



# 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 - Second 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. In the past three months, the City has allocated a portion of its maturing funds to a separate liquidity portfolio with shorter maturity securities designed to provide additional cash to the City in light of economic uncertainty as a result of COVID-19. While the City's main investment portfolio continues to target a duration of 2.18 years, on a combined basis, the City's combined portfolio of securities maintains an average duration of 2.10 years. Combined, funds currently total \$701,405,452.

Additional liquid funds needed to meet cash needs (liquid investments) are also managed in Local Agency Investment Fund (totaling \$74,299,671). 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 the three-month accounting period as required by Government Code section 53607. Total investments (portfolio of securities and LAIF) had a value of \$775,705,123 as of June 30, 2020. This amount does not include \$3,684,306 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 2.17% as of June 30, 2020. 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.

The COVID-19 pandemic continues as a worldwide health crisis and weakening local, national, and global economies. To control the pandemic spread, the Santa Clara County and the California State health orders, currently in place, include closing indoor business operations (restaurant, movie theaters, and family entertainment centers) statewide and disallowing a number of additional indoor activities (fitness centers, religious and cultural ceremonies, and malls) within the County. As a result, general revenues associated with sales and use tax and transient occupancy tax declined sharply in the second quarter. In addition, construction tax, real property transfer taxes, and parks and recreation activity fees were lower in the second quarter as well. The investment portfolio manager continues to focus on providing increased liquidity in the portfolio to meet the City operational needs at least for the next twelve months while following the long-term duration investment strategy, in overall. Staff will continue to assess and monitor cashflow needs regularly and communicate actively with the portfolio manager to ensure the maintenance of sufficient cash balances to meet operational, capital projects, and unforeseen fiscal needs.

### Economic Update

Economic data remains weak but is showing signs of improvement. The investment advisor believes financial market participants are looking through the data and expect conditions to recover further in the second half of the year, supported by robust fiscal and monetary relief. First quarter GDP declined 5.0% and the decline in second quarter GDP was more severe at over 34%, but economic output is expected to grow in the third quarter. More than 40 million people have filed for unemployment since mid-March, though many of those jobs have already started to return. Additional fiscal stimulus, beyond the \$2.7 trillion that has already been announced, may be necessary to foster a strong recovery.

The Federal Open Market Committee (FOMC) kept monetary policy unchanged at its June 9-10 meeting, as expected, with the fed funds target rate in the range of 0%-0.25%. According the Fed's economic projections, policymakers expect to keep that range unchanged through 2022. The Fed will continue to purchase Treasury and agency mortgage-backed securities as needed to support smooth market functioning and will continue to support the flow of credit to households, businesses, and municipalities through the various lending programs that have already been announced. Although some economic data has recently surprised to the upside, Fed Chair Powell maintained a dovish tone during his press conference and cautioned that unemployment is likely to remain elevated even as the economy recovers. He noted the outlook for the economy remains highly uncertain and depends largely on the path of the pandemic. He also hinted that the Fed is considering the option of yield curve control (i.e. structuring their bond purchases to target a cap on yields across the Treasury yield curve). Overall, the Fed remains highly accommodative.

Treasury yields were nearly unchanged in June. The yield on 2-year Treasuries declined about one basis point to 0.15% and the yield on 10-year Treasuries was essentially unchanged at 0.66%. Global economic weakness continues to put downward pressure on inflation expectations. An ongoing global demand for safe-haven assets has also kept a lid on Treasury rates.

The City's investment income is strong due to the longer-duration strategy applied to the investment portfolio. However, income is expected to decline considerably amid lower market rates. Interest income for this fiscal year totaled \$16,207,202. In comparison, interest income for the last fiscal year totaled \$12,835,684. 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 second quarter of 2020 (fourth quarter of FY 2019/20) totaled \$16.2 million, exceeding 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. In addition, the agenda and report are available at the Office of the City Clerk and on the City's website.

### **RECOMMENDATION**

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

Prepared by: Inderdeep Dhillon, Finance Manager  
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Reviewed by: Jacqueline Guzman, Deputy City Manager  
Approved by: Kent Steffens, City Manager

**ATTACHMENTS**

1. City of Sunnyvale Second Quarter Investment Report