



ADMINISTRATIVE SERVICES DEPARTMENT

CITY HALL

10300 TORRE AVENUE • CUPERTINO, CA 95014-3255

TELEPHONE: (408) 777-3227 www.cupertino.org

AUDIT COMMITTEE STAFF REPORT

Meeting: July 30, 2019

Subject

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

Recommended Action

Accept staff report and provide recommendations.

Discussion

Background

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

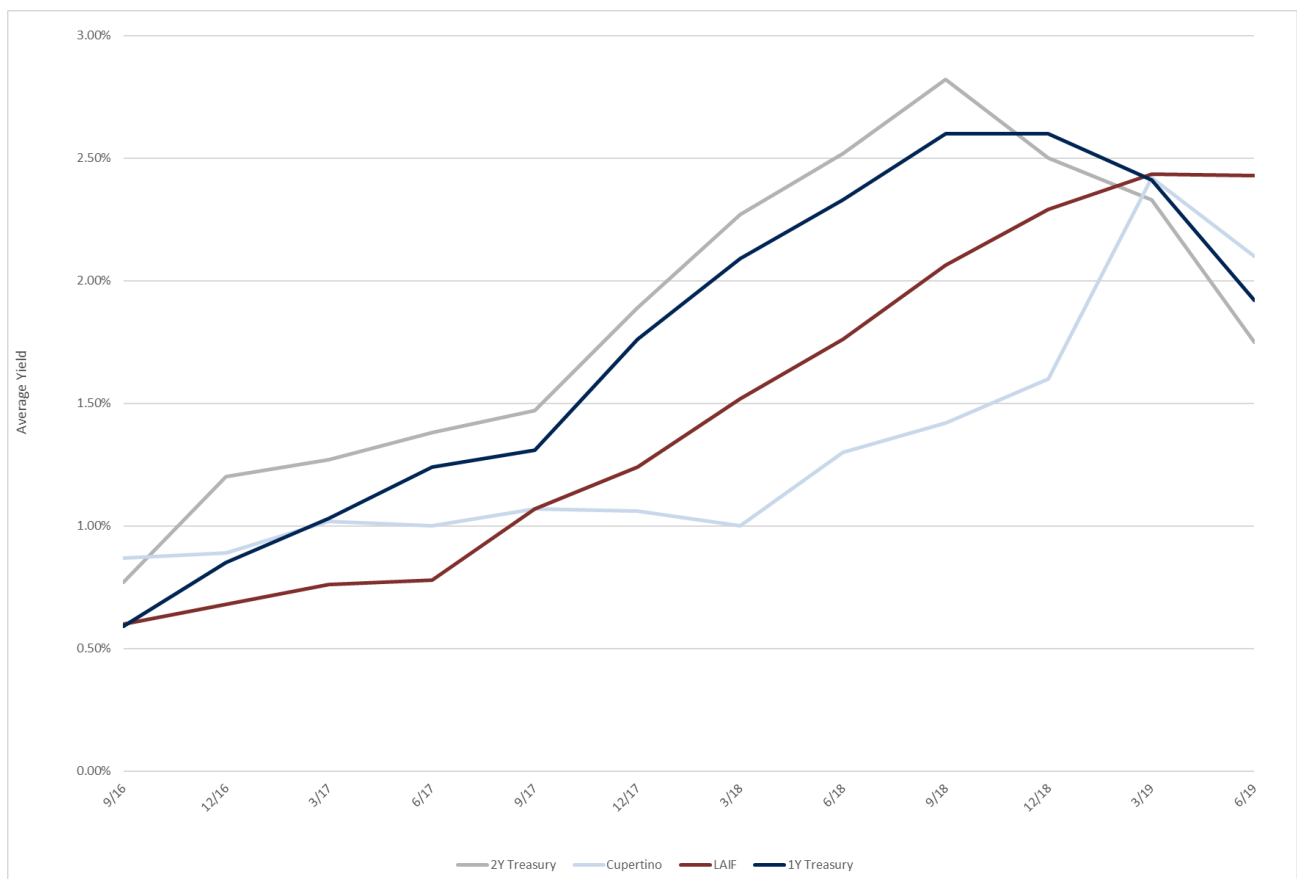
As of and for the month ending June 30, 2019, the City initiated \$24,096,526 in corporate, treasury, and money market fund purchases. The City also made dispositions of \$10,330,632. Ending book and market value for the portfolio were \$67,444,412 and \$68,116,368, respectively. City's additional holdings were as follows:

Wells Fargo – Workers Comp Checking	\$ 34,769
Wells Fargo – Regular Checking	\$ 18,875,066
LAIF State Pool	<u>\$ 56,954,635</u>
Total Cash & Cash Equivalents	\$ 75,864,470
Total Investments	<u>\$ 68,116,368</u>
TOTAL	<u>\$145,980,838</u>

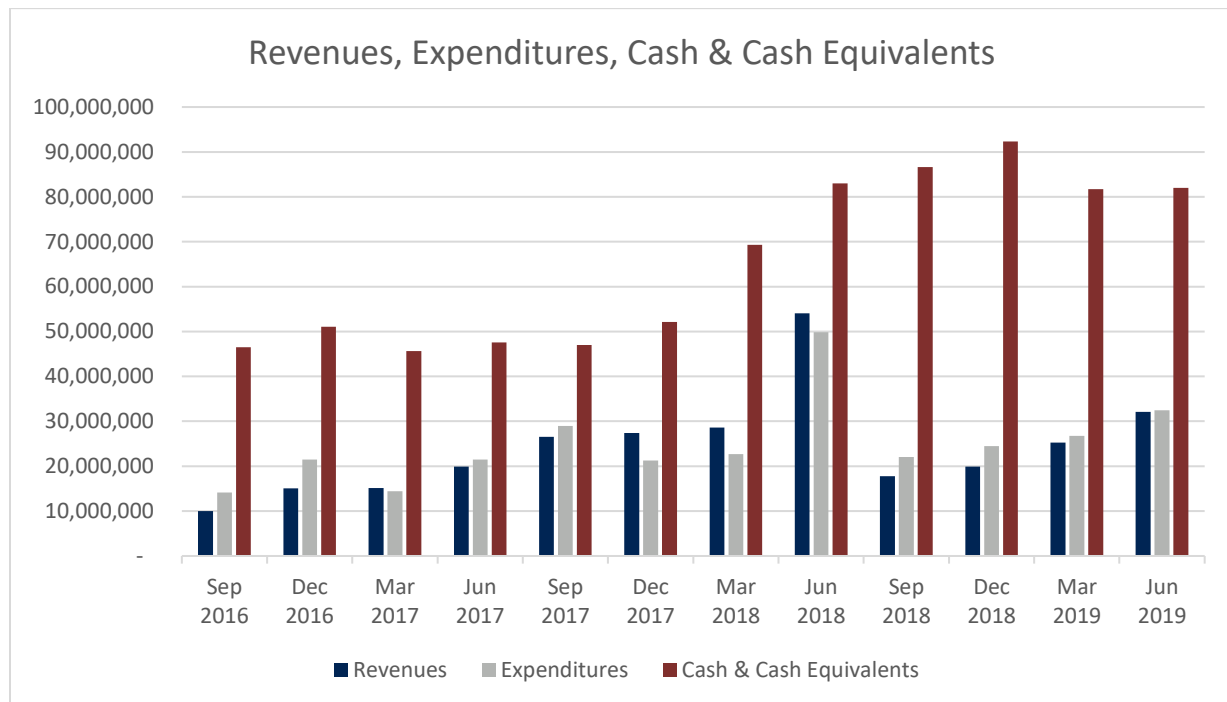
Chandler will continue to form the desired portfolio structure relatively slowly; over a period of four to six months. Until that time, the City's portfolio will remain highly liquid in cash and cash equivalents. Below are some historical quarterly comparisons for the City's portfolio:

- Total portfolio increased \$8.0 million over the previous quarter from \$138.0 million to \$146.0 million
- Average maturity increased from 1.34 years to 2.24 years
- Average purchase yield increased from 1.86% to 2.01%
- Average market yield decreased from 2.42% to 2.10%
- Duration increased from 1.25 to 2.09

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

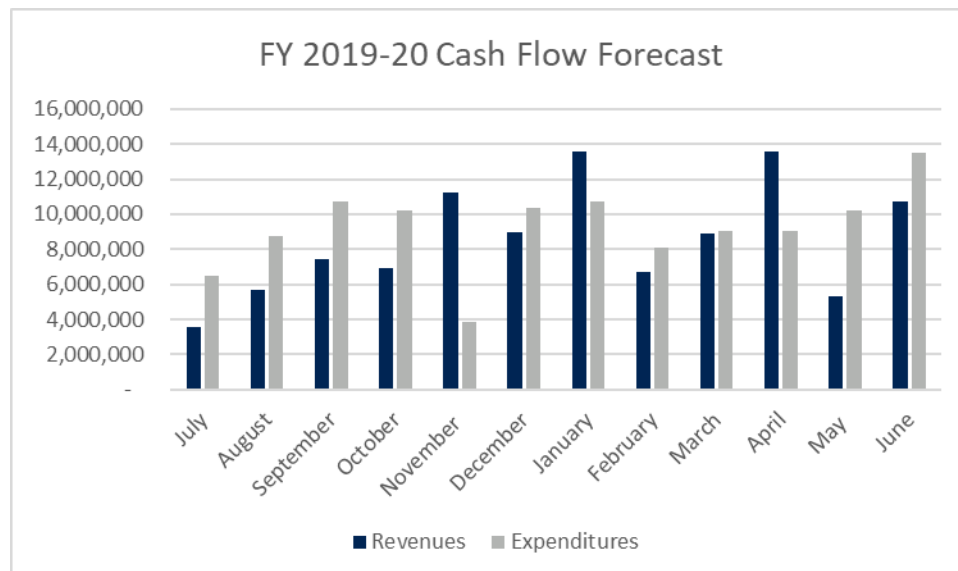


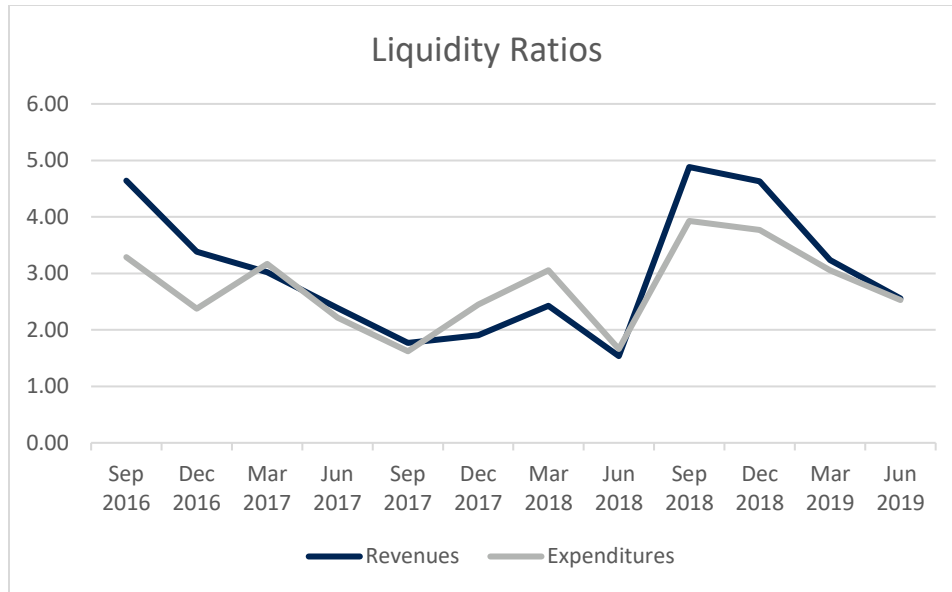
Historical revenues, expenditures, and liquidity ratios are presented below:



Using three year historical trend data, the City estimates expenditures of \$18.1 million in excess of revenues of \$21.7 million, resulting in an ending cash and cash equivalent balance of \$82.1 million for the period ending September 30, 2019.

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:





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.

Prepared by: Zach Korach, Finance Manager
Reviewed by: Kristina Alfaro, Director of Administrative Services
Approved by: Deborah L. Feng, City Manager