



Approved:



Gary A. Napper
City Manager

STAFF REPORT

TO: HONORABLE MAYOR AND COUNCILMEMBERS

FROM: KEVIN MIZUNO, FINANCE MANAGER

DATE: FEBRUARY 5, 2019

SUBJECT: SECOND QUARTER FY 2018-19 INVESTMENT PORTFOLIO REPORT AND PROPOSAL TO AMEND CITY INVESTMENT POLICY

RECOMMENDATION

It is recommended the City Council, by minute motion, accept the City Investment Portfolio Report for the second quarter of the fiscal year ending June 30, 2019 (FY 2018-19).

BACKGROUND

Pursuant to the section XIII of the City of Clayton Investment Policy, the Finance Manager is required to submit a quarterly investment report to the City Council. This quarterly report is also designed to meet the local agency reporting requirements outlined in *California Government Code* section 53646. The FY 2018-19 second quarter report is provided herein.

The City's Investment Policy guides staff and its advisors for all investment activities. Permitted investment activities are primarily governed by state law (*California Government Code* sections 53600-53610) and the City's adopted Investment Policy. The City's Investment Policy is consistent with state law and is designed to be more restrictive for the purpose of added safety and liquidity, which take precedence over yield. Section XVI of the Investment Policy states it shall be periodically reviewed by the City Treasurer and the City Council to ensure its consistency with the overall objectives of preservation of principal, liquidity, and return on investments, along with its relevance to current law, financial and economic trends, and to meet the needs of the City. The policy was last amended by the City Council, following recommendation by the Finance Manager and City Treasurer on November 20, 2018 to add the California Asset Management Program (CAMP) as an authorized investment type. No revisions to the Policy are being recommended at this time.

DISCUSSION

With the second quarter of the fiscal year complete, interest earnings for the General Fund is \$57,079, or 64.72% of forecasted General Fund interest revenues per the FY 2018-19 adopted budget of \$88,200. City-wide investment earnings solely attributable to pooled investments (i.e. not related to cash with fiscal agents such as bond proceeds) through the second quarter of FY 2018-19 totaled \$135,364.

Only a small proportion (0.16%) of the current City Investment Portfolio is invested in Local Agency Investment Funds (LAIF), with no funds having yet been invested in the newly established CAMP account. The Investment Portfolio's unusually small share of liquid externally investment pools (i.e. LAIF and CAMP) is due to the first installment of property taxes being received from the County just shortly prior to the quarter's end. Furthermore, at the time the first installment of property taxes was received in mid-December, staff was still finalizing the account set-up resulting in CAMP not being available for investment of excess liquidity until January 2019.

At December 31, 2018 the LAIF quarterly apportionment rate was 2.40%, which is a noteworthy increase from a rate of 2.16% in just the preceding quarter. Comparatively, the CAMP apportionment rate for the month ended December 31, 2018 was 2.46%. Similar to the prior quarter, the apportionment rates of LAIF and CAMP both exceed the quarterly weighted average yield to maturity for the City's two non-governmental investment accounts with UBS and Morgan Stanley, which is an unusual trend first observed in the previous quarter. This phenomenon is due to the external UBS and Morgan Stanley accounts being composed nearly entirely of fixed-income securities, such as certificates of deposit and government agency notes purchased in previously during a period of rising interest rates. Nevertheless, an advantage with these accounts is that proceeds of matured securities can be used to purchase new two to five year low risk fixed income investment instruments currently yielding between 2.65% to 3.20%, beating both LAIF and CAMP.

This reporting quarter, investments in certificates of deposit comprised approximately 82.82% of the portfolio and were the second highest yielding investment type (after LAIF and CAMP deposits) with a collective weighted average interest rate of 2.12%. Federal Agency Notes, authorized by the revised April 21, 2015 Investment Policy, were the third highest yielding investment type making up approximately 7.35% of the portfolio with a weighted average interest rate of 1.94%. As discussed previously, at December 31, 2018 a higher than usual proportion of the Investment Portfolio (9.68%) was made up of non CAMP or LAIF cash deposits and low interest bearing money market mutual funds that are liquid and available for normal operating cash flow purposes.

The market value of the total investment portfolio was approximately \$12,070,663, which is \$181,493 lower than total carrying value as of December 31, 2018. Currently, the cost of securities in the Investment Portfolio exceeds the estimated market value due to the City's heavy investment in two to five year fixed income securities during a period of rising interest rates. The relatively marginal difference (-1.48%) demonstrates how the cautious nature of the

City's investment strategy mitigates the risk of the City incurring large unrealized losses in market declines. Simultaneously, given less risk being incurred, more predictable and modest investment returns will be realized following this same strategy.

The City of Clayton Investment Portfolio was managed in accordance with the City's Investment Policy. Furthermore, the City's cash management program provides sufficient liquidity to meet the next six month's expenditures. The attached City of Clayton Investment Holdings Summary – Second Quarter of Fiscal Year 2018-19 (Attachment 1) provides additional analysis and the specific investment reporting criteria required by *California Government Code* section 53646.

FISCAL IMPACT

The acceptance of this report has no direct fiscal impact to the City of Clayton.

Attachments: 1. City of Clayton Investment Holdings Summary – Second Quarter of Fiscal Year 2018-19 (October 1, 2018 – December 31, 2018) [2 pp.]

City of Clayton
Investment Holdings Summary
Quarter Ending: December 31, 2018

ATTACHMENT 1

Investment Account	Investment Type	Institution	CUSIP	Carrying Value	Rate	Current Yield	Settlement Date	Maturity Date	Market Value
CAMP	Local Agency Pool	California Asset Management Program	n/a	-	2.46%	2.46%	n/a	n/a	-
LAIF	Local Agency Pool	Local Agency Investment Fund	n/a	19,547.68	2.40%	2.40%	n/a	n/a	19,529.13
UBS Financial Services Inc.	Money Market Fund	RMA Government Portfolio	n/a	6,907.35	1.75%	1.75%	n/a	n/a	6,907.35
	Certificate of Deposit	Keybank NA, IN	49306SVY9	100,000.00	1.53%	1.55%	1/20/16	1/22/19	99,979.00
	Certificate of Deposit	Preferred Bank, CA	740367ER4	197,000.00	1.20%	1.20%	3/9/16	3/29/19	196,513.41
	Certificate of Deposit	First Savings Bank, IN	33621LBV4	99,000.00	1.15%	1.16%	5/4/16	5/24/19	98,477.28
	Certificate of Deposit	UBS Bank, UT	90348JAS9	200,000.00	1.20%	1.21%	6/9/16	6/17/19	198,754.00
	Certificate of Deposit	First Financial NW, WA	32022MAJ7	147,000.00	1.45%	1.46%	2/10/16	8/19/19	145,946.01
	Certificate of Deposit	Third Fed S&L Assn, OH	88413QAY4	200,000.00	1.50%	1.50%	2/19/15	8/19/19	199,356.00
	Certificate of Deposit	Park Natl Bk Newar, OH	700654AT3	240,000.00	2.15%	2.16%	9/12/14	9/12/19	238,996.80
	Certificate of Deposit	Gulf Coast B&T, LA	402194FB5	99,000.00	1.25%	1.27%	10/14/16	10/15/19	97,804.08
	Certificate of Deposit	GE Capital Bank UT	36162YF24	145,000.00	1.80%	1.81%	1/16/15	1/16/20	144,166.25
	Certificate of Deposit	Mercantile Comm Ban, FL	58733AEJ4	100,000.00	1.90%	1.92%	8/15/17	3/2/20	98,988.00
	Certificate of Deposit	BMW Bank NA, UT	05580AHL1	198,000.00	1.80%	1.82%	4/12/17	4/21/20	195,400.26
	Certificate of Deposit	Wells Fargo Bk Na Sd Us	94986TTT4	197,000.00	1.25%	2.00%	4/30/15	4/30/20	196,625.70
	Certificate of Deposit	Washington Trust, RI	940637HX2	99,000.00	1.45%	1.48%	11/18/16	5/18/20	97,127.91
	Certificate of Deposit	Comenity Bank, DE	981996XS5	100,000.00	2.30%	2.33%	6/30/15	7/1/20	98,552.00
	Certificate of Deposit	World's Foremost B, NE	915991E55	200,000.00	2.30%	2.34%	8/6/15	8/6/20	196,504.00
	Certificate of Deposit	Merrick Bk, UT	59013JHE2	149,000.00	1.90%	1.93%	8/20/15	8/20/20	146,526.60
	Certificate of Deposit	Morgan Stanley Bk, UT	61747MG96	245,000.00	2.45%	2.48%	1/18/18	1/25/21	241,971.80
	Certificate of Deposit	JP Morgan Chase, OH	48125YZB3	200,000.00	1.25%	1.52%	1/26/16	2/10/21	197,944.00
	Certificate of Deposit	Synchrony Bank, UT	87164XLH7	94,000.00	1.70%	1.74%	2/25/16	3/4/21	91,645.30
	Certificate of Deposit	BLC Comenity Bank, WI	05549CGN4	198,000.00	2.00%	2.05%	11/13/17	5/28/21	192,852.00
	Certificate of Deposit	Webbank, UT	94754KCC8	200,000.00	3.00%	3.01%	5/18/18	5/28/21	199,442.00
	Certificate of Deposit	Barclays Bank, DE	06740KCC0	100,000.00	2.00%	2.06%	7/12/17	7/12/21	97,246.00
	Certificate of Deposit	Comenity Cap Bank UT	20033AUX2	245,000.00	2.00%	2.06%	7/16/17	7/16/21	238,171.85
	Certificate of Deposit	UBS Bank, UT	90348JAU4	50,000.00	1.50%	1.56%	7/20/16	7/20/21	47,926.00
	Certificate of Deposit	Synchrony Bank, UT	87164XNA0	50,000.00	1.45%	1.51%	7/22/16	7/22/21	47,920.00
	Certificate of Deposit	Peoples Sec B&T Co, PA	712303AA4	100,000.00	3.01%	3.01%	8/20/18	8/31/21	99,595.00
	Certificate of Deposit	Medallion Bk, UT	58403B5Q5	198,000.00	2.05%	2.12%	12/5/16	12/16/21	191,555.10
	Certificate of Deposit	Mercantile Comm Bank	58733ADT3	150,000.00	2.10%	2.17%	1/27/17	1/27/22	145,054.50
	Certificate of Deposit	Texas Exchange Bank, TX	88241TBD1	150,000.00	2.25%	2.32%	3/28/17	3/28/22	145,309.50
	Certificate of Deposit	First National Bank of McGregor, TX	36A99U934	145,000.00	2.35%	2.44%	12/20/18	6/20/22	139,474.05
	Certificate of Deposit	Bank of New England, NH	06426KAL2	246,000.00	3.15%	3.17%	7/17/18	7/28/22	244,356.72
	Certificate of Deposit	First Bank Highland, IL	319141HNO	247,000.00	2.20%	2.29%	9/7/17	9/7/22	237,026.14
	Certificate of Deposit	Capital One Bank	1404205H9	99,000.00	2.30%	2.39%	10/4/17	10/4/22	95,209.29
	Certificate of Deposit	Belmont Svgs Bk, MA	08051SCH0	200,000.00	2.70%	2.78%	2/13/18	2/28/23	194,030.00
	Certificate of Deposit	Citibank, NA SD	17312QJ26	200,000.00	2.90%	2.97%	4/2/18	4/11/23	195,364.00
	Certificate of Deposit	Toyota Financial Savings Bank, NV	89235MJA0	250,000.00	3.40%	3.42%	6/29/18	7/24/23	248,732.50
	Certificate of Deposit	Bank of Baroda, NY	06063H8H5	250,000.00	3.55%	3.56%	12/17/18	12/28/23	249,637.50
	Government Agency	FHLMC	3134G8VZ9	250,000.00	1.50%	1.52%	3/29/16	4/28/21	246,830.00
	Total UBS Financial Services Inc.			6,343,907.35					6,243,917.90

City of Clayton
Investment Holdings Summary
Quarter Ending: December 31, 2018

ATTACHMENT 1

Investment Account	Investment Type	Institution	CUSIP	Carrying Value	Rate	Current Yield	Settlement Date	Maturity Date	Market Value
Morgan Stanley	Money Market Fund	Morgan Stanley	n/a	8,485.93	0.15%		n/a	n/a	8,485.93
	Certificate of Deposit	State Bank of India, ILL	856283YN0	198,000.00	1.65%	0.83%	5/28/15	5/28/19	197,287.20
	Certificate of Deposit	First Business Bank, WI	31938QL85	50,000.00	1.50%	0.75%	6/11/15	6/11/19	49,769.00
	Certificate of Deposit	Ally Bank, UT	02006LE66	148,000.00	1.25%	0.63%	6/23/16	6/24/19	147,026.16
	Certificate of Deposit	American Express Bank FSB, UT	02587CAJ9	247,000.00	2.00%	2.01%	7/24/14	7/24/19	246,209.60
	Certificate of Deposit	BMW, UT	05580afa7	50,000.00	1.20%	1.21%	8/26/16	8/26/19	49,509.50
	Certificate of Deposit	Comenity Bank, DE	20099A7A9	100,000.00	2.10%	1.41%	8/27/14	8/27/19	99,255.64
	Certificate of Deposit	JPM, OH	48126XCP8	48,000.00	1.25%	0.95%	8/31/16	8/31/19	47,526.72
	Certificate of Deposit	Capital One Bank, VA	140420QF0	130,000.00	2.15%	2.16%	10/16/14	10/16/19	129,443.60
	Certificate of Deposit	State Bk India, NY	8562842P8	50,000.00	2.25%	2.26%	8/27/14	10/17/19	49,847.50
	Certificate of Deposit	The Privatebank & Trust Co., IL	74267GUU9	100,000.00	1.90%	1.91%	1/23/15	1/23/20	99,387.00
	Certificate of Deposit	American Express Centurion Bank, UT	02587DXE3	47,000.00	1.95%	1.97%	1/30/15	1/30/20	46,602.85
	Certificate of Deposit	Peoples United Bank, CT	71270QML7	151,000.00	1.75%	1.77%	3/4/15	3/4/20	149,704.42
	Certificate of Deposit	Everbank, FL	29976DVV7	200,000.00	1.75%	1.77%	3/30/15	3/30/20	197,404.00
	Certificate of Deposit	CIT Bank, UT	17284DBM3	50,000.00	1.98%	2.02%	6/3/15	6/3/20	49,397.00
	Certificate of Deposit	Capital One NA McLean, VA	14042E4Y3	245,000.00	2.22%	2.27%	7/22/15	7/22/20	242,354.00
	Certificate of Deposit	Beneficial Mut, PA	08173QBT2	200,000.00	1.37%	1.39%	10/7/16	10/7/20	194,142.00
	Certificate of Deposit	Connectone England Cliffs, NJ	20786ACD5	100,000.00	2.60%	2.63%	3/28/18	3/29/21	98,924.00
	Certificate of Deposit	Townebank Portsmouth, VA	89214PBL2	200,000.00	2.80%	2.82%	4/19/18	4/30/21	198,614.00
	Certificate of Deposit	Wells Fargo, SD	9497485W3	50,000.00	1.77%	1.82%	6/17/16	6/17/21	48,193.00
	Certificate of Deposit	1st Internet Bank Indianapolis, IN	32056GCP3	100,000.00	1.95%	2.01%	7/14/17	7/14/21	97,099.00
	Certificate of Deposit	Bank Hapoalim, NY	06251AU32	147,000.00	3.00%	3.01%	8/23/18	8/23/21	146,414.94
	Certificate of Deposit	First Bank PR Santurce, PR	33767A4K4	157,000.00	2.05%	2.11%	8/25/17	8/25/21	152,582.02
	Certificate of Deposit	Enerbank USA, UT	29266N3H8	50,000.00	1.48%	1.52%	8/26/16	8/26/21	47,827.50
	Certificate of Deposit	Privatebank, IL	74267GVM6	147,000.00	1.53%	1.57%	8/30/16	8/30/21	140,662.83
	Certificate of Deposit	Commercial Bank Harrogate, Tenn	20143PDR8	197,000.00	3.00%	3.01%	6/19/18	9/21/21	196,135.17
	Certificate of Deposit	Franklin Syn Bank, TN	35471TCV2	204,000.00	2.00%	2.07%	1/12/17	1/31/22	196,637.64
	Certificate of Deposit	Live Oak Banking, NC	538036CM4	97,000.00	2.25%	2.32%	4/7/17	4/7/22	93,925.10
	Certificate of Deposit	Commercial Savings Bank, IA	202291AD2	247,000.00	2.10%	2.20%	10/18/17	10/18/22	235,628.12
	Certificate of Deposit	Industrial & Coml, NY	45581EAR2	250,000.00	2.65%	2.74%	2/17/18	2/14/23	242,170.00
	Certificate of Deposit	Enerbank USA, UT	29278TCG3	100,000.00	3.20%	3.24%	7/31/18	7/31/23	98,616.00
	Government Agency	Federal Farm Credit Bank	3133EGEX9	200,000.00	1.67%	1.70%	6/9/16	6/14/21	195,758.00
	Government Agency	Federal Home Loan Bank	3130A8HH9	250,000.00	1.62%	1.65%	6/16/16	6/23/21	244,457.50
	Government Agency	Federal Home Loan Bank	3130AE6H8	200,000.00	3.15%	3.14%	5/3/18	5/2/23	200,004.00
	Total Morgan Stanley			4,718,485.93					4,637,000.94
Bank of America (book balance)	Cash (checking account)	Bank of America		1,170,214.91	0.00%	0.00%	n/a	n/a	1,170,214.91

Broker / Institution	Carrying Value	Percentage of Portfolio	Weighted Average Yield to Maturity	W.A.M. (yrs)	Market Value
CAMP	-	0.00%	2.46%	0.11	-
LAIF	19,548	0.16%	2.40%	0.53	19,529
UBS Financial Services Inc.	6,343,907	51.78%	2.11%	2.31	6,243,918
Morgan Stanley	4,718,486	38.51%	2.09%	1.99	4,637,001
Bank of America (book balance)	1,170,215	9.55%	0.00%	0.00	1,170,215
Total investment Portfolio	12,252,156	100.00%	1.90%	1.96	12,070,663
2018-19 Budgeted Interest - General Fund		\$ 88,200			
2018-19 Actual Interest Revenue to date (7/1/18 - 12/31/18)		\$ 57,079			
Percent of General Fund Budget Realized		64.72%			
Quarterly Weighted Average Annual Yield*		1.90%			
2018-19 Total Pooled Investment Income To Date (7/1/18 - 12/31/18)		\$ 135,364			

*This calculation excludes the City's non-interest bearing pooled checking account with Bank of America

I verify that this investment portfolio is in conformity with State laws and the City of Clayton's investment policy. The City's cash management program provides sufficient liquidity to meet the next six month's expenditures.


Kevin Mizuno, Finance Manager 1/17/19
Date


Hank Stratford, City Treasurer 1/22/19
Date