



May 27, 2020

Memorandum

To: Bret Prebula, Finance Director
Jessie Gooch, Finance Analyst
City of Napa

From: Monique Spyke, Managing Director
Allison Kaune, Sr. Client Representative
PFM Asset Management LLC

Re: Investment Policy Review

We have completed our review of the City of Napa's (the "City") Investment Policy (the "Policy") dated June 2019. As written, the Policy is in compliance with the sections of the California Government Code (the "Code") that govern the investment of public funds and we are recommending no changes at this time. However, we would like to make you aware of two recent changes made to the Code concerning the investment of public funds, both of which went into effect on January 1, 2020, and an increase to the LAIF investment limit. We are not recommending the City change its Policy in response to the Code changes.

Assembly Bill 857. Assembly Bill No. 857, which took effect on January 1, 2020, provides for the establishment of public banks by local agencies, subject to approval by the Department of Business Oversight (DBO) and Federal Deposit Insurance Corporation (FDIC). As a part of this bill, subsection (r) was added to Code section 53601, and subsection (c) was added to Code section 53635, which permits local agencies to invest in the commercial paper, debt securities, or other obligations of such public banks.

We do not recommend that the City add the debt of these public banks as an authorized investment in light of the legislation at this time. We will continue to monitor any ongoing developments in this area, and if, at a later date, we feel it would be prudent for the City to add obligations of these public banks to its listing of authorized investments, we will make a formal recommendation at that time.

Assembly Bill 945. Assembly Bill No. 945, which also took effect on January 1, 2020, relates to Code Section 53601.8, which allows public agencies to invest in deposits at certain types of financial institutions that use a private sector entity to assist in the placement of deposits (CDARS is an example). Assembly Bill No. 945 increases the maximum percentage of funds that a public agency may invest in these instruments from 30% to 50% from January 1, 2020,



until January 1, 2026. On January 1, 2026, the maximum percentage of funds that a public agency may invest in these instruments reverts back to 30%. The City's Policy currently doesn't reference this type of deposit, so no changes are required.

Finally, State Treasurer Fiona Ma announced that effective January 1, 2020, the LAIF deposit limit for accounts would increase from \$65 million to \$75 million. The current language in the City's Policy surrounding LAIF is that the City may invest up to the "maximum amount permitted by LAIF's Local Investment Advisory Board." Therefore, no changes to the Policy need to be made to reflect the increase.

Please let us know if you have any questions on the recommendations or would like to discuss our review in more detail. Thank you.