



CITY COUNCIL REPORT

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DATE: NOVEMBER 19, 2019

TO: MAYOR AND COUNCIL MEMBERS

FROM: ANDREA MILLER, FINANCE DIRECTOR

**SUBJECT: RECEIVE THE QUARTERLY INVESTMENT REPORT FOR THE
QUARTER ENDING SEPTEMBER 30, 2019**

RECOMMENDATION

Receive the Quarterly Investment Report for the quarter ending September 30, 2019.

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 September 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 September 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 September 30, 2019, follows:

| Investments | Market Value | % of Portfolio |
|-----------------------------|----------------------|-----------------------|
| Investment Pool - LAIF | 23,814,160 | 61.19% |
| Investment Pool - JPA | 3,241,661 | 8.33% |
| Money Market Savings | 4,669,651 | 12.00% |
| Mutual Funds | 64,538 | 0.17% |
| Certificates of Deposit | 3,608,245 | 9.27% |
| Medium-Term Corporate Notes | 1,523,735 | 3.92% |
| Federal Agency Securities | 1,995,320 | 5.13% |
| Investment Total | \$ 38,917,311 | 100.0% |

Investment Yield and Duration:

The current aggregate yield of the City’s investment portfolio is stabilized at 1.777%. This investment yield is lower than the current yield of 2.390% 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, 12% of our portfolio is in money market savings accounts which earn 0.063% interest. LAIF and other pooled funds make up 69.69% of our investment portfolio.

Long-term investments make up 18.32% of our portfolio, and currently yield 2.252% average; which is slightly more 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.

| Investments | Q1-2020 Yield | Q1-2019 Yield |
|-----------------------------|----------------------|----------------------|
| Investment Pool - LAIF | 2.390 | 2.090 |
| Investment Pool - JPA | 1.940 | 2.505 |
| Money Market Savings | 0.063 | 0.063 |
| Mutual Funds | 1.750 | 1.620 |
| Certificates of Deposit | 2.032 | 1.937 |
| Medium-Term Corporate Notes | 2.710 | 2.975 |
| Federal Agency Securities | 2.015 | 1.578 |
| Municipal Bonds | [1] 0.000 | 2.260 |
| Average Yield | 1.777 | 1.828 |

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

Cash Flows:

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

Investment Strategy:

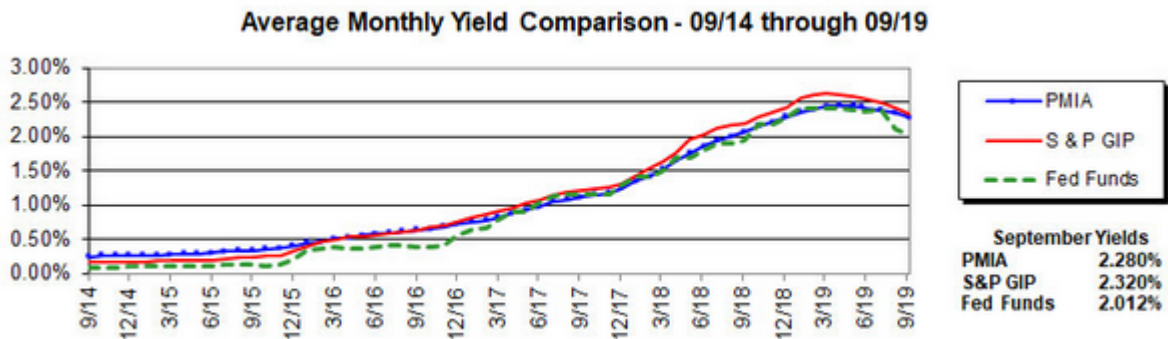
The City utilizes a passive investment management approach by buying and holding securities until maturity. A “laddered maturity” investment strategy is applied to a portion of the asset allocation in our investment portfolio, currently 18.32%. A laddered portfolio is structured with securities that 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 69.69% of the City's investment portfolio. Interest earnings of \$148,893 were generated in LAIF for the quarter ended September 30, 2019. The Investment Policy allows for up to 100% of the City's investment portfolio in LAIF which is currently at 2.390% 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.

The Federal Reserve has cut interest rates three times since July; by 0.25% on July 31, 2019, by 0.25% on September 18, 2019, and by another 0.25% on October 30, 2019. The Federal Funds Rate has historically compared to LAIF (PMIA, Pooled Money Investment Account) interest rates (see chart below).



Staff continues to monitor rates of return on City funds invested and make recommendations as needed to complement our participation in LAIF and to maintain steady investment yields. 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 September 30, 2019 are higher than the prior year's first quarter earnings of \$75,976 as a result of the increase in LAIF account allocations and higher yields.

ATTACHMENTS

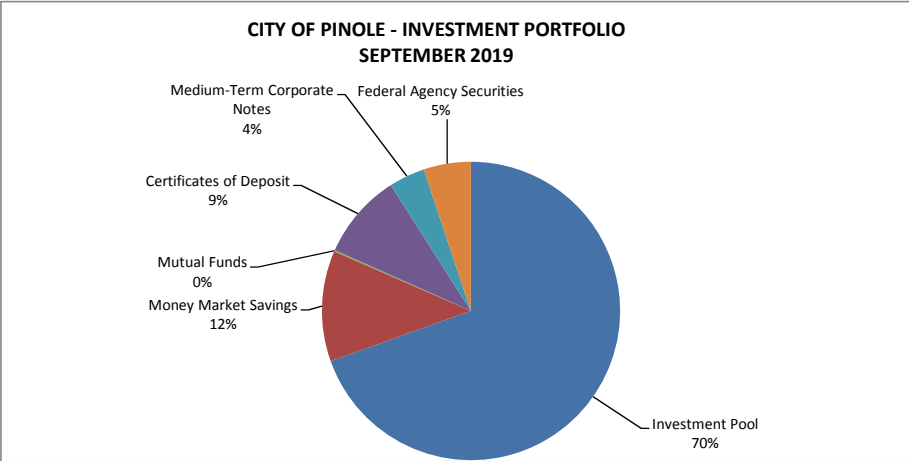
A –Investment Report - Quarter Ending September 30, 2019

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

| Investments | Par Value | Market Value | Book Value | % of Portfolio | Days to Maturity | Yield | Weighted Average Maturity |
|--|----------------------|----------------------|----------------------|----------------|------------------|--------------|---------------------------|
| Investment Pool - LAIF | 23,814,160 | 23,814,160 | 23,814,160 | 61.19% | 1 | 2.390 | 1 |
| Investment Pool - JPA | 3,241,661 | 3,241,661 | 3,241,661 | 8.33% | 1 | 1.940 | 0 |
| Money Market Savings | 4,669,651 | 4,669,651 | 4,669,651 | 12.00% | 1 | 0.063 | 0 |
| Mutual Funds | 64,538 | 64,538 | 64,538 | 0.17% | 1 | 1.750 | 0 |
| Certificates of Deposit | 3,595,000 | 3,608,245 | 3,608,245 | 9.27% | 917 | 2.032 | 6 |
| Medium-Term Corporate Notes | 1,500,000 | 1,523,735 | 1,523,735 | 3.92% | 708 | 2.710 | 9 |
| Federal Agency Securities | 2,000,000 | 1,995,320 | 1,995,320 | 5.13% | 838 | 2.015 | 21 |
| Subtotal Investments | \$ 38,885,011 | \$ 38,917,311 | 38,917,311 | 100.00% | 411 | 1.777 | 6 |
| Average Years: | | | | | | | 1.1 |
| Cash | | | | | | | |
| Mechanics Bank - Vendor Checking * | 1,649,955 | 1,649,955 | 1,649,955 | | 1 | | |
| Bank of the West - Payroll Checking * | 1,403,059 | 1,403,059 | 1,403,059 | | 1 | | |
| Bank of the West - Checking (Credit Card Clearing) * | 527,091 | 527,091 | 527,091 | | 1 | | |
| Subtotal Cash | 3,580,104 | 3,580,104 | 3,580,104 | | 1 | | |
| Total Cash and Investments | \$ 42,465,115 | \$ 42,497,415 | \$ 42,497,415 | | | | |

*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.



ATTACHMENT A

CITY OF PINOLE
INVESTMENT REPORT SEPTEMBER 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 |
|---|-----------|---|---|-------------|-----------|----------------------|----------------------|----------------------|--------------|--------------|------------------|------------|---------------|---------------------------|
| Investment Pool | | | | | | | | | | | | | | |
| | | Local Agency Investment Fund (LAIF) | Pooled Treasury - State of California | LAIF | 999-10201 | 23,814,160 | 23,814,160 | 23,814,160 | 2.390 | 2.390 | 1 | N/A | | 1 |
| | | CalTrust - Short Term Fund (City) | Pooled Treasury - Joint Power Financing Authority | CalTrust | 999-10202 | 23,993 | 23,993 | 23,993 | 2.100 | 2.100 | 1 | N/A | | 0 |
| | | CalTrust - Medium Term Fund (City) | Pooled Treasury - Joint Power Financing Authority | CalTrust | 999-10203 | 3,217,669 | 3,217,669 | 3,217,669 | 1.780 | 1.780 | 1 | N/A | | 0 |
| | | | Subtotal and Average | | | 27,055,821 | 27,055,821 | 27,055,821 | 2.090 | 2.090 | 1 | | | 0 |
| Money Market Savings | | | | | | | | | | | | | | |
| | | Mechanics Bank | Money Market Savings (City) | City | 999-10102 | 2,295,771 | 2,295,771 | 2,295,771 | 0.080 | 0.080 | 1 | N/A | | 0 |
| | | Bank of the West | Money Market Savings - Police Evidence Trust | City | 999-10104 | 107,709 | 107,709 | 107,709 | 0.080 | 0.080 | 1 | N/A | | 0 |
| 84501100 | 999491905 | Wells Fargo Bank | Money Market - WPCP Escrow | Wells Fargo | 503-10302 | 2,266,171 | 2,266,171 | 2,266,171 | 0.030 | 0.030 | 1 | N/A | | 0 |
| | | | Subtotal and Average | | | 4,669,651 | 4,669,651 | 4,669,651 | 0.063 | 0.063 | 1 | | | 0 |
| Mutual Funds | | | | | | | | | | | | | | |
| 19-516680 | | U.S. Bank | Accrued Income - City Reserve | US Bank | 150-10110 | 35,306 | 35,306 | 35,306 | 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 | 29,232 | 29,232 | 29,232 | 1.520 | 1.520 | 1 | N/A | | 0 |
| | | | Subtotal and Average | | | 64,538 | 64,538 | 64,538 | 1.750 | 1.750 | 1 | | | 0 |
| Certificates of Deposit | | | | | | | | | | | | | | |
| 19-516680 | 02007GLR2 | Ally Bank | Certificates of Deposit - City Reserves | US Bank | 150-10110 | 247,000 | 246,918 | 246,918 | 1.800 | 1.800 | 1,078 | N/A | 9/12/2022 | 7 |
| 19-516680 | 02587DJ90 | American Express Centurion | Certificates of Deposit - City Reserves | US Bank | 150-10110 | 247,000 | 248,074 | 248,074 | 2.250 | 2.240 | 436 | N/A | 12/9/2020 | 3 |
| 19-516680 | 140420A59 | Capital One Bank | Certificates of Deposit - City Reserves | US Bank | 150-10110 | 248,000 | 246,428 | 246,428 | 1.600 | 1.610 | 673 | N/A | 8/3/2021 | 4 |
| 19-516680 | 29266NV79 | Enerbank USA | Certificates of Deposit - City Reserves | US Bank | 150-10110 | 249,000 | 248,925 | 248,925 | 1.750 | 1.750 | 70 | N/A | 12/9/2019 | 0 |
| 19-516680 | 29976DQ86 | Everbank Jacksonville FL | Certificates of Deposit - City Reserves | US Bank | 150-10110 | 125,000 | 124,311 | 124,311 | 1.500 | 1.510 | 682 | 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 | 252,644 | 252,644 | 2.600 | 2.530 | 1,344 | N/A | 6/5/2023 | 9 |
| 19-516680 | 48126XAH8 | JP Morgan Chase Bank | Certificates of Deposit - City Reserves | US Bank | 150-10110 | 247,000 | 245,454 | 245,454 | 1.650 | 1.660 | 686 | N/A | 8/16/2021 | 4 |
| 19-516680 | 58404DFE6 | Medallion Bk Salt Lake City | Certificates of Deposit - City Reserves | US Bank | 150-10110 | 249,000 | 248,198 | 248,198 | 1.700 | 1.700 | 1,085 | N/A | 9/19/2022 | 7 |
| 19-516680 | 59013KCZ7 | Merrick Bank | Certificates of Deposit - City Reserves | US Bank | 150-10110 | 249,000 | 247,083 | 247,083 | 1.650 | 1.660 | 1,460 | N/A | 9/29/2023 | 9 |
| 19-516680 | 61690UGW4 | Morgan Stanley Bank Na | Certificates of Deposit - City Reserves | US Bank | 150-10110 | 246,000 | 252,649 | 252,649 | 2.600 | 2.530 | 1,345 | N/A | 6/6/2023 | 9 |
| 19-516680 | 61760AF46 | Morgan Stanley Private Bk Natlssn | Certificates of Deposit - City Reserves | US Bank | 150-10110 | 246,000 | 252,649 | 252,649 | 2.600 | 2.530 | 1,345 | N/A | 6/6/2023 | 9 |
| 19-516680 | 795450XM2 | Sallie Mae Bank | Certificates of Deposit - City Reserves | US Bank | 150-10110 | 125,000 | 125,596 | 125,596 | 2.200 | 2.190 | 443 | 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 | 250,470 | 250,470 | 2.850 | 2.840 | 1,724 | N/A | 6/19/2024 | 11 |
| 19-516681 | 85916VDN2 | Sterling Bank of Poplar Bluff | Certificates of Deposit - City Reserves | US Bank | 150-10110 | 247,000 | 245,128 | 245,128 | 1.650 | 1.660 | 1,449 | N/A | 9/18/2023 | 9 |
| 19-516680 | 9497485W3 | Wells Fargo Bank | Certificates of Deposit - City Reserves | US Bank | 150-10110 | 249,000 | 248,161 | 248,161 | 1.750 | 1.760 | 626 | N/A | 6/17/2021 | 4 |
| 19-516680 | 96009JAR8 | Westfield Bank Mass | Certificates of Deposit - City Reserves | US Bank | 150-10110 | 125,000 | 125,555 | 125,555 | 2.550 | 2.540 | 224 | N/A | 5/11/2020 | 1 |
| | | | Subtotal and Average | | | 3,595,000 | 3,608,245 | 3,608,245 | 2.044 | 2.032 | 917 | | | 6 |
| Medium-Term Corporate Notes | | | | | | | | | | | | | | |
| 19-516680 | 037833BS8 | Apple Inc. | 2.25% Corporate MTN 02/23/2021 - City Reserves | US Bank | 150-10110 | 500,000 | 502,275 | 502,275 | 2.250 | 2.240 | 512 | 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 | 506,980 | 506,980 | 2.400 | 2.370 | 860 | 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 | 514,480 | 514,480 | 3.625 | 3.520 | 753 | A+ | 10/22/2021 | 10 |
| | | | Subtotal and Average | | | 1,500,000 | 1,523,735 | 1,523,735 | 2.758 | 2.710 | 708 | | | 9 |
| Federal Agency Securities | | | | | | | | | | | | | | |
| 19-516680 | 3134GTSD6 | FHLMC MTN | 2.5% Agency Bond 6/6/2022 - City Reserves | US Bank | 150-10110 | 1,000,000 | 1,000,330 | 1,000,330 | 2.500 | 2.500 | 980 | AA+ | 6/6/2022 | 25 |
| 19-516680 | 3130A2D2 | Federal Home Loan Banks | 1.52% Agency Bond 8/25/2021 - City Reserves | US Bank | 150-10110 | 1,000,000 | 994,990 | 994,990 | 1.520 | 1.530 | 695 | AA+ | 8/25/2021 | 18 |
| | | | Subtotal and Average | | | 2,000,000 | 1,995,320 | 1,995,320 | 2.010 | 2.015 | 838 | | | 21 |
| Investment Portfolio Total and Average | | | | | | \$ 38,885,011 | \$ 38,917,311 | \$ 38,917,311 | 1.786 | 1.777 | 411 | | | 6 |

Average Years : 1.1