



# City of Sunnyvale

## Agenda Item-No Attachments (PDF)

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### REPORT TO COUNCIL

#### **SUBJECT**

Receive and File the City of Sunnyvale Investment Report - 2nd Quarter 2019

#### **BACKGROUND**

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 from 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. Therefore, 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's funds continue to be actively managed with maturities ranging between 0 and 5 years and have an average duration target of approximately 2.5 years to capture yield and enhance long-term returns. The duration for these funds is currently 1.96 years, as we have continued to move the portfolio duration in line with the City's target. These funds currently total \$617,203,051.

Funds needed to meet cash needs (liquid investments) are now solely managed in the Local Agency Investment Fund (LAIF) (totaling \$61,874,897). LAIF is a program created by statute as an investment alternative for California's local governments and special districts.

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 \$679,077,948. This amount does not include \$3,573,069 of accrued interest, which has been earned, but not yet received. The portfolio's average yield to maturity was 2.46 percent as of June 30, 2019. The value of the portfolio is impacted by market forces in the bond market, as well as by growing property tax revenues, revenue from 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.

## **Economic Update**

In the City's investment adviser's view, US domestic economic data remains consistent with a slow growth environment; the US labor market is strong, wages are growing modestly, and inflation remains contained. However, headwinds to the economy have increased. Ongoing global trade disputes, slowing global economic growth, Brexit, and geopolitical tensions have made the outlook uncertain. The trajectory of economic growth is likely to hinge on the outcome of ongoing trade negotiations as well as policy action by the major global central banks. There may be a high level of political pressure to make progress toward a trade agreement with China before the election cycle this fall. A calm collective stance by major global central banks should help global economic growth.

Treasury yields declined further in June. At month-end, the 3-month T-bill yield was down 25 basis points to 2.09%, the 2-year Treasury yield was down 17 basis points to 1.76%, and the 10-year Treasury yield was down 12 basis points to 2.01%. An inversion of the yield curve in which the 10-year Treasury yield is lower than the 3-month T-bill yield is generally viewed as a powerful predictive signal of an upcoming recession. Although our adviser's 6-month forecast does not project a recession, they believe downside risks to the economy may be building. Notably, sovereign 10-year bond yields around the world were under pressure in June and the yields on both the 10-year German Bond and 10-year Japanese Government Bond remained negative at month-end.

Lower yields have continued to impact the City's investments up to June 2019, primarily in two ways:

- Interest income continued to grow as portions of the portfolio that were purchased when yields were low have been maturing. Reinvestment of these funds continue to be at higher yields than that of the initial investment. Further extensions of duration have helped protect current yield levels as yields continued to fall. Interest income for this fiscal year totaled \$12,801,275.10. In comparison, interest income for the last fiscal year was \$6,286,531.
- Falling yields continue to cause the fair value of the City's investments to appreciate.

### **FISCAL IMPACT**

The City-wide projection for interest income for FY 2018/19 totals approximately \$6.6 million. Interest earnings as of the end of the second quarter of 2019 (fourth quarter of FY 2018/19) for the past twelve months totaled \$12,801,275.10, tracking well above our forecast.

### **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 - Second Quarter 2019 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 Second Quarter 2019 Investment Report