



**Town of Paradise
Council Agenda Summary
Date: May 14, 2019**

Agenda Item: 2(g)

Originated by: Gina S. Will, Administrative Services Director/Town Treasurer
Reviewed by: Lauren Gill, Town Manager
Subject: Quarterly Investment Report

Council Action Requested:

Review and file the 1st and 2nd Quarter Investment Report for the Fiscal Year Ending June 30, 2019.

Alternatives:

Give alternative direction for investment or reporting.

Background:

Attached are reports on the Town's cash and investments for the quarters ended September 30, 2018 and December 31, 2018.

A US Bank checking account is currently being used for payroll, accounts payable and other operating purposes. Most accounts payable disbursements are drawn through checks, and most payroll disbursements are processed through direct deposit. Deposits are fully collateralized and after reserve requirements, provide an earnings credit rate of 0.50% up to the amount of monthly fees.

The Town received a \$5 million cash advance from CalOES in December 2018 for projects and restoration that will be funded through FEMA's public assistance grant program. Those funds are required to be held in a non-interest bearing account. A US Bank non-interest bearing checking account was established to track those funds.

The Town uses the State of California managed Local Agency Investment Fund (LAIF) for investment of cash in excess of immediately needed operating capital. With same day liquidity and comparable yields, LAIF is currently the best investment option for the Town. Funds can be transferred electronically through computer authorization between LAIF and the Town checking account. The Town will continue to research other investment options that match LAIF's liquidity and security in order to improve investment yield.

In June of 2011, the Town established an irrevocable trust to begin funding the future obligations associated with retiree health as required by GASB 45. The funds are being managed by Self-Insured Schools of California (SISC) and can only be used for the payment of retiree health benefits.

The Town establishes escrow funds at the start of each new lease. The escrow fund is drawn down to zero through the process of purchasing equipment against the lease. Interest is accrued on any unspent escrow balance. The "other" investment type represents these available escrow funds as well as petty cash balances. As of September 30 and December 31, 2018, there were no available escrow funds.

Discussion

There was a \$227,238 increase in investment balance as of September 30, 2018 as compared to September 30, 2017. However, average investment balances for the 1st quarter was opposite, as the 1st quarter 2017 had \$329,753 more in average cash balances compared to 1st quarter 2018.

With the cash advance from CalOES, there was a \$4,764,839 increase in investment balance as of December 31, 2018 as compared to December 31, 2017. Because the advance was not received until December 2018, the year over year comparison of average investment balances for the 2nd quarter is less dramatic with an increase of \$1,605,510.

With the State advance and a \$1.5 million advance from the insurance carrier against the insurance claim, the Town has sufficient cash flow to avoid the issuance of a TRAN for the 2018/19 fiscal year. However, staff is carefully monitoring cash balances of major funds as certain funds are restricted from “loaning” cash to other funds. For example of the \$8.4 million in cash balances as of December 31, 2018, \$1.3 million is restricted for Business and Housing purposes.

The GASB 45 trust investment managed by SISC experienced a 3.01% gain on investment during the 1st quarter of 2018/19, but a 10.73% decrease during the 2nd quarter of 2018/19. A strong performance in 2017 has been followed with some extreme volatility in 2018. The investment manager reports, “The market environment in 2018 was one of the most challenging years for stock market investors. Unusually, bonds and some alternative investments fared poorly at the same time, which meant traditional asset allocation failed to balance out the losses with some gains. Looking ahead to 2019, while many of the concerns around growth and financial conditions that affected markets in 2018 remain, the risks now appear to be much better reflected in prices...Overall, we expect 2019 to be a better year than 2018.” Long term, SISC has been successful with its allocation model of approximately 60% equity and 40% fixed income.

The Town Treasurer has directed the Trustee, Wells Fargo Bank, to invest the reserve funds of the Paradise RDA Bond 2009 and 2016 and the Pension Obligation Bond in accordance with the Town’s investment policy. The reserve funds had been yielding less than 0.01% in mutual funds. The reserve funds are now invested in CD’s and a Treasury Note that will yield between 1.70% to 2.31% over a one-year period. While these investments and balances are not part of the Town’s idle or operating cash, the yield will ultimately lessen the amount the Town will be required to contribute in future debt service payments.

Fiscal Impact Analysis:

Isolating the gain from the GASB 45 trust, the Town earned \$6,980.14 for the quarter ended September 30, 2018. That is compared to \$3,831.08 for the quarter ended September 30, 2017. Again, isolating the GASB 45 return, over 74 basis points more in average yield was realized compared to the prior year, and about \$329,753 less in average balances were invested.

Isolating the loss from the GASB 45 trust for the 2nd quarter, the Town earned \$8,162.22 for the quarter ended December 31, 2018. That is compared to \$9,670.34 for the quarter ended December 31, 2017. Again, isolating the GASB 45 return, and with the non-interest bearing account, 31 basis point less in average yield was realized compared to the prior year, and about \$1,605,510 more in average balances were invested.

For the fiscal year 2018/19 through December 31, 2018, without the GASB 45 trust, the town earned \$14,339.20. For fiscal year 2017/18 through December 31, 2017, the town earned \$13,501.42.