



# CITY OF SANTA BARBARA

## COUNCIL AGENDA REPORT

**AGENDA DATE:** February 9, 2021

**TO:** Mayor and Councilmembers

**FROM:** Treasury Division, Finance Department

**SUBJECT:** December 31, 2020, Investment Report And December 31, 2020, Fiscal Agent Report

**RECOMMENDATION:** That Council:

- A. Accept the December 31, 2020, Investment Report; and
- B. Accept the December 31, 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 October through December 2020.

U.S. Treasury Market					
	9/30/2020	10/31/2020	11/30/2020	12/31/2020	Cumulative Change
3 Month	0.10%	0.09%	0.08%	0.09%	-0.01%
6 Month	0.11%	0.11%	0.09%	0.09%	-0.02%
1 Year	0.12%	0.13%	0.11%	0.10%	-0.02%
2 Year	0.13%	0.16%	0.16%	0.13%	0.00%
3 Year	0.16%	0.19%	0.19%	0.17%	0.01%
4 Year	0.22%	0.29%	0.28%	0.27%	0.05%
5 Year	0.28%	0.38%	0.36%	0.36%	0.08%
10 Year	0.69%	0.88%	0.84%	0.93%	0.24%
30 Year	1.23%	1.65%	1.58%	1.65%	0.42%
LAIF	0.84%	0.63%	0.63%	0.63%	-0.21%

By the end of the quarter, Treasury yields were lower on the 3 month-1 year terms and higher on the rest of the maturity terms. 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 0.10 percent to 0.36 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
<b>Purchases:</b>						
FNMA	\$ 3,000,000	11/17/20	05/17/24	11/17/22	0.375%	0.375%
FHLMC	3,000,000	11/24/20	11/24/23	11/24/21	0.320%	0.320%
FHLMC	3,000,000	11/25/20	11/25/25	11/25/22	0.625%	0.625%
<b>Tot Purchases</b>	<b>\$ 9,000,000</b>					
<b>Calls:</b>						
FHLB	\$ 2,000,000	10/03/18	10/26/22	10/26/20	3.150%	3.150%
FHLMC	2,000,000	10/22/19	10/28/24	10/28/20	1.875%	1.875%
FNMA	2,000,000	01/30/20	10/30/23	10/30/20	1.700%	1.700%
FHLMC	2,000,000	02/04/20	12/18/23	12/18/20	1.333%	1.596%
	<b>\$ 8,000,000</b>					
<b>Sales/Maturities:</b>						
FFCB	\$ 2,000,000	10/17/17	10/26/20	n/a	n/a	1.750%
FHLMC	\$ 2,000,000	01/30/17	11/27/20	n/a	n/a	1.850%
FHLMC	\$ 2,000,000	05/23/17	12/22/20	n/a	n/a	1.700%
	<b>\$ 6,000,000</b>					
<b>Tot Sales/Calls/Mat</b>	<b>\$ 14,000,000</b>					

As shown in the Investment Activity table above, the City invested \$9 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 22 basis points from 1.233 percent at September 30, 2020 to 1.011 percent at December 31, 2020.

Mo. Ended	Yield	Days to Maturity
9/30/2020	1.233%	425
10/31/2020	1.115%	363
11/30/2020	1.056%	391
12/31/2020	1.011%	360

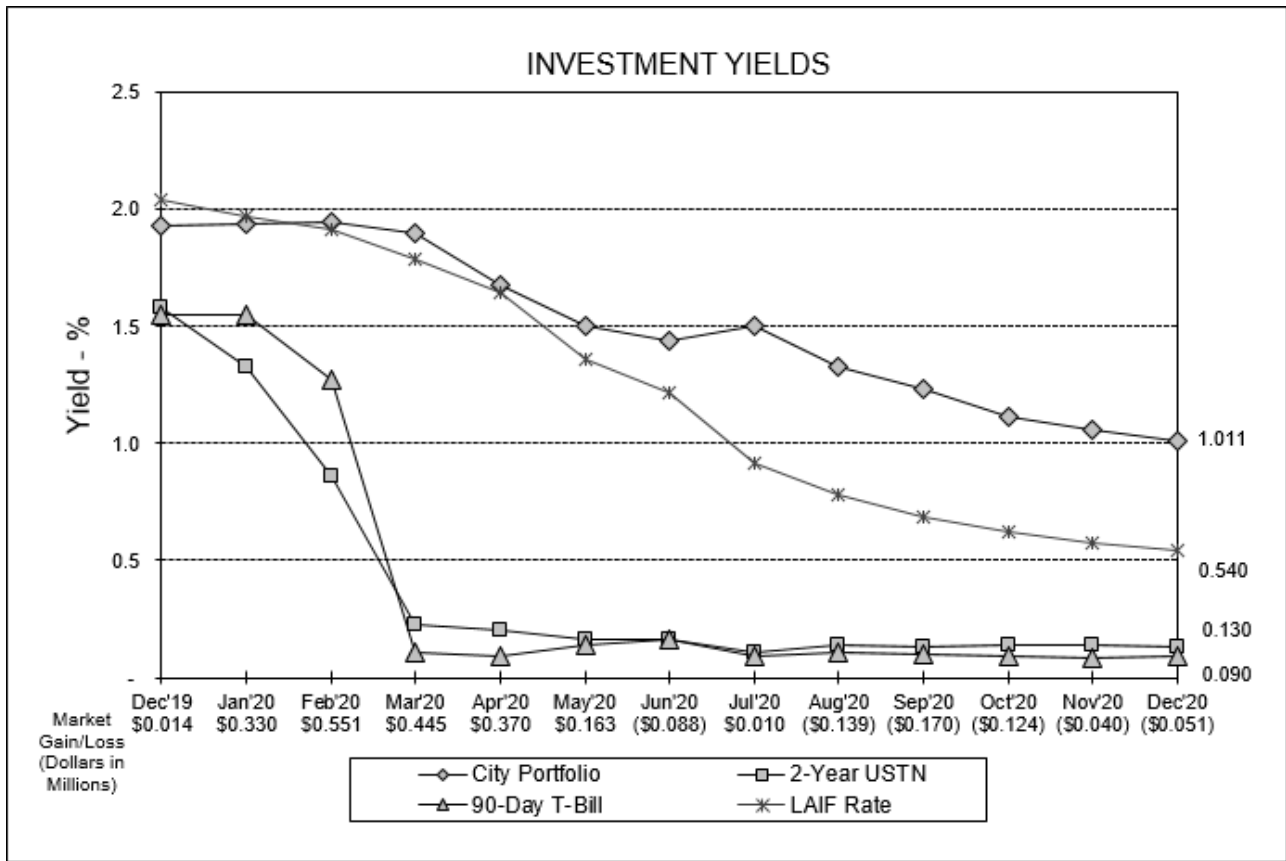
In the second quarter of the current fiscal year the City's realized interest earnings amounted to \$559,931. The portfolio's average days to maturity decreased by 65 days from 425 to 360 days, reflecting reinvestment of maturities and calls during the quarter in the one-to-five year range in accordance 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 0.63 percent for the quarter ended December 31, 2020, a decrease of 21 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 December 31, 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	-\$1,155	-0.04%
FED AGRICULTURAL MTG CORP	\$3,000,000	08/19/22	-\$900	-0.03%
FEDERAL HOME LOAN MTG CORP	\$4,000,000	01/22/24	-\$309	-0.01%
FEDERAL FARM CREDIT BANK	\$2,000,000	06/17/24	\$126	0.01%
FEDERAL HOME LOAN MTG CORP	\$3,000,000	11/24/23	\$270	0.01%

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 were no securities in the portfolio with a market decline of greater than one percent compared to the prior month.

**Additional Reporting Requirements**

The following confirmations are made pursuant to California Code Sections 53600, et seq.: (1) the City’s portfolio as of December 31, 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 December 31, 2020.

**ATTACHMENTS:** 1. December 31, 2020, Investment Report  
 2. December 31, 2020, Fiscal Agent Report

**PREPARED BY:** Jennifer Tomaszewski, Finance & Treasury Manager

**SUBMITTED BY:** Keith DeMartini, Finance Director

**APPROVED BY:** City Administrator's Office

ATTACHMENT 1

**CITY OF SANTA BARBARA**  
**Activity and Interest Report**  
 December 31, 2020

**INVESTMENT ACTIVITY**

**INVESTMENT INCOME**

**PURCHASES OR DEPOSITS**

**POOLED INVESTMENTS**

**Total** \$ -

Interest Earned on Investments	\$	175,518
Amortization		3,712
<b>Total</b>	<b>\$</b>	<b><u>179,230</u></b>

**SALES, MATURITIES, CALLS OR WITHDRAWALS**

12/18 FHLMC	\$	(2,000,000)
12/22 FHLMC	\$	(2,000,000)
<b>Total</b>	<b>\$</b>	<b><u>(4,000,000)</u></b>

**ACTIVITY TOTAL** \$ (4,000,000)

**INCOME TOTAL** \$ 179,230

**CITY OF SANTA BARBARA**  
**Summary of Cash and Investments**  
**December 31, 2020**

**ENDING BALANCE AS OF November 30, 2020**

Description	Book Value	Yield to Maturity (365 days)	Percent of Portfolio	Average Days to Maturity
MUFG Union Bank NA Checking Account	\$ 45,878,332	0.450%	20.97%	1
State of California LAIF	75,000,000	0.576%	34.28%	1
Treasury Securities	7,989,422	1.786%	3.65%	911
Federal Agency Issues - Coupon	70,002,476	1.441%	32.00%	868
Corporate/Medium Term Notes	19,918,030	2.613%	9.10%	871
	<u>218,788,260</u>	<u>1.056%</u>	<u>100.00%</u>	<u>391</u>
Totals and Averages	<u>\$ 218,788,260</u>	<u>1.056%</u>	<u>100.00%</u>	<u>391</u>
<b>Total Cash and Investments</b>	<u>\$ 218,788,260</u>			

**NET CASH AND INVESTMENT ACTIVITY FOR December 2020**

\$ 4,167,881

**ENDING BALANCE AS OF December 31, 2020**

Description	Book Value	Yield to Maturity (365 days)	Percent of Portfolio	Average Days to Maturity
MUFG Union Bank NA Checking Account	\$ 54,042,502	0.450%	24.24%	1 (1)
State of California LAIF	75,000,000	0.540%	33.64%	1 (2)
Treasury Securities	7,989,659	1.786%	3.58%	880
Federal Agency Issues - Coupon	66,002,628	1.428%	29.60%	855
Corporate/Medium Term Notes	19,921,354	2.613%	8.94%	840
	<u>222,956,142</u>	<u>1.011%</u>	<u>100.00%</u>	<u>360</u>
Totals and Averages	<u>\$ 222,956,142</u>	<u>1.011%</u>	<u>100.00%</u>	<u>360</u>
<b>Total Cash and Investments</b>	<u>\$ 222,956,142</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 December 31, 2020 is 165 days.

**CITY OF SANTA BARBARA**

**Investment Portfolio**

**December 31, 2020**

DESCRIPTION	PURCHASE DATE	MATURITY DATE	QUALITY RATING MOODY'S	QUALITY RATING S & P	STATED RATE	YIELD AT 365	FACE VALUE	BOOK VALUE	MARKET VALUE	BOOK GAIN/(LOSS)	COMMENTS
<b>LOCAL AGENCY INVESTMENT FUNDS</b>											
LOCAL AGENCY INVESTMENT FUND	-	-	-	-	0.540	0.540	75,000,000.00	75,000,000.00	75,000,000.00	0.00	
<b>Subtotal, LAIF</b>							75,000,000.00	75,000,000.00	75,000,000.00	0.00	
<b>TREASURY SECURITIES - COUPON</b>											
U S TREASURY NOTE	05/03/19	04/30/24	Aaa	AA+	2.250	2.342	2,000,000.00	1,994,256.05	2,136,250.00	141,993.95	
U S TREASURY NOTE	06/27/19	08/31/22	Aaa	AA+	1.875	1.743	2,000,000.00	2,004,247.95	2,057,968.00	53,720.05	
U S TREASURY NOTE	01/22/20	02/28/23	Aaa	AA+	1.500	1.527	2,000,000.00	1,998,858.95	2,058,906.00	60,047.05	
U S TREASURY NOTE	01/22/20	06/30/23	Aaa	AA+	1.375	1.534	2,000,000.00	1,992,295.82	2,061,250.00	68,954.18	
<b>Subtotal, Treasury Securities</b>							8,000,000.00	7,989,658.77	8,314,374.00	324,715.23	
<b>FEDERAL AGENCY ISSUES - COUPON</b>											
FED AGRICULTURAL MTG CORP	12/29/16	01/15/21	-	-	2.000	2.000	2,000,000.00	2,000,000.00	2,001,232.00	1,232.00	
FED AGRICULTURAL MTG CORP	05/09/19	04/03/23	-	-	2.360	2.371	2,000,000.00	1,999,537.32	2,097,434.00	97,896.68	
FED AGRICULTURAL MTG CORP	02/12/20	02/12/24	-	-	1.390	1.480	2,000,000.00	1,994,566.26	2,070,254.00	75,687.74	
FED AGRICULTURAL MTG CORP	08/19/20	08/19/22	-	-	0.250	0.250	3,000,000.00	3,000,000.00	2,999,889.00	(111.00)	Callable 02/19/21, Q
FEDERAL FARM CREDIT BANK	05/03/17	05/03/21	Aaa	AA+	1.750	1.750	2,000,000.00	2,000,000.00	2,011,376.00	11,376.00	
FEDERAL FARM CREDIT BANK	01/31/19	10/23/23	Aaa	AA+	2.650	2.670	2,000,000.00	1,998,977.30	2,134,924.00	135,946.70	
FEDERAL FARM CREDIT BANK	06/24/19	06/14/22	Aaa	AA+	1.875	1.839	2,000,000.00	2,001,006.90	2,049,866.00	48,859.10	
FEDERAL FARM CREDIT BANK	06/27/19	12/12/22	Aaa	AA+	1.875	1.830	2,000,000.00	2,001,677.90	2,066,270.00	64,592.10	
FEDERAL FARM CREDIT BANK	06/18/20	06/17/24	Aaa	AA+	0.680	0.680	2,000,000.00	2,000,000.00	2,000,126.00	126.00	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	2,029,110.00	29,110.00	
FEDERAL HOME LOAN BANK	01/22/19	01/22/24	Aaa	AA+	2.830	2.830	2,000,000.00	2,000,000.00	2,002,536.00	2,536.00	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	4,004,288.53	4,029,724.00	25,435.47	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	2,053,830.00	53,830.00	
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	2,026,280.00	26,280.00	
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	2,019,302.00	19,302.00	
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	2,011,014.00	11,014.00	
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	2,023,022.00	23,022.00	
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	2,022,356.00	22,356.00	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	2,009,140.00	9,140.00	
FEDERAL HOME LOAN MTG CORP	01/29/20	01/22/24	Aaa	AA+	1.750	1.724	4,000,000.00	4,003,073.27	4,002,764.00	(309.27)	Callable on 01/22/21, A
FEDERAL HOME LOAN MTG CORP	11/25/20	11/25/25	Aaa	AA+	0.625	0.625	3,000,000.00	3,000,000.00	3,010,197.00	10,197.00	Callable on 11/25/22, A
FEDERAL HOME LOAN MTG CORP	11/24/20	11/24/23	Aaa	AA+	0.320	0.320	3,000,000.00	3,000,000.00	3,000,270.00	270.00	Callable 11/24/21, Q
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	3,005,109.00	5,109.00	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	1,999,500.25	2,003,686.00	4,185.75	
FEDERAL NATL MORTGAGE ASSN	08/17/20	08/17/23	Aaa	AA+	0.310	0.310	3,000,000.00	3,000,000.00	2,996,976.00	(3,024.00)	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	4,004,568.00	4,568.00	Callable 08/26/22, Q
FEDERAL NATL MORTGAGE ASSN	11/17/20	05/17/24	Aaa	AA+	0.375	0.375	3,000,000.00	3,000,000.00	3,000,831.00	831.00	Callable on 11/17/2022, Q
<b>Subtotal, Federal Agencies</b>							66,000,000.00	66,002,627.73	66,682,086.00	679,458.27	

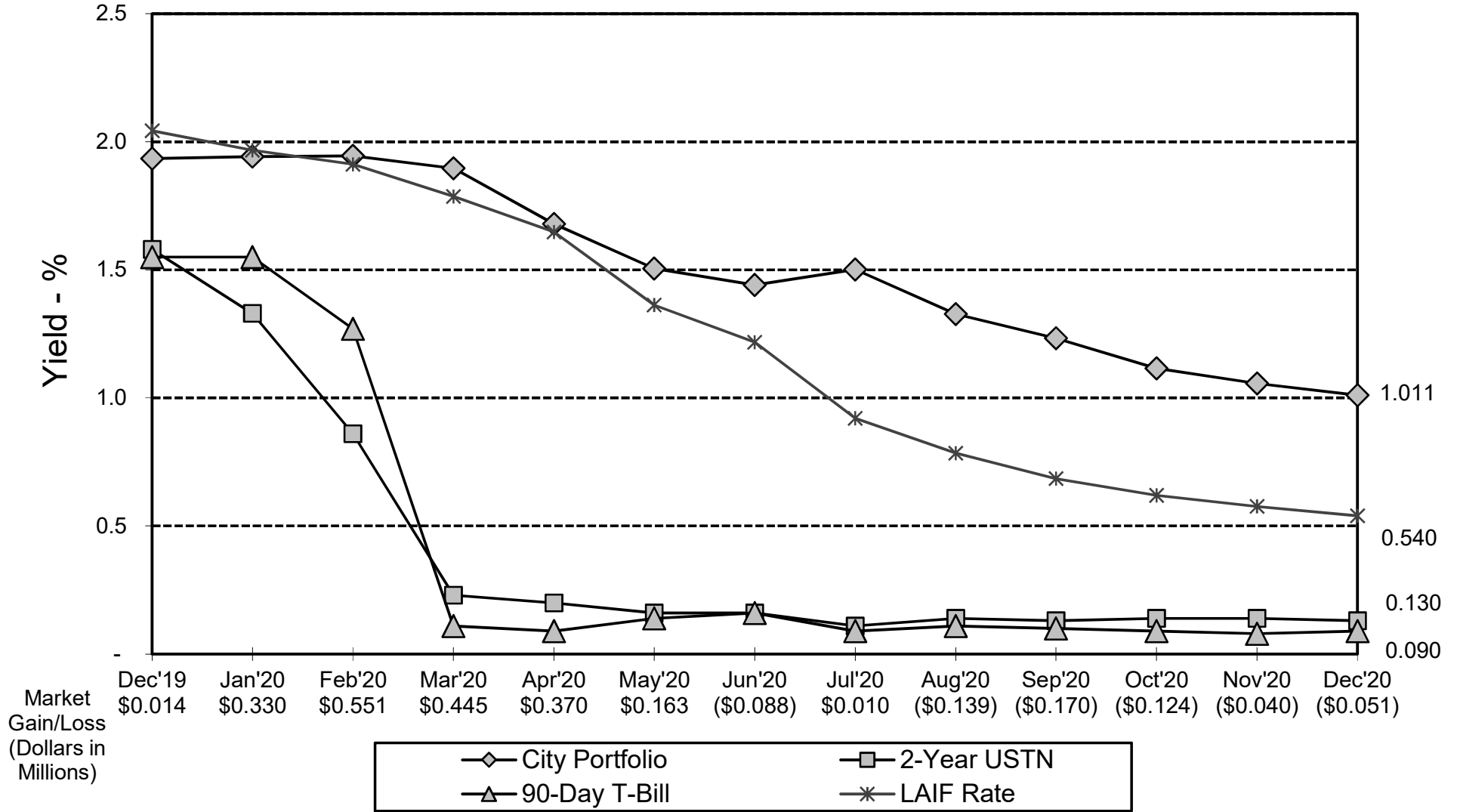
**CITY OF SANTA BARBARA**  
**Investment Portfolio**  
**December 31, 2020**

DESCRIPTION	PURCHASE DATE	MATURITY DATE	QUALITY RATING MOODY'S	QUALITY RATING S & P	STATED RATE	YIELD AT 365	FACE VALUE	BOOK VALUE	MARKET VALUE	BOOK GAIN/(LOSS)	COMMENTS
<b>CORPORATE/MEDIUM TERM NOTES</b>											
APPLE INC	01/24/19	05/11/22	Aa1	AA+	2.300	2.847	2,000,000.00	1,985,873.80	2,055,518.00	69,644.20	
APPLE INC	04/23/19	05/03/23	Aa1	AA+	2.400	2.718	2,000,000.00	1,985,993.77	2,097,928.00	111,934.23	
APPLE INC	09/11/19	09/11/24	Aa1	AA+	1.800	1.903	2,000,000.00	1,992,773.67	2,098,906.00	106,132.33	
BERKSHIRE HATHAWAY INC	04/05/18	03/15/23	Aa2	AA	2.750	3.016	2,000,000.00	1,989,169.48	2,100,324.00	111,154.52	
BERKSHIRE HATHAWAY FIN	12/12/18	05/15/22	Aa2	AA	3.000	3.204	2,000,000.00	1,994,727.46	2,076,272.00	81,544.54	
MICROSOFT CORP	03/11/19	02/06/22	Aaa	AAA	2.400	2.564	2,000,000.00	1,996,545.17	2,040,778.00	44,232.83	
MICROSOFT CORP	05/23/19	08/08/23	Aaa	AAA	2.000	2.535	2,000,000.00	1,973,714.52	2,086,194.00	112,479.48	
TOYOTA MOTOR CREDIT	07/27/18	07/20/23	A1	A	3.419	3.392	2,000,000.00	2,001,250.62	2,155,288.00	154,037.38	
TOYOTA MOTOR CREDIT	06/14/19	09/08/22	A1	A	2.150	2.182	2,000,000.00	1,998,957.04	2,062,306.00	63,348.96	
TOYOTA MOTOR CREDIT	03/16/20	02/13/25	A1	A	1.800	1.770	2,000,000.00	2,002,348.39	2,097,182.00	94,833.61	
<b>Subtotal, Corporate Securities</b>							20,000,000.00	19,921,353.92	20,870,696.00	949,342.08	
<b>CHECKING ACCOUNT</b>											
MUFG UNION BANK NA CHKNG ACCNT	-	-	-	-	0.450	0.450	54,042,501.50	54,042,501.50	54,042,501.50	0.00	
<b>Subtotal, Checking Account</b>							54,042,501.50	54,042,501.50	54,042,501.50	0.00	
<b>TOTALS</b>							223,042,501.50	222,956,141.92	224,909,657.50	1,953,515.58	

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



# INVESTMENT YIELDS



ATTACHMENT 2

**CITY OF SANTA BARBARA  
Fiscal Agent Investments  
December 31, 2020**

	CASH & CASH EQUIVALENTS Book & Market	Guaranteed Investment Contracts (GIC) Book & Market	US GOVT & AGENCIES		TOTALS	
			Book	Market	Book	Market
<b>BOND FUNDS</b>						
<i>RESERVE FUNDS</i>						
2011 Water - Safe Drinking Water State Loan	1,661,462.25	-	-	-	1,661,462.25	1,661,462.25
2013 Water - Refunding COPS	664,513.33	428,069.44	-	-	1,092,582.77	1,092,582.77
2016 Sewer - Refunding Bonds	1.93	-	-	-	1.93	1.93
2019 Airport - Refunding Bonds	7.57	-	-	-	7.57	7.57
2014 Waterfront - Refunding Bonds	10,072.73	581,455.74	-	-	591,528.47	591,528.47
<i>Subtotal, Reserve Funds</i>	<u>2,336,057.81</u>	<u>1,009,525.18</u>	<u>-</u>	<u>-</u>	<u>3,345,582.99</u>	<u>3,345,582.99</u>
<b>TOTAL FISCAL AGENT INVESTMENTS</b>	<b><u>2,336,057.81</u></b>	<b><u>1,009,525.18</u></b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>3,345,582.99</u></b>	<b><u>3,345,582.99</u></b>

Notes:

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