



# REQUEST FOR CITY COUNCIL ACTION

**MEETING DATE:** SEPTEMBER 27, 2022

**TITLE:** TREASURER'S REPORT FOR FISCAL YEAR ENDED  
JUNE 30, 2022

---

Interim Director of Financial Management  
and Strategic Planning

---

City Manager

## RECOMMENDED ACTION

Receive and file the Treasurer's Report for the fiscal year ended June 30, 2022.

## 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 June 30, 2022. 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 \$1.36 billion as of June 30, 2022. 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.

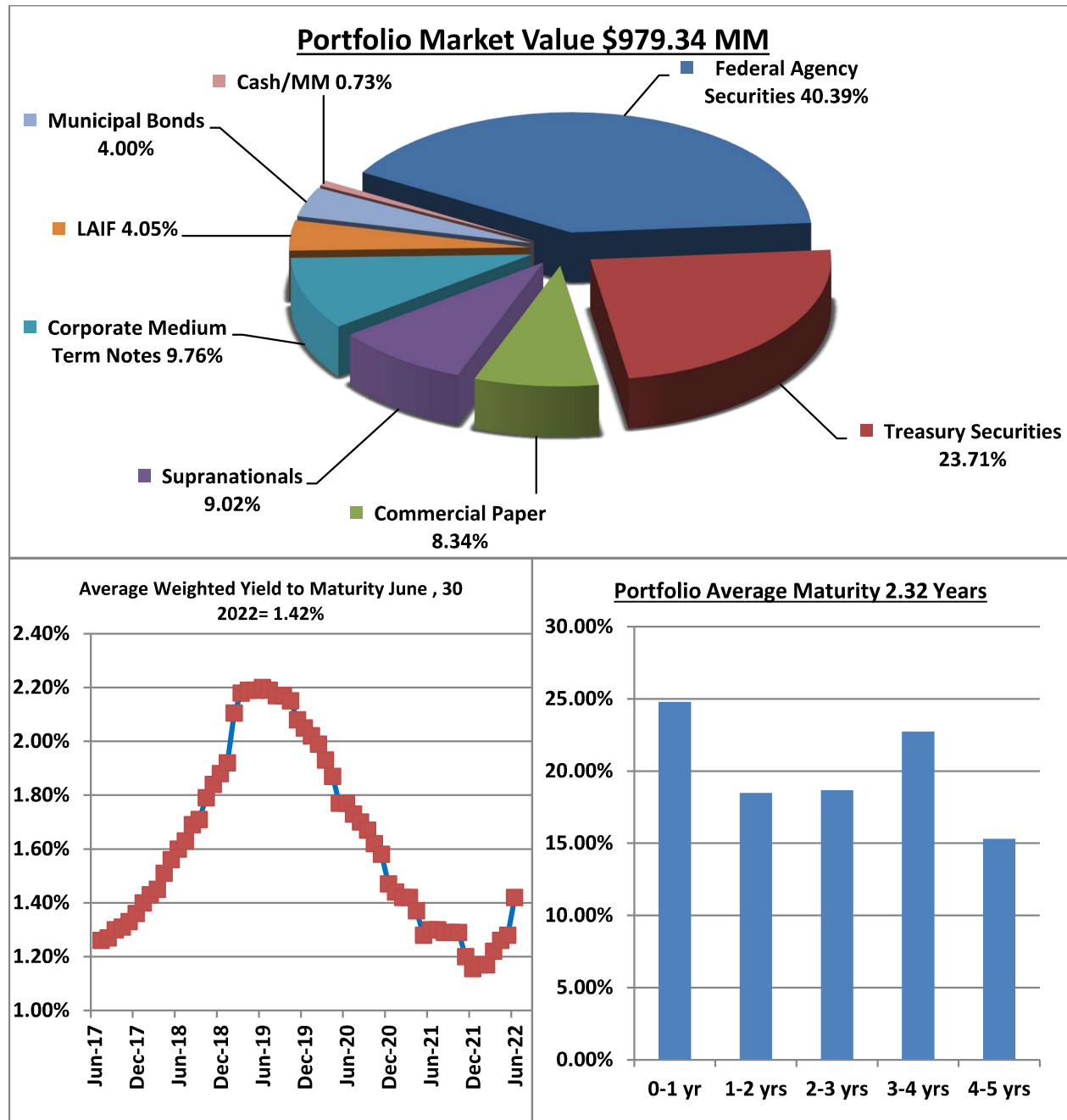
As of June 30, 2022, the City's investment Portfolios are in full compliance with the City's Investment Policy, the California Government Code Section 53601, and have sufficient cash flow from a combination of liquid and maturing securities, bank deposits, and income to meet the City's expenditure requirements.

## COMMISSION/BOARD/COMMITTEE RECOMMENDATION

At its regular meeting of August 24, 2022, the Investment Advisory Committee recommended that the City Council receive and file the Treasurer's Report for the Fiscal Year ended June 30, 2022 by a 3-0-2 vote (Committee Members Carney, Judd, Sun approving; Committee Members Li and Wei absent).

## 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.



### 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 \$14.54 million with investments structured for security and liquidity.

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

Attachments:

1. Treasurer's Report for the quarter ended June 30, 2022
2. Summary of Irvine Pooled Investment Portfolio by Fund



**CITY OF IRVINE  
TREASURER'S REPORT  
For Fiscal Year Ended June 30, 2022**

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 fiscal year ended June 30, 2022, combined book value of the three portfolios totaled \$1.36 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 June 30, 2022, the book value (purchase price of securities as recorded on the City's books) of the portfolio was \$1.015 billion and the average yield to maturity was 1.42 percent. Fiscal year to date investment revenue (interest payments and capital gains) generated by the portfolio as of June 30, 2022 was \$14.10 million. The table below compares the portfolio's statistics over a rolling 12-month period.

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

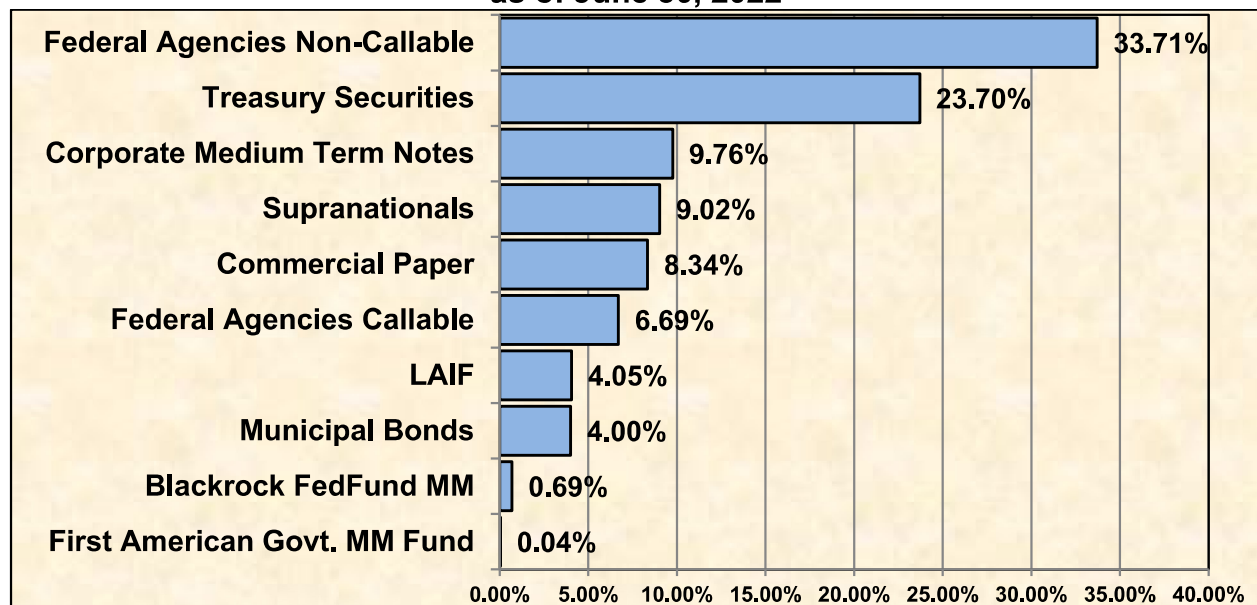
	<b>June 30, 2022</b>	<b>March 31, 2022</b>	<b>December 31, 2021</b>	<b>September 30, 2021</b>
Book Value	\$1,015,081,547	\$945,748,989	\$934,790,655	\$879,786,112
Market Value	\$979,341,599	\$921,034,785	\$938,325,125	\$892,230,070
Unrealized Gain/(Loss)	(\$35,739,948)	(\$24,714,204)	\$3,534,470	\$12,443,958
Unrealized Gain/(Loss) as % of Book Value	(3.52%)	(2.61%)	0.38%	1.41%
Average Yield To Maturity	1.42%	1.22%	1.16%	1.29%
Liquidity 0–6 Months	14.25%	11.11%	21.57%	18.38%
Weighted Average Maturity	2.32	2.35	2.26	2.28
Modified Duration (Years)	2.19	2.25	2.19	2.22
Quarterly Interest Earnings	\$2,802,976	\$3,502,502	\$4,155,732	\$3,635,068
Fiscal Year to Date Income	\$14,096,279	\$11,293,303	\$7,790,801	\$3,635,068

As anticipated, the Irvine Pooled Investment Portfolio's book value increased by \$69.33 million from the previous quarter due to a combination of property tax, sales tax, developer fees, and the final installment of the Federal American Rescue Plan Act of 2021 funding. Portfolio yield to maturity increased for the quarter ended June 30, 2022 by 20 basis points to 1.42 percent as maturing investments were reinvested in the rising rate environment. With market rates rising during the quarter, as of June 30, 2022, the portfolio ended with an unrealized loss of \$35.74 million as compared to an unrealized loss of \$24.71 million on March 31, 2022. This is a normal result of the portfolio's modified duration of 2.19 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.

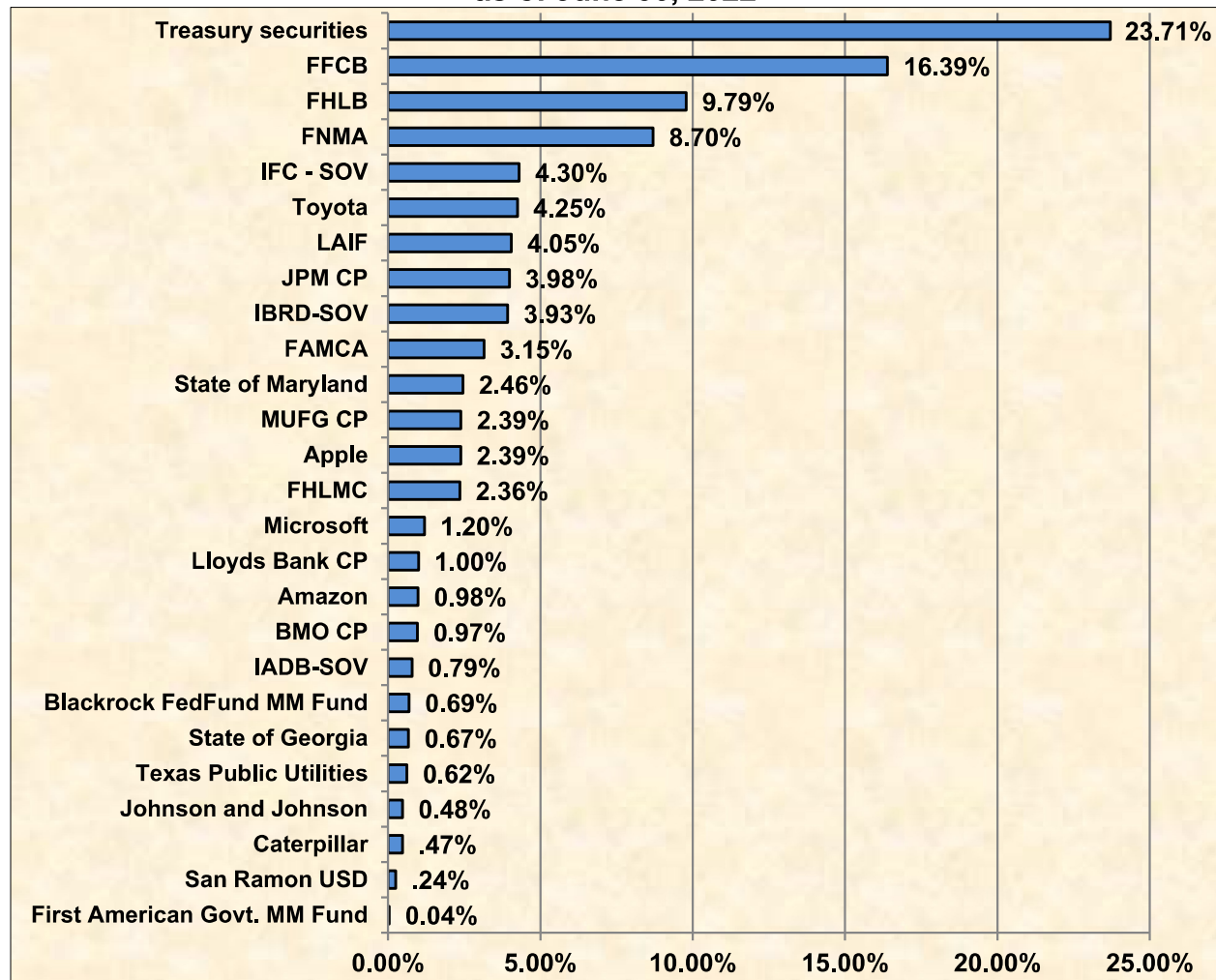
To manage liquidity, the Irvine Pooled Investment Portfolio is invested in Local Agency Investment Funds (LAIF), First American Government money market fund, Blackrock FedFund money market fund and short-term Commercial Paper. Chart 1 shows the asset allocation of the portfolio.

**Irvine Pooled Investment Portfolio**  
**Chart 1 - Asset Allocation**  
 as of June 30, 2022



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 June 30, 2022**



Another key component in portfolio management is to ensure that the City has enough funds on hand to meet current expenses. As of June 30, 2022, the overnight to 6-month liquidity level for the Irvine Pooled Investment Portfolio was 14.25 percent, and 24.78 percent liquidity overnight to one year. 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 June 30, 2022

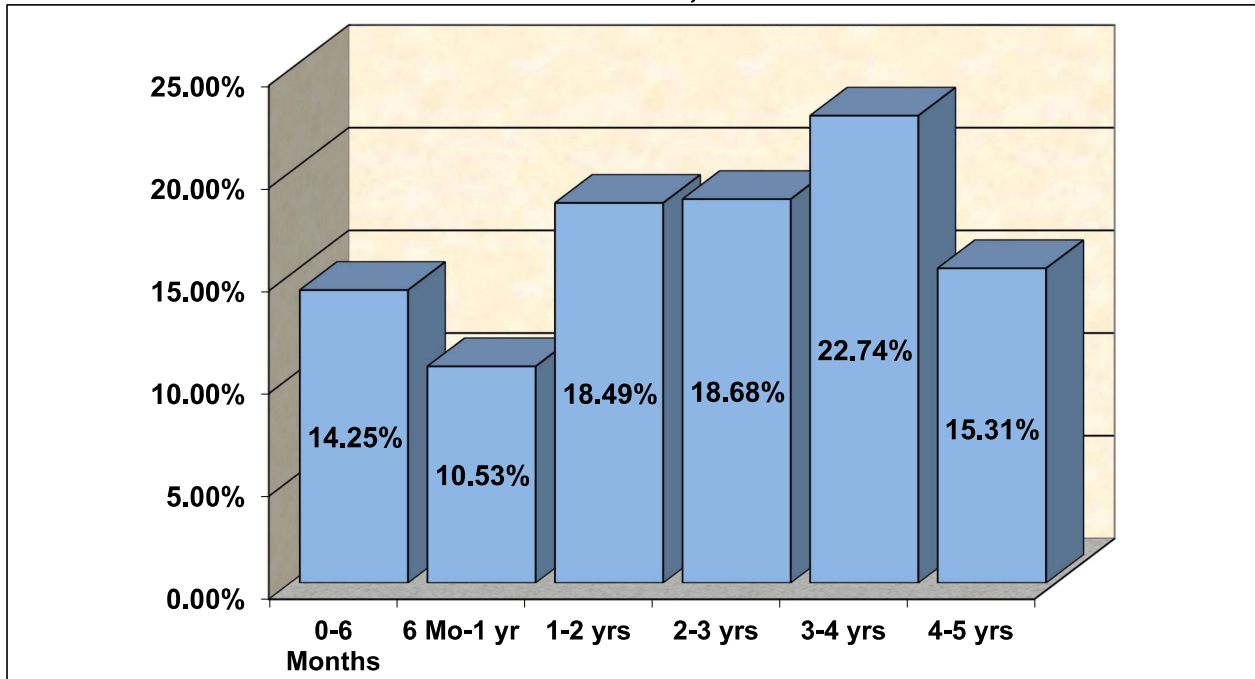
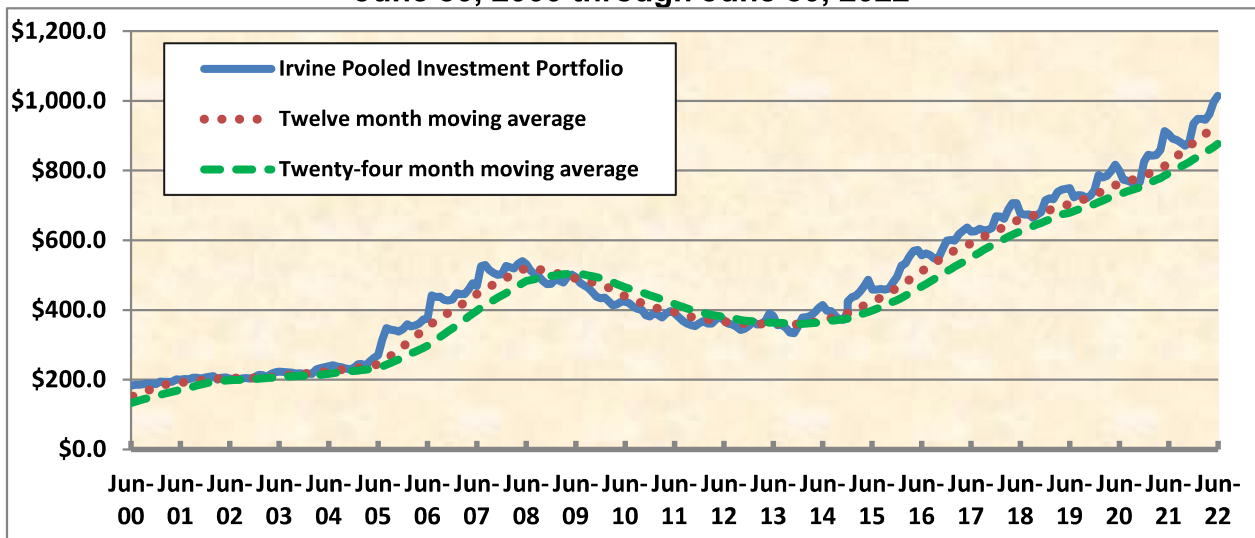
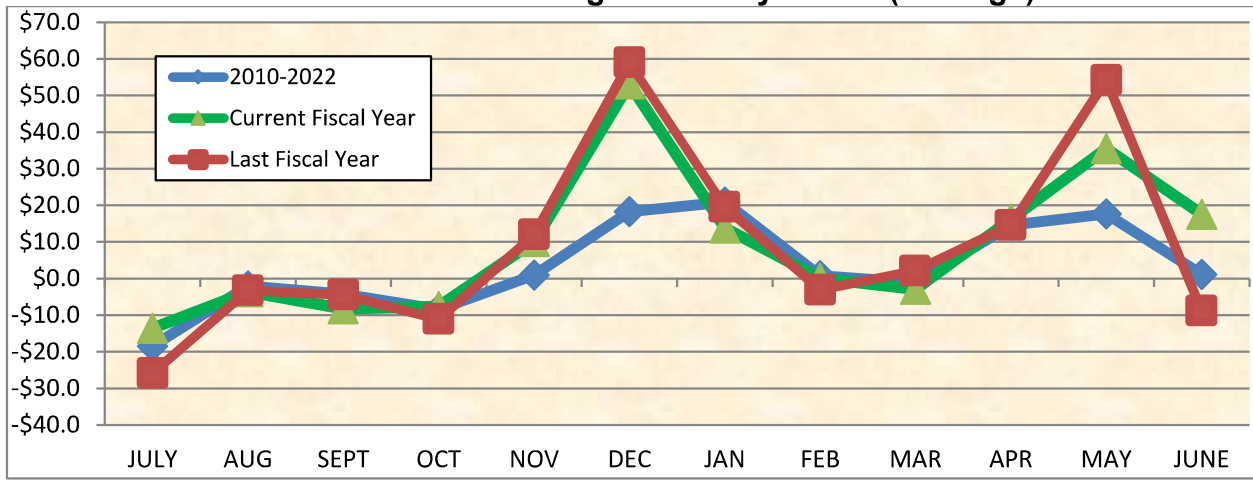


Chart 4 and Chart 5 show the volatility and cyclical nature of the Irvine Pooled Investment Portfolio fund balance and cash flows between 2000 and 2022.

**Irvine Pooled Investment Portfolio**  
**Chart 4 - Portfolio Balance**  
 June 30, 2000 through June 30, 2022

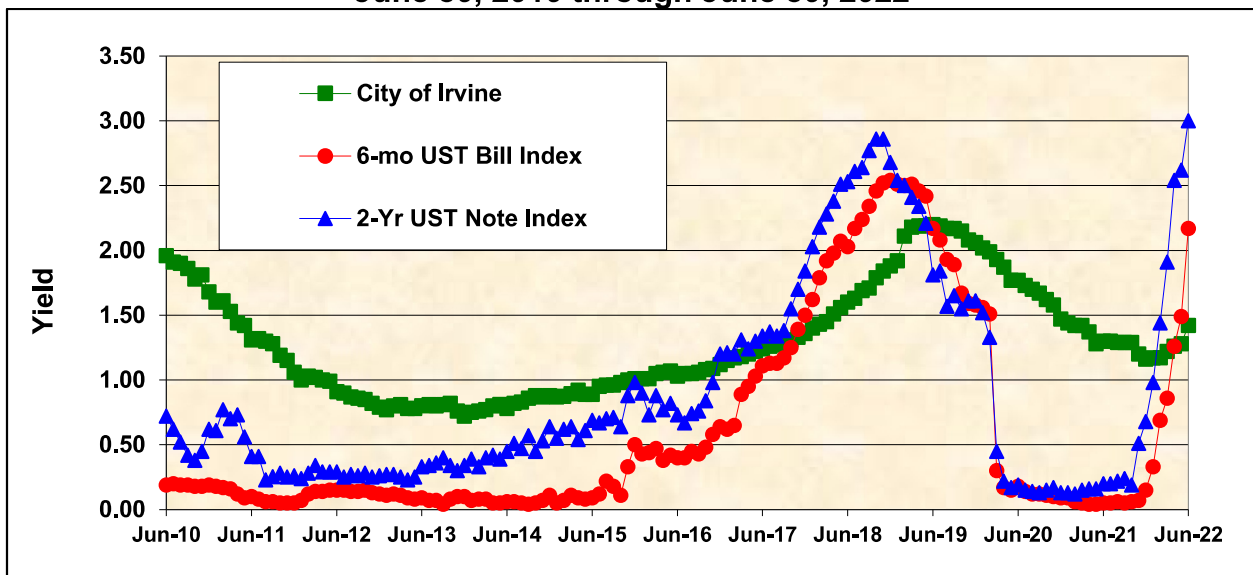


**Irvine Pooled Investment Portfolio**  
**Chart 5 – Balance Change Month by Month (Average)**



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 lower than the 6-month UST by .75 percent and lower than the 2-year UST by 1.58 percent, due to the Federal Reserve increasing short term interest rates in response to the inflation.

**Irvine Pooled Investment Portfolio**  
**Chart 6 - Yield to Maturity Compared to Assigned Indices**  
**June 30, 2010 through June 30, 2022**





**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 June 30, 2022 was \$146,917.

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

	<b>June 30, 2022</b>	<b>March 31, 2022</b>	<b>December 31, 2021</b>	<b>September 30, 2021</b>
Book Value	\$70,190,000	\$62,230,000	\$61,987,000	\$47,950,000
Market Value	\$69,286,333	\$61,530,133	\$61,828,259	\$47,943,942
Unrealized Gain/(Loss)	(\$903,667)	(\$699,867)	(\$158,741)	(\$6,058)
Unrealized Gain/(Loss) as % of Book Value	(1.29%)	(1.12%)	(0.26%)	(0.01%)
Average Yield To Maturity	0.94%	0.42%	0.22%	0.21%
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	\$48,521	\$31,509	\$28,819	\$38,068
Fiscal Year to Date Income	\$146,917	\$98,396	\$66,887	\$38,068

### **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 June 30, 2022 was \$300,025.

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

	<b>June 30, 2022</b>	<b>March 31, 2022</b>	<b>December 31, 2021</b>	<b>September 30, 2021</b>
Book Value	\$269,883,279	\$250,677,550	\$265,068,424	\$233,560,430
Market Value	\$269,668,838	\$250,693,545	\$265,082,770	\$233,576,817
Unrealized Gain/(Loss)	(\$214,441)	\$15,995	\$14,345	\$16,387
Unrealized Gain/(Loss) as % of Book Value	(0.08%)	0.01%	0.01%	0.01%
Average Yield To Maturity	1.24%	0.46%	0.06%	0.05%
Average Days To Maturity	97	91	24	11
Quarterly Interest Earnings	\$204,113	\$22,191	\$52,638	\$21,082
Fiscal Year to Date Income	\$300,025	\$95,912	\$73,721	\$21,082

### **Market Conditions**

During the fourth quarter of FY 2021-22, interest rates increased across the yield curve, with the majority of the increase on securities maturing two months to one year. The Federal Reserve elected to raise the federal funds rate at both its scheduled meetings on May 4, 2022 by 50 basis points to 0.75 -1.00 percent, and June 15, 2022 by 75 basis points to 1.50-1.75 percent. During the quarter, the yield of the 6-month Treasury bill increased 141 basis points to 1.00 percent, the 2-year Treasury note increased 155 basis points to 2.28 percent, and the 5-year notes increased by 116 basis points to 2.42 percent. The Local Agency Investment Fund (LAIF) daily rate increased from .22 percent to .42 percent during the quarter. The net effect to the Pooled Investment Portfolio was an increase in the unrealized market value loss to \$35.74 million from an unrealized loss of \$24.71 million as of March 31, 2022, which is in direct proportion to the stated duration of the portfolio, and the change in market yields.

Last quarter, Russia invaded Ukraine, which has complicated the global supply chains for grains, raw materials, and energy. While the situation adds continued uncertainty to the global economic outlook, increases in interest rates by global Central Banks seem to be having the largest effect on future consumption and demand.

Inflation has far exceeded the Federal Open Market Committee's (FOMC's) 2 percent target, with the headline Personal Consumption Expenditure (PCE) price index peaking +6.6 percent year over year (y/y) in March, while slowly softening to 6.30 percent in May. The core PCE deflator also rose +5.2% y/y in March while falling to 4.68 percent in May. The May Consumer Price Index (CPI) report showed stronger than expected inflation despite hopes for moderation. Headline CPI rose 8.60 percent y/y, while Core CPI jumped 6.00 percent y/y. While surges in energy prices led the upside in headline CPI, core inflation continued to accelerate as airfares, new vehicle prices and shelter costs rose solidly.

The critically important housing industry is now showing signs of stress, likely due, in part, to the tightening of monetary policy that has boosted the average mortgage interest rate significantly. Housing inventory has increased sharply in recent weeks, evidently due to declining demand. Showing of homes for sale are down, and housing starts fell sharply in May (although the number of homes currently under construction is at a record high). Trouble in the housing market is often a sign of a deteriorating economy.

Another forward looking indicator is the Purchasing Managers Indices (PMIs) which are meant to signal the direction of activity in the broad manufacturing and services sectors. The latest flash (preliminary) PMIs, point to a sharp deceleration in the global economy in June. However, they do not yet point to recession. For the United States, the PMI for manufacturing fell sharply, from 57.00 in May to 52.40 in June, a 24-month low. The subindex for output fell at the third-fastest pace since the survey began, only exceeded in 2008 and 2020, both at the start of past recessions. In addition, there was a decline in new orders as well as export orders. The weakening of new orders reflected lower demand that was related to high inflation, the impact of higher food and energy prices, and weakened consumer and business sentiment. Input costs continued to soar, largely due to rising energy prices. The PMI for services in the United States fell from 53.4 in May to 51.6 in June, indicating very slow growth in activity as orders and backlogs declined. Survey data are consistent with the economy expanding at an annualized rate of less than 1% in June, with the goods-producing sector already in decline and the vast service sector slowing sharply. The current Gross Domestic Product Now forecasting indicator of the Atlanta Federal Reserve is negative 2.08 percent as of July 1, 2022.

In conclusion, an aggressive reversal of monetary and fiscal conditions continue to weigh on growth prospects for the economy, as high frequency economic data continue to decline. Supply constraints which had begun to ease, continue to be exacerbated by the geopolitical crisis with Russia's Ukrainian war, and continued pandemic closures. The net effect on the City of Irvine's portfolios will be a moderation in the unrealized losses, and an increase in earnings as the portfolios continue to adjust to current market rates.

**City of Irvine**  
**Summary of Pooled Investment Portfolio Book Value by Fund \***  
**As of June 30, 2022**

<b>General Reserve Funds</b>	<b>\$</b>	<b>240,015,060</b>
 <b>Capital Projects Funds:</b>		
Capital Improvement Projects		37,902,046
Irvine Business Complex		113,931,822
North Irvine Transportation Mitigation		90,709,273
Orange County Great Park Development		11,780,711
Park Development		44,569,468
<b>Total</b>		<u><u>298,893,320</u></u>
 <b>Special Revenue Funds:</b>		
Air Quality Improvement		628,594
County Sales Tax Measure M		6,397,789
Fees and Exactions		9,897,801
State Gasoline Tax		23,973,836
Grants		4,713,908
I Shuttle		419,299
Local Park Fees		144,495,055
Maintenance District		3,667,778
Major Special Events		(86,007)
Orange County Great Park		189,798,132
Slurry Seal Fees		1,372,878
System Development		24,292,188
<b>Total</b>		<u><u>409,571,250</u></u>
 <b>Internal Service Funds:</b>		
Equipment & Services		35,747,436
Inventory		75,046
Self-Insurance		23,550,322
<b>Total</b>		<u><u>59,372,804</u></u>
 <b>Permanent Fund:</b>		
Senior Services		387,157
Senior Services Endowments		500,410
<b>Total</b>		<u><u>887,567</u></u>
 <b>Fiduciary Fund:</b>		
Successor Agency Debt Service		0
Redevelopment Obligation Retirement		6,341,545
<b>Total</b>		<u><u>6,341,545</u></u>
 <b>Total Pooled Investments at June 30, 2022</b>	 <b>\$</b>	 <u><u>1,015,081,547</u></u>

Note: Presentation of funds is consistent with the City's Annual Comprehensive Financial Report.  
\* Balances are subject to changes due to fiscal year end reconciliations.