



City Council Memorandum

City of Arts & Innovation

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TO: HONORABLE MAYOR AND CITY COUNCIL DATE: APRIL 13, 2021

FROM: FINANCE DEPARTMENT WARDS: ALL

SUBJECT: FISCAL YEAR 2020/21 FIRST AND SECOND QUARTER CASH, INVESTMENTS, AND DEBT REPORT

ISSUE:

That the City Council receive and provide input on the attached Fiscal Year 2020/21 First and Second Quarter Cash, Investments, and Debt Report.

RECOMMENDATIONS:

That the City Council receive and provide input on the attached Fiscal Year 2020/21 First and Second Quarter Cash, Investments, and Debt Report.

BACKGROUND:

On January 19, 2021, the City Council received and provided input on the Fiscal Year 2019/20 Fourth Quarter Cash and Investments and Debt report.

DISCUSSION:

It is staff's intention to provide the Cash and Investments and Debt Quarterly report at the same City Council meeting as the Quarterly Financial Report for the General Fund and other City funds, to provide a comprehensive review of all City finance activities and to obtain City Council input related to those activities. Due to disruption from the COVID-19 pandemic, City financials were completed later than usual for Fiscal Year (FY) 2019/20. As a result, the FY 2019/20 Fourth Quarter Financial Report was presented to City Council in January 2021. Staff has created a combined first and second quarter report for FY 2020/21, to resume a regular schedule of quarterly updates. Going forward, the third quarter report will be presented upon completion and closeout of the City's third quarter of FY 2020/21.

QUARTERLY CASH AND INVESTMENT REPORT

Sound investment practices are an essential component of the City's strong fiscal management. The Finance Department is responsible for managing the City's investment portfolio, focusing first on the safety of investments, and then on liquidity and an appropriate rate of return. The investment results and portfolio composition are summarized and reported to the City Council each quarter. As of September 30, 2020, and December 31, 2020, the City's pooled investment portfolio's market value was \$719 million and \$748 million, respectively. The market value of investments held for the Section 115 Pension Trust Fund, fiscal agents (bond proceeds and

reserve funds primarily), and other miscellaneous cash amounting to an additional \$256 million as of September 30, 2020 and \$197 million as of December 31, 2020. The weighted average yield of the pooled investment portfolio is 1.02% as of September 30, 2020 and as of December 31, 2020, respectively.

The authority to manage the City's investment program is provided by California Government Code Sections 53600-53610 which allows the City Council to delegate to the Treasurer/CFO for a one-year period the authority to invest or to reinvest all funds of the City. In accordance with the City Charter and under authority granted by the City Council, the Chief Financial Officer is designated the responsibilities of the Treasurer and is responsible for investing the unexpended cash in the City Treasury consistent with the City's adopted investment policy.

The Cash and Investment Report, including a listing of cash balances by fund, is included in Attachment 1. These cash balances reflect each fund's share of the City's pooled investment portfolio. Also shown are interfund loan receivables, which are treated as available cash due to the Chief Financial Officer/Treasurer's authorization to move loan receivables to other funds as needed.

All listed funds have a positive cash balance except for the following funds as of September 30, 2020:

1. Civic Entertainment (Convention Center, Visitors Bureau, Sports Commission) (\$709,824) from loss of revenues due to COVID 19; however, the fund is currently being monitored with no major concerns at this time. It is anticipated that the General Fund will need to update and increase the financial subsidy at fiscal year-end.
2. Urban Areas Security Initiative (\$734,284), Community Development Block Grant (\$279,061), Housing Opportunities for Persons with AIDS (\$640,968), NPDES Storm Drain (\$21,494), Special Districts (\$517,306), Capital Outlay Grants (\$2,880,900), Transportation Projects (\$27,150), and Transportation Uniform Mitigation Fees (\$2,981,011) have negative cash balances due to the timing of expenditures; however, the negative balances are fully offset by receivables.
3. Debt Service Fund – General (\$34,895,922) which is fully offset by outstanding cash transfers from all funds related to their share of the Pension Obligation Bond (POBs) payments made by the Debt Service Fund (\$32 million) and other debt service payments.
4. Unemployment Insurance Trust (\$36,494) due to an increase in unemployment claims related to the COVID-19 pandemic; however, the fund is currently being monitored with no major concerns at this time. Funding options are being reviewed to bring this account positive by fiscal year-end.

All listed funds have a positive cash balance except for the following funds as of December 31, 2020:

1. Civic Entertainment (Convention Center, Visitors Bureau, Sports Commission) (\$1,586,054) from loss of revenues due to COVID 19; however, the fund is currently being monitored with no major concerns at this time. It is anticipated that the General Fund will need to update and increase the financial subsidy at fiscal year-end.
2. Urban Areas Security Initiative (\$466,129), Grants and Restricted Programs (\$1,028,054), Community Development Block Grant (\$49,676), Housing Opportunities for Persons with

AIDS (\$862,874), Special Districts (\$1,516,927), Capital Outlay Grants (\$2,823,053), Transportation Projects (\$27,150), and Transportation Uniform Mitigation Fees (\$2,686,185) have negative cash balances due to the timing of expenditures; however, the negative balances are fully offset by receivables.

3. Debt Service Fund – General (\$36,644,485) which is fully offset by outstanding cash transfers from all funds related to their share of the Pension Obligation Bond (POBs) payments made by the Debt Service Fund (\$30 million) and other debt service payments.
4. Debt Service Fund – Public Works (\$625,573) which is fully offset by outstanding cash transfers from the Measure A Capital Outlay Fund.
5. Unemployment Insurance Trust (\$31,663) due to an increase in unemployment claims related to the COVID-19 pandemic; however, the fund is currently being monitored with no major concerns at this time. Funding options are being reviewed to bring this account positive by fiscal year-end.
6. Central Stores (\$205,673) which is fully offset by inventory assets that will be recouped when charged out for usage to various departments.

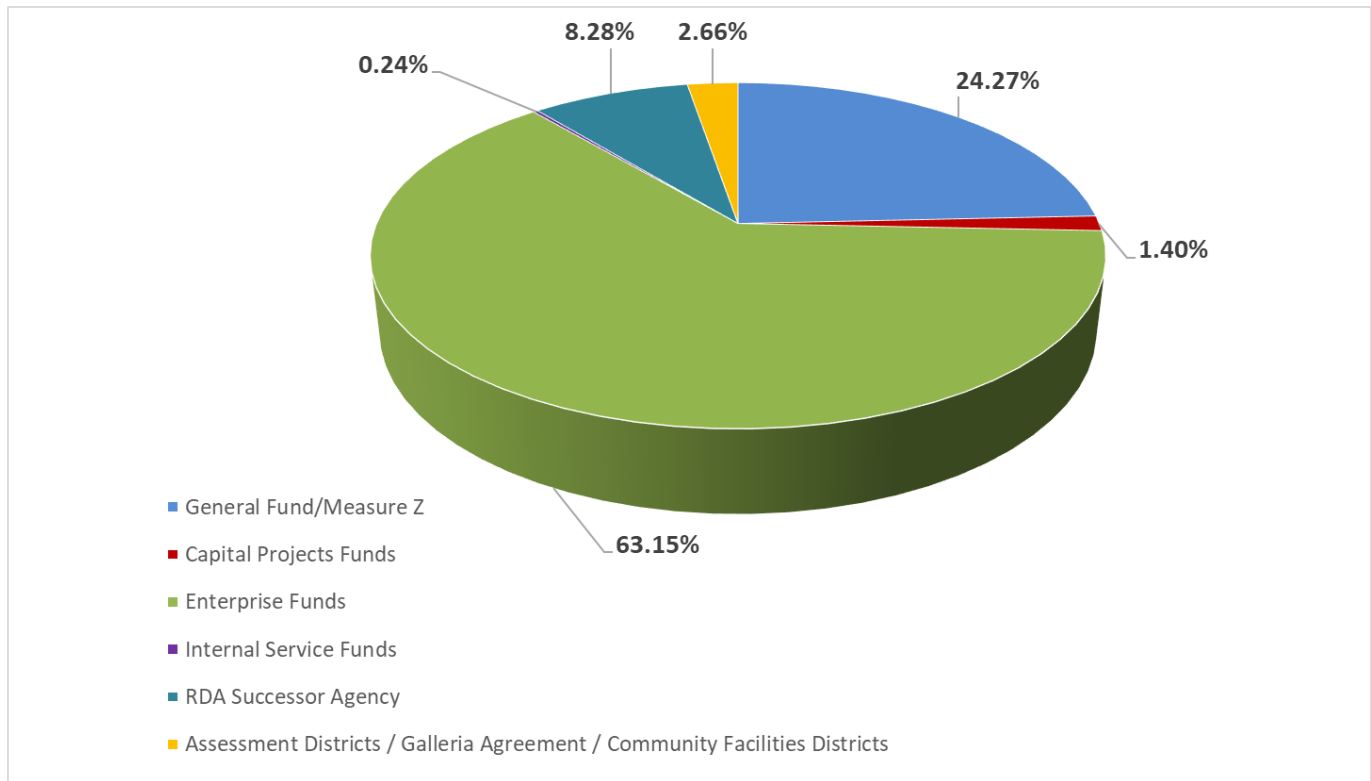
QUARTERLY DEBT REPORT

The Finance Department is responsible for managing the City's debt portfolio, which includes issuing new debt and monitoring opportunities to refinance existing debt as opportunities to reduce financing costs arise. The Quarterly Debt Report (Attachment 2) summarizes the composition of the City's debt portfolio, details the revenue sources utilized to pay the debt service associated with each outstanding debt, and provides detailed information regarding the total principal and interest payments made in the first and second quarters of Fiscal Year 2021 by debt classification and fund.

Debt Summary Analysis

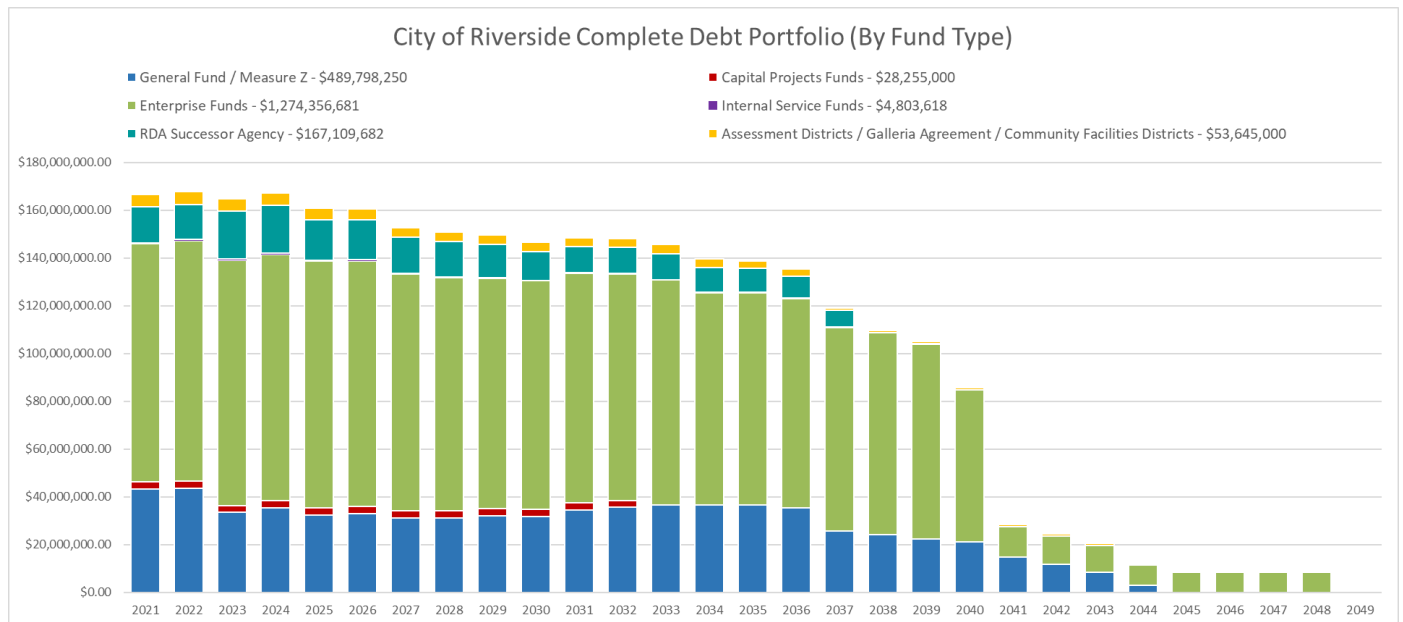
The City's outstanding principal varies quarterly because of debt service payments, bond calls, new debt issuances, and refunding and defeasance activity. At the end of the second quarter, the City's outstanding principal balance decreased \$64,960,127 from the end of the fourth quarter of FY 2019/20. This principal decrease is primarily due to debt service principal payments on the City's Measure G Fire Facilities General Obligation Bonds, Pension Obligation Bonds, Lease Revenue Bonds, Capital Leases, Interfund Loans, and Private Placement Loans, Enterprise Revenue Bonds, Tax Allocation Bonds and Mello Roos and Assessment District Bonds.

The chart below depicts the composition of the City's debt portfolio at the end of the second quarter. The Enterprise funds are responsible for most of the City's debt, with capital project financing offset by the revenues generated by the newly financed facilities. The General Fund and Measure Z have the next largest percentage of debt, providing financing for projects and equipment related to public safety, downtown revitalization, and public facility and infrastructure improvements. The debt service for the City's Pension Obligation Bonds is allocated among many of the funds, distributing debt service in alignment with departmental staffing costs.



For purposes of this report, the Sewer, Water, Electric, Refuse, Special Transit, Civic Entertainment, Convention Center, and Parking funds are consolidated under the classification of Enterprise Funds. Measure Z and the General Fund are grouped together. Measure A and the City’s Parks Special Capital fund are classified under Capital Projects Funds. While the Assessment Districts, Galleria Agreement, and Community Facilities Districts are part of the City debt portfolio, they are not City obligations. They are paid by individual Improvement Districts that are separate legal entities from the City, formed to issue debt and levy assessments or special tax to pay debt service within those districts.

The following bar chart provides the City’s debt service portfolio using the same classification methodology, outlining the principal and interest payments on all City debt instruments by fund. As illustrated below, the City has a stable debt service curve that results in steadily diminishing annual debt service payments and that minimizes any upward spikes in payments that could negatively impact the City’s ability to pay debt service.



Debt Related Activities in First and Second Quarters

Finance staff regularly monitor the market to identify opportunities to maximize debt service savings through refunding and to issue debt when rates are most advantageous. Within the first and second quarters, the Financing Team formed a new CFD 2015-2 (Pomelo), which is the first City CFD to include a services fee to offset the cost of new development within the City. Staff also coordinated the approval of Arlington, Auto Center, and Downtown Business Improvement District annual levies. The City completed and posted the levies for all FY 2020/21 Community Facility District, Assessment District and General Obligation Bonds with the County of Riverside.

Other debt related activities conducted within the first and second quarters include:

- Analysis, preparation and posting of the SB165 Parcel Tax Report
- Began process of renewing Letters of Credit for the 2008A and 2008C Electric Revenue Bonds and 2008 Certificates of Participation (Renaissance)

FISCAL IMPACT:

There is no direct fiscal impact associated with this report.

Prepared by: Heidi Schrader, Debt Manager
 Certified as to availability of funds: Edward Enriquez, Chief Financial Officer/City Treasurer
 Approved by: Moises Lopez, Deputy City Manager
 Approved as to form: Kristi J. Smith, Interim City Attorney

- Attachments:
1. Cash and Investment Report – First Quarter
 2. Cash and Investment Report – Second Quarter
 3. Quarterly Debt Report
 4. Presentation