



ADMINISTRATIVE SERVICES DEPARTMENT

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CITY COUNCIL STAFF REPORT

Meeting: May 20, 2025

Subject

Consider the City's Investment Policy

Recommended Action

Adopt Resolution No. 25-XXX accepting the City's Investment Policy

Reasons for Recommendation

Background

To ensure the City's investment policy is up-to-date and aligned with its investment objectives, the Audit Committee conducts an annual review before presenting it to the City Council. The most recent review and acceptance of the investment policy by the Audit Committee occurred on April 28, 2025, and awaiting approval from the City Council on May 20, 2025.

The investment policy is the foundation of the City's investment goals and priorities. It can help protect the City's assets if it is carefully researched, effectively drafted, and regularly reviewed to ensure that it continues to meet the City's investment objectives. The existence of an approved investment policy demonstrates that the City is performing its fiduciary responsibilities, thereby inspiring trust and confidence among the public that it serves.

The policy also provides guidance on the proper management of the City's temporary idle cash, outlining protocols to maximize cash efficiency.

California Government Code (Code) section 53646(a)(2) states:

[T]he treasurer or chief fiscal officer of the local agency may annually render to the legislative body of that local agency and any oversight committee of that local agency a statement of investment policy, which the legislative body of the local agency shall consider at a public meeting. Any change in the policy shall also be considered by the legislative body of the local agency at a public meeting.

Assembly Bill 2853 (Chapter 889, Statutes of 2004) amended section 53646(a)(2) to make presentation of the investment policy to the City Council optional. While no longer required by Code, the City annually presents the investment policy to the Audit Committee before submitting it to City Council for approval.

Chandler Asset Management

In FY 2018-19, the City conducted a Request for Proposal (RFP) for investment management services and selected Chandler Asset Management. Under the City's Treasurer's direction, Chandler Asset Management manages the City's investment portfolio in accordance with the City's investment objectives. The City's investment objectives, in order of priority, are to provide:

- Safety to ensure the preservation of capital in the overall portfolio
- Sufficient liquidity for cash needs
- A market rate of return consistent with the investment program

The performance objective is to earn a total rate of return through a market cycle equal to or above the return on the benchmark index. To achieve the objective, Chandler Asset Management invests in high-quality fixed-income securities consistent with the City's investment policy and Code.

Investment Policy Review

Chandler Asset Management completed its annual review of the City's Investment Policy for compliance with California Government Code and alignment with current industry best practices. Overall, Chandler concluded that the City's Investment Policy continues to be well-written and effective in guiding the management of the City's investment portfolio.

Although no updates to the Investment Policy are required at this time due to recent changes in the Government Code, Chandler recommended several best practice enhancements and minor clarifications. These updates have been incorporated into the attached redline version of the policy and are summarized below:

- **Clarification of Credit Quality Requirements:** Policy language now specifies that credit quality requirements apply at the time of purchase.
- **Federal Agencies (GSEs):** The per-issuer limit for securities issued by Federal Agencies has been increased from 25% to 30%, reflecting the sector's relative safety and providing additional flexibility.
- **Asset-Backed Securities:** Language has been updated to reflect that passthrough securities issued by governmental issuers are governed by Government Code Sections 53601(b) and 53601(f), not 53601(o), consistent with changes from SB 882.

- **Money Market Mutual Funds:** Policy language permitting the use of money market mutual funds has been updated to better reflect current Government Code language.
- **Local Government Investment Pools (LGIPs):** LGIPs have been added as a permitted investment type to enhance liquidity management options.
- **Trade Settlement Periods:** Consistent with SB 1489, language has been added to explicitly prohibit the purchase of securities with trade settlement periods longer than 45 days.

Staff concurs with Chandler's recommendations and has incorporated these revisions into the Investment Policy. The revised policy ensures continued compliance with state law while providing the City with greater clarity and flexibility to manage its investments in a prudent and efficient manner.

Sustainability Impact

No sustainability impact.

Fiscal Impact

No fiscal impact.

California Environmental Quality Act

Not applicable.

City Work Program (CWP) Item/Description

Not a CWP item.

Council Goal

Fiscal Strategy.

Prepared by: Jonathan Orozco, Finance Manager

Reviewed by: Kristina Alfaro, Director of Administrative Services and City Treasurer

Approved for Submission by: Tina Kapoor, Acting City Manager

Attachments:

A – Cupertino Investment Policy (Clean)

B – Cupertino Investment Policy (Redline)

C – Cupertino Investment Policy Statement Review Memo

D – Draft Resolution