



**TOWN OF LOS GATOS
COUNCIL FINANCE COMMITTEE
REPORT**

MEETING DATE: 12/07/2020

ITEM NO: 3

DESK ITEM

DATE: December 7, 2020
TO: Council Finance Committee
FROM: Laurel Prevetti, Town Manager
SUBJECT: Receive the First Quarter Investment Report (July through September 2020) for Fiscal Year 2020/21.

REMARKS:

Staff responses to the Committee Member questions are below.

Question: Regarding the Investment Report, you have been extending the portfolio's maturities to a weighted average of 556 days, yielding a return of 1.86%. How do you view the risk of increasing maturities? If it was riskless, you would have always had increased maturities before presumably.

Answer: Staff invests operating funds per the California Government Code mandate of Safety, Liquidity, and lastly Yield. That said, staff is cognizant of changes in the yield curve and the trade-offs between risk and return. Longer duration portfolios tend to work well in periods of stable to falling interest rates, while shorter duration portfolios tend to perform well in scenarios of rising interest rates.

Interest rates have been dropping since the fall of 2018 and the Federal Reserve is projecting that interest rates will remain low for an extended period of time, possibly through end of calendar year 2023. Accordingly, and when appropriate, staff in consultation with the Town's investment advisor see some opportunities currently in extending maturities and riding down the yield curve.

Question: Also, assuming that the current treasury and other bonds yields hold steady, how much will the yield of 1.86% decline by the end of FY 2021?

PREPARED BY: Stephen Conway
Director of Finance

Reviewed by: Town Manager, Assistant Town Manager, and Town Attorney

REMARKS (continued):

Answer: Staff expects the overall yield to fall to approximately 1.30% through calendar year 2021. The drop in yield was factored into interest rate estimates for the current fiscal year (FY 20/21) and also factored into the Town's Five-Year Forecast.

Question: Finally, \$24,500,000 has been withdrawn YTD compared to \$11,800,000 deposited. How does this compare to prior years and do you anticipate more net withdrawals for the year?

Answer: FY 20/21 First Quarter disbursements included \$1.5M of debt service checks issued and mailed to Bank of New York (trustee) due in August for the 2002 and 2010 COPs that a week later required an immediate stop payment order issued by the Town. This action was necessary because BNY staff alerted Town staff that they were not able to physically enter their building for a couple of weeks in August 2020 because of a COVID-19 outbreak in their downtown Los Angeles office and thereby could not negotiate the mailed checks.

To avoid late payments to bondholders, BNY requested that the Town replace the check payment by paying by wire which was approved by the Town. Upon receipt of the original cancelled checks from BNY Trust and verification of outstanding checks, accounts payable staff officially voided the checks. There will be corresponding -\$1.5M reverse disbursement that will be entered into the Town's general ledger and will reduce disbursements on the second quarter's report.

Adjusting the balance leaves a net disbursement of approximately \$23.0M for the first quarter. The Town also made a one-time \$3.6M payment to CalPERS in July 2020 that should be eliminated for comparison purposes to the prior fiscal year. There was also a September "disbursement" from the Town's main checking account of \$1M and a corresponding \$1M receipt booked for a placement of the same amount as an investment in the Town's Local Agency Investment Account (LAIF), so these amounts should be deducted from both quarterly totals.

In July 2020 the Town received \$1.2M from the County's Central Fire District which was also a "one-time" revenue for a property purchase from the Town and should be adjusted for comparison purposes.

Every year, the Town has first quarter expenses that exceed revenue. These expenses include our summer capital projects and upfront payments due to CalPERS and other entities. The Town receives minimal property tax revenue from the County until late November or early December of each fiscal year. Therefore, it is not unusual in the Town's operating cycle to see cash and investment balances decline in the first quarter and begin to grow back again in the second quarter as property taxes are received. As depicted below, the net reduction of cash and investments excluding the one-time ADP payment, the \$1.5 BNY debt service payment, and

REMARKS (continued):

the exclusion of the \$1.2M one-time Winchester land sale received in July 2020, indicated a lower use of cash and investments balances than the prior year's first quarter. Some of this remaining difference between quarters can be the timing of payment dates of bi-weekly payrolls and construction payments which are dependent on the timing of receipt of invoices from contractors.

Changes to Cash & Inv per Quarterly Investment Report (In Millions)	First Quarter FY 20/21 Receipts	First Quarter FY 20/21 Disbursements	1st Qtr 20/21 Change to Cash & Inv	First Quarter FY 19/20 Receipts	First Quarter FY 19/20 Disbursements	1st Qtr 19/20 Change to Cash & Inv
Per September 30 Inv Report	\$ 11.8	\$ 24.6	\$ (12.8)	\$ 7.3	\$ 17.6	\$ (10.3)
Adjust for BNY COP Debt Service		\$ (1.5)	\$ 1.5			
Adjust for July 2020 ADP to CalPERS		\$ (3.6)	\$ 3.6			
Adjust for LAIF deposit	\$ (1.0)	\$ (1.0)	\$ 1.0			
Sale of Winchester Land	\$ (1.2)		\$ (1.2)			
Adjusted Receipts/ Disbursements	\$ 9.6	\$ 18.5	\$ (7.9)	\$ 7.3	\$ 17.6	\$ (10.3)

Attachments (previously received with the Staff Report):

1. First Quarter Investment Report for FY 2020/21 (July through September 2020)
2. Public Comment Received for the November 13, 2020 Town Council Meeting

Attachment (received with this Desk Item):

3. Committee Member Comments