



# MEMORANDUM

Agenda Item #: 4  
Meeting Date: July 23, 2019

**TO: HONORABLE MAYOR AND CITY COUNCIL**

**FROM: ELIZABETH YING, CITY TREASURER /s/**

**SUBJECT: QUARTERLY AND ANNUAL REPORT OF CASH AND INVESTMENTS - JUNE 30, 2019**

**DATE: JULY 23, 2019**

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## **ISSUE/PURPOSE**

Acceptance and discussion of the quarterly and annual report of cash and investments as of 6/30/19.

## **BACKGROUND AND DISCUSSION**

Please refer to ATTACHMENT A for the Fourth Quarter and Annual Cash and Investment Report dated June 30, 2019, including Portfolio Detail.

## **FISCAL IMPACT**

There is no fiscal impact associated with this report. This report is for the City Council to receive and file.

## **NOTIFICATION**

This report has been posted and noticed consistent with the City's requirements.

## **ALTERNATIVES**

The alternatives available to the City Council include:

1. Receive and file the report
2. Request additional information

## **ATTACHMENTS:**

- A. Fourth Quarter and Annual Cash and Investment Report dated June 30, 2019 and Portfolio Detail.



# City of Palos Verdes Estates

## Fourth Quarter and Annual Cash and Investment Report: June 30, 2019

### BACKGROUND

The Treasurer's report is prepared in collaboration with the Finance Department and is presented to the City Council in accordance with California Government Code 53646. Additionally, as required by City's Investment Policy, Sections 8 and 17, the investment portfolio and this Fourth Quarter and Annual Report have been reviewed by the City Treasurer and the Investment Policy Advisory Committee. The Investment Policy Advisory Committee consists of the following members:

- Brad Boyd
- Jeff DeLarme
- Sharon Del Rosario, City Finance Director (ex officio)
- Victoria Lozzi, City Council member, former Treasurer (ex officio)
- Elizabeth (Liz) Ying, City Treasurer, Chairperson

### CERTIFICATION

At June 30, 2019, the City's cash and investment portfolio totaled \$28.9 million.

The portfolio is in compliance with the City's 2018-19 Investment Policy and with California Government Code Section 53601.

There is sufficient cash flow from liquid and maturing securities, bank deposits, and anticipated revenues to meet the City's forecasted expenditures for the next six months.

### EXECUTIVE SUMMARY

**Safety:** The City seeks to mitigate credit risk by limiting purchases to the safest types of investments. The portfolio is comprised of:

- \$1.2 million of available cash in the City's Union Bank Demand Deposit Accounts,
- \$10.6 million in Local Agency Investment Fund (LAIF). LAIF is a program allowing local agencies to invest in a pool administered by the California State Treasurer's Office. The State cannot borrow or withhold LAIF money per California Government Code Sections 16429.3 and 16429.4.

- \$7.9 million in FDIC- or NCUA-insured CDs, and
- \$9 million in Agency securities which carry an implicit government guarantee and are held in the City's Union Bank Custody account.

**Liquidity:** Liquidity is managed by structuring the portfolio so that securities mature concurrently to meet anticipated operational demands, and by utilizing pooled funds with same day liquidity. As of 6/30/19, the City has \$11.9 million in cash and same day liquidity, and \$1.2 million in investments maturing within six months. This will be sufficient to meet the projected expenditures of \$7.6MM from July through November with a forecasted cushion of approximately \$3 million. The City expects to receive approximately \$5.5 million in tax revenue in mid-late December.

**Yield:** The weighted average current yield of the City's investments, excluding pooled and money market savings accounts, is 2.16%. This compares to 2.05% at the end of the previous fiscal year. For the quarter, the City benefited from a 2.57% rate provided by the LAIF pool.

### PORTFOLIO OVERVIEW

(as of 6/30/19, unless otherwise stated)

Asset Class	Book Value	Market Value*	% of Total	Policy Max
Govt	9,000,000	8,978,190	31.2%	100%
CDs	7,898,000	7,926,009	27.4%	30%
Pooled Funds	10,755,286	10,755,286	37.3%	100%
Deposits	1,204,425	1,204,425	4.2%	100%
<b>Total</b>	<b>28,857,711</b>	<b>28,863,910</b>	<b>100.0%</b>	

\* Market Value for government securities and agencies are provided by Union Bank as of 6/28/19 and is assumed accurate.

At 6/30/19, market value of the portfolio totaled \$28.9 million. The portfolio shows an estimated unrealized gain of \$6,199 due to market conditions. This compares with an unrealized loss of -\$340,375 at 6/30/18. Since the City's investment philosophy is to hold investments to maturity whenever possible in order to reduce market risk, full-face (par) value is received, and no realized gain or loss of funds is expected.

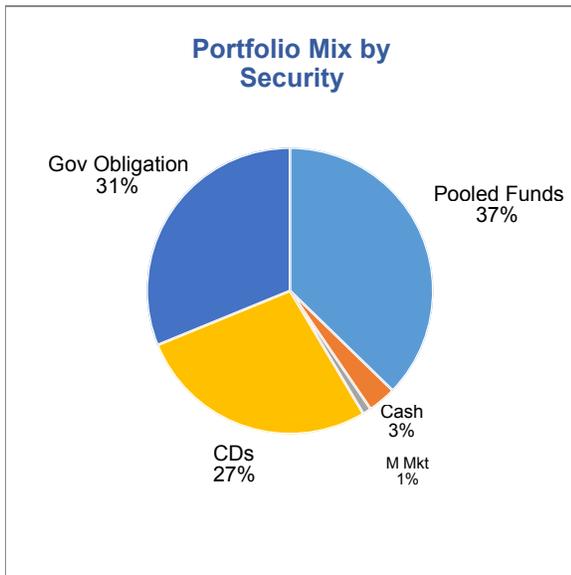


## INCOME AND PERFORMANCE

Although the City is not yet in receipt of all information, the preliminary estimate of interest earned is \$502,309 for FY 2018-19.

## PORTFOLIO COMPOSITION

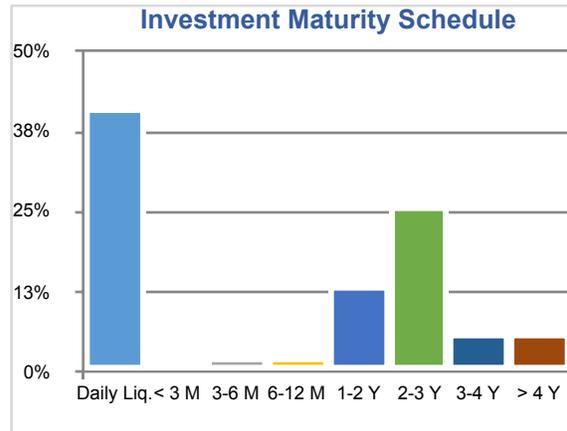
The City's investment portfolio is governed by California Government Code Section 53601, and by the City's Investment Policy, which is more conservative. The City's Investment Policy is reviewed annually, and its portfolio is reviewed at least quarterly by the City Treasurer and Investment Policy Advisory Committee.



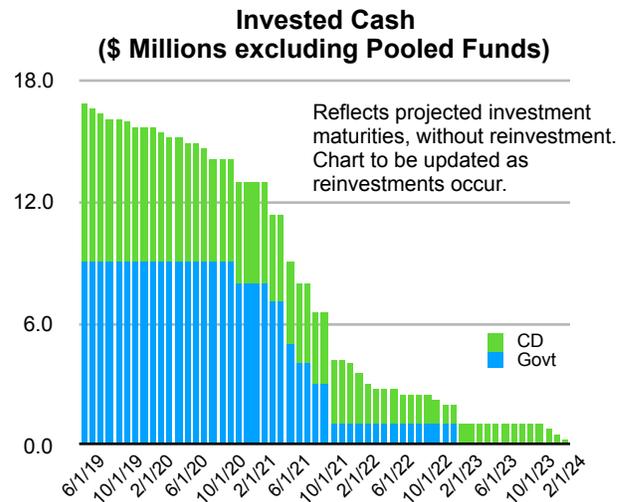
At 6/30/19, Pooled Funds, primarily LAIF, constituted 37% of the portfolio. A recommendation is being made to add an alternative pool option to the Investment Policy in order to provide choice, diversification, and operational flexibility.

## MATURITY SCHEDULE

The maximum maturity allowable by both the California Government Code and the City's Investment Policy is five years.



The maturity schedule is concentrated, with 26% of the portfolio maturing in the next 2-3 years. As such, the City may encounter interest rate risk depending on market conditions, as the need to re-invest arises. To the extent possible, the strategy is to ladder bullets around these dates, while balancing cash flow and yield considerations.



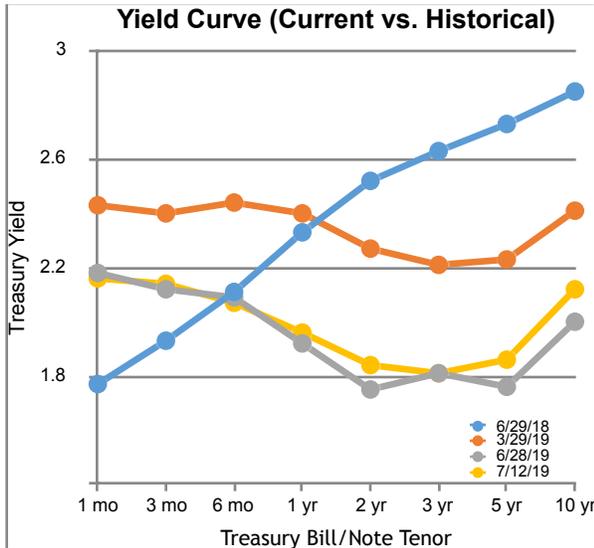
## ACTIVITY

During the quarter, three securities totaling \$2.5 million were called. The proceeds were subsequently invested into the LAIF pool.



### MARKET OUTLOOK

The current yield curve remains “inverted,” compared with the June 2018 “normal” yield curve in which long term rates are higher than short term rates. Typically, an extended inversion signals that investors are concerned about a recession within 6-24 months.



After nine rate increases since 2008, in mid-July, Federal Reserve Chairman Powell signaled potential rate cuts. Citing general global weakness and domestic weakness in housing, manufacturing and trade, he nevertheless acknowledged that the economy is in a “very good place” and that the Fed is prepared to do what it can to “keep it there.” Another stated consideration has been the need to deliver on the Fed’s 2% inflation target.

As of July 11, analyst consensus was 75% for a 25bps cut, 15% for a 50bps cut and a 10% chance that rates are left unchanged for the July 30-31 Fed meeting. The current FOMC target range is 2.25-2.50%.

### PORTFOLIO STRATEGY

As stipulated in the City’s Investment Policy, the portfolio is managed with the priorities of (1) safety, (2) liquidity and finally (3) yield. A higher balance has been kept in the LAIF liquidity pool to manage the seasonal cash outflows and anticipated capital projects through November. During “normal” cycles, this may have suppressed yield, however, given the inverted yield curve, the City benefited from a 2.57% apportionment rate from LAIF.

As securities are called, and as tax receipts are collected in December, the strategy will be to attempt to ladder bullets around the existing portfolio maturities with its concentration in the 2-3 year range, while attempting to match cash flows.

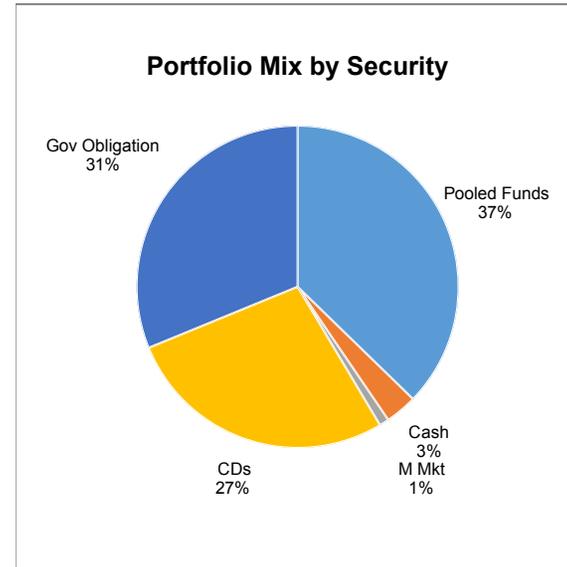
### PORTFOLIO DETAIL (pgs 4-5)

# Cash and Investment Data

CASH AND INVESTMENT DATA 6/30/19																
Investment Type/Institution	CUSIP	Investment Category	Par Value	Book Value	Market Value*	Unrealized Gain/Loss	Coupon	Maturity Date	Current Yield	Maturing Schedule (Book Value)						
										< 3 Mo	3-6 Mo	6-12 Mo	1-2 Yr	2-3 Yr	3-4 Yr	> 4 Yr
Government Obligation																
FHLB	3130ACVY7	1	1,000,000	1,000,000	1,000,090	90	2.05%	12/15/20	2.05%				\$1,000,000			
FNMA	3136G3QT5	1	1,000,000	1,000,000	998,170	(1,830)	1.80%	6/16/21	1.80%				\$1,000,000			
FHLB	3130A8LS0	1	1,000,000	1,000,000	989,710	(10,290)	1.50%	6/30/21	1.52%					\$1,000,000		
FNMA	3136G3A70	1	1,000,000	1,000,000	994,770	(5,230)	1.50%	7/27/21	1.51%					\$1,000,000		
FNMA	3136G36C4	1	1,000,000	1,000,000	995,660	(4,340)	1.60%	9/29/21	1.61%					\$1,000,000		
FHLB	3130AA2S6	1	2,000,000	2,000,000	1,997,520	(2,480)	1.80%	11/26/21	1.80%					\$2,000,000		
FHLMC	3134GSCQ6	1	1,000,000	1,000,000	1,001,150	1,150	2.75%	2/23/23	2.75%						\$1,000,000	
FHLMC	3134GTBQ5	1	1,000,000	1,000,000	1,001,120	1,120	2.75%	4/15/24	2.75%							\$1,000,000
Negotiable Certificate of Deposit																
American Exp Fed Svgs Bk Ins	02587CAJ9	2	245,000	245,000	244,951	(49)	2.00%	7/24/19	2.00%	\$ 245,000						
Comenity Cap Bk Utah	20033AMH6	2	245,000	245,000	244,912	(88)	1.95%	8/30/19	1.95%	\$ 245,000						
Ally Bank Middle Utah	02006L5P4	2	250,000	250,000	249,668	(333)	1.70%	9/30/19	1.70%		\$ 250,000					
Capital One Bk USA Natl Assn	140420Qn3	2	245,000	245,000	244,927	(74)	2.00%	11/5/19	2.00%		\$ 245,000					
Morgan Stanley Bk NA Utah	61747MD99	2	250,000	250,000	249,985	(15)	2.10%	12/23/19	2.10%		\$ 250,000					
Citibank National Assoc	17312QH51	2	250,000	250,000	250,593	593	2.49%	3/30/20	2.51%			\$ 250,000				
Morgan Stanley Pvt Bk Purché	61760AKM0	2	250,000	250,000	250,965	965	2.65%	4/27/20	2.64%			\$ 250,000				
BMO Harris Bk Natl Assn Chic	05581WXZ3	2	250,000	250,000	251,430	1,430	2.80%	6/1/20	2.78%			\$ 250,000				
Capital One Natl Assn VA	14042E5M8	2	245,000	245,000	245,326	326	2.30%	8/12/20	2.30%				\$ 245,000			
Barclays Bank Del	06740KJK4	2	245,000	245,000	245,198	198	2.20%	9/16/20	2.20%				\$ 245,000			
Goldman Sachs Bk USA NY	38148PPZ4	2	250,000	250,000	249,128	(873)	1.90%	9/28/20	1.91%				\$ 250,000			
Compass Bk Birmingham Ala	20451PWF9	2	250,000	250,000	253,218	3,218	3.10%	12/4/20	3.05%				\$ 250,000			
MB Find Bkl NA Chic IL	55266CZE9	2	250,000	250,000	252,245	2,245	2.70%	4/26/21	2.68%				\$ 250,000			
Merrick Bk South Jordan Utah	59013JT25	2	250,000	250,000	252,248	2,248	2.70%	4/27/21	2.68%				\$ 250,000			
World's Foremost Bk Sydney NE	981571CQ3	2	200,000	200,000	197,712	(2,288)	1.70%	6/9/21	1.72%				\$ 200,000			
Wells Fargo Bk NA	9497485W3	2	245,000	245,000	242,163	(2,837)	1.75%	6/17/21	1.77%				\$ 245,000			
APEX Bkl Camden Tenn	03753XAL4	2	247,000	247,000	243,100	(3,900)	1.50%	9/30/21	1.52%					\$ 247,000		
JPMorgan Chase Bk	48126XFX8	2	246,000	246,000	241,921	(4,079)	1.70%	9/30/21	1.73%					\$ 246,000		
Discover Bank	254672N46	2	245,000	245,000	240,654	(4,346)	1.75%	11/9/21	1.78%					\$ 245,000		
Vision Bk Iowa West Des Moin	92834CCB6	2	245,000	245,000	242,241	(2,759)	1.75%	11/30/21	1.77%					\$ 245,000		
Third Fed Svgs & Ln Assn	88413QBY3	2	250,000	250,000	251,638	1,638	2.50%	1/31/22	2.48%					\$ 250,000		
People's United Bank	88413QBY3	2	245,000	245,000	243,826	(1,174)	2.05%	2/8/22	2.06%					\$ 245,000		
First Natl Bk Damariscotta M	32117BCW6	2	250,000	250,000	253,280	3,280	2.75%	2/28/22	2.71%					\$ 250,000		
Kern Schs Fed Cr Un	49228XAB6	2	250,000	250,000	253,648	3,648	2.80%	3/14/22	2.76%					\$ 250,000		
Bar Harbor Bkg & Tr Co ME	066851WR3	2	250,000	250,000	250,960	960	2.65%	3/29/22	2.64%					\$ 250,000		
Sallie Mae Bk St Lake City	7954502C8	2	250,000	250,000	252,680	2,680	2.65%	4/4/22	2.62%					\$ 250,000		
First Technology Federal Cre	33715LDV9	2	250,000	250,000	255,340	5,340	3.00%	7/5/22	3.25%						\$ 250,000	
UBS Bk USA Salt Lake City Ut	90348JFN5	2	250,000	250,000	257,933	7,933	3.35%	11/7/22	3.25%						\$ 250,000	
Medallion Bk Utah	58404DCX7	2	250,000	250,000	258,335	8,335	3.40%	12/7/22	3.29%						\$ 250,000	
Baycoast Bk Swansea Mass	072727AJ9	2	250,000	250,000	251,328	1,328	3.00%	1/31/24	2.98%							\$ 250,000
TIAA FSB Jacksonville Fla	87270LBU6	2	250,000	250,000	254,108	4,108	3.00%	2/22/24	2.95%							\$ 250,000
Signature Bk Chicago ILL	82669CVB5	2	250,000	250,000	250,353	353	2.80%	3/28/24	2.80%							\$ 250,000
Total Investments			\$16,898,000	\$16,898,000	\$16,904,199	6,199			2.16%	\$ 490,000	\$ 745,000	\$ 750,000	\$3,935,000	\$7,478,000	\$1,750,000	\$1,750,000
Pooled Investment Funds																
				10,755,286	10,755,286		ASSET CL	BOOK VAL	% Port.	Policy Max						
LAIF				10,610,808	10,610,808		Pooled Fds	10,755,286	37.3%	100%	Average Years to Maturity 2.21					
L.A. County Pooled Inv. Fund				144,478	144,478						Weighted Average Years to Maturity 2.32					
Cash																
				1,204,425	1,204,425		Cash	1,204,425	4.2%	N/A						
Union Bank Money Market				279,138	279,138											
Union Bank Checking				902,312	902,312											
Parking Citation & AFLAC				22,975	22,975											
Total Investment																
Government Obligation				9,000,000	8,978,190		Govt Agency	9,000,000	31.2%	100%						
Negotiable Certificate of Deposit				7,898,000	7,926,009		CDs	7,898,000	27.4%	30%						
Total Cash & Investments:				28,857,711	28,863,910		TOTAL	28,857,711	100.0%							
Unrealized Gain/(Loss)						6,199										

\* Source: Union Bank a/o 6/28/19 assumed accurate

Category	Book Value	Mix %	Policy Limits
Pooled Funds	10,755,286	37.3%	100%
Cash	925,287	3.2%	100%
M Mkt	279,138	1.0%	100%
CDs	7,898,000	27.4%	30%
Gov Obligation	9,000,000	31.2%	100%
<b>Total</b>	<b>28,857,711</b>	<b>100.0%</b>	



Category	Book Value	Mix %
Daily Liq.	11,959,711	41%
< 3 M	490,000	2%
3-6 M	745,000	3%
6-12 M	750,000	3%
1-2 Y	3,935,000	14%
2-3 Y	7,478,000	26%
3-4 Y	1,750,000	6%
> 4 Y	1,750,000	6%
<b>Total</b>	<b>28,857,711</b>	<b>100%</b>

