



City of Arts & Innovation

City Council Memorandum

TO: HONORABLE MAYOR AND CITY COUNCIL **DATE: JANUARY 19, 2021**

FROM: FINANCE DEPARTMENT **WARDS: ALL**

SUBJECT: FISCAL YEAR 2019/20 FOURTH QUARTER CASH, INVESTMENTS, AND DEBT REPORT

ISSUE:

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

RECOMMENDATIONS:

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

BACKGROUND:

On June 16, 2020, the City Council received and provided input on the Fiscal Year 2019/20 Third Quarter Cash and Investments and Debt report.

DISCUSSION:

The General Fund and Measure Z Quarterly Financial report has been separated 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. 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 June 30, 2020, the City's pooled investment portfolio's market value was \$820 million, with 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 \$178 million. The weighted average yield of the pooled investment portfolio is 1.20%.

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. Community Development Block Grant (\$596,032), Housing Opportunities for Persons with AIDS (\$577,768), Capital Outlay - Grants (\$905,729), and Transportation Uniform Mitigation Fees (\$1,889,495) have negative cash balances due to the timing of expenditures; however, the negative balances are fully offset by grant receivables.

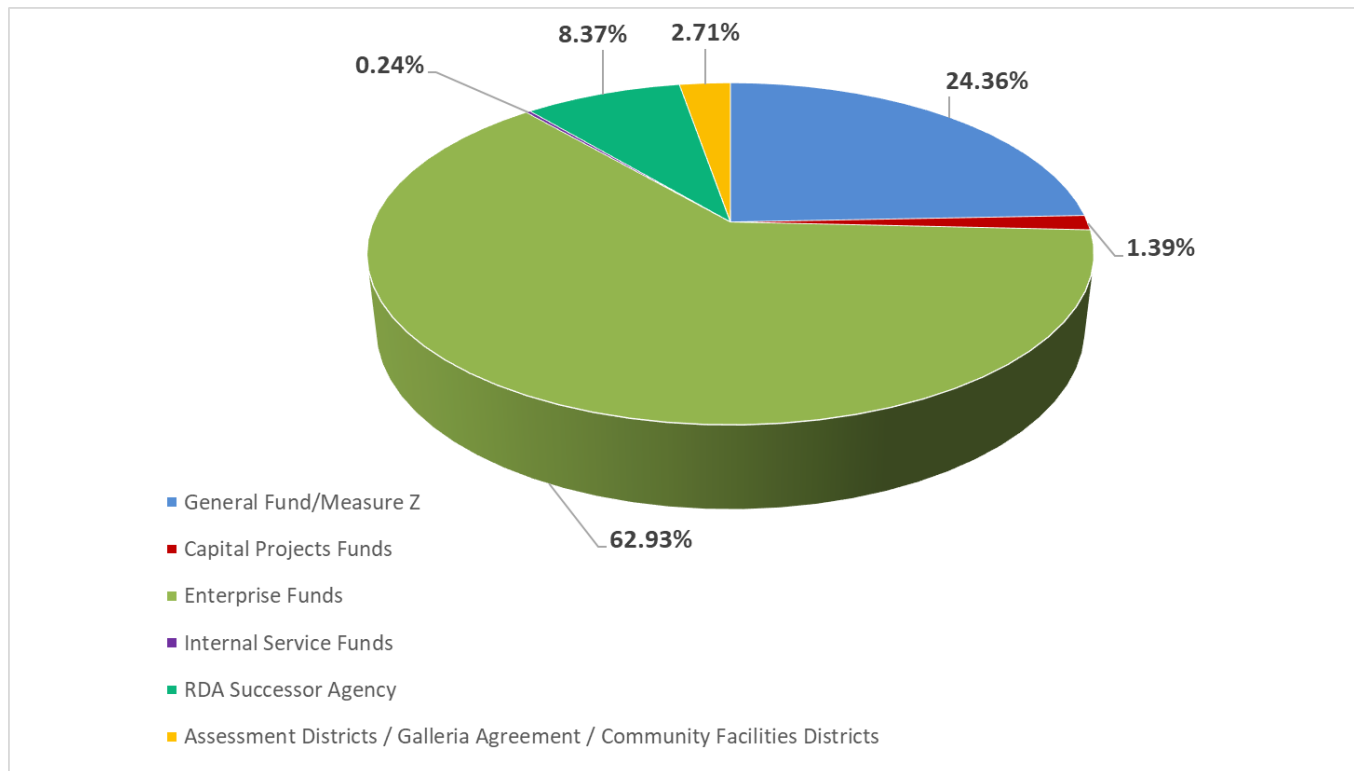
QUARTERLY DEBT REPORT

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 of Fiscal Year 2020 by debt classification and fund.

Debt Summary Analysis

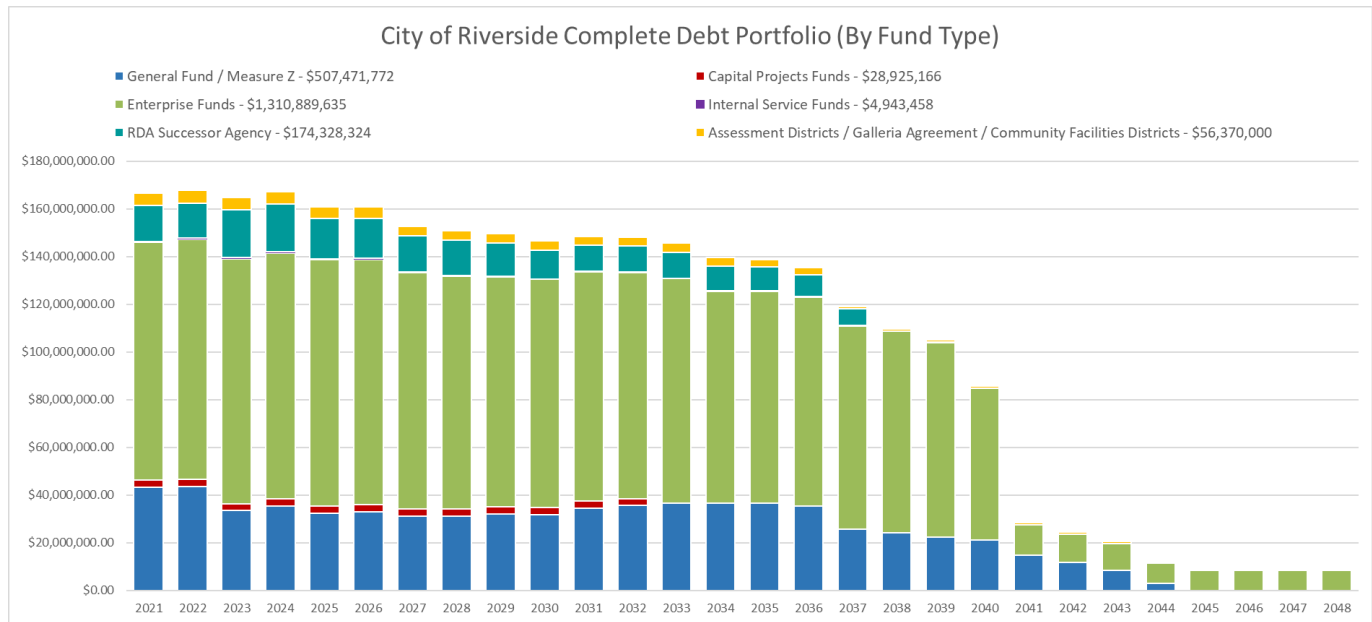
The City's outstanding principal varies quarterly as a result of debt service payments, bond calls, new debt issuances, and refunding and defeasance activity. At the end of the fourth quarter, the City's outstanding principal balance increased \$429,185,939 from the end of the third quarter of fiscal year 2020. This principal increase is primarily due to a \$432,165,000 issuance of Pension Obligation Bonds used to paydown a significant portion of the City's unfunded accrued liability with CalPERS, as well as \$2,979,061 debt service principal payments on the City's 2013A Measure A Sales Tax Certificates of Participation, Capital Leases, and Private Placement Loans.

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 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 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 monitors 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 Financing Team completed the remarketing of the Electric 2011A Privately placed variable rate bonds to the public market and the issuance of the 2020A Pension Obligation Bonds. Staff also prepared financial reports related to annual debt expenses and long-term obligations. The land secured financing team began the process of forming a new Community Facilities District, CFD 2015-2 (Pomelo), which has the City's first service special tax, to help offset the cost of new development within the City.

Other debt related activities conducted within the fourth quarter include:

- Legislative requirements for annual Business Improvement District, Landscape Maintenance and Streetlight Maintenance District, Special Tax and Assessment District, and General Obligation Bond levies.
- Continuing Disclosure Annual Reports for Enterprise, General Fund, and Successor to the Redevelopment Agency Debt.

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
2. Quarterly Debt Report
3. Presentation