



AGENDA REPORT


TO: Jestin D. Johnson
City Administrator

FROM: Erin Roseman
Director of Finance

SUBJECT: Cash Management Report for Quarter
Ended December 31, 2022

DATE: May 17, 2023

City Administrator Approval


Jestin Johnson (Jun 13, 2023 16:40 PDT)

Date: Jun 13, 2023

RECOMMENDATION

Staff Recommends That The City Council Receive The Informational Cash Management Report For The Quarter Ended December 31, 2022.

EXECUTIVE SUMMARY

As a continued best practice and in accordance with the City's Investment Policy, the Finance Department submits a quarterly informational cash management report to the City Council. For the quarter ended December 31, 2022, the City's Operating Pool Portfolio had a balance of \$1.94 billion and yielded 2.79 percent, while the Successor Agency's Portfolio had a balance of \$11.98 million and yielded 3.92 percent.

BACKGROUND / LEGISLATIVE HISTORY

The Cash Management Report summarizes the characteristics of the investment portfolios for the quarter. The City and Successor Agency's Portfolio composition includes safety, creditworthiness, liquidity, and diversity. As of December 31, 2022, the portfolios are in compliance with the Investment Policy of the City for Fiscal Year (FY) 2022-23. The portfolios' credit quality remains high and well within Investment Policy parameters. Liquidity remains sufficient to meet projected cash flow needs for the next six months.

Provided in **Attachment A** are each portfolio's current market value and yield as of December 31, 2022, as well as comparisons to other market benchmarks. This report confirms that no leverage (use of debt to supplement investments) was utilized nor were derivatives (such as interest rate swaps, futures, or options) held during the reporting period. Also included are reviews of key economic factors that may affect the portfolio's potential investment results.

ANALYSIS AND POLICY ALTERNATIVES

Cash Position

The City's Operating Pool Portfolio balances increased from \$1.76 billion as of September 30, 2022, to \$1.94 billion as of December 31, 2022. This net balance decrease was mainly due to the following: receipt of \$266.22 million in property taxes, offset by debt service payments of approximately \$85.21 million. The remaining balance is net due to receipt of other revenues, such as sales tax, offset by operational expenses, such as payroll and vendor payments.

The Successor Agency's portfolio decreased from a balance of \$22.47 million as of September 30, 2022, to a balance of \$11.97 million as of December 31, 2022. The portfolio decreased due to bond excess proceed transfer payments of \$11.45 million per the bond expenditure agreement, and other vendor payments.

Yield Comparison

The effective rate of return on total assets in the City's Operating Pool Portfolio for the month ending December 31, 2022, was 2.79 percent. The effective rate of return on total assets in the Successor Agency's Portfolio for the month ending December 31, 2022, was 3.92 percent. The yields are different between the City and Successor Portfolios because the Successor Portfolio has a lower fund balance and a shorter investment horizon due to cash flow needs. The City Portfolio has a more stable long-term investment horizon, allowing for longer-term securities that typically have higher yields. Note that the current yield curve is relatively inverted, and short-term securities are yielding higher returns than long term securities.

The City Portfolio underperformed the one-year government agencies benchmark, which had a yield of 4.72 percent, as the 1-year government agency yield has already priced in future interest rate expectations, and City Portfolio slightly outperformed the Local Agency Investment Fund (LAIF), which had yield of 2.17 percent.

The performance comparison to LAIF, should be considered in context of LAIF's historical tendency to lag market changes in both rising and falling interest rate environments. Moreover, the City does not actively sell securities in the portfolio to take advantage of cyclical swings in the market, which could result in the loss of principal. Rather, the primary investment objective of the City for the portfolio is to maximize safety, liquidity, and return in that respective order.

FISCAL IMPACT

There are no budget implications associated with this informational report.

PUBLIC OUTREACH / INTEREST

This item did not require any additional public outreach other than posting on the City's website.

COORDINATION

This report was prepared by the Finance Department, Treasury Bureau.

SUSTAINABLE OPPORTUNITIES

Economic: The Cash Management Report summarizes the characteristics of the investment portfolios for the quarter. The portfolios' credit quality remains high and well within the parameters of the City's Investment Policy. Liquidity for both portfolios remains sufficient to meet the City's projected needs.

Environmental: To the extent that new investment opportunities are found in companies if or when financially prudent that are involved in environmentally positive activities, the City will consider investing in these companies (i.e. Commercial Paper, Medium Term Notes, etc.) if permitted by the City Investment Policy.

Race & Equity: The City's policy is to invest, if or when financially prudent in companies that promote the use and production of renewable energy resources and any other types of socially responsible investments. Optimization of the portfolios, while observing those key areas, will not only produce interest earnings to the General Fund, but these monies may be available for services to disadvantaged areas, or enhanced recreational or social venues. Furthermore, the Treasury Bureau makes every effort to identify and purchase additional qualifying investments from renewable energy and other socially responsible companies.

ACTION REQUESTED OF THE CITY COUNCIL

Staff Recommends That The City Council Receive The Cash Management Report For The Quarter Ended December 31, 2022.

For questions regarding this report, please contact David Jones, Treasury Administrator, at (510) 238-6508.

Respectfully submitted,



[Erin Roseman \(Jun 13, 2023 15:58 PDT\)](#)

Erin Roseman
Director of Finance, Finance Department

Reviewed by:
David Jones, Treasury Administrator
Treasury Bureau

Prepared by:
Max Kumar, Investment & Operations Manager
Treasury Bureau

Attachments (1):

A: ***Cash Management Report for the Quarter Ended December 31, 2022***