



ADMINISTRATIVE SERVICES DEPARTMENT

CITY HALL
10300 TORRE AVENUE • CUPERTINO, CA 95014-3255
TELEPHONE: (408) 777-3220 • FAX: (408) 777-3109
CUPERTINO.ORG

CITY COUNCIL STAFF REPORT

Meeting: November 21, 2023

Subject

Receive the Treasurer's Investment Report for the Quarter Ending September 30, 2023

Recommended Action

Receive the Treasurer's Investment Report for the Quarter Ending September 30, 2023

Reasons for Recommendation

Background

On May 19, 2022, the City Council approved the City Investment Policy. Per the City's Investment Policy, the Treasurer shall submit a quarterly investment report to the City Council approximately 45 days following the end of the quarter. In addition to the quarterly investment reports, monthly transaction reports are submitted to the City Council within 30 days of the end of the reporting period per California Government Code Section 53607. The quarterly investment report offers a more extensive discussion of the City's economy, cash flow, and investments.

The City's Municipal Code Section 2.24.050 Investment Authority states that the Treasurer shall make a monthly report of all investment transactions to the City Council. The City's Municipal Code Section 2.48.020(A)(3) states that the Director of Administrative Services also shall be appointed Treasurer and also shall act as ex officio Assessor and shall assess and collect all City taxes save and except for those collected by State and County officers for the City. Lastly, the City's Municipal Code Section 2.88.100 Duties-Powers-Responsibilities lists one of the powers and functions of the Audit Committee is "to review the quarterly Treasurer's Investment report."

Per the referenced code provisions, a Treasurer's Investment Report is made available to the City Council quarterly.

Treasurer's Investment Report

The report provides an update on the City's investment portfolio for the month ending September 30, 2023. The report is as of October 17, 2023.

The attached statements include balances and transactions of the City's investments with the Local Agency Investment Fund (LAIF) and Chandler Asset Management. The Chandler investment report provides information on the investment type, issuer, purchase date, maturity date, cost value, par value, and market value for each security, as well as the weighted average maturity and weighted average yield of all investments.

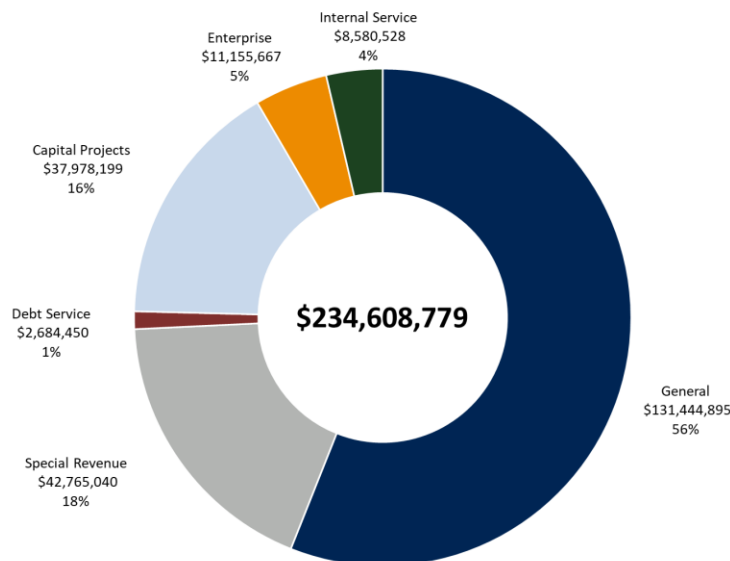
While not governed by the City's Investment Policy, statements for the Public Agency Retirement Services (PARS) Section 115 Trusts are also attached per a request from the Treasurer's Report sub-committee.

The City's General Ledger cash and investments balance was \$234.6 million, a \$2.5 million decrease from the prior quarter.

Cash and Investments – General Ledger Balance

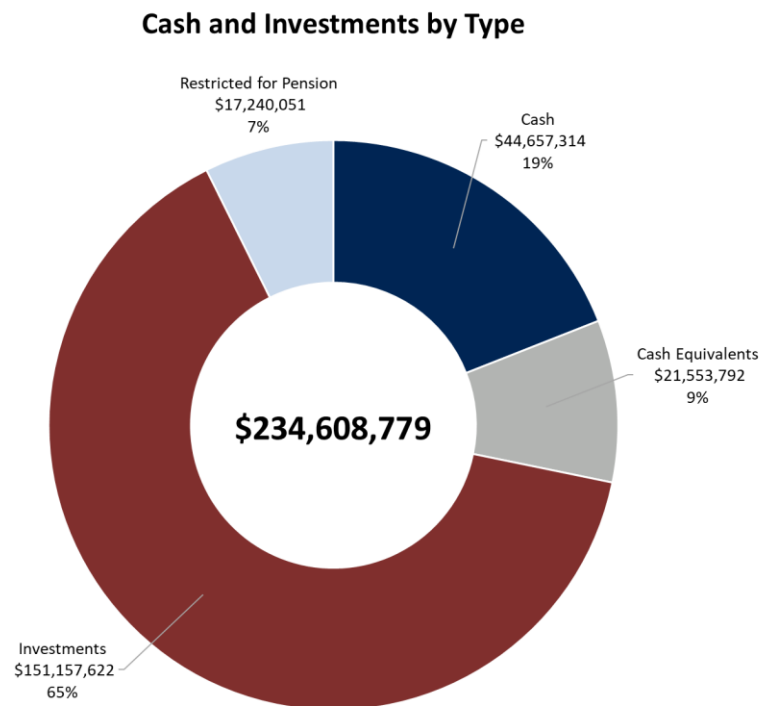
Fund Type	Quarter Ending June 30, 2023	Quarter Ending September 30, 2023
General Fund	136,235,014	131,444,895
Special Revenue	42,500,471	42,765,040
Debt Service	6,850	2,684,450
Capital Projects	38,626,129	37,978,199
Enterprise	11,429,178	11,155,667
Internal Service	8,270,804	8,580,528
Total	\$237,068,447	\$234,608,779

Cash and Investments by Fund



The \$234.6 million in cash and investments includes \$44.7 million in cash, \$21.6 million in cash equivalents, \$151.2 million in investments, and \$17.2 million restricted for funding pension costs.

The City pools cash for all funds except restricted funds. However, the City accounts for interest earnings, revenues, and expenditures separately for each fund to adequately meet the purpose and restrictions of each funding source. Pooling funds is a common and appropriate practice used in public agencies. By pooling funds, the City can benefit from economies of scale, diversification, liquidity, and ease of administration.



Cash and Investments – General Ledger Balance

	Quarter Ending June 30, 2023	Quarter Ending September 30, 2023	% of Portfolio
Cash in banks and on hand			
Operating Checking (Wells Fargo)	47,245,614	44,603,567	19%
Workers' Compensation Checking (Wells Fargo)	35,998	50,161	0%
Payroll Checking (Wells Fargo)	-	-	0%
Restricted for Bond Repayments ¹ (BNY Mellon)	-	-	0%
Petty Cash and Change	3,586	3,586	0%
Cash Equivalents			
Local Agency Investment Fund	21,385,575	21,553,792	9%
Investments			
Investments (Chandler)	151,157,622	151,157,622	64%
Restricted for Pension ² (PARS)	17,240,051	17,240,051	7%
Total Cash and Investments³	\$237,068,447	\$234,608,779	100%

¹ Cash held by fiscal agent for bond repayments

² In accordance with GASB 67/68, the assets in the Section 115 Pension Trust are reported as restricted cash and investments in the General Fund. The assets can only be used to fund CalPERS costs.

³ Assets in the Section 115 OPEB Trust are excluded as the City cannot use these assets to fund its own operations. The assets are held in trust for retirees' post-employment health benefits.

The table below shows the bank balances for the City's cash and investments. Bank and General Ledger balances differ due to timing. Bank balances do not include outstanding checks and deposits in transit. The General Ledger is updated quarterly with interest earnings and annually with the year-end investment market values.

Cash and Investments – Bank Balance

	Quarter Ending June 30, 2023	Quarter Ending September 30, 2023	% of Portfolio
Cash in banks and on hand			
Operating Checking (Wells Fargo)	47,980,304	49,304,330	20%
Workers' Compensation Checking (Wells Fargo)	38,002	45,984	0%
Payroll Checking (Wells Fargo)	-	-	0%
Restricted for Bond Repayments ¹ (BNY Mellon)	-	-	0%
Cash Equivalents			
Local Agency Investment Fund	21,425,004	21,593,220	9%
Investments			
Investments (Chandler)	149,161,767	150,093,752	63%
Restricted for Pension ² (PARS)	19,088,859	18,500,105	8%
Total Cash and Investments³	\$237,693,936	\$239,537,391	100%

¹ Cash held by fiscal agent for bond repayments

² In accordance with GASB 67/68, the assets in the Section 115 Pension Trust are reported as restricted cash and investments in the General Fund. The assets can only be used to fund CalPERS costs.

³ Assets in the Section 115 OPEB Trust are excluded as the City cannot use these assets to fund its own operations. The assets are held in trust for retirees' post-employment health benefits.

Local Agency Investment Fund (LAIF)

LAIF is an investment pool administered by the State of California Treasurer and governed by California Government Code. The City can withdraw funds from LAIF at any time. As a result, the City uses LAIF for short-term investment, liquidity, and yield.

The City's LAIF account had a balance of \$21.6 million. The quarterly interest rate was 3.59%. The City did not make any deposits or withdrawals in the quarter ending September 2023.

Investment Portfolio

In FY 2018-19, the City conducted a Request for Proposal (RFP) for investment management services and selected Chandler Asset Management. Under the City's Treasurer's direction, Chandler Asset Management manages the City's investment portfolio in accordance with the City's investment objectives. The City's investment objectives, in order of priority, are to provide:

- Safety to ensure the preservation of capital in the overall portfolio
- Sufficient liquidity for cash needs
- A market rate of return consistent with the investment program

The performance objective is to earn a total rate of return through a market cycle equal to or above the return on the benchmark index. Chandler Asset Management invests in high-quality fixed-income securities consistent with the City's Investment Policy and California Government Code to achieve the objective.

The portfolio's market value was \$150.1 million, compared to \$149.2 million at the end of the previous quarter. The table below includes historical comparisons of the City's portfolio:

	June 30, 2023	September 30, 2023
Market Value	149,161,767	150,093,752
Par Value	157,278,641	158,177,925
Book Value	156,959,650	157,776,718
Average Maturity	2.42 years	2.14 years
Average Modified Duration	2.06	1.83
Average Purchase Yield	1.95%	2.03%
Average Market Yield	5.11%	5.36%
Average Quality ¹	AA/Aa1	AA/Aa1

¹ S&P and Moody's respectively

The portfolio's market value fluctuates depending on interest rates. When interest rates decrease after an investment is purchased, the market value of the investment increases. In contrast, when interest rates increase after an investment is purchased, the market value of the investment decreases. At the time of purchase, the City intends to hold all investments until maturity, meaning that changes in market value will not impact the City's investment principal. If the market value decreases, the City will incur an unrealized loss. However, the loss will only be realized if the City sells its investments before their maturity. The market values for the portfolio were provided by Chandler Asset Management.

Section 115 Trust Investment Portfolio

The City established Section 115 Trusts to reduce pension rate volatility and pre-fund Other Post-Employment Benefits (OPEB) costs. These trusts are a tax-exempt investment tool that local governments can use to set aside funds for pension and retiree health costs. Contributions made to the trust can only be used to fund retirement plans.

Investments in the Section 115 Trusts are governed by separate investment policies, which are distinct from the City's Investment Policy. On December 6, 2022, City Council approved the Pension Trust Investment Policy and OPEB Trust Investment Policy. Public Agency Retirement Services (PARS) administers the trust, while US Bank manages the investments in accordance with the approved investment policies.

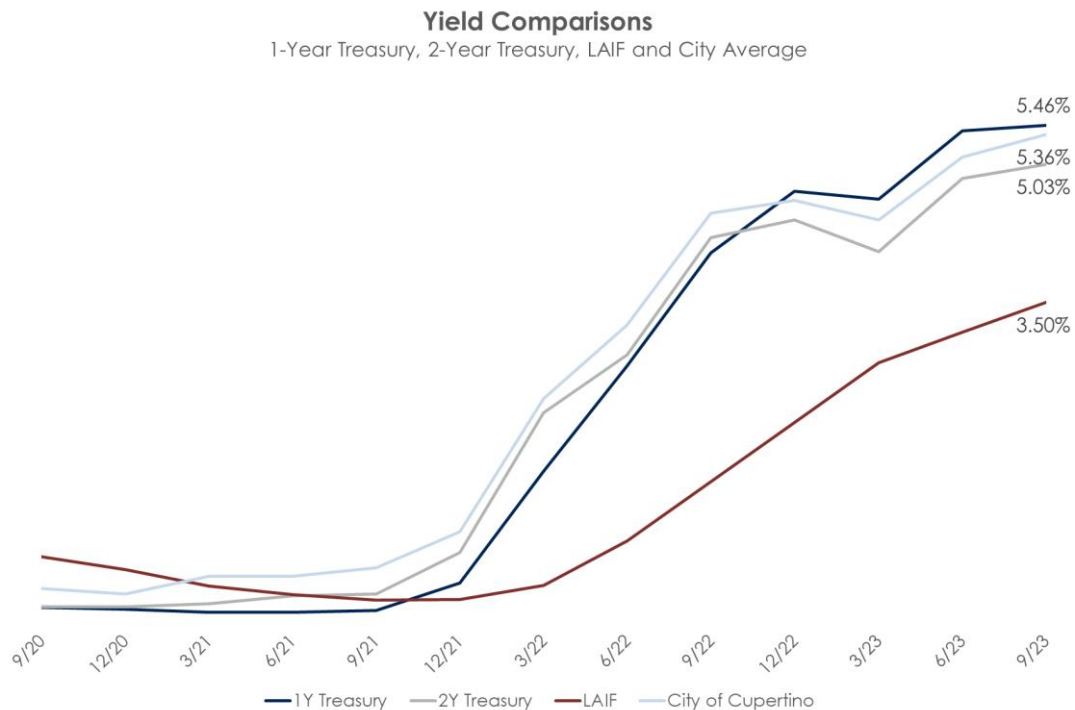
Both Section 115 Trusts are invested in "balanced" portfolios. The investment objective is designed to provide a moderate amount of current income with moderate growth of capital. This type of investment strategy is generally recommended for investors with a long-term time horizon. The strategic asset allocation ranges for this investment objective are:

Asset Class	Range	Target
Equities	50-70%	63%
Fixed Income	20-40%	29%
Real Estate	0-15%	5%
Commodities	0-10%	2%
Cash	0-10%	1%

The Section 115 Pension Trust had a balance of \$18.5 million, a decrease of \$0.6 million from the prior quarter due to investment gains. The Section 115 OPEB Trust had a balance of \$33.6 million, a decrease of \$1.1 million from the prior quarter due to investment gains. The quarterly investment returns were -3.00% for both the Pension Trust and OPEB Trust.

Analysis

The City compares its portfolio to LAIF and one-year and two-year Treasury yields. Yield comparisons for the one-year Treasury, two-year Treasury, LAIF, and City average are presented below:

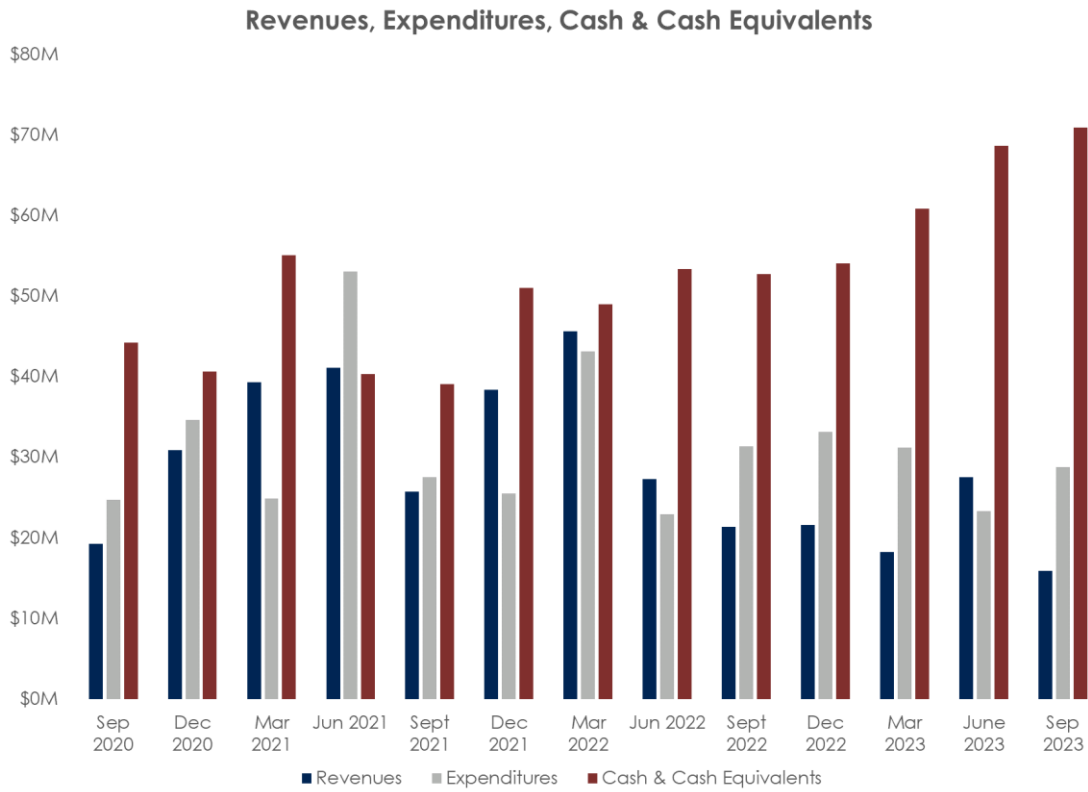


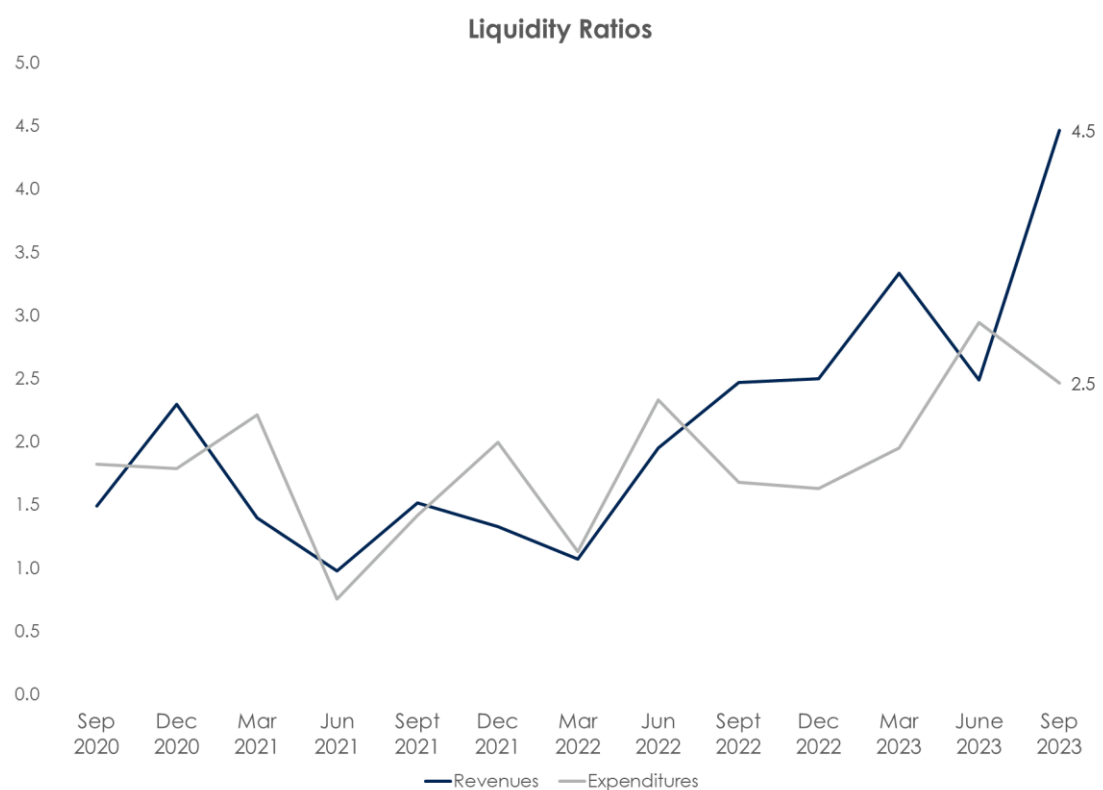
In June, one-year and two-year Treasury yields increased. The yield curve remained inverted and the spread between the two-year and 10-year Treasury yield became more inverted. The one-year and two-year Treasury yields were 5.46% and 5.03%, respectively. The one-year Treasury yield increased by 6 basis points, and the two-year Treasury yield increased by 16 basis points from June 30, 2023. The yield of the City's investment portfolio

was 5.36%, lower than the one-year Treasury yield but higher than the two-year Treasury yield and LAIF.

Cash Flow History

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





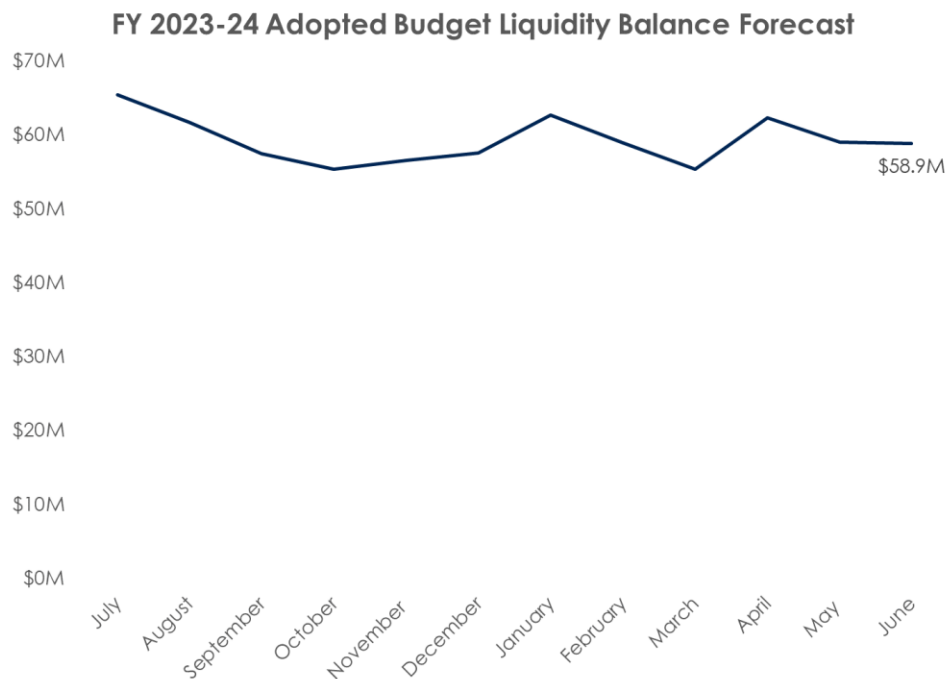
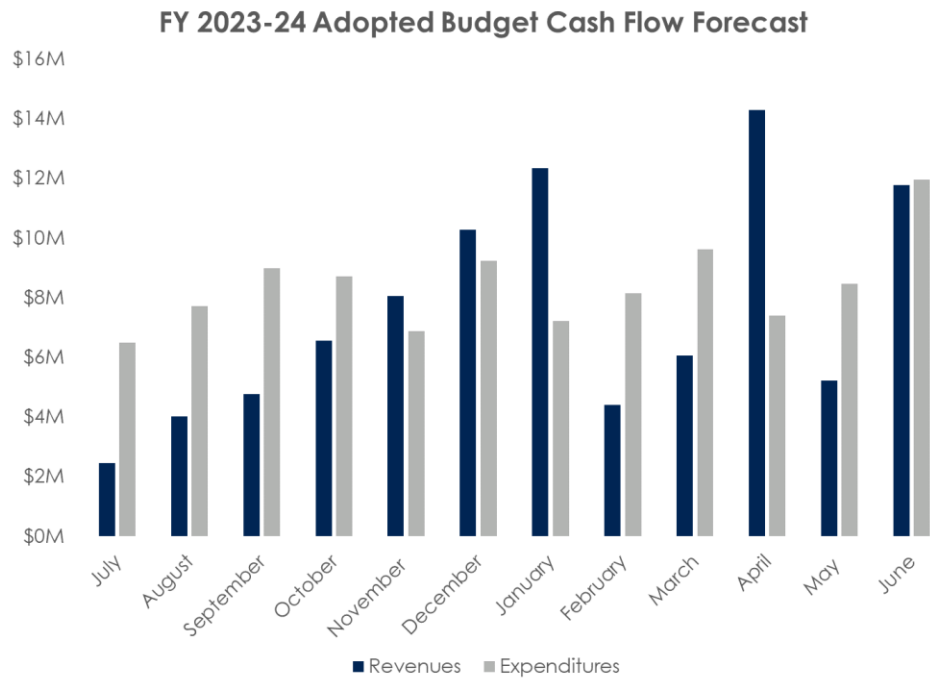
As the City's portfolio becomes more or less liquid over time, the ratio of cash and cash equivalents to revenues and expenditures will increase or decrease, respectively. The portfolio's investment structure is complete, so the City anticipates the ratio of cash and cash equivalents to revenues and expenditures to continue to flatten out moving forward. While a formal liquidity level has not been established, significant and consistent fluctuations in the ratio may indicate that additional funds should be invested or, conversely, that investments should be liquidated. In recent years, sufficient liquidity levels for operating revenues and expenditures have approximated a ratio of 1.0. In March 2022, the City transferred \$15.0 million from the operating account to the investment portfolio, which reduced the March 2022 liquidity ratios.

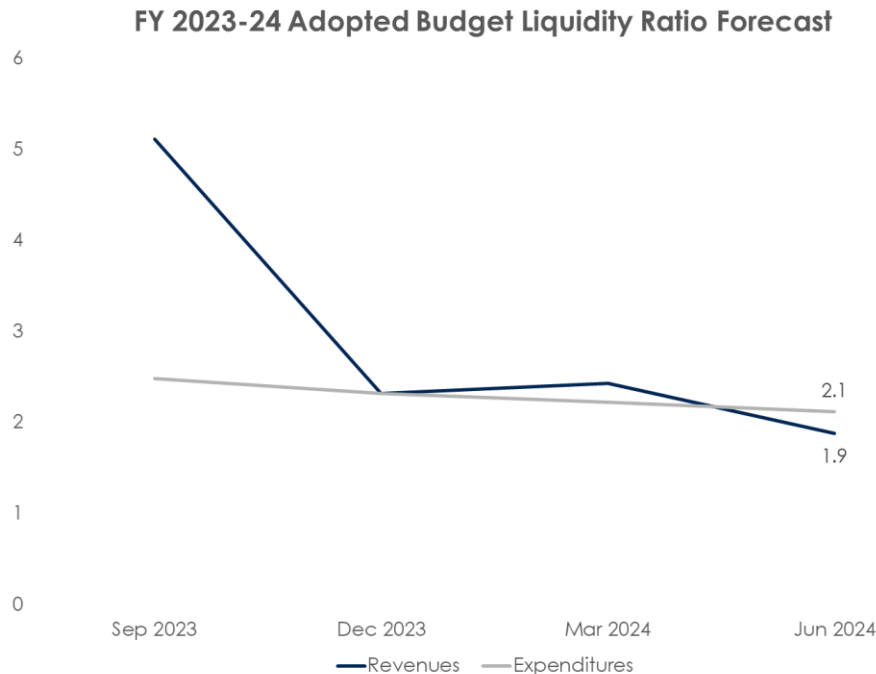
As of September 30, 2023, the liquidity ratio was 4.5 and 2.5 for revenues and expenditures, respectively. The City will monitor inflows and outflows during FY 2023-24 and bring recommendations for the City's investment portfolio as necessary and applicable.

As of September 30, 2023, the City had \$70.9 million in cash and cash equivalents in the bank and on hand. Based on the cash flow forecast, the City maintains the ability to meet its expenditure requirements for the next six months.

Cash Flow Forecast

Applying three-year historical trend data for each of the City's revenue and expenditure line items to the FY 2023-24 Adopted Budget, the City estimated the following cash flow forecast for FY 2023-24:





The purpose of this cash flow and liquidity 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 since the City begins receiving its property tax distributions in November and April of the respective fiscal year. In January and April, the City receives additional property tax revenues due to the Vehicle License Fee (VLF) swap. In June, the City tends to experience higher activities, particularly expenditures, due to the year-end close and accrual process. From one fiscal year to the next, the City typically incurs one-time special project or capital expenditure costs. The timing of these costs is more difficult to pinpoint in a particular month.

From a cash flow analysis perspective, the Adopted and Amended Budgets are efficient planning tools for 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 is reasonable to conclude cash flow is unlikely to be of concern. Beyond one fiscal year, a City prepares a long-term forward-looking forecast using historical and prospective assumptions. This forecast model is incorporated and presented to the City Council as part of the City's Adopted Budget.

Compliance

All of the City's investments comply with state law and the City's Investment Policy. In compliance with California Government Code 53646 (b)(3), the City maintains the ability to meet its expenditure requirements for the next six months.

Sustainability Impact

No sustainability impact.

Fiscal Impact

No fiscal impact.

California Environmental Quality Act

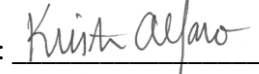
Not applicable.

Prepared by:



Thomas Leung
Budget Manager

Reviewed by:



Kristina Alfaro
Director of Administrative Services and City Treasurer

Approved for Submission by:



Matt Morley
Assistant City Manager

Attachments:

A – Chandler Investment Report September 2023

B – Chandler Custodial Statement September 2023

C – PARS Pension and OPEB Account Statement September 2023

D – LAIF Account Statement September 2023