



ADMINISTRATIVE SERVICES DEPARTMENT

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CITY COUNCIL STAFF REPORT

Meeting: June 7, 2022

Subject

Consider the Treasurer's Investment Report for Quarter Ending March 31, 2022

Recommended Action

Accept the Treasurer's Investment Report for Quarter Ending March 31, 2022

Discussion

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.

Treasurer's Investment Report

The report provides an update on the City's investment portfolio for the quarter ending March 31, 2022. 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 City's cash accounts and Public Agency Retirement Services (PARS) Section 115 Trusts are also attached per a request from the Treasurer's Report sub-committee.

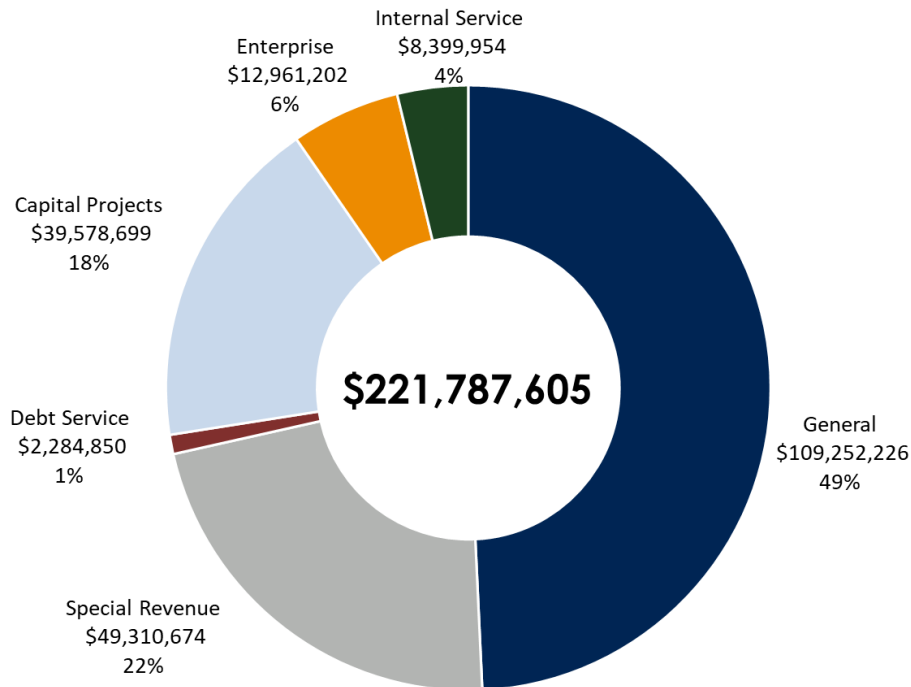
As of March 31, 2022, the City's General Ledger cash and investments balance was \$221.8 million, an \$11.7 million increase from the end of the prior quarter due to receipts of \$37.7 million, disbursements of (\$28.4) million, and journal adjustments of \$2.4 million.

Cash and Investments – General Ledger Balance

Fund Type	Quarter Ending December 31, 2021	Receipts	Disbursements	Journal Adjustments*	Quarter Ending March 31, 2022
General Fund	104,781,123	35,216,537	(21,065,287)	(9,680,146)	109,252,226
Special Revenue	49,135,241	1,969,184	(1,584,003)	(209,747)	49,310,674
Debt Service	2,284,850	-	-	-	2,284,850
Capital Projects	32,810,715	116,051	(3,348,068)	10,000,000	39,578,699
Enterprise	12,666,048	385,439	(1,166,536)	1,076,251	12,961,202
Internal Service	8,387,917	134	(1,210,111)	1,222,015	8,399,954
Total	210,065,893	37,687,344	(28,374,005)	2,408,372	221,787,605

*Journal adjustments include transactions recorded in other systems and imported into the financial system, Council-approved budget adjustments, quarterly Cost Allocation Plan (CAP) charges, and quarterly interest earnings.

Cash and Investments by Fund Type

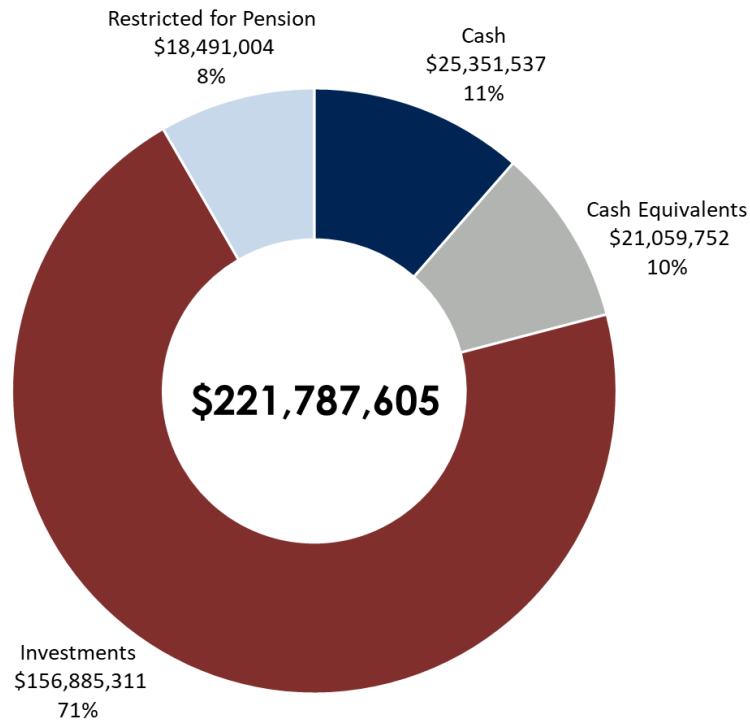


The City has \$221.8 million in cash and investments for all funds, including \$25.4 million in cash, \$21.1 million in cash equivalents, \$156.9 million in investments, and \$18.5 million restricted for funding pension costs.

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 by Account Type



Cash and Investments – General Ledger Balance

	Quarter Ending December 31, 2021	Quarter Ending March 31, 2022	% of Portfolio
Cash in banks and on hand			
Operating Checking (Wells Fargo)	\$ 29,117,615	\$ 25,321,992	11%
Workers' Compensation Checking (Wells Fargo)	24,309	16,113	0%
Payroll Checking (Wells Fargo)	-	-	0%
Restricted for Bond Repayments ¹ (BNY Mellon)	8,333	8,333	0%
Petty Cash and Change	5,100	5,100	0%
Cash Equivalents			
Local Agency Investment Fund	21,043,169	21,059,752	10%
Investments			
Investments (Chandler)	141,376,363	156,885,311	71%
Restricted for Pension ² (PARS)	18,491,004	18,491,004	8%
Total Cash and Investments ³	\$ 210,065,893	\$ 221,787,605	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 updated annually with the year-end investment market values.

Cash and Investments – Bank Balance

	Quarter Ending December 31, 2021	Quarter Ending March 31, 2022	% of Portfolio
Cash in banks and on hand			
Operating Checking (Wells Fargo)	\$ 29,950,992	\$ 27,898,076	13%
Workers' Compensation Checking (Wells Fargo)	24,767	24,535	0%
Payroll Checking (Wells Fargo)	-	-	0%
Restricted for Bond Repayments ¹ (BNY Mellon)	8,333	8,333	0%
Cash Equivalents			
Local Agency Investment Fund	21,031,062	21,043,169	10%
Investments			
Investments (Chandler)	139,803,983	150,202,612	69%
Restricted for Pension ² (PARS)	18,820,778	17,540,077	8%
Total Cash and Investments ³	\$ 209,639,915	\$ 216,716,802	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.

As of March 31, 2022, the City's LAIF account had a balance of \$21.0 million. In January 2022, the City received a quarterly interest deposit of \$12,107 for the quarter ending December 31, 2021. The interest rate was 0.23%. The City did not make any deposits or withdrawals in the quarter ending March 31, 2022.

Investment Portfolio

In FY 2018-19, the City selected Chandler Asset Management for investment management services through a Request for Proposal (RFP). Chandler began their work with the City in the winter of 2018, conducting multiple meetings with staff to determine an investment structure and strategy. Starting in March 2019, Chandler invested the City's portfolio by purchasing agency issues, corporate medium-term notes, and negotiable certificates of deposit.

Under the City's Treasurer's direction, Chandler Asset Management manages the City's investment portfolio per 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.

In March 2022, the City transferred \$15.0 million from the operating account to the investment portfolio. As of March 31, 2022, the portfolio's market value was \$150.2 million, compared to \$139.8 million at the end of the previous quarter. The portfolio's book value was \$154.7 million, compared to \$139.2 million at the end of the prior quarter. The average maturity was 2.81 years, and the average modified duration was 2.49. The rate of return was -3.18% net of fees for the quarter.

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, so changes in market price do not affect the City's investment principal. The market values were provided by Chandler Asset Management.

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

	December 31, 2021	March 31, 2022
Market Value	139,803,983	150,202,612
Par Value	138,501,881	154,353,954
Book Value	139,190,635	154,669,327
Average Maturity	2.83	2.81
Average Modified Duration	2.59	2.49
Average Purchase Yield	1.21%	1.31%
Average Market Yield	0.96%	2.43%
Average Quality ¹	AA/Aa1	AA+/Aa1

¹ S&P and Moody's respectively

Investment Trust Portfolios

The City established Section 115 Trusts to reduce pension rate volatility, and pre-fund Other Post-Employment Benefits (OPEB) costs. A Section 115 Trust is a tax-exempt investment tool that allows local governments to pre-fund pension and retiree health costs. Once contributions are placed into the trust, assets from the trust can only be used to fund retirement plans.

The Section 115 Trusts are not governed by the City's Investment Policy but by separate investment policies. On December 7, 2021, City Council approved the Pension Trust Investment Policy and OPEB Trust Investment Policy. Public Agency Retirement Services (PARS) administers the trust, and US Bank manages the investments per the 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. It is recommended for investors with a long-term time horizon. The strategic asset allocation ranges and targets for this objective are:

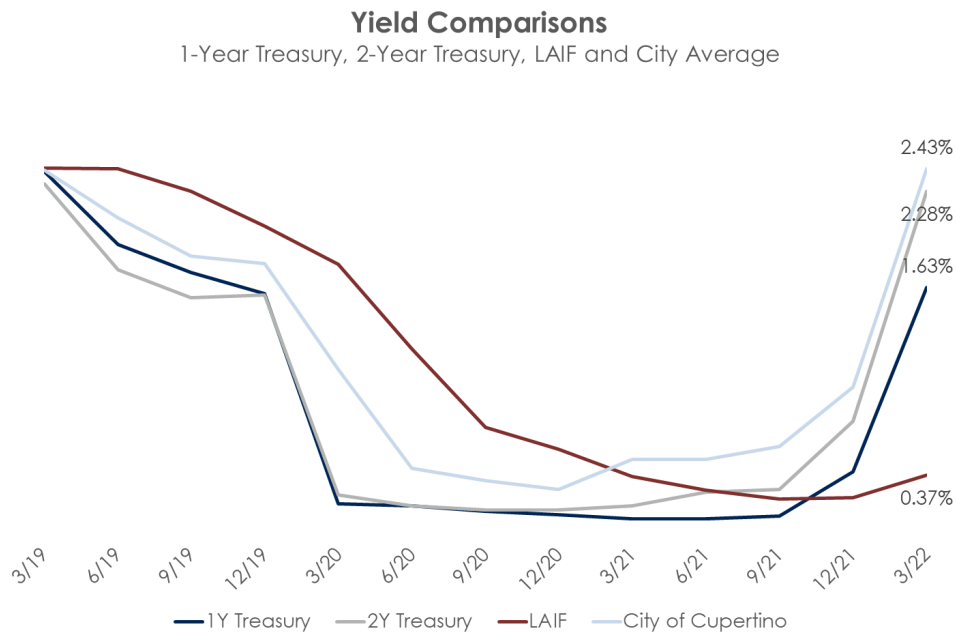
Asset Class	Range	Target
Equities	50-70%	63%
Fixed Income	20-40%	29%
Real Estate	0-15%	5%
Commodities	0-10%	2%
Cash	0-10%	1%

As of March 31, 2022, the Section 115 Pension Trust had a balance of \$17.5 million, a decrease of \$1.3 million from the end of the prior quarter. The Section 115 OPEB Trust had a balance of \$36.1 million, a decrease of \$2.6 million from the end of the prior quarter. The investment returns for the Section 115 Trusts were -6.76% net of fees for the quarter. The

City did not make any contributions or receive any distributions in the quarter ending March 31, 2022.

Analysis

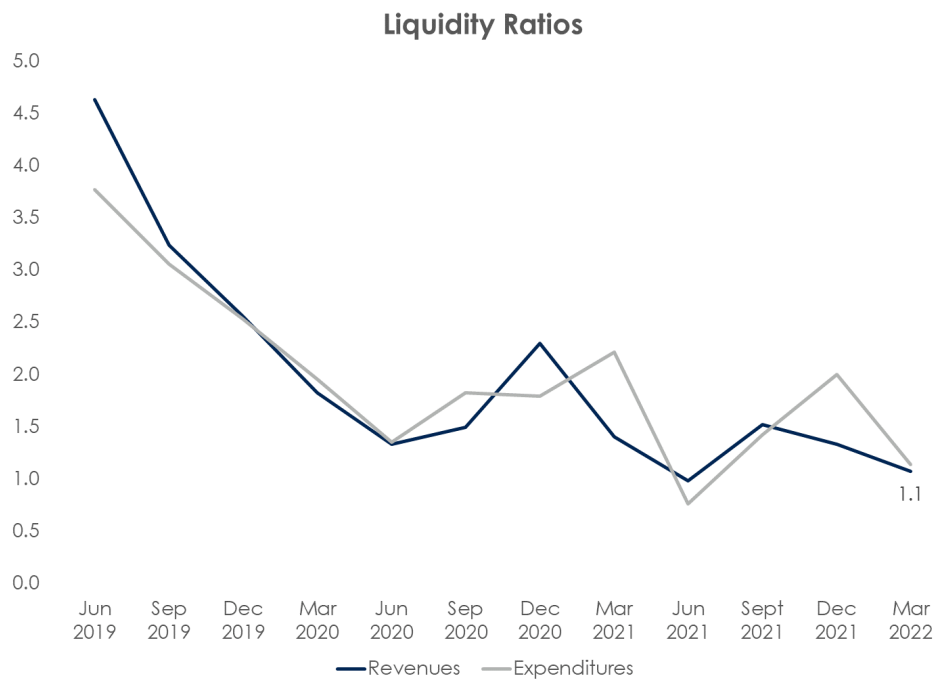
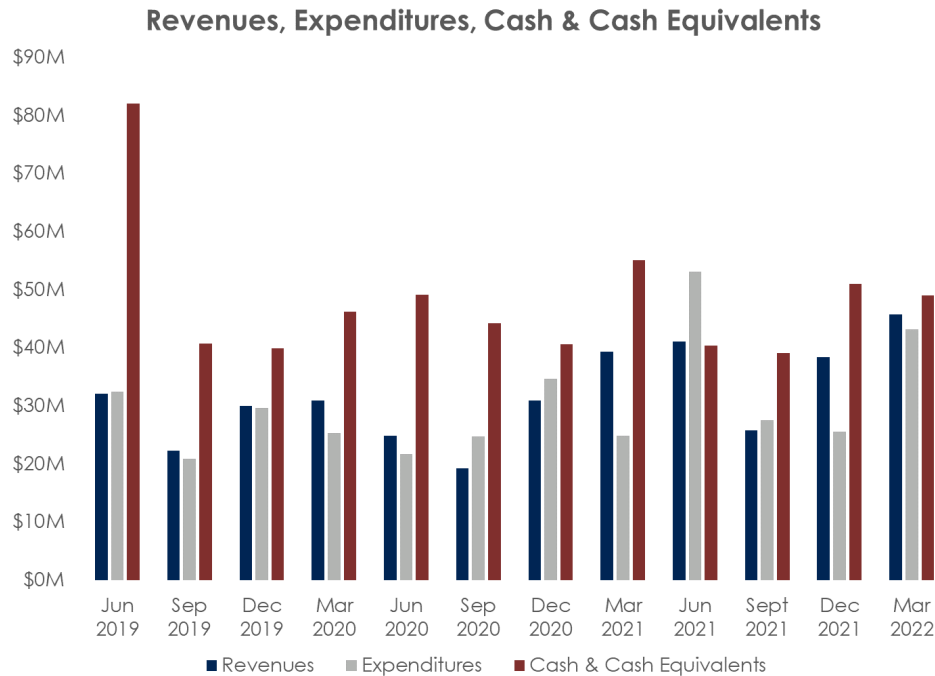
The City compares its portfolio to LAIF and one-year and two-year Treasury yields. Yield comparisons for the one-year Treasury, two-year Treasury, LAIF, and City average are presented below:



In March, yields increased dramatically, and the yield curve continued to flatten. As of March 31, 2022, the one-year and two-year Treasury yield was 1.63% and 2.28%, respectively. The one-year Treasury yield increased by 124 basis points, and the two-year Treasury yield increased by 155 basis points from December 31, 2021. The City's yields were higher than LAIF and one-year and two-year Treasury yields.

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

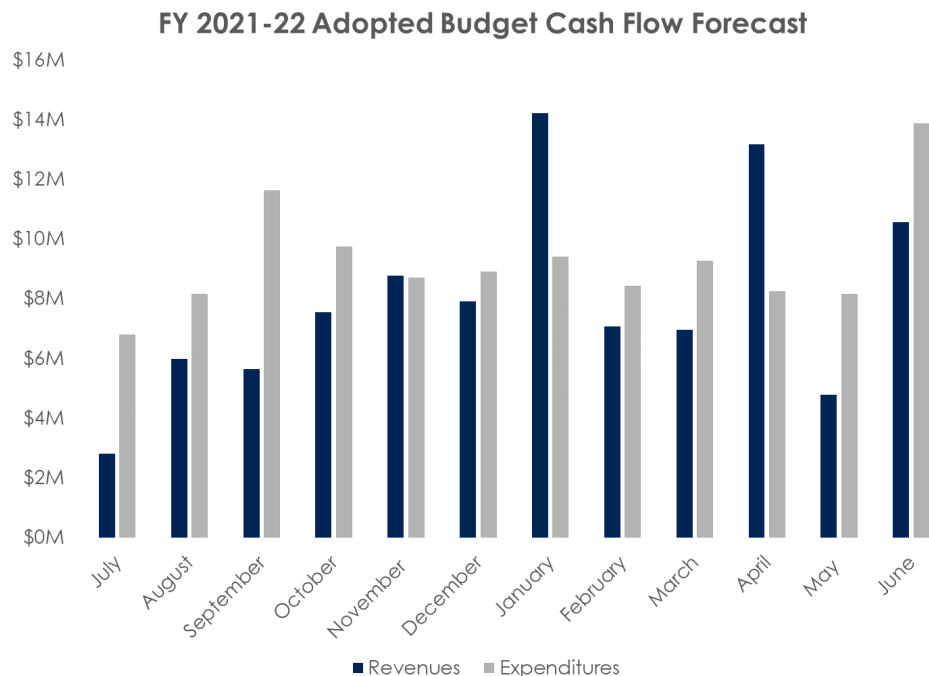
fluctuations in the ratio may indicate that additional funds should be invested or, conversely, that investments should be liquidated. In recent years, sufficient liquidity levels for operating revenues and expenditures have approximated a ratio of 1.0.

In the quarter ending December 31, 2021, cash and cash equivalents, specifically in the City's operating account, increased due to a \$9.8 million one-time Park Land Dedication In-lieu fee for the Westport project. In March 2022, the City transferred \$15.0 million from the operating account to the investment portfolio. Consequently, as of March 31, 2022, the liquidity ratio was 1.1 and 1.1 for revenues and expenditures, respectively. The City will monitor inflows and outflows during the fourth quarter of the fiscal year and bring recommendations for the City's investment portfolio as necessary and applicable.

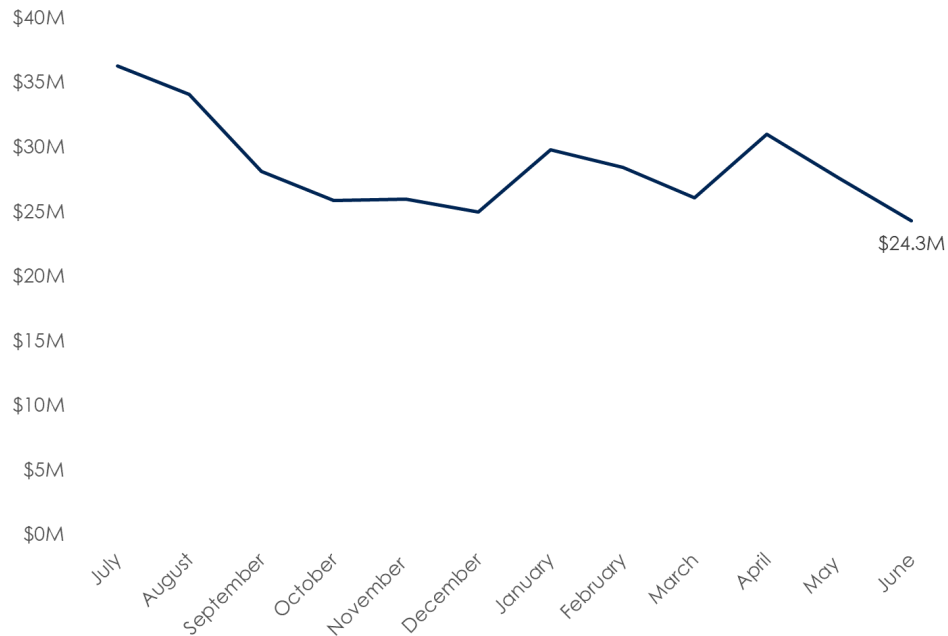
As of March 31, 2022, the City had \$49.0 million in cash and cash equivalents in the bank and on hand. Using three-year historical trend data, the City estimates revenues of \$32.7 million and expenditures of \$35.7 million for the quarter ending June 30, 2022, resulting in an ending cash and cash equivalent balance of \$45.9 million.

Cash Flow Forecast

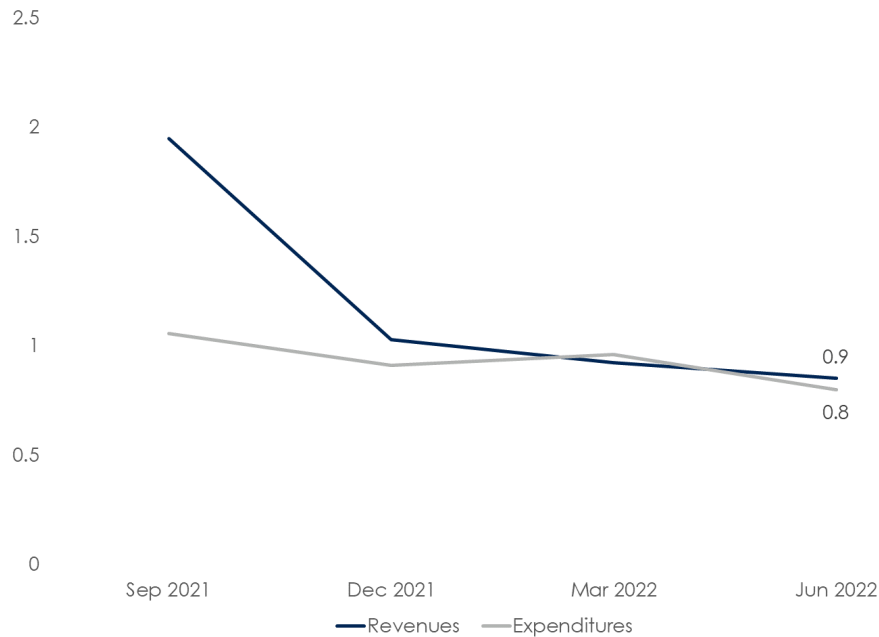
Applying three-year historical trend data for each of the City's revenue and expenditure line items to the FY 2021-22 Adopted Budget, the City estimated the following cash flow forecast for FY 2021-22:



FY 2021-22 Adopted Budget Liquidity Balance Forecast



FY 2021-22 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 to 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 twenty-year 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.

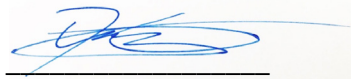
Sustainability Impact

No sustainability impact.

Fiscal Impact

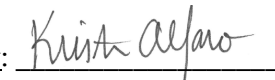
No fiscal impact.

Prepared by:



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Reviewed by:



Kristina Alfaro
Director of Administrative Services and City Treasurer

Approved for Submission by:



Dianne Thompson
Assistant City Manager

Attachments:

- A – Chandler Investment Report for Quarter Ending March 31, 2022
- B – Chandler Custodial Statement March 2022
- C – LAIF Statement March 2022
- D – US Bank Pension and OPEB Performance Report for Quarter Ending March 31, 2022
- E – Wells Fargo Operating Checking Account Statement March 2022
- F – Wells Fargo Workers' Compensation Checking Account Statement March 2022

G – Wells Fargo Payroll Checking Account Statement March 2022
H – Wells Fargo Employee Benefits Checking Account Statement March 2022
I – BNY Mellon Statement March 2022