



**ADMINISTRATIVE SERVICES DEPARTMENT**

CITY HALL

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**AUDIT COMMITTEE STAFF REPORT**

Meeting: February 11, 2020

Subject

Treasurer's Investment Report for period ending December 31, 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*

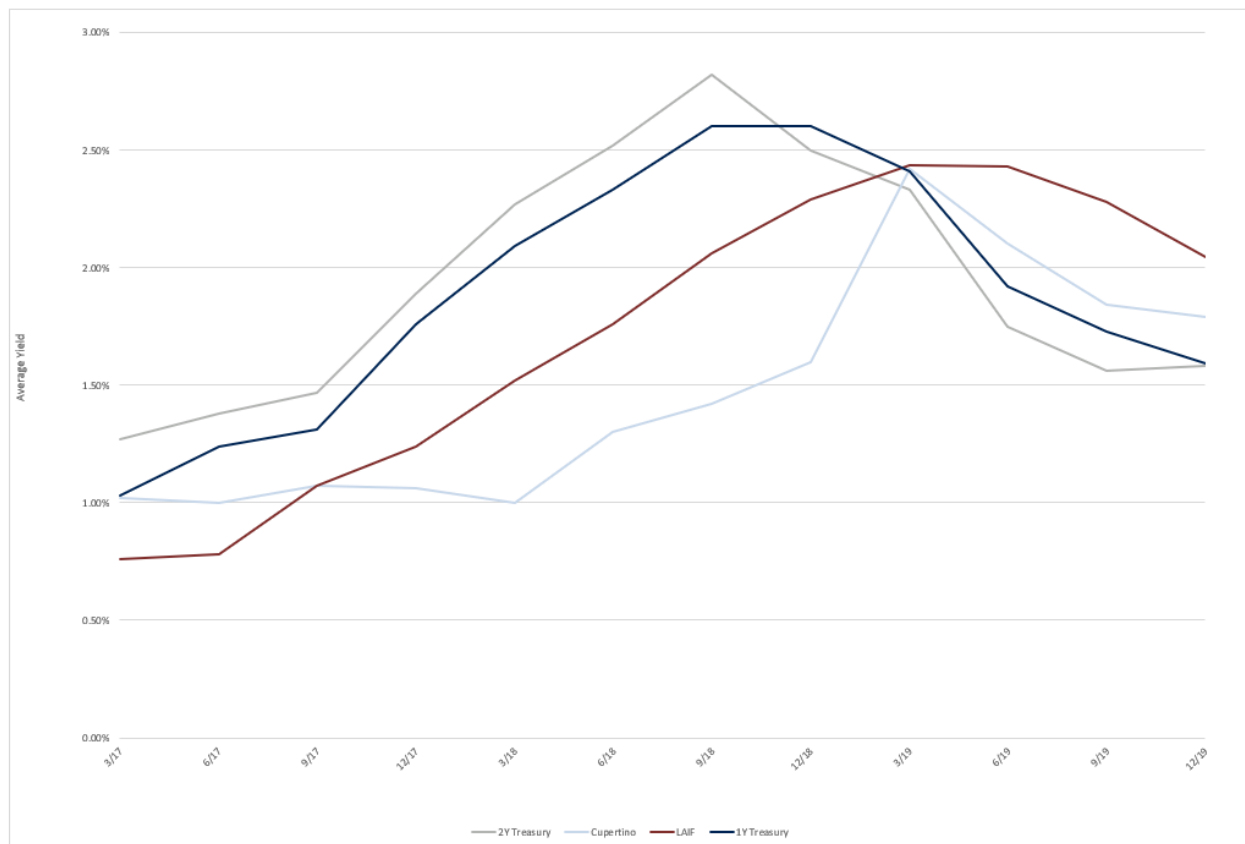
As of and for the month ending December 31, 2019, the City initiated \$16,341,317 in corporate, treasury, and money market fund purchases. The City also made dispositions of \$12,540,020. Ending book and market value for the portfolio was \$105,110,124 and \$106,275,220, respectively. In accordance with 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	\$ 25,685
Wells Fargo – Regular Checking	\$ 19,271,164
LAIF State Pool	<u>\$ 20,602,215</u>
Total Cash & Cash Equivalents	\$ 39,899,064
Total Investments	<u>\$106,275,220</u>
TOTAL	<u>\$146,174,284</u>

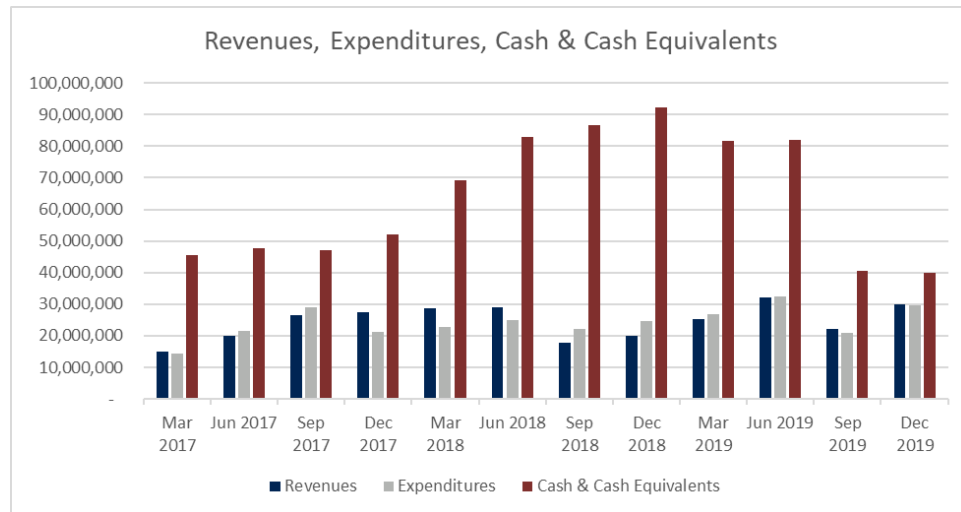
Below are some historical quarterly comparisons for the City's portfolio:

- Total portfolio balance decreased approximately \$200,000 over previous quarter to \$146.2 million
- Average maturity increased from 2.62 years to 2.80 years
- Average purchase yield increased from 1.94% to 1.96%
- Average market yield decreased from 1.84% to 1.79%
- Duration increased from 2.32 to 2.80

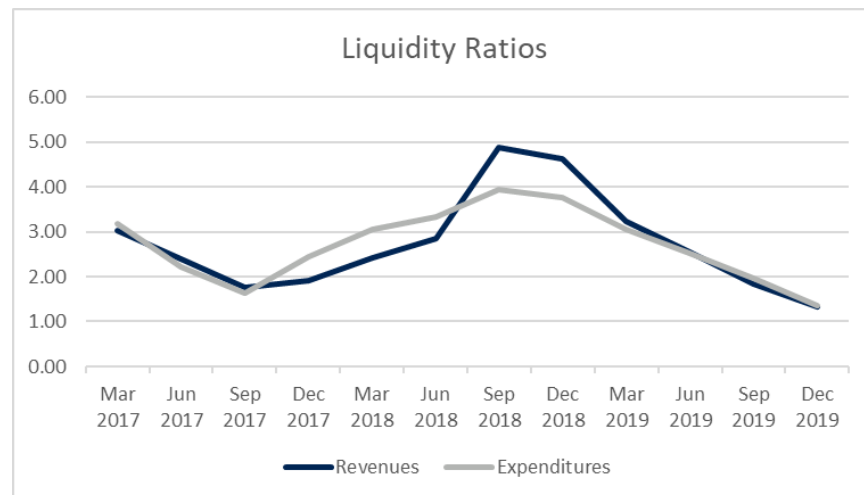
Yield comparisons for the 1Y Treasury, 2Y Treasury, LAIF, and City average are presented below:



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



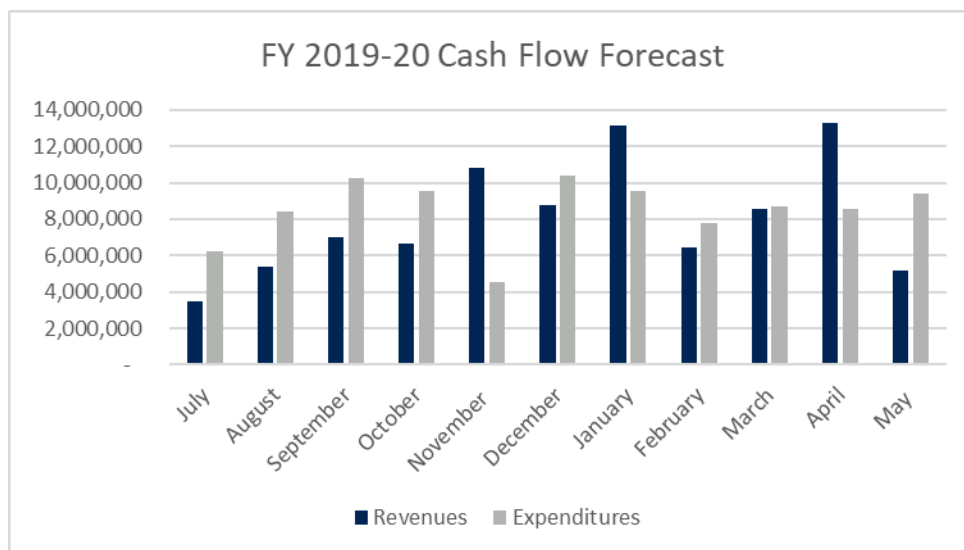
Using three-year historical trend data, the City estimates revenues of \$23.0 million and expenditures of \$21.8 million, resulting in an ending cash and cash equivalent balance of \$41.6 million for the period ending March 31, 2020.



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. The portfolio's benchmark structure is reasonably complete as we will anticipate the City's revenues, expenditures, and cash equivalents to flatten out moving forward. While a formal liquidity level has yet to be established or desired, significant and consistent fluctuations in the ratio may provide indication that additional funds could be invested or perhaps that investments should be liquidated. It comparison with other local agencies, it appears the City is closely aligned with Mountain View and Campbell; however, it's difficult to determine the true cash flow fluctuations from one quarter to the next. Comparison were drawn using the City's audited financial statements.

The City is confident in its ability to meet the cash flow need for the next six (6) months.

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 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 to be of a concern. Beyond one fiscal year, a City requires a multi-year forward-looking forecast using historical as well as prospective assumptions. This forecasting model is incorporated and presented to the City's Fiscal Strategic Planning Committee as well as the City Council as part of the City's Adopted Budget process.

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