



Agenda Item: 14.B
Date of Meeting: June 24, 2024
Department: Finance

STAFF REPORT

To: City Council
From: Ethan Aukee
Subject: **Participation in California Cooperative Liquid Assets Securities System**
Prepared On: June 11, 2024
Attachments: California CLASS Features and Benefits
California CLASS Prime Rate Sheet
California CLASS Participant List
California CLASS Registration Packet

Background/History:

The California Cooperative Liquid Assets Securities System (California CLASS) is a joint exercise of powers entity authorized under Section 6509.7, California Government Code. California CLASS provides California public agencies with a convenient method for investing in high-quality, short- to medium-term securities carefully selected to optimize interest earnings while prioritizing safety and liquidity. The California CLASS Prime and Enhanced Cash funds offer public agencies the opportunity to strengthen and diversify their cash management programs in accordance with the safety, liquidity, and yield hierarchy that governs the investment of public funds.

Participation in California CLASS is open to all public agencies in the State of California that have the authority to invest their treasury's funds. According to California Government Code 6500, the federal government or any federal department or agency, this state, another state or any state department or agency, a county, county board of education, county superintendent of schools, city, public corporation, public district, or regional transportation commission of the State of California or another state, or any joint powers authority formed pursuant to this article [Article 1 of the Joint Exercise of Powers Act] by any of these agencies can participate in California CLASS. Additionally, according to Section 6509.7, a nonprofit corporation whose membership is confined to public agencies or public officials may also participate.

The City of Bishop Administrator and Finance Director met virtually with Jerry Legg (California CLASS). During this meeting, information was presented to illustrate the details of California CLASS and what would be needed for the City of Bishop to participate.

Analysis/Discussion:

Following research and discussion with California CLASS, both the City Administrator and the City Finance Director advise that it's in the City of Bishop's best interests to become a participant and purchase shares of beneficial interest issued by the California CLASS from time to time.

California CLASS is same-day liquid, meaning investors have immediate access to their funds and can typically withdraw on the same business day during which a request is made. The City's current main investment option, LAIF, is also same-day liquid. This is important as it maximizes the City's ability to manage its assets effectively and ensures that City cash remains available to meet City liabilities.

Two Main Factors Differentiate California CLASS from LAIF

1. The Average Maturity Date of its Investments

California CLASS maintains a significantly shorter average maturity date within its investment pool, which provides for more sensitivity to the federal funds rate. Returns yielded from California CLASS should mirror returns yielded from LAIF, but with the shorter average maturity date, California CLASS returns will be more sensitive to changes in the federal funds rate, which results in more pronounced changes in yield. To use a metaphor, returns from California CLASS are like steering a car, and returns from LAIF are like steering a cargo ship. California CLASS is quickly changing, provides for greater returns, and regresses to minimal returns more quickly than LAIF. LAIF is slower to react to macroeconomic changes, resulting in lesser returns, but less volatility and slower regression to minimal returns. It would be beneficial for the City to have both LAIF and California CLASS as investment options, as each option could be utilized to be more beneficial than the other based on macroeconomic factors and projections.

2. The Rate at Which Interest is Accrued and Paid to Investors

LAIF accrues and pays interest to investors on a quarterly basis, California CLASS accrues and pays interest to investors on a monthly basis. Currently, California CLASS is returning 5.39% on a monthly basis and LAIF is returning 4.41 % on a quarterly basis. By investing in LAIF and not California CLASS while the federal funds rate remains high, the City is missing out on a 1% return, compounded monthly instead of quarterly.

As long as the City monitors the daily yield for each investment option and monitors changes in the federal funds rate, the City should be able to utilize both investment pool options to maximize returns on City reserve funds.

Economic Impacts:

No significant economic impacts.

Budget Impacts:

Participation in California CLASS could lead to increased interest revenue from time to time.

Legal Review:

City Attorney Pucci has reviewed this item and finds that the recommended action complies with the law.

Recommended Action:

City Council to authorize the City Administrator to complete the California CLASS Registration Packet so that the City may purchase shares of beneficial interest issued by the California CLASS from time to time with available funds of the City, and to redeem such shares as needed.

Approved By: Ethan Aukee 6/11/2024

Approved By: Robin Picken 6/11/2024

Approved By: Deston Dishion 6/11/2024

Approved By: