13, 2021, and the second payment no earlier than 12 months after the first payment.

Section 603. CORONAVIRUS LOCAL FISCAL RECOCERY FUND of the Act identified four eligible uses for funding, as follows:

A. Respond to the public health emergency with respect to the Coronavirus Disease 2019 (COVID–19) or its negative economic impacts, including assistance to households, small businesses, and nonprofits, or aid to impacted industries such as tourism, travel, and hospitality;
B. Respond to workers performing essential work during the COVID–19 public health emergency by providing premium pay to eligible workers of the metropolitan city, nonentitlement unit of local government, or county that are performing such essential work, or by providing grants to eligible employers that have eligible workers who perform essential work;
C. Provide government services to the extent of the reduction in revenue of such metropolitan city, nonentitlement unit of local government, or county due to the COVID–19 public health emergency relative to revenues collected in the most recent full fiscal year of the metropolitan city, nonentitlement unit of local government, or county prior to the emergency; or
D. Make necessary investments in water, sewer, or broadband infrastructure.

During the fiscal year ended June 30, 2022 , the Town recognized $3,413,961 as operating grant revenue in the ARPA special revenue fund and transferred $3,413,961 to other funds, reimbursing the Town for qualifying expenditures under the provisions of the Act. For FY 2020/21, the Town recognized the initial $200K of ARPA proceeds as revenue to reimburse the Town for qualifying expenses.

TOWN OF LOS GATOS
BUDGETED NONMAJOR FUNDS
COMBINING SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL (GAAP)
FOR THE FISCAL YEAR ENDED JUNE 30, 2022

| | ARPA | | | LG Theatre | | |
|---|---|---|---|---|---|---|
| | Budget | Actual | Variance Positive (Negative) | Budget | Actual | Variance Positive (Negative) |
| **REVENUES** | | | | | | |
| Property taxes | $ - | $ - | $ - | $ - | $ - | $ - |
| Other taxes | - | - | - | - | - | - |
| License and permits | - | - | - | - | - | - |
| Intergovernmental | 3,413,961 | 3,413,961 | - | - | - | - |
| Charges for services | - | - | - | - | - | - |
| Fines and forfeitures | - | - | - | - | - | - |
| Interest | - | - | - | - | - | - |
| Use of property | - | - | - | - | 19,500 | 19,500 |
| Other | - | - | - | - | - | - |
| Total Revenues | 3,413,961 | 3,413,961 | - | - | 19,500 | 19,500 |
| **EXPENDITURES** | | | | | | |
| Current: | | | | | | |
| Parks and public works | - | - | - | - | - | - |
| Library services | - | - | - | - | - | - |
| Sanitation and other | - | - | - | - | - | - |
| Capital outlay | - | - | - | - | - | - |
| Total Expenditures | - | - | - | - | - | - |
| **EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES** | 3,413,961 | 3,413,961 | - | - | 19,500 | 19,500 |
| **OTHER FINANCING SOURCES (USES)** | | | | | | |
| Operating transfers in | - | - | - | - | - | - |
| Operating transfers (out) | (3,413,961) | (3,413,961) | - | - | - | - |
| Total Other Financing Sources (Uses) | (3,413,961) | (3,413,961) | - | - | - | - |
| **CHANGE IN FUND BALANCE** | $ - | - | $ - | $ - | 19,500 | $ 19,500 |
| **BEGINNING FUND BALANCE** | | - | | | - | |
| **ENDING FUND BALANCE** | | $ - | | | $ 19,500 | |

(Continued)

Other Fund Revenues and Expenditures

- Landscape Maintenance: Staff recommends an expenditure budget increase in the amount of $9,622 to the various Park Light and Landscaping Districts for increased landscape maintenance services.

- Theatre Needs: Staff recommends $68,000 revenue increase to recognize the current tenants anticipated rent proceeds and $55,814 expenditure budget increase from available rent proceeds for initial set-up, utility cost and additional expenses related to the Los Gatos Theatre Building maintenance and repairs.

- Gas Tax: Staff recommends revenue and expenditure budget decrease in the amount of $67,218 reflecting most recent gas tax projections.

- West Valley Sanitation District Annual Fee: Staff recommends an expenditure budget increase in the amount of $8,608 to for additional water meter connected and increased water usage fee.

- Library Trust programming: Staff recommends $5,000 revenue and expenditure adjustment to recognize additional donation from the Friends of the Los Gatos Library. The Friends were able to donate an additional of $5,000 this year. Staff anticipated spending $5,000 of the additional donation in the current fiscal year.

American Rescue Plan Act (ARPA) Fund:

In accordance with ARPA, the Town was awarded an ARPA grant in the amount of $7,229,744 paid to the Town in two separate payments, the first payment of $3,618,872 was received in early July 2022 and the second payment of $3,614,872 was received in early July 2023.

Based on initial guidance of eligible uses of ARPA funds the Town allocated these funds to various purposes to respond and support the impacts of the pandemic on Town residents, non-profits, the business community including the construction of downtown parklets, non-profit fee and rent waivers, enhanced senior services, promenades, and increased funding for Town infrastructure capital improvements, among other initiatives.

Upon Treasury's release of the simplified reporting process for entities awarded less than $10 million in ARPA funding and additional guidance received on federal compliance issues, the Town recognized the $3.4 M of FY 2021/22 and the recommending recognizing the second tranche of $3.6M cash collections of ARPA revenues in FY 2022/23 as qualified revenue loss under the Treasury provisions for use in providing government services. To further aid in compliance with federal uniform guidance and Single Audit requirements, staff claimed the lost revenue for use in providing essential government services and accounted for the use of ARPA revenue loss revenues for eligible public safety payroll costs for in FY 2021/22 and proposing the same for FY 2022/23.

The recommended action as illustrated in the below worksheet will allocate all ARPA "replacement" revenues to the General Fund which in turn will unencumber other General Fund operating revenues which were previously dedicated for public safety costs. The newly unencumbered General Fund revenues can then be allocated to the ARPA pandemic responses as identified.

Council has already allocated all the $7.2 million proceeds for various priorities as illustrated in the below table. Staff will bring back any residual balance not used for the original purpose after completing the program for Council re-programming reconsideration

**AMERICAN RESCUE PLAN ACT (ARPA) SUMMARY WORKSHEET**

| | FY 2020/21 | FY 2021/22 | | | FY 2022/23 | | GRAND |
|---|---|---|---|---|---|---|---|
| | ACTUALS | BUDGET ADJ. ESTIMATED | ACTUALS | BAL REMAINING | ESTIMATED | EST. MID-YEAR | TOTAL |
| ARPA FUNDS REVENUE RECOGNIZED | $ 200,911 | $ 3,413,961 | | | $ 3,614,872 | | $ 7,229,744 |
| GOV SERVICES (WAIVERS,CUP&ADA,DIRECT GRANTS) | 200,911 | | | | | | 200,911 |
| REVENUE LOSS -GOV SERVICES (PUBLIC SAFETY) | | 3,413,961 | 3,413,961 | | 3,614,872 | | 7,028,833 |
| | $ 200,911 | $ 3,413,961 | | | $ 3,614,872 | | $ 7,229,744 |
| GENERAL FUND ARPA REPLACEMENT REVENUES AVAILABLE | $ 200,911 | $ 3,413,961 | | | $ 3,614,872 | | $ 7,229,744 |
| LESS APPROVED USES TO BE BUDGETED: | | | | | | | |
| PARKLETS (DOWNTOWN IMPVTS PROJECT) | $ - | $ 680,000 | $ 466,428 | $ 213,572 | $ 250,000 | $ - | $ 930,000 |
| RENT WAIVERS | 121,255 | 341,452 | 341,452 | - | 283,756 | | 746,463 |
| CUP/ADA FEE WAIVERS | 19,656 | 27,672 | 27,672 | - | 27,672 | | 75,000 |
| DESTINATION MARKETING | | 55,000 | 55,000 | - | | | 55,000 |
| K-RAILS (DOWNTOWN IMPVTS PROJECT) | | 68,000 | 88,654 | (20,654) | | | 68,000 |
| PROMENADES | | 80,000 | 69,855 | 10,145 | 120,000 | 90,628 | 200,000 |
| DIRECT GRANTS | 60,000 | 50,000 | 50,000 | - | | | 110,000 |
| ENHANCED SENIOR SERVICES | | 500,000 | 249,597 | 250,403 | | | 500,000 |
| CAPITAL IMPROVEMENT PROGRAM SUPPORT TRANSFERS | | | | | 2,900,000 | 580,000 | 2,900,000 |
| REQUIRED FOR GF BALANCING OF OPERATING REV_EXP | | | | | 1,645,281 | | 1,645,281 |
| TOTAL ALLOCATIONS OF GENERAL FUND ARPA REPLACEMENT REVENUES | $ 200,911 | $ 1,802,124 | $ 1,348,659 | $ 453,465 | $ 5,226,709 | $ 670,628 | $ 7,229,744 |

While the Town already recognized the full first tranche of the ARPA proceeds during FY 2020/21 and FY 2021/22, only $1,549,570 was utilized during those fiscal years, $2,065,302 is part of the General Fund balance and tracked by staff to ensure that the proceeds are spent by Council adopted uses.

The FY 2022/23 budget was adopted prior to the simplified guideline so staff is proposing the following budget adjustments to recognize the revenue and track the Council approved uses.

**FY 2022/23 MID-YEAR BUDGET ADJUSTMENT REQUESTS - ARPA RECLASSIFICATION**

| Fund | Program | Account | *American Rescue Plan Act (ARPA) Fund* | |
|---|---|---|---|---|
| 111 | 4301 | 48219 | ARPA - Intergovernmental Revenue | 3,614,872 |
| 111 | 5301 | 48219 | ARPA - Intergovernmental Revenue | 40,431 |
| 111 | 3201 | 48219 | ARPA - Intergovernmental Revenue | 27,672 |
| 111 | 2101 | 48219 | ARPA - Intergovernmental Revenue | 120,000 |
| 411 | 411-813-0235 | 48219 | ARPA - Intergovernmental Revenue | 250,000 |
| 633 | 5404 | 48219 | ARPA - Intergovernmental Revenue | 243,325 |
| 241 | 1241 | 43217 | ARPA - Intergovernmental Revenue | 2,310,176 |
| | | | | **$ 6,606,476** |
| 241 | 1241 | 68219 | ARPA - Income Replacement Expense | 2,310,176 |
| 111 | 1201 | 68219 | ARPA - Income Replacement Expense | 3,581,428 |
| | | | | **$ 5,891,604** |

| | ACFR 2022 | Adjustments | Adjusted ACFR 2022 |
|---|---|---|---|
| Surplus - General Fund | 3,290,895 | 1,348,659 | 4,639,554 |
| Transfer In - ARPA | 3,413,961 | (1,348,659) | 2,065,302 |
| Total Liquidity | 6,704,856 | 0 | 6,704,856 |

Notes:
The $1,348,659 adjustment reflects the actual amounts programmed by the TC as a use of ARPA funds during FY 2022.

The $2,065,302 is the balance amount of ARPA funds which is in the GF Balance of $26,896,789 as of FYE 2022.

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**TOWN OF LOS GATOS**
**COUNCIL AGENDA REPORT**

MEETING DATE: 02/13/2023
ITEM NO: 6

DATE: February 9, 2023

TO: Finance Commission

FROM: Laurel Prevetti, Town Manager

SUBJECT: Review and Provide Comments to the Town Council Regarding the Five-Year Forecast (FY 2023/24 – 2027/28) and Scenarios and Provide Input for the FY 2023/24 Budget Direction

RECOMMENDATION:

Review and provide comments to the Town Council regarding the Five Year Forecast (Fiscal Years 2023/24 – 2027/28) and scenarios, and provide input for the FY 2023/24 budget direction.

BACKGROUND:

With the passage of Measure A, the Finance Commission has been tasked with several mandated duties as described in the provisions of the adopted Ordinance. Section 2.50.225. – Duties states that:

> (a) The Finance Commission shall:
> Serve as an on-going. substantive and expert advisory body to the Town and Town Council so that the Town and Town Council can make informed decisions about the Town's financial, budgetary and investment matters and operations related thereto.

On February 21, 2023, the Town Council will consider the FY 2023/24 Five Year Forecast which is an important component of the annual budget cycle (Attachment 1).

The Commission is welcome to provide comments on the Forecast, its assumptions, and scenarios as well as any comments for consideration in the preparation of the FY 2023/24 Operating Budget. The Finance Commission will have an opportunity to discuss the Capital Program at its March meeting.

PREPARED BY: Gitta Ungvari
Finance Director

Reviewed by: Town Manager

EXECUTIVE SUMMARY:

The base case Five-Year Forecast (FY 2023/24 – 2027/28) (Attachment 2) identifies deficits for all future years, using the recent labor agreements for FY 2023/24 and the 2% salary increase assumption approved by the Town Council for the FY 2024/25 budget and other assumptions (see Attachments 3 and 4). The deficits are on the order of approximately $3M per year and can currently be resolved through expenditure controls and the use of one-time funds. The persistent presence of a deficit indicates that the Town needs to consider new revenue measures if it wants to maintain high levels of municipal services.

The sensitivity of the Forecast to its assumptions is demonstrated in this report. The Finance Commission can provide recommendations on the assumptions for Council consideration for the FY 2023/24 budget and provide other budget direction as appropriate. The Capital Program is scheduled for a separate discussion at the next Council meeting.

DISCUSSION:

An important aspect of the Town's budget development process is taking a multi-year approach to understand revenue and expenditure trends over time. Serving as the foundation of the budget planning process (Attachment 1), the Town develops a Five-Year Financial Forecast ("Forecast") beginning in the winter of each year. The Forecast enables the Town to evaluate the Town's fiscal condition and to help guide policy, programmatic planning, and budget decisions. Development of a financial forecast as part of the budget development process has been identified as a best practice by the Government Financial Officers Association (GFOA).

The Forecast takes a forward look at the Town's General Fund revenues and expenditures and is updated regularly. Its purpose is to identify financial trends, potential shortfalls, and other issues so the Town can proactively address them and budget accordingly. It does so by projecting out into the future the fiscal results of continuing the Town's current service levels and policies. This process helps to provide a snapshot of what the future may look like as a result of the decisions made to date.

The initial Forecast (FY 2023/24 – 2027/28) is predicated on estimates derived from the FY 2022/23 Mid-Year review and includes updates to Town revenues and expenditures based on the Mid-Year end of year projections. Like any forecast, the Forecast's revenue estimates for the first year is the most critical in the process as they ultimately define the expenditure limitations for the upcoming budget year.

This report contains detailed information that contributes to the preparation of the annual budget, including the Town's "Base Case" Five-Year Forecast, its data sources, and budget assumptions. This report also provides two additional forecast scenarios utilizing a sensitivity analysis for four of the major revenue assumptions. These additional forecast scenarios

DISCUSSION (continued):

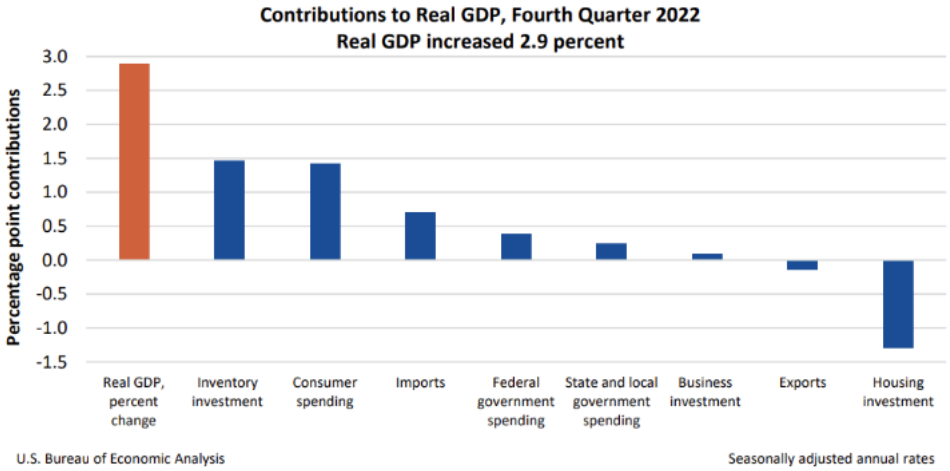
illustrate the effects on future budgets of a more optimistic revenue scenario ("Greater Growth") and a pessimistic revenue one ("Lower Growth").

The Five-Year Financial Forecast is not a budget, nor a proposed plan. The Five-Year Financial Forecast sets the stage for the upcoming budget process and is a tool in facilitating both the Town Council and Town Manager in establishing priorities and allocating resources appropriately.

National and Local Economic Backdrop

The UCLA Anderson School of Business publishes an annual economic forecast for the nation and California. The results of the forecast are utilized as a portion of the macroeconomic basis of the Five-Year Forecast development. In their September 2022 Economic Outlook, they mentioned that based on their analysis, the chance of recession in U.S. in the next 12 months is less than 50%. Their assumption is that the economy will grow 1.5% in 2022, 0.3% in 2023, and 2.0% in 2024. Their assessment was backed by their study of strong consumer spending as we ease from COVID related supply chain issues. Another assumption is that business investment is expected to occur domestically rather than internationally due to mounting geopolitical instability over the past year.

In its December 2022 Economic Outlook, Anderson mentioned that the "national economy has proved resilient as consumers continue to spend and businesses continue to invest." This is demonstrated by the Gross Domestic Product (GDP) increase of 3.2% in the third quarter and 2.9% (advance estimate) in the fourth quarter of 2022. As the graph below illustrates, the 2.9% increase is partly offset by the decrease in housing investment. Inventory investment and consumer spending helped this downturn amidst the inflation, unemployment, and supply-chain issues.



DISCUSSION (continued):

Based on this report, it was noted that the Federal Reserve actions will cushion California's economy. The sectors of logistics, technology, and health care helped California's GDP growth. Its growth has been faster than the U.S. since high-income earners tend to belong in these sectors. In terms of the housing market, the increase of interest rates affected the decline of the median price of single-family homes. According to the report, "the median price was 8.4% below its previous peak but had returned to early 2021 levels." With this assumption, the surge of accessory dwelling units (ADU) and growth in industrial space sector will help shield the state. This in turn makes the 2023 forecast for California more of a moderate slowing than for the U.S. overall.

Operating Revenue Trends and Five-Year Forecast Scenarios

The Town is highly dependent on four economically sensitive revenues comprising 54% of General Fund forecasted revenues. Following are summaries of the Town's major revenues of property tax, sales tax, business license tax, and transient occupancy tax (TOT). To provide context for the development of the Five-Year Forecast (FY 2023/24 – 2027/28), the prior year's growth assumptions and resulting revenue projections are provided. The Base Case Forecast can be found in Attachment 2.

With that context, updated growth assumptions are provided for each revenue source, and the resultant projected revenues for the new Forecast period. The revenue assumptions provided are informed by the County Tax Assessor, the Town's sales tax consultant, and direct communication with the Town's hospitality industry. In addition, alternative forecast scenarios are discussed in this report for these three revenue streams. Please see Attachment 3 for a description of all revenue categories with a comprehensive listing of revenue forecast assumptions.

*Property Tax*

Property tax is the single largest revenue source for the Town and comprised approximately 42% of total Town projected revenues for FY 2022/23. As the following table illustrates, Los Gatos has benefited from the economic expansion as evidenced by year-over-year (YOY) roll growth in property assessment since 2013. For the 10-year period, the average annual growth rate was 6.3%.

*Los Gatos Assessment Roll Growth* (values in billions)

| | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 |
|---|---|---|---|---|---|---|---|---|---|---|
| Total Roll | 9.46 | 9.99 | 10.63 | 11.54 | 12.29 | 13.15 | 13.84 | 14.9 | 15.6 | 16.8 |
| Percent Growth | 9.06 | 5.62 | 6.4 | 8.56 | 6.54 | 6.95 | 5.23 | 7.7 | 4.33 | 2.7 |

Source: Santa Clara County Assessors Annual Reports

DISCUSSION (continued):

The County of Santa Clara provides property tax collection updates and projections throughout the year. The following table illustrates the most recent estimates relative to the Adopted FY 2022/23 Budget and FY 2021/22 actuals. The current County estimate indicates $617,332 more than the Adopted Budget. The increase is a combined effect of higher than expected Redevelopment Agency (RDA) Residual Apportionment, and Vehicle License Fees (VLF), decrease in secured property tax estimates, and no change to property transfer tax and the Educational Revenue Augmentation Fund (ERAF) estimates.

| | FY 2021/22 Actual | FY 2022/23 Adjusted Budget | County Estimate with 70% ERAF |
|---|---|---|---|
| Property Tax Revenue & Vehicle License Fee Backfill | $21.1 M | $20.9 M | $21.5 M |

The Town has been monitoring ongoing developments regarding the distribution of excess ERAF funds. A portion of property tax revenue goes to the ERAF to support local school districts. When the amount contributed to ERAF is more than the minimum cost of funding local schools, excess funds have traditionally been returned to the county, cities, and special districts. Five counties, including Santa Clara, have been using a redistribution allocation formula that has been contested by the State. The Town received the full amount for FY 2021/22; however, the Santa Clara County Assessor's Office recommends budgeting only 70% of the FY 2022/23 projected number. The Adopted FY 2022/23 Budget included a $1,5 million ERAF estimate, 70% of the current ERAF base revenue estimate is still the same.

The following table illustrates the growth factors used in the development of the Five-Year Forecast (FY 2022/23 – 2026/27).

| Property Tax | 2023/24 Forecast | 2024/25 Forecast | 2025/26 Forecast | 2026/27 Forecast | 2027/28 Forecast |
|---|---|---|---|---|---|
| Proposed Growth | 3% | 3% | 3% | 3% | 3% |

For purposes of the Forecast, the "Base Case" utilizes a growth factor of 3.0% and the "Greater Growth" and "Lower Growth" scenarios utilize a 2% differential from the Base Case. In addition to the growth factor, staff continues to assume $400,000 residual excess ERAF revenue in the base case scenario, 70% of the FY 2022/23 proceeds in the "Greater Growth," and no ERAF revenues and the "Lower Growth" scenarios.

DISCUSSION (continued):

| Property Tax (Property Tax & VLF) | 2023/24 Forecast ($M) | 2024/25 Forecast ($M) | 2025/26 Forecast ($M) | 2026/27 Forecast ($M) | 2027/28 Forecast ($M) |
|---|---|---|---|---|---|
| Greater Growth Scenario | $22.40 | $23.50 | $24.60 | $25.90 | $27.30 |
| Base Case Modest Growth | $20.80 | $21.40 | $22.10 | $22.70 | $23.50 |
| Lower Growth Scenario | $20.00 | $20.20 | $20.50 | $20.60 | $20.90 |

*Sales Tax*

Sales tax is the second largest revenue source for the Town and comprised approximately 16% of total Town projected revenues for FY 2022/23. The following table illustrates the most recent projections from the Town's sales tax consultant MuniServices relative to the Adjusted FY 2022/23 budget and FY 2021/22 actuals.

| | FY 2021/22 Actual | FY 2022/23 Adjusted Budget | January 18, 2023 MuniServices Estimate |
|---|---|---|---|
| Base Sales Tax | $7.2 M | $7.9 M | $7.5 M |

| | FY 2021/22 Actual | FY 2022/23 Adjusted Budget | January 18, 2023 MuniServices Estimate |
|---|---|---|---|
| Measure G – 1/8 District Tax | $1.3 M | $1.3 M | $1.3 M |

Current total sales tax estimates include $7,559,566 ($301,422 decrease) in proceeds from regular sales tax and $1,287,690 ($26,266 decrease) in proceeds from the Measure G one-eighth cent district tax. Actual receipts net of administrative fees collected by the State will be confirmed at the close of the fiscal year and per prior Council direction, the Measure G funds are allocated 50% for capital improvement projects and 50% for operating expenses.

The table below provides the MuniServices Most Likely scenario which staff is utilizing for development of the FY 2023/24 Five-Year Forecast.

| Base Sales Tax | 2023/24 Forecast ($M) | 2024/25 Forecast ($M) | 2025/26 Forecast ($M) | 2026/27 Forecast ($M) | 2027/28 Forecast ($M) |
|---|---|---|---|---|---|
| Most Likely | $7.70 | $8.00 | $8.20 | $8.50 | $8.70 |

DISCUSSION (continued):

| Measure G 1/8 District Tax | 2023/24 Forecast ($M) | 2024/25 Forecast ($M) | 2025/26 Forecast ($M) | 2026/27 Forecast ($M) | 2027/28 Forecast ($M) |
|---|---|---|---|---|---|
| Most Likely | $1.30 | $1.30 | $1.40 | $1.40 | $1.40 |

The following tables illustrates MuniServices Most Likely scenario relative to their "Conservative" and "Optimistic" scenarios.

| Base Sales Tax | 2023/24 Forecast ($M) | 2024/25 Forecast ($M) | 2025/26 Forecast ($M) | 2026/27 Forecast ($M) | 2027/28 Forecast ($M) |
|---|---|---|---|---|---|
| Conservative | $7.00 | $7.20 | $7.40 | $7.60 | $7.80 |
| Most Likely | $7.70 | $8.00 | $8.20 | $8.50 | $8.70 |
| Optimistic | $8.50 | $8.80 | $9.00 | $9.30 | $9.60 |

| Measure G 1/8 District Tax | 2023/24 Forecast ($M) | 2024/25 Forecast ($M) | 2025/26 Forecast ($M) | 2026/27 Forecast ($M) | 2027/28 Forecast ($M) |
|---|---|---|---|---|---|
| Conservative | $1.20 | $1.20 | $1.30 | $1.30 | $1.30 |
| Most Likely | $1.30 | $1.30 | $1.40 | $1.40 | $1.40 |
| Optimistic | $1.40 | $1.40 | $1.50 | $1.50 | $1.60 |

Further Information related Sales Tax context are included as Attachment 5.

*Transient Occupancy Tax*

TOT is an important revenue source for the Town and comprises approximately 4% of total Town estimated revenues in the amount of $2.0 million for FY 2022/23. The Town levies a 12% transient occupancy tax (TOT) on all hotel and motel rooms within the municipal limits of Los Gatos

The following table illustrates TOT FY 2021/22 actuals, the Adjusted FY 2022/23 Budget, and year-end collection estimates.

| | FY 2021/22 Actual | FY 2022/23 Adjusted Budget | Year-end Estimate |
|---|---|---|---|
| TOT | $1.9 M | $1.6 M | $2.0 M |

DISCUSSION (continued):

The FY 2022/23 Adopted Budget modeled a 17.3% increase from FY 2021/22 adjusted budget. During the pandemic, TOT experienced the most significant percentage decline relative to historical trends. Due to a significant rebound in leisure "staycation" travel and modest improvements in business travel, current TOT collections are trending higher than anticipated and average occupancy rates are rebounding as well.

The table below illustrates the growth projections utilized for development of the Five-Year Forecast (FY 2023/24 – 2027/28) for TOT and corresponding estimated revenues.

| TOT | 2023/24 Forecast | 2024/25 Forecast | 2025/26 Forecast | 2026/27 Forecast | 2027/28 Forecast |
|---|---|---|---|---|---|
| Proposed Growth | 5% | 3% | 3% | 3% | 3% |
| Estimated Revenues | $2.1 M | $2.2 M | $2.2 M | $2.3 M | $2.4 M |

For purposes of the Forecast, the "Base Case" utilizes a growth factor as illustrated above and the "Greater Growth" and "Lower Growth" scenarios utilize a 1% differential from the Base Case.

| TOT | 2023/24 Forecast ($M) | 2024/25 Forecast ($M) | 2025/26 Forecast ($M) | 2026/27 Forecast ($M) | 2027/28 Forecast ($M) |
|---|---|---|---|---|---|
| Greater Growth Scenario | $2.1 | $2.2 | $2.3 | $2.4 | $2.5 |
| Base Case Modest Growth | $2.1 | $2.2 | $2.2 | $2.3 | $2.4 |
| Lower Growth Scenario | $2.10 | $2.10 | $2.20 | $2.20 | $2.30 |

*Business License Tax*

The Town requires all businesses located within Los Gatos and/or those that operate within Los Gatos to obtain a business license. The amount of business license tax paid by each business is based on its business activity. In November 2022, Los Gatos voters approved Measure J, which modernized the Town's business license tax program. This is the first update to the program since 1991, strengthening funding for core Town services that are enjoyed by Town businesses. Measure J included a 30% increase on flat rate fees, a 40% increase in retailing gross receipts, and a 120% increase in e-commerce, manufacturing, wholesaling, and jobbing gross receipts. Fees for activities such as wholesale sales and manufacturing are charged on a sliding scale based on gross receipts, as is retail, with retail being capped at $1,365. These gross receipt activities account for approximately 25% of annual business licenses, while the remaining 75% are flat fee businesses. Annual renewal payments are due on January 2 of each year. Payments for new flat-fee-based businesses are prorated by quarter.

DISCUSSION (continued):

Business license tax revenue for the current fiscal year was budgeted at the prior tax rate, current estimates based on the updated tax rate predict a significant increase for the business license tax revenue. Staff is recommending a $1,056,500 increase to this revenue source as an adjustment to the FY 2022/23 budget.

The following table illustrates Business License FY 2021/22 actuals, the Adjusted FY 2022/23 Budget, and year-end collection estimates.

| | FY 2021/22 Actual | FY 2022/23 Adjusted Budget | Year-end Estimate |
|---|---|---|---|
| Business License | $1.5 M | $1.4 M | $2.4 M |

Business license tax revenue for the current fiscal year was budgeted at the prior tax rate. Current estimates based on the updated tax rate predict a significant increase for business license tax revenue. Staff is recommending a $1,056,500 increase to this revenue source and this estimate provides the base for the Five-Year Forecast (FY 2023/24 – 2027/28) as illustrated below.

| Business License | 2023/24 Forecast | 2024/25 Forecast | 2025/26 Forecast | 2026/27 Forecast | 2027/28 Forecast |
|---|---|---|---|---|---|
| Proposed Growth | 2% | 2% | 2% | 2% | 2% |
| Estimated Revenues | $2.5 M | $2.5 M | $2.6 M | $2.6 M | $2.7 M |

For purposes of the Forecast, the "Base Case" utilizes a growth factor as illustrated above and the "Greater Growth" and "Lower Growth" scenarios utilize a 1% differential from the Base Case.

| Business License | 2023/24 Forecast ($M) | 2024/25 Forecast ($M) | 2025/26 Forecast ($M) | 2026/27 Forecast ($M) | 2027/28 Forecast ($M) |
|---|---|---|---|---|---|
| Greater Growth Scenario | $2.5 | $2.6 | $2.7 | $2.8 | $2.8 |
| Base Case Modest Growth | $2.5 | $2.5 | $2.6 | $2.6 | $2.7 |
| Lower Growth Scenario | $2.5 | $2.5 | $2.5 | $2.5 | $2.6 |

Garbage Franchise Fee

Franchise fees are collected by the Town for the privilege of operating a utility service within Los Gatos, and as a fee in lieu of a business license tax. Franchise fees are currently received

DISCUSSION (continued):

from Comcast for cable television, PG&E for gas and electric services, West Valley Collection and Recycling for solid waste collection services, and AT&T and Comcast for video services. Franchise fees represent 5% of projected General Fund revenues in FY 2022/23.

As the Town previously enclosed in the FY 2021/22 Annual Comprehensive Financial Report (ACFR), the California Supreme Court recently issued an opinion in a case challenging the franchise fees that the city of Oakland charges to certain waste hauling companies. In Zolly v. City of Oakland, the court concluded that it did not have enough evidence to rule as a matter of law that the fees are exempt from the voter approval requirements that apply to taxes under Proposition 26, Article XIII C of the California Constitution. However, there are several exceptions to the general rule that a tax must be approved by the voters. One exception (Article IIIC, section 1 (e)(1)) is for "a charge imposed for a specific benefit conferred or privileged granted directly to the payor that is not provided to those not charged, and which does not exceed the reasonable costs to the local government of conferring the benefit or granting the privilege." In the event the Town is unable to utilize one of the exceptions, the potential impact is a loss of approximately $2.4 million annually.

The following table illustrates total franchise fees collection with and without garbage franchise fees.

| Franchise Fees | 2023/24 Forecast | 2024/25 Forecast | 2025/26 Forecast | 2026/27 Forecast | 2027/28 Forecast |
|---|---|---|---|---|---|
| All Franchise Fees | $2.8 M | $2.8 M | $2.9 M | $3.0 M | $3.1 M |
| Franchise Fees without Garbage Franchise Fee | $0.9 M | $0.9 M | $0.9 M | $1.0 M | $1.0 M |

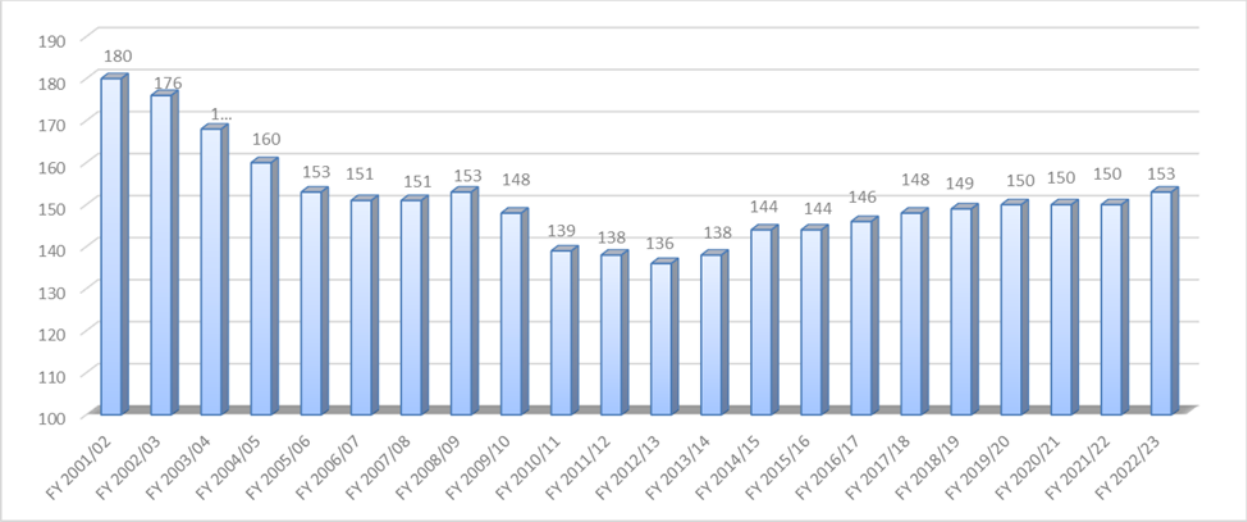
Operating Expense Trends and Five-Year Forecast Scenarios

Forecasts of future operating expenditures take into account two key factors: cost escalation and new operating expenditures. New operating expenditures refer to costs created by new or enhanced service programs approved during the annual budget process. Attachment 4 contains the expenditure assumptions.

Cost escalation refers to largely unavoidable increases in the cost of doing business. It includes inflation, multi-year contract costs, health care costs, and unfunded State mandates. Cost escalation also includes other unavoidable cost increases unique to a government organization, such as a rise in wages consistent with collective bargaining agreements and annual pension payments mandated by CalPERS. The Town has three bargaining units, including the Town Employees' Association (TEA), the American Federation of State, County and Municipal Employees (AFSCME), and the Police Officers' Association (POA). The unrepresented groups are Management and Confidential.

DISCUSSION (continued):

For FY 2022/23, General Fund Estimated Operating expenditures (not including debt payment and transfers out) are $46.9 million. The delivery of Town services is highly dependent on talent which comprises 70% of estimated General Fund expenditures. Given the high dependence on labor for service delivery, the Town has helped manage salary escalation (and benefits) through the maintenance of lower staffing levels. As the table below illustrates, since 2001 the Town has reduced its full-time employees by 15% to 153 FTE employees.




Mandated pension payments to CalPERS has consistently been one of the major cost drivers for the Town over the past decade with persistent unanticipated increases in pension costs. The Town's plans over the past several decades, like all other CalPERS participants, have experienced unfavorable investment returns, changes in actuarial assumptions, and demographic changes which have outweighed any positive plan experiences. The outcome of these unfavorable economic and demographic results is the development of unfunded pension and Other Post-Employment Benefit (OPEB) obligations for the Town. To address the escalation in pension costs, previous Councils have allocated additional discretionary pension funding. totaling $10.4 million. These additional discretionary payments will ultimately yield an approximate additional $12.7 million in contribution savings.

The Town and its bargaining groups have also worked to contain benefit costs. The Town closed the CalPERS retiree Tier 1 benefit for non-safety employees and created a new Tier 2 for non-safety new employees in 2012, implemented the Public Employees' Pension Reform Act (PEPRA) for all new non-classic employees starting in 2013, and participates in the CalPERS discounted prepayment option.

In addition to the management of the Town's pension obligations, prior Councils and the Town's bargaining groups have worked to curb cost escalation in OPEB. In 2009, the Town

DISCUSSION (continued):

initiated prefunding of the retiree healthcare benefit and has since established approximately $22.6 million in OPEB assets (as of 12/31/2022) from zero in 2009. In 2016, the Town's bargaining groups approved the introduction of dependent cost sharing and a reimbursement cap to Medicare eligible employees, and in 2018 the elimination of the Town's existing retiree healthcare benefit prospectively.

While these collective measures have helped to slow the growth in salary and benefit expenses, the Forecast anticipates continued increases in the Town's pension obligations.

Provided below are the expense assumptions for salary and benefits and alternate case scenarios for pension contributions. The majority of other expenses are assumed to increase at 3% per annum. Detailed expenditure assumptions and factors can be found in Attachment 4.

*Salary and Benefits*
*Salary*

The Town has historically budgeted vacant and non-sworn positions at top step of the range for the position. Sworn and management positions are budgeted at one step higher of current step in anticipation of any merit increases expected to be awarded in the upcoming fiscal year. Based on Council's direction for FY 2021/22, salaries were budgeted at actual salary plus a one step increase, which was a significant budgeting methodology change from previous practice. This methodology will be continued for the development of FY 2023/24 budget unless modified by the Town Council.

For the Forecast, positions are budgeted at the actual rate of pay of employees including benefits as of January 2023. Then, by position, salary costs are updated in accordance with the applicable Memorandum of Understanding (MOU) between the Town and its bargaining units. The Memoranda of Understanding that outline the individual agreements between the Town and each unit related to compensation, health benefits, leave time, and grievance procedures will expire with TEA and AFSCME on June 30, 2024. POA's MOU will expire on September 30, 2024. The Management and Confidential groups are unrepresented.

In addition to the economic terms of the MOUs, the Forecast assumes step increases for employees in applicable positions, and merit increases for Management and Confidential employees. In addition, based on prior Council guidance, 2% cost of living wage adjustments (COLA) are included in the Forecast for each year starting in 2024/25.

| Salaries (Current MOUs) | 2023/24 Forecast ($M) | 2024/25 Forecast ($M) | 2025/26 Forecast ($M) | 2026/27 Forecast ($M) | 2027/28 Forecast ($M) |
|---|---|---|---|---|---|
| Base Case | $23.10 | $23.62 | $24.09 | $24.63 | $25.17 |

DISCUSSION (continued):

The following table illustrates the base case forecast compared to a forecast with 4% vacancy saving factor as recommended by the Finance Commission.

| Surplus/Deficit | 2023/24 Forecast ($M) | 2024/25 Forecast ($M) | 2025/26 Forecast ($M) | 2026/27 Forecast ($M) | 2027/28 Forecast ($M) |
|---|---|---|---|---|---|
| Base Case | ($2.70) | ($3.10) | ($3.00) | ($3.10) | ($3.20) |
| with 4% Vacancy Factor | ($1.30) | ($1.70) | ($1.50) | ($1.50) | ($1.60) |

*Pension and Other Benefits*

For purposes of the Forecast, staff utilizes estimates provided by each plan's most recent actuarial valuation received from CalPERS. The employer contribution rates reflect percentages of covered payroll. Rates shown for FY 2023/24 are actual rates as prescribed by CalPERS. Forecasted rates for FY 2023/24 and subsequent years are based on the most recent CalPERS Actuarial Valuation Reports as adjusted by the impact related to the FY 2021/22 CalPERS negative 7.5% investment return and forecasted payroll.

Beginning in FY 2021/22, the estimates of employer contributions were credited with an anticipated reductions associated with the approximate $4.8 million additional discretionary payment (ADP) toward the 2016 unfunded amortization base paid off in October 2019 and the total of approximately $5.8 million in ADPs toward unfunded 2013 and 2015 amortization bases that were paid off in FY 2020/21.

| Pension & Other Benefits | 2022/23 Forecast ($M) | 2023/24 Forecast ($M) | 2024/25 Forecast ($M) | 2025/26 Forecast ($M) | 2026/27 Forecast ($M) |
|---|---|---|---|---|---|
| Base Case | $10.9 | $11.4 | $11.9 | $11.9 | $12.3 |

Given that investment returns have one of the largest impacts on contribution variability, CalPERS provides projected employer Unfunded Actuarial Liability (UAL) contributions under alternate investment returns. Analysis using the investment return scenarios from the Asset Liability Management process completed in 2021 was performed to determine the effects of various future investment returns on required employer contributions. The projections below reflect the impact of the CalPERS Funding Risk Mitigation policy. The projected normal cost rates reflect that the rates are anticipated to decline over time as new employees are hired into lower-cost benefit tiers. The projections also assume that all other actuarial assumptions will be realized and that no further changes in assumptions, contributions, benefits, or funding will occur. The first table shows projected contribution requirements if the fund were to earn either 3.0% or 10.8% annually. These alternate investment returns were chosen because 90%

DISCUSSION (continued):

of long-term average returns are expected to fall between these levels over the 20-year period ending June 30, 2041.

| UAL Town Contributions (Misc & Safety) | 2024/25 Forecast | 2025/26 Forecast | 2026/27 Forecast | 2026/27 Forecast | 2027/28 Forecast |
|---|---|---|---|---|---|
| Greater Investment Return Scenario (10.8%) | $4,432,000 | $3,131,000 | $1,613,000 | $56,000 | $0 |
| Base Investment Return Case (3.0%) | $4,774,000 | $4,587,000 | $4,914,000 | $5,316,000 | $6,128,000 |

CalPERS Actuarial Valuations as of June 30, 2021

For the year ending June 30, 2022, the Public Employees Retirement Fund (PERF) returned negative 7.5%. The table below illustrates the historic investment returns for five years, ten years, twenty years, and thirty years.

| CalPERS Compound Annual Rates of Return (as of June 30, 2021) | 5 Years | 10 Years | 20 Years | 30 Years |
|---|---|---|---|---|
| Compound Annual Return | 10.30% | 8.50% | 6.90% | 8.40% |

Five-Year Financial Forecast Alternative Scenarios

The tables below present the "Base Case" forecast contrasted against the two alternative revenue scenarios of "Greater Growth" and "Lower Growth." In addition, the 4% vacancy factor and the elimination of the garbage franchise fees are illustrated compared to the base case. As illustrated in the tables, even modest changes to the "Base Case" forecast can result in either additional surpluses or deficits during the forecast period.

| 5 Year Forecast "Base Case" | 2023/24 Forecast ($M) | 2024/25 Forecast ($M) | 2025/26 Forecast ($M) | 2026/27 Forecast ($M) | 2027/28 Forecast ($M) |
|---|---|---|---|---|---|
| Total Revenues & Transfers | $48.9 | $50.1 | $51.4 | $53.1 | $54.5 |
| Total Expenses & Allocations | $51.6 | $53.2 | $54.4 | $56.2 | $57.7 |
| Surplus/Deficit | ($2.7) | ($3.1) | ($3.0) | ($3.1) | ($3.2) |

| Alternative Scenario "Greater Growth" | 2023/24 Forecast ($M) | 2024/25 Forecast ($M) | 2025/26 Forecast ($M) | 2026/27 Forecast ($M) | 2027/28 Forecast ($M) |
|---|---|---|---|---|---|
| Total Revenues & Transfers | $51.4 | $53.2 | $55.1 | $57.6 | $59.5 |
| Total Expenses & Allocations | $51.7 | $53.2 | $54.4 | $56.3 | $57.8 |
| Surplus/Deficit | ($0.3) | $0.0 | $0.7 | $1.3 | $1.7 |

DISCUSSION (continued):

| Alternative Scenario "Lower Growth" | 2023/24 Forecast ($M) | 2024/25 Forecast ($M) | 2025/26 Forecast ($M) | 2026/27 Forecast ($M) | 2027/28 Forecast ($M) |
|---|---|---|---|---|---|
| Total Revenues & Transfers | $47.3 | $47.9 | $48.9 | $49.9 | $50.8 |
| Total Expenses & Allocations | $51.6 | $53.1 | $54.3 | $56.2 | $57.7 |
| Surplus/Deficit | ($4.3) | ($5.2) | ($5.4) | ($6.3) | ($6.9) |

| Alternative Scenario "4% Vacancy Factor" | 2023/24 Forecast ($M) | 2024/25 Forecast ($M) | 2025/26 Forecast ($M) | 2026/27 Forecast ($M) | 2027/28 Forecast ($M) |
|---|---|---|---|---|---|
| Total Revenues & Transfers | $48.9 | $50.1 | $51.4 | $53.1 | $54.5 |
| Total Expenses & Allocations | $50.2 | $51.8 | $52.9 | $54.6 | $56.1 |
| Surplus/Deficit | ($1.3) | ($1.7) | ($1.5) | ($1.5) | ($1.6) |

| Alternative Scenario without Garbage Franchise Fee | 2023/24 Forecast ($M) | 2024/25 Forecast ($M) | 2025/26 Forecast ($M) | 2026/27 Forecast ($M) | 2027/28 Forecast ($M) |
|---|---|---|---|---|---|
| Total Revenues & Transfers | $47.1 | $48.2 | $49.4 | $51.1 | $52.4 |
| Total Expenses & Allocations | $51.6 | $53.2 | $54.4 | $56.2 | $57.7 |
| Original Surplus/Deficit | ($4.5) | ($5.0) | ($5.0) | ($5.1) | ($5.3) |

CONCLUSION:

The Finance Commission should review and discuss the elements and assumptions of the initial Five-Year Forecast and other budget considerations. The “Base Case” Forecast estimates deficits at this time. Staff looks forward to answering the Finance Commission questions and receiving any direction for Council consideration for the preparation of the proposed FY 2023/24 Operating Budget that results from the discussion.

The preparation of the FY2023/24 Operating and Capital Budgets is taking into account the Town’s current economic reality and long term fiscal picture, as well as maintaining the Town’s high level of municipal services. This is considered a “status quo” approach with no major new initiatives or staffing. Key budget principles include:

- Develop and recommend a balanced budget that maintains service levels;
- Address projected deficits;

DISCUSSION (continued):

- Continue to make progress on Strategic Priorities identified by the Town Council; and
- Identify opportunities to maintain or enhance service delivery through new revenue sources and technology.

The Capital Improvement Program and direction will be discussed separately at the March meeting. The Finance Commission may also discuss budget assumptions. The Draft FY 2023/24 Operating and Capital Budgets will be available in April for the Finance Commission elaboration with the budget hearing tentatively scheduled for May 16, 2023.

COORDINATION:

This Report was prepared by the Finance Department and the Town Manager Office.

ENVIRONMENTAL ASSESSMENT:

This is not a project defined under CEQA, and no further action is required.

Attachments:
1. Annual Budget Process
2. Base Case Five-Year Forecast
3. Forecast Revenue Assumptions
4. Forecast Expense Assumptions
5. Additional Sales Tax Context from MuniServices

| | Prior FY (2021/22) | Current FY (2022/23) | Next FY (2023/24) |
|---|---|---|---|
| December | **June 30, 2022 ACFR** finalized and presented for Council approval.<br><br>**ACFR** surpluses assigned per the Council Reserve Policy as of June 30, 2022 | | |
| January | | Council deliberates **Strategic Priorities** and **Budget** direction for FY 2023/24.<br><br>Review of Five-year Forecast and assumptions.<br><br>Council determines if previously assigned surpluses should be reallocated for FY 2023/24. | |
| February | | Council considers **Mid-Year Budget** adjustments through 12/31/2022 for FY 2022/23 Budget. | |
| April | | Finance Commission review and comment on Proposed FY 2023/24 **Operating & Capital Budgets.** | |
| May | | Public hearing on FY 2023/24 **Operating & Capital Budgets** | |
| June | | Council adoption of the FY 2023/24 **Operating & Capital Budgets** | End of **June 30, 2023 ACFR** period |
| July | | | Start of new FY 2023/24 **Operating Budget** year |
| December | | | **June 30, 2023 ACFR** finalized and presented for Council approval.<br><br>**ACFR** surpluses assigned per the Council Reserve Policy as of June 30, 2023<br><br>**ATTACHMENT 1** |



All Council deliberations and actions include opportunities for public input

## Town of Los Gatos General Fund 5-Year Forecast - Base Case
## (in $ million)

| Account | Revenue Category | 2021/22 Actuals | 2022/23 Adjusted Budget | 2022/23 Estimates | 2023/24 Forecast | 2024/25 Forecast | 2025/26 Forecast | 2026/27 Forecast | 2027/28 Forecast |
|---|---|---|---|---|---|---|---|---|---|
| 4100 | Property Tax | $ 16.9 | $ 16.6 | $ 17.0 | $ 16.3 | $ 16.8 | $ 17.3 | $ 17.8 | $ 18.4 |
| 4110 | VLF Backfill Property Tax | 4.2 | 4.4 | 4.6 | 4.5 | 4.6 | 4.8 | 4.9 | 5.1 |
| 4200 | Sales & Use Tax | 7.2 | 7.9 | 7.5 | 7.7 | 8.0 | 8.2 | 8.4 | 8.7 |
| 4200 | Measure G District Sales Tax | 1.3 | 1.3 | 1.3 | 1.3 | 1.3 | 1.3 | 1.4 | 1.4 |
| 4250 | Franchise Fees | 2.8 | 2.5 | 2.7 | 2.7 | 2.8 | 2.9 | 3.0 | 3.1 |
| 4251 | Transient Occupancy Tax | 1.9 | 1.6 | 2.0 | 2.1 | 2.2 | 2.2 | 2.3 | 2.4 |
| 4400 | Business License Tax | 1.5 | 1.4 | 2.4 | 2.5 | 2.5 | 2.6 | 2.6 | 2.7 |
| 4400 | Licenses & Permits | 4.8 | 2.8 | 2.9 | 2.9 | 3.0 | 3.1 | 3.2 | 3.3 |
| 4500 | Intergovernmental | 1.3 | 1.1 | 1.3 | 1.0 | 1.0 | 1.0 | 1.2 | 1.1 |
| 4600 | Town Services | 5.3 | 4.4 | 5.1 | 3.8 | 3.8 | 3.9 | 4.0 | 4.1 |
| 4700 | Fines & Forfeitures | 0.3 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.3 | 0.3 |
| 4800 | Interest | (1.4) | 0.4 | 0.5 | 0.4 | 0.4 | 0.4 | 0.4 | 0.4 |
| 4850 | Other Sources | 7.0 | 3.2 | 2.5 | 2.2 | 2.2 | 2.2 | 2.3 | 2.2 |
| 4900 | Fund Transfers In | 0.6 | 0.5 | 0.5 | 0.5 | 0.5 | 0.5 | 0.5 | 0.5 |
| **TOTAL OPERATING REVENUES & TRANSFERS*** | | $ 53.7 | $ 48.3 | $ 50.5 | $ 48.1 | $ 49.3 | $ 50.6 | $ 52.3 | $ 53.7 |
| | Capital | 0.6 | 2.4 | 2.4 | 0.8 | 0.8 | 0.8 | 0.8 | 0.8 |
| | Use of Pension/OPEB Reserve | 0.3 | 0.3 | 0.3 | - | - | - | - | - |
| | Use of Property Surplus Reserve | 1.2 | 1.2 | - | - | - | - | - | - |
| | Use of Measure G Reserve | 1.1 | 0.7 | - | - | - | - | - | - |
| | ARPA Replacement Revenue | - | 1.6 | - | - | - | - | - | - |
| **TOTAL REVENUES, TRANSFERS, AND USE OF RESERVES** | | $ 56.9 | $ 54.5 | $ 53.2 | $ 48.9 | $ 50.1 | $ 51.4 | $ 53.1 | $ 54.5 |

| Account | Expenditure Category | 2021/22 Actuals | 2022/23 Adjusted Budget | 2022/23 Estimates | 2023/24 Forecast | 2024/25 Forecast | 2025/26 Forecast | 2026/27 Forecast | 2027/28 Forecast |
|---|---|---|---|---|---|---|---|---|---|
| 5110 | Salary | 20.0 | 23.3 | 22.0 | 23.1 | 23.6 | 24.1 | 24.6 | 25.2 |
| 5120 | CalPERS Benefits | 6.5 | 7.7 | 7.1 | 8.1 | 8.4 | 8.5 | 9.0 | 9.4 |
| 5200 | All Other Benefits | 3.7 | 4.6 | 3.9 | 4.4 | 4.5 | 4.6 | 4.7 | 4.8 |
| 6211 | OPEB Pay as You Go | 1.4 | 1.5 | 1.6 | 1.5 | 1.6 | 1.7 | 1.8 | 1.9 |
| 6000 | Operating Expenditures | 10.4 | 7.1 | 7.8 | 6.9 | 7.2 | 7.3 | 7.6 | 7.7 |
| 7200 | Grants & Awards | 1.8 | 0.2 | 0.6 | 0.2 | 0.2 | 0.2 | 0.2 | 0.3 |
| 7400 | Utilities | 0.6 | 0.6 | 0.6 | 0.6 | 0.7 | 0.7 | 0.7 | 0.7 |
| 8060 | Internal Service Charges | 2.6 | 2.7 | 2.4 | 2.9 | 3.1 | 3.3 | 3.7 | 3.8 |
| 8900 | Debt Service | 2.1 | 1.9 | 2.0 | 2.1 | 2.1 | 2.1 | 1.9 | 2.1 |
| **TOTAL OPERATING EXPENDITURES** | | $ 49.0 | $ 49.5 | $ 48.1 | $ 49.8 | $ 51.3 | $ 52.5 | $ 54.3 | $ 55.8 |
| | GASB 45 Retiree Medical Actuarial | 0.1 | - | - | - | - | - | - | - |
| | Additional Discretionary Payment - Pension | 0.7 | 0.4 | 0.7 | 0.4 | 0.4 | 0.4 | 0.4 | 0.4 |
| **TOTAL OPERATING & DISCRETIONARY EXPENDITURES** | | $ 49.8 | $ 49.9 | $ 48.8 | $ 50.2 | $ 51.7 | $ 52.9 | $ 54.7 | $ 56.2 |
| | Capital Transfers Out to GFAR | 1.2 | 2.3 | 2.4 | 0.8 | 0.8 | 0.8 | 0.8 | 0.8 |
| | 1/2 of Measure G Proceeds to Capital | 0.6 | 0.7 | 0.6 | 0.6 | 0.7 | 0.7 | 0.7 | 0.7 |
| | Fund | - | 0.4 | 0.7 | - | - | - | - | - |
| **AMOUNTS AVAILABLE FOR RESERVE ALLOCATIONS** | | | | | | | | | |
| | Stabilization/Catastrophic | 1.1 | | - | - | - | - | - | - |
| | Allocate to Compensated Absences | (0.2) | - | - | - | - | - | - | - |
| | Allocate to Market Fluctuation | (0.4) | - | - | - | - | - | - | - |
| | Allocate to CalPERS/Pension | 0.3 | - | - | - | - | - | - | - |
| | Allocate from CalPERS/Pension | (0.3) | - | - | - | - | - | - | - |
| | Allocate to Authorized Carryforwards | 0.03 | - | - | - | - | - | - | - |
| **TOTAL EXPENDITURES & RESERVE ALLOCATIONS** | | $ 52.1 | $ 53.3 | $ 52.5 | $ 51.6 | $ 53.2 | $ 54.4 | $ 56.2 | $ 57.7 |
| **NET REVENUES RESERVE TRANSFERS LESS EXPENDITURES & RESERVE ALLOCATIONS FOR FINAL ALLOCATION AFTER YEAR END CLOSE** | | $ 4.7 | $ 1.2 | $ 0.7 | $ (2.7) | $ (3.1) | $ (3.0) | $ (3.1) | $ (3.2) |

* Due to rounding of individual categories FY 2022/23 Estimated Total Expenditures and Reserve Allocations includes $0.1 million.
General Fund (111) Forecast does not include Pension Trusts activities.



**ATTACHMENT 2**

# Revenue Baselines and Projection Factors

| Type of Revenue | FY 2022/23 Estimates Baseline | FY 2023/24 Forecast | FY 2024/25 Forecast | FY 2025/26 Forecast | FY 2026/27 Forecast | FY 2027/28 Forecast |
|---|---|---|---|---|---|---|
| **Property Tax/VLF Backfill** | Current baseline set by SCC Assessor Office November 2022 report | 3% | 3% | 3% | 3% | 3% |
| **ERAF** | Current baseline set 70% of SCC Assessor Office November 2022 report | $400K | $400K | $400K | $400K | $400K |
| **Sales Tax** | MuniServices January 2023 Most Likely Estimates | MuniServices January 2023 Most Likely Estimates | MuniServices January 2023 Most Likely Estimates | MuniServices January 2023 Most Likely Estimates | MuniServices January 2023 Most Likely Estimates | MuniServices January 2023 Most Likely Estimates |
| **Sales Tax - Measure G** | MuniServices January 2023 Most Likely Estimates | MuniServices January 2023 Most Likely Estimates | MuniServices January 2023 Most Likely Estimates | MuniServices January 2023 Most Likely Estimates | MuniServices January 2023 Most Likely Estimates | MuniServices January 2023 Most Likely Estimates |
| **Franchise Fee** | Current baseline set by FY 2022/23 Estimates | 3% | 3% | 3% | 3% | 3% |
| **Transient Occupancy Tax** | Current baseline set by FY 2022/23 Estimates | 5% | 3% | 3% | 3% | 3% |
| **Business License Tax** | Current baseline set by FY 2022/23 Estimates | 2% | 2% | 2% | 2% | 2% |
| **License & Permits** | Current baseline set by FY 2022/23 Estimates | 3% | 3% | 3% | 3% | 3% |
| **Town Services** | Current baseline set by FY 2022/23 Estimates | 3% | 3% | 3% | 3% | 3% |



**ATTACHMENT 3**

# Revenue Baselines and Projection Factors

| | | | | | | |
|---|---|---|---|---|---|---|
| **Fine & Forfeitures** | Current baseline set by FY 2022/23 Estimates | Varies | Varies | Varies | Varies | Varies |
| **Interest** | Current baseline set by FY 2021/22 Actuals | 1% | 1% | 1% | 1% | 1% |
| **Other Sources** | Current baseline set by FY 2022/23 Estimates | Varies | Varies | Varies | Varies | Varies |

## EXPENDITURE BASELINE AND PROJECTION FACTORS

Beginning in FY 2020/21, the Town started budgeting salaries at the actual salary plus a one-step increase. In the Five-Year Forecast, positions are forecasted at the actual rate of pay including salaries and benefits as of January 20, 2023, and rate is increasing in the actual anniversary date.

| Type of Expenditure | FY 2022/23 Budget | FY 2023/24 Forecast | FY 2024/25 Forecast | FY 2025/26 Forecast | FY 2026/27 Forecast | FY 2027/28 Forecast |
|---|---|---|---|---|---|---|
| **Salaries*(TEA, Conf, Temp)** | 3-8% | 3% | 2% | 2% | 2% | 2% |
| **Salaries *(POA)** | 7.25% | 3% | 2% | 2% | 2% | 2% |
| **Salaries*(AFSCME)** | 7.5% | 3% | 2% | 2% | 2% | 2% |
| **Salaries * (Management)** | 3% | 3% | 2% | 2% | 2% | 2% |
| **Benefit - Medical**** | 7% | 7% | 7% | 7% | 7% | 7% |
| **Operating Expenditures***** | Varies | 3% | 3% | 3% | 3% | 3% |
| **Grants & Awards** | 0% | 0% | 0% | 0% | 0% | 0% |
| **Utilities***** | Varies | 3% | 3% | 3% | 3% | 3% |
| **Internal Service Charges***** | Based on operating cost and scheduled replacement | Based on operating cost and scheduled replacement | Based on operating cost and scheduled replacement | Based on operating cost and scheduled replacement | Based on operating cost and scheduled replacement | Based on operating cost and scheduled replacement |
| **Debt Service** | Debt Service Schedules | | | | | |

**Salary increases are based on actual step increases and approved Memoranda of Understanding with the bargaining units plus the Council's assumption of 2% per year cost of living adjustment.*
*** Benefit increase estimates are provided by CalPERS/Public Employees' Medical and Hospital Care Act (PEMHCA)*
**** Based on historical trends.*

The Town's required employer contribution rate estimates were developed using data provided by each plan's most recent CalPERS actuarial valuation. The employer contribution rates reflect percentages of covered payroll. Rates shown for FY 2023/24 are actual rates as prescribed by CalPERS. Forecasted rates for FY 2023/24 and subsequent years are based on the most recent CalPERS actuarial valuation Reports

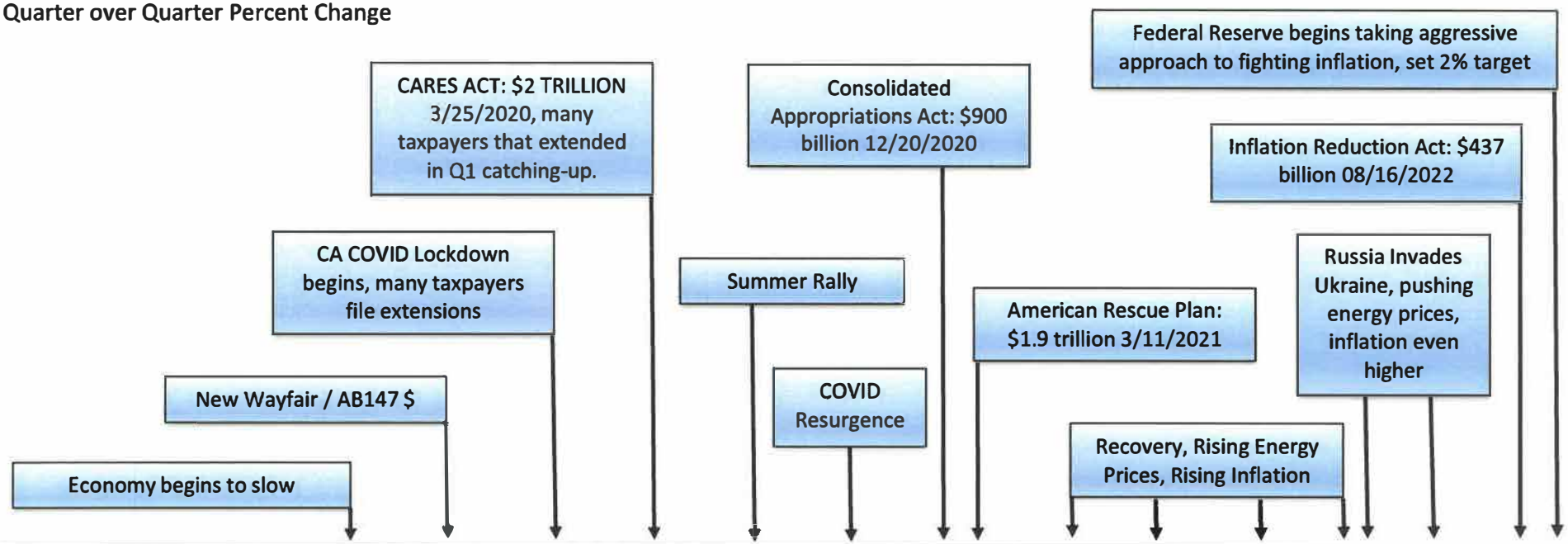
as adjusted by the impact related to the FY 2021/22 CalPERS negative 7.5% investment return and forecasted payroll.

Beginning in FY 2021/22, the estimates of employer contributions were credited with an anticipated reductions associated with the approximate $4.8 million additional discretionary payment (ADP) toward the 2016 unfunded amortization base paid off in October 2019 and the total of approximately $5.8 million in ADPs toward unfunded 2013 and 2015 amortization bases that were paid off in FY 2020/21.

| Type of Expenditure | FY 2022/23 Budget | FY 2023/24 Forecast | FY 2024/25 Forecast | FY 2025/26 Forecast | FY 2026/27 Forecast | FY 2027/28 Forecast |
|---|---|---|---|---|---|---|
| **Safety POA** | 69.44% | 81.31% | 86.65% | 90.15% | 93.71% | 96.09% |
| **Safety Management POA** | 72.44% | 84.31% | 89.65% | 93.15% | 96.71% | 99.09% |
| **Safety POA - PEPRA** | 14.62% | 14.5% | 14.5% | 14.5% | 14.5% | 14.5% |
| **Miscellaneous TEA/AFSCME/Confidential/ Management** | 29.92% | 29.97% | 28.67% | 27.53% | 28.58% | 29.06% |
| **Miscellaneous TEA/AFSCME/Confidential/ Management PEPRA**<br>Separate PEPRA rate for Miscellaneous has not been established yet by CalPERS. | 29.92% | 29.97% | 28.67% | 27.53% | 28.58% | 29.06% |

## California Taxable Sales

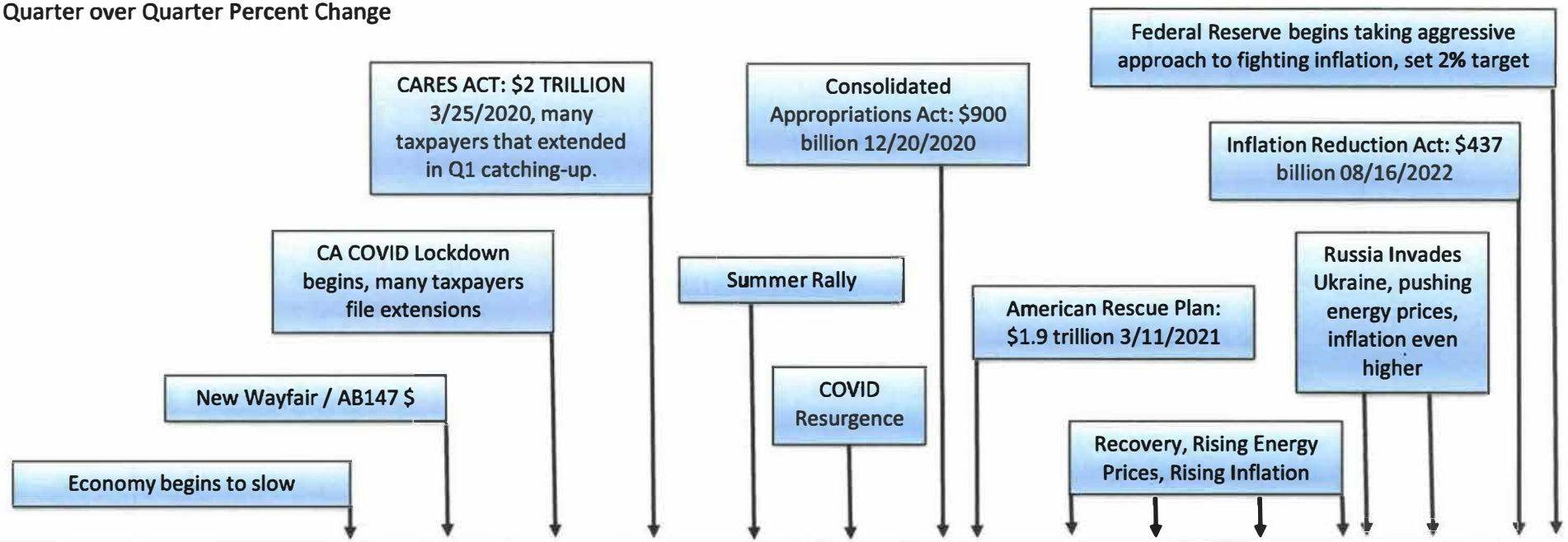
Quarter over Quarter Percent Change




| JURISDICTION OR REGION | 2019Q3 | 2019Q4 | 2020Q1 | 2020Q2 | 2020Q3 | 2020Q4 | 2021Q1 | 2021Q2 | 2021Q3 | 2021Q4 | 2022Q1 | 2022Q2 | 2022Q3 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Federal Funds Rate (Top of Target Range) >>> | | | 0.25% | 0.25% | 0.25% | 0.25% | 0.25% | 0.25% | 0.25% | 0.25% | 0.50% | 1.75% | 3.25% |
| Town of Los Gatos | -17.5% | 10.7% | -47.0% | -29.5% | -2.0% | -45.2% | 66.3% | 35.1% | -6.0% | 56.0% | 11.2% | -13.9% | 8.8% |
| OTHER SOUTHERN | -12.5% | 15.4% | -29.5% | 5.9% | 2.9% | -6.0% | 48.1% | 17.9% | 14.1% | 20.0% | 26.1% | -0.4% | -2.0% |
| CENTRAL COAST | -10.7% | 5.3% | -25.9% | -8.8% | 2.0% | -2.2% | 38.9% | 28.7% | 11.4% | 18.2% | 20.5% | 4.0% | 8.5% |
| SOUTH COAST | -7.8% | 5.5% | -20.8% | -10.7% | -3.9% | -10.5% | 29.2% | 34.6% | 18.7% | 28.7% | 21.1% | 5.7% | 7.8% |
| S.F. BAY AREA | -11.5% | 5.7% | -20.0% | -11.2% | -4.9% | -10.3% | 23.2% | 26.1% | 13.6% | 20.2% | 19.8% | 5.6% | 10.4% |
| STATEWIDE | -8.8% | 5.3% | -18.9% | -6.0% | -0.2% | -5.8% | 32.8% | 32.1% | 17.6% | 25.4% | 19.1% | 5.0% | 7.5% |
| INLAND EMPIRE | -8.7% | 4.7% | -17.6% | 1.8% | 8.8% | 3.6% | 49.9% | 37.5% | 21.9% | 30.4% | 19.1% | 6.8% | 8.3% |
| SACRAMENTO VALLEY | -8.2% | 2.3% | -15.3% | 5.6% | 5.7% | -0.9% | 35.4% | 27.8% | 16.7% | 22.8% | 15.9% | 2.0% | 5.6% |
| CENTRAL VALLEY | -7.2% | 6.0% | -11.5% | 8.1% | 10.2% | 8.6% | 44.6% | 33.7% | 19.9% | 24.3% | 14.2% | 3.7% | 5.7% |
| NORTH COAST | -6.0% | 7.1% | -11.0% | 3.2% | 13.1% | 5.2% | 37.6% | 24.5% | 5.7% | 6.4% | 2.8% | -5.3% | -4.1% |
| OTHER NORTHERN | -11.0% | 7.7% | -9.2% | 3.8% | 11.1% | 7.9% | 34.5% | 26.5% | 9.2% | 9.3% | 5.6% | -4.9% | 1.2% |
| Inflation (U.S. CPI-U) >>> | | | 2.1% | 0.3% | 1.2% | 1.3% | 1.9% | 4.9% | 5.4% | 6.7% | 8.0% | 8.7% | 8.3% |
| CA Gasoline Average Retail >>> | | | 4.0% | -26.8% | -13.5% | -19.5% | 2.7% | 41.9% | 36.6% | 44.7% | 42.2% | 46.8% | 28.9% |

## California Taxable Sales

Quarter over Quarter Percent Change




| JURISDICTION OR REGION | 2019Q3 | 2019Q4 | 2020Q1 | 2020Q2 | 2020Q3 | 2020Q4 | 2021Q1 | 2021Q2 | 2021Q3 | 2021Q4 | 2022Q1 | 2022Q2 | 2022Q3 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Federal Funds Rate (Top of Target Range) >>> | | | 0.25% | 0.25% | 0.25% | 0.25% | 0.25% | 0.25% | 0.25% | 0.25% | 0.50% | 1.75% | 3.25% |
| Los Gatos T&UT 1/8% | | | | 4.5% | 13.8% | -12.5% | 27.8% | 37.7% | 9.4% | 28.8 | 22.3% | 2.2% | -0.5% |
| OTHER SOUTHERN | -12.5% | 15.4% | -29.5% | 5.9% | 2.9% | -6.0% | 48.1% | 17.9% | 14.1% | 20.0% | 26.1% | -0.4% | -2.0% |
| CENTRAL COAST | -10.7% | 5.3% | -25.9% | -8.8% | 2.0% | -2.2% | 38.9% | 28.7% | 11.4% | 18.2% | 20.5% | 4.0% | 8.5% |
| SOUTH COAST | -7.8% | 5.5% | -20.8% | -10.7% | -3.9% | -10.5% | 29.2% | 34.6% | 18.7% | 28.7% | 21.1% | 5.7% | 7.8% |
| S.F. BAY AREA | -11.5% | 5.7% | -20.0% | -11.2% | -4.9% | -10.3% | 23.2% | 26.1% | 13.6% | 20.2% | 19.8% | 5.6% | 10.4% |
| STATEWIDE | -8.8% | 5.3% | -18.9% | -6.0% | -0.2% | -5.8% | 32.8% | 32.1% | 17.6% | 25.4% | 19.1% | 5.0% | 7.5% |
| INLAND EMPIRE | -8.7% | 4.7% | -17.6% | 1.8% | 8.8% | 3.6% | 49.9% | 37.5% | 21.9% | 30.4% | 19.1% | 6.8% | 8.3% |
| SACRAMENTO VALLEY | -8.2% | 2.3% | -15.3% | 5.6% | 5.7% | -0.9% | 35.4% | 27.8% | 16.7% | 22.8% | 15.9% | 2.0% | 5.6% |
| CENTRAL VALLEY | -7.2% | 6.0% | -11.5% | 8.1% | 10.2% | 8.6% | 44.6% | 33.7% | 19.9% | 24.3% | 14.2% | 3.7% | 5.7% |
| NORTH COAST | -6.0% | 7.1% | -11.0% | 3.2% | 13.1% | 5.2% | 37.6% | 24.5% | 5.7% | 6.4% | 2.8% | -5.3% | -4.1% |
| OTHER NORTHERN | -11.0% | 7.7% | -9.2% | 3.8% | 11.1% | 7.9% | 34.5% | 26.5% | 9.2% | 9.3% | 5.6% | -4.9% | 1.2% |
| Inflation (U.S. CPI-U) >>> | | | 2.1% | 0.3% | 1.2% | 1.3% | 1.9% | 4.9% | 5.4% | 6.7% | 8.0% | 8.7% | 8.3% |
| CA Gasoline Average Retail >>> | | | 4.0% | -26.8% | -13.5% | -19.5% | 2.7% | 41.9% | 36.6% | 44.7% | 42.2% | 46.8% | 28.9% |

**TOWN OF LOS GATOS**

**FINANCE COMMISSION REPORT**

MEETING DATE: 02/13/2023

ITEM NO: 7

DATE: February 2, 2023

TO: Finance Commission

FROM: Laurel Prevetti, Town Manager

SUBJECT: Review the Finance Commission 2022 Workplan and Discuss the 2023 Workplan

REMARKS

The Agenda Item titled "Review the Finance Commission 2022 Workplan and discuss the 2023 Workplan" was continued from the January 10, 2023 Finance Commission meeting to the February 13, 2223 regular meeting. Attachment 4 contains the Draft Updated 2023 Workplan based on the recommendations of the Finance Commission Chair.

Attachments received with the continued 1-10-2023 Meeting Agenda Item 8:

1. Measure A
2. Actual 2022 Commission Workplan
3. Draft 2023 Commission Workplan

Attachments received with this Staff Report

4. Draft Updated 2023 Commission Workplan

PREPARED BY: Gitta Ungvari
Finance Director

Reviewed by: Town Manager and Town Attorney

DIVISION 3. - FINANCE COMMISSION.

Sec. 2.50.200. - Finance Commission established.

(a) The Finance Commission shall be established to serve in an advisory capacity to the Town Council by reviewing Town finances, including but not limited to the annual budget, Comprehensive Annual Financial Report, and capital expenditures, and making recommendations about the Town's financial, budgetary and investment matters and operations related thereto to the Town Council and any other Town department, agency, committee, commission or other body as the Town Council directs.

(b) The Council Finance Committee is disbanded.

(c) The Sales Tax Oversight Committee established by section 25.60.140 of the Town Code is disbanded and all powers and duties of that Committee are transferred to the Finance Commission.

( Ord. No. 2314 , § 3(§ 1), 11-3-20)

Sec. 2.50.205. - Composition, appointment, terms.

(a) The Finance Commission shall consist of five (5) voting citizen members ("Citizen Appointees") and two (2) non-voting Council Liaisons.

(b) Council Liaisons.

(1) The Town Council shall appoint two (2) Town Council members as non-voting Council Liaisons.

(2) The Council Liaisons shall serve on the Finance Commission until replaced by the Town Council but shall not serve beyond their terms on the Town Council.

(3) One Council Liaison shall be the Mayor or Vice-Mayor of the Town.

(c) Citizen Appointees.

(1) Except with respect to initial appointments as provided for in section 2.50.25(c)(5), each member of the Town Council shall appoint one Citizen Appointee, upon expiration of terms described in section 2.50.205(c)(4).

(2) Citizen Appointees must be residents and registered voters of the Town.

(3) No member of the Town Council may serve as a Citizen Appointee.

(4) Citizen Appointees shall serve four-year terms. which shall expire on a staggered basis such that every year one (1) term shall expire, except that once every four (4) years. Two (2) terms shall expire. The term of each Citizen Appointee shall commence on the first day of January (or as soon as practicable after the effective date of this Division for initial Citizen Appointees) and shall expire on the thirty-first day of the fourth successive December.

(5) As soon as practicable after the effective date of this Division, the initial appointment of the first Citizen Appointees shall be carried out as follows: Town Council members shall draw lots to determine the order of expiration for the terms of the first five (5) Citizen Appointees such that one (1) Citizen Appointee's term shall expire each year for four (4) years after the effective date of this Division, and one (1) additional Citizen Appointee's term shall expire in the fourth year after the effective date of this Division. Following the expiration of each of the first five (5) Citizen Appointees' terms. a Citizen Appointee shall be appointed to serve a four-year term.

(6) Citizen Appointees must be certified public accountants, chartered financial analysts, or have a business, finance, economics or accounting degree. and must have at least five (5) years of experience in at least one (1) of the following:

a. Financial experience in a corporate. business, or government setting;

b. Principal or officer at a financial auditing firm;

c. Investment banking; or

d. Finance or budget management.

(7) Should a Citizen Appointee resign or otherwise leave office prior to the end of his or her term, the appointing Town Council member for that Citizen Appointee shall. as soon as practicable, appoint a new Citizen Appointee to serve the remainder of the term.

(d) Section 2.40.030 of the Town Code shall not apply to the Finance Commission.

(e) Administrative support for the Finance Commission shall be provided by the Town Manager, the Director of Finance and by other Town staff as necessary.

( Ord. No. 2314 , § 3(§ 1), 11-3-20)

Sec. 2.50.210. - Meetings and records.

(a) The Finance Commission shall hold at least one (1) meeting per calendar quarter.

(b) Meetings shall be held as required by the business needs of the Finance Commission in the Town Council chamber in the Town Hall or such other locations as allowed by the Ralph M. Brown Act, at a time that is convenient for the Finance Commission and the public to encourage public participation.

(c) Meetings shall be subject to the Ralph M. Brown Act.

(d) Nothing in this Division shall be construed as excluding any documents from the California Public Records Act.

( Ord. No. 2314 , § 3(§ 1), 11-3-20)

Sec. 2.50.215. - Chair.

(a) The Finance Commission shall appoint and prescribe the term of office for its Chair.

(b) The Chair must be a Citizen Appointee.

(c) All Finance Commission meetings shall be called by the Chair.

(d) The Chair shall set all Finance Commission meeting agendas.

( Ord. No. 2314 , § 3(§ 1), 11-3-20)

Sec. 2.50.220. - Quorum.

A majority of the Citizen Appointees of the Finance Commission shall constitute a quorum. Except as otherwise prescribed by ordinance or State law, a vote by a majority of a quorum shall be sufficient to transact business.

( Ord. No. 2314 , § 3(§ 1), 11-3-20)

Sec. 2.50.225. - Duties.

(a) The Finance Commission shall:

(1) Serve as an on-going. substantive and expert advisory body to the Town and Town Council so that the Town and Town Council can make informed decisions about the Town's financial, budgetary and investment matters and operations related thereto.

(2) Review the Town Manager's annual proposed budget prepared in accordance with section 2.30.295(6) of the Town Code. and provide written comments and recommendations to the Town Council.

a. The Finance Commission's comments and recommendations shall include a recommendation about whether the Town Council should approve or disapprove the proposed budget. The Finance Commission may make a recommendation of approval of the budget conditional upon the Town Council's acceptance of me or more of the Finance Commission's recommendations.

b. The Town Manager must provide a proposed budget to the Finance Commission at least twenty (20) business days before the first meeting at which the proposed budget is considered by the Town Council.

(3) Review the Town Manager's draft Comprehensive Annual Financial Report (CAFR) for the preceding fiscal year and provide written comments and recommendations to the Town Manager.

a. The Town Manager shall respond in writing to the Finance Commission providing his or her rationale for accepting or rejecting each of the Finance Commission's comments and recommendations prior to presenting the CAFR to the Town Council for formal consideration.

b. The Town Manager may not present the CAFR to the Town Council for formal consideration unless or until he or she considers and responds in writing to all of the Finance Commission's comments and recommendations.

(4) Review the Director of Finance's summary of the Town's financial report required by section 53891 of the California Government Code and prepared in accordance with section 2.50.0I0(c) of the Town Code. and provide written comments and recommendations to the Director of Finance prior to the publishing of the summary of the report.

(5) Review the financial policies and procedures manual developed in accordance with section 2.50.0I0(f) of the Town Code and provide written comments and recommendations to the Director of Finance.

(6) Prior to the Town's expenditure of any revenues from the tax authorized by sections 25.60.010 et seq. of the Town Code, review the proposed expenditures and advise the Town Council on whether such expenditures meet the Town Council's objectives for that tax:

a. Maintaining and enhancing neighborhood police patrols and local crime prevention programs;

b. Improving traffic flow to reduce congestion;

c. Repairing potholes and maintaining the Town's streets, roads. and sidewalks: and

d. Maintaining the Town's long-term financial stability.

(7) Issue an annual public report of the expenditures and appropriations of sales tax revenues approved by the Town Council during each fiscal year.

(8) Make recommendations to the Town Council about policies and programs:

a. To maximize the Town's revenues consistent with existing taxation structures and inter-governmental funding opportunities;

b. To maximize fee generation consistent with market rate charges for Town- provided services and market rate fees for utilization of Town-owned assets;

c. To minimize the City's cost to provide core services and required activities. Consistent with the desired service level for residents and other internal and external customers;

d. To set funding goals for reserves. and review on-going progress related thereto:

e. To assess the risk associated with the structure and documentation of any proposed debt financing;

f. To fund the Town's long-term compensation and benefit program liabilities in the most responsible and cost-effective way; and

g. To monitor investment performance and make recommendations related to the Town's investment policy and performance.

(9) Provide written comments and recommendations regarding the selection of auditors for the CAFR.

(10) Participate in pre-audit meetings with auditors. provided that the Finance Commission shall not participate in those portions of any meetings which pertain to confidential employment or attorney client privileged matters.

(11) Review and monitor any events or issues which may affect the financial status of the Town.

(b) The duties of the Finance Commission shall not be altered, abridged or abrogated in any way by any body except by a vote of the majority of the voters of the Town.

(c) The Town Council shall make changes to the budgetary and all other Town processes and calendars as necessary to allow for consideration of the comments and recommendations of the Finance Commission outlined herein.

( Ord. No. 2314 , § 3(§ 1), 11-3-20)

Sec. 2.50.230. - Conflicting provisions.

Should any provision of this Division be found to conflict with the Los Gatos Town Code, this Division shall prevail, consistent with the purposes of the Finance Commission as set forth herein.

( Ord. No. 2314 , § 3(§ 1), 11-3-20)

# FINANCE COMMISSION WORKPLAN PROGRESS 2022

| | AGENDA TOPICS | CONSENT ITEMS | CONSENT ITEMS |
|---|---|---|---|
| **JANUARY 10, 2022** | Received Staff Report for the Annual City Financial Report.<br>Commission reviewed 2021 performance and discussed 2022 agenda topics. | | |
| **FEBRUARY 14, 2022** | Received Staff Report for ARPA update.<br>Performed Mid-Year budget review.<br>Performed Five-Year Forecast review.<br>Discussed future agenda topics. | Received 2nd Qtr Investment Report | Revised 2022 Commission Workplan |

# FINANCE COMMISSION WORKPLAN PROGRESS 2022

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|---|---|---|---|
| **MARCH 14, 2022** | Received preliminary FY 2022/23 – 2026/27 Capital Improvement Program information.<br>Discussed KPIs<br>Received information and discussed prior Internal Service Fund deliberations.<br>Received report on disposition/leasing of Town owned properties.<br>Received an update on Business License Modernization and Cannabis Consultants onboarding. | Received Performance & Account Summary Reports for CERBT and CEPPT | Received PERF Performance |
| **APRIL 25, 2022 (SPECIAL)** | Initiated review and recommendations regarding Proposed FY 2022/23 | | |

# FINANCE COMMISSION WORKPLAN PROGRESS 2022

| | | | |
|---|---|---|---|
| | Operating and Capital Budgets. | | |
| **MAY 2, 2022 (SPECIAL)** | Continued Proposed FY 2022/23 Operating and Capital Budgets Discussion<br>Received the results of the Community Survey | | |
| **MAY 9, 2022** | Concluded Proposed Operating and Capital Budgets Discussion and Council Recommendations.<br>Received FY 2021/22 Federal Single Audit Report | Received the Third Quarter Investment Report | |
| **JUNE 13, 2022** | Received Report Out on Council Budget Actions<br>Received the Business License analysis and Ordinance review. | | |

# FINANCE COMMISSION WORKPLAN PROGRESS 2022

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|---|---|---|---|
| | Receive the FY 202/21 Federal Single Audit Corrective Action Plan. | | |
| **JULY 28, 2022 (SPECIAL)** | Received Business License analysis and business outreach update and recommended model options to the Town Council. | | |
| **AUGUST 8, 2022** | Discussed Annual Audit and Provided Feedback to Town's Independent Auditor<br>Received the Town of Los Gatos Retiree Healthcare Plan June 30, 2021, Actuarial Valuation.<br>Discussed of Key Performance Indicators.<br>Received Financial Information and Initiated | Received the Fourth Quarter Investment Report | |

# FINANCE COMMISSION WORKPLAN PROGRESS 2022

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|---|---|---|---|
| | Review of the Town's Structural Deficit per Town Council Directive. | | |
| **SEPTEMBER 12, 2022** | Received CalPERS Actuarial Valuation Reports<br>Reviewed the Towns Structural Deficit including a vacancy savings analysis, review of Town operational efficiencies, and information regarding Town Police services. | Received Performance & Account Summary Reports for CERBT and CEPPT. | Received CalPERS Public Employees' Retirement Fund (PERF) Preliminary Performance Report. |
| **OCTOBER 10, 2022** | Continued review of structural deficit and received information on updated forecast projections, historic General Fund Reserves, historic revenue and expenditure growth rates, Departmental expense | | |

# FINANCE COMMISSION WORKPLAN PROGRESS 2022

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|---|---|---|---|
| | growth rates, and a summary of municipal revenues.<br>Received Independent Auditor Report on agreed-upon procedures for Measure G revenues and expenditures. | | |
| **NOVEMBER 17, 2022 (SPECIAL)** | Continued review of the Five-Year Forecast and received information on discretionary non-essential General Fund supported services costing scenarios for generic full-time equivalent positions.<br>Received information from the Town Attorney regarding options for Finance Commission input during labor negotiations.<br>Received recommendations for Town IRS 115 Trust Investment Policy | Received the First Quarter Investment Report | |

# FINANCE COMMISSION WORKPLAN PROGRESS 2022

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|---|---|---|---|
| | amendments regarding the use of OPEB assets. | | |
| **DECEMBER 12, 2022 (SPECIAL)** | Reviewed the draft Annual Comprehensive Financial Report (ACFR)<br>Received an update on internal service funds<br>Received budget information on Hwy 17 bike ped project and roadside vegetation management project | Received Performance & Account Summary Reports for CERBT and CEPPT. | Received CalPERS 2022 Annual Review of Funding Levels and Risks. |

# FINANCE COMMISSION WORKPLAN 2023

| | AGENDA TOPICS | CONSENT ITEMS | CONSENT ITEMS |
|---|---|---|---|
| **JANUARY 10, 2023** | Review 2022 workplan and discuss 2023 workplan<br>Selection of Chair and Vice Chair<br>Approval of meeting dates and time<br>Review updated KPIs<br>State Controller Financial Transactions Report (FTR) | Monthly Investment Report | |
| **FEBRUARY, 2023** | Mid-Year and Five-Year Forecast Review | Monthly Investment Report | |

# FINANCE COMMISSION WORKPLAN 2023

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|---|---|---|---|
| **MARCH, 2023** | Review Capital Improvement Program and funding.<br>Review Measure G Sales Tax Rev/Exp Draft Report | Monthly Investment Report | Received Performance & Account Summary Reports for CERBT and CEPPT |
| **APRIL, 2023** | Initiate review regarding Proposed FY 2023/24 Operating and Capital Budgets.<br>Key Performance Indicators | Monthly Investment Report | |
| **MAY, 2023** | Continued Proposed FY 2023/24 Operating and Capital Budgets Discussion | Monthly Investment Report | |
| **MAY, 2023 (TENTATIVE)** | Conclude Proposed Operating and Capital Budgets Discussion and Council Recommendations. | | |

# FINANCE COMMISSION WORKPLAN 2023

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|---|---|---|---|
| | Receive FY 2022/23 Federal Single Audit Report | | |
| **JUNE, 2023** | Receive Report Out on Council Budget Actions<br>Review Investment Policy | Monthly Investment Report | Received Performance & Account Summary Reports for CERBT and CEPPT |
| **JULY, 2023 (TENTATIVE)** | | | |
| **AUGUST, 2023** | Pre-Audit Meeting<br>Receive the Town of Los Gatos Retiree Healthcare Plan Actuarial Valuation.<br>Key Performance Indicators | Monthly Investment Report | |
| **SEPTEMBER, 2023** | Receive CalPERS Actuarial Valuation Reports | Receive Performance & Account Summary Reports for CERBT and CEPPT. | Receive CalPERS Public Employees' Retirement Fund |

# FINANCE COMMISSION WORKPLAN 2023

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|---|---|---|---|
| | | Monthly Investment Report | (PERF) Preliminary Performance Report. |
| **OCTOBER, 2023** | | Monthly Investment Report | |
| **NOVEMBER, 2023** | Review the draft Annual Comprehensive Financial Report (ACFR)<br>Key Performance Indicators | Monthly Investment Report | |
| **DECEMBER, 2023** | Review the draft Annual Comprehensive Financial Report (ACFR) | Receive Performance & Account Summary Reports for CERBT and CEPPT.<br>Monthly Investment Report | |

# FINANCE COMMISSION WORKPLAN 2023

| | OTHER BUSINESS | CONSENT ITEMS |
|---|---|---|
| **JANUARY 10, 2023** | • Selection of Chair and Vice Chair<br>• Approval of meeting dates and time<br>• Review 2022 workplan and discuss 2023 workplan<br>• Review updated KPIs<br>• State Controller Financial Transactions Report (FTR) | • Receive October and November 2022 Monthly Investment and Treasury Reports |
| **FEBRUARY 13, 2023** | • Mid-Year and Five-Year Forecast Review<br>• Review Investment Policy | • Receive December 2022 Investment and Treasury Report |
| **MARCH 13, 2023** | • Review Capital Improvement Program and funding.<br>• Review Measure G Sales Tax Revenue/Expenditure Draft Report | • Receive January 2023 Investment and Treasury Report<br>• Receive Performance & Account Summary Reports for CERBT and CEPPT |

# FINANCE COMMISSION WORKPLAN 2023

| | | |
|---|---|---|
| **APRIL 17, 2023** | • Initiate review regarding Proposed FY 2023/24 Operating and Capital Budgets.<br>• Key Performance Indicators | • Receive February 2023 Investment and Treasury Report |
| **APRIL 24 - MAY 1, 2023** | • Continue Proposed FY 2023/24 Operating and Capital Budgets Discussion | • Receive March 2023 Investment and Treasury Report |
| **MAY 8, 2023** | • Conclude Proposed Operating and Capital Budgets Discussion and Recommendations to Council | • Receive FY 2022/23 Federal Single Audit Report |
| **JUNE 12, 2023** | • Receive Report Out on Council Budget Actions | • Receive April 2023 Investment and Treasury Report<br>• Received Performance & Account Summary Reports for CERBT and CEPPT |
| **JULY 10, 2023** | • No Meeting | |
| **AUGUST 14, 2023** | • No Meeting | |

# FINANCE COMMISSION WORKPLAN 2023

| | | |
|---|---|---|
| **SEPTEMBER 11, 2023** | • Pre-Audit Meeting<br>• Key Performance Indicators | • Receive May, June, and July 2023 Investment and Treasury Reports<br>• Receive Performance & Account Summary Reports for CERBT and CEPPT.<br>• Receive CalPERS Public Employees' Retirement Fund (PERF) Preliminary Performance Report.<br>• Receive CalPERS Actuarial Valuation Reports<br>• Receive the Town of Los Gatos Retiree Healthcare Plan Actuarial Valuation (every two years) |
| **OCTOBER 9, 2023** | | • Receive August 2023 Investment and Treasury Report |
| **NOVEMBER 13, 2023** | • Review the draft Annual Comprehensive Financial Report (ACFR)<br>• Key Performance Indicators | • Receive September 2023 Investment and Treasury Report |
| **DECEMBER 2023** | • Review the draft Annual Comprehensive Financial Report (ACFR) | • Receive October 2023 Investment and Treasury Report<br>• Receive Performance & Account Summary Reports for CERBT and CEPPT. |

# FINANCE COMMISSION WORKPLAN 2023