



STAFF REPORT

AGENDA NO: 9e

MEETING DATE: March 2, 2026

To: Honorable Mayor and City Council

Date: March 2, 2026

From: Helen Yu-Scott, Finance Director – (650) 558-7222

Subject: Quarterly Investment Report, Period Ending December 31, 2025

RECOMMENDATION

Staff recommends that the City Council receive and approve the City's investment report through December 31, 2025.

BACKGROUND

This report represents the City's investment portfolio as of December 31, 2025. The report includes all invested City funds with the exception of bond proceeds, the City's account with the California Employers' Retiree Benefit Trust Fund (CERBT), which is used to pre-fund the City's retiree medical obligations, and the §115 trust account with the Public Agency Retirement Services (PARS) Pension Rate Stabilization Program. All other investments are covered by and in compliance with the City's adopted Statement of Investment Policy.

DISCUSSION

The City's investments are guided by the Statement of Investment Policy (the "Policy"), which the City Council reviews and approves annually. The City Council last approved the Policy on June 16, 2025. The Policy directs that investment objectives, in order of priority, are safety, liquidity, and return. This conservative approach ensures assets are available for use while also allowing the City to earn additional resources from idle funds. The City utilizes a core portfolio of investments managed by PFM Asset Management (PFMAM), a division of U.S. Bancorp Asset Management, Inc., the City's investment advisor. The City also maintains funds invested in the State's Local Agency Investment Fund (LAIF) and the California Asset Management Program (CAMP) to achieve its investment goals.

CURRENT MARKET CONDITIONS

During the last quarter of calendar year 2025, the labor market continued to soften, and the unemployment rate edged higher. Core inflation moved lower but remained above the Fed's 2% target. Gaps in data collection due to the government shutdown likely distorted the official data, though other available private sector data pointed to a slowdown in economic momentum.

The Federal Reserve (Fed) delivered two additional 25 basis point (bps) rate cuts in the quarter, lowering the federal funds target range to 3.50% to 3.75%. The median forecast from the Fed's December "dot plot" showed an additional 25 bps rate cut in both 2026 and 2027, but the wide dispersion in underlying projections underscores growing differences of opinion. Policymakers have acknowledged ongoing challenges to achieving their dual mandate of maximum employment and stable prices.

The U.S. government shutdown halted the collection of key economic indicators, requiring the Fed and the market to rely on survey-based anecdotal evidence and private data reports.

Yields on 3-month, 2-year, and 10-year U.S. Treasuries ended December at 3.63%, 3.47%, and 4.17%, representing changes of -31+ bps, -14 bps, and +2 bps, respectively, over the past quarter.



Yield Curve History			
Maturity	12/31/2025	9/30/2025	Change
3 Mo.	3.63%	3.94%	-0.31%
6 Mo.	3.48%	3.84%	-0.36%
1 Yr.	3.48%	3.62%	-0.16%
2 Yr.	3.47%	3.61%	-0.14%
3 Yr.	3.54%	3.62%	-0.08%
5 Yr.	3.73%	3.74%	-0.01%
10 Yr.	4.17%	4.15%	0.02%
30 Yr.	4.84%	4.73%	0.11%

The City's cash, excluding bond proceeds, is pooled for investment purposes. As of December 31, 2025, invested funds totaled \$269,510,775. These investments are assets of the City of Burlingame and include the General Fund, the enterprise funds (such as Water, Sewer, and Solid Waste), and various non-major funds. Note that the City's account with the California Employers' Retiree Benefit Trust Fund (CERBT), used to pre-fund the City's retiree medical obligations, is not included in this calculation of the City's investment portfolio. Similarly, funds held within the City's \$115 Trust account with the Public Agency Retirement Services (PARS) Pension Rate Stabilization Program are not included in this calculation of the City's investment portfolio.

City's Investments Market Value As of December 31, 2025	
Main Investment Portfolio	\$134,195,792.64
Main Investment Portfolio - Cash Balance in Custody Account	\$1,158,896.70
CAMP Balance	\$59,565,830.27
LAIF Balance	\$74,590,255.44
Total	\$269,510,775.05

At the end of the quarter, the main portfolio's duration was 2.40 years, slightly lower than the benchmark's duration of 2.47 years. Factoring in liquid investments, such as LAIF and CAMP, the effective duration of the City's aggregate investments was 1.20 years.

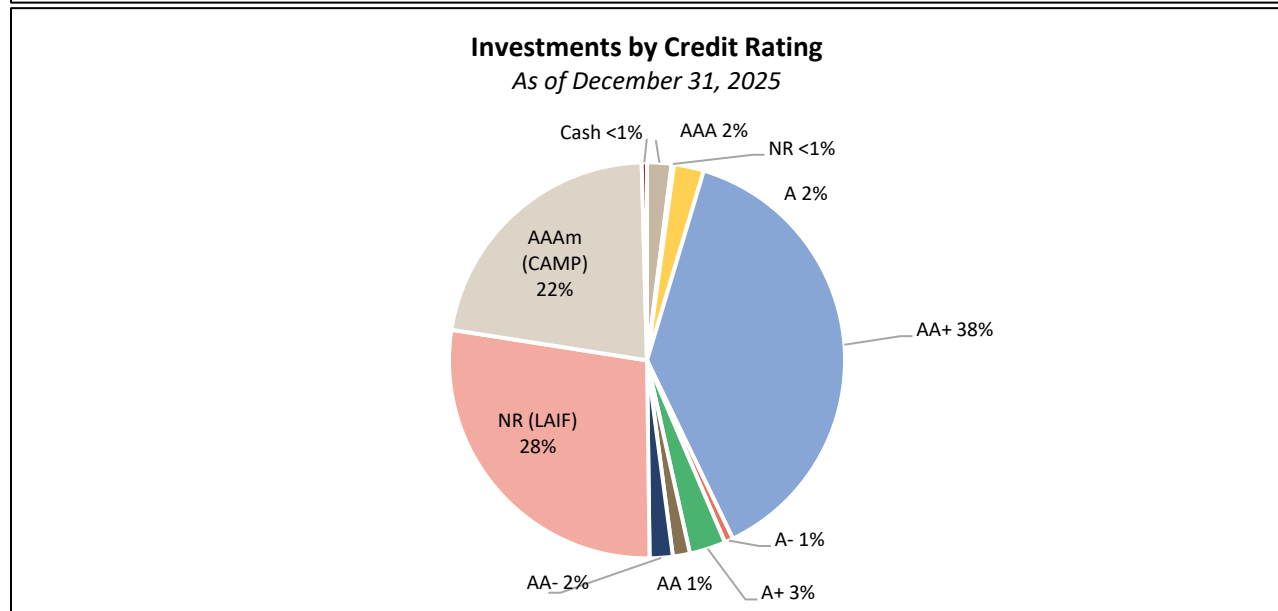
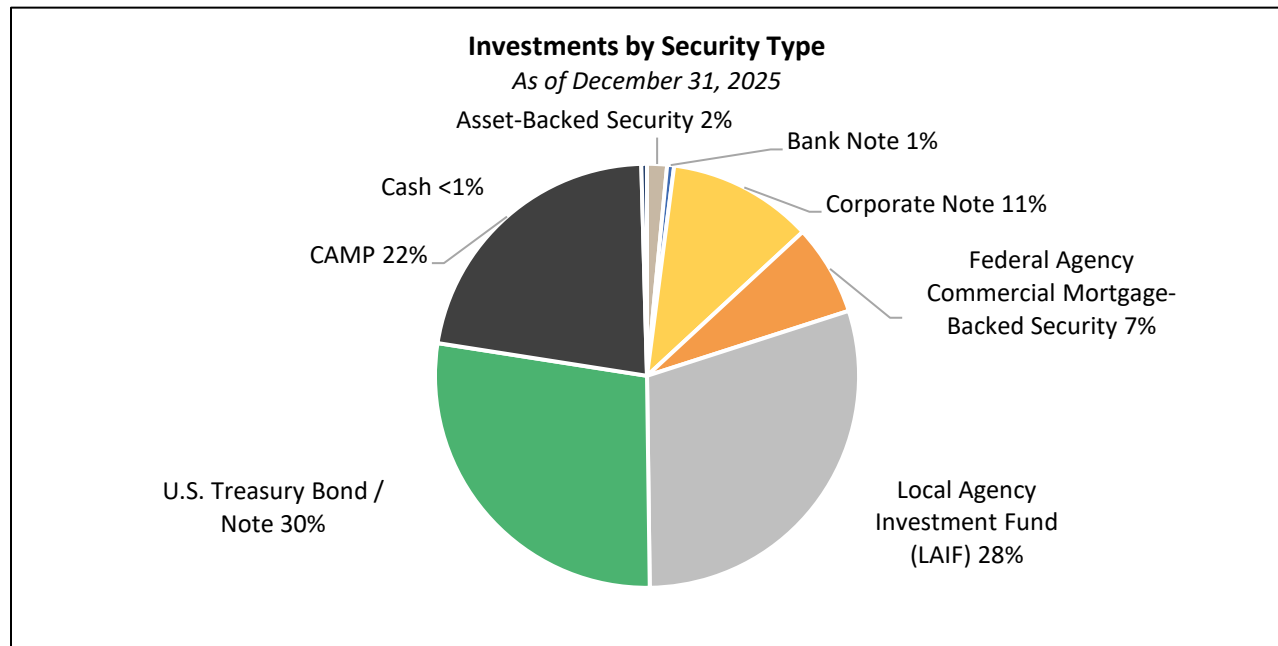
The City continues to benefit from a strategy of broad diversification, which reduces overall portfolio risk while providing the opportunity for better long-term returns, as well as active portfolio management, which seeks to add value by identifying well-priced securities across various sectors.

Please see a summary of transactions for the quarter ending December 31, 2025, below and on the following page:

Trade Date	Settlement Date	Transaction	CUSIP	Issuer	Term (Mths)	Coupon	Principal
10/1/2025	10/2/2025	BUY	91282CPA3	US TREASURY N/B	61	3.63%	4,000,000
11/4/2025	11/5/2025	BUY	66989HAY4	NOVARTIS CAPITAL CORP (CALLABLE)	61	4.10%	2,000,000
11/7/2025	11/10/2025	BUY	17275RBR2	CISCO SYSTEMS INC (CALLABLE)	40	4.85%	2,000,000
11/20/2025	11/21/2025	BUY	02079KAW7	ALPHABET INC (CALLABLE)	61	4.10%	2,000,000
10/1/2025	10/2/2025	SELL	91282CBH3	US TREASURY N/B	4	0.38%	1,250,000
10/1/2025	10/2/2025	SELL	91282CBH3	US TREASURY N/B	4	0.38%	2,150,000
10/1/2025	10/2/2025	SELL	91282CBH3	US TREASURY N/B	4	0.38%	100,000
11/4/2025	11/5/2025	SELL	66989HAJ7	NOVARTIS CAPITAL CORP (CALLABLE)	1	3.00%	1,850,000
11/7/2025	11/10/2025	SELL	91282CBH3	US TREASURY N/B	3	0.38%	1,010,000
11/7/2025	11/10/2025	SELL	91282CBH3	US TREASURY N/B	3	0.38%	1,090,000
11/20/2025	11/21/2025	SELL	91282CNX5	US TREASURY N/B	58	3.63%	1,500,000

As always, PFMAM continues to prioritize the safety and liquidity of the City's investment assets above all else. PFMAM continues to monitor the markets and will recommend relative-value trades as appropriate to safely enhance the City's portfolio earnings. However, the priority will always be to maintain the safety and liquidity of the City's investments.

As noted in the following pie charts, the City's aggregate investment portfolio, as of December 31, 2025, was heavily weighted toward the Local Agency Investment Fund (LAIF) and high-quality (AA+ rated) federal agency and U.S. Treasury securities, to maintain a focus on safety and liquidity.



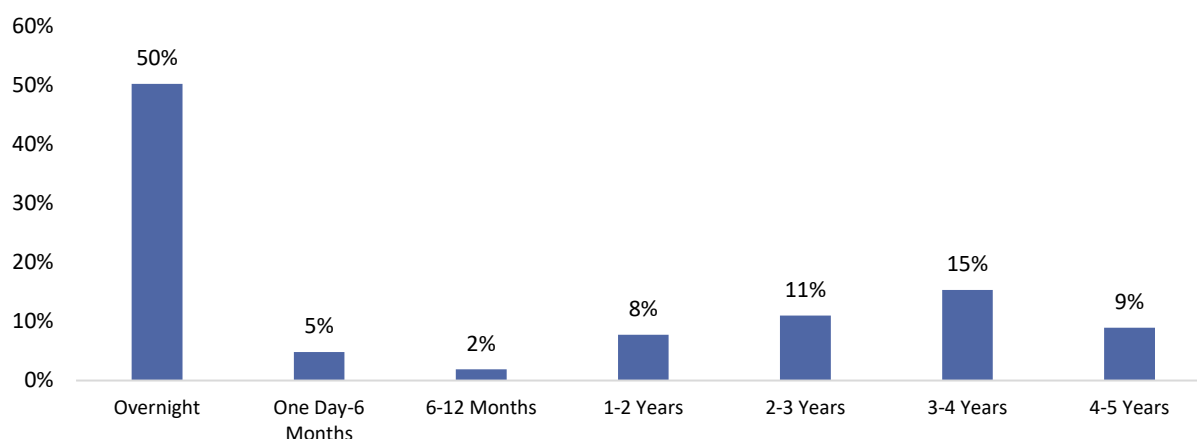
The "BBB+" category comprises securities that are rated in the category of A or better by at least one NRSRO (Nationally Recognized Statistical Ratings Organization), which meets the credit rating criteria established in the City's Statement of Investment Policy.

The NR category is comprised of securities that are not rated by S&P Global but are rated in the category of A or better by Moody's and/or Fitch.

As of December 31, 2025, 50% of the City's funds were invested in very short-term liquid investments; 15% of the funds were invested with maturity between one day and two years; and 35% of the investment portfolio had a maturity ranging from two to five years. This distribution provides the City with the liquidity to meet operational and emergency cash needs while maximizing returns on funds not needed in the immediate future. The City's aggregate investments maintain an effective duration of 1.20 years and currently generate an annual income of 3.98% before investment expenses. The City's funds are invested in high-quality credit investments and continue to meet the City's goals of safety, liquidity, and yield/return.

Maturity Distribution

As of December 31, 2025



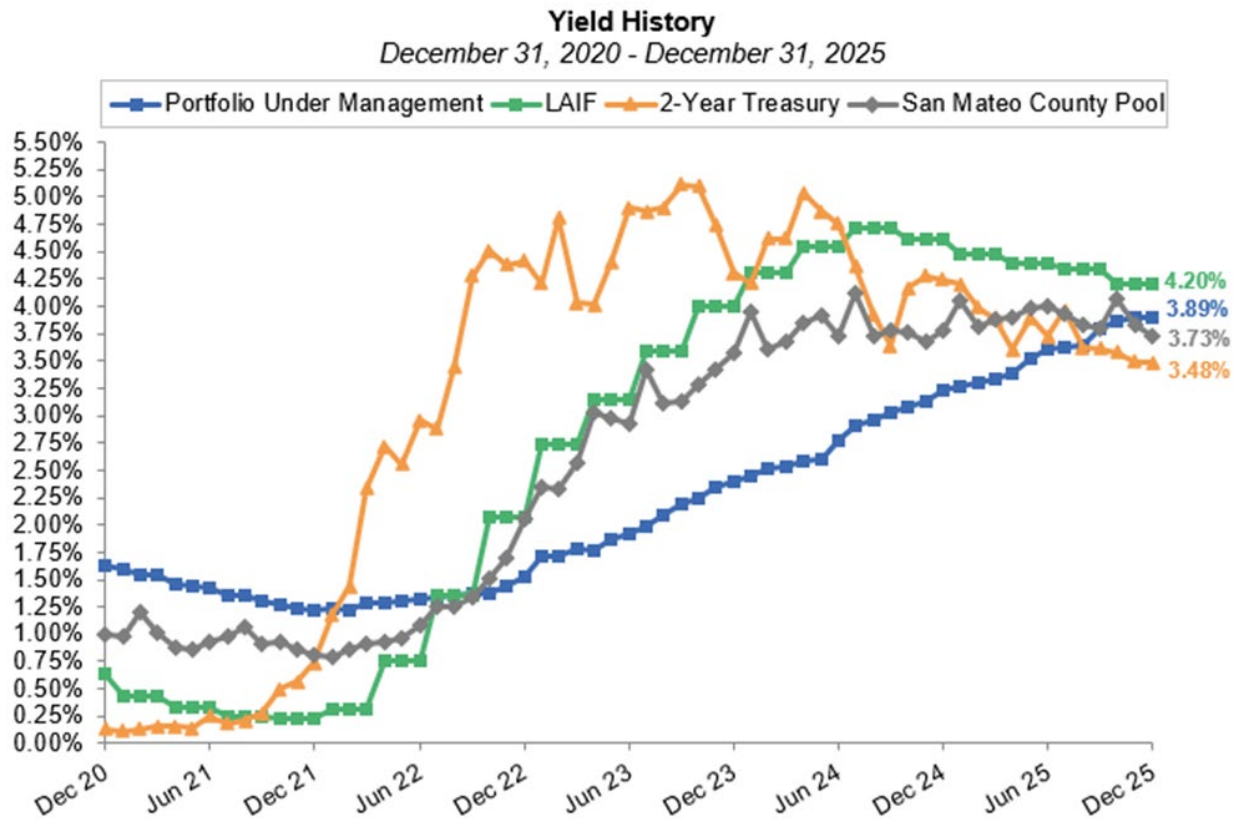
As of December 31, 2025, the yield to maturity at cost on the main portfolio of securities was 3.89%. Including additional investments such as LAIF and CAMP, the average yield to maturity** on the City's aggregate investments was 3.98%. During the quarter, the main portfolio generated accrual basis earnings of \$1,244,782

City's Investments Statistical Information	
Market Value	\$269,510,775
Effective Duration	1.20 Years
Average Credit Quality*	AA
Yield to Maturity**	3.97%

*Ratings by S&P Global. Average excludes 'Not Rated' securities.

**Calculated as a weighted average of the main portfolio's yield at cost as of 12/31/25, the LAIF quarterly apportionment rate for the quarter ended 12/31/25, and CAMP's monthly distribution yield as of 12/31/25.

The chart on the following page compares the yield of the City's managed portfolio with those of the two-year U.S. Treasury note, LAIF, and the San Mateo County Pool. As of December 31, 2025, the gross yield at cost on the City's managed portfolio was 3.89%; net of PFMAM's investment advisory fees, the yield at cost was 3.81%.



Below is a summary of cash and investment holdings held by each fund as of December 31, 2025, which includes invested funds, debt service reserves, amounts held in overnight (liquid) accounts, the City's main checking account, and other operating funds:

	Cash and Investments by Fund		
	As of 12/31/2025	As of 09/30/2025	Change \$
General Fund	\$ 29,682,852	\$ 25,126,078	\$ 4,556,774
Capital Project Funds	71,933,658	60,446,248	11,487,410
Internal Service Funds	34,803,858	32,733,873	2,069,984
Water Fund	18,094,653	20,493,097	(2,398,444)
Sewer Fund	35,499,567	34,361,575	1,137,992
Solid Waste Fund	3,522,095	3,632,855	(110,760)
Parking Fund	13,172,089	13,415,585	(243,496)
Building Fund	27,977,961	28,727,841	(749,881)
Landfill Fund	5,143,131	5,061,279	81,852
Debt Service Fund	4,446,227	129,480	4,316,747
Subtotal, Operating Funds	244,276,090	224,127,913	20,148,177
Other Funds	48,747,299	54,152,009	(5,404,711)
Total Cash and Investments	\$ 293,023,388	\$ 278,279,922	\$ 14,743,466

Cash holdings in the General Fund increased by nearly \$4.6 million in the quarter. This is mainly due to the receipt of approximately \$16.0 million in property tax-related revenues, nearly \$4.0 million in sales taxes and Measure I revenue, and about \$5.9 million in TOT revenue. The receipts were primarily offset by regular operating expenses, quarterly payments to Central County Fire (\$3.5 million), and transfers to the capital project fund (nearly \$10.0 million) and debt service fund (more than \$3.1 million) based on the adopted budget for FY 2025-26

The \$11.5 million net increase in Capital Project Funds reflects a few factors, including transfers from the General Fund (\$10.0 million) and Other Funds (\$8.4 million). Large construction progress payments added up to \$4.8 million in the quarter, most notably \$0.4 million for the Public Works Corp Yard Roof Replacement, nearly \$2.6 million for the Town Square Plaza, \$0.1 million for the New City Hall at 1440 Chapin, \$0.4 million for the Easton Creek/El Portal Creek Levee Improvement, \$0.5 million for the Occidental Ave Bike & Pedestrian Improvement project, and \$0.7 million for the 2025 Annual Street Resurfacing project.

The Internal Services Funds' cash holdings increased by about \$2.1 million in the quarter, mainly due to ongoing quarterly contributions from all funds, with no anticipated expenses incurred. The Water Fund decreased by nearly \$2.4 million, reflecting regular cash flow; payments for the 2011, 2013, and 2016 Water Bonds; and capital spending for the Sisters of Mercy Pump Station and North Burlingame Terrace Water Main projects.

The Debt Service Fund's holdings increased by over \$4.3 million from the prior quarter. This is mainly due to a combined \$3.1 million transfer from the General Fund and \$2.6 million from the Storm Drain Fund for principal and interest payments on governmental bonded debt as they become due.

The Other Funds category's cash holdings decreased by \$5.4 million. During the quarter, there were \$5.9 million in transfers out from other funds to Capital Project Funds for various projects, and \$2.6 million to the Debt Service Fund for governmental debt payments. Other Funds' major receipts included Storm Drain Fees of \$1.7 million (collected with property taxes), Gas Tax and SB1 revenue of \$456,000, Measure A and Measure W receipts (combined total of \$392,000), and \$1.0 million in collections from the Public Facilities Impact Fee.

As for the performance of the City's trust funds, which adhere to different strategies than reflected in the City's Investment Policy for its main portfolio, the most recent statements are attached to this staff report. Because the City's funding of its retiree medical obligations has grown to a relatively healthy level, the City's trust account is invested in a less aggressive strategy (Strategy 2) offered by the California Employers' Retiree Benefit Trust (CERBT) Fund. The net return for the portfolio for the quarter ending December 31, 2025, was 1.4%; the balance in the City's CERBT account was about \$37.0 million. The attached December 2025 statement for the PARS §115 Trust account, established in October 2017 to fund the City's pension liabilities, shows a 1.85% rate of return for the quarter and a balance of \$28.3 million.

CONCLUSION

All City funds are invested in accordance with the approved Statement of Investment Policy with an emphasis on safety, liquidity, and return (in that order). The City's investment strategy of

balancing the investment portfolio between short-term investments (to meet cash flow needs) and longer-term maturities (to realize a higher rate of return) is appropriate given current market conditions.

Due to the ease of access of the City's funds in liquid accounts such as LAIF and CAMP, the City has more than sufficient funds available to meet its liquidity (expenditure) requirements for the next six months.

Staff and the City's investment advisor will continue to closely monitor the City's investments to ensure the mitigation of risk and the ability to meet the City's investment goals while being able to respond to changes in market conditions.

FISCAL IMPACT

Quarterly reporting of the City's Investment Portfolio will not result in any direct impact on City resources.

Exhibits:

- Portfolio Holdings as of December 31, 2025
- CERBT Strategy 2 Fund Facts for December 31, 2025
- CERBT Quarterly Statement for December 31, 2025
- PARS Monthly Statement for December 31, 2025