



**Town of Paradise
Council Agenda Summary
Date: April 11, 2017**

Agenda Item: 2

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 2nd Quarter Investment Report for the Fiscal Year Ending June 30, 2017;
or,

Alternatives:

Give alternative direction for investment or reporting.

Background:

Attached is a report on the Town's cash and investments for the quarter ended December 31, 2016.

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 0.22% up to the amount of monthly fees.

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 are able to 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 December 31, 2016, there were no available escrow funds.

Discussion

The \$1.01 million decreased investment balance as of December 31, 2016 as compared to December 31, 2015 is a result of having borrowed \$250,000 less in a Tax Revenue Anticipation Note (TRAN). The Town is replacing depleted reserves with the goal of reducing and eliminating the need to borrow cash for operations. Last fiscal year the Town needed a \$2.5 million TRAN which was funded September 18, 2015. This fiscal year the Town funded a TRAN of \$2.25 million as of October 19, 2016. In addition, there are some timing differences in the collection of receipts and the disbursements of payables. It is the measurement of cash investments at June 30th that is a better indication of cash flow improvements or challenges.

The GASB 45 trust investment managed by SISC experienced a 0.09% return on investment during the 1st quarter of 2016/17. The economy is improving; however, the markets are volatile and interest rates remain historically low. 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 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 which will yield between 0.60% and 0.70% 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 \$4,541.39 for the quarter ended December 31, 2016. That is compared to \$4,077.66 for the quarter ended December 31, 2015. Again, isolating the GASB 45 return, over 12 basis points more in average yield was realized compared to a year ago (LAIF interests rates have improved over 31 basis points compared to a year ago), but had about \$1.4 million less average balances invested. The Town earned \$6,678.08 this fiscal year to date as compared to \$7,540.57 last fiscal year to date.