



City of Sunnyvale

Agenda Item-No Attachments (PDF)

File #: 20-0271, Version: 1

REPORT TO COUNCIL

SUBJECT

Receive and File the City of Sunnyvale Investment Report - 4th Quarter 2019

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 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 the 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 2019/20 at its November 5, 2019 meeting (RTC No. 19-0971). The City's investment policy follows the Government Code and includes additional restrictions on some investments compared to State law, such as a lower allowable percentage per investment type or issuer.

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" within 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 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 December 31, the duration for these funds was currently 2.24 years, as we have continued to move the portfolio duration in line with the City's target. These funds currently total \$635,736,937.

Funds needed to meet cash needs (liquid investments) are now solely managed in the Local Agency Investment Fund (totaling \$48,588,506). Local Agency Investment Fund (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. Total investments (portfolio of securities and LAIF) had a value of \$684,325,443 as of December 31, 2019. This amount does not include \$3,445,715 of accrued interest, which has been earned, but not yet received. The portfolio's average yield to maturity (the income expected to be earned over the next twelve months if the portfolio holdings do not change) was 2.41% percent as of December 31, 2019. The value of the portfolio is impacted by market forces in the bond market such as the movement of interest rates, credit quality, fiscal policy, and economic growth. It is also affected 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.

Economic Update

Economic growth has slowed over the past year and the consensus forecast calls for GDP growth of 1.8% in 2020 versus 2.3% in 2019. A recession is not anticipated by the City's adviser within their 6-month outlook horizon. Bolstering this view is the belief that the impact of monetary policy on economic growth is somewhat lagged, 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 in 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 this year. The recent confirmation of a phase one trade deal with China is consistent with the view that there will be modest incremental progress on trade in front of the presidential election cycle.

The Federal Open Market Committee (FOMC) kept the target fed funds rate unchanged in December in a range of 1.50%-1.75%. The vote to keep policy unchanged was unanimous and the Fed's quarterly update on their Summary of Economic Projections was little changed from the September

2019 forecast. Notably the Fed's forecast calls for no change to the fed funds rate in 2020. The hurdle to tighten policy remains high, as market-based measures of inflation are still too low. Conversely, if market-based inflation metrics fail to improve, and/or the domestic or global economy experiences an exogenous shock, the Fed has left the door open for additional policy accommodation.

The Treasury yield curve steepened slightly in December. The 2-year Treasury yield decreased about 4 basis points to 1.57%, the 5-year Treasury yield increased almost seven basis points to 1.69%, and the 10-year Treasury yield increased about fourteen basis points to 1.92%. The increase in longer-term yields were driven by more favorable developments with regard to global trade and Brexit.

The City's investment income continues to be strong. Continued extension of portfolio duration has helped protect current yield levels as yields stabilized in a lower range. Interest income for the first six months of this fiscal year totaled \$8,052,255. In comparison, interest income for the same period last year totaled \$5,809,163. Additionally, the portfolio continues to preserve the unrealized gains it generated as a result of duration extensions as rates fell through 2019.

FISCAL IMPACT

The City-wide projection for interest income for FY 2019/20 totals approximately \$11 million. Interest earnings as of the end of the fourth quarter of 2019 (second quarter of FY 2019/20) for the past six months totaled \$8.1 million, tracking 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 - Fourth Quarter 2019 Investment Report.

Prepared by: Inderdeep Dhillon, Finance Manager
Reviewed by: Tim Kirby, Director, Finance
Reviewed by: Jaqui Guzmán, Deputy City Manager
Approved by: Kent Steffens, City Manager

ATTACHMENTS

1. City of Sunnyvale Fourth Quarter Investment Report