

Memorandum

TO: HONORABLE MAYOR AND
CITY COUNCIL

FROM: Councilmember Arenas
Councilmember Esparza
Councilmember Jimenez

SUBJECT: SEE BELOW

DATE: 05/15/2020

Approved

Date 5/15/2020

Sylvia Arenas Maya Esparza Sergio Jimenez

SUBJECT: INVESTMENT REPORT FOR THE QUARTER ENDED MARCH 31, 2020

RECOMMENDATION

1) That the City Manager provide the information requested below so that the Council may evaluate the utilization of investment funds identified in the City's INVESTMENT REPORT FOR THE QUARTER ENDED MARCH 31, 2020 to address our immediate budget needs. The utilization of these funds may include the direct transfer of funds to the General Fund, thus loaning the General Fund revenues that are not currently needed in other city funds in order to preserve city services during the global pandemic as well as the immediate period thereafter. The answers to the questions listed below will assist the Council to determine the best strategies to close the projected budget deficit, preserve city services, support small businesses, and develop affordable housing.

- a. According to the INVESTMENT REPORT FOR THE QUARTER ENDED MARCH 31, 2020, pooled investments in the City Treasury included \$1,900,695,333 in financial instruments with maturities of up to 5 years. Footnote #2 of the report points out that the \$1.9B does NOT include an additional \$411.7M in "*bond proceeds held by trustees for the City of San Jose.*" Footnote #3 states that the "*Total excludes other restricted funds required to be invested separately.*" Additionally, on page 9 of the report there is a reference to Special Revenue Funds in the amount of \$330M. Please identify any legal restrictions for direct transfers or borrowing from specific amounts within the funds referenced to the General Fund and consider all subsequent questions to apply to any and all invested funds.
- b. Currently, how much does the City have invested with maturities of: 1 year, 2 years, 3 years, 4 years and 5 years? What are the specific dates of their maturity and in what amount? In what specific instrument are these funds invested in?
- c. What specific funds do the revenues invested in longer-term maturities (4 to 5 years) come from? How much comes from each fund?

- d. Which investments with longer term maturities will mature between today's date and June 30, 2021, December 31, 2021 and June 30, 2022 (please describe in terms of length of maturity and source of funds)? How many of these investments does the City intend to re-invest in financial instruments and at what maturity? How many investments, and at what dollar amount, are callable?
- e. Please identify any amounts that are planned to be invested in the next 90 days so that the Council may, if they choose, direct staff to delay investments to keep funds available for other pressing needs
- f. While the report references a 2.86% blended return on all investments, please identify current market returns on each type of investment so that the Council will know what a comparable rate of return should be for any internal borrowing.

2) That an MBA on this evaluation shall be provided to the City Council before the issuance of the Mayor's June Budget Message.

BACKGROUND

As a result of the coronavirus pandemic, the city is projecting significant declines in numerous revenue streams for Fiscal Year 20/21. The result of these declines will be a budget shortfall that the City Council will have to resolve during its budget deliberations. For a number of reasons, we believe the city should actively and creatively seek fiscal solutions that preserve essential services, support small businesses, and develop affordable housing.

Currently, revenues in restricted funds are already being loaned to external entities. In fact, large amounts are being loaned to other government entities – primarily the US Treasury and Federal Government Sponsored Enterprises. These entities, are reaping the benefit of our cash liquidity.

The fact that the pandemic is a unique event which will have an end point – and not a structural problem – means interfund borrowing to avoid deep cuts will not violate Council Policy 1-18 on budget guidelines. That policy states, "Interfund Loan Eligibility Requirements—Interfund loans may not be used to solve ongoing structural budget problems. Interfund loans must have an identified repayment source and date; include an interest component that equals the investment earnings the fund would have received had the loan not occurred; and be immediately due and payable if needed by the fund that provided the loan.

The questions we ask will indicate how much can reasonably be available for interfund borrowing without incurring penalties and without transferring resources that will actually be needed by the originating fund during the period of the loan. The answers may help us protect the well-being of our residents and hasten a return to economic prosperity. We believe an opportunity exists to use our strong cash position to solve our short-term fiscal problems, without any financial impact to our overall long-term fiscal health.

The signers of this memorandum have not had, and will not have, any private conversation with any other member of the City Council, or that member's staff, concerning any action discussed in the memorandum, and that each signer's staff members have not had, and have been instructed not to have, any such conversation with any other member of the City Council or that member's staff.