



ADMINISTRATIVE SERVICES DEPARTMENT
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CITY COUNCIL STAFF REPORT

Meeting: November 19, 2019

Subject

Treasurer's Investment Report for period ending September 30, 2019

Recommended Action

Accept staff report and approve Treasurer's Investment Report for period ending September 30, 2019.

Discussion

The City retained Chandler Asset Management (Chandler) through a formal Request for Proposal (RFP) process in 2018. Chandler began their work with the City in the winter of 2018, conducting multiple meetings with staff to determine an investment structure and strategy. Using an assumption for the compound annualized growth rate (CAGR) of 2% over the next three years and a continued 10% liquidity cushion, the initial core portfolio was estimated to total at approximately \$121 million, leaving the City with liquid funds ranging between \$13-\$20 million. Additionally, Chandler performed a comprehensive review of the City's investment policy. Although the policy was sufficient for operational purposes, significant recommended changes were made for completeness and clarification purposes. These changes were approved by City Council on May 21, 2019. Beginning in March 2019, Chandler began forming the City's portfolio by purchasing agency (FHLB), corporate medium-term notes, and negotiable certificates of deposit.

Portfolio Report Overview

As of and for the month ending September 30, 2019, the City initiated \$40,096,416 in corporate, treasury, and money market fund purchases. The City also made dispositions of \$7,564,561. Ending book and market value for the portfolio were \$104,613,572 and \$105,780,960, respectively. In accordance with California Government Code §53646 (b)(3), the City maintains the ability to meet its expenditure requirements for the next six months. City's holdings were as follows:

Wells Fargo – Workers Comp Checking	\$ 21,982
Wells Fargo – Regular Checking	\$ 20,321,667
LAIF State Pool	<u>\$ 20,318,580</u>
Total Cash & Cash Equivalents	\$ 40,662,229
Total Investments	<u>\$105,780,960</u>
TOTAL	<u>\$146,443,189</u>

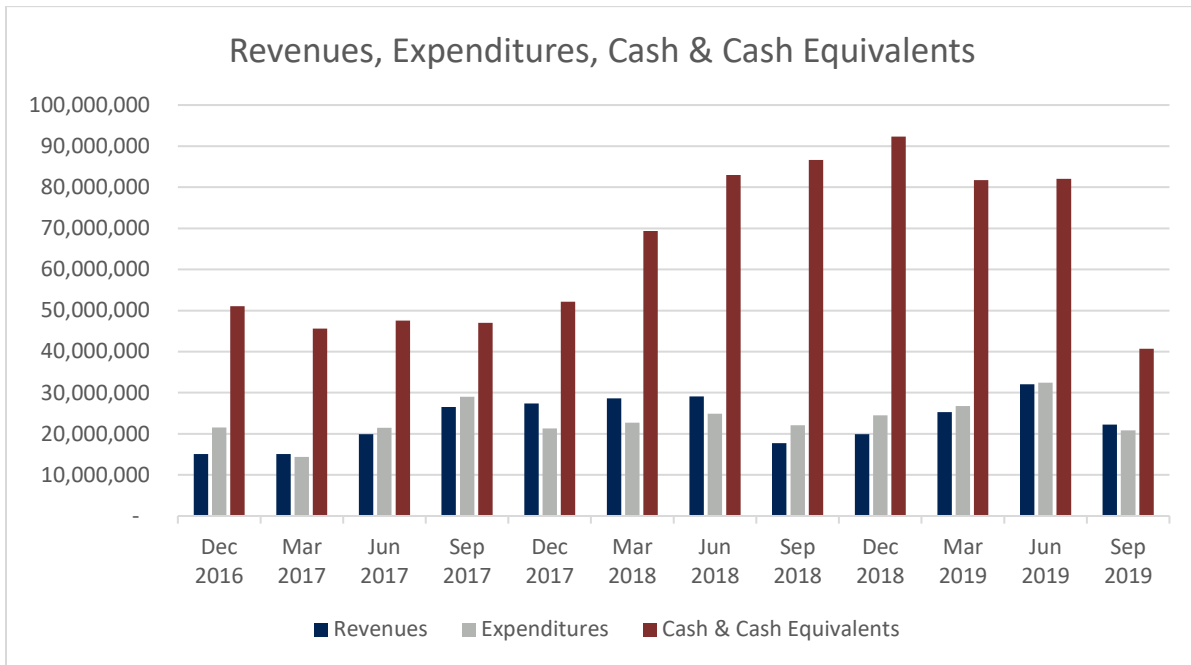
The City transferred \$37.0M from its LAIF account to its Wells Fargo money market account for purposes of continued progress toward the portfolio benchmarks and targets established. With an investment balance of \$105.8 million, the City has nearly reached the target and will anticipate completion by December 31, 2019. Below are some historical quarterly comparisons for the City's portfolio:

- Total portfolio balance increased approximately \$400,000 over previous quarter to \$146.4 million
- Average maturity increased from 2.24 years to 2.62 years
- Average purchase yield decreased from 2.10% to 1.94%
- Average market yield decreased from 2.10% to 1.84%
- Duration increased from 2.09 to 2.32

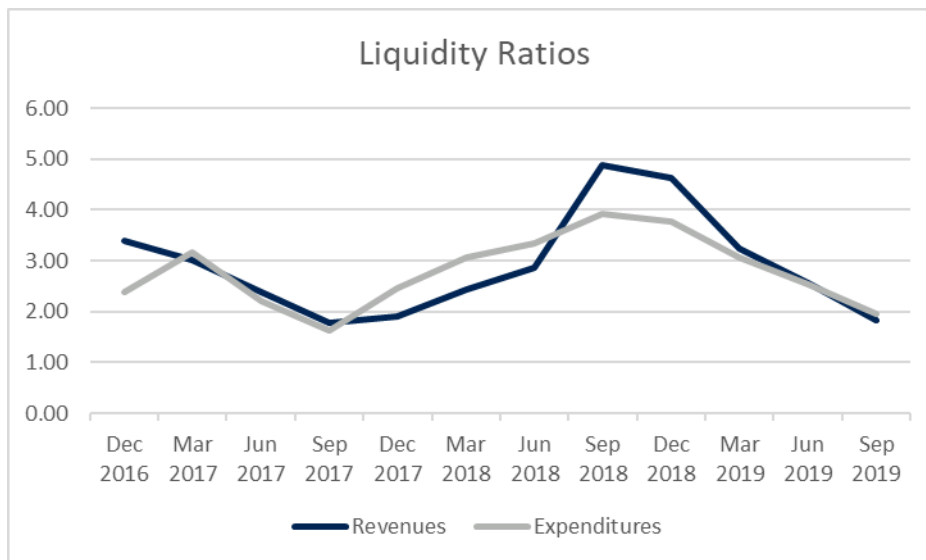
Yield comparisons for the 1Y Treasury, 2Y Treasury, LAIF, and City average are presented below:



Historical revenues, expenditures, and liquidity ratios are presented below:

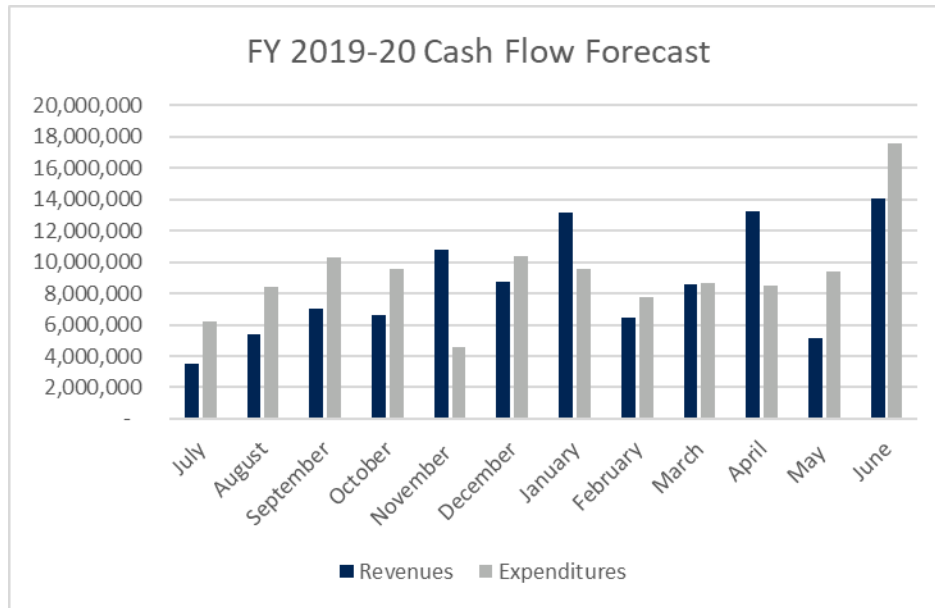


Using three-year historical trend data, the City estimates revenues of \$20.8 million and expenditures of \$22.4 million, resulting in an ending cash and cash equivalent balance of \$39.0 million for the period ending December 31, 2019.



As the City's portfolio becomes less liquid over time, the ratio of cash and cash equivalents to revenues and expenditures will continue to decrease. Once the portfolio is fully structured, the ratio will begin to provide more meaningful information in respect to the City's revenues, expenditures, and cash flows needs from one quarter to the next.

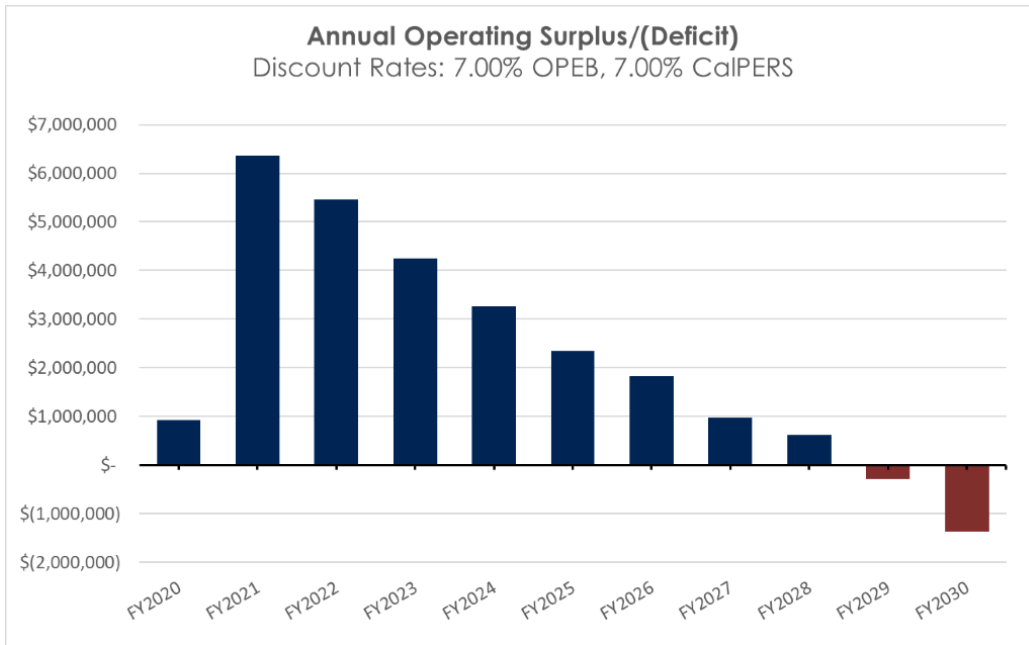
Using three-year historical trend data for each of the City’s revenue and expenditures line-items and applied to the FY 2019-20 Adopted Budget, the City estimates the following cash flow forecast for FY 2019-20:



The forecast has changed since the previous quarter due to the timing of the fiscal year 2018-19 close process in which additional revenues and expenditures were recorded for the month of June 2019 and resulted in adjustments to the monthly historical allocation spreads.

The purpose of this cash flow forecast is to illustrate the timing of the City’s revenues and expenditures throughout a fiscal year using historical trend data. The first quarter of the fiscal year experiences expenditures exceeding revenues which is reasonable since the City begins receiving its property tax distributions in November and again in April of the respective fiscal year. The month of June tends to experience higher activities, particularly expenditures, due to the year-end close/accrual process. From one fiscal year to the next, the City typically incurs one-time special project or capital expenditure costs and the timing of these costs is more difficult to pinpoint to a particular month.

From a cash flow analysis perspective, the Adopted and Amended Budgets are efficient planning tools in determining cash flow needs for a single fiscal year. If a budget is adopted at a position in which revenues and expenditures are balanced, then it’s reasonable to conclude cash flow will unlikely be of a concern. Beyond one fiscal year, a City requires a multi-year forward-looking forecast using historical as well as prospective assumptions. Please refer to the graphs and detailed discussions below:



Revenue Category	Assumptions	Change Rates
05 - Sales tax	Conservative Growth – General consumer goods, restaurants and hotels, and state and county pools Conservative Growth – B2B	1.3% growth
10 - Property tax	Conservative growth – Based on historical trends and assumes no new major development.	2.17% growth
15 - Transient occupancy	Conservative forecast – Based on historical tax collections, slower growth compared to historical trends given that no additional hotels are expected to open after 2019	5.02% growth
20 - Utility tax	Based on historical trends. In recent years, increases in rates have been offset by decreases in consumption	-0.4% decrease
25 - Franchise fees	Trend of historical data	3.39% growth
30 - Other taxes	Average of State and County CPI	3.0% growth
35 - Licenses and permits	Conservative Growth – Using California residential building permits, non-residential building permits, and construction payrolls from the UCLA Anderson Forecasts for the Nation and California. Does not reflect any major development	1.97% growth
40 - Use of money and property	Based on the City’s current conservative investment strategy and low interest rates	0.5% growth
45 - Intergovernmental revenue	Reduced to base amount and applied a relatively conservative escalator to account for nominal growth	0.45% growth
50 - Charges for services	FY 2020-21, revenue is projected to increase at an average annual growth rate of 2.58%	2.58% growth

Revenue Category	Assumptions	Change Rates
	Other Service Fees, General Service Fees, and Enterprise Service Fees are projected to increase by 2.5% based on full-time salary growth	
55 - Fines and forfeitures	Based on historical trend lines	No growth
60 – Miscellaneous	Zeroed out in the forecast as revenues in this category are one-time and generally unknown	No growth
65 - Transfers in	Zeroed out in the forecast as revenues in this category are one-time and generally unknown	No growth
70 - Other financing sources	Zeroed out in the forecast as revenues in this category are one-time and generally unknown	No growth

Expense Category	Assumptions	Change Rates
05 - Employee compensation	Salary growth – MOU	3.16%
10 - Employee benefits	Historical Trends + CalPERS Actuary	4.76%
15 - Materials	Base+CPI	3%
20 - Contract services	Base+CPI SO Contract Terms	4.30%
25 - Cost allocation	Trended primarily with salary growth and CPI	3.38%
30 - Capital outlays	Baseline +CPI	3%
31 - Special projects	Baseline +CPI	3%
35 - Contingencies	Baseline +CPI	3%
45 - Transfer out	\$1.5M transfer out annually to Capital Reserve +CPI	1.25%
50 - Other financing uses	Zeroed Out	

Prepared by: Zach Korach, Finance Manager
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Approved by: Deborah L. Feng, City Manager