



CITY OF SANTA BARBARA

COUNCIL AGENDA REPORT

AGENDA DATE: October 27, 2020

TO: Mayor and Councilmembers

FROM: Treasury Division, Finance Department

SUBJECT: September 30, 2020, Investment Report And September 30, 2020, Fiscal Agent Report

RECOMMENDATION: That Council:

- A. Accept the September 30, 2020, Investment Report; and
- B. Accept the September 30, 2020 Fiscal Agent Report.

DISCUSSION:

On a quarterly basis, staff submits a comprehensive report on the City's portfolio and related activity pursuant to the City's Annual Statement of Investment Policy. The current report covers investment activity for the three-month period of July through September 2020.

U.S. Treasury Market					
	6/30/2020	7/31/2020	8/31/2020	9/30/2020	Cumulative Change
3 Month	0.16%	0.09%	0.11%	0.10%	-0.06%
6 Month	0.18%	0.10%	0.13%	0.11%	-0.07%
1 Year	0.16%	0.11%	0.12%	0.12%	-0.04%
2 Year	0.16%	0.11%	0.14%	0.13%	-0.03%
3 Year	0.18%	0.11%	0.15%	0.16%	-0.02%
4 Year	0.24%	0.16%	0.22%	0.22%	-0.02%
5 Year	0.29%	0.21%	0.28%	0.28%	-0.01%
10 Year	0.66%	0.55%	0.72%	0.69%	0.03%
30 Year	1.41%	1.20%	1.49%	1.23%	-0.18%
LAIF	1.47%	0.84%	0.84%	0.84%	-0.63%

By the end of the quarter, Treasury yields were lower across the board, except the one with maturity of ten years. As shown in the table above, the change in Treasury yields reflects a dynamic change across the yield curve ranging between -1 and +3 basis points ("bps").

The City generally invests in securities of one to five years in duration. Within this duration, interest rates ranged from 0.12 percent to 0.28 percent for Treasury securities at the end of the quarter. In its effort to sustain the economic recovery and reduce the risk of further deterioration of financial conditions during the COVID-19 pandemic, the Federal Reserve

(“Fed”) kept interest rates unchanged, with the federal funds rate, which in turn influences Treasury yields, anchored to a range of 0 percent to 0.25 percent (effectively zero). In the current interest rate environment the City interest earnings are forecast to slightly decelerate in the near term, as some of the existing securities mature and are replaced with lower-yielding securities, and other securities will likely be called as bond issuers secure lower interest rates.

Investment Activity

Issuer	Face Amount	Purchase Date	Final Maturity	Call Date	Yield To Call	Yield To Maturity
Purchases:						
FNMA	\$ 3,000,000	08/17/20	08/17/23	02/17/22	0.310%	0.310%
FAMCA	3,000,000	08/19/20	08/19/22	11/19/20	0.250%	0.250%
FNMA	4,000,000	08/26/20	08/26/25	08/26/22	0.600%	0.600%
FHLMC	3,000,000	08/27/20	12/09/24	12/09/21	0.500%	0.500%
Tot Purchases	\$ 13,000,000					
Calls:						
FHLMC	\$ 2,000,000	10/22/19	07/28/22	07/28/20	1.750%	1.750%
FHLB	2,000,000	02/14/20	08/14/23	08/14/20	1.700%	1.700%
FHLMC	3,000,000	02/27/20	02/27/25	08/27/20	1.700%	1.700%
FHLB	2,000,000	10/04/18	09/28/23	09/28/20	3.265%	3.227%
FHLMC	2,000,000	09/30/19	09/30/24	09/30/20	2.000%	2.000%
	\$ 11,000,000					
Sales/Maturities:						
USTN	\$ 2,000,000	02/01/17	08/31/20	n/a	n/a	1.609%
DCVRB	\$ 250,000	09/30/15	09/30/20	n/a	n/a	2.300%
COBNA	\$ 250,000	09/30/15	09/30/20	n/a	n/a	2.250%
AMXCNT	\$ 250,000	09/30/15	09/30/20	n/a	n/a	2.250%
BMWBNA	250,000	09/30/15	09/30/20	n/a	n/a	2.200%
	\$ 3,000,000					
Tot Sales/Calls/Mat	\$ 14,000,000					

As shown in the Investment Activity table above, the City invested \$13 million in AAA-rated federal agency securities during the quarter. The overall redemptions amounted to \$14 million.

Summary of Cash and Investments

The book rate of return, or portfolio yield, measures the rate of return of actual earnings generated from the portfolio. As shown in the table to the right, during the quarter the City’s book rate of return decreased by 21 basis points from 1.441 percent at June 30, 2020 to 1.233 percent at September 30, 2020.

Mo. Ended	Yield	Days to Maturity
6/30/2020	1.441%	412
7/31/2020	1.502%	468
8/31/2020	1.328%	446
9/30/2020	1.233%	425

In the first quarter of the current fiscal year the City’s realized interest earnings amounted to \$719,919. The portfolio’s average days to maturity increased by 13 days from 412 to 425 days, reflecting reinvestment of maturities and calls during the quarter in the one-to-five year range in accordance with the City’s Annual Statement of Investment Policy. The Annual Statement of Investment Policy requires that the average days to maturity on the portfolio not exceed 2.5 years, excluding any investments with a final maturity longer than five years that were separately authorized by Council. The average LAIF rate at which the City earned interest for funds invested was at 0.84 percent for the quarter ended September 30, 2020, a decrease of 63 basis points from the previous quarter.

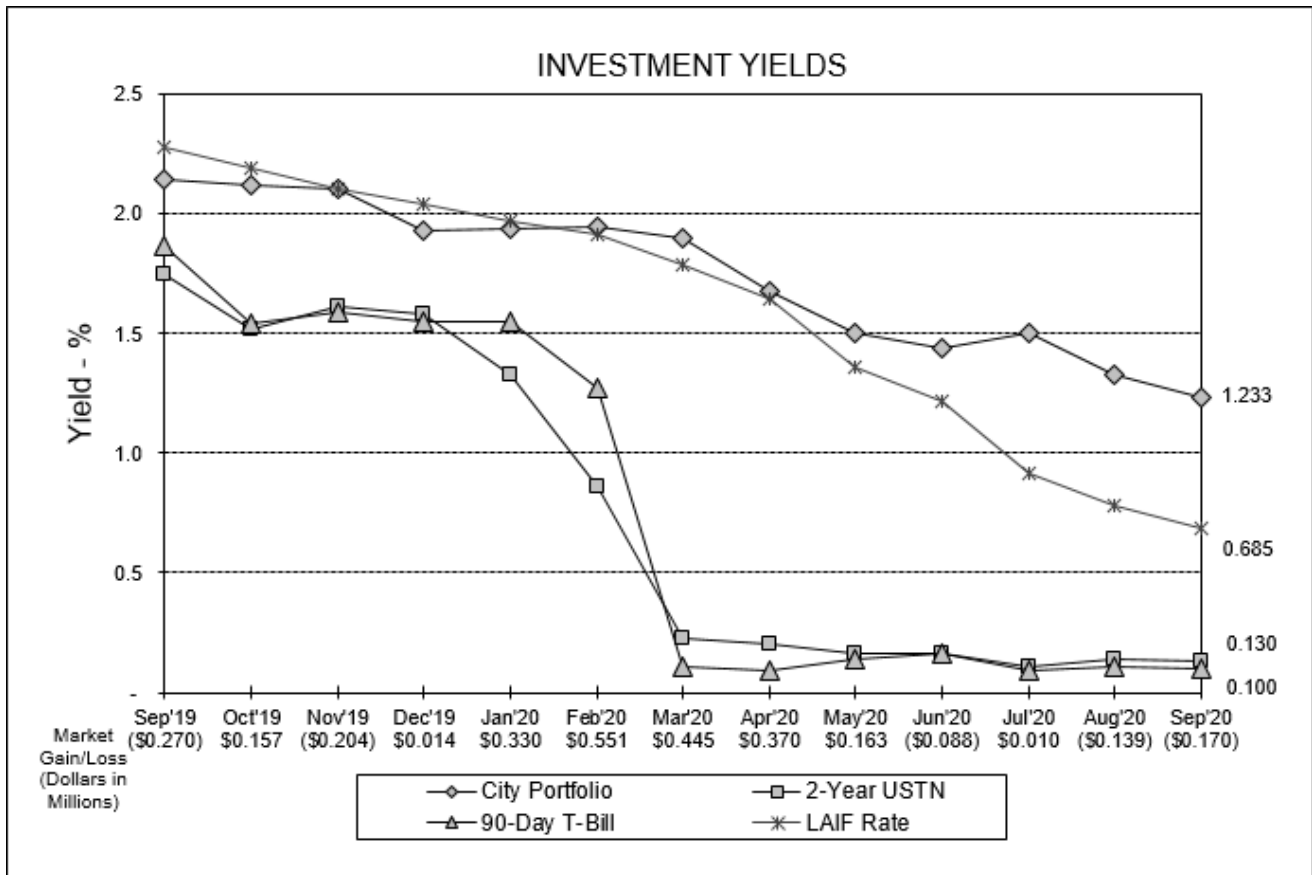
The City's LAIF holdings at the end of the quarter were \$75 million.

Credit Quality on Corporate Notes

There were no changes to the credit profiles of the corporate issuers of the medium-term notes held in the portfolio (i.e., Apple Inc., Berkshire Hathaway Inc., Microsoft Inc., Toyota Motor Co.). For the quarter ending September 30, the ratings of all corporate notes remained within the City's Investment Policy guidelines of "A" or better.

Portfolio Market Gains/Losses

As shown in the Investment Yields chart below, the City's portfolio yield settled above the 90-day Treasury bill, the 2-year Treasury Note, and LAIF rates this quarter. These benchmarks serve as indicators of the City's performance. Trends over time that substantially deviate from these benchmarks would warrant further analysis and review.



On a quarterly basis, staff reports the five securities with the largest percentage of unrealized losses. However, because securities in the City’s portfolio are held to maturity, no market losses are expected to be realized.

Issuer	Face Amount	Maturity	\$ Mkt Change	% Mkt Change
FEDERAL NATL MORTGAGE ASSN	\$3,000,000	08/17/23	-\$3,897	-0.13%
FEDERAL NATL MORTGAGE ASSN	\$3,000,000	08/17/23	-\$1,155	-0.04%
FED AGRICULTURAL MTG CORP	\$3,000,000	08/19/22	-\$984	-0.03%
FED AGRICULTURAL MTG CORP	\$3,000,000	08/19/22	-\$900	-0.03%
FEDERAL HOME LOAN BANK	\$4,000,000	07/22/24	-\$670	-0.02%

On a quarterly basis, staff also reports all securities with monthly market declines of greater than one percent compared to the prior month. At the end of the quarter, there was one security in the portfolio with a market decline of greater than one percent compared to the prior month.

Issuer	Face Amount	Maturity	Aug-Sep Mkt Change (\$)	Aug-Sep Mkt Change (%)	\$ Book-Mkt Gain/(Loss) at 09.30.20
FEDERAL HOME LOAN BANK	\$4,000,000	07/22/24	-\$42,408	-1.05%	-\$670

Additional Reporting Requirements

The following confirmations are made pursuant to California Code Sections 53600, et seq.: (1) the City’s portfolio as of September 30, 2020, is in compliance with the City’s Statement of Investment Policy; and (2) there are sufficient funds available to meet the City’s expenditure requirements for the next six months.

Fiscal Agent Investments

In addition to reporting requirements for public agency portfolios, a description of any of the agency’s investments under the management of contracted parties is also required on a quarterly basis. Attachment #2 includes bond funds as of September 30, 2020.

- ATTACHMENTS:**
1. September 30, 2020, Investment Report
 2. September 30, 2020, Fiscal Agent Report

PREPARED BY: Salvatore Parrilla, Finance Analyst

SUBMITTED BY: Keith DeMartini, Finance Director

APPROVED BY: City Administrator's Office

ATTACHMENT 1

CITY OF SANTA BARBARA
Activity and Interest Report
 September 30, 2020

INVESTMENT ACTIVITY

INVESTMENT INCOME

PURCHASES OR DEPOSITS

POOLED INVESTMENTS

9/9 FHLMC \$ 3,000,000

Interest Earned on Investments \$ 203,565
 Amortization 3,799

Total \$ 3,000,000

Total \$ 207,364

SALES, MATURITIES, CALLS OR WITHDRAWALS

9/28 FHLB \$ (2,000,000)
 9/30 DCVRB (250,000)
 9/30 COBNA (250,000)
 9/30 AMXCNT (250,000)
 9/30 BMWBNA (250,000)
 9/30 FHLMC (2,000,000)

Total \$ (5,000,000)

ACTIVITY TOTAL \$ (2,000,000)

INCOME TOTAL \$ 207,364

CITY OF SANTA BARBARA
Summary of Cash and Investments
September 30, 2020

ENDING BALANCE AS OF August 31, 2020

Description	Book Value	Yield to Maturity (365 days)	Percent of Portfolio	Average Days to Maturity
MUFG Union Bank NA Checking Account	\$ 23,174,830	0.450%	11.64%	1
MUFG Union Bank NA Savings Account	311	0.050%	0.00%	1
State of California LAIF	75,000,000	0.784%	37.67%	1
Certificates of Deposit	1,000,000	2.250%	0.50%	29
Treasury Securities	7,988,726	1.786%	4.01%	1,002
Federal Agency Issues - Coupon	72,001,926	1.757%	36.17%	855
Corporate/Medium Term Notes	19,908,060	2.613%	10.00%	962
	<u>199,073,854</u>	<u>1.328%</u>	<u>100.00%</u>	<u>446</u>
Totals and Averages	<u>\$ 199,073,854</u>	<u>1.328%</u>	<u>100.00%</u>	<u>446</u>
Total Cash and Investments	<u>\$ 199,073,854</u>			

NET CASH AND INVESTMENT ACTIVITY FOR September 2020

\$ 1,504,824

ENDING BALANCE AS OF September 30, 2020

Description	Book Value	Yield to Maturity (365 days)	Percent of Portfolio	Average Days to Maturity
MUFG Union Bank NA Checking Account	\$ 26,676,166	0.450%	13.30%	1 (1)
State of California LAIF	75,000,000	0.685%	37.39%	1 (2)
Treasury Securities	7,988,956	1.786%	3.98%	972
Federal Agency Issues - Coupon	71,002,173	1.656%	35.40%	829
Corporate/Medium Term Notes	19,911,384	2.613%	9.93%	932
	<u>200,578,678</u>	<u>1.233%</u>	<u>100.00%</u>	<u>425</u>
Totals and Averages	<u>\$ 200,578,678</u>	<u>1.233%</u>	<u>100.00%</u>	<u>425</u>
Total Cash and Investments	<u>\$ 200,578,678</u>			

Note: (1) Earnings Credit Rate (ECR) is provided at the rate of 0.450% by MUFG Union Bank, N.A. to help offset banking fees.

(2) The average life of the LAIF portfolio as of September 30, 2020 is 169 days.

CITY OF SANTA BARBARA

Investment Portfolio

September 30, 2020

DESCRIPTION	PURCHASE	MATURITY	QUALITY RATING		STATED	YIELD AT	FACE	BOOK	MARKET	BOOK	COMMENTS
	DATE	DATE	MOODY'S	S & P							
LOCAL AGENCY INVESTMENT FUNDS											
LOCAL AGENCY INVESTMENT FUND	-	-	-	-	0.685	0.685	75,000,000.00	75,000,000.00	75,000,000.00	0.00	
Subtotal, LAIF							75,000,000.00	75,000,000.00	75,000,000.00	0.00	
TREASURY SECURITIES - COUPON											
U S TREASURY NOTE	05/03/19	04/30/24	Aaa	AA+	2.250	2.342	2,000,000.00	1,993,821.11	2,147,266.00	153,444.89	
U S TREASURY NOTE	06/27/19	08/31/22	Aaa	AA+	1.875	1.743	2,000,000.00	2,004,891.80	2,066,640.00	61,748.20	
U S TREASURY NOTE	01/22/20	02/28/23	Aaa	AA+	1.500	1.527	2,000,000.00	1,998,725.73	2,065,704.00	66,978.27	
U S TREASURY NOTE	01/22/20	06/30/23	Aaa	AA+	1.375	1.534	2,000,000.00	1,991,516.93	2,067,656.00	76,139.07	
Subtotal, Treasury Securities							8,000,000.00	7,988,955.57	8,347,266.00	358,310.43	
FEDERAL AGENCY ISSUES - COUPON											
FED AGRICULTURAL MTG CORP	12/29/16	01/15/21	-	-	2.000	2.000	2,000,000.00	2,000,000.00	2,010,760.00	10,760.00	
FED AGRICULTURAL MTG CORP	05/09/19	04/03/23	-	-	2.360	2.371	2,000,000.00	1,999,486.04	2,105,394.00	105,907.96	
FED AGRICULTURAL MTG CORP	02/12/20	02/12/24	-	-	1.390	1.480	2,000,000.00	1,994,130.01	2,071,478.00	77,347.99	
FED AGRICULTURAL MTG CORP	08/19/20	08/19/22	-	-	0.250	0.250	3,000,000.00	3,000,000.00	2,999,016.00	(984.00)	Callable 11/19/20, Q
FEDERAL FARM CREDIT BANK	10/26/17	10/26/20	Aaa	AA+	1.750	1.750	2,000,000.00	2,000,000.00	2,002,378.00	2,378.00	
FEDERAL FARM CREDIT BANK	05/03/17	05/03/21	Aaa	AA+	1.750	1.750	2,000,000.00	2,000,000.00	2,018,886.00	18,886.00	
FEDERAL FARM CREDIT BANK	01/31/19	10/23/23	Aaa	AA+	2.650	2.670	2,000,000.00	1,998,886.35	2,147,164.00	148,277.65	
FEDERAL FARM CREDIT BANK	06/24/19	06/14/22	Aaa	AA+	1.875	1.839	2,000,000.00	2,001,180.17	2,057,928.00	56,747.83	
FEDERAL FARM CREDIT BANK	06/27/19	12/12/22	Aaa	AA+	1.875	1.830	2,000,000.00	2,001,893.32	2,074,190.00	72,296.68	
FEDERAL FARM CREDIT BANK	06/18/20	06/17/24	Aaa	AA+	0.680	0.680	2,000,000.00	2,000,000.00	2,001,610.00	1,610.00	Callable 06/17/21, P
FEDERAL HOME LOAN BANK	11/22/16	11/22/21	Aaa	AA+	1.750	1.750	2,000,000.00	2,000,000.00	2,037,016.00	37,016.00	
FEDERAL HOME LOAN BANK	10/26/18	10/26/22	Aaa	AA+	3.150	3.150	2,000,000.00	2,000,000.00	2,004,358.00	4,358.00	Callable 1X on 10/26/20.
FEDERAL HOME LOAN BANK	01/22/19	01/22/24	Aaa	AA+	2.830	2.830	2,000,000.00	2,000,000.00	2,014,904.00	14,904.00	Callable 1X on 01/22/21.
FEDERAL HOME LOAN BANK	01/29/20	07/22/24	Aaa	AA+	1.770	1.739	4,000,000.00	4,004,589.83	4,003,920.00	(669.83)	Callable on 07/22/21, Q
FEDERAL HOME LOAN MTG CORP	05/25/17	05/25/22	Aaa	AA+	2.050	2.050	2,000,000.00	2,000,000.00	2,062,124.00	62,124.00	
FEDERAL HOME LOAN MTG CORP	02/27/17	11/27/20	Aaa	AA+	1.850	1.850	2,000,000.00	2,000,000.00	2,005,280.00	5,280.00	
FEDERAL HOME LOAN MTG CORP	03/16/17	09/16/21	Aaa	AA+	2.000	2.000	2,000,000.00	2,000,000.00	2,035,822.00	35,822.00	
FEDERAL HOME LOAN MTG CORP	04/27/17	07/27/21	Aaa	AA+	1.800	1.800	2,000,000.00	2,000,000.00	2,027,346.00	27,346.00	
FEDERAL HOME LOAN MTG CORP	06/22/17	12/22/20	Aaa	AA+	1.700	1.700	2,000,000.00	2,000,000.00	2,006,962.00	6,962.00	
FEDERAL HOME LOAN MTG CORP	10/26/17	04/26/21	Aaa	AA+	1.850	1.850	2,000,000.00	2,000,000.00	2,019,722.00	19,722.00	
FEDERAL HOME LOAN MTG CORP	11/17/17	08/17/21	Aaa	AA+	2.000	2.000	2,000,000.00	2,000,000.00	2,032,412.00	32,412.00	
FEDERAL HOME LOAN MTG CORP	05/30/18	05/26/23	Aaa	AA+	3.000	3.000	2,000,000.00	2,000,000.00	2,033,810.00	33,810.00	Callable 1X on 5/26/2021.
FEDERAL HOME LOAN MTG CORP	03/29/17	03/29/21	Aaa	AA+	2.000	2.000	2,000,000.00	2,000,000.00	2,018,660.00	18,660.00	
FEDERAL HOME LOAN MTG CORP	10/28/19	10/28/24	Aaa	AA+	1.875	1.875	2,000,000.00	2,000,000.00	2,001,634.00	1,634.00	Callable 1X, on 10/28/2020
FEDERAL HOME LOAN MTG CORP	01/29/20	01/22/24	Aaa	AA+	1.750	1.724	4,000,000.00	4,003,324.49	4,017,200.00	13,875.51	Callable on 01/22/21, A
FEDERAL HOME LOAN MTG CORP	02/18/20	12/18/23	Aaa	AA+	1.600	1.596	2,000,000.00	2,000,000.00	2,006,102.00	6,102.00	Callable on 12/18/20, A
FEDERAL HOME LOAN MTG CORP	09/09/20	12/09/24	Aaa	AA+	0.500	0.500	3,000,000.00	3,000,000.00	3,000,324.00	324.00	Callable 12/09/21, Q
FEDERAL NATL MORTGAGE ASSN	01/22/20	02/26/21	Aaa	AA+	1.375	1.540	2,000,000.00	1,998,682.49	2,009,992.00	11,309.51	
FEDERAL NATL MORTGAGE ASSN	01/31/20	10/30/23	Aaa	AA+	1.700	1.700	2,000,000.00	2,000,000.00	2,001,496.00	1,496.00	Callable on 10/30/20, Q
FEDERAL NATL MORTGAGE ASSN	08/17/20	08/17/23	Aaa	AA+	0.310	0.310	3,000,000.00	3,000,000.00	2,996,103.00	(3,897.00)	Callable 02/17/2022, Q
FEDERAL NATL MORTGAGE ASSN	08/26/20	08/26/25	Aaa	AA+	0.600	0.600	4,000,000.00	4,000,000.00	4,003,276.00	3,276.00	Callable 08/26/22, Q
Subtotal, Federal Agencies							71,000,000.00	71,002,172.70	71,827,267.00	825,094.30	

CITY OF SANTA BARBARA

Investment Portfolio

September 30, 2020

DESCRIPTION	PURCHASE DATE	MATURITY DATE	QUALITY RATING		STATED RATE	YIELD AT 365	FACE VALUE	BOOK VALUE	MARKET VALUE	BOOK GAIN/(LOSS)	COMMENTS
			MOODY'S	S & P							
CORPORATE/MEDIUM TERM NOTES											
APPLE INC	01/24/19	05/11/22	Aa1	AA+	2.300	2.847	2,000,000.00	1,983,279.19	2,062,454.00	79,174.81	
APPLE INC	04/23/19	05/03/23	Aa1	AA+	2.400	2.718	2,000,000.00	1,984,496.66	2,105,754.00	121,257.34	
APPLE INC	09/11/19	09/11/24	Aa1	AA+	1.800	1.903	2,000,000.00	1,992,284.67	2,093,112.00	100,827.33	
BERKSHIRE HATHAWAY INC	04/05/18	03/15/23	Aa2	AA	2.750	3.016	2,000,000.00	1,987,941.84	2,106,784.00	118,842.16	
BERKSHIRE HATHAWAY FIN	12/12/18	05/15/22	Aa2	AA	3.000	3.204	2,000,000.00	1,993,766.88	2,085,484.00	91,717.12	
MICROSOFT CORP	03/11/19	02/06/22	Aaa	AAA	2.400	2.564	2,000,000.00	1,995,757.99	2,055,470.00	59,712.01	
MICROSOFT CORP	05/23/19	08/08/23	Aaa	AAA	2.000	2.535	2,000,000.00	1,971,189.77	2,088,246.00	117,056.23	
TOYOTA MOTOR CREDIT	07/27/18	07/20/23	A1	A	3.419	3.392	2,000,000.00	2,001,373.10	2,164,582.00	163,208.90	
TOYOTA MOTOR CREDIT	06/14/19	09/08/22	A1	A	2.150	2.182	2,000,000.00	1,998,802.41	2,068,712.00	69,909.59	
TOYOTA MOTOR CREDIT	03/16/20	02/13/25	A1	A	1.800	1.770	2,000,000.00	2,002,491.00	2,089,542.00	87,051.00	
Subtotal, Corporate Securities							<u>20,000,000.00</u>	<u>19,911,383.51</u>	<u>20,920,140.00</u>	<u>1,008,756.49</u>	
CHECKING ACCOUNT											
MUFG UNION BANK NA CHKNG ACCNT	-	-	-	-	0.450	0.450	26,676,166.01	26,676,166.01	26,676,166.01	0.00	
Subtotal, Checking Account							<u>26,676,166.01</u>	<u>26,676,166.01</u>	<u>26,676,166.01</u>	<u>0.00</u>	
TOTALS							200,676,166.01	200,578,677.79	202,770,839.01	2,192,161.22	

Market values have been obtained from the City's safekeeping agent, Montecito Bank & Trust ("MB&T").

ATTACHMENT 2

**CITY OF SANTA BARBARA
Fiscal Agent Investments
September 30, 2020**

	CASH & CASH EQUIVALENTS Book & Market	Guaranteed Investment Contracts (GIC) Book & Market	US GOVT & AGENCIES		TOTALS	
			Book	Market	Book	Market
BOND FUNDS						
<i>RESERVE FUNDS</i>						
2011 Water - Safe Drinking Water State Loan	1,569,841.13	-	-	-	1,569,841.13	1,569,841.13
2013 Water - Refunding COPS	2,564,509.36	428,069.44	-	-	2,992,578.80	2,992,578.80
2016 Sewer - Refunding Bonds	1.83	-	-	-	1.83	1.83
2019 Airport - Refunding Bonds	720,881.98	-	-	-	720,881.98	720,881.98
2014 Waterfront - Refunding Bonds	18,123.63	581,455.74	-	-	599,579.37	599,579.37
<i>Subtotal, Reserve Funds</i>	<u>4,873,357.93</u>	<u>1,009,525.18</u>	-	-	<u>5,882,883.11</u>	<u>5,882,883.11</u>
TOTAL FISCAL AGENT INVESTMENTS	<u>4,873,357.93</u>	<u>1,009,525.18</u>	<u>-</u>	<u>-</u>	<u>5,882,883.11</u>	<u>5,882,883.11</u>

Notes:

- (1) Cash & cash equivalents include money market funds.
- (2) Market values have been obtained from the following trustees: US Bank