



**ITEM ID:** 2023-198-0

**TRANSMITTAL DATE:** June 2, 2023

**MEETING DATE:** June 9, 2023

**TO:** Audit and Finance Committee

**FROM:** Arnold Hackett, Chief Financial Officer

**SUBJECT:** FY2022-23 Quarterly Investment Report - Quarter Ended March 31, 2023

### **Issue**

The Authority's Annual Investment Policy requires the Treasurer to make a quarterly investment report to the Board of Directors. Section 53646 of the California Government Code encourages local agencies to file this report. This report is for the quarter ended March 31, 2023.

### **Recommendation**

Receive and file.

### **Strategic Commitment**

This report aligns with the Strategic Business Plan commitment of:

- **Modernizing Business Practices:** We will improve our operational efficiency through transparency, objective metrics and streamlined governance, reducing over-reliance on subsidy while bringing our system into a state of good repair, investing in the development of our employees and maintaining fiscal sustainability.

### **Background**

The objective of the Authority's investment strategy is to ensure that its funds are prudently invested to preserve capital, provide necessary liquidity and achieve a market-average rate of return through economic cycles.

The Authority's externally managed funds are maintained with the State of California's Local Agency Investment Fund (LAIF) and money market account with Bank of America. These investment vehicles are designed to enhance total return consistent with the objective of safety and liquidity.

**Discussion**

<b>Cash Portfolio as of March 31, 2023</b>		
<i>(Dollar amount in millions)</i>		
<b>Restricted Funds</b>		
Local Agency Investment Fund (LAIF Regular acct)	\$19.4	
Local Agency Investment Fund (LAIF CARES Act)	33.7	
Bank of America Money Market Reserves	<u>4.0</u>	\$57.1
<b>Unrestricted Funds</b>		
Cash on hand	63.4	
Minimum cash threshold	50.0	
Legal, high exposure accounts	<u>5.4</u>	<u>118.8</u>
<b>Total portfolio</b>		<b><u>\$175.9</u></b>

**Restricted Funds**

**Local Agency Investment Fund (LAIF) Regular Account**

LAIF is a pooled fund managed by the State Treasurer in which the Authority is a voluntary participant. It is an investment alternative for California's local governments and offers local agencies the opportunity to participate in a major portfolio that invests hundreds of millions of dollars, using the investment expertise of the State Treasurer's office investment staff at no additional cost to the Authority.

The \$19.4 million balance in the Authority's LAIF regular account is comprised of grants from Proposition 1B (Prop 1B) and accumulated interest earnings already earmarked in prior years for existing Capital and Rehabilitation projects. This balance does not represent a source of available funding. The active thirty-one (31) Prop 1B-funded projects are listed in Attachment A.

Prop 1B was approved by California voters on November 7, 2006 to authorize \$19.9 billion of State General Obligation Bonds for specific transportation programs intended to relieve congestion, facilitate movement of goods, improve air quality, and enhance the safety of the State's transportation system.

The Authority submits funding applications to the State and receives Prop 1B funds, which are designated for specific purposes such as rehabilitation, replacement and expansion of various assets including tracks, bridges, signals, rolling stock, ticket vending machines, grade crossing

improvements, and positive train control system. Specific projects that may qualify for new Prop 1B grants are identified during the annual budget process. At each fiscal year-end, the balance in the LAIF account is shown on the Authority's Annual Financial Report within the notes to basic financial statements.

### **Local Agency Investment Fund (LAIF) CARES Act Funds Account**

In June 2020, the State Treasurer authorized the Local Agency Investment Fund to offer special Emergency LAIF accounts to those agencies receiving Coronavirus Aid, Relief, and Economic Security (CARES) Act Funds. CARES Act Emergency accounts are subject to a seventy-five million (\$75,000,000) cap and a limit of 15 transactions per month.

CARES Act Emergency accounts are temporary accounts solely for deposit of CARES Act funds. Once the agency has withdrawn all funds from the account, and after six months of inactivity, LAIF will close the account. Proof, either from the federal government or through the Department of Finance, of amount of assistance received is required at the time the Agency opens the account (e.g., a wire identifying the amount received with purpose noted).

In July 2020, the Authority received \$170,552,202 in operating assistance grant through the Federal Transit Administration (FTA) CARES Act on behalf of four member agencies (OCTA, RCTC, SBCTA and VCTC). CARES Act funds are to be used for operating expenses incurred beginning January 20, 2020, until they are depleted. Fare revenues, dispatching revenues, maintenance-of-way revenues and insurance recoveries will be deducted from amounts billed to the FTA CARES. Any federal funds received for preventive maintenance will also be deducted from amounts billed. No amounts requested in this grant will be reimbursed by other sources.

In October 2020, the Authority opened its LAIF CARES Act account and deposited \$53.5 million during the second quarter of that fiscal year. In April 2021, the Authority deposited an additional \$21.0 million that increased its LAIF CARES Act account balance to \$74.5 million.

Member agencies used their CARES Act funds to pay for their quarterly contributions totaling \$40.8 million, leaving a balance of \$33.7 million in LAIF CARES Act fund as of March 31, 2023.

### **Bank of America (BofA) Money Market Fund**

The Authority has established a Bank of America money market reserves account in connection with the use of its lease/leaseback proceeds, which historically have been and continue to be, restricted by the Board. As of March 31, 2023, approximately \$4.0 million is invested in BofA securities, which the Board has earmarked for capital maintenance of rolling stock to ensure it is in good condition to meet and maximize its useful life. Interest earnings on the account may be used for other specific purposes as approved and directed by the Board.

### **Unrestricted Funds**

#### **Cash on Hand**

Approximately \$63.4 million in cash that includes interest earned, used for daily operations was on hand and available at Union Bank as of March 31, 2023.

#### **Minimum Cash Threshold**

\$50.0 million is maintained as cash threshold to meet projected operating and capital

expenditures within thirty (30) days. If the cash balance is projected to fall below \$50.0 million for more than two consecutive months, staff will notify the Board.

In February 2020, the Authority placed its \$25.0 million in minimum cash threshold to an interest-bearing deposit account at Union Bank that can yield up to 0.75% in annual variable interest rate.

In September 2020, the Board approved an increase of the minimum cash threshold to \$50.0 million.

In November 2020, the Authority placed an additional \$25.0 million to its existing interest-bearing deposit at Union Bank to complete the \$50.0 million minimum cash threshold requirement. This account now yields up to 1.25% in annual variable interest rate while still preserving the principal amount.

### **Legal, High Exposure Accounts**

In August 2020, the Authority separated and placed \$2.9 million in legal high exposure account funds in Union Bank.

In March 2023, the Authority separated and placed \$4.9 million in legal high exposure account funds in Union Bank.

The current balance in the account is \$5,377,615.87.

### **Investment Portfolio Compliance**

The composition of the investment portfolio as of March 31, 2023, complies with the provisions of the Authority's Annual Investment Policy where LAIF's deposit limit is capped at \$75.0 million and money market and mutual funds' maximum limit at 20% of the portfolio. The current LAIF regular account balance of \$19.4 million is below the \$75 million cap and BofA's securities balance at \$4.0 million represents only 7.0% of the Restricted Funds portfolio.

### **Interest Earned**

The interest earned on the Authority's restricted funds for the quarter ended March 31, 2023, equaled \$137,650.66 for regular LAIF account, representing 2.74% in annual interest rate; \$239,398.75 for special LAIF CARES Act account, representing 2.74% in annual interest rate; and \$43,157.75 for Bank of America, representing 0.36% in annual interest rate, while unrestricted funds deposited at Union Bank earned \$188,160.54, representing 1.25% in annual interest rate.

### **Next Steps**

The next quarterly investment status update will be provided to the Board in September 2023.

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Approved by:

Arnold Hackett, Chief Financial Officer

**Attachment(s)**

Attachment A - Prop 1B Projects and Funds Deposited in LAIF

Attachment B - Interest Earnings Comparison

Presentation - FY2022-23 Quarterly Investment Report - Quarter Ended March 31, 2023