

# Memorandum

**TO:** HONORABLE MAYOR AND  
CITY COUNCIL

**FROM:** Julia H. Cooper

**SUBJECT: INVESTMENT REPORT FOR  
THE QUARTER ENDED  
JUNE 30, 2021**

**DATE:** July 30, 2021

Approved



Date

8-8-21

Transmitted herewith is the City's Investment Report for the quarter ended June 30, 2021. To meet the reporting requirements set forth in the City of San Jose Investment Policy, an electronic version of this report will be posted on the City's website at <https://www.sanjoseca.gov/your-government/departments/finance/reports/-folder-450> and a hard copy will be on file at the City Clerk's Office located at 200 East Santa Clara Street.

This report will be distributed to the Public Safety, Finance and Strategic Support Committee (PSFSS) for discussion during its meeting on August 19, 2021 and will be agendized through the PSFSS Committee for review by the full City Council.

Summary of portfolio performance and compliance for quarter ended June 30, 2021:

- **Size of total portfolio:** \$2,288,395,476
- **Earned income yield:** 1.076%
- **Weighted average days to maturity:** 565 days
- **Fiscal year-to-date net interest earnings:** \$30,599,022
- No exceptions to the City's Investment Policy during this quarter

If you have questions on this investment report, please do not hesitate to call me at (408) 535-7011, or via email at [julia.cooper@sanjoseca.gov](mailto:julia.cooper@sanjoseca.gov).

/s/

JULIA H. COOPER  
Director of Finance

Attachment

cc: Jennifer A. Maguire, Acting City Manager  
Joe Rois, City Auditor  
Nora Frimann, City Attorney

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**INVESTMENT REPORT FOR  
THE QUARTER ENDED  
JUNE 30, 2021**



Prepared by  
Finance Department  
*Debt and Treasury Management Division*

Julia H. Cooper  
*Director of Finance*

**Investment Report for  
The Quarter Ended  
June 30, 2021**

**City of San José  
Department of Finance  
Debt and Treasury Management Division**

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**CITY OF SAN JOSE  
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THE QUARTER ENDED JUNE 30, 2021  
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July 30, 2021

HONORABLE MAYOR and CITY COUNCIL

**INVESTMENT REPORT FOR THE QUARTER ENDED JUNE 30, 2021**

I am pleased to present this report of investment activity for the quarter ended June 30, 2021 in compliance with the reporting requirements set forth in the City of San José Investment Policy. The report presents information in the following major categories: Portfolio Statistics, Portfolio Performance, Compliance Reporting Requirements, Investment Trading Activity, and Investment Strategy.

The information presented in the table below highlights the investment activity for the quarter ended June 30, 2021, as well as provides a comparison to the quarters ended March 31, 2021, and June 30, 2020.

<b>INVESTMENT SUMMARY</b>			
<b>For the Quarter Ended</b>	<b>June 30, 2021</b>	<b>March 31, 2021</b>	<b>June 30, 2020</b>
<b><u>Total Portfolio</u></b>			
Portfolio Value <sup>(1) (2)</sup>	\$2,288,395,476	\$1,908,771,873	\$2,392,587,214
Earned Interest Yield	1.076%	1.407%	1.974%
Dollar-weighted average yield			
Purchases	0.106%	0.409%	0.938%
Maturities	2.197%	1.818%	1.981%
Called Securities	2.121%	1.715%	2.433%
Weighted avg. yield at end of period	0.931%	1.292%	1.864%
Weighted avg. days to maturity	565	756	672
<b><u>Portfolio Fund 3</u></b>			
Portfolio Value <sup>(1) (2) (3)</sup>	\$2,267,337,216	\$1,887,715,882	\$2,371,534,344
Earned Interest Yield	1.087%	1.421%	1.991%
Dollar-weighted average yield			
Purchases	0.106%	0.409%	0.939%
Maturities	2.213%	1.818%	1.980%
Called Securities	2.121%	1.715%	2.433%
Weighted avg. yield at end of period	0.939%	1.306%	1.880%
Weighted avg. days to maturity	570	764	678

<sup>1</sup> Reflects book value (principal plus any purchased interest) of investments.

<sup>2</sup> Total excludes bond proceeds held by trustees for the City of San José (\$454,409,951.96).

<sup>3</sup> Total excludes other restricted funds required to be invested separately.

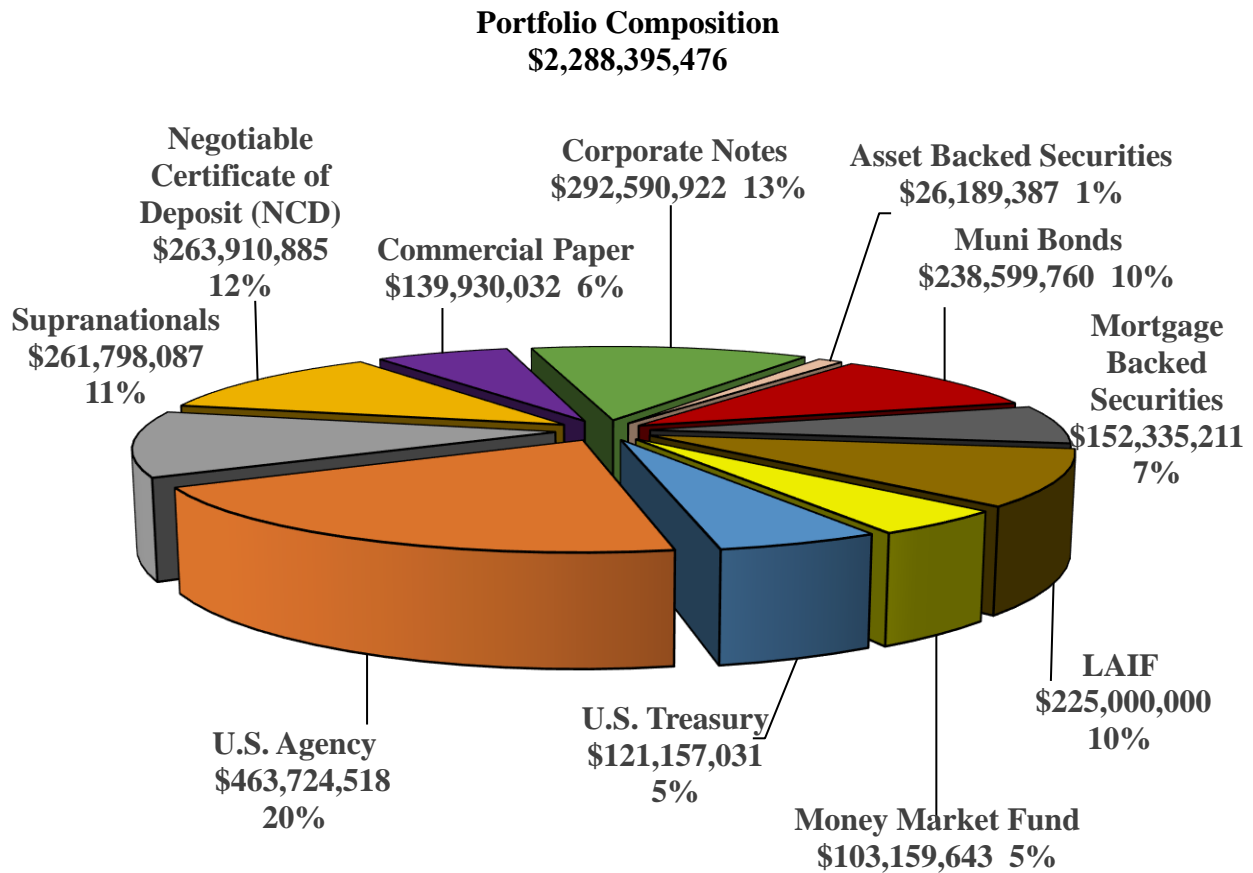
## **PORTFOLIO STATISTICS**

Detailed information can be found in the attachments while summaries are provided below.

### **Portfolio Composition**

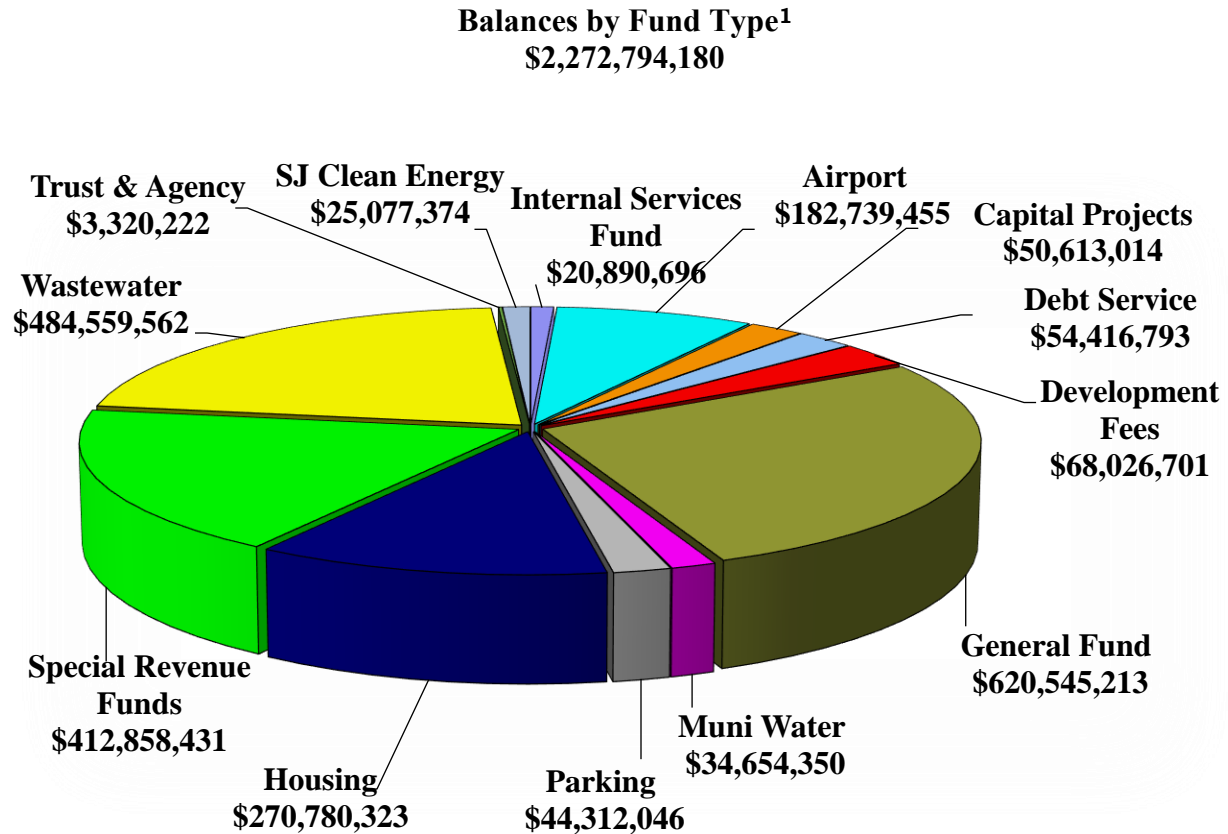
Within this section are snapshots of the City's total investment portfolio as of June 30, 2021.

The first graph shows the portfolio composition by investment type.





The graph below reflects the reconciliation of total balances reported by the investment program’s record-keeping system to the City’s Financial Management System (FMS).



Portfolio Balance	\$2,288,395,476
General Banking Balance	3,282,067
Deposit-in-Transit, Outstanding Checks <sup>2</sup>	(18,883,363)
Total Balances per FMS	\$2,272,794,180

<sup>1</sup> General Fund includes \$365,121,590 of General Fund (Fund 001) as well as \$255,423,623 of other General Fund funds which are separately tracked including the Emergency Reserve Fund, Coronavirus Aid, Relief, and Economic Security Act (“CARES Act”), American Rescue Plan Act of 2021 (“ARPA”) including Emergency Rental Assistance funds established by ARPA, Developer Fees, Depositor Funds, and other smaller funds and reserves.

<sup>2</sup> Reflects timing difference between when deposits are made and accounted for in FMS or when checks are written and not yet cashed by the receiving party.

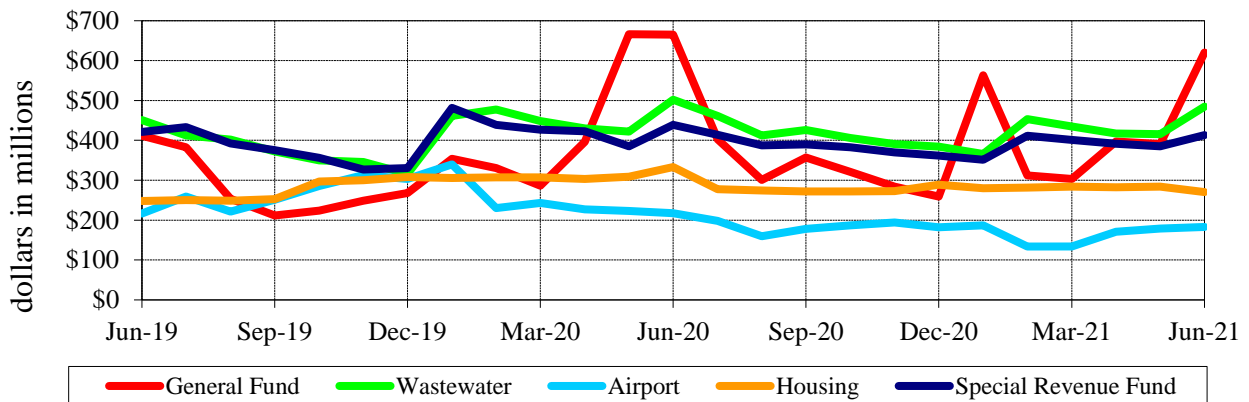
**General Fund Balances**

The General Fund balances increased by \$317 million during the quarter and ended with a balance of \$620.5 million as of June 30, 2021. While balances normally increase in the second half of the fiscal year due to the receipt of property tax disbursements from the County, particularly in January and June, general fund balances have grown even higher this quarter due to the receipt of federal relief and recovery assistance. The City received \$106 million of American Rescue Plan Act funds in May. General Fund cash balances usually peak during the months of January and June when the bulk of property taxes are received and decline in the summer months due to retirement prefunding, debt service payments and operational expenditures.

As a result of the City’s receipt of federal relief and recovery assistance (e.g. CARES Act funds, ARPA<sup>3</sup>) over the past two fiscal years has altered the pattern of cash receipts. It is important to note that while the City budgets Coronavirus relief funds separate from the General Fund – relief funds are held within their own budgeted funds and interest earnings are proportionately allocated to each of these funds – they are classified as General Fund resources in this report in accordance with accounting standards.

The following graph compares monthly balances of five largest City funds as reported by FMS.

**Monthly Comparison of Balances by Fund Type  
June 2019 – June 2021**



**Prefunding of Annual Retirement Contributions**

The City opted to prefund Tier 1 the annual employer retirement contributions for Fiscal Year 2020-21. The prefunding amount was \$359 million. In anticipation of this cash outflow, the City set aside \$229 million in cash and matured investments and issued \$130 million Tax Revenue Anticipation Notes (TRANs) on July 1, 2020. The cash, matured investments and TRANs proceeds were sufficient to prefund the retirement contribution. As of June 30, 2021, the City has repaid the entire TRANs balance in full.

<sup>3</sup> The City has received, or anticipates receiving, funding from Federal, State and local sources in response to the COVID-19 pandemic totaling approximately \$803 million, primarily from the Coronavirus Aid, Relief, and Economic Stabilization Act (the “CARES Act”) and the American Rescue Plan Act.

**Successor Agency to the Redevelopment Agency of the City of San José**

Historically, the Redevelopment Agency participated in the City’s investment pool with both restricted bond proceeds and operating cash balances. As of February 1, 2012, redevelopment agencies in California were dissolved by legislative action and the City, acting as the Successor Agency to the Redevelopment Agency (“SARA”), transferred Redevelopment Agency’s funds from the investment pool to SARA’s own bank accounts. In July 2018, the City entered into the final stage of dissolution and absorbed the entire SARA operations into City operations. City staff will continue to manage SARA’s accounts until all assets are liquidated and bonds are redeemed.

As of June 30, 2021, SARA reported cash balances as outlined in the table below:

**SARA CASH SUMMARY**

	<b>Pledged for Bond/Enforceable Obligations</b>
LAIF	\$6,414,168
Wells Fargo:	
General Account	\$285,594
Total Wells Fargo Funds	\$285,594
Wilmington Trust:	
Total Wilmington Trust Funds	\$120,346,779 (A)
	\$120,346,779
<b>TOTAL</b>	<b>\$127,046,541</b>

(A) Funds restricted for tax allocation bond debt service payments

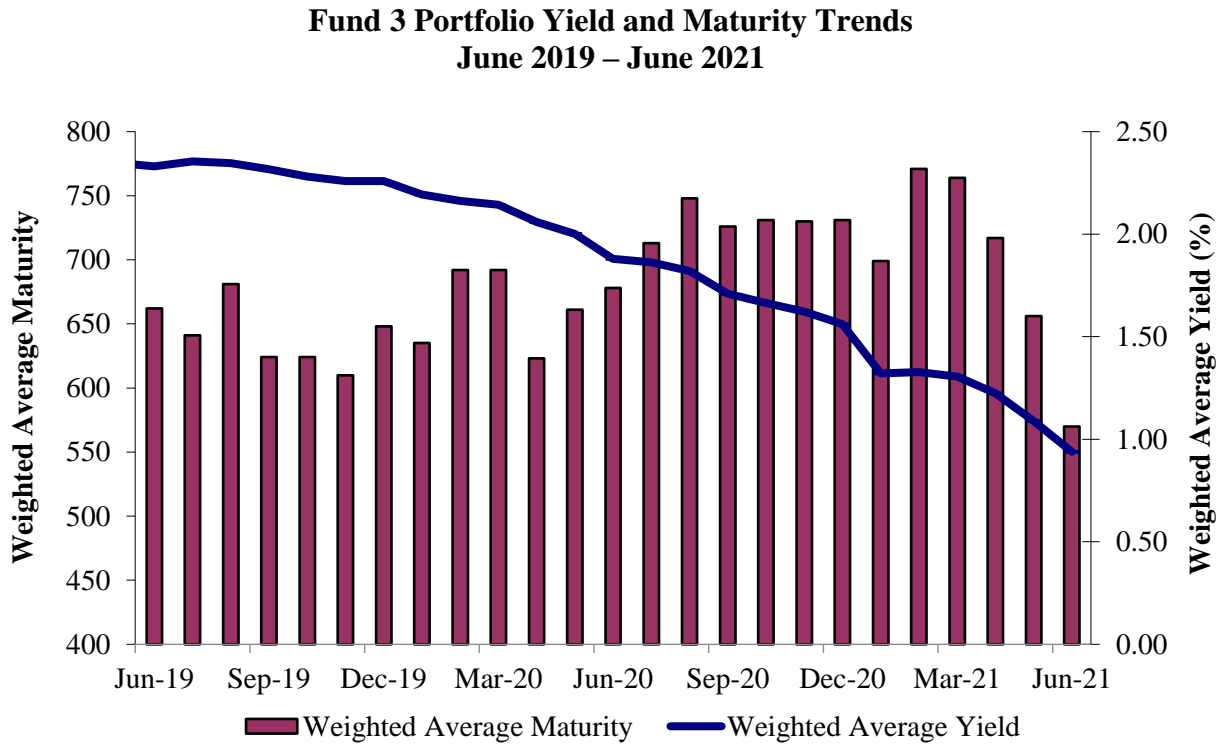
**PORTFOLIO PERFORMANCE**

The following table illustrates the total portfolio income recognized for the last quarter as compared to the prior quarter and the same quarter one year ago.

<b>TOTAL PORTFOLIO INCOME RECOGNIZED</b>			
<b>Accrual Basis</b>			
<b>Total Portfolio</b>	<b>June 30, 2021</b>	<b>March 31, 2021</b>	<b>June 30, 2020</b>
<b><u>Quarter-End</u></b>			
Total interest earnings	\$5,707,671	\$6,841,147	\$10,940,721
Realized gains (losses)	(\$323,985)	\$81,558	(\$138,009)
Total income recognized	\$5,383,686	\$6,922,705	\$10,802,712
<b><u>Fiscal Year-to-Date</u></b>			
Total interest earnings	\$29,607,831	\$23,900,160	\$45,020,776
Realized gains (losses)	\$991,191	\$1,315,176	\$866,314
Total income recognized	\$30,599,022	\$25,215,336	\$45,887,090

**Yield and Maturity Trend**

The following graph illustrates the monthly dollar-weighted average maturity (“WAM”) of Fund 3 Portfolio (bar graph) along with the weighted average yield (line graph) for the past two years.



The Fund 3 Portfolio’s weighted average maturity (WAM) decreased from 764 days as of March 31, 2021, to 570 days on June 30, 2021. The weighted average yield decreased from 1.306% as of March 31, 2021 to 0.939% on June 30, 2021.

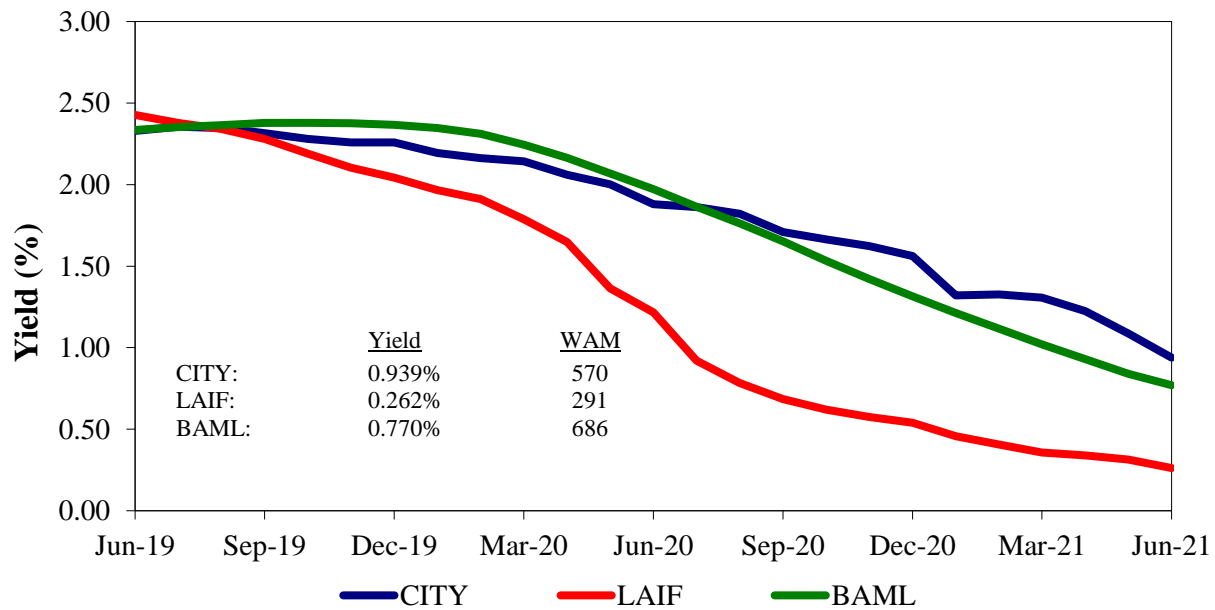
Interest rates continued to remain at historical lows and \$50 million of investments were called before maturity during the quarter. New investments were purchased at much lower yields, compared with matured and called securities. As a result, the aggregate portfolio yield continued to decrease. The WAM also decreased as the bulk of investment activity has been focused on maintaining shorter term liquidity to order to meet operational expenditures.

The receipt of federal relief and recovery assistance has provided the City significant additional cash but has the impact of further diluting yield and reducing WAM. The City and the Financing Authority each maintains a Local Agency Investment Fund (“LAIF”) pool investment accounts for general liquidity, and these are currently held to their maximum capacity of \$75 million due to the attractive yields compared to other available investment opportunities; but as shown in the table below, LAIF yields are also being affected by the low interest rate environment and have fallen as well during this low rate environment. During this Quarter the City opened a third LAIF account made available to the City specifically for the deposit of up to \$75 million of ARPA funds. This account has also been fully invested due to the relative yields on LAIF as compared to other market investment opportunities.

**Comparison with Benchmarks**

The City’s Total Portfolio is not compared to benchmarks because it includes various funds which have separate cash flows and investment requirements. Only the City’s Fund 3 Portfolio is compared against benchmarks for performance purposes. The following graph demonstrates a yield comparison by month of the City’s Fund 3 Portfolio, the California LAIF, and the BAML Index for the period from June 2019 to June 2021.

**Portfolio vs. Benchmarks  
June 2019 – June 2021**



**Notes:**

1. **City** refers to City's Fund 3 Portfolio, and the yield data are month end weighted average yields.
2. **LAIF** refers to the State of CA Local Agency Investment Fund and yield data are average monthly effective yields.
3. **BAML** refers to Bank of America Merrill Lynch 1-3 Year AAA-A US Corporate & Government Index and yield data are rolling 2-year effective yield.

LAIF is a short-term investment option available to local agencies in California. LAIF’s WAM was 291 days as of June 30, 2021, much shorter than the City portfolio’s WAM (570 days). Therefore, LAIF has a higher turnover of security holdings and its yield decreases faster than the City’s when interest rates are falling.

The BAML Index is a broad market index and tracks dollar denominated investment-grade debt with a remaining maturity up to 3 years. The City’s Investment Policy allows investments, in a few sectors, up to a 5-year final maturity.

### **Unrealized Losses and Gains**

As shown in the Investment Summary Table on page one of this report, the total portfolio size as of June 30, 2021, was approximately \$2.28 billion. The following table illustrates the net unrealized gains or losses on the portfolio when comparing the portfolio's market value to both its original cost and amortized cost.

<b>UNREALIZED GAINS &amp; LOSSES</b>			
<b>Cash Basis</b>			
<b>Market Value</b>	\$2,295,052,416	<b>Market Value</b>	\$2,295,052,416
<b>Original Cost</b>	<u>(2,288,395,476)</u>	<b>Amortized Cost</b>	<u>(2,284,927,425)</u>
<b>Net Unrealized Gain</b>	\$ 6,656,940	<b>Net Unrealized Gain</b>	\$ 10,124,991

An inverse relationship exists between general changes in interest rates (Yield) and the value of fixed income investment securities (Price). As interest rates decrease, the value of fixed income investments increases. Conversely, as interest rates increase, the value of fixed income investments declines. The City's investment practice, per the Investment Policy, is generally to hold securities to maturity, with exceptions as noted in the Policy. The net unrealized gains noted above are "paper gains" and would only be realized if securities were sold prior to maturity.

### **Earned Interest Yield**

The earned interest yield of the total investment portfolio for the quarter ended June 30, 2021 was 1.076%, 0.331% lower than the previous quarter and 0.898% lower than a year ago. The decline in earned interest yield for the quarter is attributable to new investments being purchased in a low interest rate environment, while older higher yielding investments have matured or been called early.

## **COMPLIANCE REPORTING REQUIREMENTS**

### **Cash Management Projection**

Based on the Finance Department's cash flow projection as of June 30, 2021, total revenues and investment maturities for the next six months are anticipated to be approximately \$2.21 billion. This is sufficient to cover projected expenditures of approximately \$2.16 billion. As noted above, during the Fiscal Year 2020-21 the City prefunded retirement plan contributions with a combination of Cash and TRANs. On July 1, 2021, the City issued additional Tax and Revenue Anticipation Notes in the original aggregate principal amount of \$285 million (the "2021 TRAN"). The City used the proceeds of the 2021 TRAN, together with cash on hand of approximately \$141.3 million, to prefund its employer retirement contributions for the City's pension and healthcare plans for Tier 1 employees for 2021-2022.

**Statement of Compliance with the Policy**

There were no exceptions or violations outstanding for the quarter ended June 30, 2021. The investment portfolio meets the requirements of the City’s Investment Policy and California Government Code section 53601.

**Comparison of Portfolio Investment Earnings to FY 2020-21 Budget**

The following is a comparison of actual General Fund investment earnings, on an accrual basis, to the fiscal year 2020-21 budget. The fiscal year 2020-21 budgeted interest earnings for the General Fund is \$5.9 million, and the forecasted net interest yield is 1.75%. The schedule below compares the unaudited actual net investment earnings to the General Fund budget for the quarter ended June 30, 2021. The interest earning rates are less than the forecast for the quarter and for the fiscal year.

<b>BUDGET COMPARISON</b>	
<b><u>Net Investment Earnings</u></b>	<b><u>Yield</u></b>
<b><i>Quarter Ended</i></b>	
Budget <sup>(a)</sup>	1.75%
Actual <sup>(b)</sup>	<u>0.94%</u>
Variance	(0.81%)
<b><i>Fiscal Year to Date</i></b>	
Budget <sup>(a)</sup>	1.75%
Actual <sup>(b)</sup>	<u>1.41%</u>
Variance	(0.34%)

(a) Reflects the 2020-2025 General Fund Forecast Information submitted by Finance on May 27, 2020.  
(b) Reflects the earned interest yield less costs to administer the investment program, adjusted for funds with negative cash balances at month end.

**INVESTMENT TRADING ACTIVITY**

Section E provides a detail of the City’s investment activities, including purchases, maturities, amortization, received interest, and realized gains or losses from trading activities.

In general, the City holds all securities to maturity. On rare occasions, the City may liquidate holdings to raise cash.

## **INVESTMENT STRATEGY AND MARKET UPDATE**

The Investment Program continues to focus on its core mandates of safety, liquidity, and yield. Staff continues effort to match known cash flow outlays in the next 24-month horizon with investment maturities. Beyond the 24-month horizon, staff selectively invests in various assets classes and maturity buckets to diversify the portfolio structure and maximize the portfolio's earnings potential, as allowed by the Investment Policy.

The increase in vaccinations and the easing of business restrictions in many cities and states around the country caused economic activity to improve during the fourth quarter. Consumer spending and travel expanded. The national unemployment rate declined to 5.9% in June 2021 from a high of 14.7% in April 2020. Equity markets preserved the gains achieved in the third quarter and continued to climb to record highs on optimism of a robust economic recovery that saw jobless claims drop to pandemic lows and employment increase. However, inflation rose more than expected due to the increase in economic activity and historic government monetary stimulus. The Fed saw the rise in consumer prices as transitory and reaffirmed its commitment to support the U.S. economy by maintaining the Fed funds target range at near zero and leaving the size of its asset purchases unchanged. The Fed also predicted future interest rate increases by the end of 2023.

Investment staff will closely monitor the market development, focus on the overall quality of the portfolio and invest with care, prudence and diligence.

**Future Commitments** – As of June 30, 2021, the City had no obligations to sell securities and no commitments to participate in securities trading.

**Executed Reverse Repurchase Agreements** – No reverse repurchase agreements were executed this quarter.

**Restructuring** – No restructuring activities took place during this quarter.

## **CONCLUSION**

The total investment portfolio as of June 30, 2021 was \$2,288,395,476, an increase of approximately \$380 million from the previous quarter. For the quarter ended June 30, 2021, the earned interest yield was 1.076%, a decrease from 1.407% reported for the previous quarter. The weighted average days to maturity decreased from 756 days on March 31, 2021, to 565 days on June 30, 2021. As of June 30, 2021, approximately 25% of the total portfolio was invested in U.S. Treasuries and agency securities.

/s/  
JULIA H. COOPER  
Director of Finance