



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 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. 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. The City's main investment portfolio of securities continues to target a duration of 2.43 years. It had a duration position of 2.36 years as of quarter end, slightly longer than from last quarter's 2.33 years. The portfolio duration was extended by additional purchases of supranational obligations, asset-backed securities, negotiable certificates of deposit, and medium-term corporate notes. The majority of the new purchases included securities with maturities in 2025 and 2026. The portfolio of securities totaled \$642,794,764.

Additional liquid funds needed to meet cash needs (liquid investments) are also held in Local Agency Investment Fund (totaling \$74,742,731). 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 \$717,537,495 as of June 30, 2021. This amount does not include \$2,649,074 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 1.63% as of June 30, 2021. 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.

COVID-19, a worldwide health crisis, continues to impact local and global economies. Due to the highly transmissible Delta variant, Santa Clara County has required indoor face covering regardless of vaccination status. Most indoor business operations continue to remain open but must enforce face covering requirements to reduce the risk of transmission. Businesses are responding to the surge by moving operations and activities outdoors, where possible. Some are prohibiting work-related travel to places where vaccination rates are low. Many are requiring all personnel not fully vaccinated to obtain frequent testing for COVID-19, consistent with current federal and state recommendations. Because the pandemic continues to persist, a road to recovery for revenue collections remains slow. As a result, General Fund revenues associated with sales and use tax and transient occupancy tax remain lower compared to last fiscal year to date. On the bright side, real estate and construction activities remain strong with construction tax and real property transfer taxes not as 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 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 and Outlook

The US economy continues to recover while some pockets of the economy remain dislocated. Real gross domestic product (GDP) is approaching pre-pandemic levels. The recovery has been fueled by robust fiscal spending, accommodative monetary policy, and a swift vaccine rollout. These factors are beginning to moderate but should continue to provide tailwinds for the economy in the coming quarters. Vaccinations have slowed down. Infection rates in the US have recently ticked up but remain well below their peak. Some pandemic-related fiscal relief is starting to phase out, but an infrastructure spending plan is likely on the horizon. Meanwhile, the Federal Reserve remains accommodative (biased towards maintaining short-term rates low) and continues to signal that it will look past any near-term uptick in inflation to facilitate continued improvement in the labor market. Estimates for US GDP growth remain strong. The current Bloomberg consensus estimate for 2021 and 2022 US GDP growth are 6.6% and 4.2%, respectively.

The Federal Open Market Committee (FOMC) kept monetary policy unchanged at its June meeting. 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. The Fed has started to discuss the idea of reducing its asset purchases at some point, but that decision remains uncertain. FOMC members updated economic projections also suggest that the Fed may start to raise interest rates in 2023, versus the previous estimate of 2024, as the economy may be on track to reach their employment and inflation goals at a faster than expected pace. Overall, monetary policy remains highly accommodative for now, but the Fed seems to be inching toward a path of policy normalization. It is anticipated that the Fed will remain on the sidelines over the near-term. We believe the probability that the Fed will begin tapering its asset purchases during the first half of next year has increased.

The yield curve flattened in June. We believe multiple factors influenced Treasury rates in the month, including market factors, dollar strengthening, uneven global vaccination rates, and a more modest forecast for U.S. infrastructure spending than initially expected. The Treasury yield curve has continued to flatten in July, driven by a decline in longer term rates. Nevertheless, we believe longer-term rates are poised to move higher this year and we believe the Treasury yield curve is likely to steepen into year-end. Higher rates will mean the portfolio value may come under pressure, but it also means that reinvestments will occur at higher rates, enhancing interest income.

FISCAL IMPACT

The investment income for second quarter totaled \$2,941,111. In comparison, interest income for the same period of last year totaled \$3,687,458. The interest earning decrease is primarily due to significantly lower interest rates, which have been in place to help recover from negative impact of COVID-19 on the US economy.

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 2021 Investment Report.

Prepared by: Inderdeep Dhillon, Finance Manager

Reviewed by: Tim Kirby, Director, Finance

Reviewed by: Jacqueline Guzman, Deputy City Manager

Approved by: Kent Steffens, City Manager

ATTACHMENTS

1. City of Sunnyvale Second Quarter Investment Report