



ADMINISTRATIVE SERVICES DEPARTMENT

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CITY COUNCIL STAFF REPORT

Meeting: March 7, 2023

Subject

Consider the Monthly Treasurer's Investment Report for January 2023

Recommended Action

Receive the Monthly Treasurer's Investment Report for January 2023

Reasons for Recommendation

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 January 31, 2022. The report is as of February 22, 2023.

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.

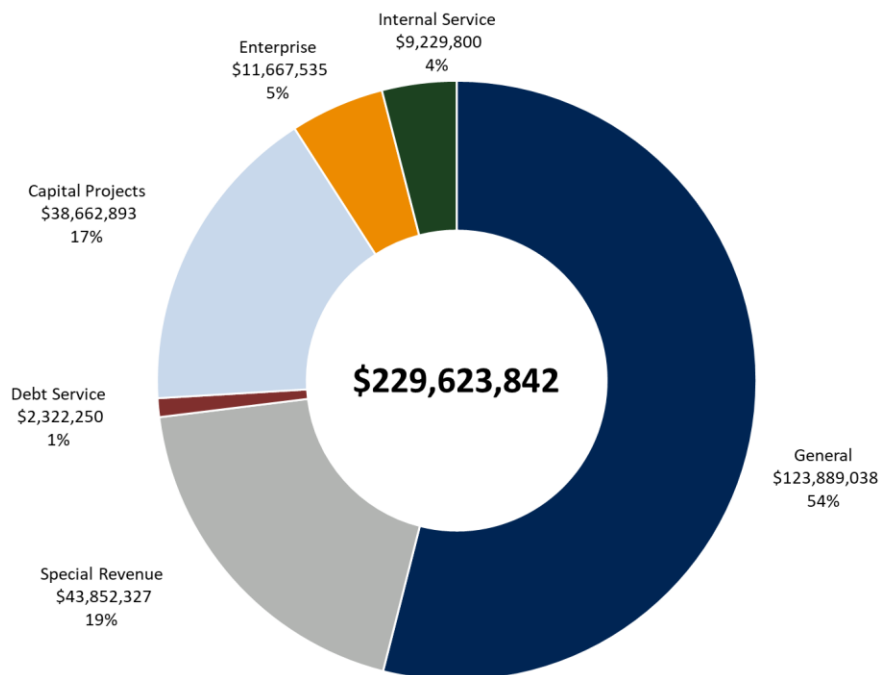
The City's General Ledger cash and investments balance was \$229.6 million, a \$9.0 million increase from the prior month due to receipts of \$18.5 million, disbursements of \$(9.8) million, and journal adjustments of \$0.4 million.

Cash and Investments – General Ledger Balance

Fund Type	Month Ending December 31, 2022	Receipts	Disbursements	Journal Adjustments*	Month Ending January 31, 2023
General Fund	115,087,462	16,646,536	(7,987,551)	142,590	123,889,038
Special Revenue	42,644,873	1,601,466	(394,012)	-	43,852,327
Debt Service	2,322,250	-	-	-	2,322,250
Capital Projects	39,142,833	-	(479,940)	-	38,662,893
Enterprise	11,680,168	207,042	(428,761)	209,085	11,667,535
Internal Service	9,777,203	-	(547,403)	-	9,229,800
Total	\$220,654,789	\$18,455,044	\$(9,837,667)	\$351,676	\$229,623,842

*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.

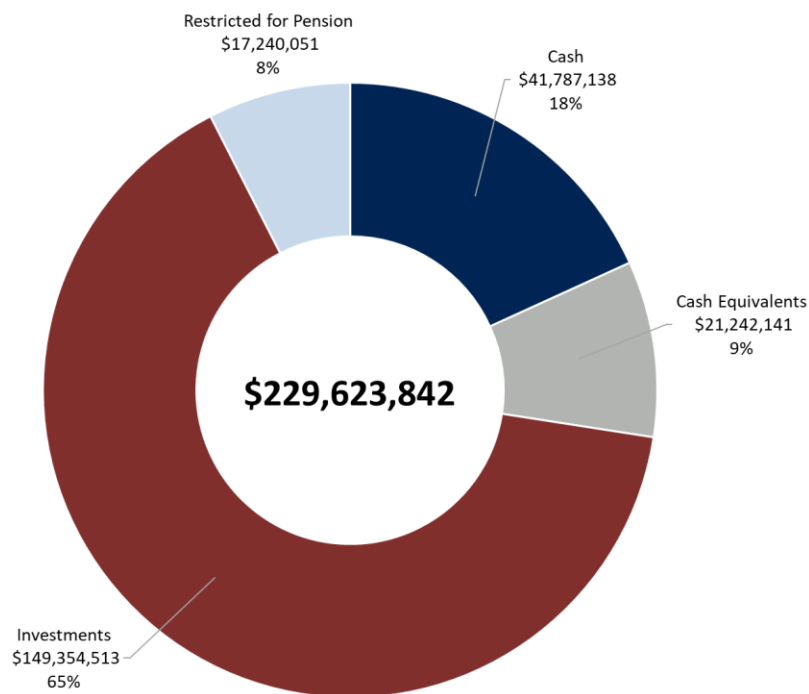
Cash and Investments by Fund



The \$229.6 million in cash and investments includes \$41.8 million in cash, \$21.2 million in cash equivalents, \$149.4 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 by Type



Cash and Investments – General Ledger Balance

	Month Ending December 31, 2022	Month Ending January 31, 2023	% of Portfolio
Cash in banks and on hand			
Operating Checking (Wells Fargo)	32,892,228	41,750,685	18%
Workers' Compensation Checking (Wells Fargo)	31,453	31,453	0%
Payroll Checking (Wells Fargo)	-	-	0%
Restricted for Bond Repayments ¹ (BNY Mellon)	-	-	0%
Petty Cash and Change	5,000	5,000	0%
Cash Equivalents			
Local Agency Investment Fund	21,131,545	21,242,141	9%
Investments			
Investments (Chandler)	149,354,513	149,354,513	65%
Restricted for Pension ² (PARS)	17,240,051	17,240,051	8%
Total Cash and Investments³	\$220,654,789	\$229,623,842	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

	Month Ending December 31, 2022	Month Ending January 31, 2023	% of Portfolio
Cash in banks and on hand			
Operating Checking (Wells Fargo)	33,821,218	42,673,289	18%
Workers' Compensation Checking (Wells Fargo)	33,538	25,873	0%
Payroll Checking (Wells Fargo)	-	-	0%
Restricted for Bond Repayments ¹ (BNY Mellon)	8,333	-	0%
Cash Equivalents			
Local Agency Investment Fund	21,170,973	21,281,569	9%
Investments			
Investments (Chandler)	147,282,846	148,742,480	64%
Restricted for Pension ² (PARS)	17,395,501	18,507,647	8%
Total Cash and Investments³	\$219,712,409	\$231,230,858	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 \$21.3 million, an increase of \$110,596 due to interest earned. Interest is deposited quarterly. The interest rate was 2.07%.

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 \$148.7 million, compared to \$147.3 million at the end of the previous month. The table below includes historical comparisons of the City's portfolio.

	November 30, 2022	December 31, 2022	January 31, 2023
Market Value	147,091,668	147,282,846	148,742,480
Par Value	155,927,174	156,155,965	156,310,484
Book Value	155,696,350	155,929,700	156,105,058
Average Maturity	2.74 years	2.62 years	2.66 years
Average Modified Duration	2.34	2.28	2.28
Average Purchase Yield	1.69%	1.70%	1.73%
Average Market Yield	4.56%	4.63%	4.39%
Average Quality ¹	AA/Aa1	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, an increase of \$1.1 million from the prior month due to investment gains. The Section 115 OPEB Trust had a balance of \$33.7 million, an increase of \$2.0 million from the prior month due to investment gains. The one-month investment returns were 6.42% for both the Pension Trust and 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

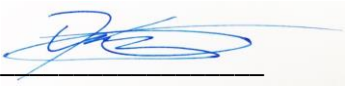
No sustainability impact.

Fiscal Impact

No fiscal impact.

California Environmental Quality Act

Not applicable.

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Reviewed by: 

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Approved for Submission by: 

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City Manager

Attachments:

A – Chandler Investment Report January 2023

B – Chandler Custodial Statement January 2023
C – PARS Pension and OPEB Account Statement January 2023
D – LAIF Account Statement January 2023