Agenda Report

MEETING DATE: Tuesday, March 22, 2022

TO: City Council

FROM: ADMINISTRATIVE SERVICES DIRECTOR CZERWIN
MARISSA DURAN, ASSISTANT FINANCE DIRECTOR

SUBJECT: MOTION TO ACCEPT OCTOBER 2021 THROUGH DECEMBER 2021 INVESTMENT REPORT

STATEMENT OF ISSUES:
The City Council is asked to accept the quarterly Investment Report.

RECOMMENDED ACTION:
It is recommended that Council accept the Investment Report for the period of October 2021 through December 2021 by motion.

DISCUSSION:
The City's idle funds are invested to earn a competitive yield and to accommodate the City's need for liquidity. Investments of idle funds are only made in investment types/instruments approved by the Council. Every year in January, the Council re-adopts the City's Investment Policy. As shown on Table 1 below, the City's Investment Portfolio in December 2021 was 104.6 million dollars. Our current holdings include: City Investments, Street Assessments, LAIF and CAMP.

The City has added a new Investment Instrument to its portfolio: the California Asset Management Program (CAMP). This Program has been around since 1989 and has been serving the investment needs of public agencies. CAMP is a pool, which is a short-term cash reserve portfolio and cash management vehicle. The investment is AAA rated by Standard & Poor's. They offer same-day liquidity, competitive yield, and monthly interest payments and zero out of pocket expenses. The City's current investment in CAMP is in the amount of $29.8 million dollars.

The City has used LAIF (Local Agency Investment Fund) as a primary benchmark for the last several years. LAIF is a good benchmark for the City as the average days to maturity of its investments is similar to the City's investment maturity. Currently we are a little below LAIF earnings rates as interest rates are very strained.

PORTFOLIO RESULTS:
The results from the last several months are shown below on Table 1.

Table I

	October	November	December
Cash Invested ($MM)	94.1	96.6	104.6
City's Average Maturity (Days)	24.2	23.0	20.8
City's Average Yield	0.22%	0.21%	0.21%
LAIF Yield	0.21%	0.21%	0.21%
LAIF Cash Invested ($MM)	73.2	73.2	73.2

THE ECONOMY:
Weaker than expected growth and higher than expected inflation have dented some of the optimism surrounding the global economic recovery. Over the course of 2022, however, we expect uncertainties with regard to the COVID-19 pandemic, supply chain imbalances and labor shortages to diminish, allowing the economy to enter a stable growth phase through 2023. Strong household spending, inventory restocking and growth in capital spending will support economic activity globally. Our baseline forecasts reflect our view that the current mismatch between supply and demand should improve in the coming quarters, allowing inflation to slow.

Recovering economies will have less need for accommodative policy. Over the next two years, the focus of fiscal policy will shift from stabilization goals to the strengthening of long-term growth potential and debt sustainability. Monetary and financial conditions will tighten as central banks adopt a neutral stance as they look to remove pandemic-era liquidity and interest rate support. If the tightening is gradual and well communicated – thus, avoiding financial market surprises – we do not expect it to derail growth. New COVID-19 outbreaks, continued supply chain logjams and sustained, elevated inflation pose risks. The pandemic remains a source of high forecast uncertainty. Another risk to the economic outlook is the continuation of existing supply chain disruptions, persistent labor market shortages and resulting supply side inflation pressures. Elevated inflation also has the potential to erode household purchasing power over time if wage growth does not keep up. The threat of accelerating inflation could spur central banks to raise interest rates faster and earlier than we expect. The exit from the pandemic will likely be bumpy and unpredictable, as shown by the emergence of the more contagious Delta variant. The virus situation therefore remains a source of high forecast uncertainty.

FINANCIAL IMPACT:
As inflationary pressures persist, the economy broadly strengthens and the labor market tightens, we expect the Committee to continue tightening monetary policy throughout 2023. Financial markets are also adjusting to a more hawkish pivot from the Committee as well.

ATTACHMENTS AND/OR REFERENCES (If any):

1) October through December 2021 Investment Portfolio