REQUEST FOR CITY COUNCIL ACTION

MEETING DATE: JUNE 13, 2023

TITLE: TREASURER'S REPORT FOR QUARTER ENDED MARCH 31, 2023

Oliver Chi

Director of Administrative Services | City Manager

RECOMMENDED ACTION

Receive and file the Treasurer's Report for the quarter ended March 31, 2023.

EXECUTIVE SUMMARY

The Treasurer's Report (Attachment 1) provides a synopsis of investment activity for the City's three investment portfolios for the quarter ended March 31, 2023. 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 $1.29 billion as of March 31, 2023. 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.

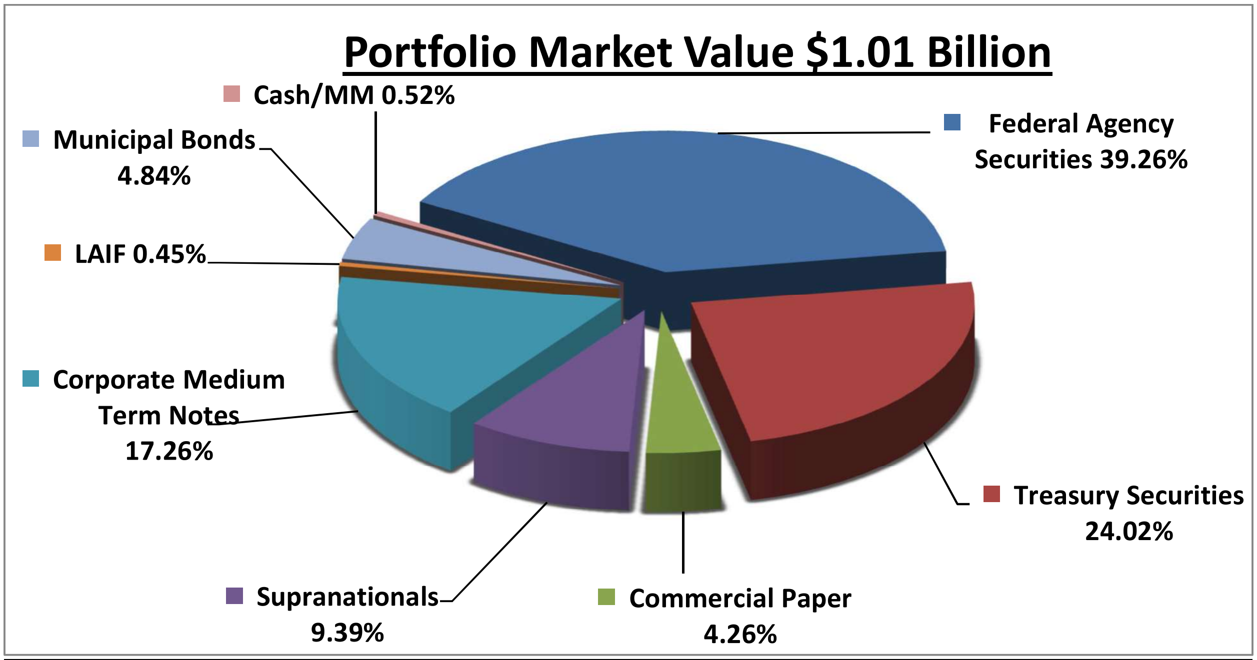
As of March 31, 2023, the City's investment portfolios are in full compliance with the City's Investment Policy, the California Government Code Section 53601, and have sufficient cash flow from a combination of liquid and maturing securities, bank deposits, and income to meet the City's expenditure requirements.

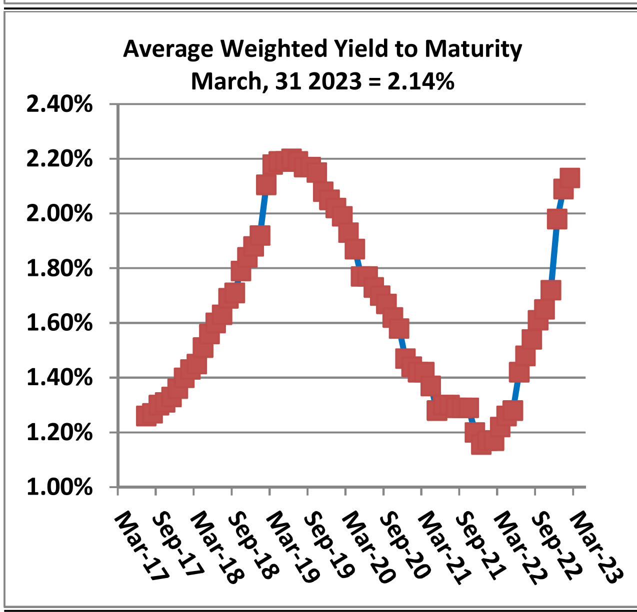
COMMISSION/BOARD/COMMITTEE RECOMMENDATION

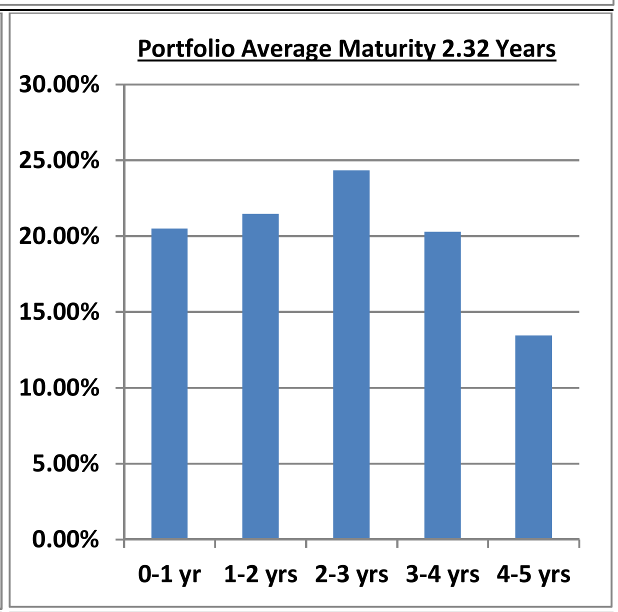
At its regular meeting of May 10, 2023, the Investment Advisory Committee recommended that the City Council receive and file the Treasurer's Report for the quarter ended March 31, 2023 by a 3-0 (Committee Member Chung absent).

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 $13.90 million with investments structured for security and liquidity.

REPORT PREPARED BY Don Collins, City Treasurer

Attachments:

1. Treasurer's Report for the quarter ended March 31, 2023
2. Summary of Irvine Pooled Investment Portfolio by Fund

CITY OF IRVINE
TREASURER'S REPORT
For Quarter Ended March 31, 2023

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 March 31, 2023, combined book value of the three portfolios totaled $1.29 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 March 31, 2023, the book value (purchase price of securities as recorded on the City's books) of the portfolio was $1.05 billion and the average yield to maturity was 2.14 percent. Fiscal year to date investment revenue (interest payments and capital gains) generated by the portfolio as of March 31, 2023 was $10.27 million. The table below compares the portfolio's statistics over a rolling 12-month period.

Irvine Pooled Investment Portfolio
Rolling 12-Month Quarterly Comparison

	March 31, 2023	December 31, 2022	September 30, 2022	June 30, 2022
Book Value	$1,050,662,874	$1,094,758,092	$1,002,649,923	$1,015,081,547
Market Value	$1,011,013,947	$1,042,801,093	$946,303,312	$979,341,599
Unrealized Gain/(Loss)	($39,648,927)	($51,956,999)	($56,346,611)	($35,739,948)
Unrealized Gain/(Loss) as % of Book Value	(3.77%)	(4.75%)	(5.62%)	(3.52%)
Average Yield to Maturity	2.14%	1.99%	1.61%	1.42%
Liquidity 0–6 Months	11.16%	19.82%	10.36%	14.25%
Weighted Average Maturity	2.32	2.11	2.31	2.32
Modified Duration (Years)	2.19	1.98	2.16	2.19
Quarterly Interest Earnings	$4,008,636	$3,788,206	$2,468,946	$2,802,976
Fiscal Year to Date Income	$10,265,788	$6,257,152	$2,468,946	$14,096,279

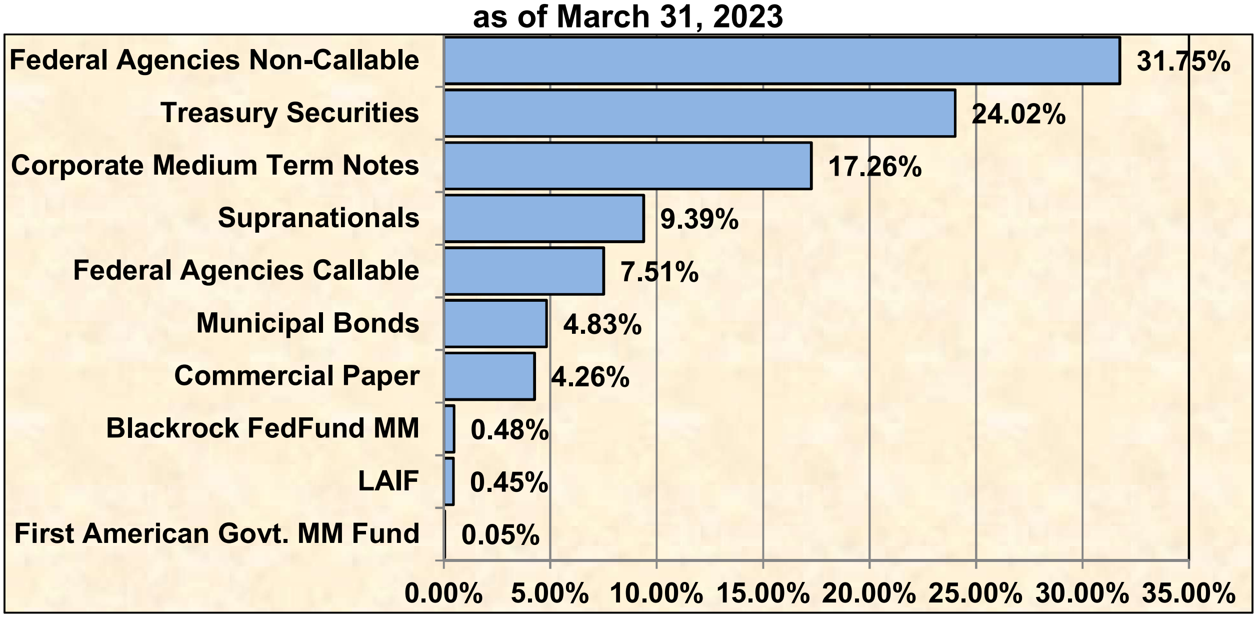
As anticipated, the Irvine Pooled Investment Portfolio's book value decreased by $44.10 million from the previous quarter. Combined revenues of the receipt of property taxes, sales tax, developer fees, were offset by the reversal of the temporary holding of bond funds from

LAIF (Local Agency Investment Fund) Pool Two, and a successor agency transfer. Portfolio yield to maturity increased for the quarter ended March 31, 2023 by 15 basis points to 2.14 percent as maturing investments were reinvested in the rising rate environment. With market rates modestly moving lower during the quarter, as of March 31, 2023, the portfolio ended with an unrealized loss of $39.65 million as compared to an unrealized loss of $51.96 million on December 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.

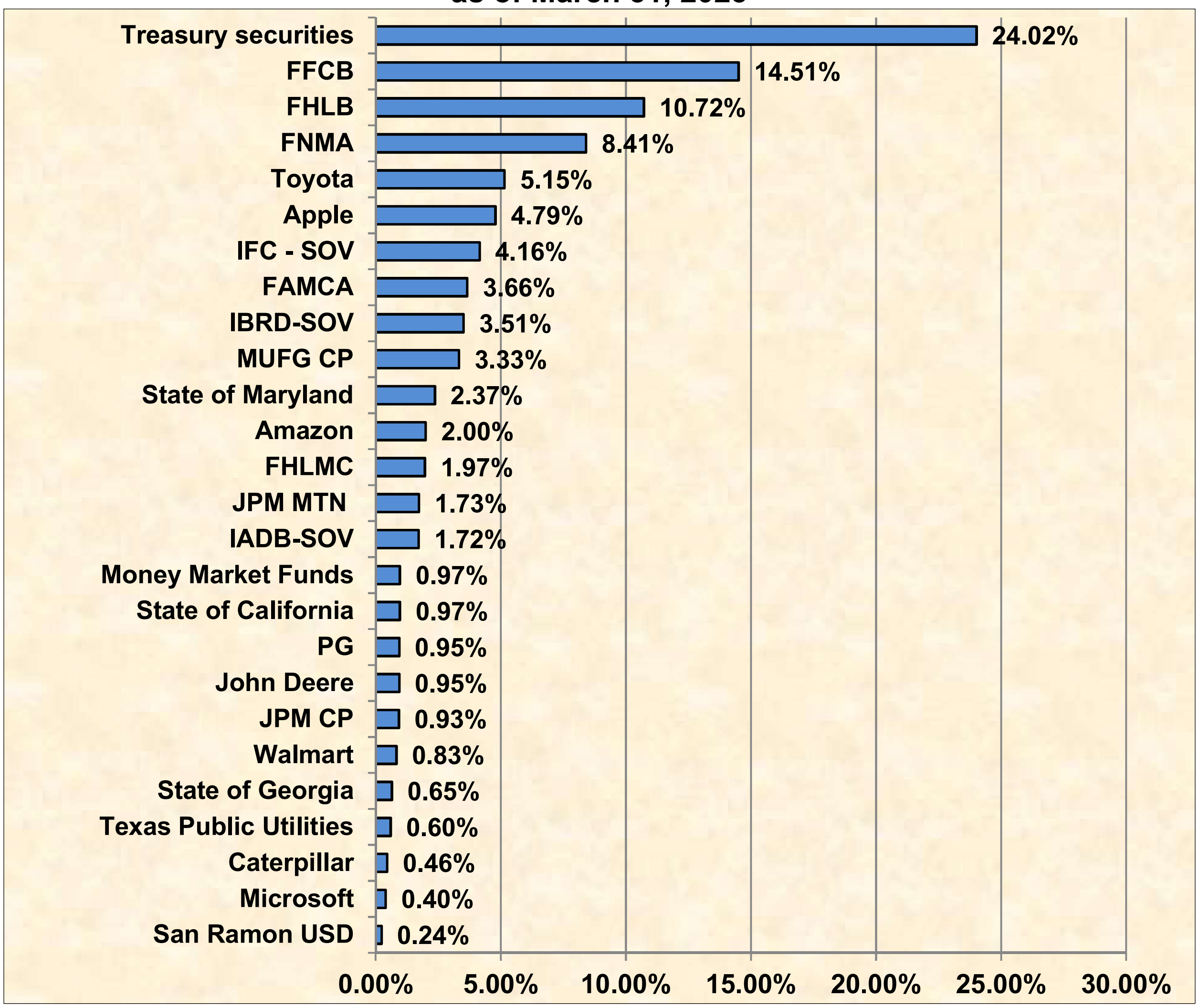
To manage liquidity, the Irvine Pooled Investment Portfolio is invested in Local Agency Investment Funds (LAIF), First American Government money market fund, Blackrock FedFund money market fund and short-term Commercial Paper. Chart 1 shows the asset allocation of the portfolio.

Irvine Pooled Investment Portfolio
Chart 1 - Asset Allocation
as of March 31, 2023



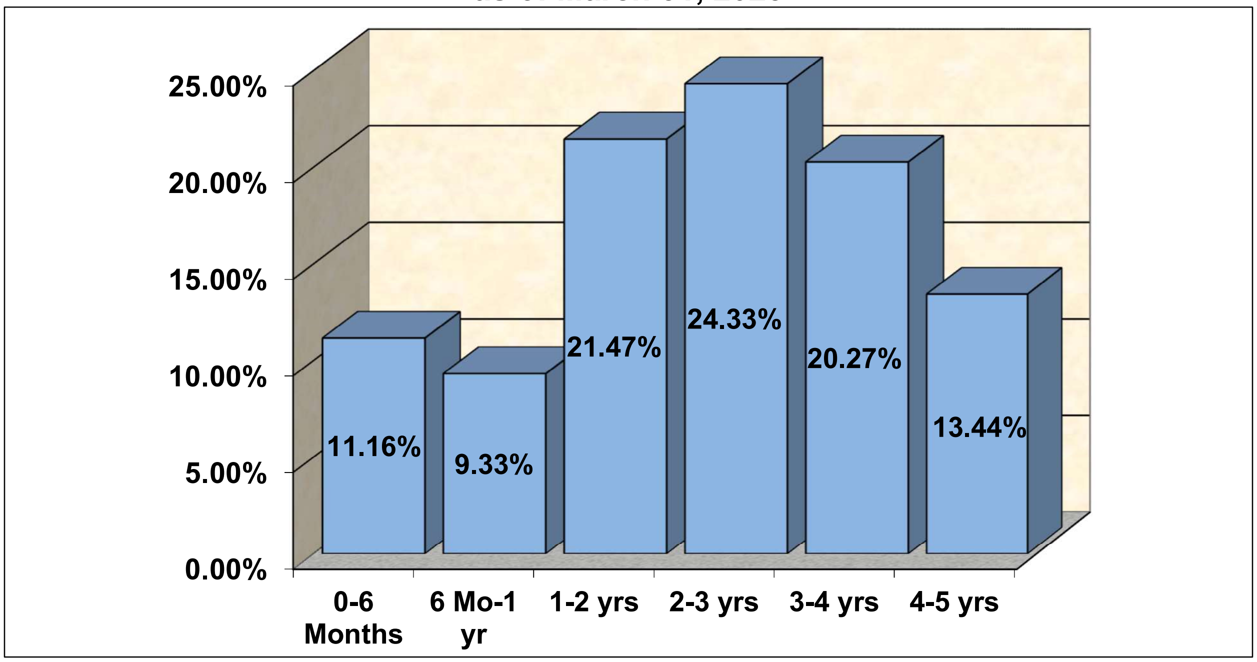
To diversify, the City purchases United States Treasury notes, Commercial Paper, Corporate Medium-term notes, Supranational notes, and securities from several different federal agencies. The five Federal Government sponsored entities the City owns are: Federal National Mortgage Association (Fannie Mae), 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 March 31, 2023



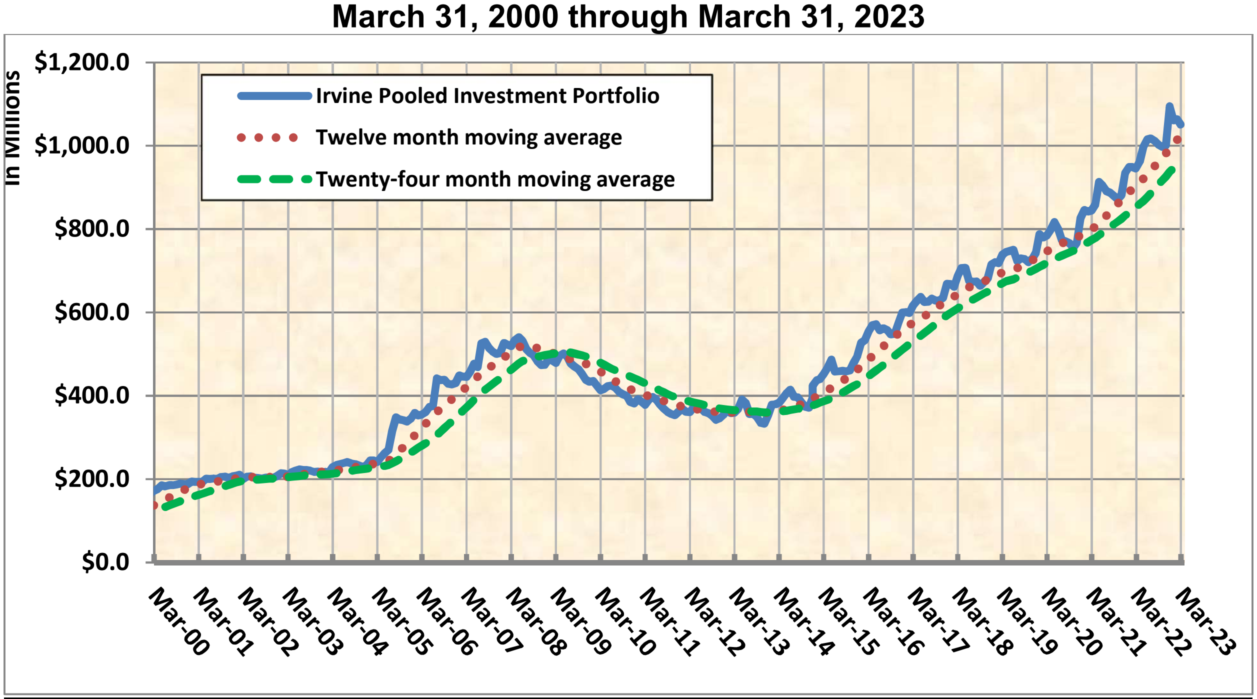
Another key component in portfolio management is to ensure that the City has enough funds on hand to meet current expenses. As of March 31, 2023, the overnight to 6-month liquidity level for the Irvine Pooled Investment Portfolio was 11.16 percent, and 20.49 percent liquidity overnight to one year. Chart 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 March 31, 2023

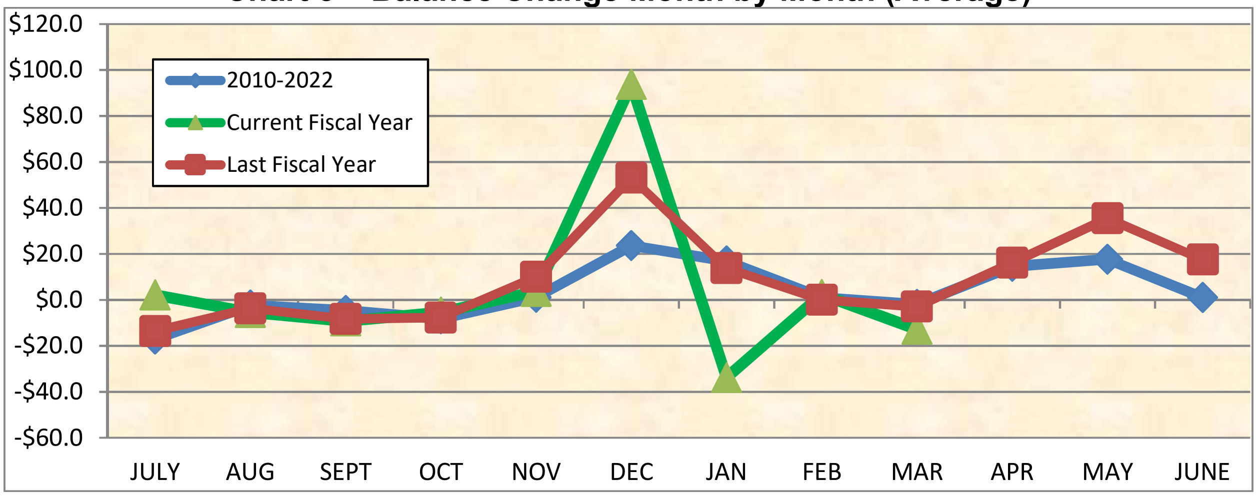


Charts 4 and Chart 5 show the volatility and cyclicality of the Irvine Pooled Investment Portfolio fund balance and cash flows between 2000 and 2023.

Irvine Pooled Investment Portfolio
Chart 4 - Portfolio Balance
March 31, 2000 through March 31, 2023

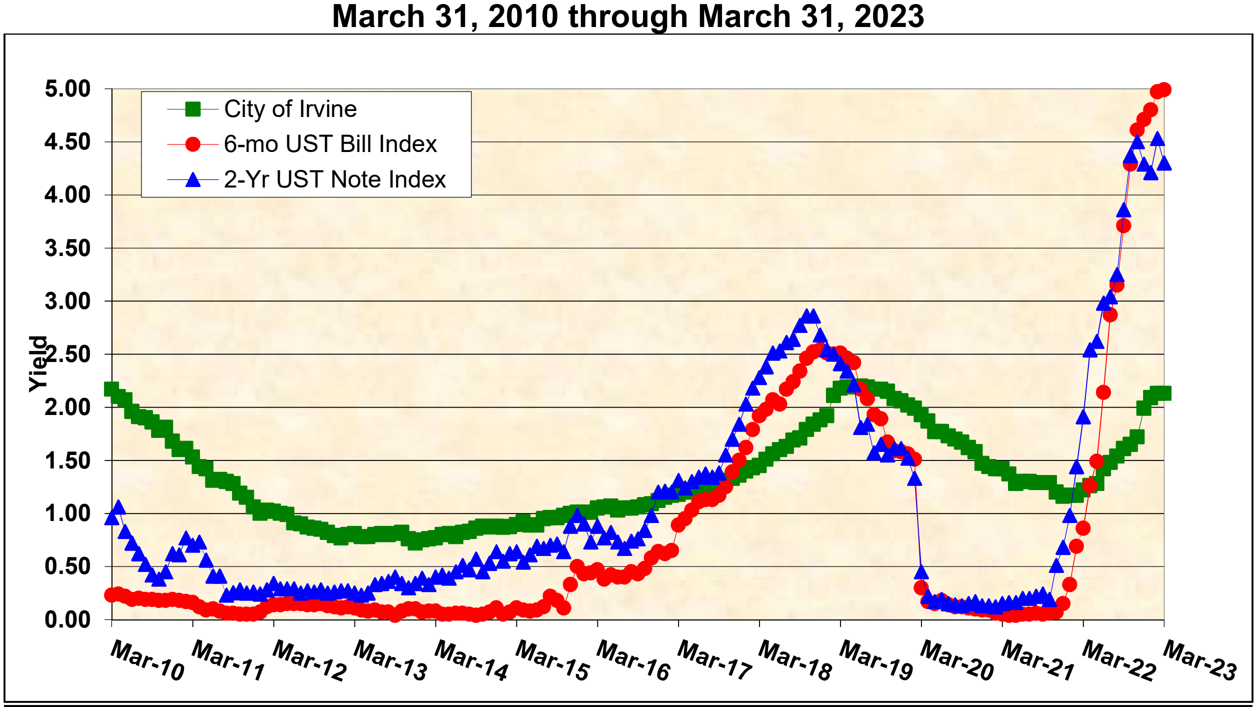


Irvine Pooled Investment Portfolio
Chart 5 – Balance Change Month by Month (Average)



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 six-month United States Treasury (UST) Bill Index and two-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 10 years. The portfolio's book yield is lower than the 6-month UST by 2.85 percent and lower than the two-year UST by 2.16 percent, due to the Federal Reserve rapidly increasing short term interest rates in response to inflation.

Irvine Pooled Investment Portfolio
Chart 6 - Yield to Maturity Compared to Assigned Indices
March 31, 2010 through March 31, 2023



<u>Bond Proceeds Fund Portfolio</u>

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 March 31, 2023 is $761,088.

Bond Proceeds Fund Portfolio
Rolling 12-Month Quarterly Comparison

	March 31, 2023	December 31, 2022	September 30, 2022	June 30, 2022
Book Value	$68,641,000	$55,000,000	$75,000,000	$70,190,000
Market Value	$67,715,055	$53,976,409	$73,557,072	$69,286,333
Unrealized Gain/(Loss)	($925,945)	($1,023,591)	($1,442,928)	($903,667)
Unrealized Gain/(Loss) as % of Book Value	(1.35%)	(1.86%)	(1.92%)	(1.29%)
Average Yield to Maturity	2.88%	2.29%	1.60%	0.94%
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	$388,618	$243,324	$129,146	$48,521
Fiscal Year to Date Income	$761,088	$372,470	$129,146	$146,917

Special District Funds Portfolio

The Special District Funds Portfolio contains project and reserve funds for 22 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 March 31, 2023 is $2.87 million.

Special District Funds Portfolio
Rolling 12-Month Quarterly Comparison

	March 31, 2023	December 31, 2022	September 30, 2022	June 30, 2022
Book Value	$169,532,745	$165,943,966	$165,310,164	$269,883,279
Market Value	$169,672,464	$165,882,750	$165,223,340	$269,668,838
Unrealized Gain/(Loss)	$139,719	($61,216)	($86,824)	($214,441)
Unrealized Gain/(Loss) as % of Book Value	0.08%	(0.04%)	(0.05%)	(0.08%)
Average Yield to Maturity	4.43%	3.60%	1.88%	1.24%
Average Days to Maturity	22	32	75	97
Quarterly Interest Earnings	$1,383,263	$1,023,998	$461,843	$204,113
Fiscal Year to Date Income	$2,869,104	$1,485,841	$461,843	$300,025

Market Conditions

During the third quarter of FY 2022-23, interest rates continued to increase in the short end of the yield curve between the one month and six month treasuries, with yields declining in one to five year maturities. The Federal Reserve elected to raise the federal funds rate at both its scheduled meetings on February 1, 2023 by 25 basis points to 4.5 to 4.75 percent, and March 22, 2023 by 25 basis points to 4.75 to 5 percent. During the quarter, the yield of the six-month Treasury bill increased 11 basis points to 4.87 percent, the two-year Treasury note decreased 33 basis points to 4.08 percent, and the five-year notes decreased by 36 basis points to 3.63 percent. The Local Agency Investment Fund (LAIF) daily rate increased from 2.29 percent to 2.88 percent during the quarter. The net effect to the Pooled Investment Portfolio was a decrease in the unrealized market value loss to $39.65 million from an unrealized loss of $51.96 million as of March 31, 2023, which is in direct proportion to the stated duration of the portfolio, and the change in market yields.

As mandated by the U.S. Congress, the Federal Open Market Committee's (FOMC) objectives are to promote maximum employment and price stability. Over the past year, the FOMC's policy actions to address high inflation, continues as the Federal Reserve

Governors are collectively committed to taking further actions to bring inflation back down to their stated goal of 2 percent. Since last March, the FOMC has been tightening monetary policy through a combination of increasing the federal funds rate by 4.75 percentage points to the current range of 4.75 percent to 5 percent, and the systematic reduction of their balance sheet holdings through quantitative tightening.

In the first quarter of 2023, the collapse of Silicon Valley Bank (SVB) and several other regional banks sparked concerns regarding the health of the U.S. banking system and the potential for wider economic fallout. While regional bank turmoil has been worrying, market participants should not fear a 2008 financial crisis repeat. The management of deposits and the concentration of the depositor base were unique problems that acutely impacted Silicon Valley Bank and led to their downfall. These issues will play a role in debate about regulations for small and medium-sized banks.

The regional banking crisis will likely have negative implications for the U.S. economy as lending conditions have tightened meaningfully since the second quarter of 2022, and should tighten further this year as a result of the bank turmoil. Importantly, this will drag on overall economic growth by reducing capital available for business spending and investment. In particular, business spending could be hurt for two reasons. First, businesses may slow hiring and capital spending plans due to increased recession worries. Second, we are very likely to see a further tightening of bank lending conditions, as banks focus on the quality of their balance sheets rather than on growth, dragging on overall economic growth.

While consumers have been largely unaffected by the financial instability, higher inflation and the lagged effects of less fiscal stimulus continue to weigh on consumer spending. The personal saving rate so far this year has only averaged 4.7 percent, compared to a long-run average of 8.9 percent, and consumers have been running up their credit card balances.

New US home construction increased in February for the first time in six months, led by a surge in starts of multifamily projects that may suggest the housing market is starting to stabilize. Residential starts rose 9.8 percent last month to a 1.45 million annualized rate, the fastest in five months and applications to build, a proxy for future construction, climbed 13.8 percent to an annualized pace of 1.52 million units, reflecting gains in permits for both single-family and multifamily projects. As the supply of multifamily units rise, rent pressures should continue to abate.

The labor market continues to be a bright spot in an otherwise gloomy economic environment, with the unemployment rate at 3.5 percent as of March, just 0.1 percent above its 50-year recent low in January 2023. However, the economy is losing momentum, even in the labor market. Job openings have come down, and will likely fall further as businesses pull back hiring efforts in the face of slower demand and higher costs, and layoff announcements have risen. This has contributed to a moderation in wages, which only grew by 0.3 percent month over month (m/m), and 4.2 percent year over year (y/y) in March for all private workers, marking the 24th consecutive month in which wage growth has lagged inflation.

After nearly two years of inflation squeezing consumer wallets and contributing to a swift rise in interest rates, a sustained inflation downtrend is now underway. Headline Consumer Price Index inflation has come down from a peak of 8.9 percent y/y last June to 6 percent y/y in February. Energy and commodity prices spiked after Russia’s invasion of Ukraine in early 2022 but have been declining since the second half of last year. Improved supply chains, combined with lower consumer demand, have allowed inflation to trend down across core goods categories. While shelter inflation remains elevated, this reflects a lagged reality as rental increases have generally stalled for new transactions in the rental market. The remaining problem for inflation, therefore, is core services prices outside of housing, a measure Chairman Jerome Powell has frequently quoted when referencing inflation pressures. Easing labor market tightness and consumer demand should also allow for services ex-shelter inflation to come down, particularly heading into 2024.

Following the last FOMC meeting on March 22, 2023, the FOMC’s updated economic projections showed a slightly more dovish picture of weaker growth, a touch higher inflation and slightly lower unemployment compared to previous projections. The current median FOMC expectation for the annual core PCE inflation rate is now slightly higher for 2023 and 2024 versus its December projections. Other revisions suggest that the Fed believes below-trend growth and an increase in unemployment will be necessary to combat inflation, and that a soft landing is becoming less likely.

Interestingly, futures markets disagree with the FOMC’s forecast for the federal funds rate later this year. Despite Federal Reserve Chairman Jerome Powell opposing the idea of rate cuts, futures markets have priced in cuts for the second half of 2023, reflecting the concern that overly aggressive monetary tightening could tip the economy into a recession. Regardless of the path of interest rates, the City of Irvine will continue to maintain credit quality, duration, and match long term projected liabilities with the pooled investments.

City of Irvine
Summary of Pooled Investment Portfolio Book Value by Fund *
As of March 31, 2023

General Reserve Funds	**$ 230,122,923**
Capital Projects Funds:	
Capital Improvement Projects	**35,909,362**
Irvine Business Complex	**117,459,631**
North Irvine Transportation Mitigation	**90,253,559**
Orange County Great Park Development	**14,984,143**
Park Development	**45,228,265**
Total	**303,834,959**
Special Revenue Funds:	
Air Quality Improvement	**754,681**
County Sales Tax Measure M	**10,163,036**
Fees and Exactions	**8,590,533**
State Gasoline Tax	**27,000,382**
Grants	**7,154,925**
I Shuttle	**569,636**
Local Park Fees	**149,789,479**
Maintenance District	**1,402,956**
Major Special Events	**212,423**
Orange County Great Park	**232,295,228**
Slurry Seal Fees	**1,129,630**
System Development	**17,510,918**
Total	**456,573,826**
Internal Service Funds:	
Equipment & Services	**34,326,672**
Inventory	**37,756**
Self-Insurance	**21,633,718**
Total	**55,998,146**
Permanent Fund:	
Senior Services	**388,820**
Senior Services Endowments	**500,000**
Total	**888,820**
Fiduciary Fund:	
Successor Agency Debt Service	**0**
Redevelopment Obligation Retirement	**3,244,200**
Total	**3,244,200**
Total Pooled Investments at March 31, 2023	**$ 1,050,662,874**

Note: Presentation of funds is consistent with the City's Annual Comprehensive Financial Report.
* Balances are not audited

ATTACHMENT 2