



STAFF REPORT TO THE CITY COUNCIL

DATE: Regular Meeting of February 14, 2023

TO: Members of the City Council

VIA: Dante Hall, City Manager

SUBMITTED BY: Edwin Gato, Director of Finance

SUBJECT: Accept the Investment Report for the Quarter Ending December 31, 2022

RECOMMENDED ACTION

Accept the Investment Report for the Quarter Ending December 31, 2022.

EXECUTIVE SUMMARY

Pursuant to California Government Code section 53646 and the City's Investment Policy, a quarterly report and certification shall be provided to the City Council, City Manager, and City Auditor. The Quarterly Investment Report shall include a complete description of the portfolio, the type of investments, the issuers, maturity dates, par value and dollar amounts invested in all securities. The certification must provide assurances that investments were made consistent with the City's Investment Policy and that the City will meet its expenditure obligations for the next six months. The Quarterly Investment Report for the quarter ending December 31, 2022, is provided as Attachment 1.

BACKGROUND AND ANALYSIS

To comply with state law and city policy, the City is required to present quarterly investment reports detailing the City's investment portfolio to the City Council, City Manager, and City Auditor. The Council's authority to invest or reinvest funds or sell or exchange securities is delegated to the City's Finance Director, who also serves as City Treasurer. Pursuant to the Investment Policy, the City Treasurer may delegate some of their fiduciary responsibility to an outside investment management firm. An investment manager's fiduciary responsibility is a legal requirement related to registration with the Securities and Exchange Commission under the Investment Advisor Act of 1940. Due to the specialized services and expertise required to assist the City in the varied investment options available, the City has used the Local Investment Agency Fund (LAIF) and PARS experienced investment managers.

This report presents the City's investment portfolio for the quarter ending December 31, 2022. It has been prepared to comply with regulations contained in California Government Code Section 53646 and City's Investment Policy. The report includes all cash and investments managed by the City. It also includes City-related investments held by bond trustees for debt service obligations as well as money held in the irrevocable trust with PARS for pension and other post-employment benefits (OPEB). The report provides information on the investment type, issuer, maturity date, cost, and current market value for each security.

The City utilizes the Local Agency Investment Fund (LAIF) as a money market fund administered by the State Treasurer. LAIF has many governmental agency participants and holds securities through its administrator. LAIF provides local agencies a way to invest cash held in treasury pool that may be withdrawn as needed on a same-day basis to meet the agency's cash flow needs while realizing interest generated by the Pooled Money Investment Account (PMIA). Moreover, the Investments held by Bond Trustees are administered in accordance with individual bond indentures.

As of December 31, 2022, the overall pooled investment portfolio average yield (before adjustments for changes in market value) was 1.65%, which is lower than the rate for two-year U.S. Treasury Note at 4.41% and LAIF average monthly rate of 2.173%. The market value of the pooled portfolio was \$1,015,771 or 1.3% lower than the book value. As the City does not intend to sell its pooled investment portfolio securities prior to maturity, this will have no effect on yield.

Investment Type	Market Value	Amount Over/(Under) Cost	Average Yield
Petty Cash	\$2,005	-	0.00%
Cash in Bank	7,458,289	-	0.89%
Local Agency Investment Fund (LAIF)	52,111,981	(\$988,234)	2.17%
Irrevocable Trust (Pension)	2,032,486	-	3.58%
Irrevocable Trust (OPEB)	2,532,103	-	3.58%
Investments with Bond Trustees	11,885,982	(27,538)	1.59%
Total Portfolio	\$76,022,846	(\$1,015,772)	1.65%

68.93% of the total Investment Portfolio was deposited with LAIF as of December 31, 2022. LAIF has 66.67% of its investments in U.S. Treasuries and agency notes, 6.26% in CDs and bank notes, and 26.77% in other types of investments. Additional economic summaries and specific information related to each of the investment advisors and LAIF are included in the Investment Portfolio Summary Report included in attachment 1.

The City invests its idle cash from all operating funds on a pooled basis to maximize returns. Earnings are allocated to each fund based on the average cash balance. The timing of revenue collections, such as property tax, business licenses, and franchise tax, affects the quarterly investment income during the year. There is adequate cash to meet expected obligations over the next six months.

Governmental Accounting Standards Board (GASB) Statement 40 requires the City to recognize the fair market value of its investments at the end of each fiscal year. The market values of investments included in this report are obtained from the State Controller's office for LAIF and from the City's registered investment managers and bond trustees for all other investments. These market valuations are subject to daily changes. The difference between market value and historical costs, known as Unrealized Investment Gains and Losses, are temporary in nature and are not cash related transactions. Since it is the City's general intention to hold its investments until maturity, when they would be redeemed at par value, any unrealized gain or loss is only reported at the end of the fiscal year in the City's Comprehensive Annual Financial Report.

Of the total cash and investments reported above, only the portions held in the City's General Fund (approximately \$23.3 million, or 30%) and Internal Service Funds (approximately \$1.6 million, or 2%) are unrestricted, although a portion of these amounts may be committed for existing obligations or designated for specific purposes. The remaining \$52.1 million, or 68%, of the City's cash and investments are restricted for specific uses, in accordance with federal, state, or local agency rules and regulations.

FISCAL IMPACT OF RECOMMENDATION

This is an information report with no fiscal impact.

ATTACHMENTS:

1. Quarterly Investment Report