



City of Sunnyvale

Agenda Item-No Attachments (PDF)

File #: 18-0911, Version: 1

REPORT TO COUNCIL

SUBJECT

Receive and File the City of Sunnyvale Investment Report - 3rd Quarter 2018

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 held by the City of Sunnyvale. Funds not immediately needed for disbursement and held in investments are managed by Chandler Asset Management.

Funds for the City's Deferred Compensation Plan, the City's Retirement Plan, the City's Pension Trust, Other Post-Employment Benefits (OPEB) Trust, and any proceeds of debt issuance are not included in this report. These funds are managed and held by third party administrators and trustee custodial banks.

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 as well as high credit quality, non-governmental debt securities.

The California Government Code also requires investment objectives of safety, liquidity, and return 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 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. Council adopted an updated policy for FY 2018/19 at its August 14, 2018 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 City has adopted a portfolio structure to address liquidity and return, all while maintaining safety. Funds not needed for immediate liquidity (core investments) are actively managed in a diversified portfolio with maturities ranging between 0 and 5 years, with an average duration target of approximately 2.5 years to capture yield and enhance long-term returns. The duration for these funds is currently 1.58 years but will be moved closer to its target slowly over the coming months in consideration of continuing rising rates and a flattening yield curve. These funds currently total \$418,412,142.

Funds needed to meet cash needs (liquid investments) are managed in both a diversified portfolio with maturities shorter than two years (totaling \$49,749,506) and Local Agency Investment Fund (totaling \$44,271,911). Local Agency Investment Fund (LAIF) is a program created by statute as an investment alternative for California's local governments and special districts. Liquid investments are generally held to maturity.

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. The current portfolio market value is \$510,433,559 with an aggregate average yield to maturity of 2.06 percent. The value of the portfolio is impacted by market forces in the bond market, as well as by growing property tax revenues, development related activity such as park impact fees, housing impact fees, developer contributions, building and planning fees, increased utility enterprise fund revenues and other City financial activities.

The economy continues to demonstrate sustained growth. Second quarter gross domestic product (GDP) grew at an annualized pace of 4.2 percent, following growth of 2.2 percent in the first quarter. Consumer spending and exports were particularly strong in the second quarter. Growth estimates for 2018 range between an average of 2.5-3.0 percent. To combat possible inflation pressures associated with strong economic expansion, the Federal Reserve Open Market Committee raised the Fed Funds Target Rate (currently ranging between 2.0-2.25 percent) a number of times during the last two years. As a result, interest rates are on the rise.

US Treasury Yields			
	9/30/2017	9/30/2018	Difference (basis po
3 Month	1.04%	2.20%	+116
2 Year	1.48%	2.82%	+134
5 Year	1.94%	2.95%	+101
10 Year	2.33%	3.06%	+73
30 Year	2.86%	3.21%	+35

1. One basis point is equal to one hundredth of one percent.

Rising rates impact the City's investments primarily in two ways:

- Interest income is higher because reinvestment of maturing funds is executed at higher available market yields. Interest income for this fiscal year's first three reporting periods totaled \$2,383,567. In comparison, interest income for the same period last year totaled \$935,597
- Rising interest rates negatively impact the fair value of the City's investments. Though these shifts in market value are not generally realized. Most investments are held until maturity.

FISCAL IMPACT

The City-wide projection for interest income for FY 2018/19 totals approximately \$6.6 million. Interest earnings for the third quarter of 2018 (first quarter of FY 2018/19) totaled \$2,383,567, tracking above plan.

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 - Third Quarter 2018 Investment Report.

Prepared by: Inderdeep Dhillon, Finance Manager

Reviewed by: Timothy J. Kirby, Director, Finance

Reviewed by: Teri Silva, Assistant City Manager

Approved by: Kent Steffens, City Manager

ATTACHMENTS

1. City of Sunnyvale Third Quarter Investment Report