



ADMINISTRATIVE SERVICES DEPARTMENT

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CITY COUNCIL STAFF REPORT

Meeting: May 14, 2024

Subject

Consider the City's Investment Policy

Recommended Action

Adopt Resolution No. 24-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 22, 2024, and awaiting approval from the City Council on May 14, 2024.

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 reviewed the City's investment policy. The review of the policy focused on compliance with the statutes of Code that govern the investment of public funds, as well as on the inclusion of current best practices.

There was a change to Code Section 53601 for 2023 that Chandler Asset Management recommends the City adopt. Pursuant to Senate Bill 1489, effective January 1, 2023, the Code specified that an investment's term or remaining maturity shall be measured from the settlement date to final maturity rather than from the trade date. Chandler Asset Management has added the change in the Maximum Maturities and Mitigating Market Risk in the Portfolio sections. The City's policy continues to be effective as written.

Additionally, language was included in the policy clarifying the Treasurer's existing authority for investing City funds as it relates to Government Code Section 53607.

Following the Audit Committee meeting on April 22, staff extended the effective date to encompass the entire Fiscal Year 2024-25. Moving forward, the Investment Policy will undergo review by the Audit Committee and subsequent approval by the City Council annually, with an effective date corresponding to the preceding fiscal year. This approach aligns with standard practices observed in other agencies and is consistent with the relevant municipal code.

Sustainability Impact

No sustainability impact.

Fiscal Impact

No fiscal impact.

Prepared by: Jonathan Orozco, Finance Manager

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

Approved for Submission by: Matt Morley, Assistant City Manager

Attachments:

A – Cupertino Investment Policy (clean)

B – Cupertino Investment Policy (redline)

C – Cupertino Investment Policy Statement Review Memo

D – Draft Resolution