



ITEM ID: 2023-294-0

TRANSMITTAL DATE: September 1, 2023

MEETING DATE: September 8, 2023

TO: Audit and Finance Committee

FROM: Arnold Hackett, Chief Financial Officer

SUBJECT: FY2022-23 Preliminary Quarterly Investment Report - Quarter Ended June 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 June 30, 2023, 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 financial institutions as indicated in the table below. The Authority's main checking and operating accounts are maintained with U.S. Bank, which recently acquired Union Bank of California. The Authority also maintains savings and investment accounts with U.S. Bank, the State of California's Local Agency Investment Fund (LAIF), Bank of the West (BOTW), and Bank of America (BofA).

Discussion

The Authority's total cash and investments declined approximately \$46 million from the prior quarter ending March 31, 2023. This is primarily attributable to the timing of cash collections versus expenditures, as the Authority maintains a balanced budget. Given the Authority's lack of cash reserves and reimbursement funding model for capital projects, undue delays in cash collections cause declines in cash flow and strain liquidity that is needed to fund both operations and capital projects. Past due receivables remaining outstanding as of June 30, 2023, totaled \$15.6 million, which contributed to the cash decline. These uncollected receivables relate to delayed receipt of pass-through grant funding used to pay Member Agency operating subsidies. One-time capital projects with delayed reimbursement schedules.

Cash and Investment Portfolio as of June 30, 2023		
<i>(\$ in millions)</i>		
Restricted Funds		
Local Agency Investment Fund -- Prop 1B Account	\$18.4	
Local Agency Investment Fund -- CARES Account	20.8	
Bank of America Investment Account -- Rolling Stock Reserve	<u>4.1</u>	\$43.3
Unrestricted Funds		
U.S. Bank Operating Account -- Main Checking Account	28.2	
U.S. Bank Money Market Account -- Board Threshold	25.8	
Bank of the West Money Market Account -- Board Threshold	25.1	
U.S. Bank Money Market Account -- Legal Reserve	<u>6.2</u>	<u>85.3</u>
Total Estimated Net Cash and Investments		<u>\$128.6</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 \$18.4 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 Rehabilitation projects. This balance does not represent a source of immediately available funding. Funds are only drawn down when earned. The active six (6) 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.

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 have used their CARES Act funds to pay for their quarterly operating contributions, leaving a balance of \$20.8 million in LAIF CARES Act fund as of June 30, 2023.

Bank of America Investment Account -- Rolling Stock Reserve

The Authority established the BofA investment account (with predecessor bank Merrill Lynch, since acquired by BofA) 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. The funds have historically been invested in a money market mutual fund, which is permitted under the Authority's Investment Policy.

Unrestricted Funds

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

Approximately \$28.2 million in cash used for daily operations was on hand and available in the U.S. Bank checking account as of June 30, 2023. This account does not bear interest, but balances are used as credit towards reducing incurred transactional banking fees.

Board Threshold -- U.S. Bank and BOTW Money Market Accounts

The Authority maintains \$50 million principal plus accumulated interest, currently split between the U.S. Bank and BOTW money market accounts. A minimum cash threshold of \$50.0 million is maintained to meet projected operating and capital expenditures within sixty (60) days. If the cash threshold 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 (now U.S. Bank). 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.

In May 2023, the authority transferred \$25.0 million from U.S. Bank to BOTW, preserving the \$50.0 million Board cash threshold requirement within two accounts. The funds were transferred to BOTW due to more competitive interest rates. The U.S. Bank account yielded 2.70% as of June 30, 2023. Bank of the West account yielded 3.56% as of the same date.

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 \$6.2 million as of June 30, 2023.

Interest Earned

Total interest earned and paid in Q4 FY23 was \$772,517, an increase of \$213,457, or 38% over the previous quarter. This represents a weighted average yield of 2.9% on balances outside of the non-interest-bearing checking account. The substantial increase is 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, specifically on its US Bank and BOTW money market investment accounts.

A detailed list of interest received in Q4 FY23 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 investment report for the quarter ending September 30, 2023 will be provided to the Board in November, 2023.

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Approved by: Arnold Hackett, Chief Financial Officer

Attachment(s)

[Attachment A - FY2022-23 Preliminary Quarterly Investment Report - Quarter Ended June 30, 2023](#)

[Attachment B - FY2022-23 Preliminary Quarterly Investment Report - Quarter Ended June 30 2023](#)

[Presentation - Preliminary Quarterly Investment Report Qtr Ended June 30, 2023](#)