



## ADMINISTRATIVE SERVICES DEPARTMENT

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### CITY COUCIL STAFF REPORT

Meeting: September 6, 2022

#### Subject

Consider the Monthly Treasurer's Investment Report for July 2022

#### Recommended Action

Accept the Monthly Treasurer's Investment Report for July 2022

#### Discussion

##### **Background**

On May 19, 2022, the City Council approved the City's 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 July 31, 2022. The report is as of August 17, 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 Public Agency Retirement

Services (PARS) Section 115 Trusts are also attached per a request from the Monthly Treasurer's Report Subcommittee.

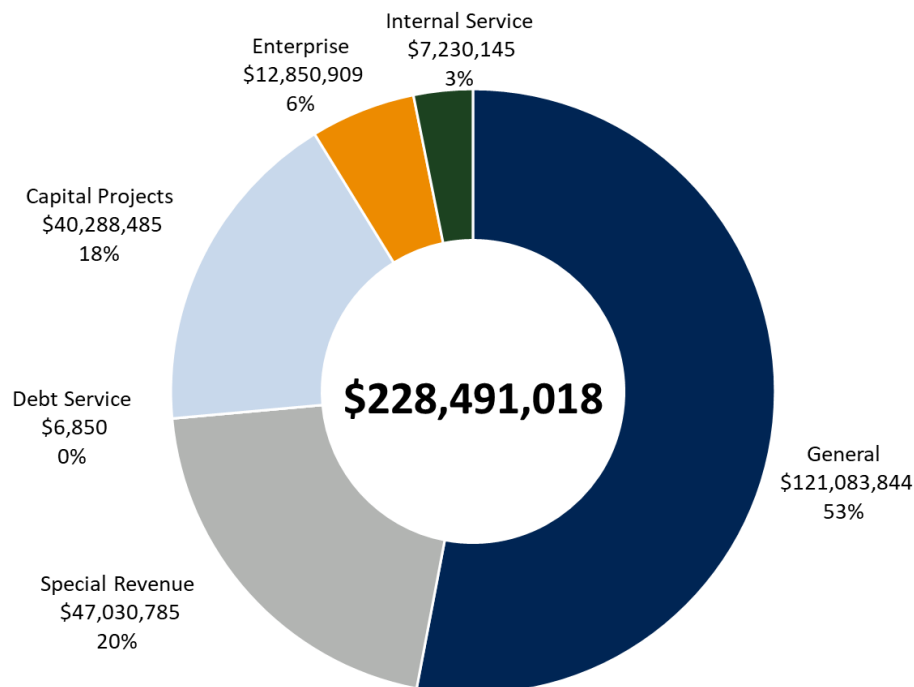
As of July 31, 2022, the City's General Ledger cash and investments balance was \$228.5 million, a \$3.2 million decrease from the prior month due to receipts of \$7.5 million, disbursements of (\$11.4) million, and journal adjustments of \$0.7 million.

#### Cash and Investments – General Ledger Balance

Fund Type	Month Ending June 30, 2022	Receipts	Disbursements	Journal Adjustments*	Month Ending July 31, 2022
General Fund	123,618,119	6,296,718	(8,889,105)	58,112	121,083,844
Special Revenue	47,683,992	550,040	(703,247)	(500,000)	47,030,785
Debt Service	6,850	-	-	-	6,850
Capital Projects	39,585,744	529,854	(327,113)	500,000	40,288,485
Enterprise	12,874,527	130,027	(820,499)	666,856	12,850,909
Internal Service	7,923,077	-	(687,120)	(5,812)	7,230,145
<b>Total</b>	<b>\$ 231,692,309</b>	<b>\$ 7,506,639</b>	<b>\$ (11,427,085)</b>	<b>\$ 719,155</b>	<b>\$ 228,491,018</b>

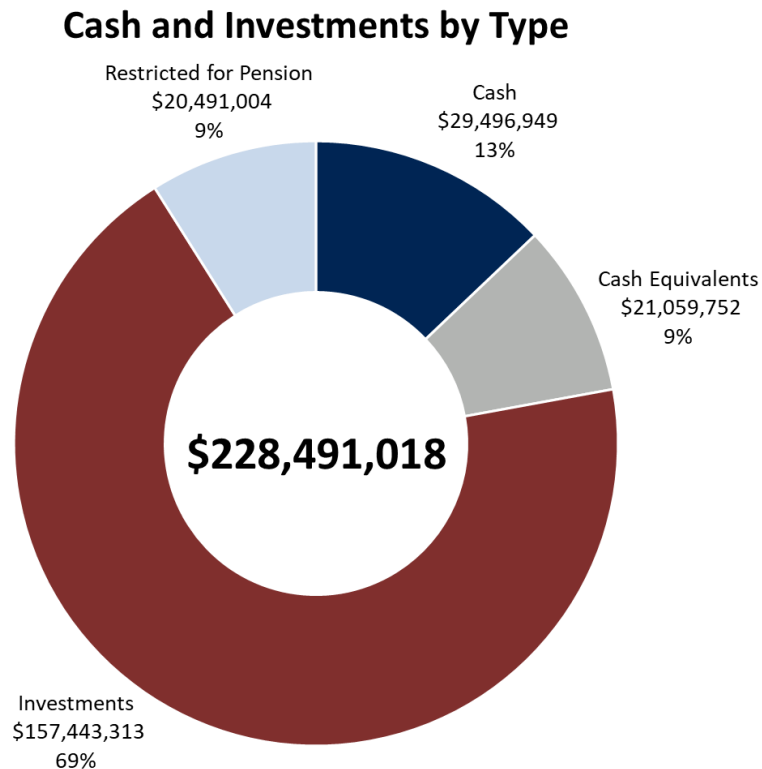
\*Journal adjustments include transactions recorded in other systems and imported into the financial system, Council-approved budget adjustments, quarterly Cost Allocation Plan (CAP) charges, and quarterly interest earnings.

#### Cash and Investments by Fund



The \$228.5 million in cash and investments includes \$29.5 million in cash, \$21.1 million in cash equivalents, \$157.4 million in investments, and \$20.5 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 – General Ledger Balance

	Month Ending June 30, 2022	Month Ending July 31, 2022	% of Portfolio
<b>Cash in banks and on hand</b>			
Operating Checking (Wells Fargo)	32,667,152	29,441,674	13%
Workers' Compensation Checking (Wells Fargo)	17,654	41,842	0%
Payroll Checking (Wells Fargo)	-	-	0%
Restricted for Bond Repayments <sup>1</sup> (BNY Mellon)	8,333	8,333	0%
Petty Cash and Change	5,100	5,100	0%
<b>Cash Equivalents</b>			
Local Agency Investment Fund	21,059,752	21,059,752	9%
<b>Investments</b>			
Investments (Chandler)	157,443,313	157,443,313	69%
Restricted for Pension <sup>2</sup> (PARS)	20,491,004	20,491,004	9%
<b>Total Cash and Investments<sup>3</sup></b>	<b>\$ 231,692,309</b>	<b>\$ 228,491,018</b>	<b>100%</b>

<sup>1</sup> Cash held by fiscal agent for bond repayments

<sup>2</sup> 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.

<sup>3</sup> 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

	Month Ending June 30, 2022	Month Ending July 31, 2022	% of Portfolio
<b>Cash in banks and on hand</b>			
Operating Checking (Wells Fargo)	32,249,699	29,788,907	14%
Workers' Compensation Checking (Wells Fargo)	19,738	43,517	0%
Payroll Checking (Wells Fargo)	-	-	0%
Restricted for Bond Repayments <sup>1</sup> (BNY Mellon)	8,333	8,333	0%
<b>Cash Equivalents</b>			
Local Agency Investment Fund	21,059,752	21,099,180	10%
<b>Investments</b>			
Investments (Chandler)	148,744,657	149,849,867	68%
Restricted for Pension <sup>2</sup> (PARS)	17,240,051	18,310,826	8%
<b>Total Cash and Investments<sup>3</sup></b>	<b>\$ 219,322,230</b>	<b>\$ 219,100,630</b>	<b>100%</b>

<sup>1</sup> Cash held by fiscal agent for bond repayments

<sup>2</sup> 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.

<sup>3</sup> 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 July 31, 2022, the City's LAIF account had a balance of \$21.1 million, an increase of \$39,428 from the prior month due to a quarterly interest deposit. The interest rate was 0.75%. The City did not make any deposits or withdrawals in July 2022.

#### *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.

As of July 31, 2022, the portfolio's market value was \$149.8 million, compared to \$148.7 million at the end of the previous month. The table below includes monthly historical comparisons for the City's portfolio:

	June 30, 2022	July 31, 2022
Market Value	148,744,657	149,849,867
Par Value	155,016,024	155,207,329
Book Value	155,117,380	155,242,781
Average Maturity	2.74 years	2.77 years
Average Modified Duration	2.39	2.42
Average Purchase Yield	1.41%	1.49%
Average Market Yield	3.25%	3.14%
Average Quality <sup>1</sup>	AA+/Aa1	AA/Aa1

<sup>1</sup> 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 July 31, 2022, the Section 115 Pension Trust had a balance of \$18.3 million, an increase of \$1.1 million from the prior month due to investment gains. The Section 115 OPEB Trust had a balance of \$33.3 million, an increase of \$2.0 million from the prior month due to investment gains. The one-month investment returns were 6.24% for the Pension Trust and 6.27% for the OPEB Trust.

### **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.

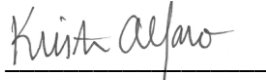
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Prepared by:



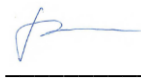
Thomas Leung  
Senior Management Analyst

Reviewed by:



Kristina Alfaro  
Director of Administrative Services

Approved for Submission by:



Pamela Wu  
City Manager

### Attachments:

- A – Chandler Investment Report July 2022
- B – Chandler Custodial Statement July 2022
- C – PARS Pension and OPEB Account Statement July 2022
- D – LAIF Account Statement July 2022