



CITY OF SAN MATEO

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Agenda Report

Agenda Number: 12

Section Name: {{section.name}}

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TO: City Council
FROM: Drew Corbett, City Manager
PREPARED BY: Finance Department
MEETING DATE: January 19, 2021
SUBJECT:
2021 Annual Investment Policy – Approval

RECOMMENDATION:

Adopt a Resolution to approve the City of San Mateo 2021 Investment Policy.

BACKGROUND:

The investment of funds by a California local agency, including the types of securities in which an agency may invest, is governed by the California Government Code (Section 41006, 53000-53610). The City's Investment Policy may be more restrictive than Government Code; however, it may not be more permissive. Formal investment policies by local agencies are not required by law, but they are considered a best practice to provide guidelines for investing City funds in accordance with Government Code. The City's practice is to have the City Council review and approve the policy annually regardless of whether or not there are changes. The City has engaged the services of an investment adviser since 2006. Over the years, the City's investment advisers have increased the portfolio's long-term investment earnings, allowing the City to grow the long-term portion of the portfolio. The City's Investment Adviser, Chandler Asset Management, has worked with the City to update the 2021 Investment Policy to provide improved definitions for risk management, maturity thresholds, and prohibited investment types.

POLICY REVIEW

The annual review of the City's investment policy provides the opportunity to make modifications to reflect changes in the California Government Code. There were no changes in the California Government Code to require changes to the City's Investment Policy. The proposed 2021 Investment Policy was approved by the City's Investment Advisory Committee at its October 15, 2020 quarterly meeting.

INTERNALLY MANAGED AND EXTERNALLY MANAGED PORTFOLIOS

The investment policy provides the City with broad authority to use an investment adviser under the condition that the services result in a net financial advantage or necessary financial protection of the City's financial resources. The City's investment portfolio is comprised of an internally managed portion, which constitutes roughly 75% of the total investment portfolio, and an externally managed portfolio, which constitutes the remaining 25%. The internal portfolio largely consists of investment pools (County of San Mateo, Local Agency Investment Fund [LAIF], and California Asset Management Program [CAMP]), which provide the City with the necessary liquidity to meet its daily cash flow needs. In addition, during the prolonged period of economic growth prior to the pandemic-related recession, the investment pools provided a competitive yield. The remainder of the internally managed portfolio is comprised of investments that are purchased by Finance Department staff through investment broker/dealers. As indicated in the October 2020 investment report transmitted to the City Council by separate memorandum, the internally managed portfolio has a yield to maturity at cost of 0.97%, while the externally managed portfolio has a yield to maturity at cost of 1.87%. Accounting for the 0.1% fee paid

to the City's investment adviser, it is in the City's best interests to gradually shift available cash to the externally managed portfolio, given the spread of 0.8% or 80 basis points in yield and leverage the expertise of the City's investment adviser. The shift between investment portfolios will also reduce the administrative burden on Finance Department staff managing the internal portfolio and enable them to focus their efforts on other Treasury Division duties, including business tax certificates and accounts receivable.

BUDGET IMPACT:

There are no additional costs associated with approval of the proposed revisions to the investment policy.

ENVIRONMENTAL DETERMINATION:

This 2021 Investment Policy is not a project subject to CEQA, because it is an organizational or administrative activity that will not result in direct or indirect physical changes in the environment. (CEQA Guidelines Section 15378(b)(5).)

NOTICE PROVIDED

All meeting noticing requirements were met.

ATTACHMENTS

Att 1 - Proposed Resolution

Att 2 - Investment Policy Track Changes

STAFF CONTACT

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