



# MEMORANDUM

Agenda Item #: 5  
Meeting Date: 10/22/19

**TO: HONORABLE MAYOR AND CITY COUNCIL**

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

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

**DATE: OCTOBER 22, 2019**

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## **ISSUE/PURPOSE**

Acceptance and discussion of the Quarterly Cash and Investment Report.

## **BACKGROUND AND DISCUSSION**

Please refer to ATTACHMENT A for the Quarterly Cash and Investment Report.

## **FISCAL IMPACT**

No fiscal impact is 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. Quarterly Cash and Investment Report dated September 30, 2019.



# City of Palos Verdes Estates

## First Quarter Cash and Investment Report September 30, 2019

**ATTACHMENT A**

### 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 Quarterly 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 September 30, 2019, the City's cash and investment portfolio totaled \$25.1 million, down from \$28.9 million at June 30, 2019. The lower cash balance is due to seasonality arising from the timing of tax receipts, which is the largest source of City revenue.

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:

- \$1.4 million of available cash in the City's Union Bank Demand Deposit Accounts and Money Market Account.
- \$7.2 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.

- \$0.5MM in Joint Powers Authority California Asset Management Program (CAMP). CAMP is a program that is authorized under California Government Code Section 53601(p) and was approved as an additional investment option by City Council on 7/23/19. CAMP's Cash Reserve portfolio is rated by S&P as AAA(m).
- \$6.9 million in FDIC- or NCUA-insured CDs, and
- \$9.0 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 utilizing pooled funds with same day liquidity in combination with maturing securities and forecasted revenues. As of 9/30/19, the City has \$9.2 million in cash and same day liquidity, and \$0.5 million in investments maturing within six months. Together with \$5.5 million of anticipated tax revenue in mid-December, we expect this to be sufficient to meet the City's projected expenditures of \$11.2MM for the next six months.

**Yield:** The weighted average current yield of the City's investments, excluding pooled and money market savings accounts, is 2.12%, lower than 2.16% at 6/30/19. The City's investment in the LAIF pool returned a 2.45% apportionment rate for the quarter. We expect overall yields to drop due to early call redemptions of higher yielding investments, and due to the lower yields of new investments. For example, 2 and 3 year Treasury Notes yielded 1.47%-1.43% as of 10/9/19 compared with 2.81-2.88% at 9/28/18.

### PORTFOLIO OVERVIEW

(as of 9/30/19, unless otherwise stated)

| Asset Class           | Book Value        | Market Value*     | % Portfolio   | Policy Max |
|-----------------------|-------------------|-------------------|---------------|------------|
| Government Obligation | 9,000,000         | 8,964,660         | 35.8%         | 100%       |
| CDs                   | 6,908,000         | 6,985,712         | 27.5%         | 30.0%      |
| Pooled Funds          | 7,806,072         | 7,806,072         | 31.1%         | 100%       |
| Deposits              | 1,413,688         | 1,413,688         | 5.6%          | 100%       |
| <b>Total</b>          | <b>25,127,760</b> | <b>25,170,132</b> | <b>100.0%</b> |            |

\* Market Value for government securities and CDs are provided by Union Bank a/o 9/30/19 and assumed accurate. Pooled Funds are assumed at book value.



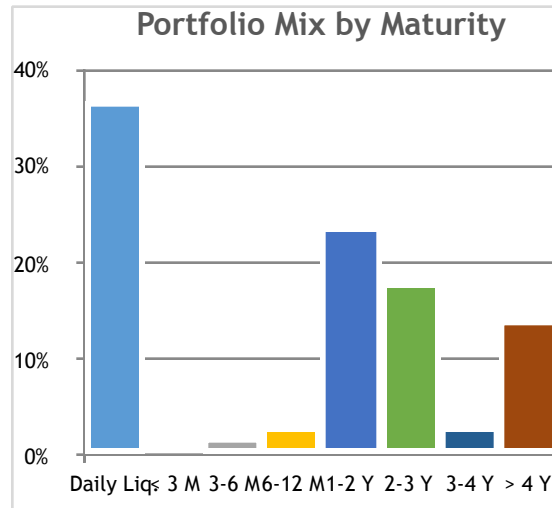
At 9/30/19, market value of the portfolio totaled \$25.2 million. The portfolio shows an estimated unrealized gain of \$42,372 compared to an unrealized gain of \$6,199 in the previous quarter market rates trended downward. Since the City's investment philosophy is to hold investments to maturity whenever possible in order to reduce market risk, full-face (par) value is received, and no realized gain or loss of funds is expected.

### INCOME

Income collected over the quarter is shown below:

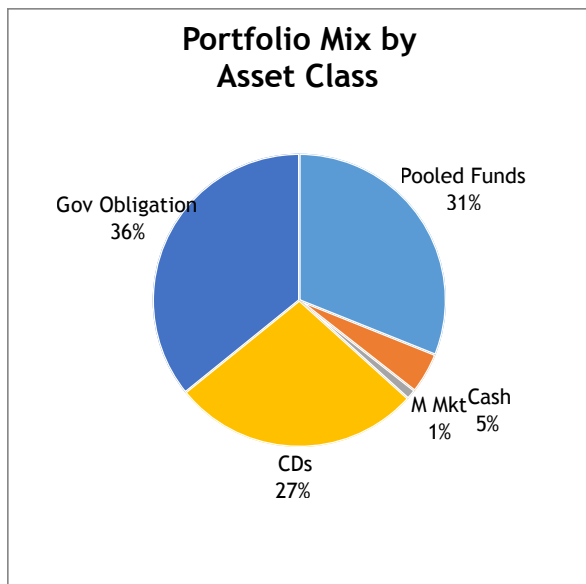
| Security        | Interest Collected QE 9/30/19 |
|-----------------|-------------------------------|
| Govt Obl.       | 41,875                        |
| CDs             | 53,971                        |
| LAIF            | 59,441                        |
| JPA Camp        | 291                           |
| LACIP (est.)    | 1,071                         |
| <b>TOTAL \$</b> | <b>156,649</b>                |

At 9/30/19, Pooled Funds, primarily LAIF, constituted 31% of the portfolio. We expect Pooled Fund balances to continue to be drawn down until tax revenue is received in mid-December.



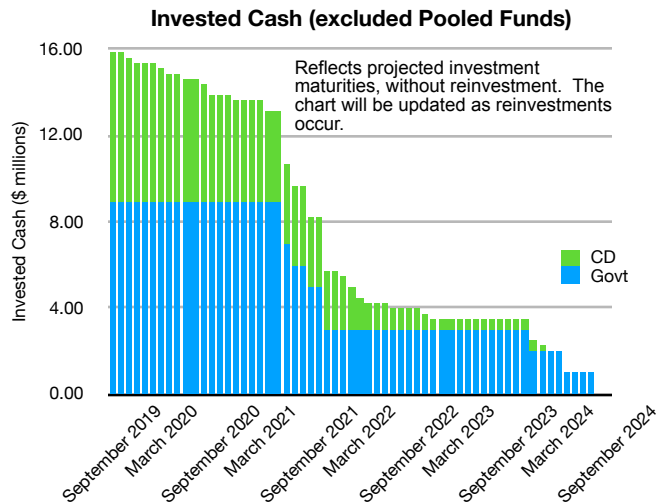
### PORTFOLIO COMPOSITION

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.



### 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 24% of the portfolio maturing in the next 1-2 years. As such, the City may face interest rate risk 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 \$2.3 million were called and three securities, totaling \$0.7 million matured. Two securities totaling \$2.0 million were purchased, with the remainder invested in pooled funds.

| Date    | Book Value | Security                            | Action   |
|---------|------------|-------------------------------------|----------|
| 7/24/19 | -245,000   | American Express CD 2.00% 7/24/19   | Maturity |
| 8/23/19 | -1,000,000 | FHLMC MTN 2.750% 2/23/23            | Call     |
| 8/28/19 | 1,000,000  | FEDERAL HOME LOAN BA 2.150% 8/28/24 | Purchase |
| 8/30/19 | -245,000   | COMENITY CAP BK C/D 1.950% 8/30/19  | Maturity |
| 9/16/19 | -1,000,000 | FHLB BD 2.050% 12/15/20             | Call     |
| 9/18/19 | 1,000,000  | FREDDIE MAC 2.000% 12/18/23         | Purchase |
| 9/30/19 | -250,000   | SIGNATURE BK CHICAGO 2.800% 3/28/24 | Call     |
| 9/30/19 | -250,000   | ALLY BK MIDVALE C/D 1.700% 9/30/19  | Maturity |

## MARKET OUTLOOK

The current yield curve remains “inverted,” compared with the September 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. Additionally, rates have continued to shift downward.

After nine rate increases since 2008, the Fed cut its target fed funds rate by 25 bps on 8/1/19 and again by 25 bps on 9/19/19. The Fed’s current

target range is 1.75-2.00%. Fed Chair Powell again reiterated that the U.S. economy was in a good place and reiterated that the central bank must do what it can to keep it there. Concerns cited included global developments and muted U.S. inflation.

The market is pricing in at least one additional rate cut in 2019. The Fed next meets on October 29-30.

## 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. The higher LAIF balance is being drawn down 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 2.45% apportionment rate for the quarter from LAIF.

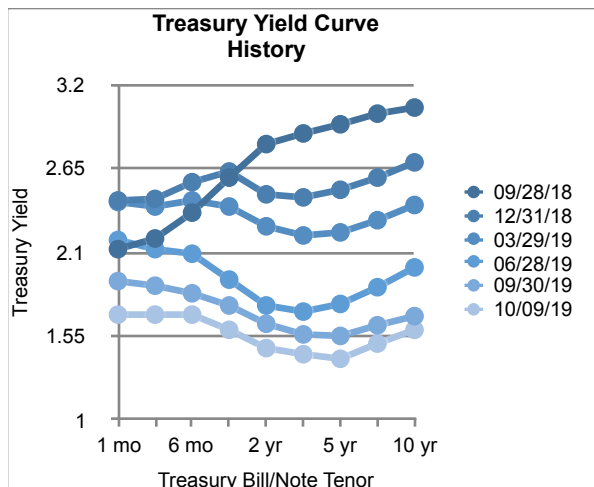
As securities are called, and as tax receipts are collected in December, the strategy will be to attempt to ladder bullets around the existing portfolio maturities with its concentration in the 1-2 year range, while attempting to match cash flows.

## PORTFOLIO CHALLENGES

Challenges include:

- Trending low rate environment,
- Concentration of maturities and potential reinvestment risk, and
- Uncertainty around timing of future cash flow requirements.

## PORTFOLIO DETAIL (see Page 4)





Cash and Investment Data

| CASH AND INVESTMENT DATA 9/30/19     |           |                     |                   |                   |               |                      |        |               |               |                                |            |            |            |             |             |            |              |             |
|--------------------------------------|-----------|---------------------|-------------------|-------------------|---------------|----------------------|--------|---------------|---------------|--------------------------------|------------|------------|------------|-------------|-------------|------------|--------------|-------------|
| 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                |           |                     |                   |                   |               |                      |        |               |               |                                |            |            |            |             |             |            |              |             |
| FNMA                                 | 3136G3QT5 | 1                   | 1,000,000         | 1,000,000         | 999,540       | (460)                | 1.80%  | 6/16/21       | 1.80%         |                                |            |            |            | \$1,000,000 |             |            |              |             |
| FHLB                                 | 3130A8LS0 | 1                   | 1,000,000         | 1,000,000         | 991,880       | (8,120)              | 1.50%  | 6/30/21       | 1.51%         |                                |            |            |            | 1,000,000   |             |            |              |             |
| FNMA                                 | 3136G3A70 | 1                   | 1,000,000         | 1,000,000         | 994,370       | (5,630)              | 1.50%  | 7/27/21       | 1.51%         |                                |            |            |            | 1,000,000   |             |            |              |             |
| FNMA                                 | 3136G36C4 | 1                   | 1,000,000         | 1,000,000         | 995,070       | (4,930)              | 1.60%  | 9/29/21       | 1.61%         |                                |            |            |            | 1,000,000   |             |            |              |             |
| FHBL                                 | 3130AA256 | 1                   | 2,000,000         | 2,000,000         | 1,994,160     | (5,840)              | 1.80%  | 11/26/21      | 1.81%         |                                |            |            |            | \$2,000,000 |             |            |              |             |
| FHLMC                                | 3134GUBJ8 | 1                   | 1,000,000         | 1,000,000         | 1,001,110     | 1,110                | 2.00%  | 12/18/23      | 2.00%         |                                |            |            |            |             |             |            |              | 1,000,000   |
| FHLMC                                | 3134GTBQ5 | 1                   | 1,000,000         | 1,000,000         | 1,000,230     | 230                  | 2.75%  | 4/15/24       | 2.75%         |                                |            |            |            |             |             |            |              | \$1,000,000 |
| FHLLB                                | 3130AGXY6 | 1                   | 1,000,000         | 1,000,000         | 988,300       | (11,700)             | 2.15%  | 8/28/24       | 2.18%         |                                |            |            |            |             |             |            |              | \$1,000,000 |
| Negotiable Certificate of Deposit    |           |                     |                   |                   |               |                      |        |               |               |                                |            |            |            |             |             |            |              |             |
| Capital One Bk USA Natl Assn         | 140420Qn3 | 2                   | 245,000           | 245,000           | 245,042       | 42                   | 2.00%  | 11/5/19       | 2.00%         |                                |            |            |            |             |             |            |              |             |
| Morgan Stanley Bk NA Utah            | 61747MD99 | 2                   | 250,000           | 250,000           | 250,115       | 115                  | 2.10%  | 12/23/19      | 2.10%         |                                | \$ 245,000 |            |            |             |             |            |              |             |
| Citibank National Assoc              | 1717QH51  | 2                   | 250,000           | 250,000           | 250,838       | 838                  | 2.49%  | 3/30/20       | 2.49%         |                                |            | \$ 250,000 |            |             |             |            |              |             |
| Morgan Stanley Pvt Bk Purché         | 61760AKM0 | 2                   | 250,000           | 250,000           | 251,170       | 1,170                | 2.65%  | 4/27/20       | 2.64%         |                                |            |            | \$ 250,000 |             |             |            |              |             |
| BMO Harris Bk Natl Assn Chic         | 05581WXZ3 | 2                   | 250,000           | 250,000           | 251,638       | 1,638                | 2.80%  | 6/11/20       | 2.78%         |                                |            |            |            | \$ 245,000  |             |            |              |             |
| Capital One Natl Assn VA             | 1404ZE5W8 | 2                   | 245,000           | 245,000           | 246,054       | 1,054                | 2.30%  | 8/12/20       | 2.29%         |                                |            |            |            | \$ 245,000  |             |            |              |             |
| Barclays Bank Del                    | 06740KJK4 | 2                   | 245,000           | 245,000           | 246,051       | 1,051                | 2.20%  | 9/16/20       | 2.19%         |                                |            |            |            | \$ 245,000  |             |            |              |             |
| Goldman Sachs Bk USA NY              | 38148PPZ4 | 2                   | 250,000           | 250,000           | 250,248       | 248                  | 1.90%  | 9/28/20       | 1.90%         |                                |            |            |            | \$ 250,000  |             |            |              |             |
| Compass Bk Birmingham Ala            | 20451PW99 | 2                   | 250,000           | 250,000           | 253,775       | 3,775                | 3.10%  | 12/4/20       | 3.05%         |                                |            |            |            | \$ 250,000  |             |            |              |             |
| MB Find Bk NA Chic IL                | 55266CEZ9 | 2                   | 250,000           | 250,000           | 253,485       | 3,485                | 2.70%  | 4/26/21       | 2.66%         |                                |            |            |            | \$ 250,000  |             |            |              |             |
| Merrick Bk South Jordan Utah         | 59013JT25 | 2                   | 250,000           | 250,000           | 253,493       | 3,493                | 2.70%  | 4/27/21       | 2.66%         |                                |            |            |            | \$ 250,000  |             |            |              |             |
| World's Foremost Bk Sydney NE        | 981571CQ3 | 2                   | 200,000           | 200,000           | 199,334       | (666)                | 1.70%  | 6/9/21        | 1.71%         |                                |            |            |            | \$ 200,000  |             |            |              |             |
| Wells Fargo Bk NA                    | 9497483V3 | 2                   | 245,000           | 245,000           | 244,174       | (826)                | 1.75%  | 6/17/21       | 1.76%         |                                |            |            |            | \$ 245,000  |             |            |              |             |
| APEX Bk Camden Tenn                  | 03753XAL4 | 2                   | 247,000           | 247,000           | 245,545       | (1,455)              | 1.50%  | 9/30/21       | 1.51%         |                                |            |            |            | \$ 247,000  |             |            |              |             |
| JPMorgan Chase Bk                    | 48126XF88 | 2                   | 246,000           | 246,000           | 244,364       | (1,636)              | 1.70%  | 9/30/21       | 1.71%         |                                |            |            |            | \$ 246,000  |             |            |              |             |
| Discover Bank                        | 250672N46 | 2                   | 245,000           | 245,000           | 243,229       | (1,771)              | 1.75%  | 11/9/21       | 1.76%         |                                |            |            |            | \$ 245,000  |             |            |              |             |
| Vision Bk Iowa West Des Moines       | 9283ACC66 | 2                   | 245,000           | 245,000           | 244,728       | (272)                | 1.75%  | 11/30/21      | 1.75%         |                                |            |            |            | \$ 245,000  |             |            |              |             |
| Third Fed Svcs & Ln Assn             | 88413QB3Y | 2                   | 250,000           | 250,000           | 253,968       | 3,968                | 2.50%  | 1/31/22       | 2.46%         |                                |            |            |            | \$ 250,000  |             |            |              |             |
| People's United Bank                 | 88413QB3Y | 2                   | 245,000           | 245,000           | 246,384       | 1,384                | 2.05%  | 2/28/22       | 2.04%         |                                |            |            |            | \$ 245,000  |             |            |              |             |
| First Natl Bk Damariscotta M         | 32117BCW6 | 2                   | 250,000           | 250,000           | 255,570       | 5,570                | 2.75%  | 2/28/22       | 2.69%         |                                |            |            |            | \$ 250,000  |             |            |              |             |
| Kern Schs Fed Cr Un                  | 49228XA86 | 2                   | 250,000           | 250,000           | 255,968       | 5,968                | 2.80%  | 3/14/22       | 2.73%         |                                |            |            |            | \$ 250,000  |             |            |              |             |
| Bar Harbor Bkg & Tr Co ME            | 066851WR3 | 2                   | 250,000           | 250,000           | 251,020       | 1,020                | 2.65%  | 3/29/22       | 2.64%         |                                |            |            |            | \$ 250,000  |             |            |              |             |
| Sallie Mae Bk SLT Lake City          | 799490ZC8 | 2                   | 250,000           | 250,000           | 255,158       | 5,158                | 2.65%  | 4/4/22        | 2.60%         |                                |            |            |            | \$ 250,000  |             |            |              |             |
| First Technology Federal Cre         | 33715LDV9 | 2                   | 250,000           | 250,000           | 258,020       | 8,020                | 3.00%  | 7/15/22       | 2.91%         |                                |            |            |            | \$ 250,000  |             |            |              |             |
| UBS Bk USA Salt Lake City Ut         | 90348JFN5 | 2                   | 250,000           | 250,000           | 261,563       | 11,563               | 3.35%  | 11/7/22       | 3.20%         |                                |            |            |            | \$ 250,000  |             |            |              |             |
| Medallion Bk Utah                    | 5840DCX7  | 2                   | 250,000           | 250,000           | 262,225       | 12,225               | 3.40%  | 12/7/22       | 3.24%         |                                |            |            |            | \$ 250,000  |             |            |              |             |
| Baycoast Bk Swansea Mass             | 072777AJ9 | 2                   | 250,000           | 250,000           | 250,898       | 898                  | 3.00%  | 1/31/24       | 2.99%         |                                |            |            |            | \$ 250,000  |             |            |              |             |
| TIAA FSB Jacksonville Fla            | 87270LBU6 | 2                   | 250,000           | 250,000           | 261,670       | 11,670               | 3.00%  | 2/22/24       | 2.87%         |                                |            |            |            | \$ 250,000  |             |            |              |             |
| <b>Total Investments</b>             |           |                     | \$15,908,000      | \$15,908,000      | \$15,950,372  | 42,372               |        | Wtd Avg Yld   | 2.12%         |                                | \$ -       | \$ 495,000 | \$ 750,000 | \$5,935,000 | \$4,478,000 | \$ 750,000 | \$ 3,500,000 |             |
| Pooled Investment Funds              |           |                     |                   |                   |               |                      |        |               |               |                                |            |            |            |             |             |            |              |             |
| LAIF                                 |           |                     | 7,806,072         | 7,806,072         |               |                      |        |               |               |                                |            |            |            |             |             |            |              | 2.32        |
| L.A. County Pooled Inv. Fund         |           |                     | 7,160,250         | 7,160,250         |               |                      |        |               |               |                                |            |            |            |             |             |            |              | 2.53        |
| JPA CAMP                             |           |                     | 145,532           | 145,532           |               |                      |        |               |               |                                |            |            |            |             |             |            |              |             |
|                                      |           |                     | 500,291           | 500,291           |               |                      |        |               |               |                                |            |            |            |             |             |            |              |             |
| Cash                                 |           |                     | 1,413,688         | 1,413,688         |               |                      |        |               |               |                                |            |            |            |             |             |            |              |             |
| Union Bank Money Market              |           |                     | 279,175           | 279,175           |               |                      |        |               |               |                                |            |            |            |             |             |            |              |             |
| Union Bank Checking                  |           |                     | 1,109,892         | 1,109,892         |               |                      |        |               |               |                                |            |            |            |             |             |            |              |             |
| Parking Citation & AFLAC             |           |                     | 24,622            | 24,622            |               |                      |        |               |               |                                |            |            |            |             |             |            |              |             |
| Total Investment                     |           |                     | 15,908,000        | 15,950,372        |               |                      |        |               |               |                                |            |            |            |             |             |            |              |             |
| Government Obligation                |           |                     | 9,000,000         | 8,964,660         |               |                      |        |               |               |                                |            |            |            |             |             |            |              |             |
| Negotiable Certificate of Deposit    |           |                     | 6,908,000         | 6,985,712         |               |                      |        |               |               |                                |            |            |            |             |             |            |              |             |
| <b>Total Cash &amp; Investments:</b> |           |                     | <b>25,127,760</b> | <b>25,170,132</b> |               |                      |        |               |               |                                |            |            |            |             |             |            |              |             |

\* Source: Union Bank a/o 9/30/19 assumed accurate