



STAFF REPORT

AGENDA NO: 9k

MEETING DATE: May 19, 2025

To: Honorable Mayor and City Council

Date: May 19, 2025

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

**Subject: Consideration and Approval of the Quarterly Investment Report, Period
Ending March 31, 2025**

RECOMMENDATION

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

BACKGROUND

This report represents the City's investment portfolio as of March 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 Council last approved the Policy on June 3, 2024. The Policy directs that investment objectives, in order of priority, are safety, liquidity, and return. This conservative approach ensures that assets are available for use while allowing the City to earn additional resources from idle funds. The City utilizes a core portfolio of investments managed by the City's investment advisor, PFM Asset Management, a U.S. Bancorp Asset Management, Inc. (PFMAM) division. Also, it 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 first calendar quarter, U.S. economic conditions were characterized by: (1) a labor market that continues to serve as a backbone; (2) goods inflation that slowed down on progress towards the Fed's 2% inflation target; and (3) fiscal policy uncertainty and volatile tariff rollouts that weighed on consumer sentiment.

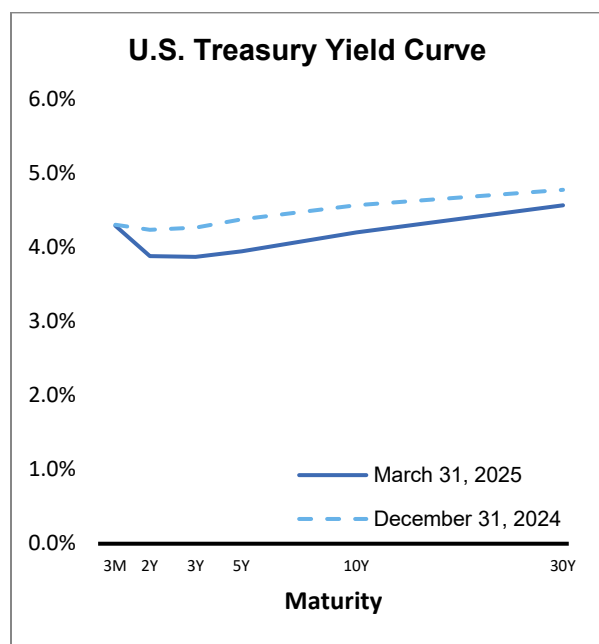
The second quarter of 2025 was turbulent as markets reacted to the April 2nd announcement of tariffs on so-called "Liberation Day." The levies, which were significantly more punitive than

originally anticipated, include a flat 10% tariff on all imports and more focused tariffs on specific countries with which the U.S. runs trade deficits.

Several major Wall Street firms reacted to the tariffs by lowering growth forecasts and increasing inflation expectations for 2025. Equity prices declined nearly 10%, and the yield on the 5-year U.S. Treasury fell over 25 basis points (bps) over the two days following the announcement.

At the Federal Open Market Committee (FOMC) meeting several weeks earlier, the Federal Reserve (Fed) held the target range for the federal funds rate steady at 4.25% to 4.50%. The Fed's "dot plot" continued to show a total of 50 bps of rate cuts over the balance of 2025 while its Summary of Economic Projections showed worse outlooks for GDP and PCE Inflation.

The U.S. Treasury yields between six months and seven years declined during March, led lower by deteriorating growth expectations over the intermediate term. Meanwhile, the yield on the 10-year U.S. Treasury was essentially unchanged. In early April, yields fell significantly across the curve in response to tariff news.



Yield Curve History			
Maturity	3/31/2025	12/31/2024	Change
3 Mo.	4.29%	4.31%	-0.02%
6 Mo.	4.22%	4.27%	-0.05%
1 Yr.	4.02%	4.14%	-0.12%
2 Yr.	3.88%	4.24%	-0.36%
3 Yr.	3.87%	4.27%	-0.40%
5 Yr.	3.95%	4.38%	-0.43%
10 Yr.	4.21%	4.57%	-0.36%
30 Yr.	4.57%	4.78%	-0.21%

The City's cash, excluding bond proceeds, is pooled for investment purposes. As of March 31, 2025, invested funds totaled \$265,714,118. 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 March 31, 2025	
Main Investment Portfolio	\$130,416,793.59
Main Investment Portfolio - Cash Balance in Custody Account	\$74,386.37
CAMP Balance	\$106,931,403.15
LAIF Balance	\$28,291,535.36
Total	\$265,714,118.47

At the end of the quarter, the main portfolio's duration was 2.29 years, shorter than the benchmark's 2.48 years. Factoring in liquid investments, such as LAIF and CAMP, the effective duration of the City's aggregate investments was 1.13 years.

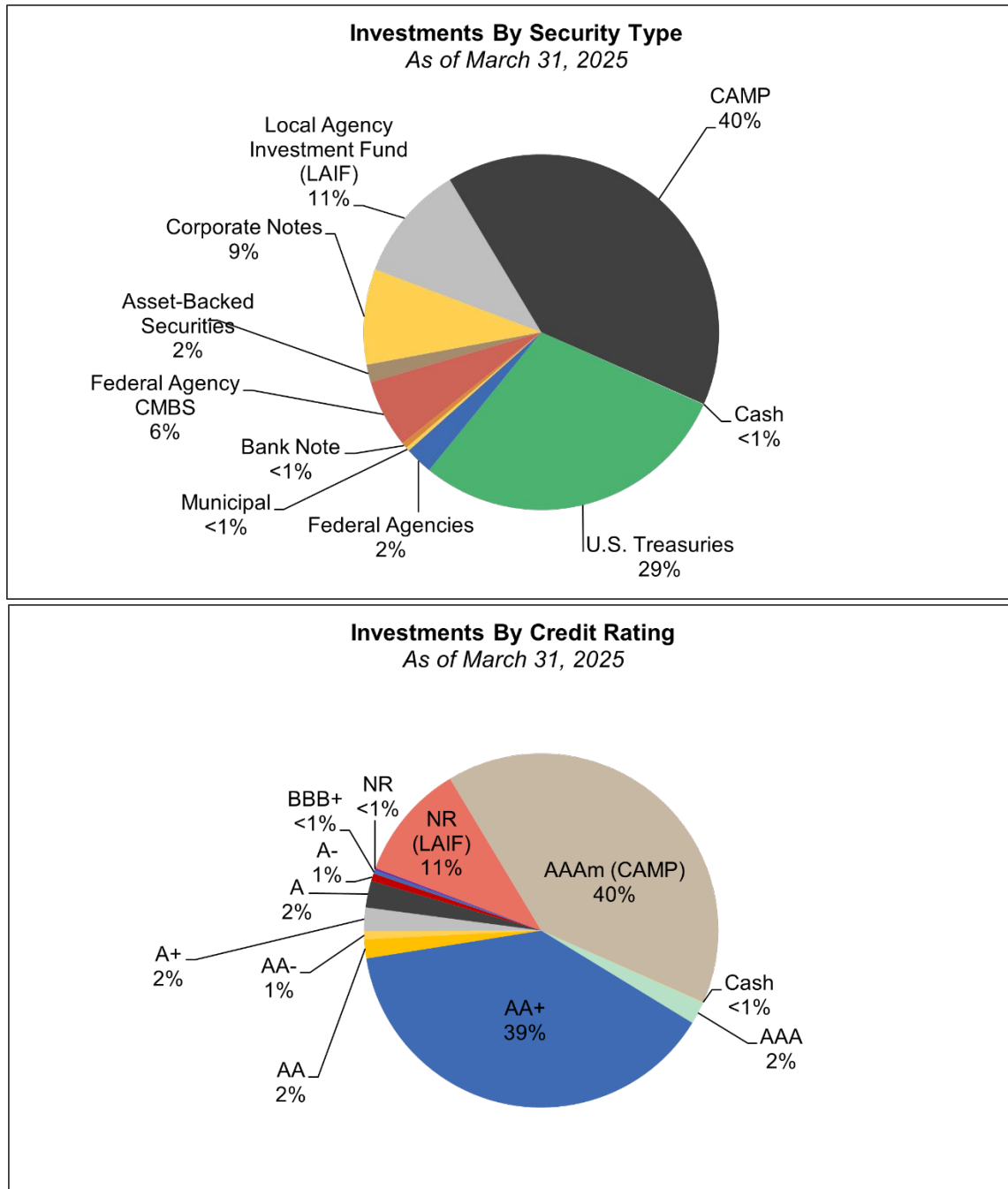
The City continues to benefit from a strategy of broad diversification, which reduces the overall risk in the portfolio while providing the opportunity for better returns over the long term, and active portfolio management, which seeks to add value by identifying well-priced securities across various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

Please see a summary of transactions for the quarter ending March 31, 2025, below:

Trade Date	Settlement Date	Transaction	CUSIP	Issuer	Term (Mths)	Yield	Principal
1/8/2025	1/9/2025	SELL	3137EAEX3	Federal Home Loan Mortgage Corp	9	4.30%	475,000
1/7/2025	1/16/2025	BUY	3137HHW23	Federal Home Loan Mortgage Corp	59	4.82%	760,000
1/24/2025	1/27/2025	SELL	3137EAEX3	Federal Home Loan Mortgage Corp	8	4.33%	615,000
1/23/2025	1/30/2025	BUY	3137HJ5Y9	Federal Home Loan Mortgage Corp	58	4.78%	635,000
2/5/2025	2/6/2025	SELL	91282CAM3	U.S. Treasury Notes	8	4.30%	875,000
2/4/2025	2/13/2025	BUY	3137HJDN4	Federal Home Loan Mortgage Corp	57	4.68%	1,300,000
3/12/2025	3/13/2025	BUY	46647PEU6	JP Morgan Chase & Co	47	4.75%	1,585,000
3/28/2025	3/31/2025	BUY	91282CMU2	U.S. Treasury Notes	61	4.00%	1,350,000

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.

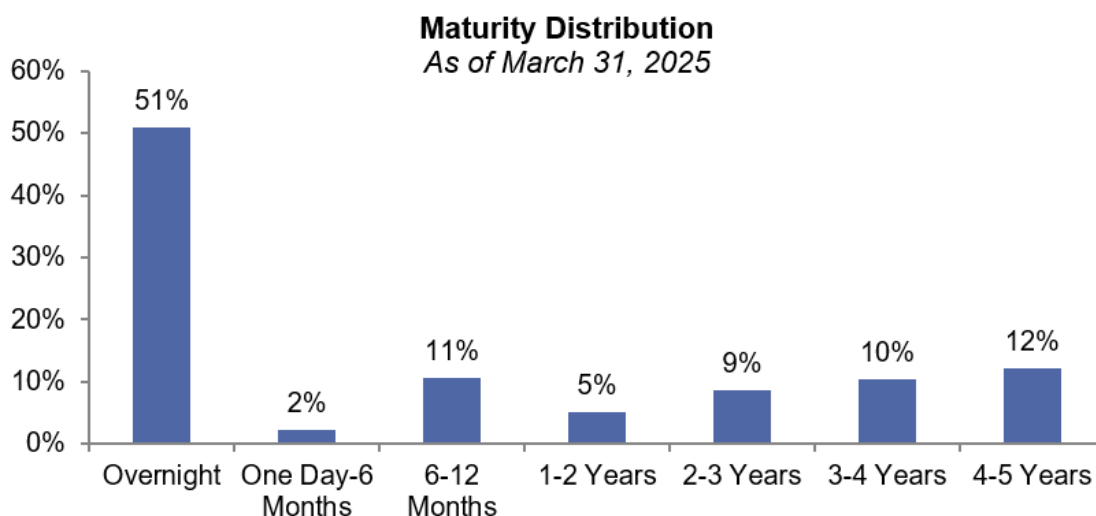
As noted in the following pie charts, the City's aggregate investment portfolio, as of March 31, 2025, was heavily weighted towards the California Asset Management Program (CAMP) and high-quality (AA+ rated) federal agency and U.S. Treasury securities to maintain the focus on safety and liquidity.



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 S&P Global but are rated in the category of A or better by Moody’s and/or Fitch.

As of March 31, 2025, 51% of the City’s funds were invested in very short-term liquid investments; 18% of the funds were invested with maturity between one day and two years; and 31% 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 immediately needed. The City’s aggregate investments maintain an effective duration of 1.13 years and currently generate an annual income of 3.91% 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 March 31, 2025, the yield to maturity at cost on the main portfolio of securities was 3.33%. Including additional investments such as LAIF and CAMP, the average yield to maturity** on the City’s aggregate investments was 3.91%. During the quarter, the main portfolio generated accrual basis earnings of \$1,018,520.

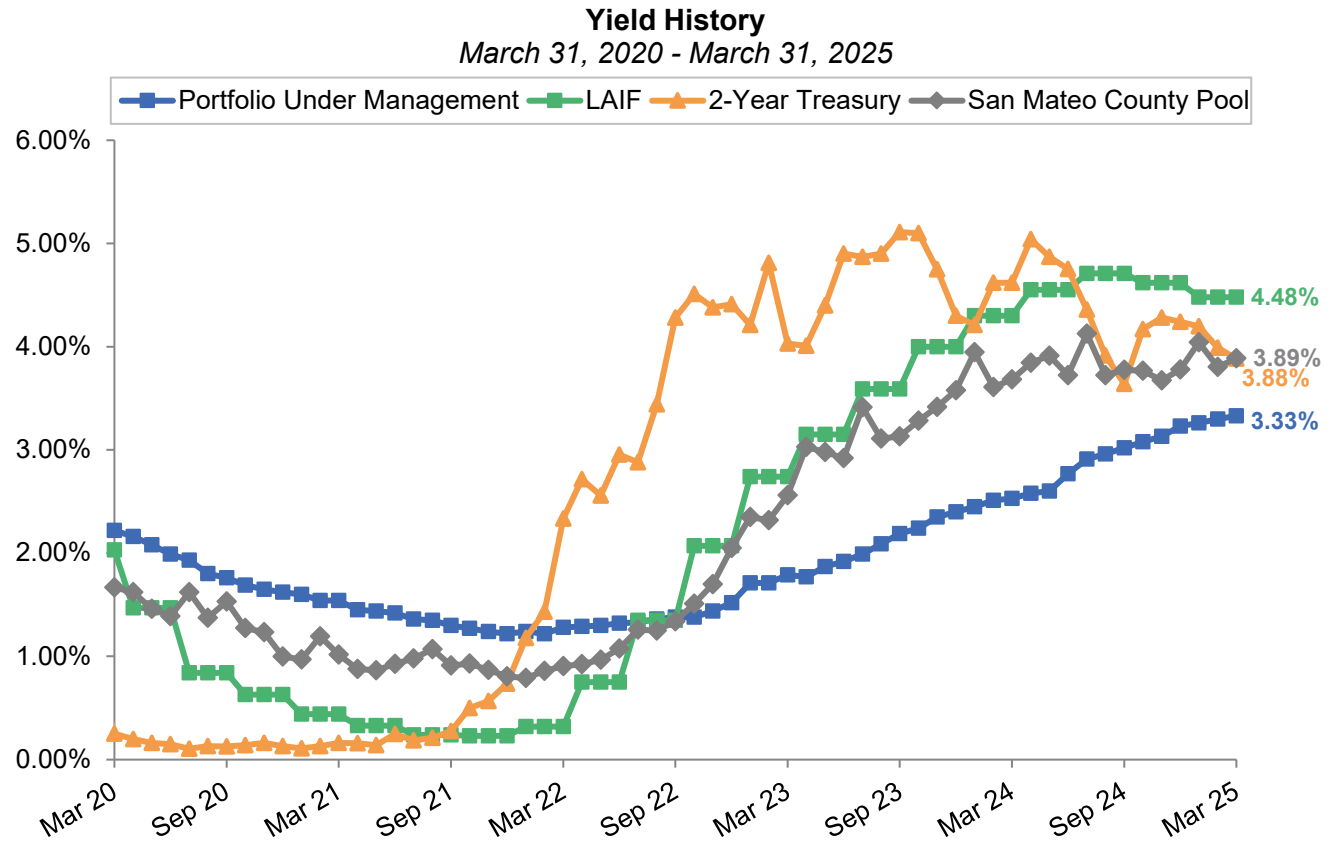
City's Investments Statistical Information	
Market Value	\$265,714,118
Effective Duration	1.13 Years
Average Credit Quality*	AA+
Yield to Maturity**	3.91%

*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 3/31/25, the LAIF quarterly apportionment rate for the quarter ended 3/31/25, and CAMP’s monthly distribution yield as of 3/31/25.

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 March 31, 2025, the

gross yield at cost on the City's managed portfolio was 3.33%; net of PFMAM's investment advisory fees, the yield at cost on the City's managed portfolio was 3.25%.



Below is a summary of cash and investment holdings held by each fund as of March 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 03/31/2025	As of 12/31/2024	Change \$
General Fund	\$ 30,346,720	\$ 28,881,300	\$ 1,465,420
Capital Project Funds	64,920,258	66,853,508	(1,933,251)
Internal Service Funds	32,057,933	30,472,991	1,584,942
Water Fund	19,936,420	21,393,577	(1,457,157)
Sewer Fund	31,946,441	31,464,277	482,165
Solid Waste Fund	3,369,192	3,411,990	(42,798)
Parking Fund	12,679,200	12,387,921	291,278
Building Fund	28,332,451	28,235,099	97,352
Landfill Fund	4,688,036	4,663,083	24,953
Debt Service Fund	4,402,009	4,344,877	57,132
Subtotal, Operating Funds	232,678,660	232,108,624	570,036
Other Funds	39,910,633	38,692,954	1,217,678
Total Cash and Investments	\$ 272,589,293	\$ 270,801,578	\$ 1,787,715

Cash holdings in the General Fund increased by nearly \$1.5 million in the quarter. This is mainly due to the receipt of \$5.1 million in property tax revenue, nearly \$4.1 million in sales taxes and Measure I revenue, and over \$4.4 million in TOT revenue. The receipts were primarily offset by regular operating expenses, the quarterly payments to Central County Fire (\$3.5 million), and transfers to the capital project fund for the initial cost of the new City Hall project (0.8 million).

The approximately \$1.9 million net decrease in Capital Project Funds reflects several factors, including transfers from the General Fund (\$0.8 million), receipt of \$0.8 million from federal grant reimbursement, and transfers from the Debt Services Fund (\$0.5 million). There was a decrease of \$3.5 million for large construction progress payments in the quarter, most notably \$0.4 million for the Laguna Playgrounds project, \$1.3 million for the Town Square project, and \$0.8 million for the initial cost of the new City Hall project.

The Internal Services Funds' cash holdings increased by about \$1.6 million in the quarter, mainly due to ongoing quarterly contributions from all funds, with no anticipated expenses incurred. The Water Fund decreased by nearly \$1.5 million, reflecting regular cash flow; payments for the 2011, 2013, and 2016 Water Bonds; and capital spending for the North Burlingame Park Subdivision – South El Camino Real Water Main Rehabilitation Phase 4 project.

Other major receipts included \$461,000 in Storm Drain Fees, \$423,000 in Gas Tax, and \$331,000 in Measure A and Measure W receipts (a combined total), all of which were reflected as an increase in "Other Funds."

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 March 31, 2025, was 1.3%; the balance in the City's CERBT account was about \$32.8 million. The attached March 2025 statement for the PARS §115 Trust account for funding the City's pension liabilities, established in October 2017, shows a rate of return of 0.34% for the quarter, with a balance of \$25.2 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 to 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, the ability to meet the City's investment goals, and the ability to respond to changes in market conditions.

FISCAL IMPACT

Quarterly reporting of the City's Investment Portfolio will not directly impact City resources.

Exhibits:

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