



STAFF REPORT

TO: Mayor and Members of the City Council
FROM: Pak Lin, Admin. Services Director
VIA: Brian Dossey, City Manager
MEETING DATE: December 8, 2021
SUBJECT: FY 2020-21 Annual Investment Report

RECOMMENDATION

Staff recommends that the City Council make the following motion:

MOTION ACCEPTING THE FISCAL YEAR 2020-21 ANNUAL INVESTMENT REPORT THROUGH JUNE 30, 2021

EXECUTIVE SUMMARY

The Town's cash and investment portfolio earned \$254,874 in interest in FY 2020-21. This amount is \$97,283 less than the Final Budget of \$329,711 and \$249,000 less than the interest earnings in FY 2019-20. The weighted yield for FY 2020-21 is 1.668%. This reduction was expected as uncertainty in the financial market decreases, there is an increase in the interest for the debt/bond market, resulting in an increase in demand, and a drop in the interest earnings from debt/bond instruments. Since government agencies are restricted in the types of investments held, LAIF, SMIF, and the Town were limited to lower yielding investments, and the impact will be felt for the next few years.

FISCAL IMPACT

There is no fiscal impact in accepting this investment report.

BACKGROUND

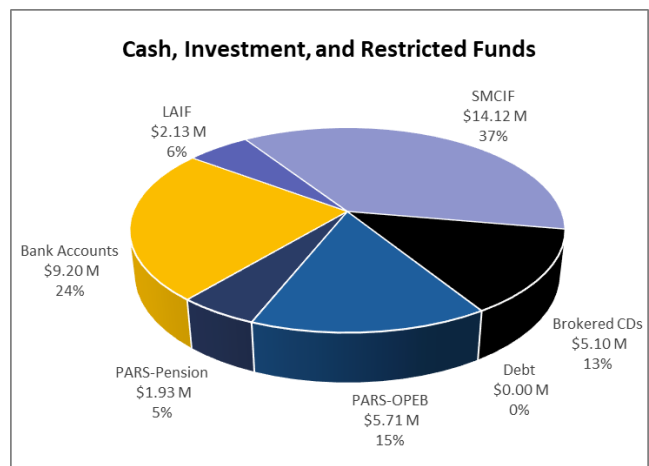
The City Council periodically reviews and approves the Town's investment policy for compliance with State statute (California Government Code Section §53600, et seq.) and sets investment guidelines for the safekeeping of public funds. For day to day operations, the City Council has designated the City 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 Fiscal Year 2020-21. 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, 2021, the Town has \$38.2 million in various cash and investment accounts. Of the \$38.2 million, \$30.56 million is in unrestricted cash and investment accounts, and \$7.64 million in restricted accounts. The restricted accounts include \$5.7 million in PARS OPEB Trust to be used to fund future retiree medical and dental costs and \$1.93 million in PARS Pension trust to be used to fund future retiree pension costs.



Of the \$30.56 million of unrestricted funds, \$9.20 million is in the Town's operating bank accounts, \$16.26 million in the State and county pools (LAIF and SMCIF, respectively), and \$5.10 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 @6/30/2020	Balance 6/30/2021	Increase/ (Decrease)
Town of Colma Cash & Investment			
Cash In Bank	\$ 6,153,978	\$ 9,202,514	\$ 3,048,537
Public Agency Investment Pools			
Local Agency Investment Fund (LAIF)	2,114,384	2,132,294	17,911
San Mateo County Investment Fund (SMCIF)	15,426,171	14,124,040	(1,302,131)
Other Investment			
Brokered CDs	5,131,181	5,097,792	(33,390)
Total Cash & Investment	\$ 28,825,714	\$ 30,556,641	\$ 1,730,927

Overall, the Town's Cash & Investments increased by \$3.05 million. The increase in Cash in the Bank is largely driven the increase in sales tax revenues during the year. In April 2019, out-of-state e-commerce were required to remit sales/use tax to the California Department of Tax and Fee Administration, also known as AB 147 or the Wayfair Decision. The Town's sales tax revenues increased by \$3.10 million during the year, when compared to FY 2019-20.

Changes to the LAIF and Brokered CDs balance were minimal and it's related to market conditions. As for SMCIF, the Town transferred \$1.5 million from SMCIF to the general bank to cover the cost of construction for the Mission Road project. The transfer was completed in 2020Q3. The Finance Department was concerned with cashflow needs in the first three months of the year, since large annual fees are paid during this period plus a \$2.8 million capital project cost.

The Finance Department will evaluate cashflow conditions in December of 2021 and will adjust the cash and investment balances to help the Town retain its purchasing power.

FY 2020-21 Investment Summary by Quarter

	2020Q3 @ 9/30/2020	2020Q4 @ 12/31/2020	2021Q1 @ 3/31/2021	2021Q2 @ 6/30/2021	Total Jul 2020 - Jun 2021
Local Agency Investment Fund (LAIF)					
Beginning Balance	\$ 2,114,383.69	\$ 2,122,098.67	\$ 2,126,604.90	\$ 2,129,967.33	\$ 2,114,383.69
Purchases / Deposits	0.00	0.00			0.00
Withdrawals	0.00	0.00			0.00
Interest Posted	7,714.98	4,506.23	3,362.43	2,326.97	17,910.61
Ending Balance	\$ 2,122,098.67	\$ 2,126,604.90	\$ 2,129,967.33	\$ 2,132,294.30	\$ 2,132,294.30
San Mateo County Investment Fund (SMCIF)					
Beginning Balance	\$ 15,426,170.66	\$ 13,988,084.50	\$ 14,045,358.13	\$ 14,086,472.85	\$ 15,426,170.66
Purchases / Deposits	0.00	0.00			0.00
Withdrawals	(1,500,000.00)	0.00			(1,500,000.00)
Interest Posted	61,913.84	57,273.63	41,114.72	37,566.97	197,869.16
Ending Balance	\$ 13,988,084.50	\$ 14,045,358.13	\$ 14,086,472.85	\$ 14,124,039.82	\$ 14,124,039.82
Brokered CDs					
Beginning Balance	\$ 5,131,181.47	\$ 5,136,881.22	\$ 5,134,434.89	\$ 5,090,472.03	\$ 5,131,181.47
Purchases / Deposits	0.00	0.00			0.00
Withdrawals	(29,399.81)	(14,098.57)	(21,402.41)	(13,956.01)	(78,856.80)
Dividend/Interest Posted [1]	10,686.46	24,786.27	10,461.59	24,756.31	70,690.63
Net Change in Portfolio [2]	24,413.10	(13,134.03)	(33,022.04)	(3,480.38)	(25,223.35)
Ending Balance	\$ 5,136,881.22	\$ 5,134,434.89	\$ 5,090,472.03	\$ 5,097,791.95	\$ 5,097,791.95
Total Investment Portfolio					
Beginning Balance	\$ 22,671,735.82	\$ 21,247,064.39	\$ 21,306,397.92	\$ 21,306,912.21	\$ 22,671,735.82
Purchases / Deposits	0.00	0.00	0.00	0.00	0.00
Withdrawals	(1,529,399.81)	(14,098.57)	(21,402.41)	(13,956.01)	(1,578,856.80)
Interest Posted	80,315.28	86,566.13	54,938.74	64,650.25	286,470.40
Net Change in Portfolio	24,413.10	(13,134.03)	(33,022.04)	(3,480.38)	(25,223.35)
Ending Balance	\$ 21,222,651.29	\$ 21,319,531.95	\$ 21,339,934.25	\$ 21,357,606.45	\$ 21,379,349.42

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 expected considering the Covid-19 pandemic, with a weighted yield for FY 2020-21 at 1.668%, compared to 3.496% in FY 2019-20. As expected, the yield dropped between 1%-2%. The main reason for the significant drop in the expected yield is a result 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, interest earnings will likely remain at this level for the next two to four years.

FY 2020-21 Portfolio Earnings by Quarter

	2020Q3		2020Q4		Interest		
	@ 9/30/2020	% of Portfolio	@ 12/31/2020	% of Portfolio	2020Q3	2020Q4	
Balance(s)							
BANK BALANCE	\$ 4,114,172	16.2%	\$ 5,909,599	21.7%	19.0%	1,629.15	519.79
LAIF	2,122,099	8.4%	2,126,605	7.8%	8.1%	7,714.98	4,506.23
SMCIF	13,988,085	55.2%	14,045,358	51.6%	53.4%	61,913.84	57,273.63
Brokered CDs	5,136,881	20.3%	5,134,435	18.9%	19.6%	10,686.46	24,786.27
TOTAL	\$ 25,361,236		\$ 27,215,997			\$ 71,257.97	\$ 62,299.65

Effective Annual Interest Rates

BANK BALANCE	0.158%	0.035%
LAIF	1.454%	0.848%
SMCIF	1.770%	1.631%
Brokered CDs	0.832%	1.931%

Weighted Average 1.124% 0.916%

	2021Q1		2021Q2		Interest		
	@ 3/31/2021	% of Portfolio	@ 6/30/2021	% of Portfolio	2021Q1	2021Q2	
Balance(s)							
BANK BALANCE	\$ 7,063,912	27.9%	\$ 9,202,514	33.8%	24.9%	775.66	951.78
LAIF	2,129,967	8.4%	2,132,294	7.8%	8.1%	3,362.43	2,326.97
SMCIF	14,086,473	55.5%	14,124,040	51.9%	53.6%	41,114.72	37,566.97
Brokered CDs	5,090,472	20.1%	5,097,792	18.7%	19.5%	10,461.59	24,756.31
TOTAL	\$ 28,370,825		\$ 30,556,641			\$ 55,714.40	\$ 65,602.03

Effective Annual Interest Rates

BANK BALANCE	0.044%	0.041%
LAIF	0.631%	0.437%
SMCIF	1.167%	1.064%
Brokered CDs	0.822%	1.943%

Weighted Average 0.786% 0.859%

FISCAL YEAR 2021 ANNUAL
WEIGHTED AVERAGE:
1.668%

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.