



**TOWN OF LOS GATOS  
COUNCIL FINANCE COMMITTEE AGENDA  
OCTOBER 12, 2020  
110 EAST MAIN STREET  
LOS GATOS, CA  
5:00 PM**

*Rob Rennie, Council Member  
Marico Sayoc, Council Member  
Ron Dickel, Committee Member  
Terry Duryea, Committee Member  
Rick Tinsley, Committee Member*

**IMPORTANT NOTICE REGARDING THE OCTOBER 12, 2020  
COUNCIL FINANCE COMMITTEE MEETING**

This meeting is being conducted utilizing teleconferencing and electronic means consistent with State of California Executive Order N-29- 20 dated March 17, 2020, regarding the COVID- 19 pandemic. The live stream of the meeting may be viewed on television and/or online at [www.losgatosca.gov/AgendasAndVideos](http://www.losgatosca.gov/AgendasAndVideos). In accordance with Executive Order N-29- 20, the public may only view the meeting on television and/or online and not in the Council Chamber.

**PARTICIPATION**

If you are not interested in providing oral comments real-time during the meeting, you can view the live stream of the meeting on television (Comcast Channel 15) and/or online at <https://www.youtube.com/channel/UCFh35XRBWer1DPx-F7vvhcg>.

If you are interested in providing oral comments real-time during the meeting, you must join the Zoom webinar in one of the following ways:

- Join from a PC, Mac, iPad, iPhone or Android device: click this link <https://zoom.us/j/95240265774>. Password: 511729. You can also type in 95240265774 on the “Join a Meeting” page on the Zoom website at <https://zoom.us/join>.
- Join by telephone: Dial: USA 636 651 0008 US Toll or USA 877 336 1839 US Toll-free.  
Conference code: 969184

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, 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 Committee meeting.

If you are unable to participate in real-time, you may email to [PublicComment@losgatosca.gov](mailto:PublicComment@losgatosca.gov) with the subject line “Public Comment Item #\_\_” (insert the item number relevant to your comment) or “Verbal Communications – Non Agenda Item.” Comments will be reviewed and distributed before the meeting if received by 3:00 p.m. on the day of the meeting. All comments received will become part of the record. The Chair has the option to modify this action on items based on comments received.

## **REMOTE LOCATION PARTICIPANTS**

*The following Committee Members are listed to permit them to appear electronically or telephonically at the Council Finance Committee meeting: COUNCIL MEMBER ROB RENNIE, COUNCIL MEMBER MARICO SAYOC, COMMISSIONER RON DICKEL, COMMISSIONER TERRY DURYEA, COMMISSIONER RICK TINSLEY. All votes during the teleconferencing session will be conducted by roll call vote. All votes during the teleconferencing session will be conducted by roll call vote.*

## **MEETING CALLED TO ORDER**

## **ROLL CALL**

**CONSENT ITEMS** *(Items appearing on the Consent Items are considered routine and may be approved by one motion. Any member of the Committee or public may request to have an item removed from the Consent Items for comment and action. A member of the public may request to pull an item form Consent by following the Participation Instructions contained on Page 2 of this agenda. If an item is pulled, the Chair has the sole discretion to determine when the item will be hear. Unless there are separate discussions and/or actions requested by the Committee, staff, or a member of the public, it is requested that items under the Consent Items be acted on simultaneously.)*

1. Approve the Minutes of the August 12, 2020 Council Finance Committee Meeting.

**VERBAL COMMUNICATIONS** *(Members of the public are welcome to address the Committee on any matter that is not listed on the agenda consistent with the Participation Instructions contained on Page 2 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 consistent with the Participation Instructions contained on Page 2 of this agenda.)*

2. Review the Town's Operating Portfolio Investment Policy and Forward a Recommendation of Approval to the Town Council.

## **ADJOURNMENT**



**TOWN OF LOS GATOS  
COUNCIL FINANCE COMMITTEE  
AGENDA REPORT**

MEETING DATE: 10/12/2020

ITEM NO: 1

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**DRAFT  
Minutes of the Council Finance Committee Meeting  
August 10, 2020**

The Council Finance Committee of the Town of Los Gatos conducted a meeting on Monday, August 10, 2020, at 5:00 p.m.

**MEETING CALLED TO ORDER AT 5:00 P.M.**

**ROLL CALL**

Present: Council Members Rob Rennie and Marico Sayoc, and Committee Members Ron Dickel, Terry Duryea, and Rick Tinsley.

Absent: None

Staff Present: Town Manager Laurel Prevetti, Town Attorney Rob Schultz, Assistant Town Manager Arn Andrews, Finance Director Stephen Conway, and Finance and Budget Manager Gitta Ungvari.

**CONSENT ITEMS (TO BE ACTED UPON BY A SINGLE MOTION)**

1. Approve Council Finance Committee Meeting Draft Minutes of June 8, 2020.
2. Receive Final Account Summary Reports for the Town of Los Gatos PARS IRS Section 115 Pension Trust for the Periods Ending November 30, 2019 through June 30, 2020.
3. Receive Market Value Summary Quarterly Reports for the Period Ending December 31, 2019, the Period Ending March 31, 2020, and the June 30, 2020, Performance Report for the California Employers' Retiree Benefit Trust (CERBT).
4. Receive the Town of Los Gatos Retiree Healthcare Plan June 30, 2019 Actuarial and its Assumptions as Prepared by Bartel Associates, LLC., and Approved by the Pension/OPEB Oversight Committee.

Items #1 and #4 were pulled by members of the Committee.

**MOTION:** Motion by Council Member Rob Rennie to approve Items 2 and 3 on the Consent Calendar. **Seconded** by Council Member Marico Sayoc.

**VOTE:** Motion passed unanimously.

**Pulled Consent Item #1**

1. Approve Council Finance Committee Meeting Draft Minutes of June 8, 2020.

Committee Member Duryea suggested language for the summary of item 3.

**MOTION:** **Motion** by **Council Member Rob Rennie** to approve the June Minutes by replacing the language for item 3 per Committee Member Duryea as follows: *"After discussion by all, nonvoting members wondered why this item was put on the agenda since it did not appear feasible to reach a compromise with the ballot initiative authors. In addition, there was not sufficient time remaining in meeting to have a meaningful discussion of the topic since the meeting had a hard stop. Therefore, the discussion ended."* **Seconded** by **Council Member Marico Sayoc**.

**VOTE: Motion passed unanimously.**

**Pulled Consent Item #4**

4. Receive the Town of Los Gatos Retiree Healthcare Plan June 30, 2019 Actuarial and its Assumptions as Prepared by Bartel Associates, LLC., and Approved by the Pension/OPEB Oversight Committee.

Committee members noted that the report was not available for the Committee and the public in a timely manner and that the discount rate used in the assumptions is optimistic. In addition, Committee members noted that there was a numerical error on page E-19 of the exhibit. Staff confirmed that it is in the purview of the Finance Committee to recommend a different asset allocation strategy for the OPEB Trust which in turn would require the lowering of the discount rate for actuarial reporting purposes. Committee members confirmed that they do not want to recommend changes to the current asset allocation strategy. In addition, Committee members commented that OPEB is not a legally required benefit.

**MOTION:** **Motion** by **Council Member Rob Rennie** to receive the Town of Los Gatos Retiree Healthcare Plan June 30, 2019 Actuarial and Assumptions as Prepared by Bartel Associates, LLC. **Seconded** by **Council Member Marico Sayoc**.

**VOTE: Motion passed unanimously.**

## **VERBAL COMMUNICATIONS**

Matthew Hudes

- Commented on the talent of the Finance Committee and recommended that the Committee should be used more broadly in an advisory capacity for Town Council, and items should be discussed by the Finance Committee before they are discussed by the Pension/OPEB Oversight Committee.

## **OTHER BUSINESS**

5. Input to the Annual Financial Audit (FY 19/20) Currently Being Performed by the Town's Independent Auditors, Badawi & Associates.

Mr. Badawi, the Town's independent auditor, presented slides describing the audit process. Committee members discussed the information with staff and Mr. Badawi. The Committee provided comments on preparation of the Draft CAFR, emphasizing the importance of the pension discount rate and the sensitivity analysis around changes in the discount rate. Committee members emphasized the importance of including additional information within the Pension Footnote and not using CalPERS language.

Opened Public Comment.

Phil Koen

- Commented that it is the management's responsibility to support the CalPERS assumption rate and disclose it in the Footnote.

Closed Public Comment.

## **ADJOURNMENT:**

The meeting adjourned at 6:38 p.m.

This is to certify that the foregoing is a true and correct copy of the minutes of the August 12, 2020 meeting as approved by the Council Finance Committee.

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Gitta Ungvari, Finance and Budget Manager



**TOWN OF LOS GATOS  
COUNCIL FINANCE COMMITTEE  
REPORT**

MEETING DATE: 10/12/2020

ITEM NO: 1

DESK ITEM

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DATE: October 12, 2020  
TO: Council Finance Committee  
FROM: Laurel Prevetti, Town Manager  
SUBJECT: Approve the Minutes of the August 12, 2020 Council Finance Committee Meeting.

**REMARKS:**

A Committee Member had the following inquiries and staff's responses are provided below.

*Regarding the draft minutes from the August 10, 2020, the comments pertaining to Item #4 Town of Los Gatos Retiree Healthcare Plan are incomplete and missing material detail:*

- 1. The Bartel Report dated March 13, 2020, Page E20 shows a discount rate calculation of 6.75% which does not match the input assumptions on Pages E19 and E20. The actual rate is 6.21% using exactly the same assumptions and rounding margin - a materially different result.*
- 2. The Return Assumptions used for the most recent valuation are based on 2017 survey data.*

Staff Response: The Town utilizes the action minutes format for the Town Council and all Committees and Commissions. The minutes currently reflect that "Committee members noted that there was a numerical error on page E-19 of the exhibit." Staff will update the minutes to include a reference to E-20 as well. In addition, the audio tape of the meeting provides a full transcript of all areas of concern referenced during the meeting.

PREPARED BY: Stephen Conway  
Finance Director

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Reviewed by: Town Manager and Assistant Town Manager

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**TOWN OF LOS GATOS  
COUNCIL FINANCE COMMITTEE  
REPORT**

MEETING DATE: 10/12/2020

ITEM NO: 2

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DATE: October 12, 2020  
TO: Council Finance Committee  
FROM: Laurel Prevetti, Town Manager  
SUBJECT: Review the Town's Operating Portfolio Investment Policy and Forward a Recommendation of Approval to the Town Council.

**RECOMMENDATION:**

Review the Town's Operating Portfolio Investment Policy and forward a recommendation of approval to the Town Council.

**DISCUSSION:**

The Town's Investment Policy was last reviewed by the Finance Committee in August 2019 and adopted by Council in September of 2019. 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.

The Council Finance Committee is tasked with the annual review of the Town Investment Policy. Due to the initial restrictions of shelter-in-place and the cancellation of multiple Committee meetings, this item was delayed until now. At this time neither staff or the Town's investment consultant Insight Investment are recommending any changes to the Investment Policy.

**FISCAL IMPACT:**

There is no fiscal impact of reviewing the Investment Policy.

**PREPARED BY:** Stephen Conway  
Finance Director

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Reviewed by: Town Manager and Assistant Town Manager

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PAGE 2 OF 2

SUBJECT: Operating Portfolio Investment Policy Review



DATE: October 12, 2020

Attachment:

1. Town Investment Policy



# INVESTMENT POLICY

				<b>COUNCIL POLICY MANUAL</b> <i>Small Town Service   Community Stewardship   Future Focus</i>	
TITLE: Investment Policy				POLICY NUMBER: 4-02	
EFFECTIVE DATE: 11/1/16				PAGES: 8	
ENABLING ACTIONS: 2016-063			REVISED DATES: 5/16/17;5/15/2019; 9/3/2019		
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

ATTACHMENT 1

## ∞ INVESTMENT POLICY ∞

### 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.

## **∞ INVESTMENT POLICY ∞**

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.

## **∞ INVESTMENT POLICY ∞**

### **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.

## INVESTMENT POLICY

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

## INVESTMENT POLICY

- 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-

## INVESTMENT POLICY

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

## **∞ INVESTMENT POLICY ∞**

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.



## **∞ INVESTMENT POLICY ∞**

### **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

## ∞ INVESTMENT POLICY ∞

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

No less than quarterly, the Treasurer shall prepare a report of the investment earnings and performance results of the Town's investment portfolio. The report shall be submitted to the Town Clerk within 45 days after the end of each quarter 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. A statement of compliance with this Investment Policy or an explanation for non-compliance; and
7. 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 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.

/S/ Robert Schultz, Town Attorney



**TOWN OF LOS GATOS  
COUNCIL FINANCE COMMITTEE  
REPORT**

MEETING DATE: 10/12/2020

ITEM NO: 2

DESK ITEM

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DATE: October 12, 2020  
TO: Council Finance Committee  
FROM: Laurel Prevetti, Town Manager  
SUBJECT: Review the Town's Operating Portfolio Investment Policy and Forward a Recommendation of Approval to the Town Council.

**REMARKS:**

A Committee Member had the following inquiries and staff's responses are provided below.

*The staff note says that the Town's Investment Policy was last reviewed by the Finance Committee in August 2019. The Committee did not review the Investment Policy at that meeting, but rather only added Socially Responsible Investment Guidelines to the Investment Policy. The Policy as a whole was not reviewed...*

Staff Response: Staff agrees that the staff report did not explicitly state "review"; however, that was the single item recommended for modification by staff for that year. In the future staff will make it clear that anytime the Investment Policy is brought to the Committee, it presents an opportunity for review.

*The Investment Policy was revised on 5/15/2018, rather than 5/15/2019 as noted in the Policy...*

Staff Response: Staff agrees that the 5/15/2019 date is incorrect and should be 5/15/2018. The Policy will be revised to reflect the correct date.

*The Policy says that all securities will be monitored by an independent third party who will provide the Town with an Environmental, Social Responsibility and Governance Rating. Can you send out this independent rating to us?*

Staff Response: Attachment 2 contains the Town of Los Gatos Insight Environmental, Social and Governance (ESG) scores as of September 30, 2020.

PREPARED BY: Stephen Conway  
Finance Director

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Reviewed by: Town Manager and Assistant Town Manager

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PAGE 2 OF 2

SUBJECT: Operating Portfolio Investment Policy Review

DATE: October 12, 2020

REMARKS (continued):

*I propose that the Investment Policy be amended to have the quarterly report also be given to the Finance Committee. This can be done by revising the first paragraph under Reporting on page A-54 to read "The report shall be submitted....at the next scheduled Town Council and Finance Committee meetings..."*

Staff Response: The Town of Los Gatos Quarterly Investment Reports which are presented to Council can be provided to the Finance Committee for its information.

Attachment (previously distributed with the Staff Report):

1. Town Investment Policy

Attachment (distributed with this Desk Item):

2. Town of Los Gatos ESG Scores – September 30, 2020

## Town of Los Gatos

### Insight ESG Ratings as of September 30, 2020

Security Description	Maturity Date	Par/Shares	Moody Rating	S&P Rating	Insight ESG Rating	Environment	Social	Governance
HONEYWELL INTERNATIONAL 2.3% 15AUG2024 (CALLABLE 15JUL24)	8/15/2024	\$ 1,000,000	A2	A	3	3	5	3
AMERICAN EXPRESS CREDIT 2.25% 05MAY2021 (CALLABLE 04APR21)	5/5/2021	\$ 1,000,000	A2	A-	2	1	3	3
AMERICAN HONDA FINANCE 2.4% 27JUN2024	6/27/2024	\$ 1,000,000	A3	A-	3	2	4	3
ORACLE CORP 2.4% 15SEP2023 (CALLABLE 15JUL23)	9/15/2023	\$ 1,000,000	A3	A	3	1	3	4
TOYOTA MOTOR CREDIT CORP 2.6% 11JAN2022	1/11/2022	\$ 1,100,000	A1	A+	3	1	3	3
WALT DISNEY COMPANY/THE 4.5% 15FEB2021	2/15/2021	\$ 1,000,000	A2	A-	3	3	3	3
WELLS FARGO BANK NA 2.082% 09SEP2022 (CALLABLE 09SEP21)	9/9/2022	\$ 1,350,000	Aa2	A+	4	1	5	4
TOYOTA MOTOR CREDIT CORP 1.9% 08APR2021	4/8/2021	\$ 500,000	A1	A+	3	1	3	3
JPMORGAN CHASE & CO 3.25% 23SEP2022	9/23/2022	\$ 900,000	A2	A-	4	1	3	5
US BANCORP 3.375% 05FEB2024 (CALLABLE 05JAN24)	2/5/2024	\$ 1,000,000	A1	A+	3	2	4	3
PNC FINANCIAL SERVICES 3.3% 08MAR2022 (CALLABLE 06FEB22)	3/8/2022	\$ 1,000,000	A3	A-	2	2	2	3
IBM CORP 1.875% 01AUG2022	8/1/2022	\$ 1,000,000	A2	A	3	1	2	4
BANK OF AMERICA CORP 2.328% 01OCT2021 (CALLABLE 01OCT20)	10/1/2021	\$ 1,300,000	A2	A-	4	1	4	4
JPMORGAN CHASE & CO 3.875% 01FEB2024	2/1/2024	\$ 1,400,000	A2	A-	4	1	3	5
AMERICAN HONDA FINANCE 1.95% 10MAY2023	5/10/2023	\$ 600,000	A3	A-	3	2	4	3
<b>Total/Average</b>		<b>\$ 15,150,000</b>			<b>3.1</b>	<b>1.5</b>	<b>3.4</b>	<b>3.5</b>

\*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.

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# Socially Responsible Investing for Local Governments

## Dave Witthohn

August 2019



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## Terms used in responsible investing

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- **Socially Responsible Investing (SRI):** describes an investment approach where certain companies are excluded from your portfolio through negative screening of businesses that are involved in practices which are excluded for moral or ethical reasons
- **Environmental, Social and Governance (ESG):** attempts to categorize areas of concern into one of these categories and to measure the companies' relative responsiveness to these areas of sensitivity. These categories have been accepted globally so that they can be measured
- **Divestment :** using a screen in your investment process to exclude companies that are involved in certain activities (e.g. South Africa, guns, fossil fuels)
- **Impact Investing:** Investing in projects or companies with the purpose of making changes in practices or behaviors





## Where did it start? United Nations – Principals for Responsible Investing (UNPRI)

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Responsible investment is an approach to investing that aims to incorporate environmental, social and governance (ESG) factors into investment decisions, to better manage risk and generate sustainable, long-term returns. *UNPRI*

**Signers agree to the following principals:**

**Principle 1:** We will incorporate ESG issues into investment analysis and decision-making processes.

**Principle 2:** We will be active owners and incorporate ESG issues into our ownership policies and practices.

**Principle 3:** We will seek appropriate disclosure on ESG issues by the entities in which we invest.

**Principle 4:** We will promote acceptance and implementation of the Principles within the investment industry.

**Principle 5:** We will work together to enhance our effectiveness in implementing the Principles.

**Principle 6:** We will each report on our activities and progress towards implementing the Principles.

Source is UNPRI.org

## What are the various ESG issues?

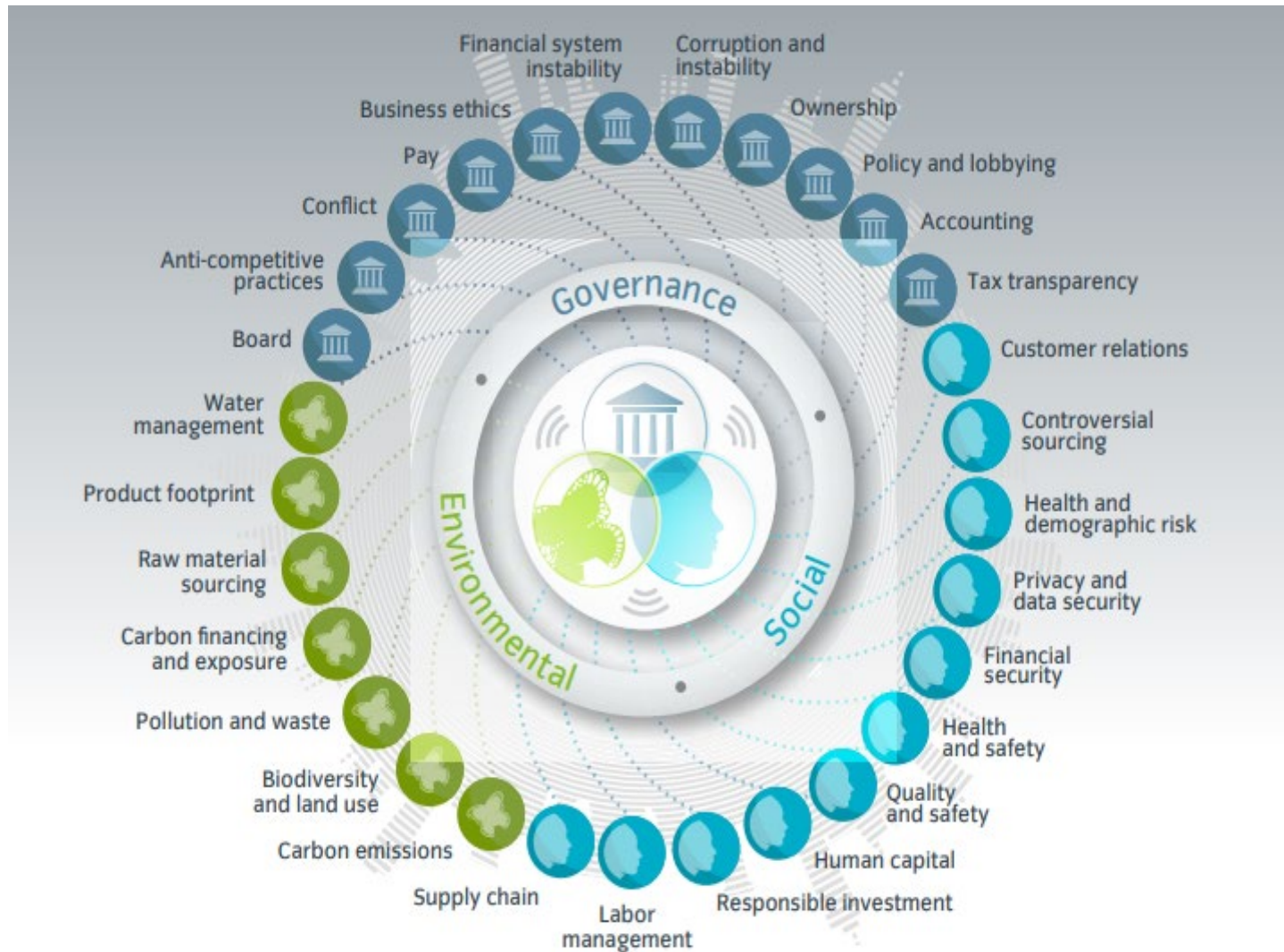
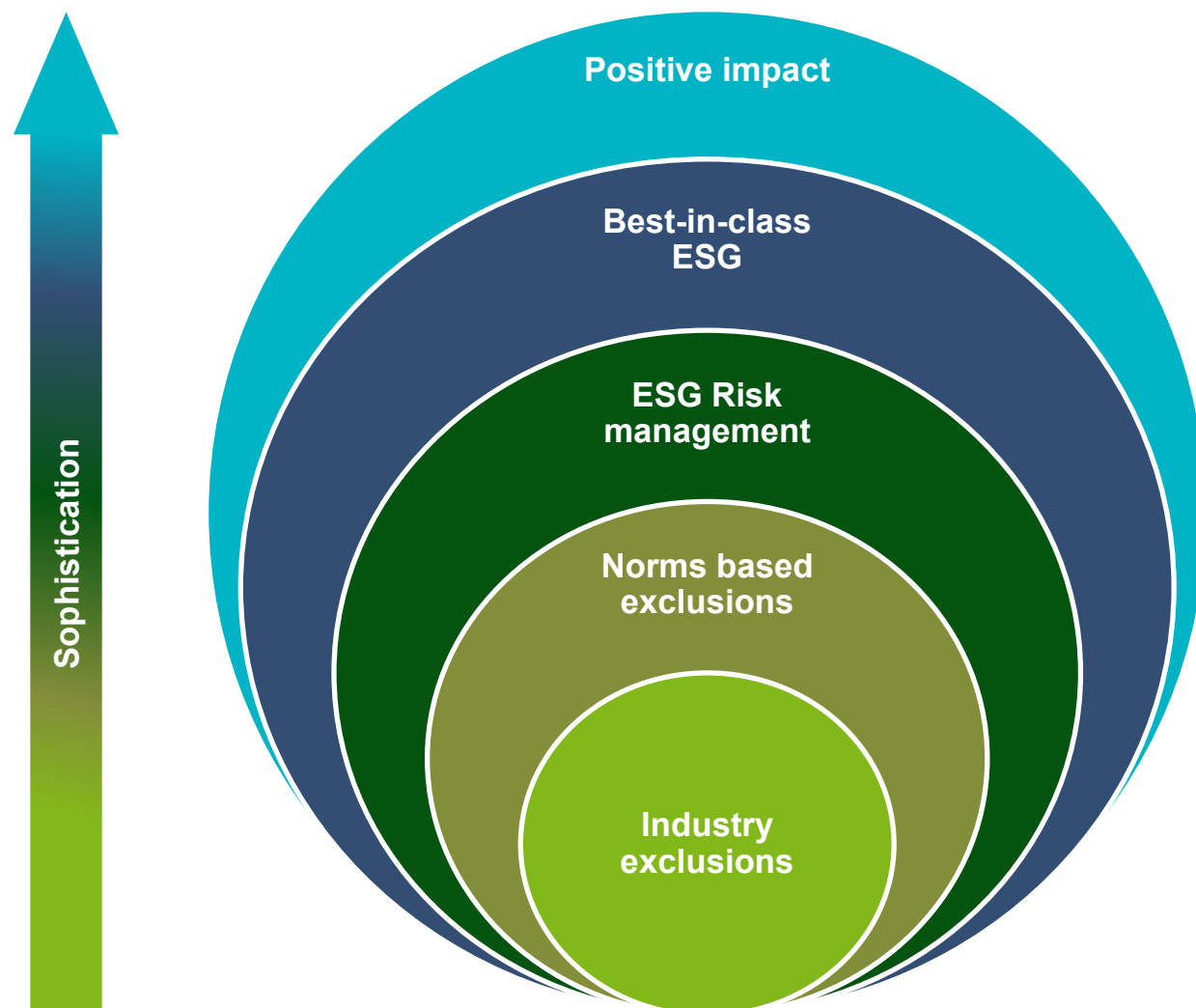


Figure 2: There is frequently poor agreement between data providers about corporate ESG risks?



## ESG strategies



- Evidence a positive impact
- Engagement for impact
- Tilt to best-in-class ESG issuers
- Reduce carbon footprint
- Avoid worst-in-class ESG issuers
- Monitor carbon footprint
- Adherence to key global norms
- UN Global Compact, ILO principles
- Regulatory or legal reasons
- Alignment with ethical values

For illustrative purposes only.

# What's considered in ESG scores

Use external ESG research to determine the key issues facing each sector and forms part of materiality assessment.

ESG Overall Score								Ratings used in Risk Checklist
Normalised industry-adjusted score 1-5								
Environment Pillar			Social Pillar			Governance Pillar		ESG issues
Absolute score 1-5			Absolute score 1-5			Absolute score 1-5		
Carbon	Natural Capital	Pollution	People	Products	Place	Corporate Governance	Behavior	
Carbon Emissions	Water Stress	Toxic Emissions	Labor Management	Product Safety and Quality	Controversial Sourcing	Board	Business Ethics	
Carbon Vulnerability	Biodiversity and Land Use	Waste	Health & Safety	Chemical Safety		Pay	Anti-Competitive Practices	
Product Footprint	Raw Material Sourcing		Human Capital Development	Financial Product Safety		Ownership	Corruption and Instability	
Financing			Supply Chain	Privacy and Data Security		Accounting	Financial System Instability	
			Health and Demographic Risk	Responsible Investment			Tax Transparency	
Assessed category for all issuers								

Illustration only. Based on MSCI ESG ratings framework.