



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 - 1st Quarter 2020

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 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. 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 7 years. The portfolio has an average life of approximately 2.50 years to capture yield and enhance long-term returns. As of March 31, the average duration for these funds was currently 2.39 years, the investment manager continued to manage the portfolio duration in line with the City's target. These funds currently total \$698,494,100.

Funds needed to meet cash needs (liquid investments) are now solely managed in Local Agency Investment Fund (totaling \$37,837,142). 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 \$736,331,241 as of March 31. This amount does not include \$3,239,122 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 2.26% percent as of March 31. 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 property tax revenues, development related activity such as park impact fees, housing impact fees, developer contributions, building and planning fees, utility enterprise fund revenues and other City financial activities.

To slow down the spread of COVID-19, the Santa Clara County Public Health Official issued a health emergency order directing all individuals living in the County to shelter at their place of residence except to provide or receive certain essential services effective March 16. The shelter-in-place order for the general public and closing of non-essential businesses was initially for three weeks but subsequently was extended until the end of May 2020. By the completion of the staff report, general revenues associated with sales and use tax, transient occupancy tax, construction tax, utility user tax, real property transfer taxes, and parks and recreation activity fees have started to decline sharply. Consequently, the City cash inflow has decreased significantly in a few weeks due to loss of tax revenues and interruption of certain City services which are deemed nonessential. Considering the negative impact of COVID-19 to the City, the investment portfolio manager is to focus on building and maintaining increased liquidity in the investment portfolio to meet City operational needs at least for the next twelve months. The portfolio manager will continue to re-evaluate the portfolio and to match investment maturities with the City's short and long term cashflow needs until revenue collections return to more normal levels. Staff will continue to analyze cashflow needs regularly and actively communicate with the portfolio manager to ensure the maintenance of sufficient cash balances to meet operational, capital projects, and unforeseen fiscal needs.

Economic Update

Financial markets have experienced significant turbulence, driven by a high level of uncertainty about the impact of the COVID-19 pandemic on the global economy. US Treasury yields have declined, amid a global flight to quality. At the end of the first quarter, the yield on 2-year Treasuries was down 132 basis points year-to-date, and the yield on 10-year Treasuries was down nearly 125 basis points. The S&P 500 index declined 20.0% in the first quarter. There are still many unknowns about the coronavirus including how widespread it will become, how long it will take to contain the virus, and the actual impact on economic activity. Containment efforts and supply chain disruptions may cause a sharp increase in unemployment and a swift and deep contraction in economic activity. Financial markets will likely remain volatile over the near term, but large-scale global monetary and fiscal stimulus programs should help mitigate the longer-term impact of the pandemic. Notably, President Trump approved a \$2 trillion economic relief package on March 27, the largest fiscal stimulus package in US history.

The Federal Reserve (Fed) has taken a wide range of aggressive actions to help stabilize and provide liquidity to the financial markets. The Fed has lowered the fed funds target rate to a range of 0.0%-0.25% and said it will purchase Treasury and agency mortgage-backed securities in any amount needed to support smooth market functioning. Policymakers have established several facilities to help support the flow of credit to businesses and state and local governments including the Commercial Paper Funding Facility, Main Street Lending Facility, Money Market Mutual Fund Liquidity Facility, Municipal Liquidity Facility, Paycheck Protection Program Liquidity Facility, Primary Market Corporate Credit Facility, Secondary Market Corporate Credit Facility, and Term Asset-Backed Securities Loan Facility. The Fed has also provided short-term funding through large scale repo operations and lowered the reserve requirement for depository institutions. Fed Chair Powell has indicated that the Fed will continue to act “forcefully, proactively, and aggressively” until the economy is solidly on a road to recovery.

The slope of the Treasury yield curve steepened in March, though rates across the curve declined meaningfully. At March month-end, the yield on 10-year Treasuries was down 48 basis points to 0.67% while the yield on 2-year Treasuries was down 67 basis points to 0.25%. The yield on 3-month T-bills declined 121 basis points in March. The movement in yields has been driven by fears about the coronavirus and its potential impact on global economic growth and inflation expectations, as well as the cumulative 150 basis point cut to the fed funds target rate in March.

The City’s investment income is strong due to the longer-duration strategy the City employs in its investment program. Income, however, is expected to decline considerably amid lower market rates. Interest income for this fiscal year nine reporting periods totaled \$8,052,255. In comparison, interest income for the same period last year totaled \$5,809,163. Additionally, portfolio fair value continued to be strong due to a rally in U.S. Treasury and Federal Agency securities offsetting much of the decline in value for non-governmental securities.

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 first quarter of 2020 (third quarter of FY 2019/20) for the past nine 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, Sunnyvale Public Library and Department of Public Safety; and by making the agenda and report available at the Office of the City Clerk and on the City's website.

RECOMMENDATION

Receive and file the City of Sunnyvale - First Quarter 2020 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 First Quarter Investment Report