# REQUEST FOR CITY COUNCIL ACTION

**MEETING DATE:** NOVEMBER 23, 2021

**TITLE:** TREASURER'S REPORT FOR QUARTER ENDED SEPTEMBER 30, 2021

KGriffith
Director of Financial Management & Strategic Planning

Marianna Maryshova
Interim City Manager

## RECOMMENDED ACTION

Receive and file the Treasurer's Report for the quarter ended September 30, 2021.

## EXECUTIVE SUMMARY

The Treasurer's Report (Attachment 1) provides a synopsis of investment activity for the City's three investment portfolios for the fiscal year ended September 30, 2021. The portfolios, managed by Meeder Investment Management under the direction of the Treasurer, include the Irvine Pooled Investment Portfolio, Bond Proceeds Fund Portfolio, and the Special District Funds Portfolio. The total book value for all three portfolios was $1.16 billion as of September 30, 2021. The report provides information on assets, allocations, average maturities, yields, and valuations for each of the three portfolios. A discussion of market conditions is included to give additional perspective to these measurements.

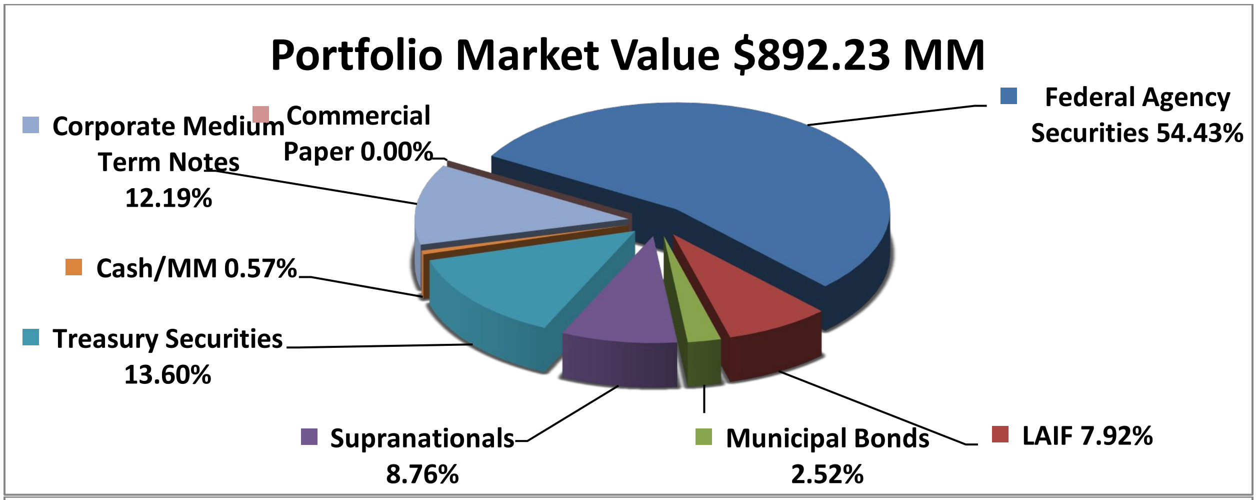
As of September 30, 2021, the City's investment Portfolios are in full compliance with the City's Investment Policy, the California Government Code Section 53601, and have sufficient cash flow from a combination of liquid and maturing securities, bank deposits, and income to meet the City's expenditure requirements.

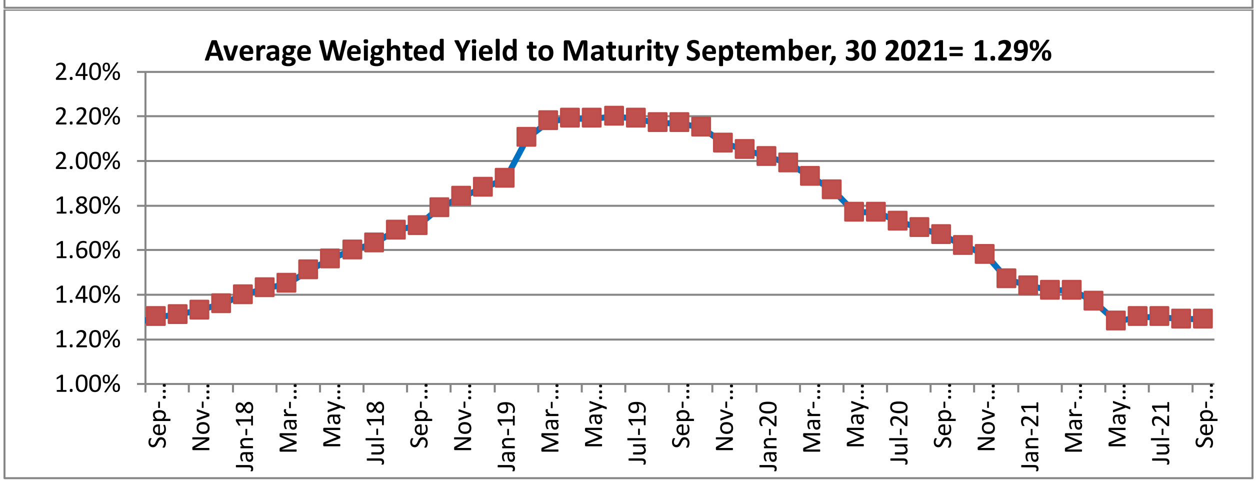
## COMMISSION/BOARD/COMMITTEE RECOMMENDATION

The Investment Advisory Committee is scheduled to review the report at its November 10, 2021 meeting. The Treasurer's Report for the quarter ended September 30, 2021 is scheduled to be presented to the Finance Commission at its November 15, 2021 meeting.

## ANALYSIS

The Pooled Investment Portfolio holds the City's operating funds. Charts on following pages provide highlights on asset allocation, maturity distribution, credit quality, as well as the book yield history of this portfolio only. The Treasurer's Report provides detailed information on all three portfolios.


Portfolio Market Value $892.23 MM
Federal Agency Securities 54.43%
Commercial Paper 0.00%
Corporate Medium Term Notes 12.19%
Cash/MM 0.57%
Treasury Securities 13.60%
Supranationals 8.76%
Municipal Bonds 2.52%
LAIF 7.92%


Average Weighted Yield to Maturity September, 30 2021= 1.29%
2.40%
2.20%
2.00%
1.80%
1.60%
1.40%
1.20%
1.00%
Sep-...
Nov-...
Jan-18
Mar-...
May...
Jul-18
Sep-...
Nov-...
Jan-19
Mar-...
May...
Jul-19
Sep-...
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Jan-20
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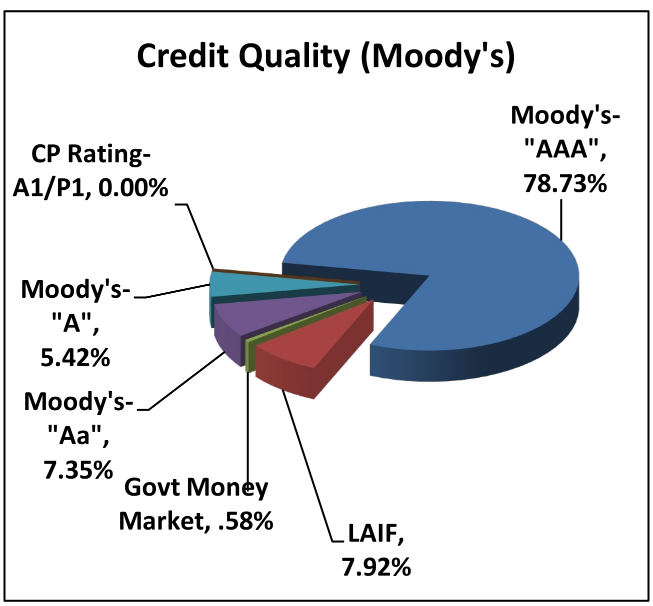
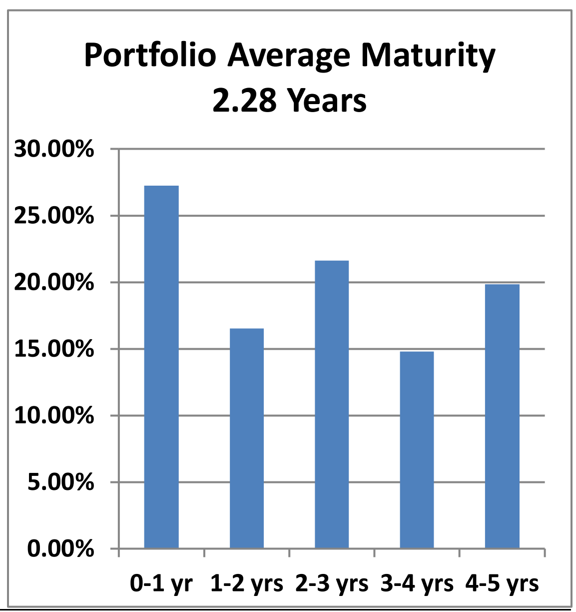
May...
Jul-21
Sep-...


Credit Quality (Moody's)
Moody's- "AAA", 78.73%
CP Rating- A1/P1, 0.00%
Moody's- "A", 5.42%
Moody's- "Aa", 7.35%
Govt Money Market, .58%
LAIF, 7.92%


Portfolio Average Maturity
2.28 Years
30.00%
25.00%
20.00%
15.00%
10.00%
5.00%
0.00%
0-1 yr
1-2 yrs
2-3 yrs
3-4 yrs
4-5 yrs

## ALTERNATIVES CONSIDERED

None. The Treasurer's Report is intended to provide historical information about the City's investment portfolios. Pursuant to the City's Investment Policy, the Treasurer is required to submit quarterly Treasurer's reports to the Investment Advisory Committee, the Finance Commission, and the City Council.

## FINANCIAL IMPACT

Fiscal year-to-date investment income for the Irvine Pooled Investment Portfolio, Bond Proceeds Funds Portfolio, and Special District Funds Portfolio totaled $3.69 million with investments structured for security and liquidity.

**REPORT PREPARED BY** Don Collins, City Treasurer

## ATTACHMENTS

1. Treasurer's Report for the quarter ended September 30, 2021
2. Summary of Irvine Pooled Investment Portfolio by Fund

**CITY OF IRVINE**
**TREASURER'S REPORT**
**For Quarter Ended September 30, 2021**

The City of Irvine maintains three investment portfolios, the Irvine Pooled Investment Portfolio, the Bond Proceeds Fund Portfolio, and the Special District Funds Portfolio. As of quarter ended September 30, 2021, combined book value of the three portfolios totaled $1.16 billion. This report provides detailed information of all three portfolios, along with an analysis of market conditions.

## Irvine Pooled Investment Portfolio

The Irvine Pooled Investment Portfolio contains funds invested for the daily operational requirements of the City and funds reserved for economic uncertainties, future rehabilitation and maintenance needs. The portfolio is a combination of various operational funds, including the City's Asset Management Plan and funds earmarked for the development of the Great Park. A summary of Irvine Pooled Investment Portfolio by Fund is presented at the end of this report (Attachment 2).

As of September 30, 2021, the book value (purchase price of securities as recorded on the City's books) of the portfolio was $879.79 million and the average yield to maturity was 1.29 percent. Fiscal year to date investment revenue (interest payments and capital gains) generated by the portfolio as of September 30, 2021 was $3.64 million. The spreadsheet below compares the portfolio's statistics over a rolling 12-month period.

**Irvine Pooled Investment Portfolio**
**Rolling 12-Month Quarterly Comparison**

| | September 30, 2021 | June 30, 2021 | March 31, 2021 | December 31, 2020 |
|---|---|---|---|---|
| Book Value | $879,786,112 | $904,574,544 | $844,631,774 | $826,025,140 |
| Market Value | $892,230,070 | $920,111,180 | $861,849,864 | $849,894,960 |
| Unrealized Gain/(Loss) | $12,443,958 | $15,536,636 | $17,218,090 | $23,869,820 |
| Unrealized Gain/(Loss) as % of Book Value | 1.41% | 1.72% | 2.04% | 2.89% |
| Average Yield To Maturity | 1.29% | 1.30% | 1.42% | 1.47% |
| Liquidity 0–6 Months | 18.38% | 21.86% | 17.16% | 18.40% |
| Weighted Average Maturity | 2.28 | 2.24 | 2.37 | 2.15 |
| Modified Duration (Years) | 2.22 | 2.17 | 2.30 | 2.10 |
| Quarterly Interest Earnings | $3,635,068 | $2,874,451 | $3,104,828 | $3,520,145 |
| Fiscal Year to Date Income | $3,635,068 | $13,278,144 | $10,403,692 | $7,298,864 |

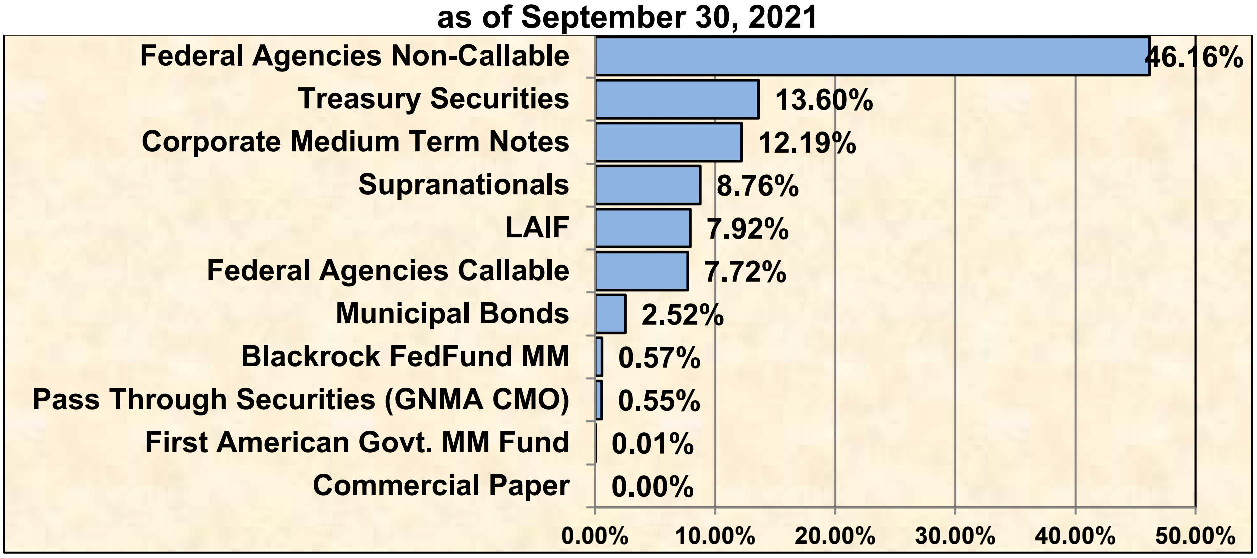
ATTACHMENT 1

As anticipated, the Irvine Pooled Investment Portfolio's book value decreased by $24.79 million from the previous quarter due to the prepayment of CalPERS pension liability for Fiscal Year 2021-22, payment to the Orange County Power Authority, and the final United Way payout for rental assistance. Portfolio yield to maturity decreased for the quarter ended September 30, 2021 by 1 basis points to 1.29 percent as maturing investments were reinvested in the current low rate environment. With market rates rising modestly during the quarter, as of September 30, 2021, the portfolio ended with an unrealized gain of $12.44 million as compared to an unrealized gain of $15.54 million on June 30, 2021. This is a normal result of the portfolio's modified duration of 2.22 years and its price-sensitivity to changes in market interest rates.

To ensure the safety of the portfolio, investments held are in compliance with the Irvine Investment Policy, Bond Indentures, and State Code 53601 et al. The Irvine Pooled Investment Portfolio is comprised primarily of Treasury Securities and Federal Government sponsored entity debt, otherwise known as federal agency securities. Although federal agency securities were downgraded by Standard & Poor's to AA+ in August 2011, they continue to be regarded as among the safest securities in the global market. Two of the government sponsored agencies, Federal National Mortgage Association (Fannie Mae) and Federal Home Loan Mortgage Corporation (Freddie Mac), remain under conservatorship and carry an implicit guarantee by the Federal Government. In addition, both are carefully monitored by the City's investment manager and Treasurer to ensure the continued safety of the City's funds.

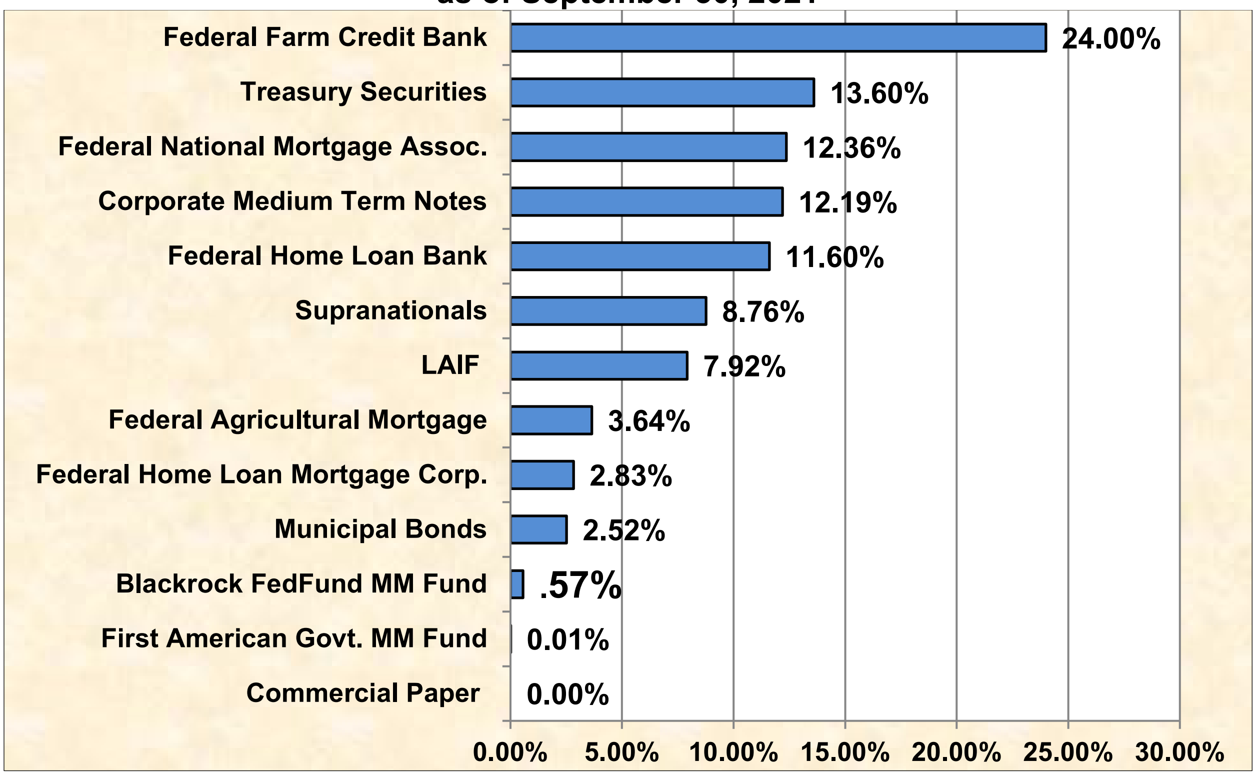
To manage liquidity, the Irvine Pooled Investment Portfolio is invested in Local Agency Investment Funds (LAIF), First American Government money market fund, Blackrock FedFund money market fund and short-term Commercial Paper. Chart 1 shows the asset allocation of the portfolio.

**Irvine Pooled Investment Portfolio**
**Chart 1 - Asset Allocation**
**as of September 30, 2021**



To diversify, the City purchases United States Treasury notes, Commercial Paper, Corporate Medium-term notes, Supranational notes, and securities from several different federal agencies. The five Federal Government sponsored entities the City owns are: Federal National Mortgage Association (Fannie Mae), Federal Home Loan Mortgage Corporation (Freddie Mac), Federal Home Loan Bank (Home Loan), Federal Agricultural Mortgage Corporation (Farmer Mac), and Federal Farm Credit Bank (Farm Credit). Chart 2 identifies portfolio holdings by issuer name.

**Irvine Pooled Investment Portfolio**
**Chart 2 - Holdings by Issuer Name**
**as of September 30, 2021**




Another key component in portfolio management is to ensure that the City has enough funds on hand to meet current expenses. As of September 30, 2021 the overnight to 6-month liquidity level for the Irvine Pooled Investment Portfolio was 18.38 percent. Chart 3, on the following page, is an aging of investment maturities up to five years (the maximum maturity allowable by policy and state code) of the Irvine Pooled Investment Portfolio.

**Irvine Pooled Investment Portfolio**
**Chart 3 - Aging of Maturing Investments (Maturity Value)**
**as of September 30, 2021**

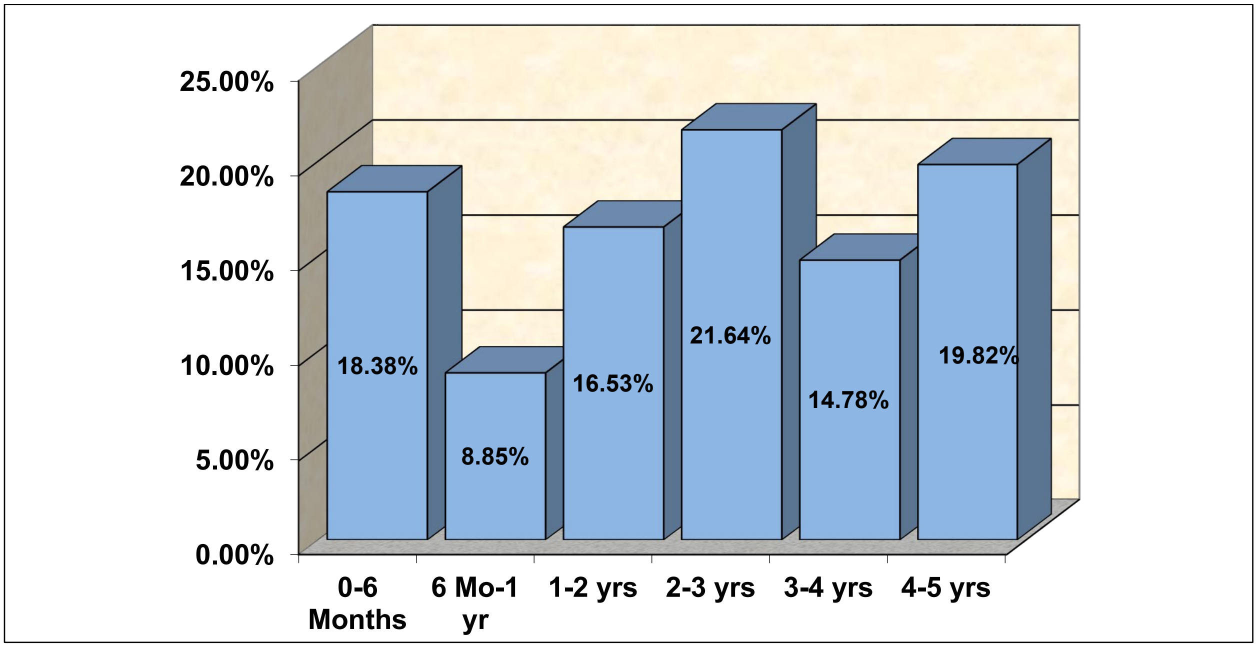
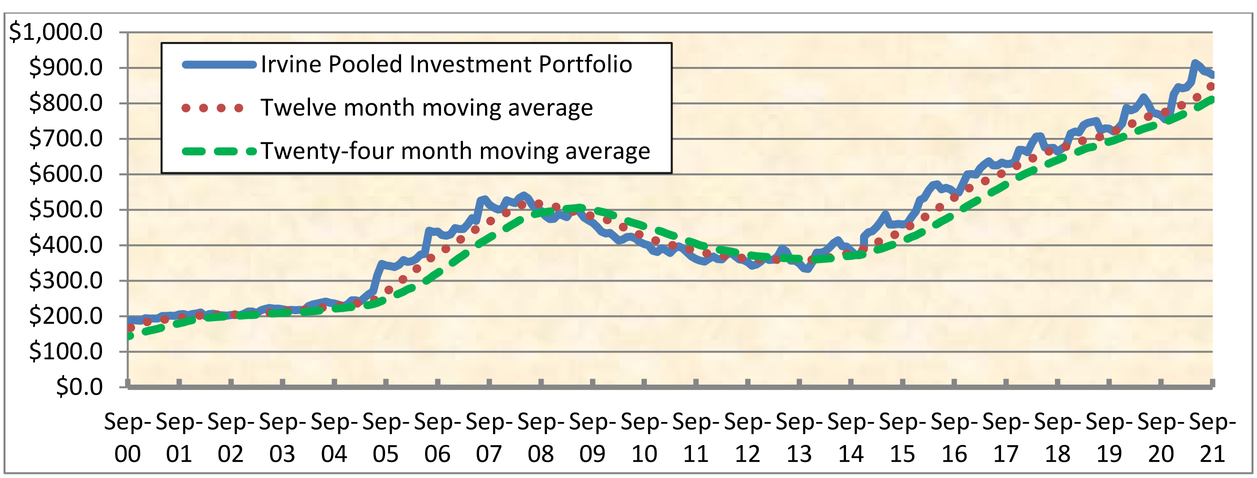
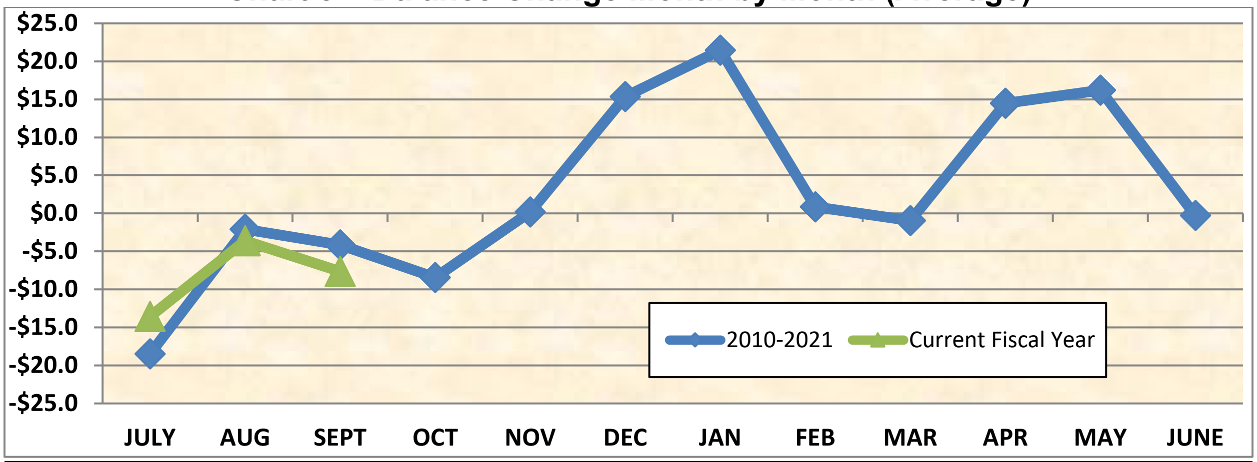



Chart 4 and Chart 5 show the volatility and cyclicality of the Irvine Pooled Investment Portfolio fund balance and cash flows between 2000 and 2021. The variance in August and September were due to payments to the Orange County Power Authority, and the final United Way payout for rental assistance.

**Irvine Pooled Investment Portfolio**
**Chart 4 - Portfolio Balance**
**September 30, 2000 through September 30, 2021**

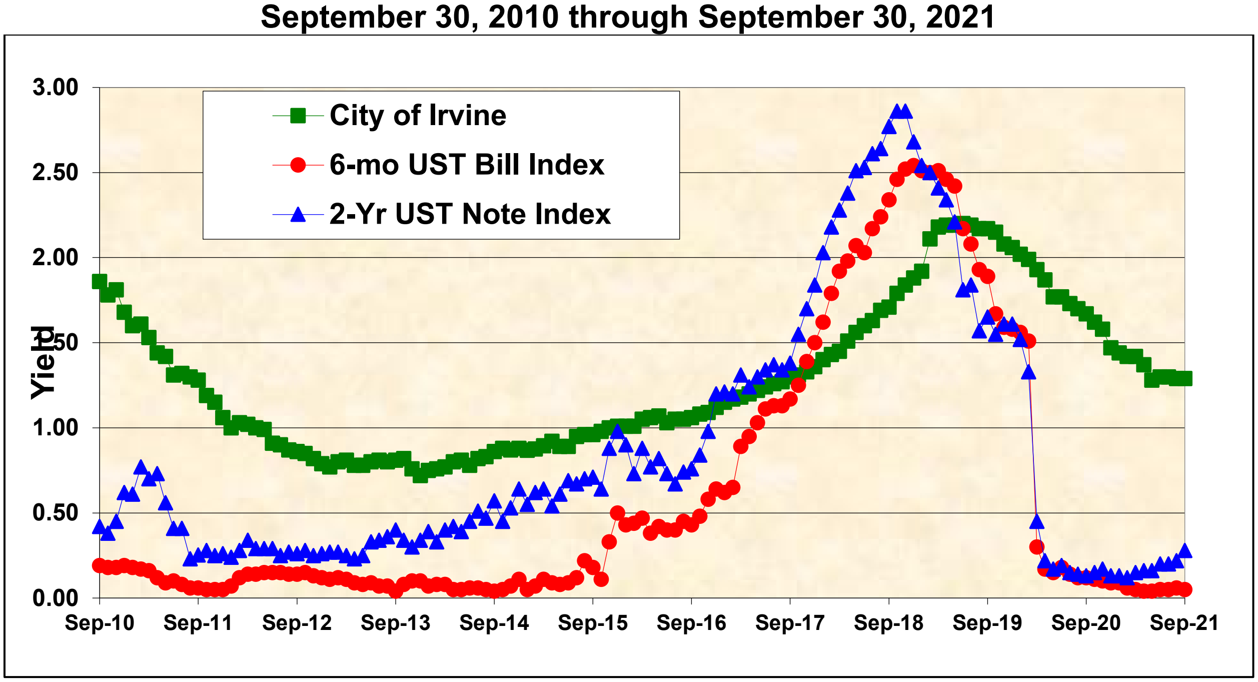


**Irvine Pooled Investment Portfolio**
**Chart 5 – Balance Change Month by Month (Average)**




To gauge performance, the City compares the Irvine Pooled Investment Portfolio's book yield to maturity against two reference notes set in the City's Annual Investment Policy: the 6-month United States Treasury (UST) Bill Index and 2-year UST Note Index. Chart 6 compares the average yield to maturity of the portfolio to these reference notes, and shows the spread (difference between the index and the yield to maturity) for the past ten years. The portfolio's book yield is higher than the 6-month UST by 1.24 percent and the 2-year UST by 1.05 percent, due to the Federal Reserve lowering short term interest rates in response to the pandemic.

**Irvine Pooled Investment Portfolio**
**Chart 6 - Yield to Maturity Compared to Assigned Indices**
**September 30, 2010 through September 30, 2021**



## Bond Proceeds Fund Portfolio

The Bond Proceeds Fund Portfolio contains special district construction and administration funds that are not held by a trustee. These include older bond issues, and funds on hand to finance the City's special district administration. Investment strategy in the Bond Proceeds Fund Portfolio differs from the Irvine Pooled Investment Portfolio due to the different cash needs between the two. The Bond Proceeds Fund Portfolio requires greater liquidity to meet debt related payments. The account balance in the Bond Proceeds Fund Portfolio fluctuates from quarter to quarter due to the timing of property assessment collections from the County of Orange and subsequent distributions. Several times a year, the portfolio receives special assessments and tax levies collected by the County. The special assessments and tax levies contain three major components:

(1) The collections from the various Assessment Districts (AD), Reassessment Districts (RAD) and Community Facilities Districts (CFD). Upon receipt, the City transfers these funds to the Districts' bond trustees.
(2) The collections for the guaranteed maintenance amount of the Great Park CFD. Upon receipt, the City transfers this amount to the Great Park Fund.
(3) The collections for the Districts' construction and administration funds held and managed by the City. This portion remains in the Bond Proceeds Fund Portfolio.

Fiscal year-to-date investment revenue (interest payments and capital gains) generated by the Bond Proceeds Fund Portfolio as of September 30, 2021 was $38,068.

**Bond Proceeds Fund Portfolio**
**Rolling 12-Month Quarterly Comparison**

| | September 30, 2021 | June 30, 2021 | March 31, 2021 | December 31, 2020 |
|---|---|---|---|---|
| Book Value | $47,950,000 | $47,172,000 | $40,071,000 | $39,653,000 |
| Market Value | $47,943,942 | $47,175,914 | $40,121,884 | $39,743,065 |
| Unrealized Gain/(Loss) | ($6,058) | $3,914 | $50,884 | $90,065 |
| Unrealized Gain/(Loss) as % of Book Value | (0.01%) | 0.01% | 0.13% | 0.23% |
| Average Yield To Maturity | 0.21% | 0.25% | 0.35% | 0.52% |
| Liquidity 0–6 Months | 100.00% | 100.00% | 100.00% | 100.00% |
| Average Days To Maturity | 1 | 1 | 1 | 1 |
| Modified Duration in Days | 1 | 1 | 1 | 1 |
| Quarterly Interest Earnings | $38,068 | $43,081 | $53,423 | $57,425 |
| Fiscal Year to Date Income | $38,068 | $251,477 | $208,395 | $154,972 |

## Special District Funds Portfolio

The Special District Funds Portfolio contains project and reserve funds for 24 AD and RAD bond issues and five CFD bond issues. Investments in this portfolio are made in accordance with each bond's indenture and the strategy is based on the cash flow needs of each district. The Special District Funds Portfolio must also remain very liquid to provide project funds, when needed, as well as meet debt service payment requirements. Fiscal year to date investment revenue (interest payments and capital gains) generated by the Special District Funds Portfolio as of September 30, 2021 was $21,082.

**Special District Funds Portfolio**
**Rolling 12-Month Quarterly Comparison**

| | September 30, 2021 | June 30, 2021 | March 31, 2021 | December 31, 2020 |
|---|---|---|---|---|
| Book Value | $233,560,430 | $284,187,161 | $272,897,741 | $288,712,072 |
| Market Value | $233,576,817 | $284,208,531 | $272,916,873 | $288,774,712 |
| Unrealized Gain/(Loss) | $16,387 | $21,370 | $19,132 | $62,640 |
| Unrealized Gain/(Loss) as % of Book Value | 0.01% | 0.01% | 0.01% | 0.02% |
| Average Yield To Maturity | 0.05% | 0.07% | 0.09% | 0.12% |
| Average Days To Maturity | 11 | 30 | 39 | 55 |
| Quarterly Interest Earnings | $21,082 | $83,581 | $86,002 | $70,463 |
| Fiscal Year to Date Income | $21,082 | $336,342 | $252,762 | $166,760 |

## Market Conditions

During the first quarter of FY 2021-22, interest rates increased slightly on securities maturing in less than ten years, while decreasing on securities between ten years and thirty years. The Federal Reserve elected to hold the federal funds rate steady at both of its scheduled meetings on July 28, 2021 and September 22, 2021 at 0.00-.25 percent. During the quarter, the yield of the 6-month Treasury bill increased .5 basis points to .04 percent, the 2-year Treasury note increased 3 basis points to .27 percent, and the 5-year notes increased by 8 basis points to .96 percent. The Local Agency Investment Fund (LAIF) daily rate decreased from .22 percent to .21 percent during the quarter. The net effect to the Pooled Investment Portfolio was a decrease in the unrealized market value gain, which was in direct proportion to the stated duration of the portfolio, change in market yields, and the reinvestment of maturing securities.

Given the unprecedented nature of the pandemic shock, it should be no surprise that the recovery is not proceeding in a straight line. The economy continues to make progress, but the COVID variant Delta (Delta) has been more disruptive than initially expected. The headwinds from Delta are a reminder that the virus continues to pose downside risks to the economic outlook.

Delta disrupted both demand and supply. Many forecasters have downgraded consumer spending in the second half of the year, as Delta has limited the acceleration in services spending that had been anticipated to help offset the drag on activity from fiscal support being reduced. Although the retail sales print for August was stronger than expected, the level of spending in August was similar to June's results. High-frequency data indicate that consumption of discretionary services, such as restaurants and travel, stalled or may have even moved lower in some categories since July.

Delta has also prolonged supply bottlenecks. Single-family home construction permits declined again in August for the third consecutive month despite very strong housing demand, as builders faced shortages of materials. Auto production was paused at a number of North American plants in early September following COVID-induced shutdowns of semiconductor production in Malaysia and Vietnam. Shipping supply chains continue to face difficulty due to sporadic port closures in China, and COVID-related port backlogs in Los Angeles.

Private sector forecasters have revised down growth projections for 2021 over recent months by slightly more than one percentage point on average. The current reading by the Atlanta Federal Reserve's Gross National Product now-casting model, GDPNow, has dropped from 8.63 percent on July 1, 2021, to 1.30 percent on October 8, 2021 reflecting the slowdown in economic growth.

Delta has also slowed progress on employment. Payroll gains in leisure and hospitality unexpectedly fell to zero in August following average monthly gains of 375,000 over the previous three months. Delta-induced spending declines for travel, recreation, and other discretionary services likely reduced the intensity with which employers in these industries sought new hires. While the headline unemployment rate declined to 4.8 percent in September 2021 from 5.9 percent in June 2021, the underemployment rate remains elevated at 8.5 percent.

Inflation is currently elevated and this is creating challenges for both consumers and businesses. The high inflation readings from the spring and early summer were disproportionately driven by a few sectors experiencing specific supply bottlenecks. In May and June, new and used vehicle prices accounted for half of the outsized monthly increases in core consumer price index (CPI) inflation. These categories were lesser contributors in July, and in the August CPI their joint contribution declined to essentially zero, as prices finally began to retreat for used cars, offsetting increases in new car prices. Energy prices have soared with the ongoing dislocation between supply and demand in the pandemic re-opening phase, highlighting the difficult transition to clean energy across the globe. Federal Reserve Chairman Jerome Powell continues to believe that current elevated inflation statistics are transitory, and will eventually return to Pre-COVID levels around 2.0 percent.

Federal Reserve extraordinary asset purchases may be reduced beginning in November 2021 as employment and price stability are reaching the Federal Reserve's stated goals. Current asset purchases are 120 billion dollars per month. The effect of tapering asset purchases should be reflected in a widening of credit spreads to treasury notes, and a potential steepening of the yield curve. Federal Reserve governors have repeatedly stated that no signal about the timing of rate increases should be taken from any decision to announce a slowing of asset purchases.

In conclusion, while I believe that the economy will continue to heal from the pandemic, a reduction in both fiscal and monetary policy will slow growth despite the reopening of the economy. Inflation statistics will remain elevated but should be viewed as transitory as macro disinflationary trends will most likely return post pandemic. Interest rates in the short end of the yield curve should remain anchored at the zero bound, and the net effect on the City of Irvine's portfolios will be lower returns over the next few quarters.

## City of Irvine
## Summary of Pooled Investment Portfolio Book Value by Fund *
## As of September 30, 2021

| | | |
|---|---|---|
| **General Reserve Funds** | $ | 131,333,712 |
| | | |
| **Capital Projects Funds:** | | |
| Capital Improvement Projects | | 38,075,694 |
| Irvine Business Complex | | 110,773,621 |
| North Irvine Transportation Mitigation | | 85,148,656 |
| Orange County Great Park Development | | 14,390,167 |
| Park Development | | 48,932,414 |
| **Total** | | 297,320,552 |
| | | |
| **Special Revenue Funds:** | | |
| Air Quality Improvement | | 462,689 |
| County Sales Tax Measure M | | 5,553,042 |
| Fees and Exactions | | 9,578,757 |
| State Gasoline Tax | | 21,736,632 |
| Grants | | 36,941,143 |
| I Shuttle | | 1,101,229 |
| Local Park Fees | | 141,077,129 |
| Maintenance District | | 882,616 |
| Major Special Events | | (221,392) |
| Orange County Great Park | | 153,453,215 |
| Slurry Seal Fees | | 1,073,564 |
| System Development | | 20,547,944 |
| **Total** | | 392,186,568 |
| | | |
| **Internal Service Funds:** | | |
| Equipment & Services | | 31,876,503 |
| Inventory | | 44,039 |
| Self-Insurance | | 19,826,576 |
| **Total** | | 51,747,118 |
| | | |
| **Permanent Fund:** | | |
| Senior Services | | 342,058 |
| Senior Services Endowments | | 500,410 |
| **Total** | | 842,468 |
| | | |
| **Fiduciary Fund:** | | |
| Successor Agency Debt Service | | 978 |
| Redevelopment Obligation Retirement | | 6,354,716 |
| **Total** | | 6,355,695 |
| | | |
| **Total Pooled Investments at September 30, 2021** | $ | 879,786,112 |

Note: Presentation of funds is consistent with the City's Comprehensive Annual Financial Report

* Balances are not audited

ATTACHMENT 2