



DATE: December 4, 2018

TO: Mayor and City Council
Hayward Housing Authority Board
Hayward Redevelopment Successor Agency Board
Hayward Public Financing Authority Board

FROM: Director of Finance

SUBJECT: Adoption of Fiscal Year 2019 Statement of Investment Policy and Delegation of Investment Authority

RECOMMENDATION

That the Council adopts the attached resolutions reaffirming the updated Fiscal Year 2019 Statement of Investment Policy and extending the delegation of investment authority to the Director of Finance.

SUMMARY

There was a recent clarification to the language related to asset backed securities and mortgage backed securities in CA Government Code 53601(o). AB1770 was chaptered on September 6, 2018 and will take effect on January 1, 2019. Staff recommends an update to the policy as the additional language included is meant to provide clarification on the maturity of these types of bonds. Highlighted in bold below is the additional language from the code revision that is included in the redline version of the attached policy.

“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.**”

BACKGROUND

The City’s Statement of Investment Policy (the Policy) requires that staff submits to the City Council for approval any recommended changes to the Policy. In addition, the State statutes that govern investment activity require the City Council to annually affirm the Statement of Investment Policy and to confirm the delegation of investment authority, which in the City of Hayward, is to the Director of Finance.

DISCUSSION

In coordination with PFM Asset Management (the City’s investment portfolio management consultant), staff reviewed the City’s Investment Policy and recommends minor adjustments.

There was a recent clarification to the language related to asset backed securities and mortgage backed securities in CA Government Code Section 53601(o). AB1770 was chaptered on September 6, 2018 and will take effect on January 1, 2019. Staff recommends an update to the policy as the additional language included is meant to provide clarification on the maturity of these types of bonds. Also, a sentence in the policy has been removed under the ABS section that was removed from the Government Code. The change to the ABS language will be effective on January 1, 2019.

The bill revises the maximum 5-year maturity requirement on ABS/MBS (53601(o)) to instead require that the securities have a maximum remaining security of 5 years or less. The bill also eliminates the requirement that the securities issuer be rated "A" or its equivalent or better for the issuer's debts as provided by an NRSRO. Highlighted in bold below is the additional language from the code revision and the change is also reflected in the table. The changes are shown in a red-line version of the Policy (Attachment VI). As revised:

(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.

Security Type	Maximum Maturity	Min Credit Quality	Authorized Investment Limit	California Govt. Code Limits	Consistent
A. US Treasury Notes/Bills	5 Years	None	100%	100%	√
A. US Agencies–Fully Backed	5 Years	None	100%	100%	√
B. US Agencies–Sponsored	5 Years	None	100%	100%	√
C. Banker's Acceptance (BA)	180 days	A-1	40%	40%	√
D. Commercial Paper	270 days	A-1	25%	25%	√
E. Negotiable Certificates of Deposit	5 Years	"A"	30%	30%	√
F. Repurchase Agreements	1 Year	None	20%	20%	√
G. Medium Term Notes (MTN)	5 Years	"A"	30%	30%	√
H. Money Market Fund	N/A	AAAm	20%	20%	√
I. Alameda County Investment Pool	None	None	10%	None	None
J. Shares of beneficial interest issued by a joint powers authority	None	AAAm	100%	100%	√
K. LAIF	None	None	Max amt allowed by Advisory Board	None	None
L. Collateralized Certificates of Deposit	5 Years	None	25%	None	√
M. Municipal Bonds	5 Years	"A"	20%	None	√
N. Supranationals	5 Years	"AA"	30%	30%	√
O. Asset-Backed Securities	5 Yr WAL ¹	"AA"	20%	20%	√

¹WAL – Weighted Average Life, see glossary for definition-The definition of Weighted Average Life (WAL) will be added to the glossary.

These changes have been reviewed by the Investment Advisory Committee and the Council Budget and Finance Committee and both bodies concur with the recommendations.

STRATEGIC INITIATIVES

This agenda item is a routine operational item and does not relate to one of the Council's Strategic Initiatives.

FISCAL IMPACT

There is no fiscal impact related to approving the recommended changes to the Statement of Investment Policy.

PUBLIC CONTACT

The recommended changes to the Statement of Investment Policy were discussed by the Council Budget and Finance Committee on October 17, 2018, and by the Investment Advisory Committee during its quarterly meeting on October 22, 2018.

Prepared and Recommended by: Dustin Claussen, Director of Finance

Approved by:

A handwritten signature in black ink, appearing to read 'K. McAdoo', is written over a horizontal line.

Kelly McAdoo, City Manager