



ADMINISTRATIVE SERVICES DEPARTMENT

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AUDIT COMMITTEE STAFF REPORT

Meeting: October 31, 2024

Subject

Receive the Treasurer's Investment Report for the Quarter Ending September 30, 2024

Recommended Action

Receive the Treasurer's Investment Report for the Quarter Ending September 30, 2024

Reasons for Recommendation

Background

On May 14, 2024, 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 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, 2024. The report is as of October 25, 2024.

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.

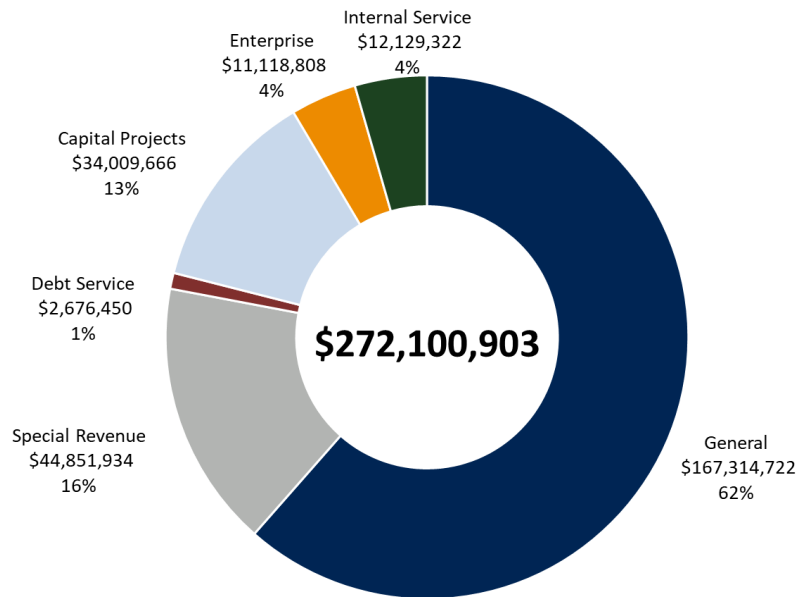
While not governed by the City's Investment Policy, statements for the Public Agency Retirement Services (PARS) Section 115 Trusts are also attached per a request from the Treasurer's Report sub-committee.

The City's General Ledger cash and investments balance was \$272.1 million, a \$2.8 million decrease from the prior quarter.

Cash and Investments – General Ledger Balance

Fund Type	Quarter Ending June 30, 2024	Quarter Ending September 30, 2024
General Fund	173,568,057	167,314,722
Special Revenue	42,654,567	44,851,934
Debt Service	250	2,676,450
Capital Projects	36,410,445	34,009,666
Enterprise	10,400,929	11,118,808
Internal Service	11,857,266	12,129,322
Total	\$274,891,514	\$272,100,903

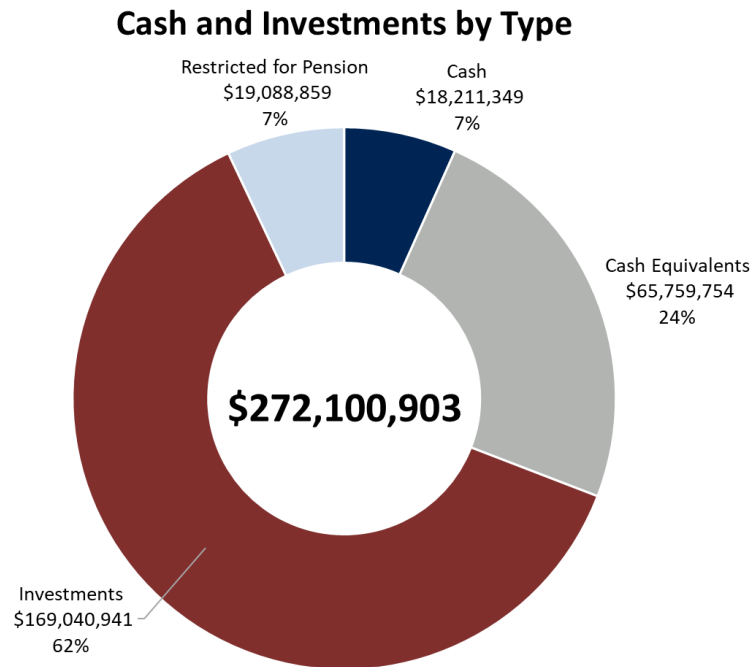
Cash and Investments by Fund



The \$272.1 million in cash and investments include \$18.2 million in cash, \$65.8 million in cash equivalents, \$169.0 million in investments, and \$19.1 million restricted for funding pension costs.

Note: Beginning balances have been updated to account for any final adjustments made as part of the month-end close that could not be completed before the prior report's preparation. These adjustments were necessary due to time constraints associated with both completing the month-end close process and generating the report.

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, 2024	Quarter Ending September 30, 2024	% of Portfolio
Cash in banks and on hand			
Operating Checking (Wells Fargo)	22,457,990	18,172,695	7%
Workers' Compensation Checking (Wells Fargo)	6,038	36,003	0%
Payroll Checking (Wells Fargo)	-	-	0%
Restricted for Bond Repayments ¹ (BNY Mellon)	-	-	0%
Petty Cash and Change	2,950	2,650	0%
Cash Equivalents			
Local Agency Investment Fund	65,000,052	65,759,754	24%
Investments			
Investments (Chandler)	168,335,625	169,040,941	62%
Restricted for Pension ² (PARS)	19,088,859	19,088,859	7%
Total Cash and Investments³	\$274,891,514	\$272,100,903	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, 2024	Quarter Ending September 30, 2024	% of Portfolio
Cash in banks and on hand			
Operating Checking (Wells Fargo)	23,579,447	21,319,079	8%
Workers' Compensation Checking (Wells Fargo)	6,992	37,977	0%
Payroll Checking (Wells Fargo)	-	-	0%
Restricted for Bond Repayments ¹ (BNY Mellon)	-	-	0%
Cash Equivalents			
Local Agency Investment Fund	65,000,052	65,759,754	23%
Investments			
Investments (Chandler)	164,967,177	169,948,739	61%
Restricted for Pension ² (PARS)	21,663,664	22,967,000	8%
Total Cash and Investments³	\$275,217,332	\$280,032,549	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.

Wells Fargo Accounts

The City, in collaboration with Chandler and Wells Fargo's relationship manager, explored various options to maximize investment opportunities for excess funds in the City operating account. Prioritizing safety and liquidity, it was ultimately decided that converting the operating checking account to a "Government Advantage Checking" account was the optimal solution. This account offers full FDIC insurance and an interest rate of 3% as of June 30, 2024. The interest rate is subject to change based on market conditions. Staff will continuously monitor the rate and evaluate whether to retain funds in the account or transfer them to alternative investment opportunities.

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 \$65.8 million. The quarterly interest rate was 4.71%.

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 \$169.1 million, compared to \$164.2 million at the end of the previous quarter. The table below includes historical comparisons of the City's portfolio:

	June 30, 2024	September 30, 2024
Market Value	164,177,564	169,065,101
Par Value	168,885,052	170,704,952
Book Value	168,646,769	169,511,721
Average Maturity	2.10 years	2.67 years
Average Modified Duration	1.72	2.28
Average Purchase Yield	2.59%	3.17%
Average Market Yield	4.75%	3.97%
Average Quality ¹	AA+	AA

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 5, 2023, 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.

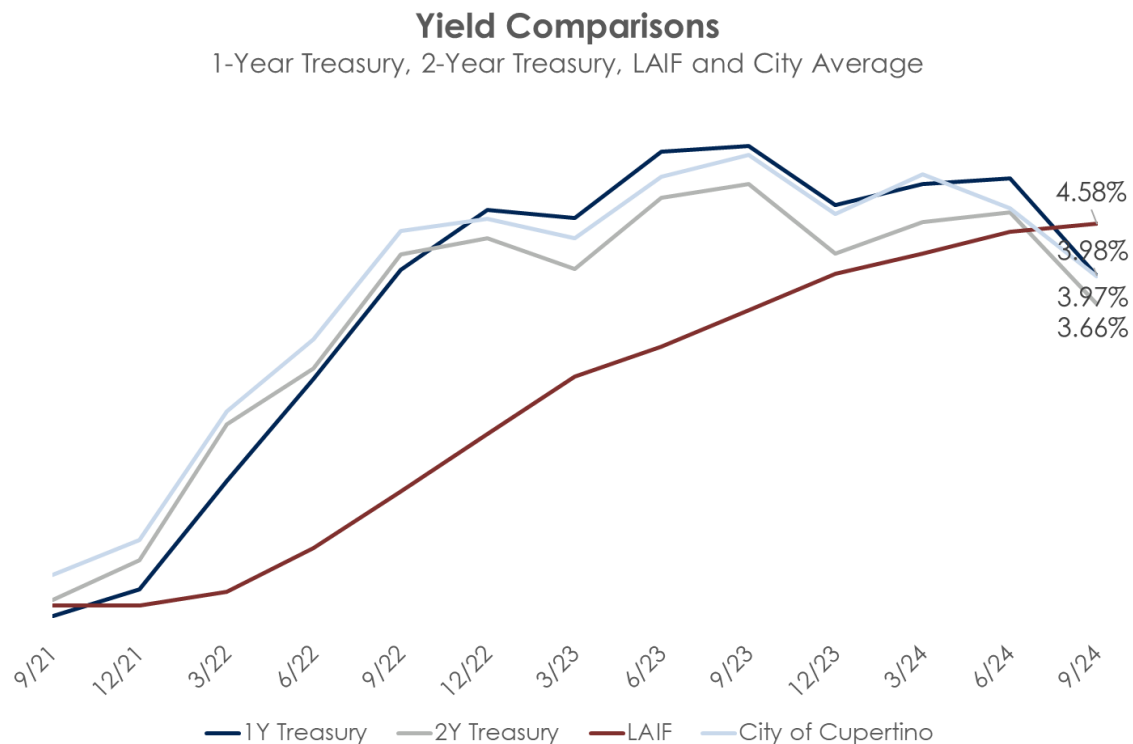
Both Section 115 Trusts are invested in "balanced" portfolios. The investment objective is designed to provide a moderate amount of current income with moderate growth of capital. This type of investment strategy is generally recommended for investors with a long-term horizon. The strategic asset allocation 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 \$23.0 million, an increase of \$1.3 million from the prior quarter due to investment gains. The Section 115 OPEB Trust had a balance of \$40.4 million, an increase of \$2.4 million from the prior quarter mainly due to investment gains. The quarterly investment return for OPEB Trust was 6.29% and Pension Trust was 6.11%.

Analysis

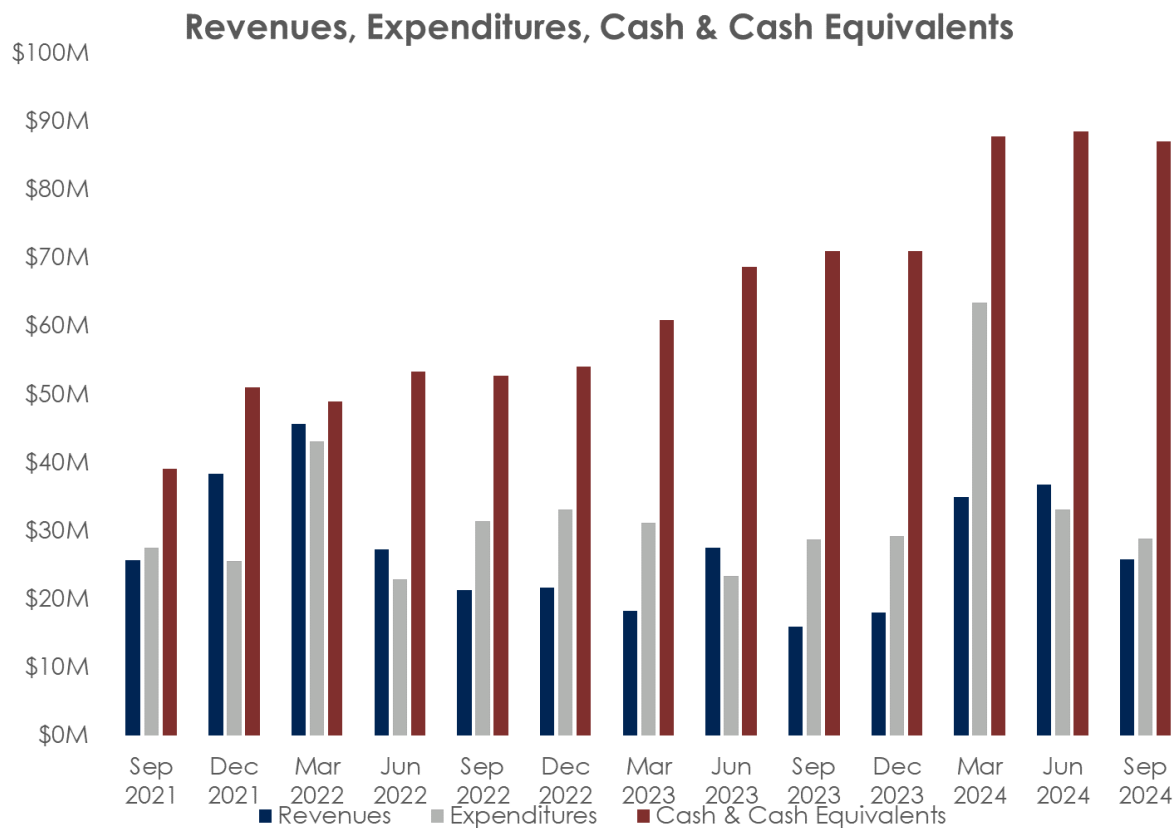
The City compares its portfolio to LAIF and one-year and two-year Treasury yields. Yield comparisons for the one-year Treasury, two-year Treasury, LAIF, and City average are presented below:



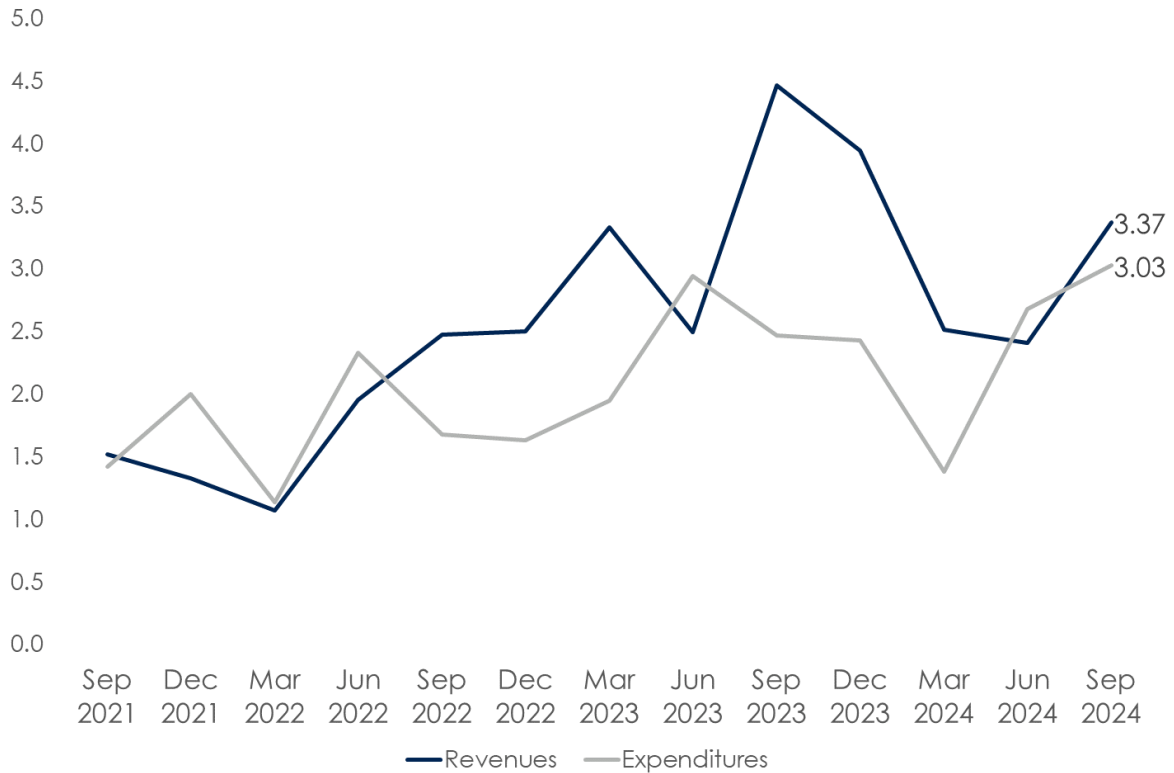
In September, the one-year Treasury yield and two-year Treasury yield decreased with yields of 3.98% and 3.66%, respectively. The one-year Treasury yield decreased by 111 basis points, and the two-year Treasury yield decreased by 105 basis points from June 30, 2024. The yield of the City's investment portfolio was 3.97%, higher than the two-year Treasury yield, but lower than the one-year Treasury yield and LAIF.

Cash Flow History

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



Liquidity Ratios



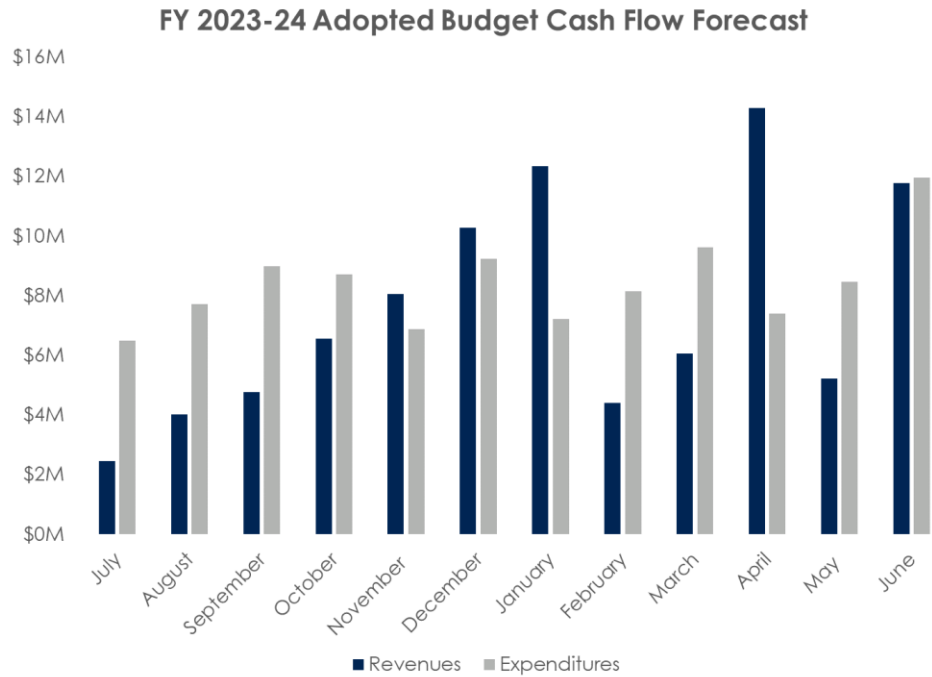
As the City's portfolio becomes more or less liquid over time, the ratio of cash and cash equivalents to revenues and expenditures will increase or decrease, respectively. The portfolio's investment structure is complete, so the City anticipates the ratio of cash and cash equivalents to revenues and 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. Liquidity ratios have been higher in FY 2023-24 due to increased cash and investment balances as the City anticipated a decision from a California Department of Tax and Fee Administration (CDTFA) audit of a City taxpayer. In FY 2023-24, the City established a Sales Tax Repayment Reserve with a total allocation of \$74.5 million to set aside disputed received sales tax revenue. With the additional June 2024 deposit and subsequent investments, the liquidity ratios will be in flux until the funds have been fully invested.

As of September 30, 2024, the liquidity ratio was 3.37 and 3.03 for revenues and expenditures, respectively. The City will monitor inflows and outflows during FY 2024-25 and bring recommendations for the City's investment portfolio as necessary and applicable.

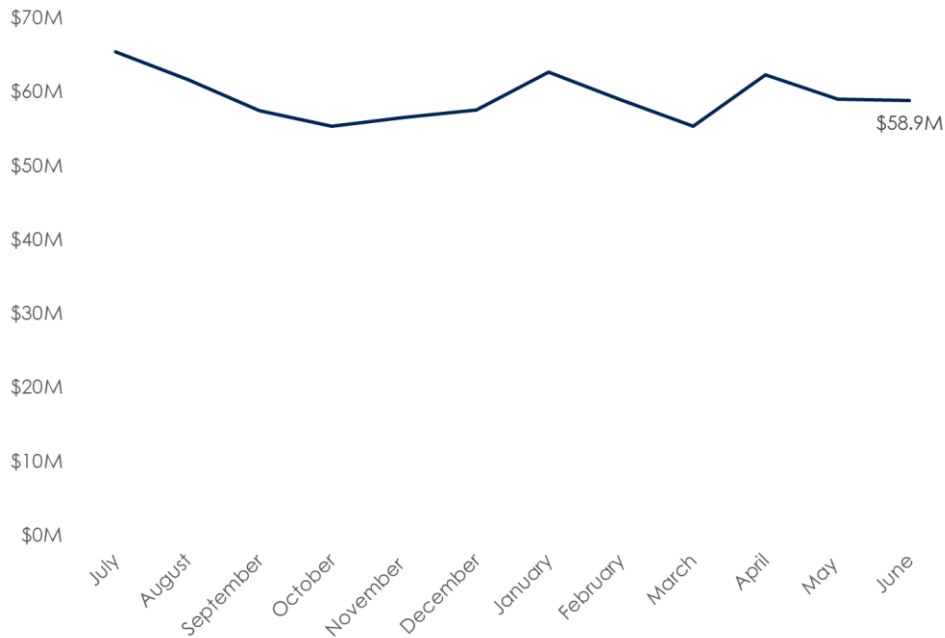
As of September 30, 2024, the City had \$87.1 million in cash and cash equivalents in the bank and on hand. Based on the cash flow forecast, the City maintains the ability to meet its expenditure requirements for the next six months.

Cash Flow Forecast

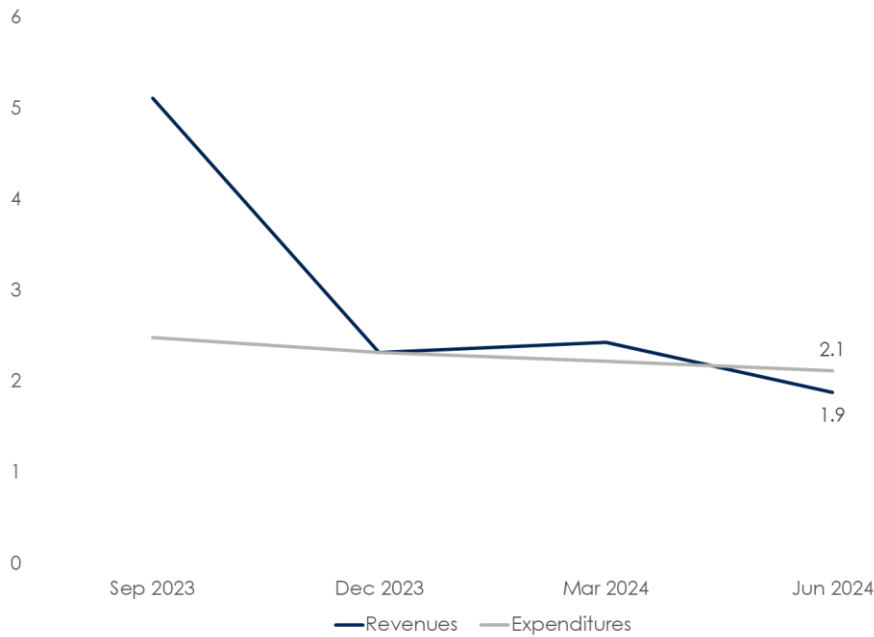
Applying three-year historical trend data for each of the City's revenue and expenditure line items to the FY 2023-24 Adopted Budget, the City estimated the following cash flow forecast for FY 2023-24:



FY 2023-24 Adopted Budget Liquidity Balance Forecast



FY 2023-24 Adopted Budget Liquidity Ratio Forecast



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

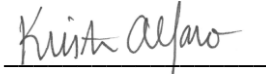
Not applicable.

Prepared by:



Jonathan Orozco
Finance Manager

Reviewed by:



Kristina Alfaro
Director of Administrative Services and City Treasurer

Approved for Submission by:



Pamela Wu
City Manager

Attachments:

- A – Chandler Investment Report September 2024
- B – Chandler Custodial Statement September 2024

C – PARS Pension and OPEB Account Statement September 2024
D – LAIF Account Statement September 2024