



Agenda Report

DATE: DECEMBER 14, 2023

TO: CITY COUNCIL

FROM: ADMINISTRATIVE SERVICES DEPARTMENT – FINANCE

SUBJECT: SEPTEMBER 2023 INVESTMENT AND SECTION 115 PENSION TRUST REPORT

STATEMENT OF ISSUE:

In compliance with the City’s general Investment Policy and Investment Policy for Section 115 Pension Trust, the City Council is provided quarterly reports on the status of the City’s investments. This report provides information for the quarter ending September 30, 2023.

RECOMMENDED ACTION:

Accept the September 2023 Investment and IRS Section 115 Pension Trust Report.

DISCUSSION:

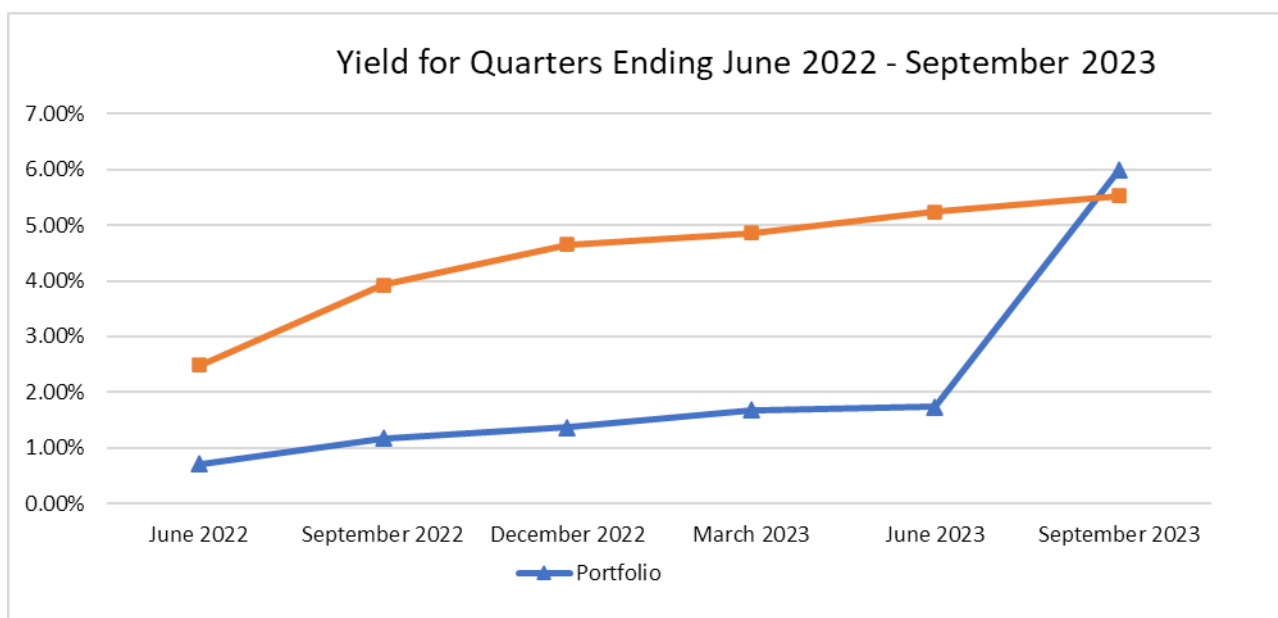
Investment Portfolio

The City’s current Investment Policy was updated and adopted by City Council in January 2023. A section of that policy requires the quarterly submission of the City’s investment portfolio to the City Council and City Manager. State legislation requires submission of an investment report noting compliance with the City’s investment policy, market versus book value of investments and a statement regarding the City’s ability to meet expenditure requirements for the next six months. The City Treasurer has the responsibility for the investment of funds in accordance with the City of Walnut Creek’s Investment Policy and approves the quarterly investment report prepared by the Administrative Services Department.

Current Status

The effective interest rate of the portfolio as of September 30, 2023 was 5.99%. The current Investment Policy is designed with the objective of exceeding the six-month U.S. Treasury Bill rate while meeting other objectives of safety, liquidity and diversification of the portfolio. The City’s portfolio structure remains conservative, with investments held to maturity. The City’s portfolio effective rate is just 46 basis points above the 6-month US Treasury bill rates for the first time since June 2022. The Treasury bill rate, as compared to the City’s portfolio yield, is detailed for the past six quarters in the table below:

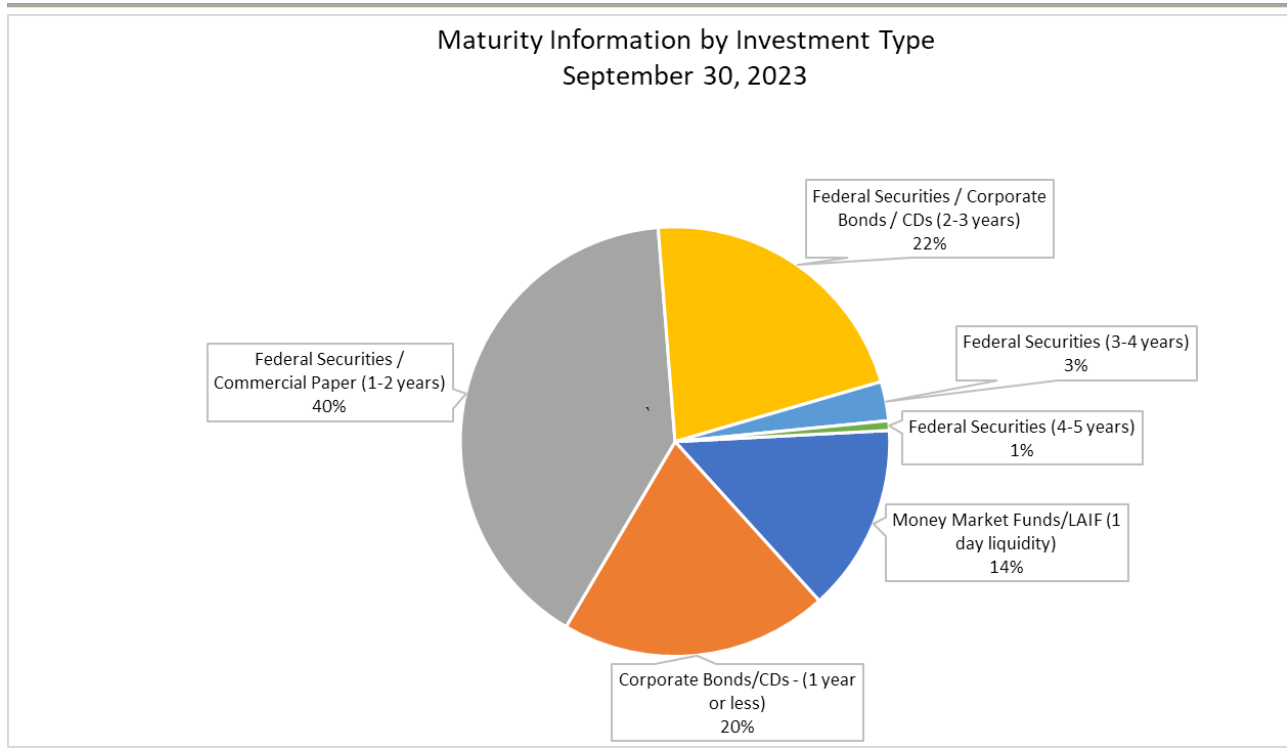
<i>Quarter Ending</i>	<i>Portfolio</i>	<i>Six-Month Treasury Bill</i>
September 2023	5.99%	5.53%
June 2023	1.74%	5.24%
March 2023	1.68%	4.86%
December 2022	1.37%	4.65%
September 2022	1.17%	3.93%
June 2022	0.71%	2.49%



The graph above illustrates the trend of the City’s portfolio yields against the six-month Treasury bill for the last six quarters. The yield has been below the six-month Treasury rate until this past quarter, because of the combination of factors noted earlier, including Federal Interest rate increases. When the Federal Open Market Committee (FOMC) reviews interest rates, they consider a wide range of information, including readings on public health, labor market conditions, supply chain tensions, inflation pressures and expectations as well as financial and international developments. Due to mixed results on inflation, unemployment and other economic indicators, uncertainty remains around future Federal Funds rate increases.

As indicated on the pie chart on next page, the City’s portfolio is invested in Local Agency Investment Fund (LAIF), Federal Securities, Money Market (MM) Funds, Certificates of Deposit, California General Obligation bonds and Corporate bonds in order to take advantage of yields, while not compromising the City’s liquidity needs.

Since the City of Walnut Creek holds securities to maturity, the necessary liquidity for daily cash needs is provided through investment in the State Pool (Local Agency Investment Fund), money market funds and short-term securities. Staff does not anticipate any problem in the City’s ability to meet its expenditures and cash flow requirements for the next six months.

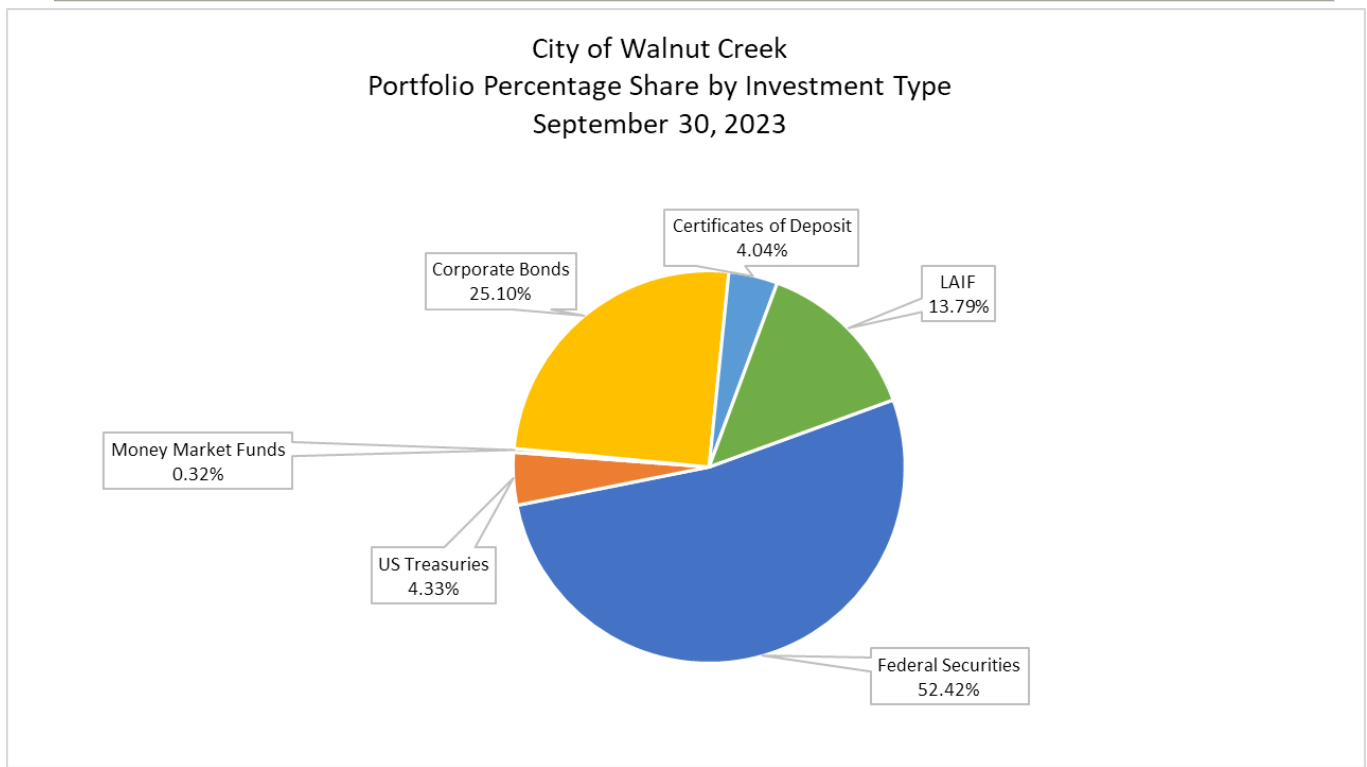


Portfolio Liquidity

The average length to maturity for the September 30, 2023 portfolio (excluding LAIF and Money Market Funds, which are immediately available) is 1.76 years, as detailed below. While the City assumes all securities will be held to maturity, it is important to note that most of the Federal Securities have callable features and thus could be redeemed by the issuers prior to their maturity dates.

MATURITY SCHEDULE SUMMARY OF PORTFOLIO

	Amount	Percent
Money Market Funds/LAIF (1 day liquidity)	\$19,208,438	14%
Corporate Bonds/CDs - (1 year or less)	\$27,499,258	20%
Federal Securities / Commercial Paper (1-2 years)	\$54,817,822	40%
Federal Securities / Corporate Bonds / CDs (2-3 years)	\$29,610,380	22%
Federal Securities (3-4 years)	\$4,013,600	3%
Federal Securities (4-5 years)	\$987,990	1%
Total Portfolio	\$136,137,488	100%



Market Value of Investments

The market value and original cost value of investments in short-term instruments of less than one year, such as Certificates of Deposit and Money Market Funds, are reported as the same number. State Pool (Local Agency Investment Fund) market valuations are provided by the State Treasurer’s Office. Other investment instruments, such as Government Securities and Corporate Bonds, are subject to daily changes in market value in the secondary market.

Per adopted policy, the City’s intent is to hold all investments to maturity to maximize its return on investments and minimize exposure to potential losses resulting from temporary declines in market value. However, if a decline in the market value of a security is deemed by Staff to be permanent, the security may be sold early to minimize the loss of principal. As such, any reported gain or loss as shown in this quarterly report is temporary in nature and does not indicate a change in the ultimate value of the investment portfolio upon redemption. The market values as of September 30, 2023 were obtained from the City’s safekeeping institution, Union Bank of California. The table below gives a snapshot of the City’s Investment Portfolio as of September 30, 2023.

Type	Market Value	Amount Over/(Under) Cost	Average Length of Maturity	Effective Rate of Return
Federal Securities	\$71,361,591	(\$4,131,908)	1.6	1.45%
U.S. Treasuries	5,894,690	(16,753)	0.4	4.61%
California General Obligation Bonds	-	-	-	0.00%
Corporate Bonds	34,174,117	(3,174,008)	2.0	17.82%
Certificates of Deposit	5,498,653	(165,828)	1.6	2.96%
Money Market Funds	434,968	-	1 Day	5.23%
LAIF	18,773,470	(260,620)	1 Day	3.53%
Total (Portfolio) Investments	\$136,137,488	(\$7,749,117)	1.76	5.99%
U.S. Treasury Money Market (Actor's Equity Account)	26,500.00	-		
Cash (Net of outstanding checks)	12,483,408	-		
Total Cash and Investments	\$148,647,395	(\$7,749,117)		

Current Cash Balances by Fund Category

The reported totals for cash and investments are accounted for according to the following fund types, most of which are restricted for specific purposes, resulting from state or local policies. Funds are invested until needed to pay bills and demands, meaning that the composition and amount of the investment portfolio is variable. Total portfolio investments decreased approximately \$14.5 million (10%) from the prior quarter. This is due, in part, to the annual pre-payment to CalPERS for the City’s unfunded accrued liability (UAL), which was made in July 2023.

	Amount	Percent
General Fund Contingencies / Future Projects (Assigned)	\$ 57,440,150.24	39%
Special Revenue Funds (Restricted)	22,882,017.19	15%
Impact / In Lieu Fee Funds (Restricted)	32,234,724.99	22%
Capital Project / Assessment District Funds (Restricted)	2,233,986.77	2%
Enterprise Funds (Restricted)	10,309,506.77	7%
Internal Service / Replacement Funds (Assigned)	14,442,771.17	10%
Permanent Fund (Restricted)	1,753,959.94	1%
Agency Funds (Restricted)	7,350,278.15	5%
Total	\$148,647,395.22	100%

Portfolio Analysis

Included in this agenda item is a detailed report on the City’s investment portfolio, including maturity dates, call dates (if applicable), investment types, market values and effective yields of each of the City’s individual investments.

IRS Section 115 Pension Trust

In February 2018, the City Council adopted a resolution authorizing the City Manager to establish an IRS Section 115 irrevocable pension trust fund (the Trust) with PFM Asset Management LLC (PMF). In accordance with the adopted Section 115 Trust Investment Policy Statement, PFM acting as investment advisor has the responsibility for investment of funds in compliance with the Policy Statement. Consistent with the City's Investment Policy Statement for the Section 115 Pension Trust, the Committee herewith includes a quarterly report on performance of the Trust as provided by PFM.

The City Council authorized contributions to the pension trust of \$19.9 million since the trust was established:

- \$16.9 million from the General Fund unassigned fund balance:
 - \$12.8 million (FY16)
 - \$1.1 million (FY17)
 - \$3.0 million (FY18)
- \$3.0 million from the PERS Safety Side Fund Reserve in the General Fund (FY19)

The attached reports (3 and 4) represent Pension Trust activity for the quarter ended September 30, 2023. The closing market value of the trust is \$23,794,086. The weighted portfolio performance over the quarter is -3.45% vs. the blended benchmark of -3.30%. See Attachments 3 and 4, September 30, 2023 Walnut Creek Section 115 Pension Trust Statement and Economic Overview for more details.

FINANCIAL IMPACTS:

Acceptance of the September 30, 2023 Investment and Section 115 Pension Trust Report will have no financial impact.

ALTERNATIVE ACTION:

None.

DOCUMENTS:

Attachment 1: September 30, 2023 Investment Detail Report
Attachment 2: September 30, 2023 Supplementary Information by Investment Type
Attachment 3: September 30, 2023 Walnut Creek Section 115 Pension Trust Statement
Attachment 4: September 30, 2023 Walnut Creek Section 115 Pension Trust Economic Overview

CITY COUNCIL ACTION RECOMMENDED:

Accept the September 30, 2023 Investment and Section 115 Pension Trust Statement Report as submitted.

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