



STAFF REPORT

TO: Mayor and Members of the City Council
FROM: Pak Lin, Admin. Services Director
VIA: Brian Dossey, City Manager
MEETING DATE: February 12, 2020
SUBJECT: FY 2019-20 Mid-Year Investment Report

RECOMMENDATION

Staff recommends that the City Council make the following motion:

MOTION ACCEPTING THE FISCAL YEAR 2018-19 MID-YEAR INVESTMENT REPORT THROUGH DECEMBER 31, 2019.

EXECUTIVE SUMMARY

The Town participates in the State's Local Agency Investment Fund (LAIF), a State investment pool, and the San Mateo County Investment Pool (SMCIF). In late-December, the Town transferred \$4.9 million to Multi-Bank Securities to purchase fully secured certificates of deposits (CD) and implemented the Town's first 5-year rolling CD, or "step ladder," strategy. As of December 31, 2019, total investments from both pools and CDs are \$22.3 million, with recorded investment earnings of \$270,854. The FY 2019-20 Adopted Budget projected investment earnings to be \$500,904.

FISCAL IMPACT

There is no fiscal impact in accepting this investment report.

BACKGROUND

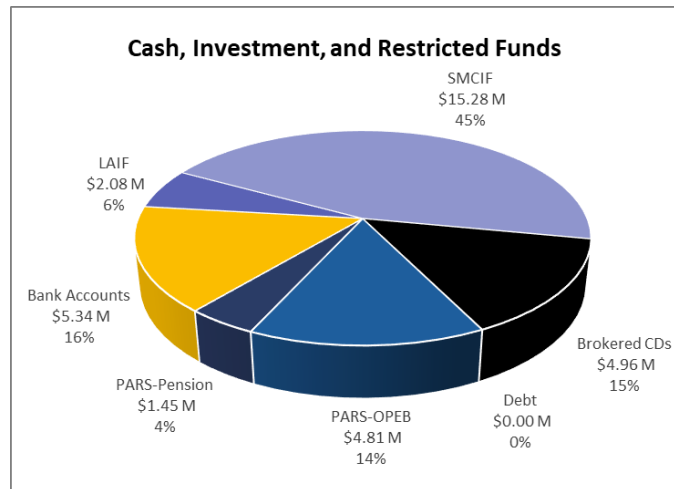
The City Council periodically reviews and approves the Town's investment policy for compliance with State statute (California Government Code Section §53600, et seq.) and set investment guidelines for the safekeeping of public funds. For day to day operations, the City Council designated the City Manager, or his designee, to maintain cash balances to meet daily operating needs and to maintain the Town's purchasing power through safe and secure investments. A majority of the Town investments are placed in the State and the San Mateo County investment pools, which invest funds for more than one public agency. Both pools comply with the State statute and allocate the majority of their funds in agency and treasury bonds.

As the Treasurer, the City Manager or his designee is required to annually review the Town's investment policy and to provide semi-annual investment updates. The Investment Policy was last reviewed and approved by the City Council on July 24, 2019.

This report summarizes the investment activities for the first half of Fiscal Year 2019-20. It includes the beginning and ending balances by quarter; net Deposits and Withdrawals by quarter; total interest earned by quarter; the effective annual interest rates earned by quarter; and the cumulative weighted average. This report provides the required information, including additional narrative explanations.

ANALYSIS

As of December 31, 2019, the Town has a total of \$33.9 million in various cash and investment accounts. Of the \$33.9 million, \$27.7 million is in unrestricted cash and investment accounts, and \$6.3 million in restricted accounts. The restriction included \$4.8 million in PARS OPEB Trust to be used to fund future retiree medical and dental costs, and \$1.5 million in PARS Pension trust to be used to fund future retiree pension costs.



Of the \$28.4 million of unrestricted funds, \$5.3 million is in the Town's operating bank accounts, \$17.4 million in the State and county pools (LAIF and SMCIF respectively), and \$5.0 million in brokered CDs. Both pools focus on liquidity and safekeeping of the assets, with 50 percent or more in agency and treasury bonds and the rest in high-quality low-risk investments.

Transaction Activity

	Balance @ 12/31/2018	Balance @ 12/31/2019	Increase/ (Decrease)
Town of Colma Cash & Investment			
Cash In Bank	\$ 6,605,350	\$ 5,343,979	\$ (1,261,371)
Public Agency Investment Pools			
Local Agency Investment Fund (LAIF)	4,955,147	2,079,500	(2,875,647)
San Mateo County Investment Fund (SMCIF)	19,106,531	15,276,729	(3,829,802)
Other Investment			
Brokered CDs	-	4,959,582	4,959,582
Total Cash & Investment	\$ 30,667,029	\$ 27,659,790	\$ (3,007,238)

Overall, Town's Cash & Investment reduced by \$3.0 million. Cash in Bank reduced by \$1.3 million and it's the result of normal operation. Reduction of \$6.7 million in LAIF and SMCIF balances is attributed to \$1.0 million transfer to Town's Pension 115 Trust, \$1.05 million supplemental payment to CalPERS in FY 2018-19, and \$5.05 million transferred for the purchase of brokered CDs in December 2019.

Earnings / Distribution of Portfolio

The weighted yield for FY 2019-20 is 1.958%. LAIF is outperforming SMCIF for two reasons. In the second quarter of FY 2019-20 (2019Q4), the interest allocation of \$31,097 from LAIF is based on the \$5.1 million investment balance on September 30, 2019. Because the \$5.0 million transfer to Brokered CDs occurred in late December, the impact to interest rate will be deferred to the following quarter(2020Q1). Similar story will occur with SMCIF.

The second reason for LAIF outperforming SMCIF is due to a change in SMCIF investment policy. Previously, both investment pools emphasize short-term yield which is highly sensitive to every fluctuation in the stock market. Under the new County Treasurer, SMCIF has changed its portfolio maturity from less than 1 year to 2.5 years, with a goal of 3 years in the near future. The longer the average maturity period, the more stable the investment and the lower the yield. This is the reason the Town decided to purchase brokered CDs, to add stability to interest earnings in the long-term.

	2019Q3		2019Q4		Interest	
	@ 9/30/2019	% of Portfolio	@ 12/31/2019	% of Portfolio	2018Q3	2018Q4
Balance(s)						
BANK BALANCE	\$ 4,468,300	16.6%	\$ 5,343,979	19.3%	6,708.94	3,189.14
LAIF	5,048,403	18.8%	2,079,500	7.5%	32,054.90	31,096.68
SMCIF	17,363,791	64.6%	15,276,729	55.2%	102,616.16	95,188.24
Brokered CDs	-	0.0%	4,959,582	17.9%	-	-
TOTAL	\$ 26,880,494		\$ 27,659,790		\$ 141,380.00	\$ 129,474.06
Effective Annual Interest Rates						
BANK BALANCE	0.601%		0.239%		FISCAL YEAR 2020 ANNUAL WEIGHTED AVERAGE: 1.958%	
LAIF	2.540%		5.982%			
SMCIF	2.364%		2.492%			
Brokered CDs	0.000%		0.000%			
Weighted Average	2.104%		1.872%			

Brokered CDs

The City Council approved the purchase of brokered CDs and implemented a 5-year rolling CD, or step ladder, strategy. This strategy allows the Town to stabilize its investment earnings. In October 2019, the City Council approved Multi-Bank Securities (MBS) as the Town's broker/dealer. The agreement with MBS was signed in November and the funds were transferred from LAIF and SMCIF in late December to purchase the following CDs. The estimated earnings from these CDs total \$352,922 with yields of 1.7 % to 2.1%.

Maturity Year	Description	Rate	Principal	Est. Interest Earning
2021	METRO CR UN CHELSEA	1.700	\$ 249,000	\$ 8,385
2021	KERN SCHS FED CR UN	1.800	\$ 249,000	\$ 8,878
2021	STATE BK INDIA NEW	1.750	\$ 247,000	\$ 8,586
2021	SB ONE BK FRANKLIN	1.750	\$ 247,000	\$ 8,657
2022	STEARNS BK NA ST	1.700	\$ 247,000	\$ 11,170
2022	BMW BK NORTH AMER	1.800	\$ 247,000	\$ 13,301
2022	MERRICK BK SOUTH	1.700	\$ 249,000	\$ 12,722
2022	FRANKLIN SYNERGY BK	1.800	\$ 249,000	\$ 13,458
2023	TEXAS EXCHANGE BK	1.900	\$ 249,000	\$ 18,937
2023	TEXAS SEC BK DALLAS	1.850	\$ 249,000	\$ 18,439
2023	MEDALLION BK SALT	1.700	\$ 249,000	\$ 16,932
2023	CELTIC BK SALT LAKE	1.800	\$ 249,000	\$ 17,940
2024	LIVE OAK BKG CO	1.800	\$ 249,000	\$ 20,138
2024	SALLIE MAE BK SALT	1.950	\$ 247,000	\$ 23,858
2024	GOLDMAN SACHS BK USA	2.100	\$ 247,000	\$ 25,878
2024	MORGAN STANLEY BK N	1.950	\$ 247,000	\$ 24,056
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2024	BMO HARRIS BK NATL	2.050	\$ 248,000	\$ 25,392
2024	JPMORGAN CHASE BK NA	2.100	\$ 247,000	\$ 25,963
2024	SILVERGATE BK LA	2.100	\$ 249,000	\$ 26,174
			\$ 4,961,000	\$ 352,922

REASONS FOR THE RECOMMENDED ACTION

Receipt of this report complies with the adopted Town Investment Policy.

COUNCIL ADOPTED VALUES

Periodic review of the Town's investment performance aligns with the City Council adopted responsibility value. It exemplifies financial accountabilities and ensures safekeeping of public funds in responsible investment options.

CONCLUSION

Staff recommends the City Council receive and accept the report.