



City of Sunnyvale

Agenda Item-No Attachments (PDF)

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REPORT TO COUNCIL

SUBJECT

Adopt the City's Investment Policy for Fiscal Year 2020/21 and Receive Annual Performance Report for Fiscal Year 2019/20

BACKGROUND

The City Council first adopted a policy governing the investment of City funds on July 30, 1985. This policy has been reviewed and adopted on an annual basis since that time.

For the purposes of bringing on investment expertise and supporting the management of an increasingly complex investment environment as well as a portfolio that is growing significantly, Council approved a three-year contract with Chandler Asset Management, Inc. (Chandler) to provide investment management services on April 24, 2018 (RTC No. 18-0281). Chandler investment managers have been managing City investments since July 1, 2018.

EXISTING POLICY

Council Policy 7.1.2 Investment and Cash Management requires that the Investment Policy be reviewed and adopted annually within 120 days of the fiscal year to ensure consistency with the overall objectives of safety, liquidity, and yield and its relevance to current laws as well as financial and economic trends.

The key provisions of the existing Investment and Cash Management Policy are as follows:

1. Safety of principal is the foremost objective of the investment program. The City's portfolio is diversified by type of investment, issuer, and maturity date. Diversification is required to minimize exposure to any potential market and credit risk. The investment policy specifies the percentage of funds that can be invested in each investment type and issuer and the maximum maturity of each investment. The policy allows a maximum maturity of seven years for US Treasury, US Agency and Government Sponsored Enterprises (GSE) investments and shorter maturities for all other investments.
2. Liquidity- the portfolio will remain sufficiently liquid to enable the City to meet all operating requirements, which might be reasonably anticipated. A schedule of major revenues and expenditures for at least 12 months is maintained in order to determine liquidity needs. Liquidity requirements have been met through utilizing the State's Local Agency Investment Fund (LAIF) and the City's interest-bearing bank accounts.
3. Yield- the portfolio will be maintained with the objectives of safety and liquidity first, and then the objective of obtaining a reasonable market rate of return based on economic cycles, taking

into account the City's investment risk approach and cash flow needs.

All investments in the portfolio are in accordance with the California Government Code requirements and authorized by the City's Investment Policy. The City is in compliance with the requirement that all investments be held in safekeeping by a third-party bank trust department. The City currently has a contract with Union Bank to provide this service.

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

Funds not immediately needed for disbursement are included in the City investment portfolio. Funds for the City's Deferred Compensation Plan, the City's Retirement Plan, Other Post-Employment Benefits (OPEB) Trust, Pension Trust, and debt issuance proceeds are managed by a third-party administrator and therefore are not covered by this Investment Policy. Funds needed for disbursement are maintained in a liquid checking account.

Annual Performance Reporting for FY 2019/20

The following annual reporting on portfolio performance for FY 2019/20 includes comparisons of the City's performance compared to the investment policy objectives.

For FY 2019/20, total rate of return of the portfolio managed by Chandler was 5.41%. This return represents growth of the portfolio arising from interest earnings and fair value appreciation achieved during the fiscal year. The return compares favorably against the City's performance measuring benchmark ICE BAML 1-5 Years US Treasury Securities/Agency Index, which returned 5.21% for the same period. The average life of the portfolio during this fiscal year was 2.77 years. The annualized interest earning rate of the LAIF account was 2.07%, and the portfolio average life was 191 days.

Interest earnings for FY 2019/20 for all City funds totaled \$16,207,202. Interest earnings are allocated pro rata to each fund throughout the City based on the periodic cash balance held in each fund.

The portfolio balance has increased by 14% from \$ 679.1 million in June 2019 to \$775.7 million in June 2020. This increase is mainly attributed to higher than anticipated revenues (such as development related fees, property tax, transient occupancy tax, and utility fees). Additionally, City expenditures remained under budget during the fiscal year. Additional details on the City's fiscal year ending performance will be provided with the Budgetary Year End Financial Report in December.

Investment Policy

The City's Investment Policy has been reviewed and certified annually by the Association of Public Treasurers of the United States and Canada (APT US&C) since 1999. After assuming the investment management role, Chandler continues to review the Investment Policy. Chandler recommends some modifications to update the Investment Policy with the latest California best practices and to enhance the clarity and readability of the Investment Policy. Recommended changes in summary are listed

below:

- Inclusion of language limiting callable federal agency securities to 20% of the portfolio in order to better manage market risk. Prior language managing call risk excluded callable corporate obligations, whose call features differ greatly from federal agency call features, making them advantageous to hold. The new language is specific to federal agency callable securities.
- Inclusion of a requirement that the City conduct an investigation of any pool investment vehicles it uses to better understand the risks and rewards involved. The new language includes a list of basic questions that should be answered periodically.
- Inclusion of language that places a duty on the City's investment advisor to communicate any actions related to the downgrade of securities below the minimum credit quality requirement to City staff in a timely manner.

Staff met with Chandler managers and reviewed the proposed changes in detail. Staff concurs with the edits and recommends accepting them. Edits are available in the redlined version of the Investment Policy (Attachment 1).

Once approved by Council, staff will submit the Investment Policy for FY 2020/21 to be re-certified by the APT US&C. Once adopted the proposed FY 2020/21 Investment Policy will be incorporated into the Council Policy Manual as Council Policy 7.1.2, replacing the Investment Policy for Fiscal Year 2019/20.

FISCAL IMPACT

There is no fiscal impact associated with adoption of the Investment Policy as recommended.

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

Adopt the City's Investment Policy for FY 2020/21 (Council Policy 7.1.2).

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

ATTACHMENT

1. Proposed Investment Policy for FY 2020/21