



Council Agenda Report

From: Thomas Frutchey, City Manager
Deanne Purcell, Interim Administrative Services Director

Subject: Utilize Reserves for Pension Cost Savings

Date: December 20, 2016

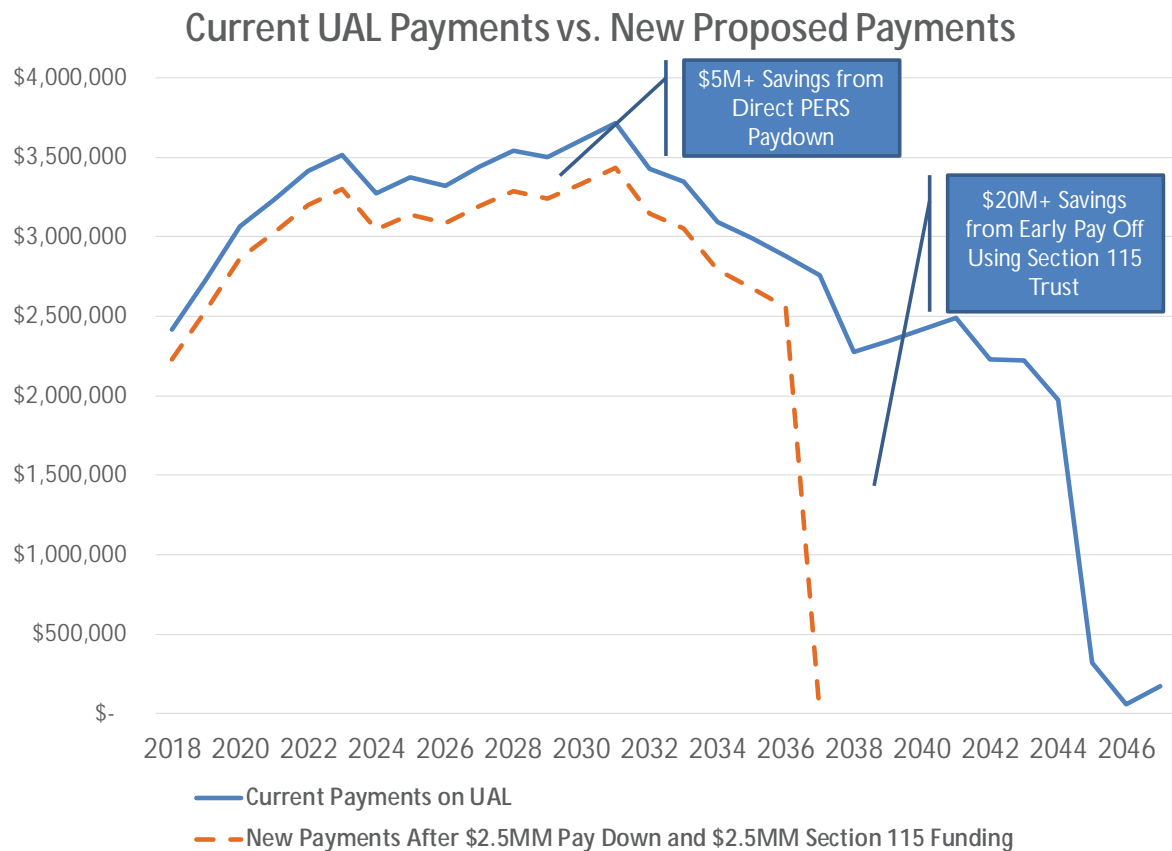
Facts

1. The September 28, 2016 workshop on Employee Compensation and Unfunded Liability included a discussion on the unfunded accrued liability (UAL) for employee pensions. The presentation was followed by direction from the City Council to present options for paying down the UAL.
2. At the December 6, 2016 council meeting, the Operating Reserve policy was changed and increased from 15% to 20% (of operating expenditures excluding capital outlay and debt service).
3. The City's strong track record of financial management has allowed reserve balances in the General Fund to grow, and provide an opportunity to better leverage excess monies to save on pension costs. The current fund balance is approximately \$22.3 million. \$6.1 million is Restricted, \$5.8 million satisfies the 20% Operating Reserve, and the remaining \$10.5 million is Unassigned.
4. Based on a thorough review of the City's financial projections and future CIP needs, staff recommends using \$5 million of unassigned fund balance to contribute towards a Pension Savings Plan. There are two primary vehicles for executing this:
 - a. Direct Pay-Down with CalPERS: City pays down UAL directly with PERS, reducing the UAL with PERS and on the City's books (CAFR). CalPERS manages the money along with the rest of the City's pension funds already with PERS.
 - b. Fund a Separate Retirement Vehicle (Section 115 Trust): Both PARS (Public Agency Retirement Solutions) and PFM (Public Financial Management) offer Section 115 Trusts as an alternative to PERS. A Section 115 Trust would allow City to have control over investment strategy and risk tolerance, provide flexibility in the uses (and timing) of those funds, and might be able to reduce the City's pension liability on the books (CAFR). The actual UAL with PERS would not be reduced.

COMPARISON CHART

OPTION	Direct UAL Pay Down with PERS	Section 115 (PARS/PFM)
Reduced UAL with PERS	Yes	No
Reduced Pension Liability in CAFR	Yes	Maybe (TBD)
Control of Investment Strategy	No	Yes
Flexibility in Uses	No	Yes (annual expenses, direct UAL pay down, OPEB, etc)
Savings	First 20 Years	Last 10 Years
Enhanced Budgetary Flexibility	No	Yes

5. Regardless of which of these two options is implemented, the \$5 million could allow the City to pay off its UAL 10 years earlier, and save the City/taxpayers approximately \$25 million (i.e., a 5, 10, 25 plan; see chart below) over the next 30 years.



6. The City is projected to produce \$500,000 of surplus net income every fiscal year moving forward. The 5, 10, 25 plan savings estimates also assume that the City makes an annual contribution of \$200,000 to the PARS/PFM separate retirement vehicle out of surplus net income each year. This amount is voluntary and can be assessed on a year-to-year basis.

Options

1. Do nothing
2. Invest \$2.5 M in a direct CalPERS UAL pay-down, and invest \$2.5 in a Section 115 Trust
3. Invest \$5 M in a Section 115 Trust
4. Implement the UAL pay-down, but for a lower amount.

Analysis and Conclusions

Options 2 and 3 are both strong options available to the City that could produce an estimated \$25 million of savings to the City and taxpayers over the next 30 years. The Hybrid 5, 10, 25 Plan (Option 2) combines the benefits of both a direct pay-down with PERS, with the added benefits of flexibility that comes along with the PARS/PFM Section 115 Trust. Additionally, given that PERS would still have control over the vast majority of the City's pension assets, the future annual contributions being recommended under this plan will go to the Section 115 Trust, to continue diversifying control over the City's pension assets.

Option 3 is a strong alternative as well, and there is no significant difference in potential savings for the City compared to Option 2. This difference will primarily come down to which investment vehicle earns better returns, which obviously can't be determined now. Option 3 could be chosen if the City feels that the added flexibility that comes along with Section 115 Trust greatly outweighs the opportunity to reduce the City's UAL with PERS. It should also be noted that Option 2 (or a direct pay down of some amount) could still be executed at some point in the future even if the immediate decision is to execute Option 3. This could be a worthwhile option if the City would like to take a "wait and see" approach to any changes at CalPERS that may occur over next year or so before making any direct pay down decisions.

Option 4 is presented if the Council would rather maintain a higher level of reserves and not utilize the full \$5 million. As noted above though, utilizing the full \$5 million will not affect the City's ability cover any unexpected shortfalls or fund important capital projects in the future.

In conclusion, the City's strong reserve position has created an opportunity that few cities often have, and executing Option 2 or Option 3 above is likely to save the City and its taxpayers significantly in the long-term given the opportunity for stronger investment returns than currently available for the City's general reserves. While lower than expected investment returns from PERS and growing UALs constantly add to the current "negative headlines" associated with pensions, it is a fact that the City is on the hook for future pension benefits for past and current employees at guaranteed levels. Investing now in a higher yielding investment vehicle is a prudent strategy to address these future liabilities, save the City/taxpayers money, and pay down the City's unfunded liability sooner than currently scheduled.

Next Steps

- December 20, 2016: Council gives direction on pension savings plan option
- January 2017: Staff/advisor evaluate proposals from both PARS and PFM for Section 115 Trusts
- February 2017: Council approves establishment of Pension Trust and appoints Plan Administrator
- March 2017: Develop investment policy guidelines for investment manager and approve initial Section 115 Trust deposit
- April 2017: Execute direct pay down (if applicable) with PERs and fund Section 115 Trust

Fiscal Impact

Both Option 2 and Option 3 are estimated to save the City about \$25 million over 30 years. This is based on investment earnings between 5.50% and 7.50% in the retirement portfolios. Option 2 would save the City approximately \$5 million over the next 20 years (about \$200K to \$300K per year) given the direct pay down with PERS, and \$20 million in the last 10 years (years 20 to 30). The savings in Option 3 is dependent on when funds are utilized from the Section 115 Trust to make payments to PERS, so the timing of savings is unknown at this time. Currently it is expected that the assets would just grow over time and be used to extinguish the UAL early (about 1 to 2 years earlier than in Option 2), thus deriving savings only in in years 18 or 19 through 30.

Recommendation

Direct the City Manager to: (1) work with NHA financial advisors to undertake the preparatory steps for setting up the pension savings plan program; and (2) return to City Council for additional approvals necessary to implement the program, to include investing \$2.5 M in a CalPERS pay-down and \$2.5 M in a Section 115 Trust. As this is just authorization for preparatory steps, no formal commitments will be made without additional Council action.



Council Agenda Report

From: Mike Compton, City Treasurer
Thomas Frutchey, City Manager

Subject: Partnership in Local Investment Pilot Program by the City and Heritage Oaks Bank

Date: December 20, 2016

Facts

1. The City Council has adopted an Investment Policy to guide the investment of idle City funds.
2. The City Treasurer is highly restricted as to how he invests the City's idle funds, which include restricted reserves, committed funds, and unrestricted reserves. The vast majority of invested reserves are invested in the Local Agency Investment Foundation (LAIF), a state agency) and in negotiable instruments such as certificates of deposit (CDs). These two options provide low risk, are appropriately liquid (when in a structured, ladder program), but also generate extremely low returns, oftentimes less than the rate of inflation. Even worse, the monies provided to the City by our residents and businesses are not being invested back into our community.
3. The City initiated discussions with Heritage Oaks Bank (HOB, the City's banker) to find a way to keep a portion of these funds working locally, through loans to local businesses and residents.
4. By investing in the community, this type of action can have a significant multiplier effect locally in the current economic climate. By placing deposits in a local financial institution, the City is able to ensure idle funds are invested for use in the community and provide support to a local financial institution that generates local jobs (approximately 100 of the Bank's 300 employees work in the City). Those local employees, as well as the employees of local businesses, the businesses themselves, and homeowners borrowing from the Bank, contribute tax revenue to the City.
5. It is also possible that prudent investment in the local economy by the City, Heritage Oaks Bank, and any other banks participating in the program, could partially mitigate the local effects of any national economic slowdown that might arise.
6. Note: An alternative but compatible use of reserves needing to be considered includes paying down CalPERS unfunded liabilities, for which the City is being charged 5.75% interest. This option is fully addressed in another agenda item to be addressed by the Council at this same meeting.
7. Under the terms of the agreement, the City will commit to deposit funds into a Money Market account ("MMA") at the Bank (see Attachment 1). This MMA will receive 0.15% above the Bank's posted Money Market rate, making the return closer to what can be achieved in LAIF.
8. The Bank will collateralize the deposited funds with high quality investment securities equal to 110% of the deposited funds, not to exceed \$30 million. The Bank commits to making the deposited funds available for residential and business loans in the Greater Paso Robles Area.
9. The Bank is also committing to make these deposited funds available for loans in a total amount that is over and above what would otherwise be available for loans in the Greater Paso Robles Area. In other words, the deposited funds will serve to increase the total funds available for lending in the Greater Paso Robles Area, on a dollar-for-dollar basis.

10. The Bank is also committing to establishing or expanding relationships with local organizations and non-profits to provide resources for small businesses needing help with business planning or the loan application process; including partnering with SCORE and Cuesta College (e.g., Business & Entrepreneurship Center) to leverage their existing programs.
11. The Bank will provide the City with quarterly reporting of its lending and outreach efforts related to the Sustainability Partnership. Any such reporting will be subject to the Bank's Privacy Policy and no personally identifiable information will be provided by the Bank in the quarterly reports.
12. As a pilot project, either party could terminate the partnership with a 30-day notice.
13. The acquisition of Heritage Oaks by Pacific Premier Bancorp was announced on December 13 (see Attachment 3). As of now, we anticipate no impact on the City's banking services or the pilot project. Representatives of HOB will be at the Council meeting and can address any questions on this issue.
14. In order for the program to be undertaken, the Council will need to amend the City's Investment Policy.

Options

1. Take no action;
2. Initiate the pilot program;
3. Provide alternative direction.

Analysis and Conclusions

Implemented on a pilot basis, this program will have no significant impact on the liquidity of or return on the City's invested funds. In addition, all City funds will be fully insured, so there is no risk of loss of capital. What the pilot program will accomplish is the investment of some of the tax revenues collected from local residents and businesses back in our community.

As such, there is no significant downside and a potential upside for initiating the pilot program. The key is to start gradually, so that both parties can learn as we go.

The proposed modification to the Investment Policy takes the form of an additional investment instrument by the inclusion of a new instrument as identified in Section IX Allowable Investment Instruments; Section 16, *Community Sustainability Program Funds* (new addition), starting on page 6 of the Investment Policy (Attachment 2). The proposed new section provides that investments in this program be limited to ten percent (10%) of the City's long-term portfolio. As of September 30, 2016, the maximum amount would be \$5.3 million dollars.

The City's investment in the Community Sustainability Program would be in the \$1 million to \$2 million range initially on a trial basis to gauge its effectiveness.

It is unknown and unmeasurable as to the economic benefit that might be derived from investing in the Community Sustainability Program. However, the program is expected to provide additional investment opportunities in the commercial and residential sectors of the Paso Robles economy.

Fiscal Impact

The Community Sustainability Program would provide that the funds invested with Heritage Oaks Bank would earn their posted money market rate plus 15 basis points. As September 30, 2016, their money market rate was 0.25% resulting the City funds earning 0.40% while on deposit with Heritage Oaks Bank.

For the same ending period, the City's long-term investment portfolio earned 1.308%. However, the Treasurer is not likely to invest funds in HOB when there is high-interest option available. Thus, the true difference in earnings is likely to be less than the .908% difference. Assuming an initial deposit of \$1 million, the City's interest income would be reduced by less than \$9,000 annually.

In return, HOB would invest an additional \$1,000,000 in the local economy, which, in the long run, will generate additional taxes for the City. The net effect of all these transactions cannot reliably be forecasted.

Recommendation

1. Approve the Resolution No. 16-xxx, modifying the current Investment Policy to accommodate participation in the Community Sustainability Program with Heritage Oaks Bank.
2. Direct the City Manager and City Treasurer to enter into the pilot program with Heritage Oaks Bank, reporting back every six months.

Attachments

1. Memorandum of Expectation
2. Resolution 16-____
3. City's Investment Policy, with proposed amendment
4. Media announcement of Pacific Premier purchase of HOB



HERITAGE OAKS BANK

MEMORANDUM OF EXPECTATIONS

SUSTAINABILITY PARTNERSHIP

Draft 9/23/16

1. Purpose

The purpose of this Memorandum of Expectations ("MOE") is to provide mutual understanding between Heritage Oaks Bank (the "Bank") and the City of El Paso de Robles (the "City") for the goals, benefits, roles and responsibilities, decision-making, and activities associated with the proposed Sustainability Partnership.

2. Background

The Bank is a California-chartered community bank headquartered in Paso Robles, CA. Heritage Oaks Bank conducts banking business in San Luis Obispo, Santa Barbara, and Ventura counties, with 12 branch offices throughout San Luis Obispo and Santa Barbara Counties. Two branch offices are located in the City. The Bank offers traditional banking products such as checking, savings, money market accounts and certificates of deposit, as well as mortgage, commercial, and consumer loans to customers who are predominately small to medium-sized businesses and to individuals.

The Bank is committed to serving the needs of the Greater Paso Robles Area, including Paso Robles, Bradley, Creston and Shandon through traditional banking products. In addition, the Bank is a good community citizen with approximately \$90,000 in annual donations supporting schools, organizations and non-profits (45 vital entities and 55 community focused events).

The City maintains an Investment Policy pursuant to which it has a fiduciary responsibility to maximize the assets entrusted to its care and to manage those public funds wisely and prudently. The purpose of this policy is to provide broad guidelines and direction to the officer(s) of the City charged with the responsibility for the investment of the City's temporary idle funds under the prudent man rule (Civil Code Section 2261, et seq.).

Sustainability Partnership

It is the intent of the City and the Bank to enter into a Sustainability Partnership as a pilot program to reinvest in the Greater Paso Robles Area through the deposit of funds by the City into account(s) at the Bank. In turn, the Bank will commit to making the deposited funds available for loans to individuals and businesses located in the Greater Paso Robles Area. Such loans will enhance homeownership and help create jobs and opportunities.

This Sustainability Partnership is just one of many multi-pronged approaches of the City to invest in and serve the community. By investing deposits in a local financial institution, the City is able to invest idle funds for use in the community and provide support to a local financial institution that generates local jobs (approximately 100 of the Bank's 300 employees work in the City). Those local

employees, as well as the employees of local businesses and homeowners borrowing from the Bank, contribute tax revenue to the City.

3. Commitment to Goals and Long-Term Desired Outcomes

The City and the Bank commit to working together to achieve the following goals of the Sustainability Partnership:

- Support Economic Growth and Sustainability
- Partner with Local Organizations to Provide Business Education and Resources for Business Planning for Local Businesses
- Facilitate Strong Alliances with Local Organizations to Assist Small Businesses

4. Commitment to Sustainability Partnership – Deposit of Funds

The City commits to deposit funds into a Money Market account (“MMA”) at the Bank. Such MMA shall receive 0.15% above the Bank’s posted Money Market rate.

The Bank will collateralize the deposited funds with high quality investment securities equal to 110% of the deposited funds, not to exceed \$30 million.

5. Commitment to Leverage Deposited Funds in the Greater Paso Robles Area

The Bank commits to making the deposited funds available for loans by providing financing in the Greater Paso Robles Area, including:

Local Businesses

- Working Capital Lines of Credit
- Term Loans
- Commercial Real Estate / Construction
- Farm / Agriculture

Local Residents

- Home Equity Lines/Loans
- Purchase or Refinance Single Family Residential Mortgages
- Construction Loans

The Bank also commits to making these deposited funds available for loans in a total amount that is over and above what would otherwise be available for loans in the Greater Paso Robles Area. In other words, the deposited funds will serve to increase the total funds available for lending in the Greater Paso Robles Area, on a dollar-for-dollar basis.

The City and the Bank agree that the intent of this Sustainability Partnership, including the deposited funds, is to support loans for local businesses and consumers. The City will not impose any loan underwriting criteria for either small business or consumer loans. All loans are subject to the Bank’s existing credit approval process and underwriting standards. The Bank, subject its

policies and procedures will have sole discretion in determining whether to make a particular loan. In the event the Bank sustains a loss on a loan, it will not apply any such losses against City funds.

6. Commitment to Providing Resources to Local Businesses

The Bank commits to establishing or expanding relationships with local organizations and non-profits to provide resources for small businesses needing help with business planning or the loan application process; including partnering with SCORE and Cuesta College (e.g., Business & Entrepreneurship Center) to leverage their existing programs.

7. Amend Investment Policy

The City will make the necessary changes to its Investment Policy to facilitate the Sustainability Partnership.

8. Quarterly Reporting

The Bank will provide the City with quarterly reporting of its lending and outreach efforts related to the Sustainability Partnership. Any such reporting will be subject to the Bank's Privacy Policy and no personally identifiable information will be provided by the Bank in the quarterly reports. Representatives of the Bank and the City will meet as needed to discuss the results.

9. Term

As a pilot project, the Sustainability Partnership will be periodically reviewed by the City and the Bank to determine its success. Either party to this MOE can terminate the Sustainability Partnership by giving the other party 30-days prior notice or such earlier notice as mutually agreed upon.

The City of El Paso de Robles agrees to the terms and conditions of the MOE.

Signature of Authorized Representative

Date

Heritage Oaks Bank agrees to the terms and conditions of the MOE.

Signature of Authorized Representative

Date

RESOLUTION NO. 16-XXX

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF PASO ROBLES
MODIFYING THE CURRENT INVESTMENT POLICY

WHEREAS, the City Council previously adopted an Investment Policy; and

WHEREAS, the City Council did undertake its annual review of the Investment Policy on August 2, 2016; and

WHEREAS, the City Treasurer did not recommend any revisions to the Investment Policy at that time; and

WHEREAS, the City Council did approve the Investment Policy as presented on August 2, 2016; and

WHEREAS, the City Council is being presented with a proposal to implement a Community Sustainability Program wherein City cash resources would be invested with Heritage Oaks Bank; and

WHEREAS, the nature of this investment is not provided for in the current Investment Policy; and

WHEREAS, it would be highly desirable should the City Council adopt the Community Sustainability Program that said investment be authorized under the City's Investment Policy.

THEREFORE BE IT HEREBY RESOLVED by the City Council of the City of El Paso de Robles that the modified Investment Policy attached herewith is approved as presented.

PASSED AND ADOPTED by the City Council of the City of Paso Robles this 20th day of December 2016 by the following vote:

AYES:

NOES:

ABSENT:

ABSTAIN:

Steven W. Martin, Mayor

ATTEST:

Kristen L. Buxkemper, Deputy City Clerk

CITY OF EL PASO DE ROBLES INVESTMENT POLICY

I. PURPOSE

The City has a fiduciary responsibility to maximize the productive use of its assets entrusted to its care and to manage those public funds wisely and prudently.

The purpose of this policy is to provide broad guidelines and direction to the officer(s) of the City charged with the responsibility for the investment of the City's temporary idle funds.

II. SCOPE

The Investment Policy applies to all funds and investment activities of the City except the investment of bond proceeds, which are governed by the appropriate bond documents, and any pension or other post-employment benefit funds held in a trust.

III. PRUDENCE

The standard of prudence to be used by investment officials will be the "prudent investor" standard, which states that, "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."

IV. OBJECTIVES

The objectives of the City's investment program shall be to maintain a level of investment of all temporary idle funds as near as 100% as possible with due consideration given to safety, liquidity, cash flow requirements and yield.

1. **Safety** - Investment Safety refers to attempts to reduce the potential for loss of principal and/or interest. The first level of loss control is found in state law that restricts the particular type of investment permissible for public agencies. The second level of loss control is reducing risk by investing in instruments that appear to be the most credit worthy. The third level of loss control is by investing in instruments that have maturities coinciding with cash needs thereby eliminating loss from forced sale. Safety is the primary duty and responsibility of the City Treasurer.
2. **Liquidity** - Liquidity refers to the ability to sell or otherwise make immediately accessible without risk of losing some portion of principal or interest on the investment.

3. **Yield** - Yield is the potential dollar earnings an investment can provide, sometimes described as the rate of return. Attempts should be made to invest in securities with the highest return potential provided the criteria for safety and liquidity are met.

V. DELEGATION OF AUTHORITY

The management responsibility for the investment program is hereby delegated to the City Treasurer. City Treasurer will monitor and review all investments for consistency with this Investment Policy. The City Treasurer may delegate investment decision making and execution authority to an investment advisor. The advisor will follow the Investment Policy and such other written instructions as are provided.

VI. ETHICS AND CONFLICTS OF INTEREST

Officers and employees involved in the investment process will refrain from personal business activities that could conflict with proper execution of the investment program, or which could impair their ability to make impartial decisions.

VII. AUTHORIZED FINANCIAL DEALERS AND INSTITUTIONS

A close working relationship should be maintained with well-established brokers/dealers and bankers whose proven technical knowledge and expertise is of assistance in making investment decisions. The City Treasurer shall maintain an approved list of brokers/dealers. List is attached herewith as Exhibit "A".

If the City has an investment advisor, the investment advisor may use its own list of authorized broker/dealers to conduct transactions on behalf of the City. The investment advisor will provide its list of approved broker/dealers to the City annually.

Competitive bids/quotations are to be obtained and documented on all investments when practical.

VIII. INVESTMENT GUIDELINES

All City funds not required for immediate expenditure shall be fully invested or deposited to maximize investment returns. To maximize returns, the economy and market conditions should be monitored in order to assess the probable course of interest rates. The City shall utilize those eligible investments instruments as set forth in Government Code Sections 53601 and 53630 while following these guidelines:

1. Pursuant to Government Code, Section 53647, the Director of Administrative Services shall allocate all interest earned to the General Fund unless otherwise required by Federal or State regulation or local ordinance.
2. Whenever practical, cash should be consolidated and invested on a pooled concept basis. Interest earnings shall be allocated monthly pursuant to paragraph 1 of this section.

3. The City Treasurer shall include notification of all trade transactions whether buy or sell, to the Director of Administrative Services or his/her designated staff person.

IX. ALLOWABLE INVESTMENT INSTRUMENTS

Where this section specifies a percentage limitation for a particular security type, that percentage is applicable only on the date of purchase. Credit criteria listed in this section refers to the credit rating at the time the security is purchased. If an investment's credit rating falls below the minimum rating required at the time of purchase, the City Treasurer will perform a timely review and decide whether to sell or hold the investment.

The City shall limit investments to a maximum across all permitted investment sectors (excluding U.S. Treasuries, U.S. Instrumentalities, and investment pools) of 5% combined per issuer.

1. **Time Certificates of Deposit (TCD)** - TCDs shall be made only with banks and savings and loan institutions that are insured by the FDIC. Waiver of collateralization is permissible only on the first \$250,000. For collateralized TCDs, banks shall be required to certify semi-annually that the TCDs are fully collateralized in accordance with State law. The bank or savings and loan institution must be located in California. No more than 30% of the City's portfolio shall be invested in TCDs. The City Treasurer may require additional selection criteria as deemed appropriate.

TCDs in local financial institutions shall be encouraged; provided that the criteria for safety, and liquidity are equal to or greater than that of non-local financial institutions and the interest rate earned is within one quarter of one percent (0.25%) of the rate that may be earned from any other financial institution outside of Paso Robles.

2. **Local Agency Investment Fund (LAIF)** - Managed by the Treasurer of the State of California Treasurer's Office, investments are permitted up to the regulatory maximum for each account established by the City and its' relating entities. Transactions shall be in accordance with established criteria as set forth by the State Treasurer's Office.
3. **Banker's Acceptances** - Banker's acceptances (BAs) are bills of exchange or time drafts which are drawn on and accepted by a commercial bank. The restrictions on use of banker's acceptances are as follows:
 - (a) BAs eligible for purchase shall have the highest ranking or highest letter and number rating as provided for by a nationally recognized statistical-rating organization (NRSRO).
 - (b) Maturity shall not exceed 180 days.
 - (c) No more than 40% of the City's portfolio may be invested in BAs.
4. **U.S. Treasury Bills and Notes** - United States Treasury notes, bonds, bills, or certificates of indebtedness, or those for which the full faith and

credit of the United States are pledged for the payment of principal and interest.

5. **Federal Agencies** – 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.
6. **Repurchase Agreements** - Repurchase agreements (Repos) represent agreements to sell idle funds for U.S. government securities that will be repurchased at a future date for a specific price. Investments in repos shall not exceed 90 days. Physical delivery of the securities backing the repos or a safe keeping documentation to a qualified safe keeping institution is required.
7. **Commercial Paper** - Commercial paper is essentially an unsecured promissory note of a corporation or financial institution with a fixed maturity date. The entity that issues the commercial paper must meet all of the following conditions in either paragraph a or paragraph b:
 - a. The entity meets the following criteria: (i) is organized and operating in the United States as a general corporation, (ii) has total assets in excess of five hundred million dollars (\$500,000,000), and (iii) has debt other than commercial paper, if any, that is rated in a ratings category "A," its equivalent, or higher by NRSRO.
 - b. The entity meets the following criteria: (i) is organized within the United States as a special purpose corporation, trust, or limited liability company, (ii) has program-wide credit enhancements including, but not limited to, over collateralization, letters of credit, or surety bond, and (iii) has commercial paper that is rated in a ratings category "A-1," its equivalent, or higher by a NRSRO.

The City's use of commercial paper is further restricted as follows:

- (a) Maturity shall not exceed 270 days.
 - (b) No more than 25% of the City's portfolio may be invested in commercial paper.
 - (c) The City may purchase no more than 10% of the outstanding commercial paper of any single issuer.
8. **Corporate Notes** - Medium-term notes, defined as all corporate and depository institution debt securities 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. Restrictions on use of corporate bonds are as follows:
 - (a) Maturity shall not exceed 5 years.
 - (b) No more than 30% of the City's portfolio may be invested in corporate notes.
 - (c) Only corporate notes from companies with a minimum rating in a ratings category "A," its equivalent or better by a NRSRO

9. **Municipal Bonds issued by the State of California or any local agency within the state**- including bonds payable solely out of revenues from a revenue producing property owned, controlled or operated by the state or any local agency, or by a department, board, agency or authority of the state or any local agency. Restrictions on use of municipal bonds are as follows:
- (a) Maturity shall not exceed 5 years.
 - (b) No more than 25% of the City's portfolio may be invested in municipal bonds issued by State of California or any local agency within the state.
 - (c) Only municipal bonds from entities with a minimum rating in a ratings category "A," its equivalent or better by a NRSRO
10. **Municipal Bonds issued by 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 these states. Restrictions on use of municipal bonds are as follows:
- (a) Maturity shall not exceed 5 years.
 - (b) No more than 25% of the City's portfolio may be invested in municipal bonds issued any of the other 49 states in addition to California.
 - (c) Only municipal bonds from entities with a minimum rating in a ratings category "A," its equivalent or better by a NRSRO
11. **Negotiable Certificates of Deposit** – CDs 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- or state-licensed branch of a foreign bank. Restrictions on use of negotiable CDs are as follows:
- (a) Maturity shall not exceed 5 years.
 - (b) No more than 30% of the City's portfolio may be invested in negotiable CDs.
 - (c) Only negotiable CDs from companies with a minimum rating in a ratings category "A", "A-1," its equivalent, or better by a NRSRO
12. **Money Market Funds** – Funds which are registered with the Securities and Exchange Commission under the Investment Company Act of 1940 (15 U.S.C. Sec. 80a-1, et seq.). To be eligible for investment pursuant to this subdivision these companies will either: (i) attain the highest ranking letter or numerical rating provided by at least two NRSROs or (ii) have retained an investment advisor registered or exempt from registration with the Securities and Exchange Commission with not less than five years of experience managing money market mutual funds and with assets under management in excess of \$500,000,000. Restrictions on use of money market funds are as follows:
- (a) No more than 20% of the City's portfolio may be invested in money market funds.
13. **Local Government Investment Pools (LGIPs)** – Shares of beneficial interest issued by a joint powers authority organized pursuant to Government Code Section

6509.7 that invests in the securities and obligations authorized in subdivisions (a) to (q) of California Government Code Section 53601, inclusive. Each share will represent an equal proportional interest in the underlying pool of securities owned by the joint powers authority. To be eligible under this section, the shares will maintain a stable net asset value (NAV) and the joint powers authority issuing the shares will have retained an investment adviser that meets all of the following criteria:

- (a) The adviser is registered or exempt from registration with the Securities and Exchange Commission.
- (b) The adviser has not less than five years of experience investing in the securities and obligations authorized in subdivisions (a) to (o) Government Code Section 53601, inclusive.
- (c) The adviser has assets under management in excess of five hundred million dollars (\$500,000,000).

14. **Asset-Backed Securities (ABS)** – Includes mortgage passthrough securities, collateralized mortgage obligations, mortgage-backed or other pay-through bonds, equipment lease-backed certificates, consumer receivable passthrough certificate, or consumer receivable-backed bonds. Restrictions on use of ABS are as follows:

- (a) Maturity shall not exceed 5 years.
- (b) No more than 20% of the City's portfolio may be invested in ABS.
- (c) Shall be issued by an issuer having an "A" or higher rating for the issuer's debt as provided by an NRSRO and rated in a rating category of "AA," its equivalent, or better by an NRSRO

15. **Supranationals** - 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. Restrictions on use of Supranationals are as follows:

- (a) Maturity shall not exceed 5 years.
- (b) No more than 30% of the City's portfolio may be invested in supranationals.
- (c) Obligations issues by supranationals will be rated in a rating category "AA," it equivalent, or better by a NRSRO.

16. **Community Sustainability Program Funds** – Funds placed in a money market account with a full service bank that has a branch in Paso Robles. The amount deposited shall not exceed 10% of the City's long-term investment portfolio at time of placement. The funds shall be used to make local loans and lines of credit as follows:

- (a) Business working capital lines of credit
- (b) Business term loans
- (c) Business CRE and construction loans
- (d) Home equity lines/loans
- (e) Residential home loans or refinance mortgages
- (f) Residential construction loans

Commented [TF1]: This section added

X. INVESTMENT RESTRICTIONS

Idle funds of the City may not be invested in the following instruments:

1. Reverse repurchase agreements
2. Financial futures and options
3. Mortgage-derived, interest-only strips
4. Small Business Administration notes
5. Or any other investment instrument specifically restricted by State Code and/or regulation

XI. MAXIMUM MATURITY

The City may purchase up to 15% of U.S. Treasuries and Federal Agencies between five and seven years. All other investments shall be purchased with a final stated maturity of no more than five (5) years from the purchase date except as provided for Section IX.

XII. INTERNAL CONTROL

The City Treasurer will establish an annual process of independent review by an external auditor. This review will provide internal control by assuring compliance with policies and procedures.

XIII. CUSTODY OF SECURITIES

All investments of the City shall have the City of Paso Robles as the registered owner or shall be kept in the custody of the City or the trust/custodial department of its designated third party, safekeeping institution. If securities are kept by a safekeeping institution, the City shall have access to buy and sell such securities independently of any broker.

While in safekeeping, the City shall have on file from its designated safekeeping institution, an executed contract for said safekeeping services which specifically requires the City's securities to be held separately from all other securities and funds on deposit with the trust/custodial department. The trust/custodial department shall be required to send the City a monthly statement of what is being kept including an estimate of the current market valuation.

All securities will be received and delivered using standard delivery versus payment procedures.

XIV. REPORTING

The City Treasurer shall report monthly to the City Manager and City Council the type of investment, financial institution, date of maturity, amount of investment, and rate of interest for all investments. Per Government Code Section 53607, since authority has been delegated to the City Treasurer, the monthly report shall also include transactions.

The City Treasurer shall also report monthly whether or not any funds, investments or programs are managed under contract by outside parties. If such contracts exist, a description of the investments shall be included along with the market values of the funds, investments or programs under contract by said parties.

The City Treasurer shall also include in the monthly report a statement as to whether or not the City can meet its cash flow requirements during the next six (6) months.

The current value of all investments shall be reported annually according to Governmental Accounting Standards Board, GASB No. 31.

XV. POLICY REVIEW

The City Treasurer shall annually submit the Investment Policy to the City Council for review and re-confirmation at a public meeting.

Last review: August 2, 2016

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Exhibit A

List of Approved Broker/Dealers

Gilford Securities – Jaime Hopkins
Mutual Securities – Renee Molina
Piper Jaffray & Co. – Victor Ume-Ukeje
Stifel Investment Services – Bill Blackwill

Last review: August 2, 2016

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Exhibit “B”

Investment Strategy

1. Investment Pools, i.e. Local Agency Investment Fund (LAIF) will be used to provide liquidity for the City's daily cash needs; and
2. Investments shall be made with maturities from one (1) to five (5) years.
3. Investments shall be made with as much diversification as practical.
4. The credit worthiness of non-government issuers shall be assessed and monitored vigilantly.
5. Total return of portfolio shall be measured against the 1 to 5 Treasury Index.
6. Portfolio duration and sector weightings shall be actively managed to capture best relative value.

Pacific Premier Bancorp to acquire Heritage Oaks

Posted: Dec 13, 2016 1:09 PM PST
By Katherine Worsham



Pacific Premier Bancorp, Inc. announced Tuesday that it will acquire Heritage Oaks Bancorp in a deal worth approximately \$405.6 million in stock.

Heritage Oaks has 12 bank branches in San Luis Obispo and Santa Barbara counties and a loan production office in Ventura County.

Heritage Oaks CEO Simone Lagomarsino said the bank's name will change to Pacific Premier when the merger is complete, likely sometime in April. She said customers would then have access to enhanced products and services, such as different types of deposit accounts and cash management programs, that Heritage Oaks does not currently provide.

Lagomarsino said that while there will be some layoffs, the vast majority of front-line employees are expected to keep their jobs. She said all employees would know by February 1 if they will be retained.

Pacific Premier is based in Irvine and operates 16 bank branches in Southern California, mostly catering to small and medium-sized businesses.

The transaction is expected to be finalized in the second quarter of 2017.

<http://www.ksby.com/story/34043581/pacific-premier-bancorp-to-acquire-heritage-oaks>