



City of Sunnyvale

Agenda Item-No Attachments (PDF)

File #: 17-0996, Version: 1

REPORT TO COUNCIL

SUBJECT

Receive and File the City of Sunnyvale Investment Report - 3rd Quarter 2017

REPORT IN BRIEF

In accordance with California Government Code Section 53646, staff is submitting the attached investment report for Council's review. The report includes all investments managed by the City of Sunnyvale. Staff invests all 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 any proceeds of debt issuance are not invested by City staff. These funds are managed by third party administrators.

EXISTING POLICY

California Government Code Section 53600 et seq., strictly governs which investments public agencies can hold. In some cases, State law also governs what percentage of the portfolio can be invested in certain security types, maximum maturities, and minimum credit ratings by the major rating agencies (Standard & Poor's and Moody's Investors Service). Public agencies can only invest in fixed income securities. The purchase of stock is prohibited. As a result, the City primarily invests in highly rated securities such as U.S. Treasury, Federal agencies, and government sponsored enterprise debt.

The California Government Code also requires investment objectives of safety, liquidity, and yield in that order. As such, safety of principal is the foremost objective of the City's investment program. The portfolio must remain sufficiently liquid to enable the City to meet all cash requirements. The City's portfolio is structured to include different types of investments, issuers, and maturity dates. Diversification is required to minimize potential exposure to credit risk from bond issuers in case of default and market risk that affects the overall performance of financial markets.

The City Council first adopted a policy (7.1.2 Investment and Cash management) governing the investment of City funds on July 30, 1985. This policy is reviewed and adopted annually; the policy for FY 2017/18 was reviewed and adopted at the October 3, 2017 Council meeting. The City's investment policy follows the Government Code and includes additional restrictions on some investments such as a lower allowable percentage per investment type or issuer than State law.

ENVIRONMENTAL REVIEW

This action does not require environmental review because it is not a project that has the potential for causing a significant impact on the environment. (CEQA Guideline 15061(b)(3)). Furthermore, 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

This report provides information on the values (par, book and market), the type of investment, issuer, maturity date and yield of each investment. The par value of a bond is the amount that the issuer agrees to repay the City by the maturity date. The book value is what the City initially paid for the bond and it changes gradually if a premium or discount is amortized. The market value is what the bond is worth now.

The market value is determined by an independent pricing service at the end of every accounting period. In some cases, the City may have investments with a current market value that is greater or less than the recorded value. These changes in market value are due to fluctuations in the market place; however, the City rarely experiences market gains or losses as most investments are held to maturity. Some bonds have a call provision and may be called prior to maturity in which case the City will recognize a gain or loss at that time.

Summary and detailed information on each security is provided. Also included is an activity report of sales, purchases and maturities for this accounting period as required by Government Code section 53607. An evaluation of portfolio performance of the last available accounting period in this quarterly report compared to the previous accounting period of the current fiscal year as well as to the same accounting period of last fiscal year is also included. The current portfolio market value is \$407,992,776 with an average investment return of 1.24 percent. The value of the portfolio is higher primarily resulting from development related activity such as park impact fees, community benefits, building and planning fees and increased utility enterprise fund revenues. While yields on allowable investments continue to be low, returns are gradually trending up and are higher compared to the same quarter a year ago. Due to historically low interest rates on money market instruments, we continue to maintain short maturity durations of our investments to allow flexibility when the rates rise higher. The Federal Reserve Bank raised the Federal Funds Rate by 25 basis points on June 14, 2017 to 1.25 percent and has indicated that they expect to raise interest rates again in 2017. As the rate rises, we anticipate purchasing longer maturity instruments.

Short term investments are placed with the State's Local Agency Investment Fund (LAIF) to meet the liquidity needs of the City. LAIF is a program created by statute as an investment alternative for California's local governments and special districts. This program offers local agencies the opportunity to participate in a major portfolio pool administered by the State Treasurer's office. The current yield for the LAIF portfolio is 1.12 percent.

FISCAL IMPACT

Period 4 ends in the Third Quarter for calendar year 2017. Interest earnings for

FY 2017/18 as of Period 4 totaled \$1,315,658.

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.

RECOMMENDATION

Receive and file the City of Sunnyvale FY 2017/18 - Third Quarter 2017 (Period 4) Investment Report

Prepared by: Inderdeep Dhillon, Finance Manager

Reviewed by: Timothy J. Kirby, Director, Finance

Reviewed by: Teri Silva, Interim Assistant City Manager

Approved by: Kent Steffens, Interim City Manager

ATTACHMENTS

1. City of Sunnyvale Portfolio Evaluation Period 4 FY 2017/18