



Date: Tuesday, August 27, 2024

Honorable Mayor and Council Members

Author and title: Stephen Conway, Interim Administrative Services Director

Title: **Accept the Quarter ended September 30, 2024 Treasurer's Report**

Jen Callaway, Town Manager

Recommended Action: That Council accepts the Treasurer's report for the quarter ended September 30, 2024.

Summary: Overall, for the quarter ending September 30, 2024, the Town's portfolio had an interest or yield-to-market rate of 4.43%. This represents an increase from the prior quarter's rate of 4.28%. The return the Town receives on LAIF increased from 4.48% in June 2024 to 4.57% in September 2024. The return (average market yield) on the Town's investments managed by Chandler Asset Management (CAM) decreased from 5.02% in June 2024 to 4.08% in September 2024.

Discussion: The cash from the Town's more than 50 accounting funds is pooled into a few cash accounts. This means that the cash accounted for in the General fund, the Building and Safety fund, the Measure V fund, etc is accumulated into the same set of bank accounts. Staff accounts for the cash applicable to each accounting fund via the Town's accounting and finance system.

Cash pooling helps reduce bank fees, consolidates administration efforts that result from operating multiple bank or investment accounts, and provides ease of cash flow management practices, as staff does not have to monitor multiple bank accounts to ensure adequate cash. The interest earned in the pooled cash that the Town invests or earns on savings is allocated to the various operating funds based on the average monthly fund balance. The allocation is completed on a quarterly basis.

The Town currently operates three different types of pooled cash accounts. The first type is regular checking accounts and petty cash funds. These are the Town's primary operating accounts. Cash transactions flow into and out of these accounts. Cash accumulations are moved out of these accounts and into either the Town's savings account held in the State of California's Local Agency Investment Fund (LAIF), or the Town's investment portfolio.

The Town's savings account is held in the LAIF which is managed by the State Treasurer. LAIF has low investment risk and is also highly liquid, meaning the funds are easily accessible to the Town should there be a cash need. Only public agencies are eligible to participate in LAIF and the funds are pooled similar to the Town's funds. Decisions about how to invest the funds held in LAIF are made by the State Treasurer and the investment division under the State Treasurer.

The value of the state-wide LAIF pool was around \$19.6 billion as of September 2024, whereas the Town had about \$70.5 million invested in LAIF. The interest earned on the investments made by the statewide LAIF pool are allocated to the various government participants based on proportionate share of the total value of the pool. Pooling helps protect the Town from having to absorb investment losses incurred on the pool's investments, but this comes at the cost of potentially lower investment returns.

The following illustrates why investment returns can potentially be lower under the pooled investment model at LAIF. Prior to the pandemic, LAIF had relatively high interest returns at around 2%. Due to the market volatility during the pandemic, many public agencies moved their funds out of other investments and into LAIF to better protect the principal value. As more funds were invested into LAIF, LAIF bought new investments with those funds. Due to the low interest rate returns across the market, these new investments had lower returns than the pre-pandemic portfolio. Because the funds are pooled, this means that the Town, and all members in the pool, received lower interest rates as the entire pool had a lower average rate of return.

The Town earned \$783,678 in interest on the Town’s LAIF balance for the quarter ended September 30, 2024. Interest is allocated to the Town’s account in the month following the close of the quarter, therefore this amount will be included in the Town’s October 31, 2024 LAIF balance. For fiscal year 2023/2024, the Town’s LAIF account has earned \$2.7 million in interest compared to \$1.4 million in fiscal year 2022/2023. Of the \$2.7 million earned in fiscal year 2023/2024, the Town’s general fund was allocated \$1.4 million. The remaining interest is allocated out to the Town’s remaining funds based on average monthly ending fund balance.

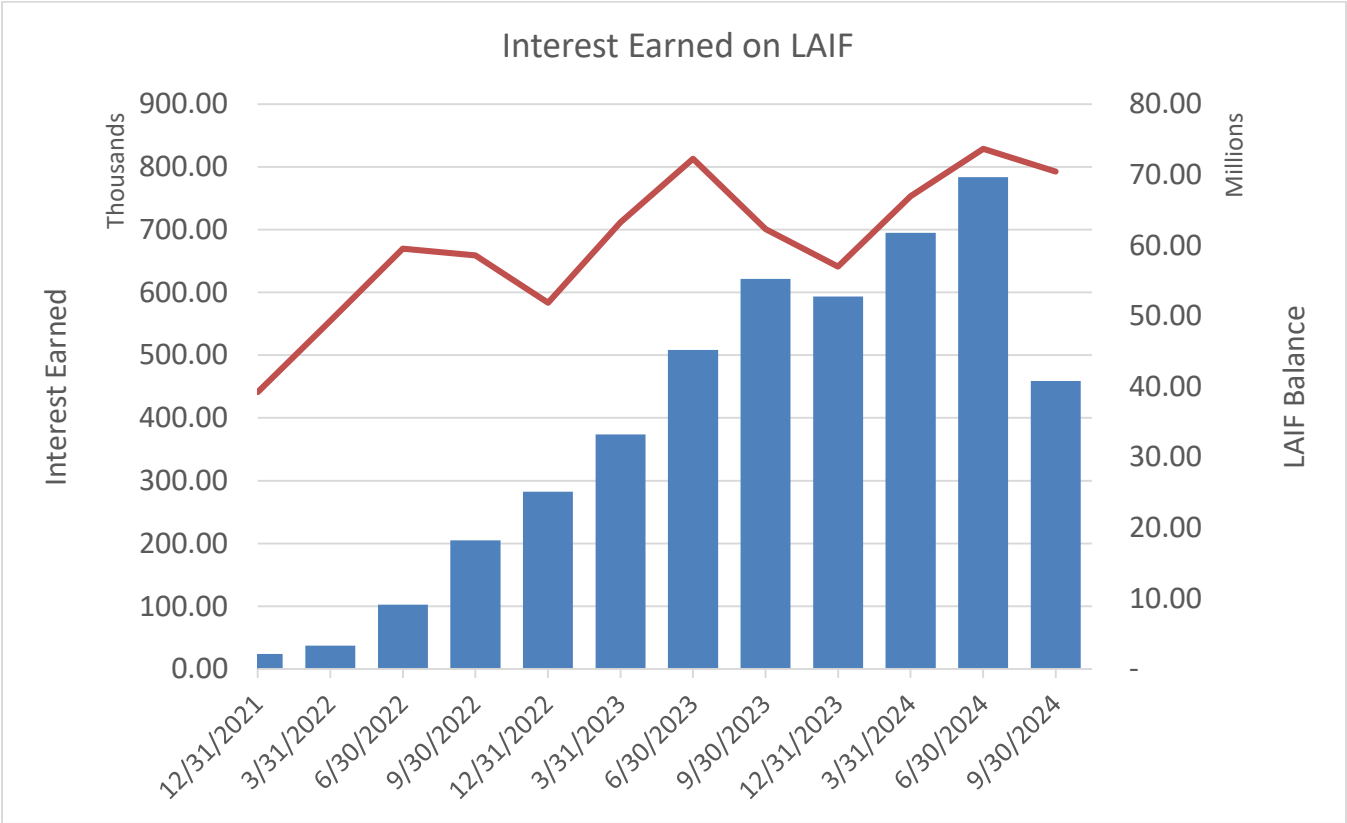


Figure 1 Shows Interest Earned by Quarter against the Quarterly Ending LAIF balance

The Town’s investment portfolio is managed by Chandler Asset Management (CAM) in accordance with the Town’s investment policy. The investment policy is amended and adopted by Council annually in spring each year. The Town’s investment decisions are restricted by state law to limit the amount of risk public funds are exposed to. Ultimately, the goal of investing public funds is to protect the principal value, as much as possible, while attempting to earn returns and maintain adequate liquidity to meet the Town’s ongoing cash needs.

Town will bring back additional analysis of the interest earnings on the Town’s non-pooled investment funds (CAM), as part of a future quarterly treasurer’s report.

The current investment policies prohibit non-pooled investments in companies involved in fossil fuel extraction or coal mining industries, in accordance with Council's direction towards their Greenhouse Gas Reduction goals. Council has directed staff to add exploration of a more sustainable investment portfolio. Staff has already started the initial steps in this process and plans to bring a discussion of potential options for Council to explore as part of the fiscal years 2023-24 and 2024-25 work plan period.

The Treasurer's Report also includes the balance of the Trustee Bond Funds. The bulk of those funds are held in a bond reserve account as per the terms of the bond agreement in-lieu of bond insurance. When issuing bonds, bond covenants require either the purchase of bond insurance or keeping a certain percentage of cash on hand in the event that the Town defaulted on a bond payment. The amount or level of insurance needed is determined by the Town's bond rating. The Town is currently rated AA+, the second highest rating available. The decision of whether to go with the insurance or cash-on-hand reserve model is made at the time the bonds are issued and is based on what will make the bond issuance attractive to the desired bond purchasers.

The Trustee Bond Funds listed on the treasurer's report were set aside as part of the requirements of the 2019 Bond Issuance. When the Town retires the associated bonds (planned for 2039), these funds will become available to make any remaining bond payments or will be released for general use by the Town.

Priority:

<input checked="" type="checkbox"/>	Enhanced Communication	<input checked="" type="checkbox"/>	Climate and Greenhouse Gas Reduction	<input type="checkbox"/>	Housing
<input type="checkbox"/>	Infrastructure Investment	<input type="checkbox"/>	Emergency and Wildfire Preparedness	<input checked="" type="checkbox"/>	Core Service

Attachments:

Attachment A: Treasurer's Report for the Quarter ending September 30, 2024

Attachment B: Chandler Asset Management (CAM) Investment Portfolio Transactions & Statements from July 2024 through September 2024