



COUNCIL AGENDA: 3/19/2019

ITEM: 3.6

FILE NO: 19-090

# Memorandum

**TO:** HONORABLE MAYOR AND  
CITY COUNCIL

**FROM:** Toni J. Taber, CMC  
City Clerk

**SUBJECT:** SEE BELOW

**DATE:** March 19, 2019

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**SUBJECT:** City of San José Investment Policy.

**RECOMMENDATION:**

As recommended by the Public Safety, Finance, & Strategic Support Committee on February 21, 2019, adopt a resolution to approve the proposed revisions to Council Policy 1-12, "City of San José Investment Policy."

CEQA: Not a Project, File No. PP17-008, General Procedure & Policy Making resulting in no changes to the physical environment. (Finance)

[Public Safety, Finance, & Strategic Support Committee referral 2/21/19 - Item d(5)]

[Deferred from 3/12/19 - Item 3.6 (19-043)]



# Memorandum

**TO:** PUBLIC SAFETY, FINANCE AND  
STRATEGIC SUPPORT COMMITTEE

**FROM:** Julia H. Cooper

**SUBJECT:** CITY OF SAN JOSÉ  
INVESTMENT POLICY

**DATE:** January 31, 2019

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Approved  Date 2-7-19

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## **RECOMMENDATION**

- 1) Approve the City of San José Investment Policy, as amended.
- 2) Refer the City of San José Investment Policy, along with the appropriate resolution to the full City Council for the March 12, 2019 Council Meeting.

## **OUTCOME**

Acceptance of this recommendation complies with the City of San José's Investment Policy.

## **BACKGROUND**

The City of San José Investment Policy ("Policy") requires that the Finance Department perform an annual review of the Policy and submit any proposed changes to the Public Safety, Finance and Strategic Support Committee for its review and subsequent consideration and approval by the entire City Council.

The City's current Policy was reviewed and certified by the Association of Public Treasurers (APT) of the United States and Canada in October 2016. The APT certification program was instituted to assist state and local governments in improving upon an existing investment policy. The APT recommends re-certificating investment policies every three years. The Finance Department will submit the Policy for recertification in 2019.

## **ANALYSIS**

In accordance with Section 23 of the Policy, the Finance Department staff has completed its annual review of the Policy and recommends changes in two sections and an update to the list of primary dealers. The proposed revisions as redlined in Exhibit A (City of San José Investment Policy) continue to comply with the investment provision of the California Government Code, the Charter of the City of San José and the San José Municipal Code. The Policy and proposed revisions are consistent with the overall objectives of safety, liquidity and yield. They are also relevant to current laws and financial trends.

### **Update the Policy in Accordance with the CA Government Code**

Assembly Bill No. 1770, effective January 1, 2019, modified Government Code Section 53601(o), changing the requirements for mortgage backed securities (MBS) and asset backed securities (ABS). Accordingly, staff updated the rating requirements and clarified maturity limitations.

The City's current Policy has much stricter requirements for MBS and ABS than State law. According to the City's Policy, MBS can only be issued by US government agencies and ABS must be "AAA" rated. These requirements ensure high quality of the City's portfolio; however, it can be difficult to find securities that meet these requirements. The revised Policy sets the minimum rating requirements at "AA" category consistently across the asset class and clarifies that the remaining term to maturity at the time of purchase shall not exceed 5 years.

This revision aligns the City's Policy with the recent changes to the California Government Code and establishes sufficient credit standards.

See Sections 9.16 and 9.17 of the attached redlined Investment Policy for recommended changes.

### **Primary Dealer Update**

Primary dealers serve as trading counterparties of the Federal Reserve Bank of New York in its implementation of monetary policy pursuant to the direction of the Federal Open Market Committee. The proposed revisions to Exhibit A in the attached Investment Policy reflect the most recent changes to the Federal Reserve Bank's Primary Dealer List which was last updated on April 30, 2018.

### **Technical "Clean-ups"**

Several technical clean-ups are recommended with the proposed Policy revisions. These clean-ups address minor changes in the investment program and to the Glossary.

January 31, 2019

**Subject: City of San José Investment Policy**

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**EVALUATION AND FOLLOW-UP**

Staff from the Finance Department will be available to answer questions about the Investment Policy at both the Committee meeting on February 21, 2019 and the City Council meeting on March 12, 2019.

**PUBLIC OUTREACH/INTEREST**

This item will be posted on the City's website for the PSFSS Committee meeting on February 21, 2019.

**COORDINATION**

This memorandum was coordinated with the City Attorney's Office.

**CEQA**

Not a Project, File No.PP10-068 (b), General Procedure & Policy Making.

/s/  
JULIA H. COOPER  
Director of Finance

For questions, please contact Qianyu Sun, Principal Investment Officer, at (408) 535-7015.

Attachment: Exhibit A: City of San José Investment Policy