



City of Arts & Innovation

# City Council Memorandum

**TO: HONORABLE MAYOR AND CITY COUNCIL      DATE: NOVEMBER 19, 2019**  
**FROM: FINANCE DEPARTMENT      WARDS: ALL**  
**SUBJECT: FISCAL YEAR 2018/19 FOURTH QUARTER CASH AND INVESTMENTS AND DEBT REPORT**

**ISSUE:**

Receive and provide input on the attached Fiscal Year 2018/19 Fourth Quarter Cash and Investments and Debt Report.

**RECOMMENDATION:**

That the City Council receive and provide input on the attached Fiscal Year 2018/19 Fourth Quarter Cash and Investments and Debt Report.

**BACKGROUND:**

On June 18, 2019, the City Council received and provided input on the Fiscal Year 2018/19 Third Quarter Cash and Investments and Debt report. In quarters prior to the April 23, 2019 meeting, this information was included in a comprehensive Quarterly Financial Report. The Finance Department separated the General Fund and Measure Z Quarterly Financial report from the Cash Investments and Debt Quarterly report as of April 23, 2019 to increase financial accountability and transparency as it relates to the City's Debt and Investment activities.

**DISCUSSION:**

**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 June 30, 2019, the City's pooled investment portfolio's market value was \$732 million, with the market value of investments held by Southern California Public Power Authority (SCPPA) and fiscal agents (bond proceeds and reserve funds primarily) amounting to an additional \$265 million. The weighted average yield of the pooled investment portfolio is 2.168%.

The authority to manage the City's investment program is provided by the 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 with the exception of the following funds:

Housing Opportunities for Persons with AIDS (\$2,362,947), Capital Outlay - Grants (\$1,187,979), and Transportation Uniform Mitigation Fees (\$2,018,924) have negative cash balances due to the timing of expenditures; however, the negative balances are fully offset by grant receivables.

### 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 fourth quarter by debt classification and fund.

#### *Debt Summary Analysis*

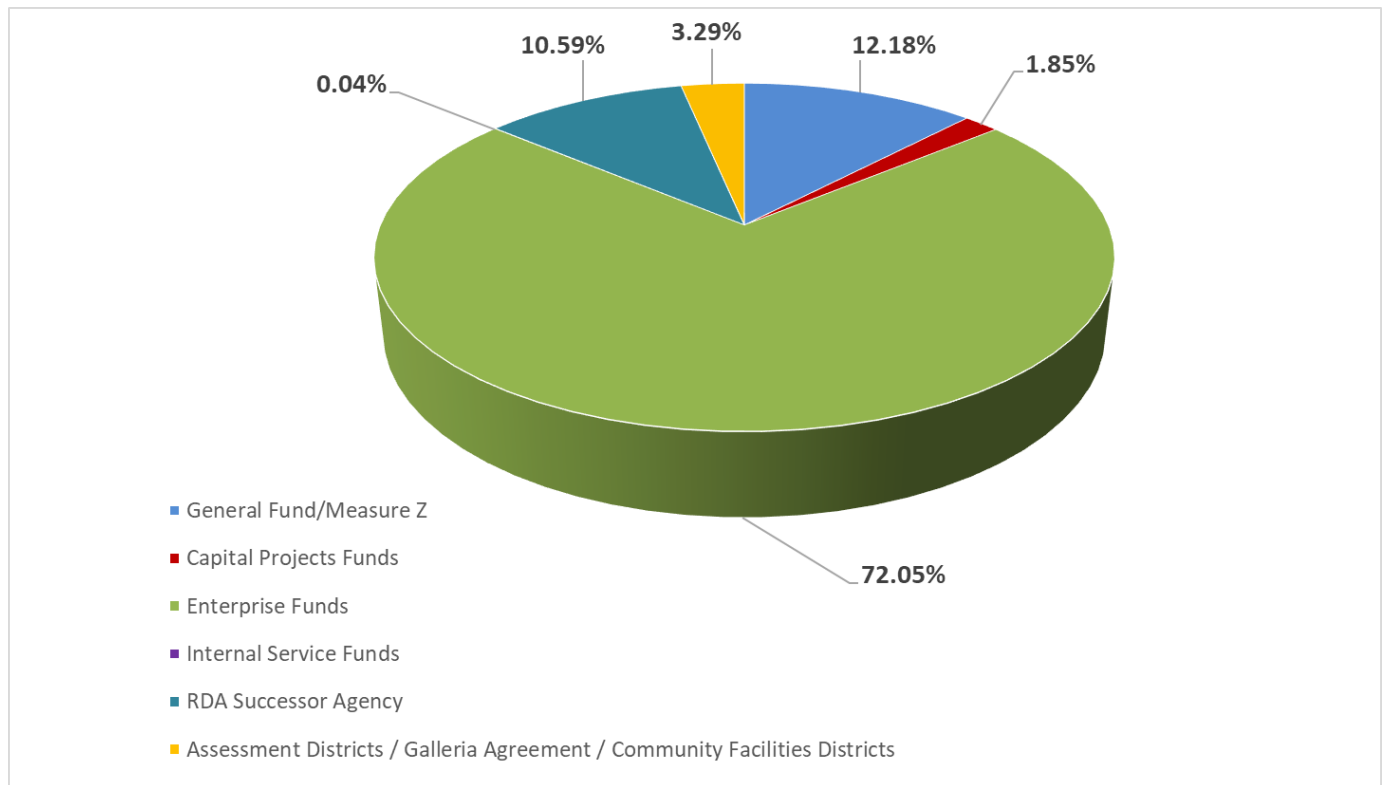
The City's outstanding principal will change quarterly as a result of debt service payments, bond calls, new debt issuances, and refunding and defeasance activity. At the end of the fourth quarter, the City's outstanding principal balance increased \$23,687,105 from the end of the third quarter. This principal increase includes \$33,505,000 in new money financing for the construction of the new Main Branch Library and \$15,980,000 in Lease Revenue refunding bonds to refund \$15,900,000 of the 2006 Galleria Mall Improvements District Certificates of Participation. The City realized a total \$1,140,066 in present value savings on behalf of Community Facilities District 2004-1, which is responsible for paying the debt service on the Galleria bonds.

The City also economically defeased the Electric Revenue Refunding Bonds 2008 Series A and Electric Revenue Refunding Bonds 2008 Series C in the third quarter. Because these were economical defeasances, per the Governmental Accounting Standards Board (GASB), we are reporting the principal reduction from the partial refundings of these issuances (\$40,425,000) in the fourth quarter based on the transaction closing date of April 1, 2019.

The remaining \$16.8 million principal reduction is due to debt service principal payments on the City's Pension Obligation Bonds, the Local Measure A Sales Tax Revenue Certificates of Participation 2013A, one capital lease, a payment on the Ryan Bonaminio Park Loan, a payment on the Fox Entertainment Plaza Loan and a payment on the Convention Center Expansion Loan.

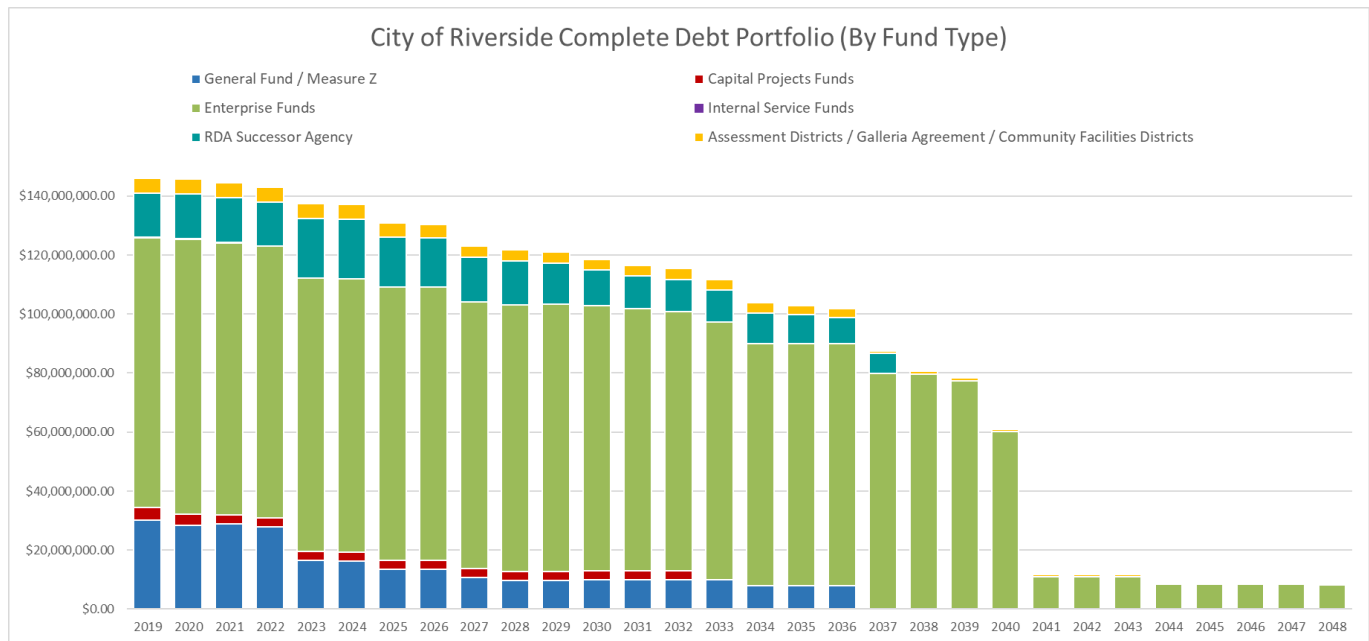
The chart below depicts the composition of the City's debt portfolio at the end of the fourth quarter. The Enterprise funds are responsible for the majority of the City's debt, with capital project

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.



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 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 aren’t 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 Fourth Quarter*

Finance staff regularly monitor the market in order to identify opportunities to maximize debt service savings through refunding and to issue debt when rates are most advantageous. Within the fourth quarter, the City priced and closed the \$15,980,000 Lease Revenue Refunding Bonds (Galleria) Series 2019A and the \$33,505,000 Lease Revenue Bonds (Main Library Project) Series 2019B issuances. Proceeds from the 2019A Galleria bonds were used to partially refund the 2006 Galleria Mall Certificates of Participation.

Other debt related activities conducted within the fourth quarter include:

1. Preparation of FY 2020 budgets and Council action on Street Lighting Assessment District 1 and Riverwalk and Sycamore Highlands Landscape Maintenance Districts.
2. Preparation of FY 2020 budgets and levy for Community Facility Districts and Assessment Districts.
3. Preparation and levy of 2020 tax rate for 2004 Election of 2003 General Obligation Bonds (Fire Facility Projects).

**FISCAL IMPACT:**

There is no direct fiscal impact associated with this report.

Prepared by: Marie Ricci, Assistant Chief Financial Officer  
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 Approved by: Carlie Myers, Deputy City Manager  
 Approved as to form: Gary G. Geuss, City Attorney

- Attachments:
1. Cash and Investment Report
  2. Quarterly Debt Report
  3. Presentation