



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 - Third 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 October 6, 2020 meeting. 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" 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, which 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 several months, the City's investment program has focused on ensuring the City has sufficient cash in light of economic uncertainty as a result of COVID-19. The City's main investment portfolio of securities continues to target a duration of 2.32 years. It had a duration position of 2.24 years as of quarter end. The portfolio of securities totaled \$638,301,770.

Additional liquid funds needed to meet cash needs (liquid investments) are also held in Local Agency Investment Fund (LAIF), totaling \$64,518,086. 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 \$702,819,856 as of September 30. This amount does not include \$2,893,103 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 2.07% as of September 30. 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 global health crisis, affecting the local, national and worldwide economy. As a result, general revenues associated with sales and use tax, transient occupancy tax, construction tax, real property transfer taxes, and parks and recreation activity fees continued to lag in comparison to last fiscal year. The investment portfolio manager continues to focus on providing increased liquidity in the portfolio to meet City operational needs at least for the next twelve months, while following the long-term duration investment strategy. 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

The US economy experienced a strong rebound in the third quarter, following a steep decline in activity in the second quarter, but gross domestic product (GDP) remains well below its pre-pandemic peak. The path to a full economic recovery may be uneven. The outlook for the economy hinges largely on the course of the pandemic, the timing and amount of additional fiscal relief, and the

timeline for a vaccine. Though downside risks to the economy remain, due in part to the ongoing stalemate in Congress over fiscal relief, a resurgence of the virus in many areas, and ongoing elevated levels of unemployment claims, there is still a great deal of optimism about continued progression toward a vaccine, which should help propel the economic recovery next year. It is also expected that the Fed's highly accommodative monetary policy framework will continue to provide support for the financial markets.

The Federal Open Market Committee (FOMC) kept monetary policy unchanged in September with the Fed Funds rate in a range of 0.0% to 0.25%. Monetary policy remains highly accommodative, and Fed Chair Powell maintained a dovish tone during his press conference. The Fed will continue to use its balance sheet to support smooth financial market functioning by purchasing Treasury and agency mortgage-backed securities and will continue to use its lending facilities to support the flow of credit to businesses and municipalities, as needed. In the September policy statement, the FOMC noted that inflation continues to run below its 2.0% target, as weaker demand and lower oil prices are holding down consumer prices. Longer-term, the FOMC will allow inflation to run above 2.0% for some period of time before it looks to tighten policy, which implies the fed funds target rate will remain anchored near zero for years. The Fed's updated summary of economic projections signals that the target fed funds rate will remain unchanged through at least 2023, as policymakers do not expect inflation to exceed 2.0% during that timeframe. The next FOMC meeting is scheduled for November 4th-5th.

FISCAL IMPACT

The return on the City's investments continued to be strong primarily due to high yields achieved before the impacts of COVID-19 pandemic. Interest income, however, is expected to decline considerably in the next quarter and early 2021 amid lower market rates. Interest income for third quarter totaled \$3,740,185. In comparison, interest income for the same period last year totaled \$4,033,257.

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 - Third Quarter 2020 Investment Report.

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

ATTACHMENTS

1. City of Sunnyvale Third Quarter Investment Report