



May 14, 2021

Memorandum

To: Carol Augustine, Finance Director
City of Burlingame

From: Lesley Murphy, Senior Managing Consultant
PFM Asset Management LLC

Re: 2021 Investment Policy Review

We have completed our annual review of the Investment Policy (the “Policy”) for the City of Burlingame (the “City”). As written, the Policy is very comprehensive, and it is in compliance with the sections of the California Government Code (the “Code”) that govern the investment of public funds. As described in more detail below, Senate Bill 998 (“SB 998”), which went into effect on January 1, 2021, made several changes to the sections of Code that govern the investment of public funds in California. As such, we are presenting additional information on SB 998 in this memo, and we are also recommending two specific changes to the City’s Policy with regards to this bill. These recommended Policy changes are addressed below and in the attached redlined copy of the Policy.

Senate Bill 998 – Overview

Senate Bill 998 (“SB 998”), which took effect on January 1, 2021, and shall be in effect until January 1, 2026, made a number of amendments to certain sections of the Code which govern the investment of public funds.

Below, we have included a summary of these amendments along with our recommendations with regards to the City’s Policy. The amendments to Code include:

1. allowing investment in securities issued or backed by the U.S. government that could result in zero or negative interest accrual if held to maturity, in the event of, and for the duration of, a period of negative market interest rates;

Analysis: No Policy changes necessary. While we do not view that investment in such security types is likely, we recognize that by allowing these securities, Code provides greater investment flexibility, especially in unfavorable market conditions.



2. deleting the commercial paper language regarding the issuing corporation's outstanding paper;

Analysis: We recommend that the City edit the "Acceptable Investment Instruments," sub-section 6 of its Policy to remove the language related to an issuing organization's outstanding paper.

3. establishing a 10% issuer limit on commercial paper and corporate notes for all agencies, other than a county or a city and a county;

Analysis: No Policy changes necessary; we note that the Policy already establishes a more stringent 5% per issuer limit across all credit-sensitive security types.

4. allowing local agencies that have more than \$100 million of investment assets under management to invest up to 40% in commercial paper (existing limit is 25% for all agencies, other than a county or a city and county); and

Analysis: Because the City's investment assets under management are currently in excess of the \$100 million threshold, we recommend that the City similarly amend the "Acceptable Investment Instruments," sub-section 6 of its Policy to increase the maximum permissible allocation to commercial paper to 40%. While the City's investment portfolio does not currently hold any commercial paper, we do recognize that there have been circumstances in the past—and there will likely be circumstances in the future—when it will be advantageous for the City's portfolio to hold commercial paper. Thus, to allow for maximum prudent investment flexibility, we recommend that the City increase its maximum permissible allocation to commercial paper to the new limit of 40%, as established by Code.

5. adding permission for federally recognized Indian tribes to invest and participate in investment JPAs.

Analysis: No Policy changes necessary.

We look forward to further discussing this memo with you. Please do not hesitate to reach out should you have any questions.