



COUNCIL REPORT

DATE: January 28, 2025

CATEGORY: Consent

DEPT.: Investment Review Committee

TITLE: **Annual Report of the Investment Review Committee for Fiscal Year 2023-24 and Amendment of City Council Policy B-2**

RECOMMENDATION

1. Accept the Annual Report of the Investment Review Committee for Fiscal Year 2023-24 (Attachment 1 to the Council report).
2. Adopt a Resolution of the City Council of the City of Mountain View Amending Council Policy B-2, Investment Policy, to be read in title only, further reading waived (Attachment 3 to the Council report).

BACKGROUND

This Council report transmits the Annual Report of the Investment Review Committee (IRC or Committee) (Attachment 1) as required by Section 14.3 of Council Policy B-2, Investment Policy ("[Policy](#)"). The IRC is comprised of the members of the Council Finance Committee (CFC or Committee) and two public members appointed by the City Council with expertise in the area of fixed-income investments. The two appointed public members are Steven Permut, Retired Vice President, Senior Portfolio Manager, and Director of Municipal Investments for American Century Investment Management, Inc.; and Douglas Radtke, CPA. The CFC was comprised of former Vice Mayor Lisa Matichak (Chair of the IRC), and Councilmembers Lucas Ramirez and Emily Ann Ramos. The CFC would like to express appreciation to Committee members Permut and Radtke for their advice, expertise, time, and assistance in fulfilling the responsibilities of the Committee.

The Policy requires that the IRC meet annually to review the performance, Policy compliance, and management of the City's investment portfolio. Last year's meeting was held on December 6, 2024 (Attachment 4—Committee Memorandum). The Committee is also required to submit an Annual Report to the City Council containing the Committee's findings and any recommendations to amend the Policy (Attachment 1).

Acceptance of this report by the City Council and adoption of the resolution modifying the Policy also constitutes voluntary compliance with California Government Code Section 53646(a)(2),

which states that: "...the treasurer or chief fiscal officer of the local agency may annually render to the legislative body of that local agency and any oversight committee of that local agency a statement of investment policy, which the legislative body of the local agency shall consider at a public meeting. Any change in the policy shall also be considered by the legislative body of the local agency."

ANALYSIS

Staff and Chandler Asset Management (Consultant or investment advisor) reviewed the City's portfolio. The portfolio was in compliance with the Policy throughout the fiscal year. The total portfolio balance as of June 30, 2024 was \$1,044.1 million (cost value), compared to \$1,016.7 million the previous fiscal year.

At the December 6, 2024 meeting, the Committee discussed the overall performance of the portfolio and potential updates to the Investment Policy in the areas noted below. The City's risk profile as it relates to its investments and its investment policy was also discussed. The City's conservative approach to investments has served the City well. However, there is interest in exploring other legal investment options that could allow the City to have greater diversification amongst investments.

The Committee discussed the following aspects of the Policy:

Medium-Term Notes

Staff reviewed Section 10.1.5 (Medium-Term or Corporate Notes), and noted that the requirement for a minimum rating of AA/Aa limits the City's flexibility in investing in Medium-Term Notes. While the investment policy allows for investing up to 15% in Corporate Notes, the limited availability of Corporate Notes with an AA rating has prevented staff from fully utilizing this asset class. Lowering the rating requirement to "A" would expand diversification opportunities by allowing access to a broader range of issuers across different sectors while still being subject to relatively low credit risk according to the Rating Agencies. Additionally, California Government Code Section 53600 permits investments with a rating of "A" or better from a nationally recognized rating agency, meaning the City's current AA/Aa requirement is more stringent than state guidelines and has constrained the City's investment options.

Mortgage-Backed Securities

Staff also reviewed Section 10.1.2 to determine whether the City's investment policy should allow mortgage-backed and asset-backed securities issued by entities other than the U.S. government. Securities issued by private industries, such as the automobile industry, carry higher risks. These securities are complex financial instruments, often involving the bundling of thousands of

individual loans or assets, which makes it difficult to fully assess the associated risks. Additionally, these securities tend to have higher default risk during economic downturns.

Minor Policy Language Cleanup

Staff recommended minor changes in the Policy for cleanup or clarification, and the Committee recommended the following at its December 6, 2024 meeting:

1. Medium-Term Notes

Lowering the City's rating requirement for Medium-Term Notes from AA to A to align with the broader options allowed under state law. Currently, Medium-Term Notes make up approximately 10% of the City's total investment portfolio, and the Policy allows up to 15%. Staff also recommend maintaining the 15% limit for now, with the expectation that lowering the rating requirement will increase investment opportunities. This limit can be reassessed once the City has successfully expanded its investments in Corporate Notes under the revised criteria.

2. Mortgage-Backed and Asset-Backed Securities

No changes to the current Policy regarding mortgage-backed and asset-backed securities. The existing Policy, which limits such investments to those issued by the U.S. government, should remain in place due to the higher risk associated with private-sector securities.

3. Minor Cleanup of the Policy

Minor cleanup of the Policy, specifically in Section 14.1 regarding the reporting requirements. This would involve issuing investment reports to the City Council and City Manager on a quarterly basis, rather than monthly. This change aligns with the common practice of other local municipalities.

Edits to the Policy are shown in Attachment 2 of this report, with additions shown in underline font and deletions shown by ~~striketrough~~ font.

FISCAL IMPACT

The Policy modifications do not have a direct fiscal impact. Lowering the rating requirement for Medium-Term or Corporate Notes will allow the City to diversify its investment portfolio, and the resulting yields will be consistent with the fluctuation in market yields.

LEVINE ACT

California Government Code Section 84308 (also known as the Levine Act) prohibits city officials from participating in any proceeding involving a “license, permit, or other entitlement for use” if the official has received a campaign contribution exceeding \$500 from a party, participant, or agent of a party or participant within the last 12 months. The Levine Act is intended to prevent financial influence on decisions that affect specific, identifiable persons or participants. For more information see the Fair Political Practices Commission website: www.fppc.ca.gov/learn/pay-to-play-limits-and-prohibitions.html

Please see below for information about whether the recommended action for this agenda item is subject to or exempt from the Levine Act.

EXEMPT FROM THE LEVINE ACT

General policy and legislative actions

ALTERNATIVES

1. Do not accept some or all of the Committee’s recommendations.
2. Modify some or all of the Committee’s recommendations.
3. Provide other direction.

PUBLIC NOTICING—Agenda posting.

Prepared by:

Elliot Young
Revenue Manager (Acting)

Grace Zheng
Assistant Finance and
Administrative Services Director

Derek Rampone
Finance and Administrative
Services Director

Approved by:

Arn Andrews
Assistant City Manager

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- Attachments:
1. Annual Report of the Investment Review Committee for Fiscal Year 2023-24
 2. Council Policy B-2, Investment Policy (marked)
 3. Resolution Amending Council Policy B-2, Investment Policy
 4. Investment Review Committee Memorandum, December 6, 2024