



## CITY OF MILPITAS AGENDA REPORT (AR)

<b>Item Title:</b>	<b>Adopt a Resolution Approving the City of Milpitas Investment Policy for Fiscal Year 2021-22</b>
<b>Category:</b>	Consent Calendar-Leadership and Support Services
<b>Meeting Date:</b>	8/17/2021
<b>Staff Contact:</b>	<b>Lauren Lai, Director of Finance, 408-586-3111</b>
<b><u>Recommendation:</u></b>	Adopt a resolution of the City of Milpitas approving the Investment Policy for FY 2021-22.

### **Background:**

California state law regarding the investment of public funds requires all local agencies to develop an investment policy that must be considered annually by the legislative body of the local agency at a public meeting. Staff works closely with the City's investment advisor, Chandler Asset Management, to review and update the City's investment policy for Council consideration, ensuring that the policy captures the latest changes to California Government Code as well as best practices. Chandler Asset Management manages approximately \$22 billion, primarily comprising California local governments. Chandler has been working with local governments for over 30 years. Therefore, the Investment Policy (the Policy) for the City of Milpitas is submitted for Council's annual review and approval.

### **Analysis:**

Staff and the City's investment advisor collaborated in reviewing the City's current Investment Policy and determined that the Policy continues to be in compliance with the provisions of the California Government Code (Code), Sections 16340, 16429.1-16429.4 and 53600-53686, the authority governing investments for municipal governments.

Senate Bill 998 (SB 998) introduced changes to Code applicable for 2021 that impact the City's investment policy. While none of the updates to Code require the City change its policy, staff and the City's investment advisor recommend the City adopt changes to the policy related to SB 998, as well as minor changes related to best practices for managing public funds. In review, the City's investment advisor noted that several local governments in California, including the cities of Vallejo, Alameda, and West Sacramento, as well as Alameda County Water District, among others, have already adopted some or all of these changes. The changes include:

- **Minimum Credit Quality Requirements**—The City's investment policy provides for minimum credit requirements when purchasing securities for the City's investment portfolio. Pursuant to California Government Code and best practices, staff is recommending the City include language that recognizes that minimum credit requirements apply at time of purchase.
- **Updates to Commercial Paper Concentration Limits**—The City's investment policy currently limits commercial paper holdings to no more than 25% of the City's investments. Pursuant to SB 998, staff recommends the City adopt a provision allowing up to 40% in commercial paper for local governments that have \$100 million or more in investment assets. This provision sunsets on January 1, 2026, and is intended to allow California cities to invest their funds similarly to counties should the need arise to have more investments with shorter maturities.

- **Inclusion of Supranational Securities**—Since 2014, California Government Code has allowed California local governments to invest in obligations from the International Bank for Reconstruction and Development, the International Finance Corporation, and the Inter-American Development Bank, all known as supranational organizations under the World Bank umbrella. Supranational organizations are international development institutions that provide financing, advisory services, and/or other financial services to their member countries to achieve overall goal of improving living standards through sustainable economic growth. The three supranational organizations allowed by Code are currently rated in the rating category of AAA, are dollar-denominated, and issued for the United States market. Supranational obligations are considered liquid securities and provide a relatively safe way to diversify an investment portfolio at competitive yields. Staff is recommending the City include supranational obligations to the list of permitted investments for the City's funds in order to enhance safety, liquidity, and return.
- **Change in Prohibition of Zero-Accrual Securities**—The City's investment policy outlines various investment securities and activities that are not permitted in the management of the City's funds. Pursuant to SB 998, staff recommends updating the section of the policy detailing prohibited investments to allow for securities that could result in a zero- or negative-accrual if held to maturity, but only if they are government-issued securities. This provision of the law sunsets on January 1, 2026. The intent of this change to the law is to give cities an option for investing their funds should the Federal Reserve opt to pursue a negative interest rate policy (NIRP) as some nations have done. NIRP is a monetary policy designed to provide extraordinary stimulus to an economy in the face of severe, prolonged recessionary periods. The likelihood of the Federal Reserve opting to pursue NIRP is considered remote; SB 998, however, was written to allow California local governments to avoid being in violation of California law should NIRP be implemented, as the City would not have any investment options with a positive accrual for the deposit or investment of its funds should the Federal Reserve implement NIRP. Without this change to the policy, the City's investment program would be out of compliance with its investment policy if NIRP were to become a reality.

**Fiscal Impact:**

None – There is no fiscal impact as a result of the changes recommended to the policy.

**California Environmental Quality Act:**

The City Council's adoption of the resolution is not a "project" under the California Environmental Quality Act pursuant to CEQA Guideline 15378(b)(5) because it is an administrative activity that will not result in a direct or indirect physical change in the environment.

**Recommendation:**

Adopt a resolution of the City of Milpitas approving the Investment Policy for FY 2021-22.

**Attachments:**

1. Draft Resolution
2. Investment Policy (red-line version)
3. Investment Policy (clean version)