



CITY COUNCIL REPORT

7H

DATE: MAY 7, 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 MARCH 31, 2019, AND AUTHORIZE STAFF TO
INVEST ADDITIONAL FUNDS IN LONG-TERM SECURITIES**

RECOMMENDATION

Receive the Quarterly Investment Report for the quarter ending March 31, 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 March 31, 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 March 31, 2019 conform to the City's Investment Policy and State Regulations. A summary of the balances held in the investment portfolio (Attachment A), at March 31, 2019, follows:

Investments	Market Value	% of Portfolio
Investment Pool - LAIF	25,478,382	65.61%
Investment Pool - JPA	3,176,579	8.18%
Money Market Savings	7,042,426	18.14%
Mutual Funds	65,342	0.17%
Certificates of Deposit	1,591,450	4.10%
Medium-Term Corporate Notes	498,200	1.28%
Federal Agency Securities	980,730	2.53%
Investment Total	\$ 38,833,108	100.0%

Investment Yield and Duration:

The current aggregate yield of the City's investment portfolio is stabilized at 1.551%. This investment yield is slightly lower than the current yield of 2.360% 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, 18% of our portfolio is in money market funds which earn 0.063% interest. LAIF and other pooled funds make up 74% of our investment portfolio.

Long-term investments make up 8% of our portfolio, and currently yield 1.690%; which is 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.

Investments	Q3-2019 Yield	Q3-2018 Yield
Investment Pool - LAIF	2.360	1.570
Investment Pool - JPA	2.550	2.070
Money Market Savings	0.063	0.047
Mutual Funds	1.020	0.773
Certificates of Deposit	1.929	1.833
Medium-Term Corporate Notes	2.260	2.547
Federal Agency Securities	1.550	1.573
Municipal Bonds	0.000	2.250
Average Yield	1.551	1.561

Cash Flows:

Sufficient cash inflows were available from July through March 2019 to meet all City expenditures. In addition, the City has sufficient cash flow at March 31, 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 8.07%. 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, 91.93% is held in investment pools and money market accounts. Of this amount, LAIF currently represents 65.61% of the City's investment portfolio. Interest earnings of \$119,127 were generated in LAIF for the quarter ended March 31, 2019. The Investment Policy allows for up to 100% of the City's investment portfolio in LAIF which is currently at 2.360% 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.

To complement our participation in LAIF and to maintain a diverse investment portfolio, staff recommends transferring \$3 million from LAIF to invest in long-term securities. Analysts are projecting yields on two and three year negotiable certificates of deposits (CDs) to range between 2.25% and 2.60%, and yields on five year CDs between 2.65% and 2.75%.

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 March 31, 2019 are on par with the prior year's third quarter earnings of 1.561% as a result of the increase in LAIF account allocations.

ATTACHMENTS

Attachment A –Investment Report - Quarter Ending March 31, 2019

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

Investments	Par Value	Market Value	Book Value	% of Portfolio	Days to Maturity	Yield	Weighted Average Maturity
Investment Pool - LAIF	25,478,382	25,478,382	25,478,382	65.61%	1	2.360	1
Investment Pool - JPA	3,176,579	3,176,579	3,176,579	8.18%	1	2.550	0
Money Market Savings	7,042,426	7,042,426	7,042,426	18.14%	1	0.063	0
Mutual Funds	65,342	65,342	65,342	0.17%	1	1.020	0
Certificates of Deposit	1,615,000	1,591,450	1,591,450	4.10%	663	1.929	3
Medium-Term Corporate Notes	500,000	498,200	498,200	1.28%	695	2.260	9
Federal Agency Securities	1,000,000	980,730	980,730	2.53%	878	1.550	22
Subtotal Investments	\$ 38,877,728	\$ 38,833,108	38,833,108	100.00%	373	1.551	6

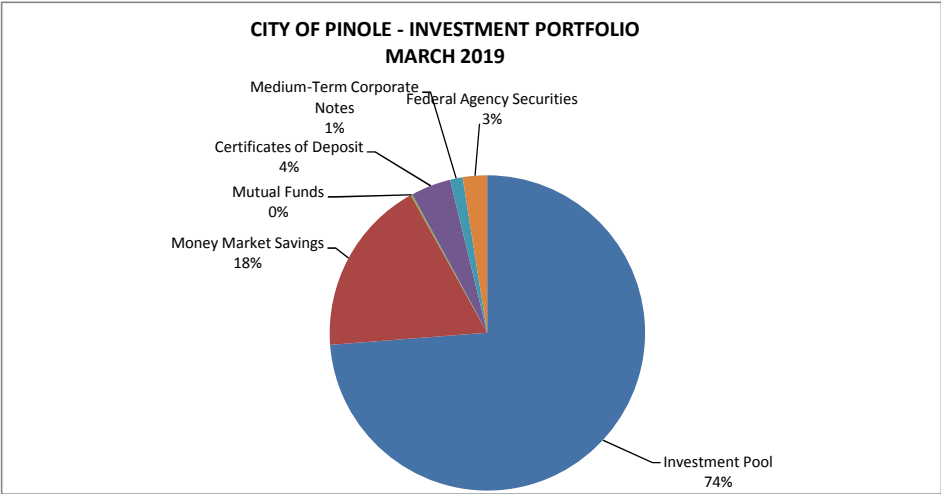
Average Years: 1.0

Cash	Par Value	Market Value	Book Value	Days to Maturity
Mechanics Bank - Vendor Checking *	1,529,692	1,529,692	1,529,692	1
Bank of the West - Payroll Checking *	1,483,005	1,483,005	1,483,005	1
Bank of the West - Checking (Credit Card Clearing) *	497,638	497,638	497,638	1
Subtotal Cash	3,510,335	3,510,335	3,510,335	1

Total Cash and Investments \$ 42,388,063 \$ 42,343,443 \$ 42,343,443

*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 MARCH 2019
 PORTFOLIO DETAILS

Type / Account Number	CUSIP	Issuer	Investment Description	Manager	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	25,478,382	25,478,382	25,478,382	2.360	2.360	1	N/A		1
		CalTrust - Short Term Fund (City)	Pooled Treasury - Joint Power Financing Authority	CalTrust	23,666	23,666	23,666	2.520	2.520	1	N/A		0
		CalTrust - Medium Term Fund (City)	Pooled Treasury - Joint Power Financing Authority	CalTrust	3,152,913	3,152,913	3,152,913	2.580	2.580	1	N/A		0
			Subtotal and Average		28,654,960	28,654,960	28,654,960	2.487	2.487	1			0
Money Market Savings													
		Mechanics Bank	Money Market Savings (City)	City	4,334,339	4,334,339	4,334,339	0.080	0.080	1	N/A		0
		Bank of the West	Money Market Savings - Police Evidence Trust	City	28,403	28,403	28,403	0.080	0.080	1	N/A		0
84501100	999491905	Wells Fargo Bank	Money Market - WPCP Escrow	Wells Fargo	2,679,684	2,679,684	2,679,684	0.030	0.030	1	N/A		0
			Subtotal and Average		7,042,426	7,042,426	7,042,426	0.063	0.063	1			0
Mutual Funds													
19-516680		U.S. Bank	Accrued Income - City Reserve	US Bank	8,379	8,379	8,379	0.000	0.000	1	N/A		0
19-516680	31846V203	1st American Government Obligation Fund	Mutual Fund Shares - Class "D" - City Reserve	US Bank	56,964	56,964	56,964	2.010	2.040	1	N/A		0
			Subtotal and Average		65,342	65,342	65,342	1.005	1.020	1			0
Certificates of Deposit													
19-516680	02587DJ90	American Express Centurion	Certificates of Deposit - City Reserves	US Bank	247,000	245,508	245,508	2.250	2.260	619	N/A	12/9/2020	4
19-516680	140420A59	Capital One Bank	Certificates of Deposit - City Reserves	US Bank	248,000	241,795	241,795	1.600	1.640	856	N/A	8/3/2021	5
19-516680	29266NV79	Enerbank USA	Certificates of Deposit - City Reserves	US Bank	249,000	247,820	247,820	1.750	1.760	253	N/A	12/9/2019	2
19-516680	29976DQ86	Everbank Jacksonville FL	Certificates of Deposit - City Reserves	US Bank	125,000	121,956	121,956	1.500	1.540	865	N/A	8/12/2021	3
19-516680	48126XAH8	JP Morgan Chase Bank	Certificates of Deposit - City Reserves	US Bank	247,000	240,729	240,729	1.650	1.690	869	N/A	8/16/2021	5
19-516680	795450XM2	Sallie Mae Bank	Certificates of Deposit - City Reserves	US Bank	125,000	124,455	124,455	2.200	2.210	626	N/A	12/16/2020	2
19-516680	9497485W3	Wells Fargo Bank	Certificates of Deposit - City Reserves	US Bank	249,000	244,092	244,092	1.750	1.780	809	N/A	6/17/2021	5
19-516680	96009JAR8	Westfield Bank Mass	Certificates of Deposit - City Reserves	US Bank	125,000	125,095	125,095	2.550	2.550	407	N/A	5/11/2020	1
			Subtotal and Average		1,615,000	1,591,450	1,591,450	1.906	1.929	663			3
Medium-Term Corporate Notes													
19-516680	037833BS8	Apple Inc.	2.25% Corporate MTN 02/23/2021 - City Reserves	US Bank	500,000	498,200	498,200	2.250	2.260	695	AA+	2/23/2021	9
			Subtotal and Average		500,000	498,200	498,200	2.250	2.260	695			9
Federal Agency Securities													
19-516680	3130A2D2	Federal Home Loan Banks	1.52% Agency Bond 8/25/2021 - City Reserves	US Bank	1,000,000	980,730	980,730	1.520	1.550	878	AA+	8/25/2021	22
			Subtotal and Average		1,000,000	980,730	980,730	1.520	1.550	878			22
Investment Portfolio Total and Average					\$ 38,877,728	\$ 38,833,108	\$ 38,833,108	1.539	1.551	373			6

Average Years : 1.0