



CITY COUNCIL STAFF REPORT



March 1, 2022

ITEM TITLE

City Council Policy and Investment Report: Amend the City Council Policy, Delegate Investment Activity Authority to the Director of Finance/Treasurer and Receive the Quarter Ended December 31, 2021 Investment Report

Report Number: 22-0069

Location: No specific geographic location

Department: Finance

Environmental Notice: The activity is not a "Project" as defined under Section 15378 of the California Environmental Quality Act State Guidelines; therefore, pursuant to State Guidelines Section 15060(c)(3) no environmental review is required.

Recommended Action

Adopt a resolution amending City Council Policy No. 220-01 Investment Policy and Guidelines; delegate investment activity authority to the Director of Finance/Treasurer; and receive the Investment Report for the quarter ended December 31, 2021.

SUMMARY

Per California Government Code Section 53607, on an annual basis the City Council may delegate to the City Treasurer the authority to conduct the investment activities of the City. And per Government Code Section 53646, the City Treasurer may annually present the City's Investment Policy to the City Council to reaffirm or make any changes to the existing policy. The Investment Policy provides guidelines for the investment of idle funds and affords the City various investment opportunities, as long as the investment is deemed prudent and is allowable under Government Code Section 53600, et seq. The Policy was reviewed and adopted by City Council on February 16, 2021. At this time staff is recommending changes to the policy.

Transmitted herewith is the City's Investment Report for the Quarter Ended December 31, 2021. To meet the reporting requirements set forth in the California Government Code Sections 53600 et seq. and the City of Chula Vista Investment Policy and Guidelines, a separate report was distributed to the City Council in January.

ENVIRONMENTAL REVIEW

The Director of Development Services has reviewed the proposed activity for compliance with the California Environmental Quality Act (CEQA) and has determined that the activity is not a “Project” as defined under Section 15378 of the State CEQA Guidelines because the proposed activity consists of a governmental fiscal/administrative activity which does not result in a physical change in the environment; therefore, pursuant to Section 15060(c)(3) of the State CEQA Guidelines, the activity is not subject to CEQA. Thus, no environmental review is required.

BOARD/COMMISSION/COMMITTEE RECOMMENDATION

Not applicable.

DISCUSSION

Investment Policy

The City’s Investment Policy and Guidelines was last amended on February 16, 2021 by Resolution 2021-022 and was intended to provide direction for the prudent investment of temporarily idle cash, and for maximizing the efficiency of the cash management process. The stated goal is to enhance the economic condition of the City while ensuring the safety of funds invested. The policy includes a list of specific investment instruments available under the relevant California Government Code Section 53600, et seq. Each investment transaction is made in the context of first ensuring the “safety” of principal, second, investing only for that timeframe that the cash is not needed for operational purposes (“liquidity”), and last, seeking the highest return possible (“yield”) provided that the first two factors are met.

Per Section 18.0 of the Investment Policy, each fiscal year the Finance Director/Treasurer shall provide a copy of the Policy for adoption by the City Council. At this time, staff is recommending changes to the policy to update Section 9.0, Authorized and Suitable Investments, as it relates to the investment type Medium-Term Corporate Notes, to align with recent changes made to the California Government Code.

Quarterly Investment Report

The total cash and investment portfolio held by the City as of December 31, 2021 was \$507,041,229 and total cash and investments held by the trustees was \$37,065,236.

The cash and investments held by the City are composed of the following components: Managed Investment Portfolio (\$382,139,467), State of CA Local Agency Investment Fund (\$23,782,567), County of San Diego Pooled Investment Fund (\$72,860,403), Cash/Time Deposits (\$26,295,928), and accrued interest on investment (\$1,962,864). Cash and investments held by the City and the trustees continue to be invested in accordance with the Government Code and the Council Investment Policy as adopted by Resolution 2021-022 on February 16, 2021.

During the quarter, six investments matured totaling \$7,860,000. Funds from the matured investments, plus \$120,000,000 in funds drawn down from the County of San Diego Investment Pool and short-term excess cash were utilized to purchase fifty-six new investments totaling \$135,182,000. The new purchases consisted

of twenty-four federal agency bonds (\$71,740,000), twenty-two corporate notes (\$45,887,000), eight municipal bonds (\$11,055,000), and two supranationals (\$6,500,000).

Two-year Treasuries yielding 0.28% at the beginning of the quarter ended the quarter at a yield of 0.73%. The City's investment portfolio continued to outperform the two-year treasury yield this quarter.

As of December 31, 2021, the Weighted Yield to Maturity on the Managed Investment Portfolio was 1.68%. Including the lower yielding pooled investment accounts, the Weighted Yield to Maturity was 1.42% at the end of the quarter.

At the end of this quarter, the Weighted Average Maturity of the Managed Investment Portfolio was 2.13 years, which increased from 1.79 years the previous quarter and is within the Council Policy.

The Federal Open Market Committee (FOMC) meets approximately every six weeks and determines the level of the Federal Funds Rate. At their December 15 meeting, the FOMC voted to maintain the Federal Funds Rate target range at its current level of 0.00% to 0.25%.

The following excerpts are from the statement issued by the FOMC following their December 15 meeting. "...With progress on vaccinations and strong policy support, indicators of economic activity and employment have continued to strengthen. The sectors most adversely affected by the pandemic have improved in recent months but continue to be affected by COVID-19. Job gains have been solid in recent months, and the unemployment rate has declined substantially. Supply and demand imbalances related to the pandemic and the reopening of the economy have continued to contribute to elevated levels of inflation. Overall financial conditions remain accommodative, in part reflecting policy measures to support the economy and the flow of credit to U.S. households and businesses. The path of the economy continues to depend on the course of the virus. Progress on vaccinations and an easing of supply constraints are expected to support continued gains in economic activity and employment as well as a reduction in inflation. Risks to the economic outlook remain, including from new variants of the virus."

Finance staff continued to manage the portfolio and work with multiple broker/dealers for investment purchases throughout the quarter. Ongoing portfolio management activity will continue to be performed inhouse by the Director of Finance and finance staff. There is no further activity to report on other than routine investments by the City's Finance Department.

DECISION-MAKER CONFLICT

Staff has reviewed the decision contemplated by this action and has determined that it is not site-specific and consequently, the real property holdings of the City Council members do not create a disqualifying real property-related financial conflict of interest under the Political Reform Act (Cal. Gov't Code § 87100, et seq.).

Staff is not independently aware, and has not been informed by any City Council member, of any other fact that may constitute a basis for a decision-maker conflict of interest in this matter.

CURRENT-YEAR FISCAL IMPACT

Considering the projected timing of cash receipts and disbursements and the structure of the Pooled Investment Portfolio, the City should be able to comfortably meet overall cash flow needs over the next six months. There is no direct fiscal impact by this action.

ONGOING FISCAL IMPACT

There is no ongoing fiscal impact by this action.

ATTACHMENTS

1. Summary of Cash and Investments as of December 31, 2021
2. Investment Report for the Quarter Ended December 31, 2021
3. Council Policy 220-01 Investment Policy and Guidelines

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