



ITEM ID: 2023-359-0

TRANSMITTAL DATE: November 9, 2023

MEETING DATE: November 17, 2023

TO: Board of Directors

FROM: Arnold Hackett, Chief Financial Officer
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SUBJECT: FY2023-24 Preliminary Quarterly Investment Report - Quarter Ended September 30, 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 September 30, 2023 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), Bank of Montreal (BMO), and Bank of America (BofA).

Discussion

The Authority's total cash and investments increased approximately \$29.6 million from the prior quarter ending June 30, 2023. This is primarily attributable to the timing of cash collections versus expenditures, as the Authority strives to maintain a balanced budget. Specifically, the increase related to the Q1 FY24 receipt of \$18.5 million of FY23 preventive maintenance grant funds which had been scheduled to occur in FY23, as well as the receipt of \$4.7 million in Prop. 1B advance funding.

Cash and Investment Portfolio as of September 30, 2023		
<i>(\$ in millions)</i>		
Restricted Funds		
Local Agency Investment Fund -- Prop 1B Account	\$22.3	
Local Agency Investment Fund -- CARES Account	19.3	
Bank of America Investment Account -- Rolling Stock Reserve	<u>4.1</u>	\$45.7
Unrestricted Funds		
U.S. Bank Operating Account -- Main Checking Account	53.3	
Bank of Montreal Money Market -- Board Threshold + Accrued Interest	51.3	
U.S. Bank Money Market Account -- Legal Reserve	<u>6.8</u>	<u>111.4</u>
Total Estimated Net Cash and Investments		<u>\$157.1</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 \$ 22.3 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 Rehabilitation projects. This balance does not represent a source of immediately available funding. The active Prop 1B-funded projects are listed in Attachment A.

At each fiscal year-end, the balance in the LAIF account is shown on the Authority's Annual Comprehensive Financial Report within the notes to basic financial statements.

Local Agency Investment Fund (LAIF) CARES 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. As with all LAIF accounts, CARES Act Emergency accounts are subject to a seventy-five million (\$75,000,000) cap and a limit of 15 transactions per month.

Member agencies have and continue to use these funds to pay for their quarterly operating contributions, leaving a balance of \$19.3 million in the LAIF CARES Act account as of September 30, 2023.

Bank of America Investment Account -- Rolling Stock Reserve

The Authority established the BofA investment account in 2003, in connection with the restructuring of leaseback transactions on the Authority's rolling stock originally occurring in 1996 and 1998. These funds have historically been and continue to be restricted by the SCRRA Board to be used for losses, damage, and maintenance of rolling stock included within the leaseback transaction agreements. The leaseback agreements were officially terminated effective February 1, 2022, as the Authority exercised the existing purchase option of the associated rolling stock. Currently, \$4.1 million is invested in this account.

Unrestricted Funds

U.S. Bank Operating Account -- Main Checking Account

Approximately \$ 53.3 million in cash used for daily operations was on hand and available in the U.S. Bank checking account as of September 30, 2023. This account does not bear interest, but balances are used as credit towards reducing incurred transactional banking fees.

Board Threshold -- BMO Money Market Demand Account

The Authority maintains a minimum of a \$50 million principal balance in the BMO Money Market Demand Account (MMDA). The current BMO interest rate is 4.0% and is compounded daily, resulting in an APY of approximately 4.08%. If the cash threshold balance is projected to fall below \$50.0 million for more than two consecutive months, staff will notify the Board.

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 \$6.8 million as of September 30, 2023.

Available Cash Analysis

In addition to restricted cash, the Authority recognizes certain claims on existing cash balances that serve to further reduce available cash to fund operations and capital advances. These claims relate to unearned revenue balances (TPAs), and surplus and preventive maintenance funds held on behalf of Member Agencies. These liabilities are subject to potential refund, and adequate liquidity must be available for that purpose. After consideration of both restricted cash and these additional cash claims, SCRRA's net liquidity as of September 30, 2023, was \$34.1 million. Staff monitors SCRRA liquidity on a daily basis and adjusts to address and properly fund operations as needed.

Available Cash Analysis as of September 30, 2023		
<i>Does not include LAIF, segregated reserve accounts</i>		
<i>(\$ in millions)</i>		
Cash Category:		
Net Operating Cash (Concentration + BMO MMDA Account)	\$104.6	
<u>Less:</u>		
Member Agency Preventive Maintenance	(9.5)	
TPA Advance Deposits	(29.3)	
Member Agency Operating Surplus	(17.7)	
Capital Surplus-SCRRA/Member Agency	(14.0)	
Net Available Cash to Spend:	\$ 34.1	

Interest Earned

Total interest earned and paid in Q1 FY24 was \$947,136, an increase of \$174,619, or 23% over the previous quarter. This represents an approximate weighted average yield of 3.6% on balances outside of the non-interest-bearing checking account. This yield has increased significantly based upon the Federal Reserve raising the Federal Funds rate ten times since March of 2022. This has allowed the Authority to negotiate and access higher interest rates on all interest-bearing accounts. US Bank has recently raised its rate to 3.75% after SCRRA moved incremental funding to BMO.

A detailed list of interest received in Q1 FY24 by account is shown as Attachment B.

Investment Portfolio Compliance

The composition of the investment portfolio as of June 30, 2023, complies with all provisions of both the Authority's Annual Investment Policy and California Government Code Section 53600, et sec.

Next Steps

The next Cash and Investments quarterly report for the quarter ended December 31, 2023, will be provided to the Board in March of 2024.

Prepared by: Vivien Avella, Senior Manager, Finance
Diana Gregana, Accountant II, Grants Accounting
Jeffrey Golfo, Finance Analyst I, Accounts Receivable

Approved by: Arnold Hackett, Chief Financial Officer

Attachment(s)

Attachment A - FY2023-24 Preliminary Quarterly Investment Report Quarter Ended September 30 2023

Attachment B - FY2023-24 Preliminary Quarterly Investment Report Quarter Ended September 30 2023

Presentation - Preliminary Quarterly Investment Report Quarter Ended September 30, 2023