



*Finance Department*

3300 Capitol Avenue, P.O. Box 5006, Fremont, CA 94537-5006

510 494-4610 *ph* | 510 494-4611 *fax* | [www.fremont.gov](http://www.fremont.gov)

May 30, 2019

## **Treasurer's Cash and Investment Report as of July 31, 2018**

This report has been prepared in accordance with the City's Statement of Investment Policy, effective July 1, 2018.

### **Introduction**

The City of Fremont provides services to the community funded through taxes, fees and charges, grants, and loans. To the extent that cash generated from those revenue sources is not immediately needed to pay for services, Section 53601 of the California Government Code (the "Government Code") gives the City Council the authority to purchase a variety of investment instruments. The City Council, in turn, may delegate that authority to the City's Treasurer for one-year periods, with the requirement that the Treasurer report monthly on investment transactions.

To guide the Treasurer's investment activities, the City Council annually adopts a Statement of Investment Policy (the "Investment Policy") which establishes that:

It is the policy of the City of Fremont to invest public funds in a prudent manner which will provide the highest yield consistent with the maximum security and preservation of invested principal, while meeting the daily cash flow demands of the City, and conforming to all applicable federal, state and local statutes governing the investment of public funds.

The Investment Policy applies to all financial assets of the City. However, in accordance with the Government Code, investment of bond proceeds is governed by the provisions of the related bond indentures or resolutions.

As established by the Government Code and re-affirmed in the City's Investment Policy, the objectives for investing and managing public funds and their order of priority are:

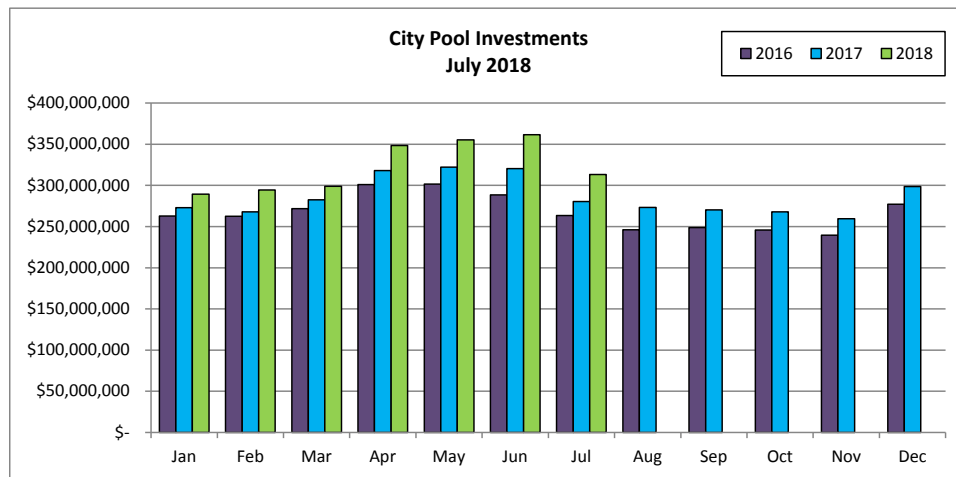
- **Safety** of principal;
- **Liquidity** sufficient to meet the City's payment obligations; and
- **Yield** consistent with a market rate of return.

The following sections of this Treasurer's Cash and Investment Report provide an overview of the City's cash and investment portfolio and describe how the City's investment program is designed to meet the policy objectives by managing the composition of the investment portfolio, conducting periodic cash flow analyses, and benchmarking portfolio performance. A detailed listing of the portfolio is included as an attachment.

**Portfolio Overview**

The following table and bar graph summarizes the City’s current cash and investment holdings by investment category and shows how those holdings have changed over the last month and last year.

	<u>Current Month 07/31/2018</u>	<u>Prior Month 06/30/2018</u>	<u>Prior Year 07/31/2017</u>	<u>Change from Prior Month 07/18 to 06/18</u>	<u>Change from Prior Year 07/18 to 07/17</u>
<b>City Pool Investments</b>					
Investment in Securities at Cost	\$ 177,042,908	\$ 176,677,406	\$ 177,296,946	\$ 365,502	\$ (254,039)
Money Market - BlackRock	8,317,288	56,777,310	-	(48,460,022)	8,317,288
Money Market - Morgan Stanley	945,241	1,091,522	721,335	(146,281)	223,906
LAIF	65,000,000	65,000,000	65,000,000	-	-
CAMP	66,218,117	66,099,853	38,307,770	118,264	27,910,347
Fair Value Adjustment	<u>(4,150,511)</u>	<u>(3,990,539)</u>	<u>(742,594)</u>	<u>(159,972)</u>	<u>(3,407,917)</u>
Total City Pool Investments	313,373,042	361,655,551	280,583,457	(48,282,509)	32,789,585
City Checking Accounts	17,230,779	18,178,049	18,756,513	(947,269)	(1,525,734)
Petty Cash	32,304	32,304	32,304	-	-
Total Cash and Pool Investments	330,636,126	379,865,904	299,372,274	(49,229,778)	31,263,852
Cash with Fiscal Agents	13,098,128	7,457,005	19,934,512	5,641,124	(6,836,384)
<b>Total City Cash and Investments</b>	<b><u>\$ 343,734,254</u></b>	<b><u>\$ 387,322,909</u></b>	<b><u>\$ 319,306,786</u></b>	<b><u>\$ (43,588,655)</u></b>	<b><u>\$ 24,427,468</u></b>

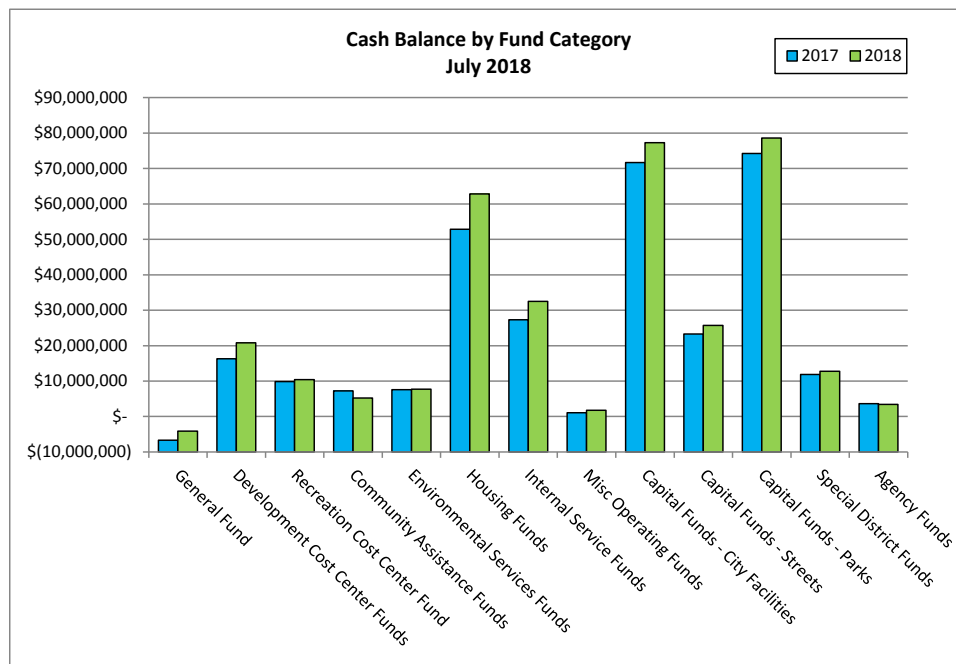


The change in value of the City’s cash and pool investments from the previous month is composed of: cash receipts from taxes, fees, grants, and loans; disbursements for payroll and benefits, vendor and contractor payments, debt service payments, and community grants and loans; and the change in the fair value adjustment. The following table summarizes these changes in value.

<b>June 2018 Cash and Pool Investments</b>	<b>\$379,865,904</b>
Cash Receipts	19,134,179
Cash Disbursements	(68,203,985)
Change in Fair Value Adjustment	(159,972)
<b>July 2018 Cash and Pool Investments</b>	<b>\$330,636,126</b>

The City’s cash and investment holdings represent the aggregation of the cash balances in the City’s various funds, petty cash, and cash held by the City’s fiscal agent banks related to special districts, bond proceeds, and escrows. The following table and graph show how the City’s cash and investment holdings are allocated among the City’s various fund categories and fiscal agent accounts.

	<u>Current Month</u> <u>07/31/2018</u>	<u>Prior Month</u> <u>06/30/2018</u>	<u>Prior Year</u> <u>07/31/2017</u>	<u>Change from</u> <u>Prior Month</u> <u>07/18 to 06/18</u>	<u>Change from</u> <u>Prior Year</u> <u>07/18 to 07/17</u>
<b>Cash and Pool Investments by Fund Category</b>					
General Fund	\$ (4,105,195)	\$ 36,599,762	\$ (6,658,450)	\$ (40,704,957)	\$ 2,553,255
Development Cost Center Funds	20,800,661	23,877,371	16,279,895	(3,076,710)	4,520,766
Recreation Cost Center Fund	10,387,832	10,488,596	9,863,837	(100,764)	523,995
Community Assistance Funds	5,244,244	6,955,183	7,217,381	(1,710,940)	(1,973,137)
Environmental Services Funds	7,714,008	8,774,683	7,557,502	(1,060,675)	156,506
Housing Funds	62,781,029	61,544,410	52,858,687	1,236,619	9,922,342
Internal Service Funds	32,471,812	32,235,958	27,275,879	235,853	5,195,933
Misc Operating Funds	1,751,316	4,120,105	1,090,813	(2,368,789)	660,503
Capital Funds - City Facilities	77,267,063	76,072,115	71,670,252	1,194,947	5,596,811
Capital Funds - Streets	25,680,211	27,554,613	23,287,221	(1,874,402)	2,392,990
Capital Funds - Parks	78,615,646	79,354,034	74,198,055	(738,388)	4,417,591
Special District Funds	12,742,605	12,752,181	11,850,172	(9,576)	892,433
Agency Funds	3,435,405	3,527,432	3,623,624	(92,027)	(188,219)
Subtotal	334,786,637	383,856,443	300,114,868	(49,069,806)	34,671,769
Fair Value Adjustment	(4,150,511)	(3,990,539)	(742,594)	(159,972)	(3,407,917)
Total Cash and Pool Investments	330,636,126	379,865,904	299,372,274	(49,229,779)	31,263,852
<b>Cash with Fiscal Agents</b>					
Agency Fund Checking Accounts	69,172	34,062	33,596	35,110	35,576
Lease Financing Trust Accounts	5,905,513	306,626	12,838,167	5,598,887	(6,932,654)
Community Facilities District Accounts	5,120,705	5,113,745	5,061,096	6,959	59,609
Pollution Remediation Escrow	2,002,739	2,002,571	2,001,653	167	1,086
Total Cash with Fiscal Agents	13,098,128	7,457,005	19,934,512	5,641,124	(6,836,384)
<b>Total City Cash and Investments</b>	<b>\$ 343,734,254</b>	<b>\$ 387,322,909</b>	<b>\$ 319,306,786</b>	<b>\$ (43,588,655)</b>	<b>\$ 24,427,468</b>



The amounts shown in the preceding tables by investment category or fund category represent the value of the City’s cash and investment holdings on the basis of their cost. The market value of these holdings, also referred to as the “fair value,” represents the amount the City would receive if it were to sell its investments at the current market price. At any point in time, the difference between the market value and the cost basis, referred to as the “fair value adjustment,” represents the unrecognized gain or loss on the portfolio. Although unrecognized gains or losses have no impact on investment earnings, governmental accounting standards require that the fair value adjustment be incorporated into the City’s financial reporting. To the extent that the City actually sells investments prior to maturity, it recognizes the gains or losses and allocates them by fund as part of its investment earnings.

**Investment Activity**

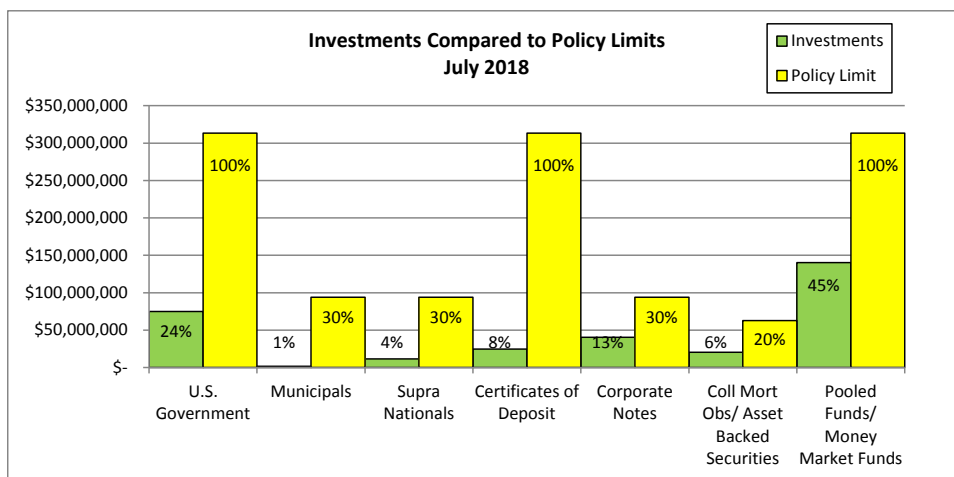
A summary of current month investment activity is provided in the table below.

Date	Redemption			Purchases			Average Rate	Average Maturity (days)
	Securities	Pools/ Money Market Funds	Total	Securities	Pools/ Money Market Funds	Total		
07/02/18	\$ (2,445,468)	\$ -	\$ (2,445,468)	\$ 2,317,451	\$ -	\$ 2,317,451	1.50%	1,699
07/11/18	-	-	-	774,819	-	774,819	3.02%	1,763
07/17/18	-	-	-	1,044,960	-	1,044,960	3.03%	1,635
07/18/18	(325,206)	-	(325,206)	-	-	-	-	-
07/20/18	(1,001,055)	-	(1,001,055)	-	-	-	-	-
07/31/18	-	(48,606,303)	(48,606,303)	-	118,264	118,264	2.11%	46
<b>Total 07/18</b>	<b>\$ (3,771,729)</b>	<b>\$ (48,606,303)</b>	<b>\$ (52,378,032)</b>	<b>\$ 4,137,230</b>	<b>\$ 118,264</b>	<b>\$ 4,255,494</b>	<b>2.17%</b>	<b>1,649</b>

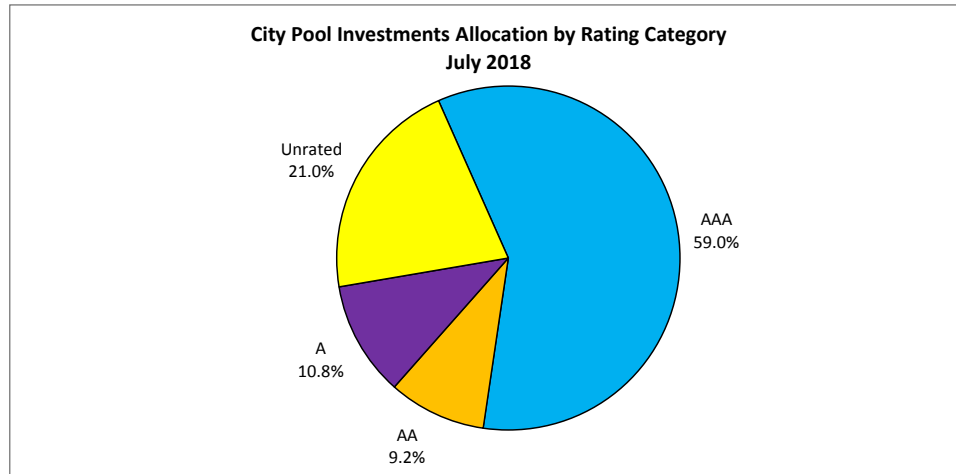
**Safety: Allowable Investments and Portfolio Composition**

The Government Code specifically identifies investment instruments that may be used by California local agencies, and the City’s Investment Policy incorporates these into its section on authorized and suitable investments. Because these authorized investments are restricted to instruments issued or guaranteed by the federal government, other public agencies, banks, or highly-rated corporations, the risk that the issuer will fail to pay scheduled interest or repay principal when due (“credit risk”) is limited. The Government Code and Investment Policy do not allow the City to purchase ownership shares in private or public corporations, real estate, or other physical assets for investment purposes.

To further reduce credit risk, the Government Code and Investment Policy impose 20%, 25%, or 30% maximum portfolio holding limits on specific instrument types, and a 5% maximum on instruments issued by any individual non-federal public agency, bank, or corporation.



The credit-worthiness of corporate and public-agency investment instruments is measured on ratings scales developed by nationally recognized securities rating organizations (NRSROs) such as Standard & Poor’s and Moody’s Investors Service. The City’s Investment Policy requires that certain types of investments be rated in at least the third-highest rating category (“A” category), or in one of the two highest short-term rating categories (“A-1” or “A-1+”) in the case of certain short-term investments.



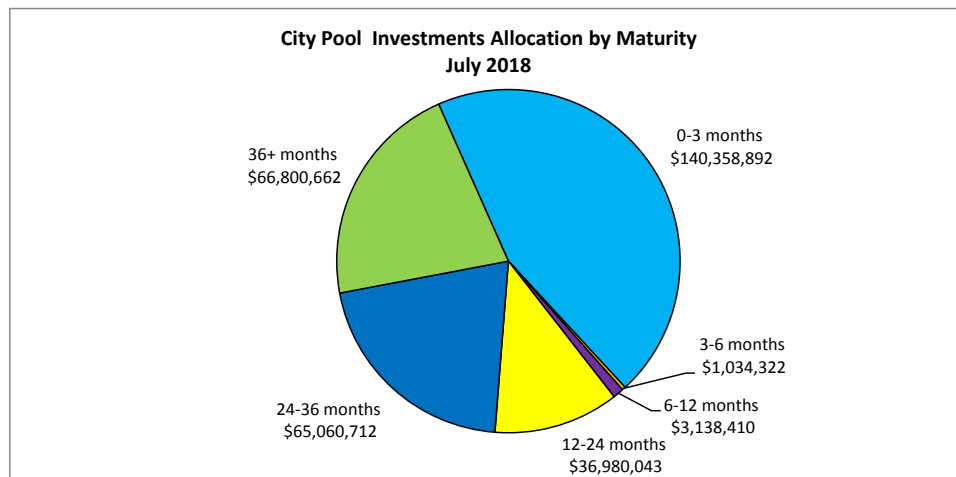
To assist the City in purchasing appropriate investment instruments, monitoring the credit quality of City investments, and achieving a market rate of return, the City has engaged PFM Asset Management LLC (“PFM”) to manage a portion of the investment portfolio. As discussed in more detail elsewhere, PFM actively manages the portion of the investment portfolio that exceeds the City’s near-term liquidity needs (the “Core Portfolio”). The City holds the remaining balance of the portfolio in highly liquid investments such as the State of California Local Agency Investment Fund (“LAIF”), the California Asset Management Program (“CAMP”), and government agency money market funds.

**Liquidity: Investment Maturities and Cash Flow Analysis**

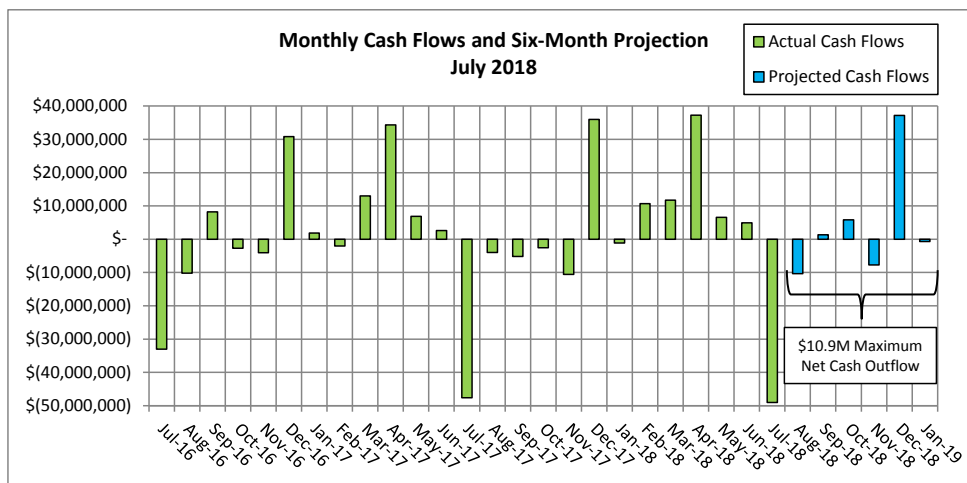
The Investment Policy specifies that “the City’s investment portfolio shall remain sufficiently liquid to enable the City to meet all operating requirements which might be reasonably anticipated.” Accordingly, the City has divided its investment portfolio into a portfolio of highly-liquid and short-term investments managed by City staff (the “Liquidity Portfolio”) and the Core Portfolio of longer-term investments managed by PFM.

<b>City Pool Investments</b>	<b>Current Month 07/31/2018</b>
Liquidity Portfolio	\$140,535,405
Core Portfolio	176,988,149
Fair Value Adjustment	(4,150,511)
<b>Total City Pool Investments</b>	<b>\$313,373,042</b>

Appropriate sizing of the Liquidity Portfolio is a key risk management tool, as a lack of liquid assets could necessitate the sale of securities in the Core Portfolio under unfavorable market conditions and lead to a loss of principal. However, allocating too much of the investment portfolio to highly liquid short-term instruments could deprive the City of the higher interest earnings generated from the Core Portfolio’s longer-term investments.



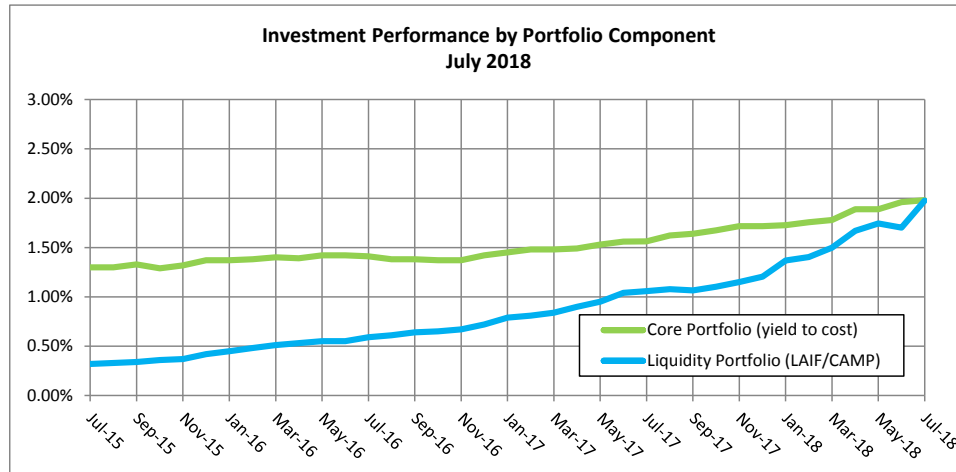
Annually, City staff and PFM review and analyze historical monthly cash flow data. In months when revenue (primarily property tax) exceeds expenditures, cash balances increase, and in months when expenditures exceed revenue, cash balances decrease. In a typical fiscal year, the maximum cumulative net cash outflow occurs in November, the month before the first installment of property tax, and the maximum cumulative net cash inflow occurs after the second installment of property tax in April. The City’s Liquidity Portfolio is sized to cover at least the maximum projected cumulative net monthly cash outflow over the following year (approximately \$50 million) plus an additional balance equivalent to the contingency reserve requirements of the various operating funds (another \$50 million). The remaining portion of the investment portfolio constitutes the Core Portfolio.



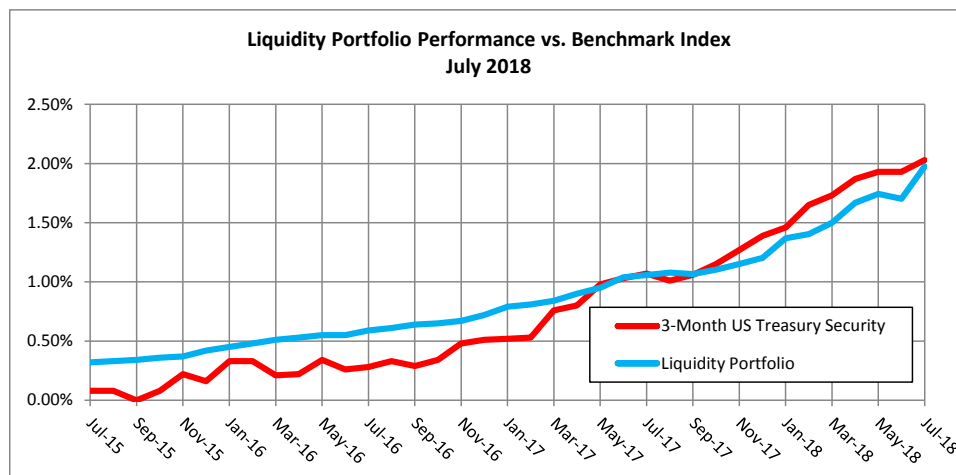
The City’s Liquidity Portfolio currently provides sufficient liquidity to meet the City’s payment obligations for the next six months.

**Yield: Portfolio Performance**

The performance objective specified in the City’s Investment Policy is to obtain a market rate of return, taking into account the allowable investments and the liquidity needs of the portfolio. As noted in the previous section, the City’s portfolio has been divided into two components (Liquidity and Core), each with significantly different cash flow characteristics and investment horizon. In general, the Liquidity Portfolio, composed of short-term investments held in LAIF and CAMP, will reflect market changes much more rapidly than the Core Portfolio.



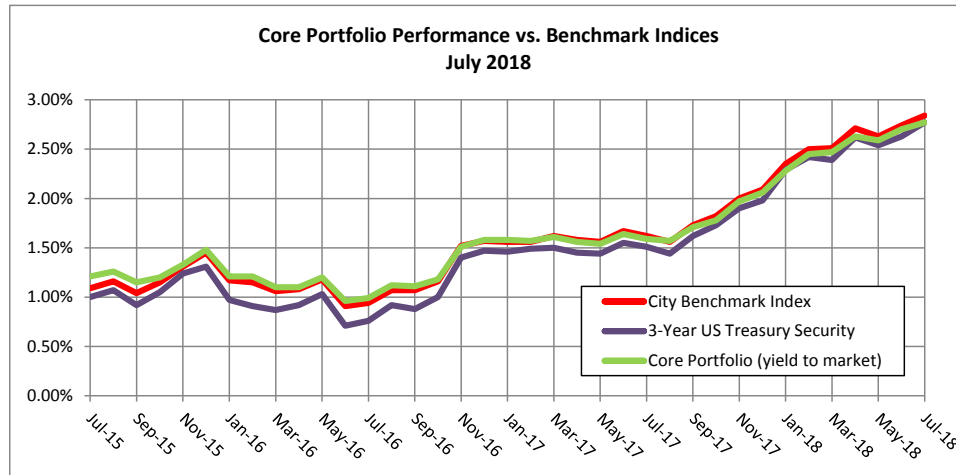
The Liquidity Portfolio is invested in LAIF, CAMP, and a money market account, with an additional amount held in the City’s checking account. LAIF, CAMP, and the money market account are pooled funds, meaning that a large number of investors have combined their cash holdings for investment purposes. Because pool participants have at least somewhat dissimilar cash flow requirements, the pooled portfolio can be invested in relatively longer-term securities with higher yields, while maintaining next-day funds availability for each participant. Although the funds held in this portfolio component generally have next-day or same-day availability, the average maturity of the pooled investments constituting the City’s Liquidity Portfolio is approximately 90 days. Accordingly, the Liquidity Portfolio is benchmarked against the yield on the 3-month U.S. Treasury security, with the expectation that its yield will generally track the benchmark.



The Core Portfolio, actively managed by PFM, is designed to take advantage of the full range of allowable investments with maturities generally ranging from one to five years. Active management results in the periodic reallocation of the portfolio among asset classes and maturities in response to

changes in the capital markets and opportunities to increase total return (the combination of gains in market value and interest earnings).

The Core Portfolio is benchmarked against the Bank of America Merrill Lynch 1-5 Year U.S. Corporate & Government A-AAA Index (the “BAML Index”). As the Core Portfolio and the BAML Index both have an average maturity of approximately three years, but take advantage of the full range of allowable investments, we expect them to out-perform the 3-year U.S. Treasury security.



The following table summarizes the investment yields and average maturities of the City’s investment portfolio components, along with the comparable-maturity U.S. Treasury securities. Also shown are the monthly investment earnings (including realized gains and losses) and aggregate year-to-date earnings.

	<u>Current Month</u> <u>07/31/2018</u>	<u>Prior Month</u> <u>06/30/2018</u>	<u>Prior Year</u> <u>07/31/2017</u>	<u>Change from</u> <u>Prior Month</u> <u>07/18 to 06/18</u>	<u>Change from</u> <u>Prior Year</u> <u>07/18 to 07/17</u>
<b>Investment Yield</b>					
Liquidity Portfolio	1.97%	1.70%	1.06%	0.27%	0.91%
U.S. Treasury - 3 Month	1.94%	1.93%	1.07%	0.01%	0.87%
Core Portfolio (yield at market)	2.78%	2.71%	1.61%	0.07%	1.17%
U.S. Treasury - 3 Year	2.77%	2.63%	1.51%	0.14%	1.26%
Core Portfolio (yield at cost)	1.98%	1.96%	1.56%	0.02%	0.42%
<b>Average Maturity of Investments (in days)</b>					
Liquidity Portfolio	114	90	140	24	(26)
Core Portfolio	979	983	1,011	(4)	(32)
<b>Current Month Earnings</b>					
Governmental Funds	\$ 365,652	\$ 854,908	\$ 478,935	\$ (489,256)	\$ (113,283)
Agency Funds	14,320	32,156	14,663	(17,836)	(343)
Total Current Month Earnings	<u>\$ 379,972</u>	<u>\$ 887,065</u>	<u>\$ 493,598</u>	<u>\$ (507,092)</u>	<u>\$ (113,625)</u>
<b>Fiscal Year to Date Earnings</b>					
Governmental Funds	\$ 365,652	\$ 4,287,480	\$ 478,935	\$ (3,921,828)	\$ (113,283)
Agency Funds	14,320	158,263	14,663	(143,943)	(343)
Total Year to Date Earnings	<u>\$ 379,972</u>	<u>\$ 4,445,743</u>	<u>\$ 493,598</u>	<u>\$ (4,065,770)</u>	<u>\$ (113,625)</u>



**Certifications and Attachment**

In accordance with the requirements of the Investment Policy, as Finance Director/Treasurer I certify to the following:

- All investment activities since the last report have been made in full compliance with the Investment Policy.
- The City will meet its expenditure requirements for the next six months.

The tables and charts included in the body of this report provide an overview of the City's cash and investment holdings. The attachment contains a complete description of the portfolio, including the types of investments, issuers, maturity dates, par values and current market values.

This report is available at the City's website on the Financial Reports page:  
<https://www.fremont.gov/1593/Financial-Reports>.

If you have any questions, please contact me at (510) 494-4610.



David Persselin  
Finance Director/Treasurer





City of Fremont Treasurer's Report  
Cash and Investment Portfolio - July 31, 2018

Portfolio	CUSIP/ Account	Issuer/Institution	Par Amount	Coupon	Maturity	Original Cost/ Balance	Yield	Market Value	Accrued Interest	S&P Rating	Moody's Rating
<b>City Investments by Portfolio</b>											
	Core Portfolio					\$ 176,988,148.66					
	Liquidity Portfolio					140,535,404.80					
	Unrecognized Gain/(Loss)					(4,150,511.38)					
		<b>Subtotal</b>				<b>313,373,042.08</b>					
<b>Checking Accounts</b>											
	General City	Bank of America				17,230,279.42	0.00%				
	Police Bail	Bank of America				500.00	0.00%				
		<b>Subtotal</b>				<b>17,230,779.42</b>					
<b>Petty Cash</b>											
	001-12001	City Manager's Office				500.00					
	001-14000	Finance Administration				2,750.00					
	001-15000	Human Resources				200.00					
	001-21010	Police Chief's Office				7,000.00					
	001-21110	Police Administration				7,400.00					
	001-21910	Animal Shelter				500.00					
	001-21999	Police Investigative Services - Bail				200.00					
	102-53410	Youth Service Center				270.00					
	108-53990	Family Resource Center				40.00					
	186-53310	Senior Center				250.00					
	189-00000	Recreation Snack Bars				3,500.00					
	189-61002	Recreation Administration				2,000.00					
	189-61003	Recreation Registration				200.00					
	189-61011	Water Park				6,944.00					
	189-61022	Tennis Center				175.00					
	189-61047	Boat Rental				375.00					
		<b>Subtotal</b>				<b>32,304.00</b>					
<b>Total City Cash and Investments</b>						<b>\$ 330,636,125.50</b>					
<b>Cash with Fiscal Agents</b>											
Agency Fund Checking Accounts											
	SACMCTF JPA	Bank of America				33,663.05	0.00%				
	FRC Corp.	Heritage Bank				35,508.98	0.20%				
2012A Certificates of Participation - MUFG Union Bank											
	6711981501	Lease Payment Fund				1,032,006.25	1.85%				
2016 Energy Efficiency Financing - Bank of New York											
	743930	Project Escrow				95,792.28	0.00%				
2017A Lease Revenue Bonds - MUFG Union Bank											
	6712196601	Revenue Fund				4,567,874.91	1.85%				
	6712196605	Project Fund				209,719.51	1.85%				
2017B Lease Revenue Bonds - Bank of New York											
	657938	Bond Fund				120.19	1.81%				
2015 CFD 1 Special Tax Bonds - Bank of New York											
	515408	Reserve Fund				5,093,594.33	1.72%				
	515409	Bonds Fund				52.07	0.00%				
	515437	Special Tax Fund				1,006.08	0.00%				
	515439	Improvements Fund				26,050.03	1.72%				
	515454	Escrow Fund				2.00	0.00%				
Centerville USD Pollution Remediation Escrow - Heritage Bank											
	1894716230	Escrow Account				2,002,738.80	0.05%				
<b>Total Cash with Fiscal Agents</b>						<b>\$ 13,098,128.48</b>					
<b>Grand Total</b>						<b>\$ 343,734,253.98</b>					