



ADMINISTRATIVE SERVICES DEPARTMENT

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AUDIT COMMITTEE STAFF REPORT

Meeting: June 27, 2022

Subject

Consider the Monthly Treasurer's Investment Report for May 2022

Recommended Action

Review the Monthly Treasurer's Investment Report for May 2022 and recommend filing with City Council

Discussion

Background

On May 19, 2022, the City Council approved the City Investment Policy. Per the City's Investment Policy, the Treasurer shall submit monthly transaction reports to the City Council within 30 days of the end of the reporting period per California Government Code Section 53607. In addition to the monthly transaction reports, quarterly investment reports are submitted to the City Council approximately 45 days following the end of the quarter. 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. 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 monthly Treasurer's report."

Per the referenced code provisions, a Treasurer's Investment Report shall be submitted to the Audit Committee and City Council every month.

Treasurer's Investment Report

The report provides an update on the City's investment portfolio for the month ending May 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.

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

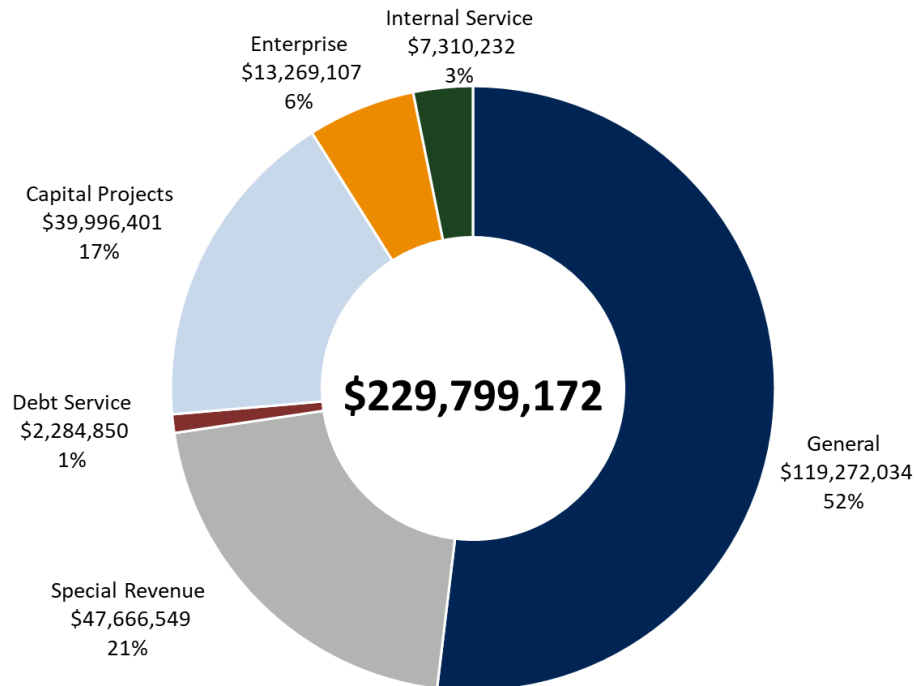
As of May 31, 2022, the City's General Ledger cash and investments balance was \$229.8 million, a \$1.5 million increase from the prior month due to receipts of \$8.5 million, disbursements of (\$7.5) million, and journal adjustments of \$0.4 million.

Cash and Investments – General Ledger Balance

Fund Type	Month Ending April 30, 2022	Receipts	Disbursements	Journal Adjustments*	Month Ending May 31, 2022
General Fund	117,686,174	6,702,004	(5,152,788)	36,643	119,272,034
Special Revenue	48,468,249	272,065	(968,530)	(105,235)	47,666,549
Debt Service	2,284,850	-	-	-	2,284,850
Capital Projects	38,923,074	1,402,454	(459,362)	130,235	39,996,401
Enterprise	13,154,490	140,361	(439,104)	413,360	13,269,107
Internal Service	7,816,682	-	(473,354)	(33,096)	7,310,232
Total	\$ 228,333,518	\$ 8,516,884	\$ (7,493,138)	\$ 441,907	\$ 229,799,172

*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.

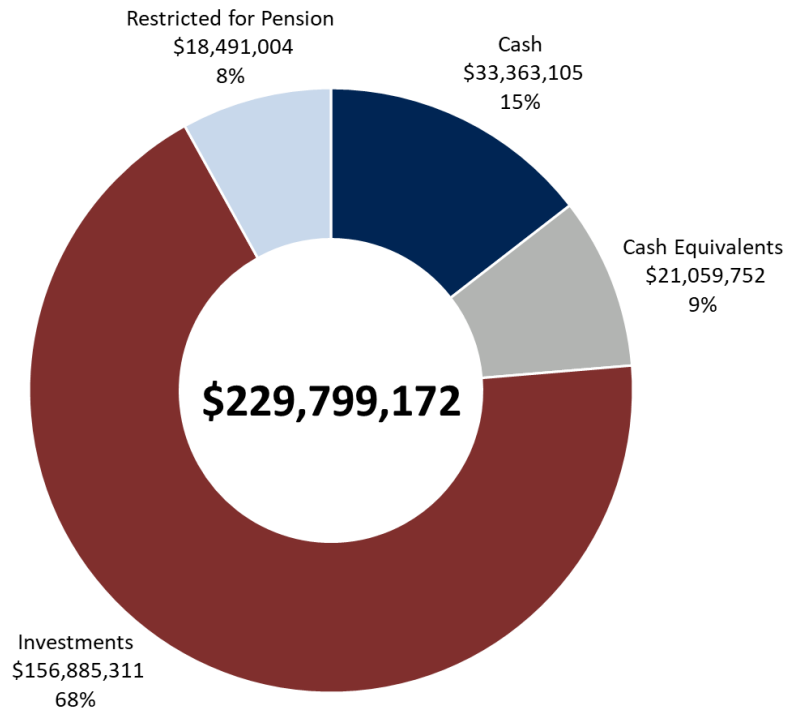
Cash and Investments by Fund



The \$229.8 million in cash and investments includes \$33.4 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 Type



Cash and Investments – General Ledger Balance

	Month Ending April 30, 2022	Month Ending May 31, 2022	% of Portfolio
Cash in banks and on hand			
Operating Checking (Wells Fargo)	31,879,299	31,045,048	14%
Workers' Compensation Checking (Wells Fargo)	4,719	26,623	0%
Payroll Checking (Wells Fargo)	-	-	0%
Restricted for Bond Repayments ¹ (BNY Mellon)	8,333	2,286,333	1%
Petty Cash and Change	5,100	5,100	0%
Cash Equivalents			
Local Agency Investment Fund	21,059,752	21,059,752	9%
Investments			
Investments (Chandler)	156,885,311	156,885,311	68%
Restricted for Pension ² (PARS)	18,491,004	18,491,004	8%
Total Cash and Investments³	\$ 228,333,518	\$ 229,799,172	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

	Month Ending April 30, 2022	Month Ending May 31, 2022	% of Portfolio
Cash in banks and on hand			
Operating Checking (Wells Fargo)	31,788,785	30,519,591	14%
Workers' Compensation Checking (Wells Fargo)	7,279	26,922	0%
Payroll Checking (Wells Fargo)	-	-	0%
Restricted for Bond Repayments ¹ (BNY Mellon)	8,333	2,286,333	1%
Cash Equivalents			
Local Agency Investment Fund	21,059,752	21,059,752	10%
Investments			
Investments (Chandler)	148,861,823	149,697,509	68%
Restricted for Pension ² (PARS)	16,368,261	16,302,481	7%
Total Cash and Investments³	\$ 218,094,232	\$ 219,892,588	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 May 31, 2022, the City's LAIF account had a balance of \$21.1 million, no change from the prior month. Interest is deposited quarterly and was most recently deposited in April 2022. The City did not make any deposits or withdrawals in May 2022.

Investment Portfolio

In FY 2018-19, the City selected Chandler Asset Management for investment management services through a Request for Proposal (RFP). 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.

As of May 31, 2022, the portfolio's market value was \$149.7 million, compared to \$148.9 million at the end of the previous month. The portfolio's book value was \$154.9 million, compared to \$154.8 million at the end of the prior month. The average maturity was 2.84 years, and the average modified duration was 2.49. The rate of return was 0.57% for the month.

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

	April 30, 2022	May 31, 2022
Market Value	148,861,823	149,697,509
Par Value	154,612,129	154,801,899
Book Value	154,828,347	154,937,218
Average Maturity	2.83 years	2.84 years
Average Modified Duration	2.50	2.49
Average Purchase Yield	1.37%	1.41%
Average Market Yield	2.94%	2.86%
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, so changes in market price do not affect the City's investment principal. The market values 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. 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 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 May 31, 2022, the Section 115 Pension Trust had a balance of \$16.3 million, a decrease of \$0.1 million from the prior month. The Section 115 OPEB Trust had a balance of \$33.5 million, a decrease of \$0.1 million from the prior month. The investment returns for the Section 115 Trusts were -0.37% for the month. The City did not make any contributions or receive any distributions in May 2022.

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

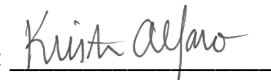
No fiscal impact.

Prepared by:



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Reviewed by:



Kristina Alfaro
Director of Administrative Services and City Treasurer

Approved for Submission by:  _____

Jim Throop
City Manager

Attachments:

- A – Chandler Investment Report May 2022
- B – Chandler Custodial Statement May 2022
- C – PARS Pension and OPEB Statement May 2022
- D – LAIF Statement May 2022
- E – Wells Fargo Operating Checking Account Statement May 2022
- F – Wells Fargo Payroll Checking Account Statement May 2022
- G – Wells Fargo Workers' Compensation Checking Account Statement May 2022
- H – Wells Fargo Employee Benefits Checking Account Statement May 2022
- I – BNY Mellon Statement May 2022