



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 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 an investment portfolio 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 agency, 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 2021/22 at its October 26, 2021 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. 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 2.34 years and had a duration position of 2.28 years as of quarter end. This is slightly shorter than last quarter's 2.36 years. The portfolio duration was managed to be within a range of 95% to 102% of its duration target to minimize the risk of the portfolio, vis-à-vis the target as a result of volatile rates. Purchases during the quarter continued to increase diversification of the portfolio across all sectors allowed by California Government Code. One notable purchase involved a Salesforce.com obligation maturing in 2024, which helped diversify the City's portfolio into a high credit quality, nonfinancial issuer that rarely issues debt. Other purchases included asset-backed securities, medium-term corporate notes, and U.S. Treasury obligations. The portfolio of securities totaled \$643,447,990 at the quarter end.

Additional liquid funds needed to meet cash needs (liquid investments) are also held in Local Agency Investment Fund (LAIF) (totaling \$62,797,503). 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 \$ 706,245,493 as of September 30, 2021. This amount does not include \$2,237,458 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 1.55% as of September 30, 2021. This yield includes the yield earned on moneys invested in LAIF. 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 the past eighteen months, COVID-19, a worldwide health crisis, has negatively impacted economies across the globe. Although local businesses are reopening and resuming their operations, the local economy appears to be progressing slower than anticipated. Supply chain issues, the shortage of skilled labor in several industries, and transitory inflation could prolong the economic recovery period. As a result, revenue collections may take a long time to reach to the pre-pandemic levels and remain volatile in the short term.

The portfolio manager continues to remain focused on maintaining sufficient 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 continue to monitor cashflow needs regularly and

communicate actively with the portfolio manager to ensure an availability of adequate cash balances to meet operational, capital projects, and unforeseen fiscal needs.

Economic Update and Outlook

While some pockets of the economy remain dislocated, US real gross domestic product (GDP) has recovered to pre-pandemic levels. The recovery has been fueled by robust fiscal spending, accommodative monetary policy, and vaccinations. These factors are beginning to moderate but should continue to provide tailwinds for the economy in the coming quarters. Covid infection rates have started to decline, but the health crisis continues to disrupt economic activity and has weighed on consumer sentiment. Supply chain and labor market disruptions are also likely to continue over the near- to intermediate-term, putting ongoing upward pressure on transportation, input, and labor costs. Some pandemic-related fiscal relief has started to phase out, but an infrastructure spending bill was just signed by the President. Meanwhile, the Federal Reserve remains accommodative and continues to facilitate further improvement in the labor market. Overall, the US economy continues to grow at a strong, above-trend pace but it is likely that economic data will point to volatility over the near-term.

The Federal Open Market Committee (FOMC) kept monetary policy unchanged at its September meeting but indicated that they are preparing to reduce the magnitude of their asset purchases. The fed funds target rate remains in the range of 0.0% to 0.25%. For now, the Fed continues to purchase \$80 billion of Treasuries per month, and \$40 billion of agency mortgage-backed securities per month. However, the Fed made an official announcement about tapering asset purchases at its FOMC meeting in early November. The tapering process will commence December 1st, and Fed Chair Powell signaled that asset purchases would continue to reduce in pace each month unless adjustment is needed. The projected timeline for liftoff on rate hikes was also pulled forward in the Fed's updated summary of economic projections. The median estimate among Fed policymakers now calls for one 25 basis point rate hike in 2022, versus the previous outlook for no rate hikes next year. Monetary policy remains highly accommodative for now, but the Fed is moving toward a path of policy normalization. We believe the Fed will be cautious as it moves toward a slow and steady withdrawal of monetary policy accommodation, amid a backdrop of an improving labor market and growing economy.

The Treasury yield curve steepened in September. The 10-year Treasury yield rose nearly 18 basis points in September to 1.49%, while the 2-year Treasury yield rose about seven basis points to 0.28%. It is apparent that some of the factors that put downward pressure on longer-term rates over the summer including concerns about the Delta COVID-19 variant, market conditions, and uneven global vaccination rates, have started to ease. It is likely the front-end of the curve will remain anchored near zero over the near-term and believe the yield curve may be poised for further steepening. At the end of September, the 10-year Treasury yield was down about 25 basis points from its high this year in March.

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 third quarter totaled \$3,367,916. In comparison, interest income for the same period of last year totaled \$3,331,815.

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 2021 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 2021 Investment Report