



# STAFF REPORT

TO: Mayor and Members of the City Council  
FROM: Pak Lin, Admin. Services Director  
VIA: Brian Dossey, City Manager  
MEETING DATE: October 28, 2020  
SUBJECT: FY 2019-20 Annual Investment Report

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## RECOMMENDATION

Staff recommends that the City Council make the following motion:

MOTION ACCEPTING THE FISCAL YEAR 2018-19 ANNUAL INVESTMENT REPORT THROUGH JUNE 30, 2020

## EXECUTIVE SUMMARY

The Town's cash and investment portfolio earned \$503,877 in interest in FY 2019-20. It is \$2,973 more than the Adopted Budget of \$500,904. The weighted yield for FY 2019-20 is 3.496%. The investment strategy in FY 2019-20 was to diversify \$5.0 million of the short-term investments (in State and County Investment Pools, or LAIF and SMCIF respectively) into longer-term brokered CDs, which are fully insured by FDIC or NCUSIF. This strategy was implemented before the COVID-19 pandemic, which shut down all non-essential businesses and caused the stock market to plummet overnight. Because the Town was able to secure investments before the COVID-19 financial crisis, the Town was able to benefit from the higher yield. The Town's interest earnings are expected to fall as more issuers refinance their bonds, debts, and CDs.

## FISCAL IMPACT

There is no fiscal impact in accepting this investment report.

## BACKGROUND

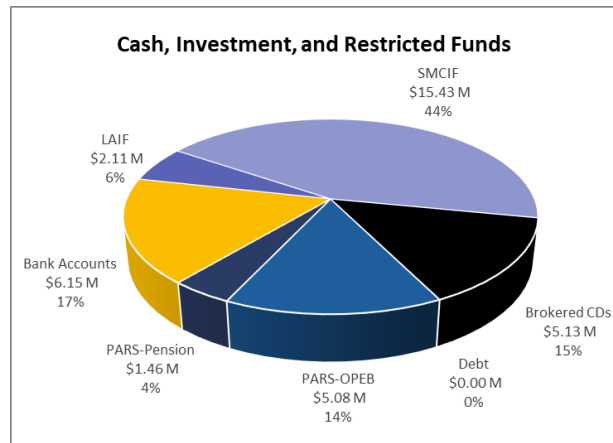
The City Council periodically reviews and approves the Town's investment policy for compliance with State statute (California Government Code Section §53600, et seq.) and sets investment guidelines for the safekeeping of public funds. For day to day operations, the City Council designated the City Manager, or his designee, to maintain cash balances to meet daily operational needs and to keep 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 most of their funds in agency and treasury bonds.

The City Manager or his designee is required to review the Town’s investment policy annually and to provide semi-annual investment updates. The Investment Policy was last reviewed and approved by the City Council on July 24, 2019 and no change is proposed at this time.

This report summarizes the investment activities for the first half of the 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 June 30, 2020, the Town has \$35.4 million in various cash and investment accounts. Of the \$35.4 million, \$28.8 million is in unrestricted cash and investment accounts, and \$6.5 million in restricted accounts. The restriction includes \$5.1 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 \$28.8 million of unrestricted funds, \$6.2 million is in the Town’s operating bank accounts, \$17.5 million in the State and county pools (LAIF and SMCIF, respectively), and \$5.1 million in Brokered CDs. The LAIF and SMCIF 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. The Brokered CDs are limited to \$250,000 per issuer and are fully insured by FDIC or NCUSIF.

**Transaction Activity**

	Balance @6/30/2019	Balance 6/30/2020	Increase/ (Decrease)
<b>Town of Colma Cash &amp; Investment</b>			
Cash In Bank	\$ 6,098,457	\$ 6,153,978	\$ 55,521
Public Agency Investment Pools			
Local Agency Investment Fund (LAIF)	5,016,348	2,114,384	(2,901,964)
San Mateo County Investment Fund (SMCIF)	17,261,175	15,426,171	(1,835,004)
Other Investment			
Brokered CDs	-	5,131,181	5,131,181
<b>Total Cash &amp; Investment</b>	<b>\$ 28,375,980</b>	<b>\$ 28,825,714</b>	<b>\$ 449,734</b>

Overall, the Town’s Cash & Investments increased by \$0.5 million. Cash in the Bank had a minimal increase which is the result of normal operations. LAIF balance reduced by \$2.9 million because of a one-time transfer to the Town’s general bank account to purchase brokered CDs. Similarly, the reduction of \$1.8 million in SMCIF results from the Town purchasing \$5.0 million of Brokered CDs to diversify the Town’s investment portfolio. Each of the CDs purchased were less

than \$250,000 and the term of the CDs were evenly spread between 1-year and 5-year as its maturity date. The goal of the rolling CD strategy is to assist in financial stability. As a whole, the Town's cash and investment increased by \$0.5 million compared to the same period in FY 2018-19.

### FY 2019-20 Investment Summary by Quarter

	2019Q3 @ 9/30/2019	2019Q4 @ 12/31/2019	2020Q1 @ 3/31/2020	2020Q2 @ 6/30/2020	Total Jul 2019 - Jun 2020
<b>Local Agency Investment Fund (LAIF)</b>					
Beginning Balance	\$ 5,016,348.33	\$ 5,048,403.23	\$ 2,079,499.91	\$ 2,103,805.16	\$ 5,016,348.33
Purchases / Deposits					0.00
Withdrawals		(3,000,000.00)			(3,000,000.00)
Interest Posted	32,054.90	31,096.68	24,305.25	10,578.60	98,035.43
<b>Ending Balance</b>	<b>\$ 5,048,403.23</b>	<b>\$ 2,079,499.91</b>	<b>\$ 2,103,805.16</b>	<b>\$ 2,114,383.76</b>	<b>\$ 2,114,383.76</b>
<b>San Mateo County Investment Fund (SMCIF)</b>					
Beginning Balance	\$ 17,261,174.95	\$ 17,363,791.11	\$ 15,276,729.35	\$ 15,356,550.73	\$ 17,261,174.95
Purchases / Deposits					0.00
Withdrawals		(2,182,250.00)			(2,182,250.00)
Interest Posted	102,616.16	95,188.24	79,821.38	69,619.93	347,245.71
<b>Ending Balance</b>	<b>\$ 17,363,791.11</b>	<b>\$ 15,276,729.35</b>	<b>\$ 15,356,550.73</b>	<b>\$ 15,426,170.66</b>	<b>\$ 15,426,170.66</b>
<b>Brokered CDs</b>					
Beginning Balance	\$ -	\$ -	\$ 4,959,581.87	\$ 4,990,821.58	\$ -
Purchases / Deposits		4,959,581.87			4,959,581.87
Withdrawals			(7,885.41)	(13,761.47)	(21,646.88)
Interest Posted			12,387.53	32,096.90	44,484.43
Net Change in Portfolio			26,737.59	122,024.46	148,762.05
<b>Ending Balance</b>	<b>\$ -</b>	<b>\$ 4,959,581.87</b>	<b>\$ 4,990,821.58</b>	<b>\$ 5,131,181.47</b>	<b>\$ 5,131,181.47</b>
<b>Total Investment Portfolio</b>					
Beginning Balance	\$ 22,277,523.28	\$ 22,412,194.34	\$ 22,315,811.13	\$ 22,451,177.47	\$ 22,277,523.28
Purchases / Deposits	0.00	4,959,581.87	0.00	0.00	4,959,581.87
Withdrawals	0.00	(5,182,250.00)	(7,885.41)	(13,761.47)	(5,203,896.88)
Interest Posted	134,671.06	126,284.92	116,514.16	112,295.43	489,765.57
Net Change in Portfolio	0.00	0.00	26,737.59	122,024.46	148,762.05
<b>Ending Balance</b>	<b>\$ 22,412,194.34</b>	<b>\$ 22,315,811.13</b>	<b>\$ 22,424,439.88</b>	<b>\$ 22,549,711.43</b>	<b>\$ 22,522,973.84</b>

**NOTES on Brokered CD:**

1. Withdrawals represents the amount of interest/dividend transferred back to the Town's general bank account. This is a monthly scheduled transfer and the sole purpose is to keep the Brokered CD value at \$5.0 million
2. Net Change in Portfolio represents fair market value adjustment, which is equivalent to unrealized gain/loss.

### **Earnings / Distribution of Portfolio**

The Town's investment portfolio performed better than normal, with a weighted yield for FY 2019-20 is 3.496%. The better than expected yield is temporary and should drop back to 1%-2% in the next year. The main reason for this better than expected yield has resulted from the uncertainty in the market. The novel coronavirus (COVID-19) halted business transactions beginning in March of 2020, which led to a sharp crash in the stock market. Conflicting news on the stimulus package in May through June created a sharp incline and decline. When the market behavior is unpredictable, debt/bond investments are more attractive. As demand for bonds

increases, debt refinancing increases. As a result, there is a temporary increase in interest earnings from repayment of debt but lower interest earnings in future years.

### FY 2019-20 Portfolio Earnings by Quarter

	2019Q3		2019Q4		Interest		
	@ 9/30/2019	% of Portfolio	@ 12/31/2019	% of Portfolio	2019Q3	2019Q4	
<b>Balance(s)</b>							
BANK BALANCE	\$ 4,468,300	16.6%	\$ 5,343,979	19.3%	18.0%	6,708.94	3,189.14
LAIF	5,048,403	18.8%	2,079,500	7.5%	13.1%	32,054.90	31,096.68
SMCIF	17,363,791	64.6%	15,276,729	55.2%	59.9%	102,616.16	95,188.24
Brokered CDs	-	0.0%	4,959,582	17.9%	9.0%	-	-
<b>TOTAL</b>	<b>\$ 26,880,494</b>		<b>\$ 27,659,790</b>			<b>\$ 141,380.00</b>	<b>\$ 129,474.06</b>

**Effective Annual Interest Rates**

BANK BALANCE	0.601%	0.239%
LAIF	2.540%	5.982%
SMCIF	2.364%	2.492%
Brokered CDs	0.000%	0.000%

<b>Weighted Average</b>	<b>2.104%</b>	<b>1.872%</b>
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	2020Q1		2020Q2		Interest		
	@ 3/31/2020	% of Portfolio	@ 6/30/2020	% of Portfolio	2020Q1	2020Q2	
<b>Balance(s)</b>							
BANK BALANCE	\$ 5,967,640	22.2%	\$ 6,153,978	22.2%	20.1%	1,942.58	2,271.26
LAIF	2,103,805	7.8%	2,114,384	7.6%	10.4%	24,305.25	10,578.60
SMCIF	15,356,551	57.1%	15,426,171	55.8%	58.2%	79,821.38	69,619.93
Brokered CDs	4,990,822	18.6%	5,131,181	18.6%	13.8%	12,387.53	32,096.90
<b>TOTAL</b>	<b>\$ 28,418,818</b>		<b>\$ 28,825,714</b>			<b>\$ 118,456.74</b>	<b>\$ 114,566.69</b>

**Effective Annual Interest Rates**

BANK BALANCE	0.130%	0.148%
LAIF	4.621%	2.001%
SMCIF	2.079%	1.805%
Brokered CDs	0.993%	2.502%

<b>Weighted Average</b>	<b>1.667%</b>	<b>1.590%</b>
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FISCAL YEAR 2020 ANNUAL  
WEIGHTED AVERAGE:  
**3.496%**

### REASONS FOR THE RECOMMENDED ACTION

The receipt of this report complies with the adopted Town Investment Policy.

### COUNCIL ADOPTED VALUES

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

### CONCLUSION

Staff recommends the City Council receive and accept the report.