



# CITY COUNCIL REPORT

7D

**DATE: SEPTEMBER 3, 2019**

**TO: MAYOR AND COUNCIL MEMBERS**

**FROM: ANDREA MILLER, FINANCE DIRECTOR  
DINA ROSALES, CITY TREASURER**

**SUBJECT: RECEIVE THE QUARTERLY INVESTMENT REPORT FOR THE  
QUARTER ENDING JUNE 30, 2019, AND AUTHORIZE STAFF TO  
INVEST ADDITIONAL FUNDS IN LONG-TERM SECURITIES**

---

## **RECOMMENDATION**

Receive the Quarterly Investment Report for the quarter ending June 30, 2019, and authorize staff to invest additional funds in long-term securities.

## **BACKGROUND**

The City of Pinole Investment Policy calls for a Quarterly Investment Report to be submitted to the City Council. The enclosed Investment Report for the reporting period ended June 30, 2019 conforms to the reporting guidelines for California public agencies set forth in Section 53646 of the Government Code.

## **REVIEW AND ANALYSIS**

All investments held at June 30, 2019 conform to the City's Investment Policy and State Regulations. A summary of the balances held in the investment portfolio (Attachment A), at June 30, 2019, follows:

<b>Investments</b>	<b>Market Value</b>	<b>% of Portfolio</b>
Investment Pool - LAIF	22,597,508	49.49%
Investment Pool - JPA	3,220,504	7.05%
Money Market Savings	13,655,798	29.91%
Mutual Funds	82,290	0.18%
Certificates of Deposit	2,592,656	5.68%
Medium-Term Corporate Notes	1,521,160	3.33%
Federal Agency Securities	1,993,760	4.37%
<b>Investment Total</b>	<b>\$ 45,663,676</b>	<b>100.0%</b>

**Investment Yield and Duration:**

The current aggregate yield of the City’s investment portfolio is stabilized at 1.901%. This investment yield is lower than the current yield of 2.570% for the State of California’s Local Agency Investment Fund (LAIF). LAIF yields have continued to increase over the past year, and are higher than long-term investment yields in some cases which have caused our aggregate yield to be slightly less than the LAIF yield. In addition, 30% of our portfolio is in money market savings accounts which earn 0.063% interest. LAIF and other pooled funds make up 56.5% of our investment portfolio.

Long-term investments make up 13.5% of our portfolio, and currently yield 2.226% average; which is slightly less than LAIF. Earnings on investments held until maturity typically fluctuate with market conditions and are considered “unrealized” prior to maturity. The City expects to yield a gain on all investments at maturity.

<b>Investments</b>	<b>Q4-2019 Yield</b>	<b>Q4-2018 Yield</b>
Investment Pool - LAIF	2.570	1.900
Investment Pool - JPA	2.375	2.295
Money Market Savings	0.063	0.047
Mutual Funds	2.010	1.390
Certificates of Deposit	2.164	1.939
Medium-Term Corporate Notes	2.713	2.970
Federal Agency Securities	2.015	1.580
Municipal Bonds	[1] 0.000	2.250
<b>Average Yield</b>	<b>1.901</b>	<b>1.763</b>

[1] Municipal Bonds are at 0% yield because the City no longer holds any.

**Cash Flows:**

Sufficient cash inflows were available from July 2018 through June 2019 to meet all City expenditures. In addition, the City has sufficient cash flow at June 30, 2019 to cover anticipated expenditures through the next six months.

**Investment Strategy:**

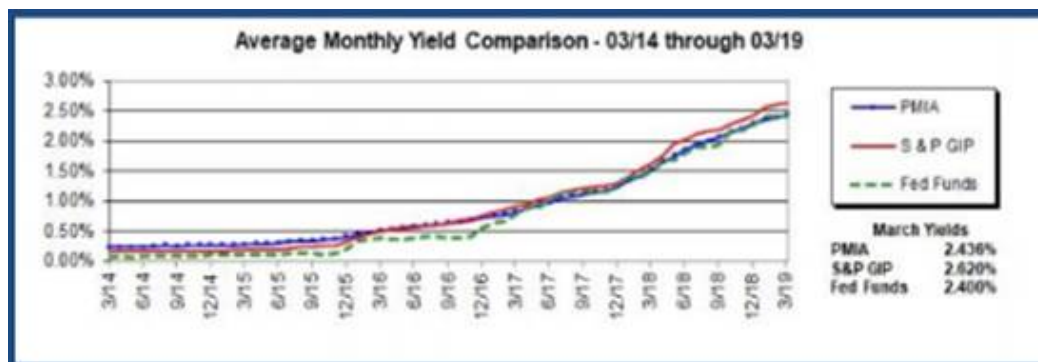
The City utilizes a passive investment management approach by buying and holding securities until maturity. A “laddered maturity” investment strategy is applied to a portion of the asset allocation in our investment portfolio, currently 13.5%. A laddered portfolio is structured with securities that have different maturity dates. As securities are called or mature, proceeds are reinvested in a new security with a longer term at the end of the ladder. Laddering helps to minimize interest-rate risk, increase liquidity, and diversify credit risk.

Of the total investment portfolio, 86.5% is held in investment pools and money market accounts. Of this amount, LAIF currently represents 56.5% of the City's investment portfolio. Interest earnings of \$156,652 were generated in LAIF for the quarter ended June 30, 2019. The Investment Policy allows for up to 100% of the City's investment portfolio in LAIF which is currently at 2.570% yield.

### Safekeeping for a General Reserve Investment Account:

The City continues to maintain a Safekeeping account to augment the City's participation in the State's Local Agency Investment Fund (LAIF) and the County's CalTrust Pools. This provides the Finance Director with the ability to implement a directed investment plan with longer investment duration thereby yielding greater investment earnings on federal agency securities of comparable credit risk.

On July 31, 2019, the Federal Reserve cut interest rates by 0.25%, and the bond markets are anticipating another 0.25% rate cut at their September meeting. The Federal Funds Rate has historically compared to LAIF (PMIA, Pooled Money Investment Account) interest rates (see chart below). To complement our participation in LAIF and to maintain steady investment yields, staff recommends transferring \$900 thousand from LAIF to invest in long-term securities.



All City investments held are in accordance with the City's Investment Policy.

### FISCAL IMPACT

All City cash and investments are pooled and interest is allocated to funds quarterly based on the average balance of each fund during the quarter ending. Interest earnings for the period ending June 30, 2019 are higher than the prior year's fourth quarter earnings of \$58,077 as a result of the increase in LAIF account allocations and higher yields.

### ATTACHMENTS

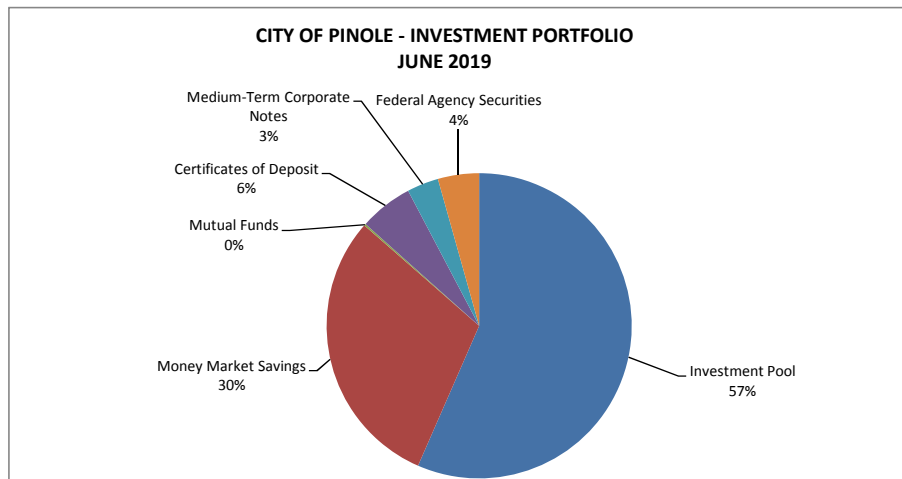
A –Investment Report - Quarter Ending June 30, 2019

**CITY OF PINOLE  
INVESTMENT REPORT JUNE 2019  
PORTFOLIO SUMMARY**

Investments	Par Value	Market Value	Book Value	% of Portfolio	Days to Maturity	Yield	Weighted Average Maturity
Investment Pool - LAIF	22,597,508	22,597,508	22,597,508	49.49%	1	2.570	0
Investment Pool - JPA	3,220,504	3,220,504	3,220,504	7.05%	1	2.375	0
Money Market Savings	13,655,798	13,655,798	13,655,798	29.91%	1	0.063	0
Mutual Funds	82,290	82,290	82,290	0.18%	1	2.010	0
Certificates of Deposit	2,603,000	2,592,656	2,592,656	5.68%	832	2.164	4
Medium-Term Corporate Notes	1,500,000	1,521,160	1,521,160	3.33%	519	2.713	6
Federal Agency Securities	2,000,000	1,993,760	1,993,760	4.37%	930	2.015	20
Subtotal Investments	\$ 45,659,101	\$ 45,663,676	45,663,676	100.00%	381	1.901	5
<b>Average Years:</b>							<b>1.0</b>
<b>Cash</b>							
Mechanics Bank - Vendor Checking *	2,640,373	2,640,373	2,640,373		1		
Bank of the West - Payroll Checking *	1,013,406	1,013,406	1,013,406		1		
Bank of the West - Checking (Credit Card Clearing) *	797,565	797,565	797,565		1		
Subtotal Cash	4,451,344	4,451,344	4,451,344		1		
<b>Total Cash and Investments</b>	<b>\$ 50,110,445</b>	<b>\$ 50,115,020</b>	<b>\$ 50,115,020</b>				

\*Not included in yield calculations

The above investments are consistent with the City's Investment Policy and allowable under current legislation of the State of California. Investments were selected using safety, liquidity and yield as the criteria. The source of the market values for the investments are provided by US Bank in accordance with the California Government Code requirement. The City has sufficient cash flow to cover anticipated expenditures through the next six months.



CITY OF PINOLE  
INVESTMENT REPORT JUNE 2019  
PORTFOLIO DETAILS

Type / Account Number	CUSIP	Issuer	Investment Description	Manager	GL Acct #	Par Value	Market Value	Book Value	Rate	Yield	Days to Maturity	S&P Rating	Maturity Date	Weighted Average Maturity
<b>Investment Pool</b>														
		Local Agency Investment Fund (LAIF)	Pooled Treasury - State of California	LAIF	999-10201	22,597,508	22,597,508	22,597,508	2.570	2.570	1	N/A		0
		CalTrust - Short Term Fund (City)	Pooled Treasury - Joint Power Financing Authority	CalTrust	999-10202	23,850	23,850	23,850	2.750	2.750	1	N/A		0
		CalTrust - Medium Term Fund (City)	Pooled Treasury - Joint Power Financing Authority	CalTrust	999-10203	3,196,654	3,196,654	3,196,654	2.000	2.000	1	N/A		0
			Subtotal and Average			25,818,012	25,818,012	25,818,012	2.440	2.440	1			0
<b>Money Market Savings</b>														
		Mechanics Bank	Money Market Savings (City)	City	999-10102	11,160,855	11,160,855	11,160,855	0.080	0.080	1	N/A		0
		Bank of the West	Money Market Savings - Police Evidence Trust	City	999-10104	107,487	107,487	107,487	0.080	0.080	1	N/A		0
84501100	999491905	Wells Fargo Bank	Money Market - WPCP Escrow	Wells Fargo	503-10302	2,387,456	2,387,456	2,387,456	0.030	0.030	1	N/A		0
			Subtotal and Average			13,655,798	13,655,798	13,655,798	0.063	0.063	1			0
<b>Mutual Funds</b>														
19-516680		U.S. Bank	Accrued Income - City Reserve	US Bank	150-10110	26,012	26,012	26,012	1.980	1.980	1	N/A		0
19-516680	31846V203	1st American Government Obligation Fund	Mutual Fund Shares - Class "D" - City Reserve	US Bank	150-10110	56,278	56,278	56,278	2.010	2.040	1	N/A		0
			Subtotal and Average			82,290	82,290	82,290	1.995	2.010	1			0
<b>Certificates of Deposit</b>														
19-516680	02587DJ90	American Express Centurion	Certificates of Deposit - City Reserves	US Bank	150-10110	247,000	246,805	246,805	2.250	2.250	528	N/A	12/9/2020	3
19-516680	140420A59	Capital One Bank	Certificates of Deposit - City Reserves	US Bank	150-10110	248,000	244,163	244,163	1.600	1.630	765	N/A	8/3/2021	4
19-516680	29266NV79	Enerbank USA	Certificates of Deposit - City Reserves	US Bank	150-10110	249,000	248,582	248,582	1.750	1.750	162	N/A	12/9/2019	1
19-516680	29976DQ86	Everbank Jacksonville FL	Certificates of Deposit - City Reserves	US Bank	150-10110	125,000	123,166	123,166	1.500	1.520	774	N/A	8/12/2021	2
19-516680	38149MAY9	Goldman Sachs BK USA New York	Certificates of Deposit - City Reserves	US Bank	150-10110	246,000	246,622	246,622	2.600	2.590	1,436	N/A	6/5/2023	8
19-516680	48126XAH8	JP Morgan Chase Bank	Certificates of Deposit - City Reserves	US Bank	150-10110	247,000	243,152	243,152	1.650	1.680	778	N/A	8/16/2021	4
19-516680	61690UGW4	Morgan Stanley Bank Na	Certificates of Deposit - City Reserves	US Bank	150-10110	246,000	246,617	246,617	2.600	2.590	1,437	N/A	6/6/2023	8
19-516680	61760AF46	Morgan Stanley Private Bk Natlssn	Certificates of Deposit - City Reserves	US Bank	150-10110	246,000	246,617	246,617	2.600	2.590	1,437	N/A	6/6/2023	8
19-516680	795450XM2	Sallie Mae Bank	Certificates of Deposit - City Reserves	US Bank	150-10110	125,000	125,021	125,021	2.200	2.200	535	N/A	12/16/2020	1
19-516681	856285QG9	State Bk Indiana New York N Y	Certificates of Deposit - City Reserves	US Bank	150-10110	250,000	250,393	250,393	2.850	2.850	1,816	N/A	6/19/2024	10
19-516680	9497485W3	Wells Fargo Bank	Certificates of Deposit - City Reserves	US Bank	150-10110	249,000	246,117	246,117	1.750	1.780	2	N/A	6/17/2021	0
19-516680	96009JAR8	Westfield Bank Mass	Certificates of Deposit - City Reserves	US Bank	150-10110	125,000	125,400	125,400	2.550	2.540	316	N/A	5/11/2020	1
			Subtotal and Average			2,603,000	2,592,656	2,592,656	2.158	2.164	832			4
<b>Medium-Term Corporate Notes</b>														
19-516680	037833BS8	Apple Inc.	2.25% Corporate MTN 02/23/2021 - City Reserves	US Bank	150-10110	500,000	501,785	501,785	2.250	2.240	604	AA+	2/23/2021	7
19-516680	594918BW3	Microsoft Corp	2.40 % Corporate MTN 02/06/22- City Reserves	US Bank	150-10110	500,000	505,250	505,250	2.400	2.380	952	AAA	2/6/2022	11
19-516681	94988J5T0	Wells Fargo Bank Na	3.625 % Corporate MTN 10/22/21- City Reserves	US Bank	150-10110	500,000	514,125	514,125	3.625	3.520	2	A+	10/22/2021	0
			Subtotal and Average			1,500,000	1,521,160	1,521,160	2.758	2.713	519			6
<b>Federal Agency Securities</b>														
19-516680	3134GTSD6	FHLMC MTN	2.5% Agency Bond 6/6/2022 - City Reserves	US Bank	150-10110	1,000,000	1,000,370	1,000,370	2.500	2.500	1,072	AA+	6/6/2022	23
19-516680	3130A2D2	Federal Home Loan Banks	1.52% Agency Bond 8/25/2021 - City Reserves	US Bank	150-10110	1,000,000	993,390	993,390	1.520	1.530	787	AA+	8/25/2021	17
			Subtotal and Average			2,000,000	1,993,760	1,993,760	2.010	2.015	930			20
<b>Investment Portfolio Total and Average</b>						<b>\$ 45,659,101</b>	<b>\$ 45,663,676</b>	<b>\$ 45,663,676</b>	<b>1.904</b>	<b>1.901</b>	<b>381</b>			<b>5</b>

Average Years : 1.0