



# 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 - First Quarter 2021

#### **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 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 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 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 2.40 years and had a duration position of 2.33 years as of quarter end. The portfolio of securities totaled \$641,571,862.

Additional liquid funds needed to meet cash needs (liquid investments) are also held in Local Agency Investment Fund (totaling \$64,264,558). 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 \$705,836,420 as of March 31, 2021. This amount does not include \$2,474,188 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 1.77% 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.

For longer than fourteen months, COVID-19, a worldwide health crisis, continued to affect economies locally and globally. However as of mid-June, all restrictions have been lifted and the state’s tier structure has been removed. Although local businesses are reopening and the local economy has started to show signs of improvements even before the full opening, there is still a long road ahead for the City revenue collections to reach to pre-pandemic levels. Consequently, General Fund revenues associated with sales and use tax and transient occupancy tax continued to remain lower in comparison to last fiscal year to date. As the real estate market and construction activities remained strong, construction tax, real property transfer taxes were less affected.

The investment portfolio manager remained focused on maintaining increased liquidity in the portfolio to meet the City operational and capital needs for the next twelve months while following the long-term duration investment strategy. Staff continued 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.

### Update and Outlook

Accommodative monetary policy, robust fiscal spending, and continued progress on vaccine distribution should provide meaningful tailwinds for the economy in the coming quarters. The vaccine rollout has been faster than expected. Restaurant and bar sales accelerated and travel-related spending has started to rebound as the economy reopens. Despite significant progress on the vaccine rollout in the US, and largely better than expected economic data and corporate earnings, the Biden administration continues to push forward with large-scale fiscal spending proposals. President Biden recently proposed plans for more than \$4 trillion in new fiscal spending, which would be in addition to the roughly \$5.5 trillion in pandemic-related fiscal spending that has already been approved since early last year. It is expected that some version of an infrastructure spending bill to come to fruition later this year. Estimates for US gross domestic product (GDP) growth this year are strong. The current Bloomberg consensus estimate for 2021 US GDP growth is 6.3%.

The Federal Open Market Committee kept their target fed funds rate and asset purchase program unchanged in April, as expected. The fed funds target rate remains in the range of 0.0% to 0.25%, and the Fed continues to purchase \$80 billion of Treasuries per month, and \$40 billion of agency mortgage-backed securities per month. During his most recent press conference, Fed Chair Powell reiterated that the economy is still a long way from reaching their employment and inflation goals and it is too soon to begin discussing tapering asset purchases. The Fed believes that some parts of the economy will not fully recover until the pandemic is decisively over. Chair Powell also reiterated that near term inflationary pressures are likely to be temporary.

Looking ahead, there is much evidence that the Treasury yield curve is poised to modestly steepen further as the year progresses, which would be consistent with an improving economic outlook, more widespread vaccine distribution, the anticipation of ongoing fiscal spending, and a moderate pick-up in inflation.

### **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 continuing to decline, interest income remained strong for the quarter. The investment income for first quarter totaled \$4,054,482. In comparison, interest income for the same period of last year totaled \$4,401,296.

### **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 Office of the City Clerk, and on the City's website.

**RECOMMENDATION**

Receive and file the City of Sunnyvale - First Quarter 2021 Investment Report.

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Reviewed by: Jaqui Guzmán, Deputy City Manager  
Approved by: Kent Steffens, City Manager

**ATTACHMENTS**

1. City of Sunnyvale First Quarter Investment Report