

City of Cupertino  
**Audit Committee Special Meeting**  
Minutes  
April 26, 2021

**1. CALL TO ORDER**

At 12:01 p.m., Zach Korach called the special meeting to order. This was a teleconference meeting with no physical location.

**2. ROLL CALL**

Committee Members Present: Vice Mayor Chao, Councilmember Moore, Vice Chair Daisy Liang, Committee Member Angela Chen, Committee Member Song

City Staff Present: Deborah Feng, Kristina Alfaro, Zach Korach

Absent: None

Guests: Mark Steranka, Emily Hayes, Tammy Lohr (Moss Adams), and Kathy Lai and Matt Geerdes (Crowe), Carlos Oblites and Chris McCarry (Chandler), Mitch Barker, Jennifer Meza, Rick Rosenthal (PARS and US Bank).

**3. CEREMONIAL MATTERS AND PRESENTATIONS**

Item was reordered to end of meeting.

**4. APPROVAL OF MINUTES**

Councilmember Moore noted that Vice Chair Liang and Councilmember Moore were appointed as sub-committee members for the Budget Format Review and that it be corrected in the minutes. Korach confirmed the recollection. Councilmember Moore moved to approve February 22, 2021 meeting minutes pursuant to the changes discussed and Vice Mayor Chao seconded; motion passed unanimously.

**ORAL COMMUNICATIONS**

**OLD BUSINESS**

**NEW BUSINESS**

**5. Audit Committee Regular Meeting Time – 15 minutes**

Councilmember Moore moved to change the regular meeting time from the fourth Tuesday of the month to the fourth Monday of the month from 4-6 p.m. Vice Chair Liang seconded. The motion carried unanimously.

**6. Quarterly Review of Treasurer's Report as of March 31, 2021 – 60 minutes**

McCarry began by discussing the economic update and noted that economic growth is poised to accelerate in the current quarter as vaccine distribution becomes more widespread. He noted that GDP has reached historic highs, the yield curve has steepened, and that this was due primarily to federal stimulus packages. Chair Liang inquired about variants and how that could impact the US in the future. McCarry noted that of the countries that have had rollout of the vaccine, they seen positive trends. Vice Chair Chen inquired about a redistribution of spending as the economy

recovers and opens. McCarry mentioned that pent up demand will result in a redistribution of spending. Councilmember Moore inquired about the regional locations of the housing starts. McCarry did not have the specific regional data, but that this was more of a national trend. Oblites discussed the objectives, strategy, and performance of the portfolio. Vice Mayor Chao inquired about the laws that restrict the investments and whether it's State or City. Oblites noted that the California Government Code is what governs municipal investments. Vice Mayor Chao asked why it's necessary to have a consultant when the code restricts investments and not a lot of decisions need to be made. Oblites discussed the numerous types of allowable investment types with varying risk parameters that cities can decide to invest in. In addition to managing the risk, Chandler also completes the necessary reporting. Committee Member Song inquired about the accessibility of investments. Oblites discussed how Chandler is able to purchase securities in bulk and does prove to be advantageous. Councilmember Moore asked about Chandler's clientele. Oblites noted that Chandler focuses primarily on municipal governments. Councilmember Moore asked if the City should be concerned about the portfolio being "stirred" throughout fluctuating interest rates. Oblites discussed how Chandler is a "fiduciary" for the City and that any decision made on behalf of the City need to be in the City's best interest and that fees are calculated based on the portfolio's holding balance as opposed to transactions ("churning"). Committee Member Song asked about the calculation of the fee and if it was 7%. Oblites noted that the fee is 7 basis points or 0.07%. Committee Member Song asked about two specific investments comparing Chandler's report with the Wells Fargo holdings report. Oblites noted you must consider the par value and the rate at which the security is paying in order to determine an investment's value. Councilmember Moore asked about the changing portfolio allocation of US treasuries and federal agency securities quarter over quarter. Oblites discussed the changing supply and demand of federal agencies.

## **7. Annual Review of City Investment Policy – 15 minutes**

Korach and McCarry summarized the recommended changes to the City's investment policy. Vice Chair Chen asked how the changes to the policy would impact the portfolio. McCarry noted the changes would be minimal due to the interest rate environment at this time. Chen also asked about the City's cash and cash equivalents and how a transfer of \$15 million was determined if the goal for liquidity is 10% of the portfolio. Korach discussed the historical trends of the City's liquidity and the efforts to maintain a liquidity ratio of 1.0 (revenues/expenditures in respect to cash and cash equivalents balance). He discussed the uncertainty of COVID-19 that still remains and particularly surrounding the City's primary revenue sources. In short, although \$15 million will likely be transferred to the portfolio, there may be additional transfers in the near future.

## **8. OPEB & Pension Section 115 Trust Performance Report – 20 minutes**

Mitch Barker introduced the PARS and US Bank team and passed it off to Rick Rosenthal. Rosenthal provided an overview of the OPEB portfolio and its history. He discussed the performance as of the most recent quarter ending and reviewed various asset classes. Over the last twelve months, he noted the portfolio was up 41% and was certainly a very strong year. Councilmember Moore noted the markets dove at the start of the pandemic and recovered and wondered how the risk management was handled. Rosenthal mentioned he rebalanced the portfolio and noted discussions with Korach regarding the management of the portfolio. Councilmember Moore asked for Rosenthal's prediction for the remainder of the year. Rosenthal noted it's tough any market circumstance to provide predictions, but noted they are in a cautiously optimistic phase. Councilmember Moore asked about constraints within the

investment policy that could prove challenging in market downturns. Rosenthal noted that he is required to manage the portfolio to the City's policies and within that policy there are asset class ranges to provide flexibility. He noted that in order to manage to the target rate of return, it's important to manage to the investment strategy as stated in the policy. Committee Member Song asked if any investments generate dividends. Rosenthal called attention to page 8 of his report showing the dividend and interest income. Song asked about rebalancing the portfolio and Rosenthal noted that rebalancing is not necessarily a regular activity, but does happen if necessary. Rosenthal noted that the pension portfolio strongly mirrors the OPEB portfolio. Vice Chair Liang asked how often the portfolio is rebalanced. Rosenthal noted that he monitors the performance but does not necessarily make changes on a daily basis. The portfolio is rebalanced to align with the City's investment policy to US Bank's strategy. The ranges in the policy provide latitude to accomplish this. Vice Chair asked if the City is notified of these changes. Rosenthal noted that because US Bank is a fiduciary with discretionary asset management which does not require pre-approval.

## **CEREMONIAL MATTERS AND PRESENTATIONS**

### **9. Appointment of Audit Committee Chair and Vice Chair – 10 minutes**

Vice Mayor Chao moved to appoint Chen as Chair and Councilmember Moore as Vice Chair. After input from the Committee, Vice Mayor Chao amended her motion to appoint Vice Chair Liang as Chair and Committee Member Chen as Vice Chair. Committee Member Chen seconded. The motion carried unanimously.

**10. Internal Audit Report** – Vice Chair Liang motioned to continue the remaining items to a special meeting yet to be schedule. Vice Mayor Chao seconded. The motion carried unanimously.

**11. Budget Format Review** – continued to next meeting

**12. Interim External Audit Procedures** – continued to next meeting

**13. FY 2019-20 Management Letter Response** – continued to next meeting

**14. Embezzlement Debrief** – continued to next meeting

## **15. ADJOURNMENT**

The meeting adjourned at 2:01 p.m.

*Mariela Vargas*

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