



City of Sunnyvale

Agenda Item-No Attachments (PDF)

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REPORT TO COUNCIL

SUBJECT

Adopt the City's Investment Policy for Fiscal Year 2016/17 and Receive the Annual Performance Report for Fiscal Year 2015/16

BACKGROUND

The City Council first adopted a policy governing the investment of City funds on July 30, 1985. This policy has been reviewed and adopted on an annual basis since that time.

EXISTING POLICY

Council Policy 7.1.2 Investment and Cash Management requires that the Investment Policy be reviewed and adopted annually within 120 days of the fiscal year to ensure consistency with the overall objectives of safety, liquidity, and yield and its relevance to current law and financial and economic trends. A summary annual performance report on portfolio performance for the preceding fiscal year is also presented to the City Council as part of the annual investment policy review.

ENVIRONMENTAL REVIEW

The action being considered does not constitute a "project" with the meaning of the California Environmental Quality Act ("CEQA") pursuant to CEQA Guidelines section 15378 (b) (4) in that it is a fiscal activity that does not involve any commitment to any specific project which may result in a potential significant impact on the environment.

DISCUSSION

Staff invests funds not immediately needed for disbursement. Funds for the City's Deferred Compensation Plan, the City's Retirement Plan, Other Post-Employment Benefits (OPEB) Trust, and debt issuance proceeds are not invested by City staff and therefore are not covered by this investment policy. Funds needed for disbursement are maintained in a liquid checking account.

Annual Performance Report for FY 2015/16

The following annual report on portfolio performance for FY 2015/16 includes the key provisions of the policy and comparisons of the City's performance compared to the investment policy objectives.

The key provisions of the existing policy are as follows:

1. **Safety** of principal is the foremost objective of the investment program. The City's portfolio is diversified by type of investment, issuer, and maturity date. Diversification is required to avoid unnecessary exposure to any potential risk. The investment policy specifies the percentage of funds that can be invested in each investment type and issuer and the maximum maturity of each investment. The policy allows a maximum maturity of seven years for US Treasury, US Agency and Government Sponsored Enterprises (GSE) investments and shorter maturities for

all other investments.

All investments in the portfolio are authorized by the investment policy and the City is in compliance with the requirement that all investments be held in safekeeping by a third party bank trust department. The City currently has a contract with Union Bank to provide this service.

2. Liquidity- the portfolio will remain sufficiently liquid to enable the City to meet all operating requirements, which might be reasonably anticipated. A schedule of major revenues and expenditures for at least 12 months is maintained in order to determine liquidity needs. Liquidity requirements have been met through utilizing the State's Local Agency Investment Fund (LAIF) and the City's interest bearing bank accounts. Approximately 18 percent of the portfolio was invested in LAIF at the end of FY 2015/16.
3. Yield- the portfolio will be maintained with the objectives of safety and liquidity first, and then the objective of obtaining a reasonable market rate of return based on economic cycles, taking into account the City's investment risk approach and cash flow needs.

With yields continuing to be at historical all-time lows, the City's investment strategy continues to be one of keeping investments short in anticipation of rising interest rates. The strategy is to invest in higher yielding investments when rates rise as opposed to having to wait for low interest bearing investments to mature or sell those investments at a loss so that funds can be reinvested at the higher rate. When interest rates increase, investments existing in the portfolio with longer maturities, that were purchased when rates were low, will experience a decrease in their market value because the interest rate on those investments is less than the current market's interest rate.

In order to improve investment returns, staff is currently considering options for outsourcing the management of cash investments to a qualified investment firm, such as the one used to manage the City's OPEB Trust. This needs to be carefully considered as the restrictions on investments mentioned above, which yield low returns in the interest of principal protection, don't leave a lot of room for payment for investment services from earnings.

City's performance compared to the investment policy objectives:

For FY 2015/16, the portfolio yield averaged 0.86 percent while the average yield of our benchmark (Treasury securities with an average life similar to our portfolio) was 0.64 percent resulting in an average higher yield of 22 basis points than our benchmark. The average life of the portfolio during the last fiscal year was 467 days.

Interest earnings for FY 2015/16 for all City funds totaled \$2,816,911. Interest earnings are allocated pro rata to each fund throughout the City based on the periodic cash balance held in each fund.

It should be noted that the portfolio balance has increased by 14 percent from \$314 million in June 2015 to \$358 million in June 2016. This increase can be attributed to higher than anticipated revenues (such as development related fees, property tax, utility service fees and the sale of a property) and the fact that City expenditures for FY 2015/16 were less than budgeted. Additional details on the City's Fiscal Year Ending performance will be provided with the Budgetary Year End Financial Report in December.

Investment Policy

The City's Investment Policy has been reviewed and certified annually by the Association of Public Treasurers of the United States and Canada (APT US&C) since 1999. Minor changes have been made to the investment policy, including an update to the current practice for the process to select investment brokers (the investment broker pool is recommended to be refreshed every three years), and adding language regarding the investment committee that provides investment oversight (it is recommended that the committee convene at least once a year as opposed to as needed). Once approved by Council, staff will submit the Investment Policy for FY 2016/17 to be re-certified by the APT US&C. The proposed FY2016/17 policy will be presented within the Council Policy Manual as Policy 7.1.2. .

FISCAL IMPACT

There is no fiscal impact associated with adoption of the Investment Policy as recommended.

PUBLIC CONTACT

Public contact was made by posting the Council agenda on the City's official-notice bulletin board outside City Hall, at the Sunnyvale Senior Center, Community Center and Department of Public Safety; and by making the agenda and report available at the Sunnyvale Public Library, the Office of the City Clerk and on the City's website.

STAFF RECOMMENDATION

Adopt the City's Investment Policy for FY 2016/17.

Prepared by: Stephen Quick, Finance Manager

Reviewed by: Timothy J. Kirby, Director of Finance

Reviewed by: Walter C. Rossmann, Assistant City Manager

Approved by: Deanna J. Santana, City Manager

ATTACHMENT

1. Proposed Investment Policy for FY 2016/17