



City of Arts & Innovation

City Council Memorandum

TO: HONORABLE MAYOR AND CITY COUNCIL **DATE: FEBRUARY 11, 2020**
FROM: FINANCE DEPARTMENT **WARDS: ALL**
SUBJECT: FISCAL YEAR 2019/20 FIRST QUARTER CASH, INVESTMENTS, AND DEBT REPORT

ISSUE:

Receive and provide input on the attached Fiscal Year 2019/20 First Quarter Cash, Investments, and Debt Report.

RECOMMENDATION:

That the City Council receive and provide input on the Fiscal Year 2019/20 First Quarter Cash, Investments, and Debt Report.

BACKGROUND:

On November 19, 2019, the City Council received and provided input on the Fiscal Year 2018/19 Fourth Quarter Cash and Investments and Debt report. In quarters prior to April 23, 2019, 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:

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 Measure Z in order to provide a comprehensive review of all City Finance activities and to obtain City Council input related to those activities.

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, 2019, the City's pooled investment portfolio's market value was \$617 million, with the market value of investments held by Southern California Public Power Authority and fiscal agents (bond proceeds and reserve funds primarily) amounting to an additional \$322 million. The weighted average yield of the pooled investment portfolio is 2.025%.

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 except for the following funds:

1. Civic Entertainment Fund – Convention Center, Visitors Bureau, Sports Commission (\$1,004,357), and Special Districts (\$494,994), have negative cash balances due to timing of expenditures; however, the negative balances are fully offset by outstanding receivables.
2. Urban Areas Security Initiative (\$542,646), Grants and Restricted Programs (\$385,015), Housing Opportunities for Persons with AIDS (\$199,955), Capital Outlay - Grants (\$1,452,417), and Transportation Uniform Mitigation Fees (\$2,120,311) have negative cash balances due to the timing of expenditures; however, the negative balances are fully offset by grant receivables.
3. Debt Service Fund – General (\$14,540,966) 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 (\$18 million).
4. Central Stores (\$257,437) which is fully offset by inventory assets that will be recouped when charged out for usage to various departments.

QUARTERLY DEBT REPORT

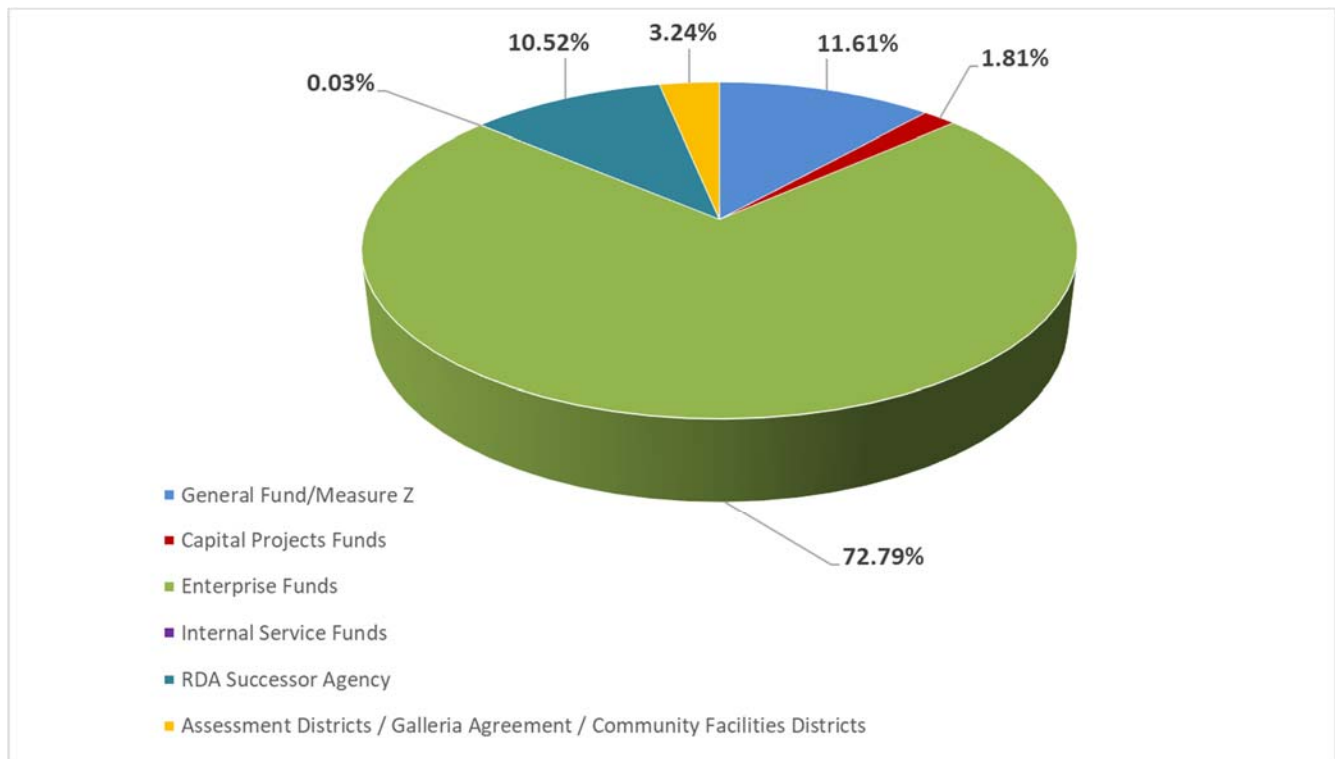
The Finance Department is responsible for managing the City's debt portfolio, which includes issuing new debt and monitoring opportunities to refinance existing debt as opportunities to reduce financing costs arise. The Quarterly Debt Report (Attachment 2) summarizes the composition of the City's debt 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 quarter of Fiscal Year 2020 by debt classification and fund.

Debt Summary Analysis

The City's outstanding principal changes quarterly as a result of debt service payments, bond calls, new debt issuances, and refunding and defeasance activity. At the end of the first quarter, the City's outstanding principal balance decreased \$33,950,168 from the end of the fourth quarter of fiscal year 2019. This principal decrease is due to debt service principal payments on the City's

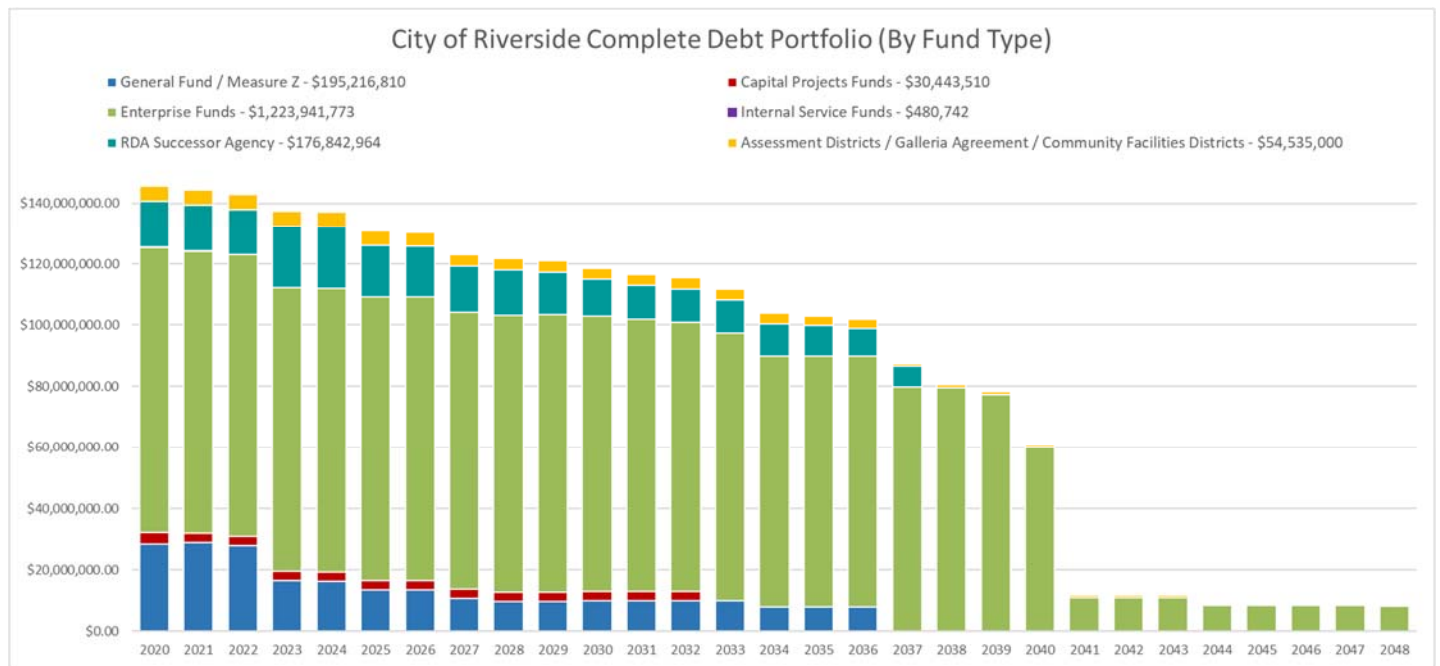
General Obligation Bonds, Pension Obligation Bonds, Capital Leases, Interfund Loans, Sewer Fund Revenue Bonds, RDA Successor Agency Tax Allocation Bonds, Community Facilities District and Assessment District Bonds, and a payment on the Convention Center Expansion Loan.

The chart below depicts the composition of the City's debt portfolio at the end of the first 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 taxes 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 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 first quarter, the Financing Team prepared disclosure documents and ratings presentations related to the rate reset of the RPU 2011A Water Revenue Bonds. Staff also presented the Electric credit to Fitch Ratings as part of their annual surveillance of the Electric short-term credit. Staff is also working on preparing a 20-year forecast of all debt service related expenses as part of the biennial budget preparation.

Other debt related activities conducted within the first quarter include:

1. CFD 2015-1 Orangecrest 2020 Bond Sale
2. CFD Formation analysis for tentative tract no. 28987
3. Preparation and levy of 2020 Arlington, Auto Mall, and Downtown BIDs

FISCAL IMPACT:

There is no direct fiscal impact associated with this report.

Prepared by: Heidi Schrader, Debt & Treasury Manager
 Certified as to availability of funds: Edward Enriquez, Chief Financial Officer/City Treasurer
 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