



TOWN OF LOS GATOS
TOWN COUNCIL AGENDA REPORT

MEETING DATE: 02/21/2023

ITEM NO: 10

DATE: February 16, 2023
TO: Mayor and Town Council
FROM: Laurel Prevetti, Town Manager
SUBJECT: Receive the Monthly Financial and Investment Report for December 2022.

RECOMMENDATION:

Receive the Monthly Financial and Investment Report for December 2022.

DISCUSSION:

As of January 2023, staff has changed the frequency of the reporting from quarterly to monthly to comply with the California Government Code Section 41004. California Government Code Section 41004 requires that the Town Treasurer submits to the Town Clerk and the legislative body a written report and accounting of all receipts, disbursement, and fund balances. The Finance Director assumes the Town Treasurer role. Attachment 1 contains the December 2022 Monthly Financial and Investment Report which fulfills this requirement.

Based on the Finance Commission's comments at the January meeting, Attachment 1 contains a Fund Balance Schedule, representing estimated funding available for all funds at the end of the December 2022. The Finance Commission reviewed the new format at its February meeting and recommended additional clarification to the Investment Portfolio Reporting including changing fund balance to cash balance, noting that weighted average yield to maturity (YTM) pertains to total investments under management, adding coupon rate, and adding a calculation comparing current market value versus historical costs to the investment reporting schedule. All of the Finance Commission recommendations are included in the attached December Financial and Investment Report.

Please note that the amount in the Fund Schedule differs from the Portfolio Allocation and Treasurer's Cash Fund Balances Summary schedule because assets and liabilities are components of the fund balance. As illustrated in the summary below, Total Cash is adjusted

PREPARED BY: Gitta Ungvari
Finance Director

Reviewed by: Town Manager and Town Attorney

DISCUSSION (continued):

by the addition of Total Assets less the amount of Total Liabilities to arrive at the Ending Fund Balance – which represents the actual amount of funds available.

As of December 31, 2022, the Town's financial position (Assets \$76.1M, Liabilities \$27.2M and Fund Equity \$48.9M) remains strong and there are no issues meeting financial obligation in the near future.

Reconciling Cash to Fund Balance		
Total Cash	\$	64,463,675
Plus: Asset	\$	11,663,388
Less: Liabilities	\$	(27,224,307)
Ending Fund Balance	\$	48,902,756

As of December 31, 2022, the Town's weighted portfolio yield was 2.28% which exceeded by 11 basis points the Local Agency Investment Fund (LAIF) yield of 2.17% for the same reporting period. Currently the LAIF portfolio's weighted average maturity (WAM) is 304 days versus the Town's longer WAM of 439 days. This slightly longer maturity allows the Town to pick up higher yields available on the later maturities. The Town's weighted average rate of return of 2.28% at the close of December was 25 basis points higher when compared to the prior months return of 2.03% reported as of November 30, 2022.

Since September 30, 2022, LAIF yields had climbed from 151 basis points (1.51%) to 217 basis points (2.17%) through the end of December 2022. Staff in coordination with the Town's investment advisor continued primarily replacing maturing investments with shorter to medium term maturities in the two- to three-year maturity range. These investments capture current yields that exceed the rates expected to be earned in the LAIF pool during that same time period. The State LAIF pool typically lags the market when current market yields are either increasing or decreasing.

Regarding the state of the interest rate environment as of December 2022, the Federal Reserve (Fed), announced a downshift in its policy tightening. It raised the upper bound of its policy rate by 50 basis points from 4% to 4.5% following four consecutive 75 basis points hikes. The Fed indicated that it still has more interest rate hiking to do in calendar year 2023. Federal Reserve chair Powell stated that rates are still "not sufficiently restrictive." The Fed's most notable and anticipated change was to its calendar year 2023 year-end interest rate forecast, now projected at 5.13%, up from latest prior forecast of 4.65%. Only two of the board members projected a lower rate than the consensus rate.

The Town's investments are in compliance with the Town's Investment Policy dated January 17, 2023 and also in compliance with the requirements of Section 53600 at seq. of the California

PAGE 3 OF 3

SUBJECT: Monthly Financial and Investment Report (December 2022)

DATE: February 16, 2023

State Code. Based on the information available, the Town has sufficient funds to meet the cash demands for the next six months.

CONCLUSION:

Review and recommend changes for Town Council consideration regarding the proposed new format for the Monthly Financial and Investment Report (December 2022).

Attachments:

1. Financial and Investment Report as of December 31, 2022
2. Public Comment Received before Publishing this Staff Report