



## Legislation Details (With Text)

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**Title:** Approval of the Annual Investment Policy Statement for the City of Santa Clara, its Agencies and Corporations

**Sponsors:**

**Indexes:**

**Code sections:**

**Attachments:** 1. Council Policy 017 Investment Policy: Annual Statement, 2. Investment Policy 2021 (blackline with Alternatives)

Date	Ver.	Action By	Action	Result
3/23/2021	1	City Council and Authorities Concurrent	Approved	

## REPORT TO COUNCIL

### SUBJECT

Approval of the Annual Investment Policy Statement for the City of Santa Clara, its Agencies and Corporations

### COUNCIL PILLAR

Enhance Community Engagement and Transparency

### BACKGROUND

Council Policy 017 Investment Policy: Annual Statement provides the framework and guidance for managing the City’s investment portfolio. The City’s Investment Policy expands on the Council Policy framework by providing further guidance and processes.

Section 904 of the City Charter states that the Director of Finance is required to have custody of all investments and invested funds of the City government, or in possession of such government in a fiduciary capacity, and have the safe-keeping of all bonds and notes of the City and the receipt and delivery of City bonds and notes for transfer, registration or exchange. In accordance with Government Code §53646, City Council adopted an investment policy and the Director of Finance brings that policy to Council on an annual basis, particularly highlighting any changes to the policy for consideration and approval by Council. In addition, the Investment Policy itself (SectionR) requires annual approval by Council.

The Investment Policy is a written document that governs the selection of investments and provides staff with guidance for consistent, informed investment decision making. The Investment Policy is reviewed and updated annually in order to promote prudent investment decisions and to remain compliant with State and Federal laws.

This memorandum was originally scheduled for Council consideration on the January 26, 2021 consent agenda. However, this item was continued to allow staff to conduct further cost analysis and research additional options regarding Sustainability Investing in response to Councilmember Jain's proposal of lowering the revenue threshold from 51% to 10% on corporate investment prospects. Details are discussed in Section I below.

## **DISCUSSION**

The City's Investment Policy is continually monitored to determine if periodic updates are necessary. On July 14, 2020, City Council approved entering into a contract with PFM Asset Management LLC ("PFM") for the management of the City's investment portfolio. The City has leveraged PFM's extensive investment management experience and dedicated credit and risk management personnel to further diversify the portfolio and enhance returns. Management fees were appropriated by using expected enhanced returns. PFM began actively managing the City's investment portfolio on September 1, 2020. Given this engagement and added resources, staff is recommending changes to the Investment Policy. Key changes are detailed below:

### Section D - Delegation of Authority (page 2)

Updated to clarify City's ability to engage services of an external investment manager.

### Section F - Authorized Financial Institutions (page 3)

Provided external investment manager the ability to use their own list of approved issuers, brokers/dealers and financial institutions to conduct transactions on the City's behalf.

### Section H - Authorized and Suitable Investments (pages 3 - 7)

Changes from 2020 Investment Policy:

- U.S. Government Agency Securities
  - Maximum Callable percentage of portfolio dollars decreased to 30% from 50%
- Negotiable Certificates of Deposit
  - Maximum Holdings percentage of portfolio dollars increased to 30% from 25%
  - Maximum Maturity increased to 5 years from 1 year
  - Added credit rating of "A" or better and "A-1" or better for maturities less than 1 year
- Commercial Paper
  - Added required conditions and criteria for entity issuing Commercial Paper consistent with California Government Code.
  - Maximum per Issuer percentage of portfolio dollars decreased to 5% from 10%; and no more than 10% of the outstanding commercial paper of any single issuer
- Municipal Obligations changed from Securities of Local Agencies of California
  - Expanded to allow treasury notes and bonds from other 49 states in addition to the State of California.
  - Added credit rating of "A" or better

- Medium Term Corporate Notes
  - Maximum Holdings percentage of portfolio dollars increased to 20% from 15%
  - Defined credit rating of “A” or better

New additions to 2021 Investment Policy:

- Supranational Obligations
  - United States dollar denominated obligations issued or guaranteed by supranational organizations, such as International Finance Corporation, among others, added as an asset class
  - Credit rating of “AA” or better
  - Maximum Holdings = 20% of portfolio dollars
  - Maximum per Issuer = 10% of portfolio dollars
  - Maximum Maturity = 5 year final maturity
- Asset-Backed and Mortgage-Backed Securities
  - Passthrough securities added as an asset class
  - Credit rating of “AA” or better
  - Maximum Holdings = 10% of portfolio dollars
  - Maximum per Issuer = 5% of portfolio dollars
  - Maximum Maturity = Maximum remaining maturity of 5 years or less
- Non-negotiable Certificates of Deposit
  - Public bank deposits added as an asset class
  - Maximum Holdings = 10% of portfolio dollars
  - Maximum per Issuer = 5% of portfolio dollars
  - Maximum Maturity = 5 year final maturity

#### Section I (new add) - Sustainable Investing (page 7)

Investments to be made will bear in mind the responsibility of the City to its residents. In general, City investments shall support community well-being through safe and environmentally sound practices, fair labor practices and equality of rights regardless of sex, race, age, disability, or sexual orientation.

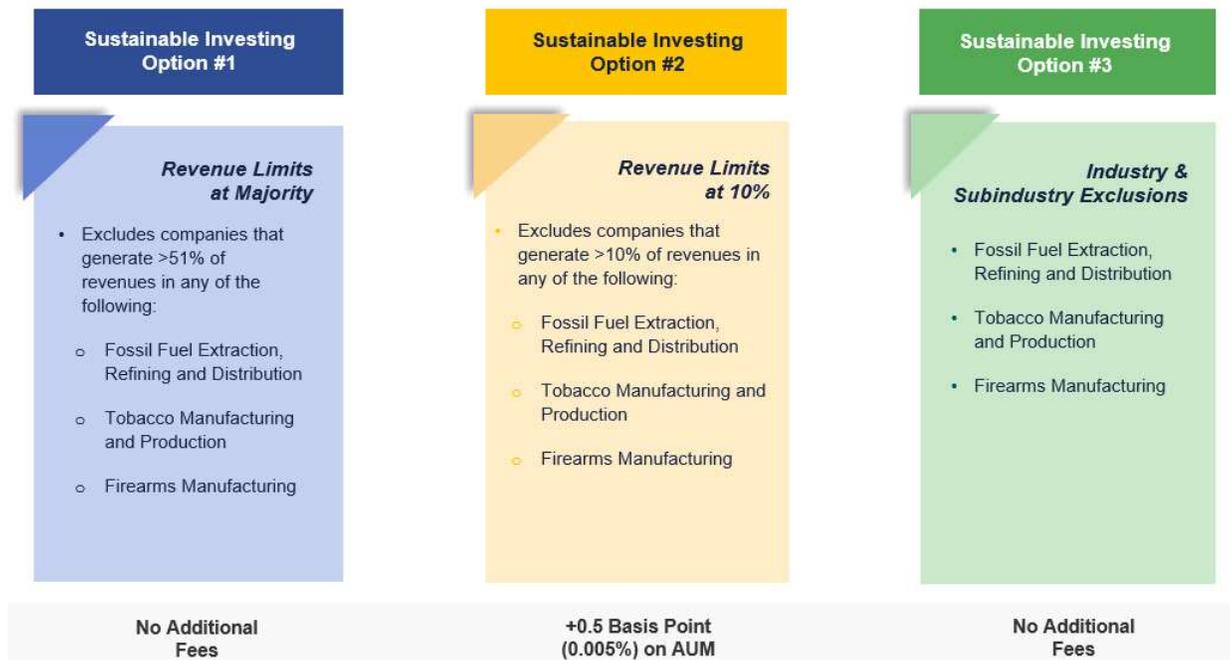
As part of the January 26, 2021 agenda item, staff recommended that the Investment Policy preclude investments in companies that generate more than 51% of gross revenues from tobacco products, firearms, and fossil fuels. This type of screening is offered by PFM at no additional fees. (Option #1)

Staff conducted further research on costs and additional Sustainable Investing options in response to Councilmember Jain’s proposal during the meeting to lower the revenue threshold from 51% to 10%. For PFM to perform individual company screenings to limit product involvement exposure at 10% revenues from tobacco products, small arms, controversial weapons, thermal coal, arctic oil and gas,

exploration, oil and gas production, oil sands, and shale energy activities, the fee will be 0.5 basis point on Assets Under Management (AUM), which would be approximately \$35,000 per year. (Option #2)

PFM also proposed an alternative strategy by applying industry and subindustry exclusions. This precludes investment in any company in tobacco products, firearms, and fossil fuel industries and subindustries. This broad-based exclusion is offered by PFM at no additional fees. The Investment Policy will prohibit investments in these industries and subindustries. (Option #3) This option is commonly employed by other jurisdictions in the local region. Staff believes this is the optimal strategy in terms of the City's Sustainability goal and costs involved for this annual update.

Below is a graphic summary of costs and options:



Section J (new add) - Security Downgrades (page 7)

If securities owned by the City are downgraded to a level below the quality required for purchase under the Investment Policy, the Director of Finance will review the credit situation and determine action.

Section P (revised from N) - Performance Standards (page 10)

The new benchmark is the ICE BaML 0-5 Year US Treasury Index, a change from the old standard of 24-month moving average yield of 2-year US Treasury Notes.

Portfolio's defined weighted average maturity of less than three years has been deleted.

Section Q (revised from O) - Reporting (page 10)

Performance of the portfolio will be compared to the established benchmark in Section P.

The approved Investment Policy will be included in the City of Santa Clara Council Policy Manual as Council Policy 017 (Attachment 1) and published on the City's website.

The Investment Policy (Attachment 2 - blackline and Attachment 3) as submitted is in compliance with the City Charter and the California Government Code relevant to the investment of public funds by local agencies.

### **ENVIRONMENTAL REVIEW**

The action being considered does not constitute a “project” within 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.

### **FISCAL IMPACT**

There is no cost to the City other than administrative staff time and expense should Council approve the Investment Policy with Sustainability Option #3, based on staff’s recommendation.

If Council chooses to approve the Investment Policy with Sustainability Option #2, additional fees of \$35,000 will be absorbed in the existing FY 2020/21 Budget. Additional fees would be included in subsequent fiscal years’ proposed budgets. It is also important to note that with the hiring of PFM in Fall 2020, the migration of the City’s investments to a more diverse portfolio based on additional yield compared to the historical investment in treasuries was expected to offset the cost of PFM’s services. Depending on the prevailing yields for various investments, it is projected that this shift in portfolio strategy could cover additional fees outlined in Option #2, should the Council approve that option.

### **COORDINATION**

This report has been coordinated with the City Attorney’s Office.

### **PUBLIC CONTACT**

Public contact was made by posting the Council agenda on the City’s official-notice bulletin board outside City Hall Council Chambers. A complete agenda packet is available on the City’s website and in the City Clerk’s Office at least 72 hours prior to a Regular Meeting and 24 hours prior to a Special Meeting. A hard copy of any agenda report may be requested by contacting the City Clerk’s Office at (408) 615-2220, email [clerk@santaclaraca.gov](mailto:clerk@santaclaraca.gov) <<mailto:clerk@santaclaraca.gov>>.

### **ALTERNATIVES**

1. Approve the Investment Policy for the City of Santa Clara, its agencies and corporations with Sustainable Investing Option #3 Industry and Subindustry Exclusions.
2. Approve the Investment Policy for the City of Santa Clara, its agencies and corporations with Sustainable Investing Option #2 Revenue Limits at 10%.
3. Approve the Investment Policy for the City of Santa Clara, its agencies and corporations with Sustainable Investing Option #1 Revenue Limits at Majority (51%).

### **RECOMMENDATION**

Alternative 1:

Approve the Investment Policy for the City of Santa Clara, its agencies and corporations with Sustainable Investing Option #3 Industry and Subindustry Exclusions.

Reviewed by: Kenn Lee, Director of Finance

Approved by: Deanna J. Santana, City Manager

**ATTACHMENTS**

1. Council Policy 017 Investment Policy: Annual Statement
2. Investment Policy 2021 (blackline with Alternatives)