



ITEM ID: 2024-192-0

TRANSMITTAL DATE: May 3, 2024

MEETING DATE: May 10, 2024

TO: Audit and Finance Committee

FROM: Arnold Hackett, Chief Financial Officer
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SUBJECT: FY2023-24 Preliminary Quarterly Investment Report - Quarter Ended March 31, 2024

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 and provides requirements for report content and disclosures. This report is for the quarter ended March 31, 2024, and contains estimated information published prior to the conclusion of the Authority's fiscal year close and is subject to adjustment.

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 funds are held in a variety of qualified financial institutions as indicated in the table below. The Authority's main checking and operating accounts are maintained with U.S. Bank. The Authority also maintains savings and investment accounts with U.S. Bank, the State of California's Local Agency Investment Fund (LAIF), and Bank of Montreal (BMO).

Discussion

The Authority's total cash and investments declined approximately \$4.2 million from the prior quarter ending December 31, 2023. This is primarily attributable to the timing of cash collections versus expenditures and represents typical working capital fluctuations. Total cash was \$4.1 million higher in 2024 than for the comparable period for 2023, as shown on Attachment A.

Cash and Investment Portfolio as of March 31, 2024		
<i>(\$ in millions)</i>		
Restricted Funds		
Local Agency Investment Fund-Prop 1B	\$21.4	
Local Agency Investment Fund-CARES	<u>18.2</u>	<u>39.6</u>
Unrestricted Funds		
U.S. Bank Operating Accounts	80.7	
BMO Money Market-Board Threshold	50.0	
U.S. Bank Money Market-Legal Reserve	<u>8.9</u>	<u>139.6</u>
Total Estimated Net Cash and Investments		<u>\$179.2</u>

Restricted Funds

Local Agency Investment Fund (LAIF) Prop 1B 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 totals over \$25 billion, using the investment expertise of the State Treasurer's office investment staff at no additional cost to the Authority.

The \$21.4 million balance in the Authority's LAIF regular account is funded by Proposition 1B (Prop 1B) and accumulated interest earnings already earmarked in prior years for existing Capital and State of Good Repair projects. This balance does not represent a source of immediately available funding; funds must be earned to be transferred and counted within SCRRA's available cash resources. The active Prop 1B-funded projects are listed in Attachment B.

Local Agency Investment Fund (LAIF) CARES Account

Member Agencies have and continue to use these funds to pay for their quarterly operating contributions, leaving a balance of \$18.2 million in the LAIF CARES account as of March 31, 2024. As of this date, all funds in the LAIF CARES account are attributed to VCTC.

Bank of America Investment Account - Rolling Stock Reserve

The related leaseback agreements were officially terminated effective February 1, 2022, as the Authority exercised the existing purchase option of the associated rolling stock. SCRRA liquidated and closed this account in Q2 FY24, moving the proceeds to the U.S. Bank main operating account.

Unrestricted Funds

U.S. Bank Operating Accounts

Approximately \$ 80.7 million in cash was on hand and available in the U.S. Bank operating accounts as of March 31, 2024. The \$ 80.7 million reported reflects the reported bank balance in U.S. Bank operating accounts less outstanding in-transit checks.

Board Threshold - BMO Money Market Demand Account

The Authority maintained a \$50.0 million principal balance in the BMO Money Market Demand Account (MMDA) for the quarter ending March 31, 2024. Pursuant to the Investment Policy, if the cash threshold balance falls below \$50.0 million for more than two consecutive months, staff will notify the Board. At the end of March, the available cash balance exceeded this threshold and no notification is required.

U.S. Bank Money Market Account - Legal Reserve

The Authority has set aside funds related to on-going legal exposure. Legal reserve funding reserves set aside totaled \$8.9 million as of March 31, 2024.

Available Cash Analysis

In addition to restricted cash, the Authority has pending liabilities against cash balances. These particular liabilities are subject to potential refund and adequate liquidity must be kept available for that purpose. After consideration of both restricted cash and these additional cash claims, SCRRA's net liquidity as of March 31, 2024, was \$ 67.6 million. Staff monitors SCRRA liquidity on a daily basis and adjusts to address and properly fund operations as needed.

Available Cash Analysis as March 31, 2024	
<i>Does not include LAIF, segregated reserve accounts</i>	
<i>(\$ in millions)</i>	
Cash Category:	
Net Operating Cash	\$130.7
<u>Less:</u>	
Member Agency Preventive Maintenance	(5.6)

TPA Advance Deposits	(31.8)
Member Agency Operating Surpluses	(9.5)
SCRRA/Member Agency Capital Surpluses	(12.1)
Rolling Stock Reserve/BofA Proceeds	(4.2)
Available Cash to Spend:	\$ 67.6

Interest Earned

Total interest earned and paid in Q3 FY24 was \$1,289,189, an increase of \$331,735 over the previous quarter. This represents a total weighted average yield on all accounts of 3.8%, or an increase from the prior quarter's total yield of 2.10%. In late February, Finance staff successfully negotiated with U.S. Bank an agreement whereby SCRRA would receive interest on its main Concentration account (operational checking account). This account had previously not earned interest beyond a credit that would cover all transactional banking fees. The interest earned to date from this change is \$279,994, for a potential annual run rate of approximately \$3 M in incremental revenue. No additional fees, conditions, contractual agreements or staff time is required to earn this incremental interest. It should be noted that the interest rate will fluctuate (currently 3.5%) as will the Concentration account cash balance to which it is applied.

A detailed list of interest received in Q3 FY24 by account is shown in Attachment A.

Investment Portfolio Compliance

The composition of the investment portfolio as of March 31, 2024, complies with all provisions of both the Authority's Annual Investment Policy and California Government Code Section 53600, et sec.

Code Section 53646 requires all local agencies reporting on a quarterly basis indicate the sufficiency of available monies to fund expenses for the next six months or provide an explanation as to why sufficient money shall, or may, not be available. As of March 31, 2023, SCRRA cannot confirm sufficiency to adequately fund the next six months of its operations and capital program. While adequate operational funding is provided for in the Authority's annual budgeting process, these operational funds are concurrently leveraged to advance-fund capital projects. In addition, a portion of operations funding arrives through external Federal grants, the timing of which can be significantly delayed. These factors, along with a lack of reserve funding, creates liquidity concerns and impairs the Authority's ability to provide assurance that adequate funding exists for the next six-month period per Code Section 53646.

Next Steps

The next Cash and Investments quarterly report for the quarter ended June 30, 2024, will be provided to the Board in September of 2024.

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Jeffrey Golfo, Finance Analyst I, Accounts Receivable

Approved by: Arnold Hackett, Chief Financial Officer

Attachment(s)

[Attachment A - FY2023-24 Quarterly Investment Report - Investment Balances and Interest Earned](#)

[Attachment B - FY2023-24 Quarterly Investment Report - Prop 1B Projects Presentation - Preliminary Quarterly Investment Report - Q3 FY24](#)