CITY OF COMMERCE
AGENDA REPORT

Item No. 4

TO: Honorable City Council

FROM: City Manager

SUBJECT: Quarterly Investment Report – Quarter Ending June 30, 2026

MEETING DATE: August 11, 2026

RECOMMENDATION:

Staff recommends that the City Council receive and file the Quarterly Investment Report for the quarter ending June 30, 2026.

BACKGROUND:

The quarterly investment report is submitted in accordance with Government Code §53646 and Section XII of the City of Commerce Investment Policy Statement. The report provides a comprehensive overview of the City's investment portfolio as of June 30, 2026, including the types of investments, performance metrics, and compliance with the established investment policy.

DISCUSSION:

As of June 30, 2026, the City's total investment portfolio value is $157,423,848, consisting of securities investments, cash holdings, and Local Agency Investment Fund (“LAIF”) as detailed below:

Component	Amount
Securities	$81,324,268
Cash	44,758,141
LAIF	31,341,438
Total Portfolio Value	**$157,423,848**

Securities Performance Metrics

Weighted Average Maturity	2.60 years
Weighted Average Yield	3.93%
Interest Income Generated Through 6/30/26	**$2,971,654**

The City's investment portfolio achieved a weighted average yield of 3.93% with a weighted maturity of 2.60 years. Through June 30, 2026, the portfolio generated approximately $3.0 million in interest earnings in just nine months. This represents an increase of approximately *$1.7 million*, or *130%*, compared to the prior fiscal year, demonstrating the significant financial benefit of the City's enhanced investment strategy. Based on current holdings and yield-to-maturity performance, the City expects to generate approximately $4.5 million in investment earnings in FY 2026-27.

Type of Investments

The portfolio's structure reflects current interest rate environment and incorporates a measured maturity ladder to balance interest generated with liquidity and market risk considerations. The City's investment portfolio is diversified across multiple asset classes in accordance with the Investment Policy Statement. The following table details the allocation by investment type:

Investment Type	Market Value	% of Portfolio
US Treasuries	$29,328,154	36%
Corporate Bonds	23,771,486	29%
Mortgage-Backed Securities (MBS)	10,825,425	13%
Asset-Backed Securities (ABS)	9,862,734	12%
Commercial Paper	5,005,118	6%
US Government Agencies	2,003,700	2%
Money Market Funds	527,651	1%
Total Securities	**$81,324,268**	**100%**

This allocation supports the City's policy objectives by maintaining high credit quality and diversification across issuer types and security structures, while ensuring adequate liquidity for ongoing operating and capital needs.

Maturity Distribution

The securities portfolio is structured to provide liquidity in the near-term while allowing the City to capture yield opportunities intermediate-term investments. The maturity distribution is as follows:

Maturity Period	Market Value	% of Portfolio
0-1 year	$15,609,352	19%
1-2 years	11,977,278	15%
2-3 years	19,094,439	23%
3-4 years	18,317,717	23%
4-5 years	16,325,482	20%
Total	**$81,324,268**	**100%**

This maturity ladder (i.e., the planned spread of maturities that balances liquidity and yield) supports the City's cash flow planning and reduces reinvestment risk by spreading maturities across multiple time horizons.

Compliance with Investment Policy

The City's investment portfolio is in full compliance with the Investment Policy Statement adopted by the City Council and with applicable provisions of the California Government Code. Specifically:

> **Safety:** All securities held meet or exceed the minimum credit quality requirements established in the policy. The portfolio is diversified across multiple issuers and security types to mitigate credit risk.
>
> **Liquidity:** The maturity structure ensures sufficient liquidity to meet the City's operational cash flow requirements, with 36% of the portfolio maturing within two years.
>
> **Yield:** The weighted average yield of 3.86% represents a competitive return given current market conditions and the portfolio's conservative risk profile.
>
> **Diversification:** No single issuer (other than the U.S. Government and its agencies) represents more than 5% of the total portfolio, in compliance with policy guidelines.
>
> **Maturity Limits:** All securities have stated maturities of five years or less at the time of purchase, in compliance with policy requirements. The weighted average maturity of 1.34 years provides an appropriate balance between yield and interest rate risk.

Statement of Ability to Meet Liquidity Needs

The City's investment portfolio maintains adequate liquidity to meet anticipated cash flow requirements for the next three months of the fiscal year. As of June 30, 2026, the City holds $76,099,579 in cash & LAIF, representing 48% of the total portfolio. Additionally, $15,609,352 in securities (19% of securities holdings) will mature within one year, providing additional liquidity as needed. The portfolio structure ensures that the City can meet all operational obligations without the need to liquidate long-term investments at potentially unfavorable prices.

Market Conditions and Outlook

During the quarter ending June 30, 2026, the U.S. economy continued to demonstrate resilience despite ongoing inflationary pressures. Real Gross Domestic Product (GDP) for the first quarter of 2026 was revised upward from 1.6% to 2.1%, reflecting stronger business investment and lower imports, while second quarter GDP is projected to grow approximately 2.5%.

Inflation accelerated during the quarter, with the Consumer Price Index (CPI) reaching its highest level since 2023, primarily due to rising energy prices. As a result, the Federal Reserve indicated that interest rates may remain higher for longer, and financial markets shifted expectations from multiple interest rate cuts earlier in the year to the potential for an additional rate increase later in 2026. This change in expectations contributed to higher short-term U.S. Treasury yields while longer-term rates remained relatively stable.

In response to these market conditions, the City’s investment strategy continues to prioritize the preservation of principal and liquidity while seeking to maximize returns within the parameters of the City’s Investment Policy. The portfolio remains positioned to benefit from the current higher interest rate environment through a diversified maturity structure while maintaining sufficient flexibility to meet the City’s operational cash flow needs.

FISCAL IMPACT:

This report is provided for informational purposes in compliance with California Government Code Section 53646 and the City’s Investment Policy. There is no fiscal impact associated with receiving and filing this report.

ALTERNATIVES:

1. Approve the staff's recommendations.
2. Reject the staff's recommendations.
3. Provide staff with alternate or further direction.

ATTACHMENTS:

1. June 30, 2026 Investment Report

Recommended by: Alvaro Castellon, Director of Finance
Approved as to form: Noel Tapia, City Attorney
Respectfully submitted: Ernie Hernandez, City Manager