

City of Hesperia

STAFF REPORT



DATE: December 2, 2025

TO: Mayor and Council Members
City Council, as Successor Agency to the Hesperia Community Redevelopment Agency
Chair and Board Members, Hesperia Housing Authority
Chair and Commissioners, Community Development Commission
Chair and Board Members, Hesperia Fire Protection District
Chair and Board Members, Hesperia Water District

FROM: Rachel Molina, City Manager

BY: Casey Brooksher, Assistant City Manager
Marc Morales, Senior Accountant

SUBJECT: 2025-26 Statement of Investment Policy

RECOMMENDED ACTION

It is recommended that the Council/Board/Commission adopt Joint Resolution No. 2025-49, Successor Agency to the Hesperia Community Redevelopment Agency Resolution No. SA 2025-02, Hesperia Housing Authority Resolution No. HHA 2025-07, Community Development Commission Resolution No. CDC 2025-01, Hesperia Fire Protection District Resolution No. HFPD 2025-04, and Hesperia Water District Resolution No. HWD 2025-16, approving the Fiscal Year 2025-26 Statement of Investment Policy.

BACKGROUND

The City Treasurer is authorized to invest public funds in accordance with California Government Code (CGC) Sections 53600 et seq. and 5922(d). The Statement of Investment Policy (Policy) that guides the investment activity of the City, Successor Agency to the Hesperia Redevelopment Agency, Hesperia Housing Authority, Community Development Commission, Fire District, and Water District was adopted by the City Council consistent with CGC Section 53646, and any changes to the Policy are considered by the Council on an annual basis. The external auditors of the Council/Agency/Authority/Commission/Districts also review the Statement of Investment Policy during the annual financial audit process.

ISSUES/ANALYSIS

During the past year, all funds under the control of the City Treasurer that were not required for the immediate cash flow needs of the City, or were otherwise invested in accordance with bond indentures and trust agreements, were placed with the State Local Agency Investment Fund (LAIF). The quarterly interest rates on funds invested with LAIF for the last four fiscal years are provided on the following page.

| <u>Interest Rate</u> | <u>September</u> | <u>December</u> | <u>March</u> | <u>June</u> | <u>Annual Averages</u> |
|----------------------|------------------|-----------------|--------------|-------------|------------------------|
| Fiscal Year 2021-22 | 0.24% | 0.23% | 0.32% | 0.75% | 0.39% |
| Fiscal Year 2022-23 | 1.35% | 2.07% | 2.74% | 3.15% | 2.33% |
| Fiscal Year 2023-24 | 3.59% | 4.00% | 4.30% | 4.55% | 4.11% |
| Fiscal Year 2024-25 | 4.71% | 4.62% | 4.48% | 4.40% | 4.55% |

Fiscal Year (FY) 2024-25 LAIF interest rates had a similar rate of return compared to short-term investments (three-month maturity) of similar safety rating as demonstrated in the following chart provided from the Federal Reserve:

***US Government Securities Rate of Interest with a three - month maturity
per the Federal Reserve System***

| <u>Interest Rate</u> | <u>September</u> | <u>December</u> | <u>March</u> | <u>June</u> | <u>Federal Annual Averages</u> |
|----------------------|------------------|-----------------|--------------|-------------|------------------------------------|
| Fiscal Year 2021-22 | 0.05% | 0.05% | 0.31% | 1.11% | 0.38% |
| Fiscal Year 2022-23 | 2.75% | 4.19% | 4.78% | 5.27% | 4.25% |
| Fiscal Year 2023-24 | 5.54% | 5.52% | 5.45% | 5.47% | 5.50% |
| Fiscal Year 2024-25 | 5.23% | 4.58% | 4.34% | 4.44% | 4.65% |

An advantage of investing in LAIF is that the funds are available same day, based upon the cash management needs of the City. LAIF is part of the Pooled Money Investment Account that was created by statute and is governed by a five-member board, which is chaired by the State Treasurer. Under Government Code Section 16429.3, funds deposited are precluded from being transferred or seized by any State agency. The FY 2025-26 Budget contains an estimated average interest rate of 4.0%. Due to grant and reimbursement-funded construction projects included in the FY 2025-26 Budget, such as the Ranchero Road Widening and Aqueduct Crossing projects, the ability to draw funds same day (free of penalties) for payment of peak cash flow obligations is important in the City's ability to effectively manage cash for City operations. For this reason, continued investments with LAIF is recommended, as the City's ability to withdraw immediately available funds is essential.

Consistent with Government Code 53600.5, the City's primary objective is to safeguard the principal of the funds under its control, with a secondary objective of meeting the liquidity needs of the organization, and a tertiary objective of achieving return on invested funds. As such, during FY 2025-26, staff will continue to monitor LAIF performance, while also evaluating the potential incorporation of other investment options that may offer higher yields, without compromising on safety and liquidity. Potential viable options that can maintain safety and liquidity, along with enhancing return will be presented to the City Council in the future for consideration.

The Association of Public Treasurers of the United States and Canada Model Investment Policy, as well as the California Local Agency Investment Guidelines, were models used to guide the Policy. Further, the 2025 *Local Agency Investment Guidelines* (LAIG), as presented by the California Debt and Investment Advisory Commission, have been reviewed in order to identify statutory changes arising from the 2024 Legislative session for inclusion in the annual update to the Policy. The summary of statutory changes referenced Chapter 239, Statutes of 2024 (AB 2618) which amended Government Code section 53601.8 to extend the date of the current portfolio concentration limit of 50% for surplus funds that local agencies invest in depository institutions that use a private sector entity to assist in the placement of deposits until January 1,

2031. On January 1, 2031, the provisions of the bill would return the portfolio limitations of cities, districts, and agencies back to 30% of the agency's surplus funds. In addition, the amended code section also requires the California Debt and Investment Advisory Commission on or before January 1, 2030, to submit a report to the Legislature on the deposit of funds by local agencies. These changes did not impact the City's investment policy.

Since there were no relevant changes as referenced above, the dates referenced in the Policy have been updated to reflect that the Policy has been reviewed for any potential impact in statutory changes. The date changes to the Policy are as shown in a "track changes" version (Attachment 2) of the draft Statement of Investment Policy for Fiscal Year (FY) 2025-26. The date changes have also been included in the "clean" version (Attachment 1) of the FY 2025-26 Policy and are recommended for approval.

CITY GOAL SUPPORTED BY THIS ITEM

Financial Health – Maintain a balanced budget and adequate reserves.

FISCAL IMPACT

Adoption of the Statement of Investment Policy has no direct financial impact on the City's Budget.

ALTERNATIVE(S)

1. Failure to adopt an update to the Statement of Investment Policy could result in an audit exception, as the Policy indicates the need for an annual review and approval by the City Council.
2. Provide alternative direction to staff.

ATTACHMENT(S)

1. Statement of Investment Policy for FY 2025-26 (clean)
2. Statement of Investment Policy for FY 2025-26 (track changes)
3. Joint Resolution No. 2025-49, SA 2025-02, HHA 2025-07, CDC 2025-01, HFPD 2025-04, and HWD 2025-16