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REPORT TO COUNCIL

SUBJECT

Adopt the City's Investment Policy for Fiscal Year 2019/20

BACKGROUND

The City Council first adopted a policy governing the investment of City funds on July 30, 1985. This policy has been reviewed and adopted on an annual basis since that time.

For the purposes of bringing on investment expertise not on staff, and supporting the management of an increasingly complex investment environment as well as a portfolio that is growing significantly, Council approved a three-year contract with Chandler Asset Management, Inc. (Chandler) to provide investment management services on April 24, 2018 (RTC No. 18-0281). Chandler has been managing the city investments since July 1, 2018.

EXISTING POLICY

Council Policy 7.1.2 Investment and Cash Management requires that the Investment Policy be reviewed and adopted annually within 120 days of the fiscal year to ensure consistency with the overall objectives of safety, liquidity, and yield and its relevance to current laws as well as financial and economic trends.

The key provisions of the existing Investment and Cash Management Policy are as follows:

1. Safety of principal is the foremost objective of the investment program. The City's portfolio is diversified by type of investment, issuer, and maturity date. Diversification is required to minimize exposure to any potential market and credit risk. The investment policy specifies the percentage of funds that can be invested in each investment type and issuer and the maximum maturity of each investment. The policy allows a maximum maturity of seven years for US Treasury, US Agency and Government Sponsored Enterprises (GSE) investments and shorter maturities for all other investments.
2. Liquidity- the portfolio will remain sufficiently liquid to enable the City to meet all operating requirements, which might be reasonably anticipated. A schedule of major revenues and expenditures for at least 12 months is maintained in order to determine liquidity needs. Liquidity requirements have been met through utilizing the State's Local Agency Investment Fund (LAIF) and the City's interest bearing bank accounts.
3. Yield- the portfolio will be maintained with the objectives of safety and liquidity first, and then the objective of obtaining a reasonable market rate of return based on economic cycles, taking into account the City's investment risk approach and cash flow needs.

All investments in the portfolio are in accordance with the California Government Code requirements and authorized by the City's Investment Policy. The City is in compliance with the requirement that all investments be held in safekeeping by a third-party bank trust department. The City currently has a contract with Union Bank to provide this service.

ENVIRONMENTAL REVIEW

The action being considered does not constitute a "project" with the meaning of the California Environmental Quality Act ("CEQA") pursuant to CEQA Guidelines section 15378 (b) (4) in that it is a fiscal activity that does not involve any commitment to any specific project which may result in a potential significant impact on the environment.

DISCUSSION

Funds not immediately needed for disbursement are held in the City's investment portfolio. Funds for the City's Deferred Compensation Plan, the City's Retirement Plan, Other Post-Employment Benefits (OPEB) Trust, Pension Trust, and debt issuance proceeds are managed by a third-party administrator and not managed by City staff and therefore are not covered by this Investment Policy. Funds needed for disbursement are maintained in a liquid checking account.

Investment Policy

The City's Investment Policy has been reviewed and certified annually by the Association of Public Treasurers of the United States and Canada (APT US&C) since 1999. After assuming the investment management role, Chandler has reviewed the Investment Policy and recommended some edits to update the Investment Policy with the latest California best practices and to enhance the clarity and readability of the Investment Policy. A summary of recommended edits are listed below:

- Authorized Investments; Paragraph 3 (Banker's Acceptances): Increasing the concentration limit from the currently listed 30% to 40% to more closely align the policy with the California Government Code.
- Authorized Investments; Paragraph 12 (Asset-Backed Securities, Mortgage-Backed, Mortgage Pass-Through Securities, and Collateralized Mortgage Obligations): Amending the title of this paragraph to include "not defined in paragraphs 1 and 2 of the Authorized Investments Section of this policy" as pass through securities issued by the U.S. Treasury and federal agencies/government sponsored enterprises are not considered to be covered by this paragraph. Additionally, the removal of references to U.S. Treasury- and federal agency-issued pass through securities and the issuer credit requirement for pass through securities pursuant to AB 1770, which became effective January 1, 2019.

Proposed changes ensure compliance with the applicable provisions of the California Government Code and the inclusion of current industry best practices. Staff concurs with Chandler's edits and recommends acceptance by Council. Edits are available in the redlined version of the Investment Policy (Attachment 1).

Once approved by Council, staff will submit the Investment Policy for FY 2019/20 to be re-certified by the APT US&C. Once adopted the proposed FY 2019/20 Investment Policy will be incorporated into the Council Policy Manual as Council Policy 7.1.2, replacing the Investment Policy for FY 2018/19.

FISCAL IMPACT

There is no fiscal impact associated with adoption of the Investment Policy as recommended.

PUBLIC CONTACT

Public contact was made by posting the Council agenda on the City's official-notice bulletin board outside City Hall, at the Sunnyvale Senior Center, Community Center and Department of Public Safety; and by making the agenda and report available at the Sunnyvale Public Library, the Office of the City Clerk and on the City's website.

RECOMMENDATION

Adopt the City's Investment Policy for FY 2019/20 (Council Policy 7.1.2).

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Reviewed by: Timothy J. Kirby, Director of Finance
Reviewed by: Teri Silva, Assistant City Manager
Approved by: Kent Steffens, City Manager

ATTACHMENT

1. Proposed Investment Policy for FY 2019/20