



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 2023

BACKGROUND

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. Chandler Asset Management (Chandler) manages funds not immediately needed for disbursement and held in an investment portfolio.

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 unspent proceeds from debt issuance are not included in this report. Third party administrators and trustee custodial banks manage and hold these funds.

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 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 (Council Policy 7.1.2, Investment and Cash Management) governing the investment of City funds on July 30, 1985. The City Council reviews and adopts this policy annually. Council adopted an updated policy for FY 2023/24 at its October 10, 2023 meeting. The City's investment policy follows the Government Code and includes additional restrictions beyond state law on some investments 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 over time if a premium or discount is amortized. The market value is what the bond is worth as of the date of the report.

Investment Portfolio

The majority of the City's funds continue to be actively managed by the City's portfolio manager in the City's portfolio of investment securities, with maturities ranging between zero and seven years. The City's main investment portfolio of securities has a target duration of 2.63 years. As of the quarter end, the portfolio had a duration position of 2.43 years, or 92% of its duration target, slightly lower than prior quarter end. Last quarter, the City's investment manager lengthened duration in anticipation of rates falling, which did occur. The current duration is likely to be re-extended to be at or close to its target as the City's investment manager continues to anticipate that rates will keep trending lower in the coming months. New purchases focused on high credit quality medium-term corporate notes offering attractive yields, plus one U.S. Treasury obligation. New yields from these purchases averaged yields between 3.84% and 5.16%. The average yield to maturity of the main portfolio of securities alone was 2.77%, up from 2.62% three months prior. The market yield, which can infer a reinvestment rate, was 4.53%, down from 5.29% on September 30, 2023—a reflection of lower rates available in the market. The market value of the main portfolio of securities totaled \$823,906,113 as of December 31, 2023, with accrued interest (interest earned but not yet received) of \$4,650,486.

Local Agency Investment Fund (LAIF)

The Local Agency Investment Fund (LAIF) holds additional liquid funds needed to meet short-term cash needs (liquid investments). LAIF totaled \$17,715,228 as of December 31, 2023. LAIF is a program created by statute as an investment alternative for California's local governments and special districts.

Summary of Total City Investments

This report provides a summary and detailed information on each security. 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 (Investment Portfolio and LAIF) had a value of \$841,645,062 as of December 31, 2023. This amount does not include \$4,829,365 of accrued interest, which has been earned but not yet received. The investment program's average yield to maturity (the income expected to be earned over the next twelve months if portfolio holdings do not change) was 2.79% as of December 31, 2023. This yield includes the yield earned on assets invested in LAIF. The market yield of the investment program was 4.52%.

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 the volume and timing of City revenues available to invest after maintaining sufficient liquidity. Some revenue sources include property tax revenues; development related activity such as park impact fees, housing impact fees, traffic mitigation fees, developer contributions, and building and planning fees; utility enterprise

funds revenues; and other City revenues or financial activities.

The portfolio manager primarily focuses on following the long-term duration investment strategy. Staff continue to monitor cash balance available, assess cashflow needs regularly, and communicate routinely with the portfolio manager regarding operational and capital projects funding needs.

Economic Conditions

Recent economic data has shown above trend growth fueled by a rise in consumer spending and a continuing healthy U.S. job market. Inflationary trends are subsiding, but core levels remain above the Federal Reserve's target. Given the cumulative effects of restrictive monetary policy and tighter financial conditions, it is expected that the economy will gradually soften and the Federal Reserve will loosen monetary policy in 2024.

At both its December 2023 and January 2024 meetings, the Federal Open Market Committee (FOMC) voted to leave the Federal Funds rate unchanged at a target range of 5.25 - 5.50%. Federal Reserve Chair Powell has signaled that the federal funds rate is likely at or near its peak. The new Summary of Economic Projections reflected core Personal Consumption Expenditures (PCE) inflation reaching the target 2% level in 2026 without a significant increase in unemployment. The City's financial advisors believe that the FOMC will loosen monetary policy in mid-2024 as inflation and economic growth continue to moderate.

U.S. Treasury rates fell steeply across the yield curve in December 2023 on decelerating inflation readings and a more dovish Federal Reserve outlook. The two-year Treasury yield declined 43 basis points to 4.25%, the five-year Treasury yield dropped 42 basis points to 3.85%, and the 10-year Treasury yield decreased 45 basis points to 3.88%. The inversion between the two-year Treasury yield and 10-year Treasury yield widened to -37 basis points at December month-end versus -35 basis points at November month-end. The spread between the two-year Treasury and 10-year Treasury yield one year ago was -55 basis points. The inversion between three-month and 10-year Treasuries widened to -146 basis points in December from -107 basis points in November. Interest rates peaked in 2023 followed by the Federal Reserve's pivot late in the year, resulting in a decline in yields across the curve and signaling less restrictive monetary policy in 2024. The shape of the yield curve indicates that the potential for a recession persists.

FISCAL IMPACT

Overall, the City's investment income remained strong for the fourth quarter, totaling \$5,254,347. In comparison, the investment income for the same period last year was \$3,702,905.

PUBLIC CONTACT

Public contact was made by posting the Council meeting agenda on the City's official-notice bulletin board at City Hall, at the Sunnyvale Public Library and in the Department of Public Safety Lobby. In addition, the agenda and this report are available at the NOVA Workforce Services reception desk located on the first floor of City Hall at 456 W. Olive Avenue (during normal business hours), and on the City's website.

RECOMMENDATION

Receive and file the City of Sunnyvale Investment Report - Fourth Quarter 2023.

Prepared by: Inderdeep Dhillon, Finance Manager

Reviewed by: Tim Kirby, Director, Finance

Reviewed by: Sarah Johnson-Rios, Assistant City Manager

Approved by: Kent Steffens, City Manager

ATTACHMENTS

1. City of Sunnyvale Fourth Quarter Investment Report