



CITY COUNCIL STAFF REPORT

MEETING DATE: November 25, 2024

ITEM TITLE: Accept the Fiscal Year 2024-25 First Quarter Investment Report for the Period Ending September 30, 2024.

RECOMMENDATION:

Staff recommends that the City Council review and accept the Quarterly Investment Report ("Report") for the first quarter of fiscal year (FY) 2024-25 ending September 30, 2024.

FISCAL IMPLICATIONS:

There is no fiscal impact associated with accepting the Report.

BACKGROUND:

On June 10, 2024, the City Council approved the Annual Investment Policy ("Policy") per Resolution No. 2024-059. In accordance with the Policy, the City Administrative Services Director is responsible for investing the unexpended cash used for funding operations of the City of San Carlos ("City").

The investment of funds for the City is directed by the goals of safety, liquidity, and yield. The authority governing investments for municipal governments is set forth in the California Government Code, sections 53601 through 53686 (Code). Effective January 1, 2023, per section 53646 (b)(1) of the Code, the Investment Committee serving as the legislative body will have the quarterly reports for its review within forty-five (45) days following the end of the quarter. Thus, this Report and its attachments are furnished for review and information.

Beginning in FY 2016-17, the City included the checking account balance as part of this Report. Although a checking account is not a typical investment account, this balance is included to show the total cash on hand for the quarter. The City typically maintains \$1 million to \$3 million, and a larger balance at the end of the calendar year, in the checking account to meet cash disbursement needs. Transfers are usually made into the investment accounts during the quarter to account for receipts that exceed disbursements.

Investment Strategy

The City's investment priorities, in order, are "Safety, Liquidity, and Yield," while meeting the cash flow needs of the City through prudent investment of unexpended cash.

Compliance with Policy

Historical cash flow trends are compared to current cash flow requirements on an ongoing basis to ensure the City's investment portfolio will remain sufficiently liquid to enable the City to meet

all reasonably anticipated operating requirements. As of September 30, 2024, the portfolio contains sufficient liquidity to meet the next six months of expected expenditures by the City.

As of September 30, 2024, the City has no investment instruments with a maturity date longer than one year. All investments are in highly liquid accounts, using the State of California and County of San Mateo investment pools, and are in compliance with the Policy.

The primary objective of the Policy of the City of San Carlos is “safety of principal”. The permitted investments section of the Policy also states:

Local Agency Investment Fund (LAIF), which is a State of California managed investment pool, and San Mateo County Investment pool, may be used up to the maximum permitted by California State Law. A review of the pool/fund is required when they are part of the list of authorized investments, with the knowledge that the pool/fund may include some investments allowed by statute but not explicitly identified in this investment policy.

The City’s Investment Committee, consisting of Jeff Maltbie, City Manager; Inge Tiegel, City Treasurer; and Rebecca Mendenhall, Administrative Services Director, has reviewed and approved this Report.

ANALYSIS:

The Investment Portfolio (Attachment 1) indicates that on September 30, 2024, City funds in the amount of \$168,395,989 were invested, producing a weighted average yield of 4.14% for this quarter. The amount in the checking account was \$3,001,417. The LAIF, the City’s benchmark for comparison of investment yield, was 4.56% for the quarter. The investment yield, net of administrative fees, for the County Pool was 3.86%. The allocation of the investment portfolio balance to various City funds and various sub-categories of General Fund fund balance is included on page 3 of the attachment

Below is a summary of the changes from the last quarter.

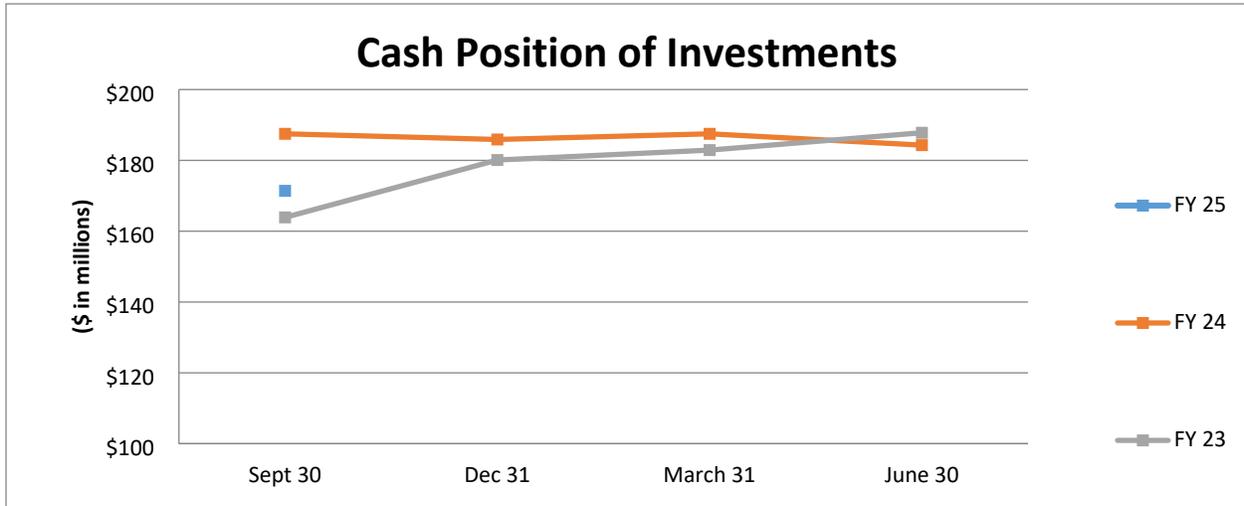
| | Quarter Ended 09/30/24 | % of Total | Quarter Ended 06/30/24 | % of Total | Increase (Decrease) |
|---------------------|---------------------------|---------------|---------------------------|---------------|------------------------|
| City-Checking | \$ 3,001,417 | 2% | \$ 1,888,533 | 1% | \$ 1,112,884 |
| City-SM County Pool | 101,170,418 | 59% | 109,670,755 | 60% | (8,500,337) |
| City-LAIF | 67,225,571 | 39% | 72,694,145 | 39% | (5,468,574) |
| Total | \$ 171,397,406 | 100% | \$ 184,253,433 | 100% | \$ (12,856,027) |

The portfolio balance at the end of the first quarter is \$171,397,406, a decrease of approximately \$12.9 million. The decrease in the portfolio balance is due to the timing of the cash receipts and cash payments. The City draws on the investment portfolio throughout the year for normal operating activity, typically with the more significant levels of draw occurring in the first quarter (July through September) and fourth quarter (April through June). The City’s cash position typically improves in late December and April due to the receipt of property tax collections from San Mateo County.

The decrease in the first quarter was driven by several major distributions: (1) \$5.1 million paid to San Mateo County Sheriff’s Office for police services for the first half of FY 2024-25; (2) \$2.6 million payment to CalPERS for the annual Unfunded Actuarial Liability (UAL) payment; (3) \$2.3

million principal and interest payment to Silicon Valley Clean Water (SVCW) bonds; (4) \$2.1 million operating expenditure and debt principal contributions to SVCW; (5) \$2.1 million contribution for the Belmont-San Carlos Fire Department FY 2024-25 UAL; (6) \$1.6 million general liability and property member contribution to PLAN JPA; and (7) \$0.8 million spent on Cherry Street Below Market Rate Housing for the first quarter. These drawdowns were partially offset by \$2.0 million in sales taxes, \$2.0 million from charges for services, \$1.4 million vehicle-in-lieu revenues, \$0.9 million from licenses and permits, and another \$1.2 million in other taxes and revenues.

Below is a comparison of quarterly cash position for the past three years.



Below is a summary of the changes in the total investment interest earnings from the prior quarter.

| | Qtr Ended 09/30/24 | Qtr Ended 06/30/24 | Increase (Decrease) |
|---------------------------|-----------------------|-----------------------|------------------------|
| Investment Portfolio | \$ 168,395,989 | \$ 182,364,900 | \$ (13,968,911) |
| Weighted Avg Yield | 4.14% | 4.11% | 0.03% |
| Accrued Interest Earnings | \$ 1,834,704 | \$ 1,913,431 | \$ (78,727) |

The decrease in interest earnings this quarter occurred due to the lower portfolio balance compared to the prior quarter despite slightly higher interest rates. Interest in the investment accounts was \$1,834,704 and \$11,143 for the checking account.

ALTERNATIVES:

The alternatives available to the City Council include:

1. Accept the Quarterly Investment Report for the fourth quarter of Fiscal Year 2024-25 as of September 30, 2024; or
2. Do not accept the Report; or
3. Provide staff with alternative direction.

Respectfully submitted by:

Rebecca Mendenhall, Administrative Services Director

Approved for submission by:

A handwritten signature in black ink, appearing to read 'J. Maltbie', with a stylized flourish at the end.

Jeff Maltbie, City Manager

ATTACHMENT(S):

1. Q1 Investment Report FY 2024-25