



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 - 3rd 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 in the City's portfolio of investment securities with maturities ranging between 0 and 5 years. The portfolio has an average duration target of approximately 2.5 years to capture yield and enhance long-term returns. As of September 30, 2019, the duration for these funds was 2.36 years, as we have continued to move the portfolio duration in line with the City's target. These funds currently total \$623,120,945.

Funds needed to meet cash needs (liquid investments) are now solely managed in the Local Agency Investment Fund (LAIF) (totaling \$42,372,506). 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 \$665,493,451. This amount does not include \$3,323,042 of accrued interest, which has been earned, but not yet received. The portfolio's average yield to maturity was 2.42 percent as of September 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, economic growth has slowed from earlier this year and the consensus forecast calls for a further slowdown in Gross Domestic Product (GDP) growth next year to a level consistent with trend growth. However, a recession is not anticipated within our 6-month outlook horizon. Their view is that the impact of monetary policy on economic growth lags, and the more accommodative monetary policy stance of the Federal Reserve and other global central banks throughout 2019 should provide a tailwind for an ongoing slow economic growth environment heading into 2020. However, an uncertain outlook on the future path of global central bank policy, lingering uncertainty about trade policy and Brexit, and the upcoming US Presidential election potentially sets the stage for a continued volatile financial market environment heading into the new year.

The Federal Open Market Committee (FOMC) lowered the target fed funds rate by 25 basis points for a third time this year to a range of 1.50%-1.75%. The Fed indicated household spending continues to rise at a strong pace, but business fixed investment and exports remain weak. Market-based measures of inflation compensation also remain low. During the press conference, Fed Chair Powell said the FOMC believes the current stance of monetary policy is likely to remain appropriate as long as economic data remains consistent with their outlook. Chair Powell's comments suggested that the Fed anticipates keeping monetary policy on hold over the near- to intermediate-term, but

they haven't ruled out the possibility of providing added accommodation if the economy weakens further. Fed Chair Powell indicated that the current fed funds rate range is "somewhat accommodative" and without a material improvement in inflation expectations we expect monetary policy to remain accommodative.

The Treasury yield curve continued to steepen modestly in October 2019. During the month, the 10-year US Treasury yield rose above the yield on the 3-month T-bill. This portion of the yield curve had been inverted since May 2019 (with a brief exception in July). The 3-month T-bill yield declined 28 basis points in October to 1.52%, the 2-year Treasury yield decreased nearly ten basis points to 1.52%, and the 10-year Treasury yield increased about three basis points to 1.69%. Our adviser believes the recent curve steepening has been driven by the Federal Reserve lowering short-term rates, as well as more favorable developments with regard to global trade and Brexit which have pushed up longer-term European sovereign bond rates as well as US Treasury rates.

Despite lower yields, the City's investment income continues to be strong. Continued extension of portfolio duration has helped protect current yield levels as yields continued to fall. Interest income for this fiscal year three reporting periods totaled \$3,985,314. In comparison, interest income for the same period last year totaled \$2,383,567. Additionally, falling yields continue to increase the fair value of the City's investments.

FISCAL IMPACT

The City-wide projection for interest income for FY 2019/20 totals approximately \$10.5 million. Interest earnings as of the end of the third quarter of 2019 (first quarter of FY 2019/20) totaled \$3,985,314, tracking above the interest projections for the quarter.

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 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 Third Quarter 2019 Investment Report