

Staff Report

TO: Honorable Mayor and City Council

DATE: March 22, 2018

FROM: Jennifer Callaway, Finance Director

SUBJECT: Receipt of Second Quarter Investment Report (October through December 2017) for Fiscal Year 2017/18 and Approval of the Recommended Liquidity Ratio

RECOMMENDATION

Council:

1. Receive the attached Second Quarter Investment Report (October through December 2017) for Fiscal Year 2017/18; and
2. Approve staff's recommended liquidity ratio of 65% to 70% of the City's total investment portfolio.

FISCAL IMPACT

There is no fiscal impact associated with this recommendation.

DISCUSSION

Attached for your consideration is the Second Quarter Investment Report for FY 2017/18.

As of December 31, 2017, the City's weighted portfolio yield of 0.94% was slightly below the Local Agency Investment Fund (LAIF) yield of 1.20%. With interest rates increasing staff will monitor rates closely and as investments mature replace those investments with an appropriate maturity and credit rating equivalent investment.

During the quarter, yields have generally been increasing anticipating continued economic growth. Passage of the new tax provisions added to investor's belief in growth in the economy and inflation, while also increasing the federal budget deficit and supply of Treasury debt. Many believe that the new tax provisions will lead to higher potential for inflation and higher future interest rates.

As such, staff's strategy will be to focus on the purchase of short-term (two years or less in maturity) investments as the rewards for longer term investments in the three to five-year maturity do not have adequate spreads to justify the risk of holding longer term maturities.

Liquidity Ratio

Staff recommends the City Council approve the recommended liquidity ratio of 65% to 70%. The liquidity ratio is the percentage of portfolio holdings that are readily accessible for the City to respond to emergencies. As the City is examining cash flow needs and options to deal with the CalPERS impacts and possible cash flow needs for the water reclamation facility, staff has been in a holding pattern, waiting to reinvest funds into shorter term CDs until liquidity is assessed and a

reasonable liquidity rate is agreed upon.

A survey was issued on the California Society of Municipal Finance Officer's listserve in efforts to benchmark the City's liquidity ratio against those of other City's in California. Only two City's responded with liquidity guidance, Redwood City and Moorpark. Redwood City maintains a liquidity rate equal to six-months work of operations. Under that methodology and based on an average of Morro's Bay expenditures for the first six months of FY 2016/17 (\$16.8 Million) and the second six months of FY 2016/17 (\$16.1 Million), Morro Bay would maintain approximately \$16.5 Million in liquid assets, a ratio of 73% of liquid assets given the City's current portfolio total of \$22.4 Million.

The City of Moorpark uses a formula based on 36 months of cash flow. The lowest cash flow month is subtracted from the highest outflow month to arrive at a maximum net cash outflow. Moorpark has established a liquidity reserve of 1.5 times the maximum net cash outflow. Under this methodology, the City of Morro Bay's liquidity reserve would be \$12.0 Million or 54% of the current portfolio.

Given that staff is currently reviewing various options to help pre-fund or paydown the City's CalPERS unfunded liability, staff believes 54% liquidity is a bit low and 73% liquidity may be slightly high. An average of the two methodologies above would yield a recommended target liquidity ratio of 65% or \$14.6 Million. Based on the various timing of investments, etc., staff's recommendation is to liquidity is to maintain a liquidity ratio between 65% and 70% of the City's total investment portfolio (\$14.6 Million to \$15.7 Million).

This second quarter investment report was shared with the Citizen's Finance Advisory Committee on March 20, 2018. By consensus discussion, the Committee received the report and concurred with staff's recommended liquidity ratio.

CONCLUSION

Staff recommends the City Council receive the Second Quarter Investment Report (October through December 2017) for Fiscal Year 2017/18 and approve staff's recommendation to maintain a liquidity ratio between 65% and 70% of the City total investment portfolio

ATTACHMENT

1. Second Quarter Investment Report for FY 2017/18 (October through December 2017)

CITY OF MORRO BAY
QUARTERLY PORTFOLIO PERFORMANCE
12/31/2017

INVESTMENT OR CUSIP NUMBER	INSTITUTION	PURCHASE PRICE	MARKET VALUE	COUPON INTEREST RATE	PURCHASE DATE	MATURITY DATE	DAYS TO MATURITY
LAIF	LOCAL AGENCY INVESTMENT FUND	\$ 7,221,091	\$ 7,221,091	1.200%	DAILY	DAILY	1
MONEY MARKET ACCOUNT:							
MM	RABOBANK - MONEY MARKET	2,530,260	2,530,260	0.20%	DAILY	DAILY	1
SWEEP	RABOBANK - SWEEP	4,860,105	4,860,105	0.05%	DAILY	DAILY	1
MM	OPUS BANK	4,030,172	4,030,172	1.30%	DAILY	DAILY	1
Government Agency							
3134G8PD5	FHLM Corp	500,003	497,548	1.350%	3/30/2016	9/30/2019	
3136G1KD0	FNMA	498,933	499,015	1.000%	6/13/2013	4/30/2018	
CERTIFICATES OF DEPOSIT:							
1404202A7	ZION BANK - CAPITAL ONE BANK	250,005	252,772	2.400%	4/12/2017	4/12/2022	1,563
902856	TBK BANK	250,000	250,000	2.050%	1/24/2017	1/11/2019	376
4100093030	LEADER BANK	250,000	250,000	1.551%	1/6/2014	1/6/2019	371
02006LYZ0	ZIONS BANK - ALLY BANK	250,001	249,881	1.000%	3/17/2016	3/19/2018	78
9497484B0	ZION BANK - WELLS FARGO	250,001	249,884	1.100%	3/23/2016	3/23/2018	82
254671VW7	ZION BANK - DISCOVER BANK	250,001	251,224	2.000%	9/11/2013	9/11/2018	254
05568P5Y9	ZION BANK - BMW BANK	250,001	251,262	2.100%	10/25/2013	10/25/2018	298
36160NYZ6	ZION BANK - Synchrony Bank CD	250,001	251,661	2.150%	10/25/2013	10/25/2018	298
38148PGK7	ZION BANK - GOLDMAN SACHS BANK	250,003	245,243	1.550%	8/3/2016	8/3/2021	1,311
3090683803	STATE FARM BANK	250,000	250,000	1.980%	10/21/2013	10/21/2018	294
4923509568	PENTAGON FEDERAL CREDIT UNION	250,000	250,000	3.000%	2/5/2014	2/5/2019	401
		<u>\$ 22,390,577</u>	<u>\$ 22,390,116</u>				
					% OF LIQUID PORTFOLIO HOLDINGS	WEIGHTED AVERAGE RATE OF EARNINGS	WEIGHTED AVERAGE MATURITY
					<u>83.257%</u>	<u>0.940%</u>	<u>60</u>

Portfolio holdings as of the second quarter ended December 31, 2017, are in compliance with the current Investment Policy. With 83.257% of the portfolio held in liquid instruments, the cash needs of the City will be met.