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# Administrative Report

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**Budget and Finance Commission Date: 6/10/2021**

**To: BUDGET AND FINANCE COMMISSION**

**From: STEVEN DIELS, CITY TREASURER**

**Subject: CITY TREASURER'S THIRD QUARTER 2020-21 REPORT**

## **EXECUTIVE SUMMARY**

This City Treasurer's report for the third quarter of fiscal year 2020-2021, details the composition of the investment portfolio and investment transactions occurring during the period of January through March of 2021. FHN Financial Main Street Advisors serves as investment advisor to the City Treasurer. The FHN Financial Main Street Advisor's report with this package includes a comprehensive analysis of the City's investment portfolio and investment market trends.

Notable sections of this report include:

- Treasurer's Portfolio Summary
- Investment Reporting Guidelines
- Investment Report by FHN Main Street
  - Portfolio Summary
  - Investment Policy Compliance Report
  - Investment Activity Report
  - Economic and Market Update

### **City Treasurer's Portfolio Summary**

The market value of the City's general investment portfolio changed to \$89MM from \$79MM at the end of the prior quarter. This change in the investment portfolio resulted from anticipated fluctuations within the extraordinary cash flow trends due to the pandemic's impact on both general operations and capital improvement program revenue and spending.

Investment portfolio liquidity is 39% of the portfolio having maturities of one year or less. The Bank of America General Fund Checking Account ending balance was \$5,180,168.27. It earned a rate of 0.20%, to offset the expenses of banking support services.

### **QOQ Comparison of Investment Portfolio Positions**

Portfolio positions at the end of each quarter are listed by investment type, dollar amount, and percentage mix of the overall general investment portfolio:

### **Composition of Portfolio 2016-Present**

### **Market Value Comparison of Investment Portfolio Positions**

<b>Market Value Comparison of Investment Portfolio Positions F.Y. 2020-2021</b>								
	1st Quarter		2nd Quarter		3rd Quarter		4th Quarter	
Investment Type		%		%				
Cash in Banks & Money Markets	\$10,855,843	*	\$10,000,681	*	\$5,180,168	*		
Local Agency Investment Fund	\$7,004,742	9.6%	\$15,028,642	19.7%	\$15,039,065	18.30%		
Federal Agency Issues	\$34,598,183	47.2%	\$34,593,480	45.3%	\$34,588,776	42.00%		
Commercial Paper	\$0	0.0%	\$0	0.0%	\$0	0.00%		
Corporate Medium Term Notes	\$20,903,182	28.5%	\$20,915,171	27.4%	\$21,927,159	26.70%		
Bank Certificates of Deposit	\$2,726,898	3.7%	\$1,734,986	2.3%	\$1,735,073	2.10%		
Treasuries	\$8,053,427	11.0%	\$4,041,832	5.3%	\$8,985,108	10.90%		
Total: Investment Portfolio	\$73,286,432	100.0%	\$76,314,111	100.0%	\$82,275,181	100.00%		
Weighted Average Maturity (Yrs)	1.97		1.68		1.69			
Portfolio Effective Rate of Return (YTD)	2.10%		2.12%		2.07%			
L.A.I.F. Yield	0.68%		0.54%		0.36%			
Yield on Benchmark	1.74%		1.63%		1.52%			
Interest earned YTD	\$430,578.83		\$815,051		\$1,198,761			
General Fund Contribution (49%)	\$210,984		\$399,375		\$587,393			

## FY 2019-2020

Market Value Comparison of Investment Portfolio Positions F.Y. 2019-2020								
	1st Quarter		2nd Quarter		3rd Quarter		4th Quarter	
Investment Type		%		%		%		%
Cash in Banks & Money Markets	\$8,004,405	*	\$10,421,483	*	\$5,306,333	*	\$ 9,193,009	*
Local Agency Investment Fund	\$7,000,000	8.3%	\$17,052,131	19.7%	\$14,000,000	15.40%	\$ 22,000,000	23.3%
Federal Agency Issues	\$41,455,587	49.1%	\$35,460,741	40.9%	\$40,606,033	44.70%	\$ 38,602,882	40.8%
Commercial Paper								
Corporate Medium Term Notes	\$24,837,904	29.4%	\$22,851,300	26.4%	\$22,865,644	25.20%	\$ 20,891,194	22.1%
Bank Certificates of Deposit	\$3,223,020	3.8%	\$3,222,544	3.7%	\$3,222,661	3.60%	\$ 2,974,779	3.1%
Treasuries	\$7,994,458	9.5%	\$8,041,480	9.3%	\$10,073,719	11.10%	\$ 10,063,635	10.6%
Total: Investment Portfolio	\$84,510,969	100.0%	\$86,628,195	100.0%	\$90,768,058	100.00%	\$ 94,532,490	100.0%
Weighted Average Maturity (Yrs)	2.1		1.89		2.02		1.72	
Portfolio Effective Rate of Return (YTD)	2.23%		2.27%		2.26%		2.22%	
L.A.I.F. Yield	2.28%		2.04%		1.79%		1.20%	
Yield on Benchmark	2.06%		2.08%		2.06%		2.02%	
Interest earned YTD	\$502,505.00		\$973,145		\$1,483,028		\$1,965,199	
General Fund Contribution (44%)	\$221,102		\$428,184		\$652,532		\$864,688	

## FY 2018-2019

Market Value Comparison of Investment Portfolio Positions F.Y. 2018-2019								
	1st Quarter		2nd Quarter		3rd Quarter		4th Quarter	
Investment Type		%		%		%		%
Cash in Banks & Money Markets	\$8,761,921	*	\$6,939,956	*	\$5,394,950	*	\$ 9,062,598	*
Local Agency Investment Fund	\$1,000,000	1.3%	\$16,000,000	18.5%	\$6,000,000	6.60%	\$ 10,000,000	10.0%
Federal Agency Issues	\$46,940,821	59.7%	\$44,893,166	51.9%	\$44,394,491	49.20%	\$ 44,448,469	44.2%
Commercial Paper					\$3,973,074	4.30%	\$ 3,998,729	4.0%
Corporate Medium Term Notes	\$12,951,519	16.5%	\$11,958,712	13.8%	\$22,801,156	24.90%	\$ 26,821,710	26.7%
Bank Certificates of Deposit	\$1,735,760	2.2%	\$1,735,790	2.0%	\$1,735,820	1.90%	\$ 3,222,931	3.2%
Treasuries	\$15,938,992	20.3%	\$11,956,768	13.8%	\$11,973,607	13.10%	\$ 11,990,633	11.9%
Total: Investment Portfolio	\$78,567,092	100.0%	\$86,544,436	100.0%	\$91,418,148	100.00%	\$100,482,471	100.0%
Weighted Average Maturity (Yrs)	1.73		1.51		1.95		1.81	
Portfolio Effective Rate of Return (YTD)	1.70%		1.77%		1.92%		2.01%	
L.A.I.F. Yield	1.94%		2.29%		2.39%		2.43%	
Yield on Benchmark	1.68%		1.59%		1.68%		1.76%	
Interest earned YTD	\$357,684.00		\$726,249		\$1,215,976		\$1,765,752	
General Fund Contribution (66%)	\$236,071		\$479,324		\$802,544.16		\$1,165,396	

## FY 2017-2018

Market Value Comparison of Investment Portfolio Positions F.Y. 2017-2018								
	1st Quarter		2nd Quarter		3rd Quarter		4th Quarter	
Investment Type		%		%		%		%
General Fund Balance	\$10,347,480	*	\$7,888,671	*	\$3,989,868	*	\$6,704,241	*
Local Agency Investment Fund	\$9,000,000	11.10%	\$12,000,000	14.20%	\$6,000,000	6.8%	\$7,000,000	7.5%
Federal Agency Issues	\$45,075,755	55.60%	\$43,050,066	51.00%	\$46,967,521	53.2%	\$44,960,588	48.1%
Corporate Medium Term Notes	\$11,997,977	14.80%	\$12,970,428	15.40%	\$14,939,410	16.9%	\$14,945,085	16.0%
Commercial Paper	\$0	0.00%	\$2,973,350	3.50%	\$5,972,492	6.8%	\$8,989,354	9.6%
Bank Certificates of Deposit	\$2,981,639	3.70%	\$3,477,669	4.10%	\$2,479,699	2.8%	\$1,735,729	1.9%
Treasuries	\$11,990,296	14.80%	\$9,992,260	11.80%	\$11,983,712	13.6%	\$15,920,916	17.0%
Total: Investment Portfolio	\$81,045,667	100.00%	\$84,463,773	100.00%	\$88,342,834	100%	\$93,551,673	100%
Weighted Average Maturity (Yrs)	1.73		1.73		1.72		1.45	
Portfolio Effective Rate of Return (YTD)	1.34%		1.33%		1.41%		1.47%	
L.A.I.F. Yield	1.07%		1.23%		1.52%		1.85%	
Yield on Two Year C.M.T Benchmark	1.19%		1.27%		1.37%		1.49%	
Interest earned YTD	\$290,237.00		\$567,247.15		\$904,997.70		\$1,278,235	
General Fund Contribution (66%)	\$191,556		\$374,383		\$597,298.48		\$843,635	

## F.Y. 2016-2017

Market Value Comparison of Investment Portfolio Positions F.Y. 2016-2017								
	1st Quarter		2nd Quarter		3rd Quarter		4th Quarter	
Investment Type		%		%		%		%
Cash in Banks & Money Markets	\$5,445,468	5.9%	\$7,101,633	*	\$6,050,077	*	\$ 4,513,152	*
Local Agency Investment Fund	\$7,500,000	8.2%	\$15,000,000	17.17%	\$20,000,000	22.51%	\$ 20,000,000	20.3%
Federal Agency Issues	\$49,133,855	53.7%	\$43,115,977	49.35%	\$45,099,628	50.80%	\$ 51,088,798	52.0%
Corporate Medium Term Notes	\$15,019,110	16.4%	\$15,013,261	17.19%	\$14,009,196	15.80%	\$ 12,000,963	12.2%
Bank Certificates of Deposit	\$4,471,907	4.9%	\$4,224,000	4.84%	\$3,728,000	4.20%	\$ 3,232,000	3.3%
Treasuries	\$10,005,846	10.9%	\$10,006,306	11.45%	\$6,006,951	6.80%	\$ 11,988,938	12.2%
Total: Investment Portfolio	\$91,576,186	100.0%	\$87,359,544	100.00%	\$88,843,775	100.00%	\$ 98,310,699	100.0%
Weighted Average Maturity (Yrs)	1.47		1.34		1.51		1.77	
Portfolio Effective Rate of Return (YTD)	0.89%		0.95%		0.97%		1.14%	
L.A.I.F. Yield	0.63%		0.71%		0.79%		0.98%	
Yield on Two Year C.M.T Benchmark	0.76%		0.85%		0.94%		1.09%	
Interest earned YTD	\$224,373.80		\$415,798		\$679,449		\$957,637	
General Fund Contribution (66%)	\$148,087		\$274,427		\$448,436.34		\$632,040	

Comparison of Total Cash and Investments  
2016-Present

	Investments	General Fund	Subtotal	Other Cash	Total
2020-2021	\$ MM	\$ MM	\$ MM	\$ MM	\$ MM
Q1	73.29	10.86	84.15	6.81	90.96
Q2	76.31	10.00	86.31	7.02	93.33
Q3	82.28	5.18	87.46	7.59	95.05
2019-2020	\$ MM	\$ MM	\$ MM	\$ MM	\$ MM
Q1	84.51	8.00	92.51	5.86	98.37
Q2	86.63	10.42	97.05	6.64	103.69
Q3	90.77	5.31	96.08	7.63	103.71
Q4	94.53	9.19	103.72	7.35	111.07
2018-2019	\$ MM	\$ MM	\$ MM	\$ MM	\$ MM
Q1	78.57	8.76	87.33	5.95	93.28
Q2	86.54	6.94	93.48	5.93	99.41
Q3	91.42	5.39	96.81	6.73	103.54
Q4	100.48	9.06	109.54	4.95	114.49
2017-2018	\$ MM	\$ MM	\$ MM	\$ MM	\$ MM
Q1	81.05	10.35	91.4	5.87	97.27
Q2	84.46	7.88	92.34	6.33	98.67
Q3	88.34	3.99	92.33	6.7	99.03
Q4	93.55	6.7	100.25	5.87	106.12
2016-2017	\$ MM	\$ MM	\$ MM	\$ MM	\$ MM
Q1	86.13	5.45	91.58	5.8	97.38
Q2	87.36	7.1	94.46	6.42	100.88
Q3	88.73	6.05	94.78	6.05	100.83
Q4	98.23	4.51	102.74	4.04	106.78

Yields: The book yield of the portfolio is 1.87%. The effective rate of return for the fiscal year to date is 2.07%. The book yield is a snapshot on a specific day whereas the effective rate of return is annualized return generated for the period.

Investment Portfolio Performance vs. Benchmark: At the end of the quarter, the yield on the City's general investment portfolio was 2.08%. This yield provided a 56 basis point advantage to the yield provided by the investment portfolio benchmark, U.S. Treasury Note 0-5 year index (30 month moving average), which yielded 1.52%. The 30 month moving average is used to represent a market rate of return.

Mark to Market: The City Treasurer compares market values of the portfolio holdings to their original cost. At the close of the quarter, the net asset value is \$1.026. That means the Market Value is slightly above the cost of investments. The difference between the book value (cost) of investments at \$82,275,181 and the current market value at \$84,393,835 is \$2,118,654.

#### Cash in Banks:

	As of 3/31/2021
General Fund	\$5,180,168.27
Workmen's Compensation Fund	\$994,517.79
Successor Agency of RDA	\$893,419.08
Successor Agency of RDA	\$47,507.41
Trust Account	\$7,364.40
Housing Authority BLKPNDG	\$1,638,161.67
Financing Authority	\$1,944,987.20
Parking Authority	\$958.39
Measure R Local Return	\$1,872,452.98
Housing Authority	\$109,230.36
City of Redondo Beach - FSA	\$85,738.82
Total	\$12,774,506.37

#### All Agency, Authority and Miscellaneous Funds in Banks

##### Bank Account Descriptions

##### General Fund - 201

Into the City's general checking account are deposited most of the City's revenue, including General Fund taxes, grant revenue (with the exception of that for the Housing Authority), Harbor Enterprise rental income, and sewer fees. From the general checking account are automatic transfers to the payroll and warrant accounts (as payments clear the bank) and purchases of investments.

##### Workmen's Compensation Fund - 210

A Bank of America checking account has been established for the payment of workers' compensation claims. The City's third party administrator, AdminSure, writes the

checks from this account on the City's behalf. Monthly, the City replenishes the account with a City Council approved accounts payable check.

#### Successor Agency of RDA - 213 / Successor Agency of RDA - 694

The Successor Agency to the former Redevelopment Agency maintains both a Bank of America checking account (with a larger balance) and a Bank of America interest checking account (with a smaller balance). A few years ago, the bank changed the accounts to this structure from a checking account and a savings account. The checking account activity reflects biannual deposits of Redevelopment Property Tax Trust Fund (RPTTF) revenue as a result of the Recognized Obligation Payment Schedule (ROPS) process whereby the City reports to the Department of Finance the amount of funding necessary to make its Redevelopment Agency debt service payments (together with the applicable administrative costs). Those debt service payments are then made from this checking account, and the administrative cost reimbursement is transferred to the City's general checking account. The activity in the interest checking account is currently only deposits of interest earned.

#### Trust Account - 212

The Police Department deposits bail money into this checking account and then transfers these funds to the courts by way of checks. The balance of the account has been \$7,364.40 for several years, but it could be higher at the end of the month/quarter if a check is outstanding at the time.

#### Housing Authority – 207/Housing Authority – 023

The Housing Authority maintains both a checking account and a government money market savings account. Into the checking account are deposited grant funds from HUD for operation of the Fair Housing and Section 8 housing programs. Payments to landlords are then made monthly from this account, and periodically a check is written to the City as reimbursement for administrative costs paid by the City on the Housing Authority's behalf. The activity in the government money market savings account is currently only deposits of interest earned.

#### Financing Authority -168

The Community Financing Authority (CFA), a joint powers authority of the City and the Parking Authority, was formed January 31, 2012 when the Kincaid's Restaurant lease was transferred from the Public Financing Authority (PFA), a joint powers authority of the City and the Redevelopment Agency, upon the Redevelopment Agency's elimination by the State. The Financing Authority checking account is used for the lease-related transactions, including rental income, loan payments, sewer user fees, and possessory interest property tax payments.

#### Parking Authority - 675

The Parking Authority was established on March 3, 1969, pursuant to the provisions of the Streets and Highway Code of the State of California. Its primary purpose has been to provide public off-street parking within the City. The Parking Authority is currently inactive with a little more than \$5,000 remaining in a Bank of America interest checking

account and a little less than \$5,000 remaining in a LAIF account from its previous activities.

#### Measure R Local Return - 874

Measure R monies come from a 2008 voter-approved ½ cent sales tax levied within Los Angeles County for public transportation purposes. Per a Los Angeles County Metropolitan Transportation Authority (LACMTA) audit recommendation, Measure R monies are to be maintained in a separate bank account. Because expenditures from the Measure R Fund (primarily for capital improvement projects) are paid through the City's accounts payable system and "General Fund" bank account, this separate Measure R Local Return interest checking account is funded by periodic transfers from the "General Fund" bank account instead of Measure R monies deposited directly to the account.

#### City of Redondo Beach – FSA - 825

The City contracts with Sterling to offer its employees Flexible Spending Accounts (FSAs) which allow the employees to set aside, before taxes, a portion of their yearly income to pay for qualified medical and/or dependent care expenses. These funds withheld from the employees' paychecks are transferred to this separate checking account each pay period. The medical and dependent care expenses are then paid by Sterling from this account.

LAIF Balances:

#### CITY OF REDONDO BEACH LAIF ACCOUNTS

Mar-21	
ACCOUNT NAMES	
GENERAL ACCOUNT	\$ 15,039,065
SUCCESSOR AGENCY FOR RDA	\$ 1,854,848.93
PUBLIC FINANCING AUTHORITY	\$ 176,988.05
PARKING AUTHORITY	\$ 5,137.90
Total:	\$17,062,401.18

#### Bond Account Balances:

ACCOUNT #	ACCOUNT DESCRIPTION	ENDING BALANCE AS OF 3/31/21
222936000	REDONDOBEACH COMMUNITY FINANCING AUTHORITY LEASE REVENUE REFUNDING BONDS SERIES 2019A	\$10.78



208878001	REDONDO BEACH COMMUNITY FINANCING AUTHORITY WASTEWATER REVENUE REFUNDING BONDS, 2014 SERIES A BOND FUND	\$0.44
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#### Trading Activity

During the quarter, the City purchased four securities. Also, one security was redeemed.

#### **Fiscal Impact**

Interest earned year to date is \$1,198,761.49 for the entire portfolio. The General Fund contribution rate of our investment portfolio is approximately 49% of the total interest earned thus contributing approximately \$587,393 to the general fund through investment activity. Budgeted contribution of interest to the general fund for the entire fiscal year is \$750,000.

#### **Investment Reporting Guidelines**

Please note the following guidelines from the Government Finance Officers Association *Financial Management Checklists for Elected Officials*.

Always remember whose money it is (it's the community's, not yours)—and act accordingly in a responsible stewardship capacity.

The generally accepted objectives in managing public funds, in priority order, are:

- Safety
- Liquidity
- Yield

An investment manager's objective is to earn a reasonable rate of return on the city's investments, while preserving capital in the overall portfolio. It should *never* be an investment manager's goal to earn *maximum* returns on the city's portfolio as this would expose the city to an unacceptable level of risk. Failures in public investing occur when either:

- Policies were not clear.
- Policies were inappropriate.
- Policies were not followed.
- Oversight was inadequate.

#### **Questions to Ask:**

- Do you review the investment policy?
- Do you understand the city's investment program?

- Do you receive and review periodic investment reports?
- Are they clear, concise? Are they readable? Do you fully understand them? (If you can't, this is more likely to be because they've been presented poorly, and may in fact reflect problems, than any "technical" problems with your ability to understand them because it's too "complex." First, it's the job of your staff to make them readable and understandable; and secondly, if the city's portfolio is genuinely that complex, perhaps it shouldn't be.)
- Are there lots of investments and transactions? Why? Most cities do not have portfolios that justify "active" management with lots of sales, purchases and trades.
- Are your investments diversified? Or have you placed "all of your eggs in one basket?"
- What ongoing oversight is there? By whom?

Submitted by:  
Steven Diels, City Treasurer