



MEMORANDUM

Agenda Item #: 4
Meeting Date: 1/28/2020

TO: HONORABLE MAYOR AND CITY COUNCIL

FROM: ELIZABETH YING, CITY TREASURER /s/

**SUBJECT: QUARTERLY REPORT OF CASH AND INVESTMENTS -
DECEMBER 31, 2019**

DATE: JANUARY 28, 2020

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. This report is for the City Council to receive and file.

FISCAL IMPACT

No fiscal impact is associated with this report.

NOTIFICATION

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

RECOMMENDATION

It is recommended that City Council receive and file the report.

ATTACHMENTS:

A. Quarterly Cash and Investment Report dated December 31, 2019



City of Palos Verdes Estates

Second Quarter Cash and Investment Report December 31, 2019

Portfolio at a glance	Q/E 12/31/19
Total Cash & Investment Balance	\$28,561.43
Weighted Avg Current Yield Invested Assets*	2.07%
Weighted Average Maturity Invested Assets*	2.52 years
* Excludes pooled & money market accounts	

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
- Jonathan Orozco, Senior Staff Accountant, representing vacant City Finance Director position (ex officio)
- Victoria Lozzi, City Council member, former Treasurer (ex officio)
- Elizabeth (Liz) Ying, City Treasurer, Chairperson

CERTIFICATION

At December 31, 2019, the City's cash and investment portfolio totaled \$28.6 million, up from \$25.1 million at September 30, 2019. The higher 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 2019-20 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:

- \$2.3 million of available cash in the City's Union Bank Demand Deposit Accounts and Money Market Account.
- \$8.9 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). This program is one authorized under California Government Code Section 53601(p). CAMP's Cash Reserve fund is rated by S&P as AAA(m).
- \$6.7 million in FDIC- or NCUA-insured CDs, and
- \$10.0 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. At 12/31/19, the City had \$11.9 million in cash and same day liquidity, and \$0.75 million in investments maturing within six months. Together with \$12.7 million of anticipated tax and other revenue, we expect to meet the City's six months projected expenditures of \$12.6MM.

Yield: The weighted average current yield of the City's investments, excluding pooled and money market savings accounts, is 2.07%, lower than 2.12% at 9/30/19. The City's investment in the LAIF pool returned a 2.29% apportionment rate for the quarter, and continues to be the highest yielding asset class in the portfolio. We expect overall yields to continue 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 1.58% and 1.61% as of 1/8/20 compared with 2.48% and 2.46% at 12/31/18.



PORTFOLIO OVERVIEW

(as of 12/31/19, unless otherwise stated)

Asset Class	Book Value	Market Value*	% Portfolio	Policy Max
Pooled Funds	9,600,049	9,600,049	33.6%	100%
Cash	2,024,204	2,024,204	7.1%	100%
M Mkt	279,210	279,210	1.0%	100%
CDs	6,658,000	6,732,680	23.3%	30%
Gov Obligation	10,000,000	9,969,000	35.0%	100%
Total	28,561,463	28,605,143	100.0%	

* Market Value for government securities and CDs are provided by Union Bank a/o 12/31/19 and assumed accurate. Pooled Funds are assumed at book value.

At 12/31/19, market value of the portfolio totaled \$28.6 million. The portfolio shows an estimated unrealized gain of \$43,680 compared to an unrealized gain of \$42,372 in the previous quarter as 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:

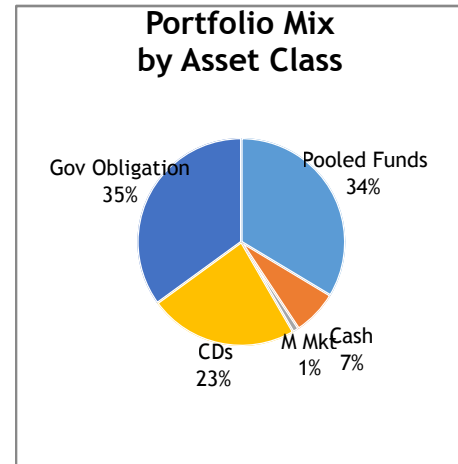
Security	Interest Collected QE 12/31/19
Govt Obl.	48,250
CDs	41,929
LAIF	50,717
JPA Camp	2,415
LACIP (est.)	845
TOTAL \$	144,156

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

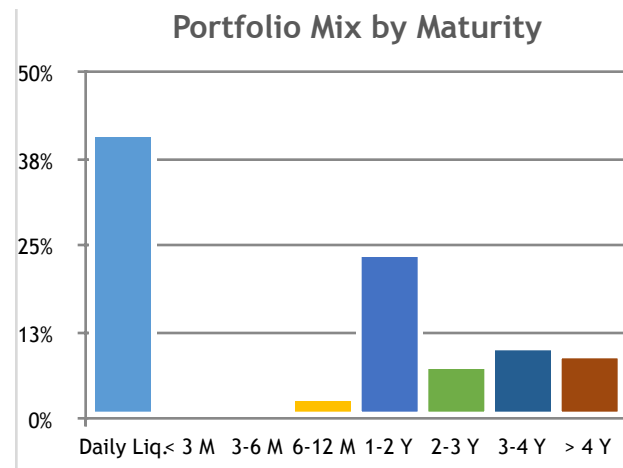
least quarterly by the City Treasurer and Investment Policy Advisory Committee.

At 12/31/19, Pooled Funds, primarily LAIF, constituted 33.6% of the portfolio.

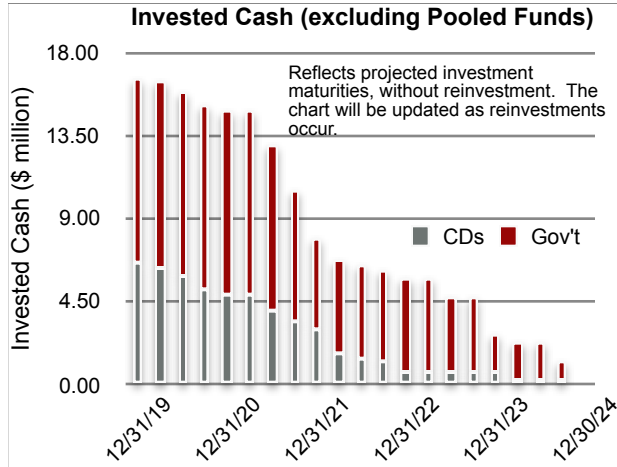


MATURITY SCHEDULE

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 maturities around these dates, while balancing liquidity and yield considerations.

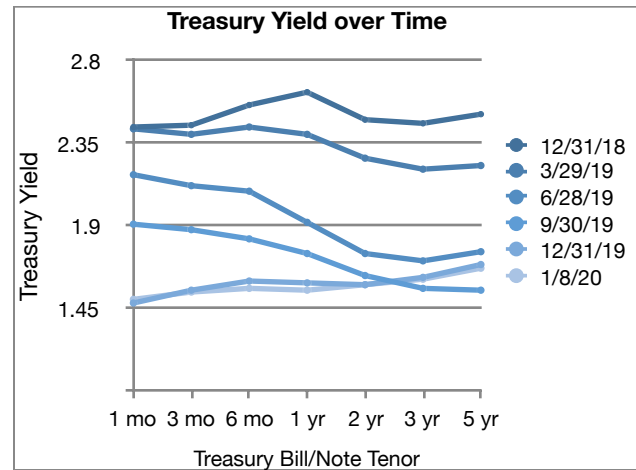


is keen to remove itself from election-year economic developments, and reinforced this message by raising the threshold for interest-rate action anytime soon. Policy makers are still concerned by below-target inflation and global risks, but they are increasingly confident that the policy adjustment incorporated since July will be sufficient to stabilize growth, unemployment and inflation at desirable levels.”

ACTIVITY

During the quarter, six securities totaling \$3.75 million either matured or were called. Five securities totaling \$4.245 million were purchased.

Date	Activity	Security	Principal
16-Sep-2019	FULL CALL	FHLB BD 2.050% 12/15/20	-1,000,000
18-Sep-2019	PURCHASED	FREDDIE MAC 2.000% 12/18/23	1,000,000
30-Sep-2019	FULL CALL	SIGNATURE BK CHICAGO 2.800% 3/28/24	-250,000
30-Sep-2019	MATURED	ALLY BK MIDVALE C/D 1.700% 9/30/19	-250,000
15-Oct-2019	FULL CALL	FEDERAL HOME LN MTG 2.750% 4/15/24	-1,000,000
17-Oct-2019	PURCHASED	FEDERAL FARM CR BKS 1.980% 4/17/23	1,000,000
21-Oct-2019	PURCHASED	FEDERAL HOME LOAN BA 2.000% 10/21/24	1,000,000
16-Dec-2019	FULL CALL	FNMA NTS 1.800% 6/16/21	-1,000,000
18-Dec-2019	PURCHASED	FEDERAL HOME LN 1.850% 12/18/23	1,000,000
23-Dec-2019	MATURED	MORGAN STANLEY C/D 2.100% 12/23/19	-250,000
26-Dec-2019	PURCHASED	MORGAN STANLEY BK N 1.900% 12/26/24	245,000



MARKET OUTLOOK

Yields remain suppressed, down approximately -82-104bps, compared with a year ago. However, although near term rates decreased significantly over the last quarter (one month treasury bill down -43bps), five year treasury note yields rebounded slightly by +14bps, and as such, the yield curve is no longer inverted, but relatively flat.

After having cut its target Fed Funds rate by 25 bps each in August, September and October, the Fed elected unanimously in December to hold its current target range of 1.50-1.75% steady well into 2020. Per Bloomberg: “The Federal Reserve

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. As of December 31, the pooled fund balances are higher, given tax receipts. We expect to continue to build the short term pool balance over the next quarter, to ensure the liquidity needed to meet operating expenses and capital improvement requirements through mid-December.

As clarity around the City’s financial needs improves, the strategy is to ladder investments around the existing maturities with its concentration in the 1-2 year range.

PORTFOLIO CHALLENGES

- Challenges continue to include:
- Trending low rate environment,
 - Inflationary risk, shown by recent wage and commodity price increases,
 - Concentration of maturities and potential reinvestment risk, and
 - Uncertainty around timing of future cash flow requirements necessitates higher liquidity levels.

PORTFOLIO DETAIL (see Page 4)



CASH AND INVESTMENT DATA 12/31/19

Investment Type/Institution	CUSIP	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	3130ABL50	1,000,000	1,000,000	993,480	(6,520)	1.50%	6/30/21	1.51%				1,000,000						
FNMA	3136G3A70	1,000,000	1,000,000	993,730	(6,270)	1.50%	7/27/21	1.51%				1,000,000						
FNMA	3136G36C4	1,000,000	1,000,000	996,230	(3,780)	1.60%	9/29/21	1.61%				1,000,000						
FHLB	3130AAZ56	2,000,000	2,000,000	1,996,040	(3,960)	1.80%	11/26/21	1.80%				2,000,000						
FEDERAL FARM CR BKS	3133EKX76	1,000,000	1,000,000	995,080	(4,920)	1.98%	4/17/23	1.99%				1,000,000						
FEDERAL HOME LOAN MTG CORP	3134GUYUB	1,000,000	1,000,000	998,880	(1,120)	1.85%	12/18/23	1.85%				1,000,000						
FHLMC	3134GUBJ8	1,000,000	1,000,000	999,510	(490)	2.00%	12/18/23	2.00%				\$1,000,000						
FEDERAL HOME LOAN BANKS	3130AGXV6	1,000,000	1,000,000	995,850	(4,150)	2.15%	8/28/24	2.16%				\$1,000,000						
FEDERAL HOME LOAN BANKS	3130AHE66	1,000,000	1,000,000	1,000,210	210	2.0%	10/21/24	2.00%				\$1,000,000						
Negotiable Certificate of Deposit																		
Citicbank National Assoc	17312QH51	250,000	250,000	250,520	520	2.49%	3/30/20	2.49%			250,000							
Morgan Stanley Pvt Bk Purché	61760AKM0	250,000	250,000	250,805	805	2.65%	4/27/20	2.64%			250,000							
BMO Harris Bk Natl Assn Chic	05581WXC3	250,000	250,000	251,203	1,203	2.80%	6/1/20	2.79%			250,000							
Capital One Natl Assn WA	14042E5M8	245,000	245,000	245,970	970	2.10%	8/12/20	2.09%			245,000							
Barclays Bank Del	06740KJW4	245,000	245,000	246,036	1,036	2.20%	9/16/20	2.19%			245,000							
Goldman Sachs Bk USA NY	38148PPZ4	250,000	250,000	250,462	462	1.90%	9/28/20	1.90%			250,000							
Compass Bk Birmingham Ala	20451PWF9	250,000	250,000	253,325	3,325	3.10%	12/4/20	3.06%			250,000							
MB First Bll NA Chic IL	55266CZEB	250,000	250,000	253,343	3,343	2.70%	4/26/21	2.66%			250,000							
Merrick Bk South Jordan Utah	59013J7Z5	250,000	250,000	253,350	3,350	2.70%	4/27/21	2.66%			250,000							
World's Foremost Bk Sydney NE	981571CQ3	200,000	200,000	199,764	(236)	1.70%	6/9/21	1.70%			200,000							
Wells Fargo Bk NA	9497485W3	245,000	245,000	244,704	(296)	1.75%	6/17/21	1.75%			245,000							
APEX Bk Camden Tenn	03753XAL4	247,000	247,000	256,155	9,155	1.50%	9/30/21	1.51%			247,000							
JPMorgan Chase Bk	48126XF88	246,000	246,000	244,994	(1,006)	1.70%	9/30/21	1.71%			246,000							
Discover Bank	254672N46	245,000	245,000	243,868	(1,132)	1.75%	11/9/21	1.76%			245,000							
Vision Bk Iowa West Des Moh	92834CC86	245,000	245,000	245,198	198	1.75%	11/30/21	1.75%			245,000							
Third Fed Sngs & Ln Assn	88413QB73	250,000	250,000	253,973	3,973	2.50%	1/31/22	2.46%			250,000							
People's United Bank	88413QB73	245,000	245,000	246,649	1,649	2.05%	2/8/22	2.04%			245,000							
First Natl Bk Damariscotta M	321179CWS	250,000	250,000	255,408	5,408	2.75%	2/28/22	2.69%			250,000							
Kern Schs Fed Cr Un	49228X486	250,000	250,000	255,763	5,763	2.80%	3/14/22	2.74%			250,000							
Bar Harbor Bk & Tr Co ME	064851WR3	250,000	250,000	250,610	610	2.65%	3/29/22	2.64%			250,000							
Sallie Mae Bk St Lake City	7954502C8	250,000	250,000	255,020	5,020	2.45%	4/4/22	2.40%			250,000							
First Technology Federal Cre	33715LDW9	250,000	250,000	257,555	7,555	3.00%	7/5/22	2.91%			250,000							
UBS Bk USA Salt Lake City Ut	90348JFN5	250,000	250,000	260,698	10,698	3.35%	11/7/22	3.20%			250,000							
Medallion Bk Utah	58404DCX7	250,000	250,000	251,290	1,290	3.40%	12/7/22	3.25%			250,000							
Baycoast Bk Swainsa Mass	072727AJ9	250,000	250,000	250,213	213	3.00%	1/31/24	3.00%			250,000							
TMA FSB Jacksonville Fla	87270LBU6	250,000	250,000	261,370	11,370	3.00%	2/22/24	2.87%			250,000							
Morgan Stanley Bank N.A.	6160UQU7	245,000	245,000	244,437	(564)	1.90%	12/26/24	1.90%			245,000							
Total Investments		\$16,658,000	\$16,658,000	\$16,701,680	43,680		Wtd Avg Yld	2.07%			\$ 250,000	\$ 500,000	\$ 990,000	\$ 6,928,000	\$ 2,245,000	\$ 3,000,000	\$ 2,745,000	
Pooled Investment Funds																		
LAIF		9,600,049	9,600,049	9,600,049														
L.A. County Pooled Inv Fund		8,950,966	8,950,966	8,950,966	2,29%	QE 12/31/19	Apportionment rate											
JPA CAMP		146,377	146,377	146,377	1.92%	Annualized accrued earnings rate 11/19												
Cash		502,706	502,706	502,706	1.80%	Monthly distribution yield 12/19												
Union Bank Money Market		2,303,414	2,303,414	2,303,414														
Union Bank Checking		279,210	279,210	279,210														
Parking Citation & AFLAC		1,996,000	1,996,000	1,996,000														
Total Investment Government Obligation		28,204	28,204	28,204														
Negotiable Certificate of Deposit		16,658,000	16,658,000	16,701,680	1.82%	Current Yield *												
Total Cash & Investments:		6,658,000	6,658,000	6,732,680	2.43%	Current Yield *												
		28,561,463	28,561,463	28,605,143														

* Source: Union Bank a/o 12/31/19 assumed accurate