



# 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 - Fourth 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 fiscal year 2020/21 at its October 6, 2020 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. 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 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 2.35 years and had a duration position of 2.27 years as of quarter end. The portfolio of securities totaled \$644,462,075.

Additional liquid funds needed to meet cash needs (liquid investments) are also held in Local Agency Investment Fund (LAIF), totaling \$72,158,835. 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 in the report. 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 \$716,620,910 as of December 31, 2020. This amount does not include \$3,211,667 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 1.90% as of December 31, 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.

During the quarter, the COVID-19 pandemic continued to have economic impacts across the world, the nation and local region. Due to large, continuous increases in the rate of Covid-19 cases, hospitalizations, and test positivity rates, the state re-imposed the Regional Stay at Home Order to slow down the community spread of virus in November 2020. The order prohibited all private indoor gatherings of any size, limited retail store indoor capacity at 20% level, allowed restaurants only for take-out, pick-up or delivery, required individuals to quarantine from travel of 150 miles, and restricted hotels and lodging entities to accept out of state reservations for non-essential travel. The County of Santa Clara had its own health directives. When there is a difference between the County Order and the State Order, the more restrictive order must be followed. Two Covid-19 immunization vaccines were approved in December 2020. Nationwide, vaccine doses are being allocated out using a priority phases and tiers approach. However, it may take several months to vaccinate most of the US population. In late January 2021, the state lifted the Regional Stay at Home Order, allowing outdoor dining, personal care services, outdoor gatherings, sports events, and recreational sports activities to resume. However, the County's mandatory travel restrictions with 10-day quarantine requirements remained in place. As returning to pre-pandemic life continues to remain uncertain, it's hard to predict the duration and full economic impacts of the virus outbreak affecting the City tax revenues, fees, and

charges, on the whole.

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 remain low in comparison to last fiscal year to date. The investment portfolio manager remained focused on maintaining 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. 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.

The Federal Open Market Committee (FOMC) kept monetary policy unchanged at their December meeting as expected, with the fed funds target rate in a range of 0.0% to 0.25%. The Fed intends to remain highly accommodative until their goals of maximum employment and higher inflation are achieved. The Fed's summary of economic projections continues to signal that the target fed funds rate will remain unchanged until at least 2023, as policymakers do not expect inflation to exceed 2.0% during that timeframe. Until the Fed has made substantial progress toward achieving their dual mandate of maximum employment and price stability, they have set a floor for monthly asset purchases of at least \$80 billion per month of Treasuries and \$40 billion per month of agency mortgage-backed securities. Notably, the Fed's outlook for GDP over the next few years was revised higher and the outlook for unemployment was revised lower compared with their previous forecasts in September, which suggests increased optimism. Nevertheless, the outlook remains uncertain and Fed Chair Powell indicated that the Fed would increase policy accommodation further if progress toward their dual mandate slows.

In 2020, the yield on 2-year Treasuries was down 145 basis points to 0.12% and the yield on 10-year Treasuries was down about 100 basis points to 0.91%. The yield curve steepened modestly in December and month-to-date the yield curve has continued to steepen, likely due in part to favorable developments on the vaccine front. Month-to-date, the yield on 2-year Treasuries is little changed but the yield on 10-year Treasuries is up about 20 basis points. The Treasury yield curve is poised to steepen modestly further in 2021 as the economy reopens, driven by an increase in longer-term rates as the front end of the curve is likely to remain anchored near 0.0%.

### **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. Though expected to decline, interest income continued to be strong for the quarter. Interest income for third quarter totaled \$3,388,933 while interest income for the same period of last year was \$4,009,521.

### **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 - Fourth 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 Fourth Quarter Investment Report