



STAFF REPORT

AGENDA NO: 9I

MEETING DATE: November 18, 2024

To: Honorable Mayor and City Council

Date: November 18, 2024

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

Subject: Quarterly Investment Report, Period Ending September 30, 2024

RECOMMENDATION

Staff recommends that the City Council receive and approve the City's investment report through September 30, 2024.

BACKGROUND

This report represents the City's investment portfolio As of September 30, 2024. 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 Council reviews and approves annually. The City Council last approved the Policy on June 3, 2024. The Policy directs that investment objectives, in order by priority, are safety, liquidity, and return. This conservative approach ensures assets are available for use while also allowing the City to earn additional resources on idle funds. The City utilizes a core portfolio of investments managed by the City's investment advisor, PFMAM Asset Management LLC (PFMAM), and 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.

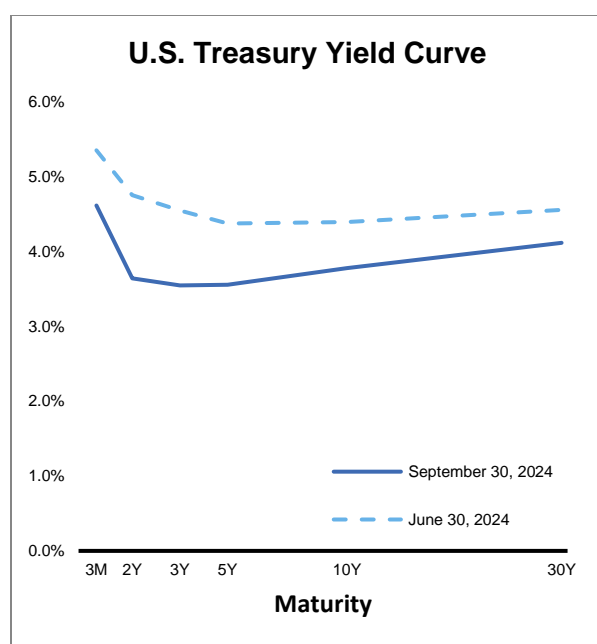
CURRENT MARKET CONDITIONS

In the third calendar quarter, U.S. economic conditions were characterized by: (1) a labor market that reached better balance and supports consumer activity; (2) inflation that has made meaningful progress towards the Federal Reserve's (Fed) 2% target, although shelter costs remain a headwind; and (3) resilient economic growth and consumer spending that support the 'soft landing' scenario.

The Federal Open Market Committee (FOMC) lowered the target range for the federal funds rate by 50 basis points (bps) to 4.75% - 5.00% at its September meeting. The half percentage point cut was well-digested by markets despite expectations being split between 25 and 50 bps. Federal Reserve Chair Powell described the risks to achieving the Fed's employment and inflation goals as now being "roughly in balance."

The FOMC released an updated Summary of Economic Projections (SEPs), which showed a higher median expectation for the unemployment rate at 4.4% for the remainder of 2024 and through 2025. The updated projections for the Core Personal Consumption Expenditure Price Index (PCE) and gross domestic product (GDP) were both modestly lowered, with real growth prospects near 2% for the next several quarters. The August PCE reading of 2.2% year-over-year hit its lowest level since February 2021, continuing the trajectory towards the Fed's 2% inflation target.

U.S. Treasury yields remain rangebound at historically high levels. The yields on benchmark 2-, 5-, and 10-year U.S. Treasuries ended the month of September at 3.64%, 3.56%, and 3.78%, respectively. As a result of lower yields, U.S. Treasury indices generated strong total returns for the quarter.



Yield Curve History			
Maturity	9/30/2024	6/30/2024	Change
3 Mo.	4.62%	5.35%	-0.74%
6 Mo.	4.40%	5.32%	-0.92%
1 Yr.	4.00%	5.11%	-1.11%
2 Yr.	3.64%	4.75%	-1.11%
3 Yr.	3.55%	4.55%	-1.00%
5 Yr.	3.56%	4.38%	-0.82%
10 Yr.	3.78%	4.40%	-0.62%
30 Yr.	4.12%	4.56%	-0.44%

The City's cash, excluding bond proceeds, is pooled for investment purposes. As of September 30, 2024, invested funds totaled \$251,049,556. These investments are assets of the City of Burlingame and include the General Fund, the enterprise funds (such as Water, Sewer, and Solid Waste), as well as 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 September 30, 2024	
Main Investment Portfolio	\$128,392,291.34
Main Investment Portfolio - Cash Balance in Custody Account	\$448,400.20
CAMP Balance	\$94,570,347.55
LAIF Balance	\$27,638,516.41
Total	\$251,049,555.50

At the end of the quarter, the main portfolio's duration was 2.31 years – shorter than the benchmark's duration of 2.53 years. Factoring in liquid investments, such as LAIF and CAMP, the effective duration of the City's aggregate investments was 1.18 years.

The City continues to benefit from a strategy of broad diversification, which serves to reduce the overall risk in the portfolio while providing the opportunity for better returns over the long term, 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 ended September 30, 2024, below and on the following page:

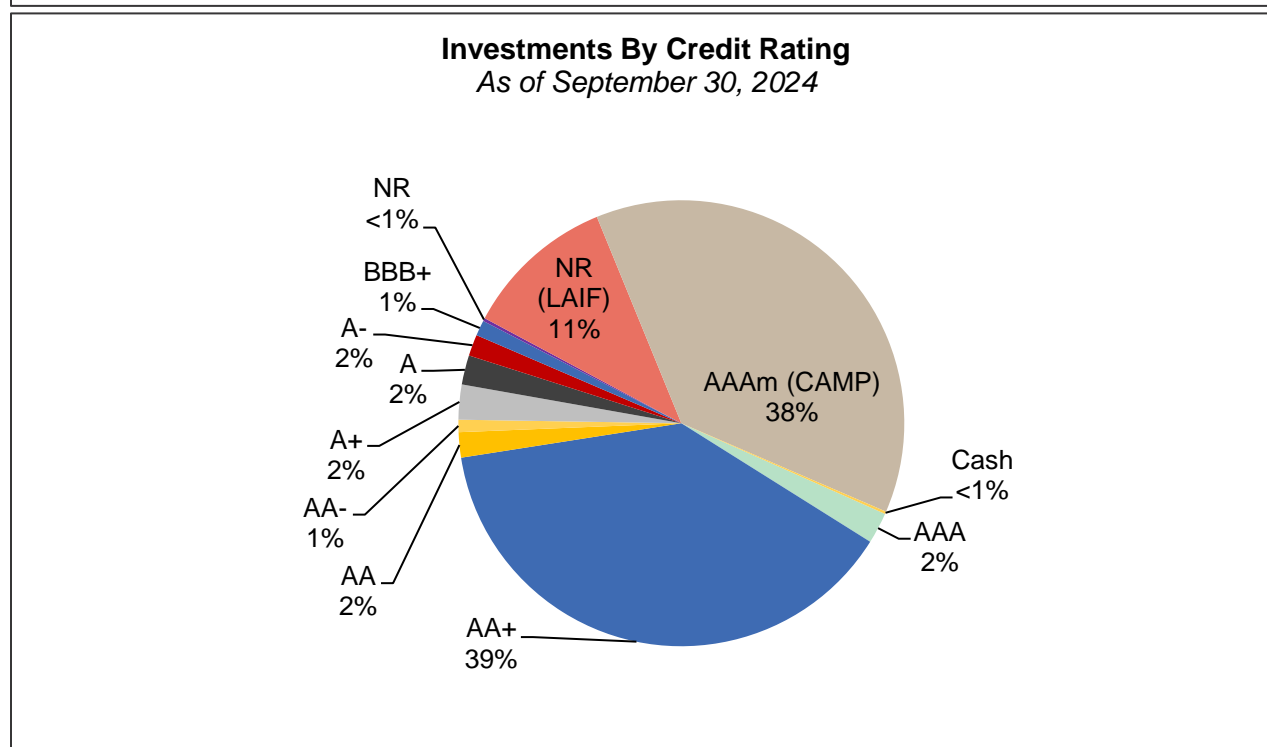
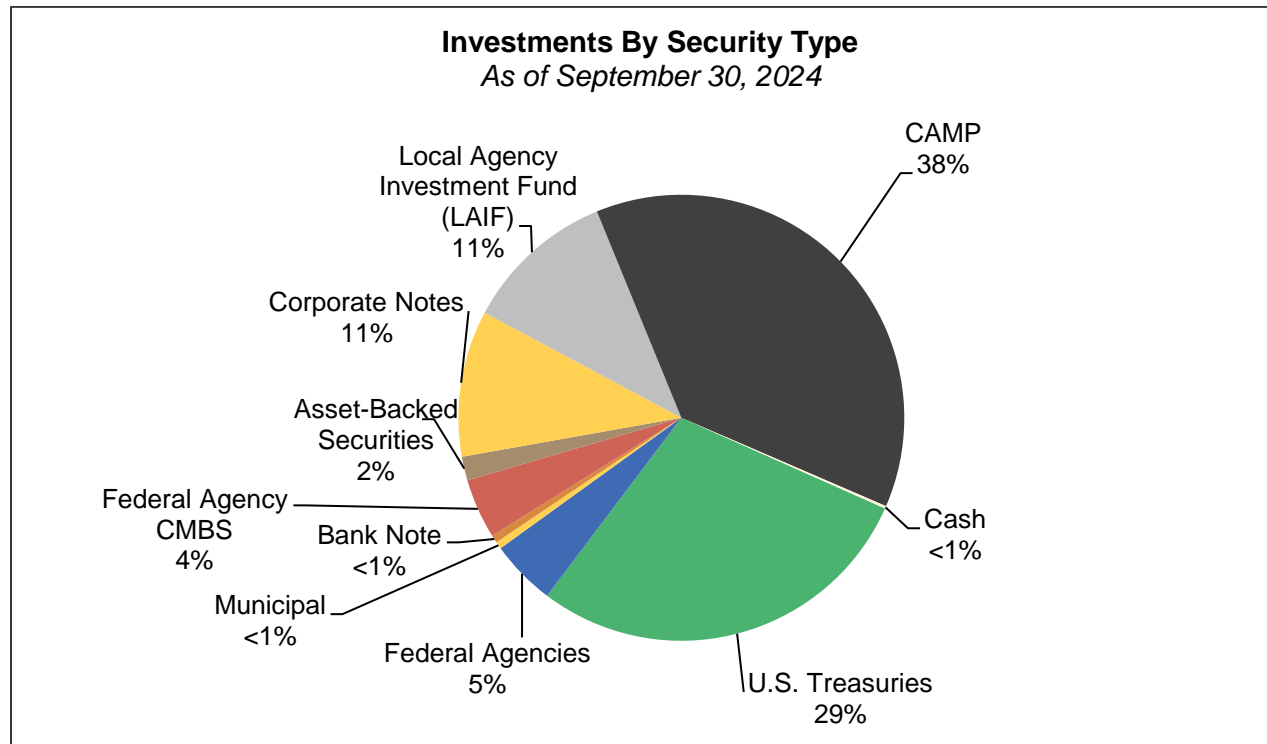
Trade Date	Settlement Date	Transaction	CUSIP	Issuer	Term (Mths)	Yield	Principal
7/1/2024	7/2/2024	SELL	912828ZF0	U.S. Treasury Notes	9	5.22%	3,075,000
7/1/2024	7/2/2024	BUY	91282CKX8	U.S. Treasury Notes	61	4.44%	3,190,000
7/15/2024	7/17/2024	BUY	713448FX1	Pepsico Inc	61	4.53%	595,000
7/16/2024	7/17/2024	SELL	3130AJHU6	Federal Home Loan Bank	9	5.03%	1,085,000
7/16/2024	7/17/2024	SELL	89236TGT6	Toyota Motor Notes	7	5.13%	70,000
7/16/2024	7/17/2024	SELL	89236TGT6	Toyota Motor Notes	7	5.13%	530,000
7/16/2024	7/25/2024	BUY	3137HDV56	Fannie Mae Notes	58	4.55%	1,040,000
8/1/2024	8/1/2024	BUY	91282CLC3	U.S. Treasury Notes	61	3.85%	1,190,000

Trade Date	Settlement Date	Transaction	CUSIP	Issuer	Term (Mths)	Yield	Principal
8/7/2024	8/8/2024	SELL	3135G03U5	Fannie Mae Notes	9	4.70%	1,165,000
8/6/2024	8/9/2024	BUY	89236TMK8	Toyota Motor Notes	61	4.60%	165,000
8/7/2024	8/9/2024	BUY	89236TMK8	Toyota Motor Notes	61	4.60%	785,000
8/8/2024	8/9/2024	SELL	57636QAN4	Mastercard Inc	7	5.12%	650,000
8/8/2024	8/9/2024	SELL	89236TGT6	Toyota Motor Notes	6	5.13%	310,000
8/7/2024	8/15/2024	BUY	3137HDXL9	Fannie Mae Notes	59	4.30%	1,120,000
9/4/2024	9/5/2024	SELL	3130AJHU6	Federal Home Loan Bank	7	5.03%	120,000
9/4/2024	9/5/2024	SELL	3135G03U5	Fannie Mae Notes	8	4.70%	750,000
9/4/2024	9/5/2024	SELL	3135G03U5	Fannie Mae Notes	8	4.70%	275,000
9/4/2024	9/5/2024	SELL	3135G03U5	Fannie Mae Notes	8	4.70%	320,000
9/4/2024	9/5/2024	BUY	91282CLK5	U.S. Treasury Notes	61	3.58%	1,450,000
9/4/2024	9/12/2024	BUY	3137HFNZ4	Fannie Mae Notes	58	4.02%	440,000
9/11/2024	9/12/2024	SELL	3135G03U5	Fannie Mae Notes	7	4.70%	200,000

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 September 30, 2024, was heavily weighted towards the California Asset Management Program (CAMP) and high-

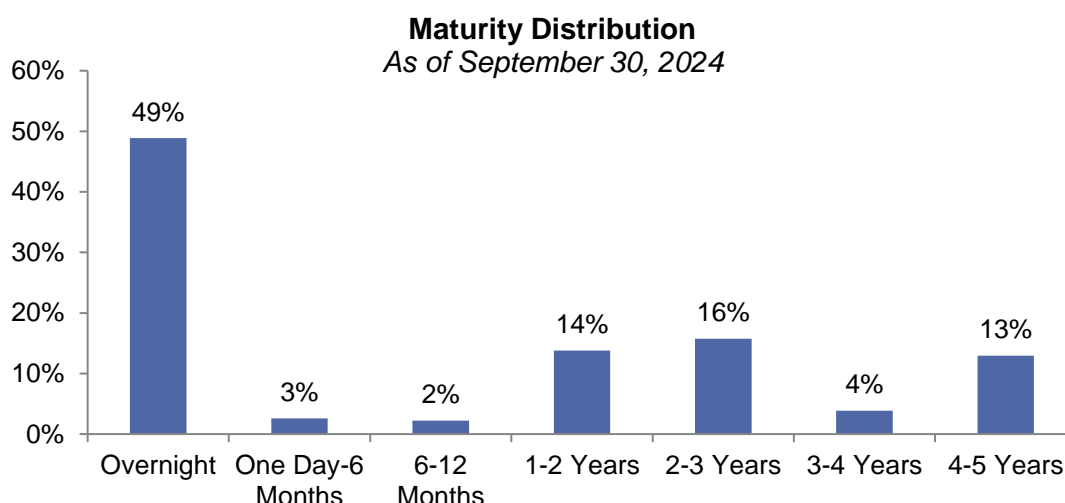
quality (AA+ rated) federal agency and U.S. Treasury securities to maintain the focus on safety and liquidity.



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 Standard & Poor's but are rated in the category of A or better by Moody's and/or Fitch.

As of September 30, 2024, 49% of the City's funds were invested in very short-term liquid investments; 19% of the funds were invested with maturities between one day and two years; and 33% of the investment portfolio had a maturity ranging from two to five years. This distribution gives the City the necessary 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 1.18 years and currently generate an annual income of 4.04% 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.



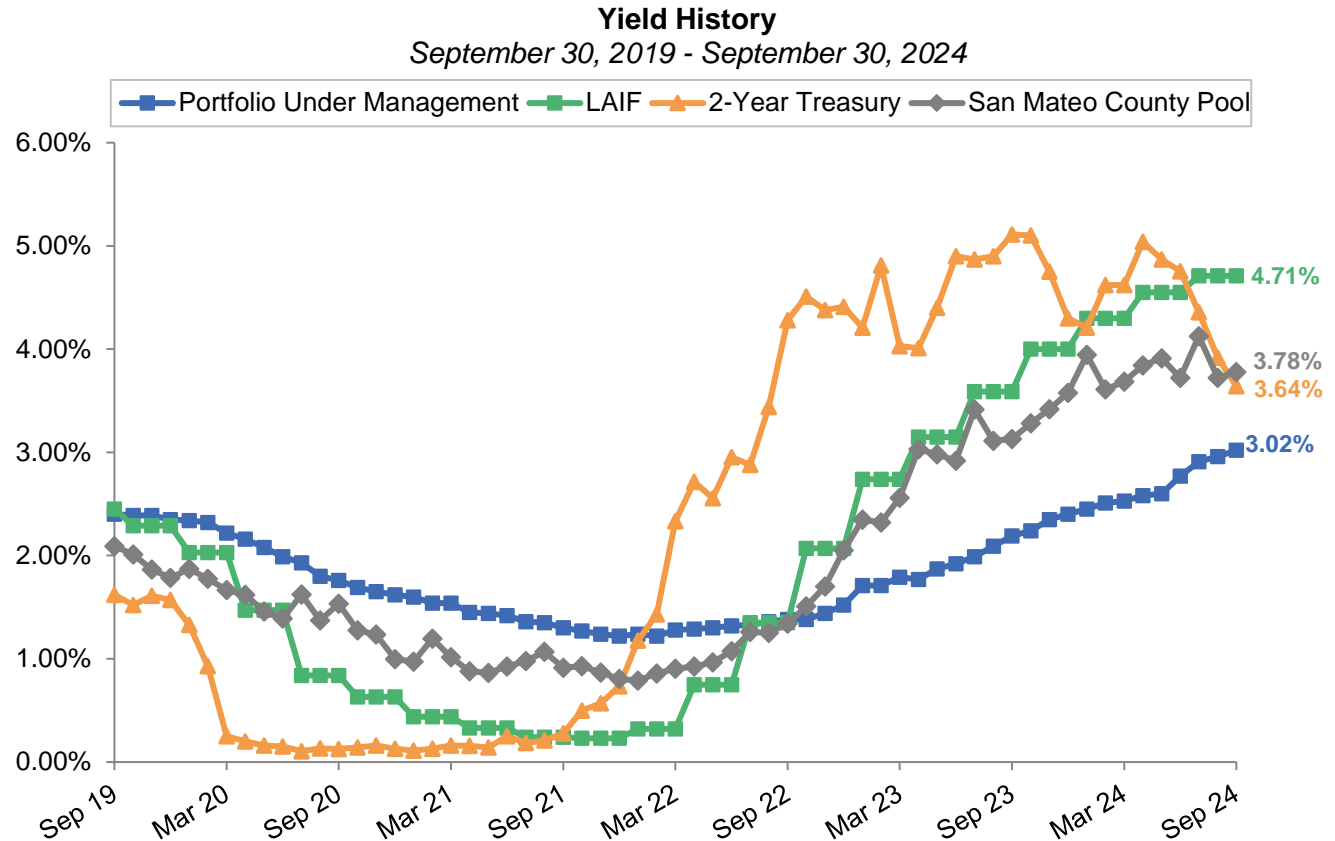
As of September 30, 2024, the yield to maturity at cost on the main portfolio of securities was 3.02%. Including additional investments such as LAIF and CAMP, the average yield to maturity** on the City's aggregate investments was 4.04%. During the quarter, the main portfolio generated accrual basis earnings of \$688,723.

City's Investments Statistical Information	
Market Value	\$251,049,556
Effective Duration	1.18 Years
Average Credit Quality*	AA
Yield to Maturity**	4.04%

*Ratings by Standard & Poor's. Average excludes 'Not Rated' securities.

**Calculated as a weighted average of the main portfolio's yield at cost as of 9/30/24, the LAIF quarterly apportionment rate for the quarter ended 9/30/24, and CAMP's monthly distribution yield as of 9/30/24.

The chart on the following page compares the yield of the City's managed portfolio to the yields on the two-year U.S. Treasury note, LAIF, and the San Mateo County Pool. As of September 30, 2024, the gross yield at cost on the City's managed portfolio was 3.02%; net of PFMAM's investment advisory fees, the yield at cost on the City's managed portfolio was 2.94%.



Below is a summary of cash and investment holdings held by each fund as of September 30, 2024, 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 09/30/2024	As of 06/30/2024	Change \$
General Fund	\$ 28,594,428	\$ 37,330,212	\$ (8,735,784)
Capital Project Funds	55,337,341	57,813,185	(2,475,845)
Internal Service Funds	28,084,947	28,912,042	(827,095)
Water Fund	23,859,514	23,378,897	480,617
Sewer Fund	30,890,640	28,820,380	2,070,260
Solid Waste Fund	3,476,992	3,717,496	(240,504)
Parking Fund	12,817,559	12,496,500	321,058
Building Fund	28,091,966	27,769,063	322,904
Landfill Fund	4,542,348	4,526,751	15,596
Debt Service Fund	(451,634)	607,219	(1,058,854)
Subtotal, Operating Funds	215,244,099	225,371,746	(10,127,646)
Other Funds	43,362,102	42,169,184	1,192,918
Total Cash and Investments	\$ 258,606,202	\$ 267,540,930	\$ (8,934,728)

A decrease in cash holdings in the General Fund is typical for the first quarter of the fiscal year. The reduced balance reflects the \$9.5 million lump-sum payment to CalPERS for the unfunded accrued liability (UAL) for pensions for the 2024-25 fiscal year, which included the City's share of the Central County Fire Department UAL contribution of nearly \$2.1 million. Coupled with unanticipated VLF revenue disbursement and improved Business Licenses tax and Transient Occupancy tax receipts, net cash holdings in the General Fund decreased by about \$8.7 million.

An approximately \$2.5 million decrease in Capital Project Funds reflects a few factors, most notably \$1.3 million for the 2024 Annual Street Resurfacing project, \$0.5 million for the Cuernavaca Field Renovation & ADA project, \$0.7 million for the Mills Canyon Landslide Repairs project, and over \$0.3 million for the Town Square project.

The Sewer Fund had increases of \$2.0 million in the quarter, which reflect regular cash flow with no large payment for capital projects. The Debt Service Fund holdings decreased by nearly \$1.1 million due to annual debt service (principal and interest) payments for 2006 Pension Obligation bonds.

Other major receipts included the receipt of Gas Tax and SB1 revenue of \$238,000 and Measure A and Measure W receipts (combined total of \$215,000), all reflected as an increase in "Other Funds." A total collection of \$440,000 for the Bayfront Development Impact Fee and State Grant is another main contributor to the increase of the Other Funds category.

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 trust account is invested in a less aggressive strategy (Strategy 2) available with the California Employers' Retiree Benefit Trust (CERBT) Fund. The net return for the portfolio for the quarter ending September 30, 2024, was 7.8%; the balance in the City's CERBT account was about \$33.7 million. The attached September 2024 statement for the PARS §115 Trust account for funding the City's pension liabilities, established in October 2017, shows a rate of return of 5.52% for the quarter, with a balance of \$25.5 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 September 30, 2024
- CERBT Strategy 2 Fund Facts for September 30, 2024
- CERBT Quarterly Statement for September 30, 2024
- PARS Monthly Statement for September 30, 2024