



REQUEST FOR CITY COUNCIL ACTION

MEETING DATE: SEPTEMBER 12, 2023

TITLE: TREASURER'S REPORT FOR FISCAL YEAR ENDED
JUNE 30, 2023

Director of Administrative Services

City Manager

RECOMMENDED ACTION

Receive and file the Treasurer's Report for the fiscal year ended June 30, 2023.

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, 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 \$1.78 billion as of June 30, 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.

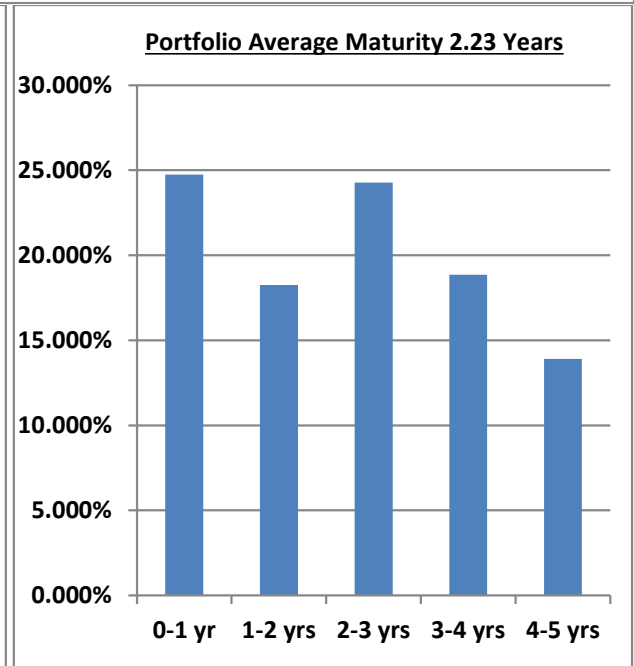
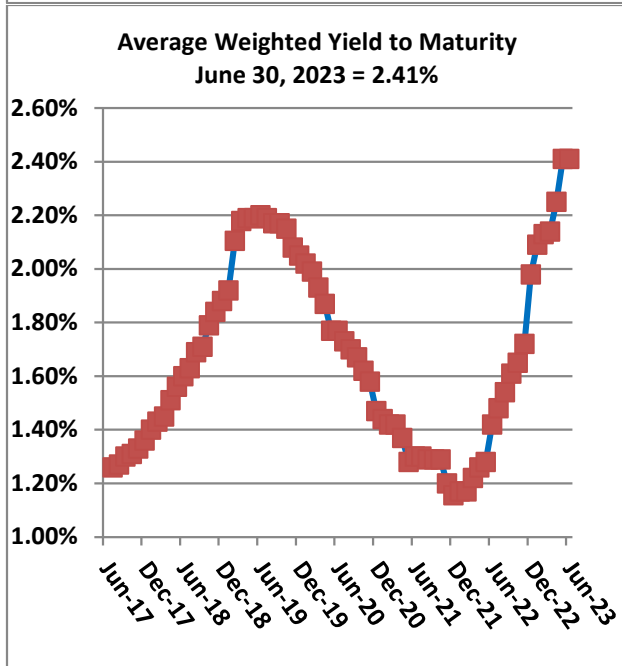
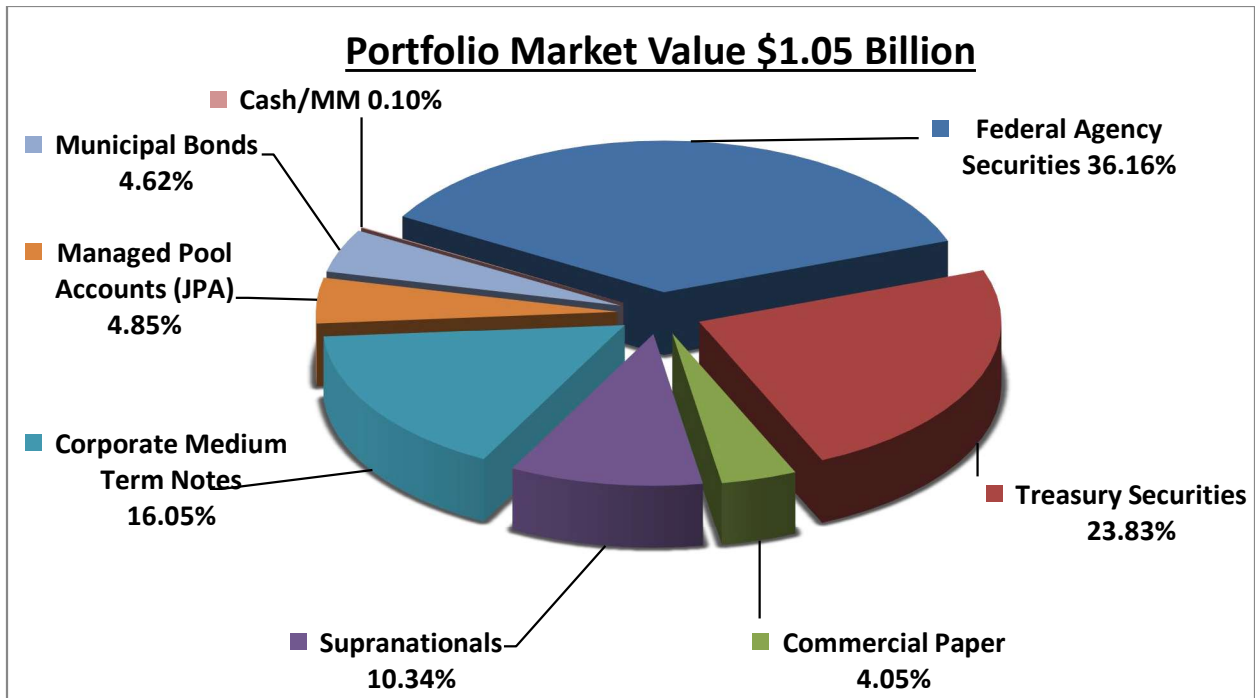
As of June 30, 2023, the City's investment portfolios are in full compliance with the City's Investment Policy, the California Government Code Section 53601, and have sufficient cash flow from a combination of liquid and maturing securities, bank deposits, and income to meet the City's expenditure requirements.

COMMISSION/BOARD/COMMITTEE RECOMMENDATION

At its regular meeting of August 9, 2023, the Investment Advisory Committee recommended that the City Council receive and file the Treasurer's Report for the fiscal year ended June 30, 2023 by a 4-0 (Committee Member 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 \$23.69 million with investments structured for security and liquidity.

REPORT PREPARED BY Don Collins, City Treasurer

Attachments:

1. Treasurer's Report for the fiscal year ended June 30, 2023
2. Summary of Irvine Pooled Investment Portfolio by Fund



**CITY OF IRVINE
TREASURER'S REPORT
For Fiscal Year Ended June 30, 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 fiscal year, ended June 30, 2023, combined book value of the three portfolios totaled \$1.78 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, 2023, the book value (purchase price of securities as recorded on the City's books) of the portfolio was \$1.10 billion and the average yield to maturity was 2.41 percent. Fiscal year to date investment revenue (interest payments and capital gains) generated by the portfolio as of June 30, 2023 was \$14.97 million. The table below compares the portfolio's statistics over a rolling 12-month period.

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

	June 30, 2023	March 31, 2023	December 31, 2022	September 30, 2022
Book Value	\$1,098,858,492	\$1,050,662,874	\$1,094,758,092	\$1,002,649,923
Market Value	\$1,050,924,019	\$1,011,013,947	\$1,042,801,093	\$946,303,312
Unrealized Gain/(Loss)	(\$47,916,473)	(\$39,648,927)	(\$51,956,999)	(\$56,346,611)
Unrealized Gain/(Loss) as % of Book Value	(4.36%)	(3.77%)	(4.75%)	(5.62%)
Average Yield To Maturity	2.41%	2.14%	1.99%	1.61%
Liquidity 0–6 Months	14.11%	11.16%	19.82%	10.36%
Weighted Average Maturity	2.23	2.32	2.11	2.31
Modified Duration (Years)	2.08	2.19	1.98	2.16
Quarterly Interest Earnings	\$4,708,140	\$4,008,636	\$3,788,206	\$2,468,946
Fiscal Year to Date Income	\$14,973,928	\$10,265,788	\$6,257,152	\$2,468,946

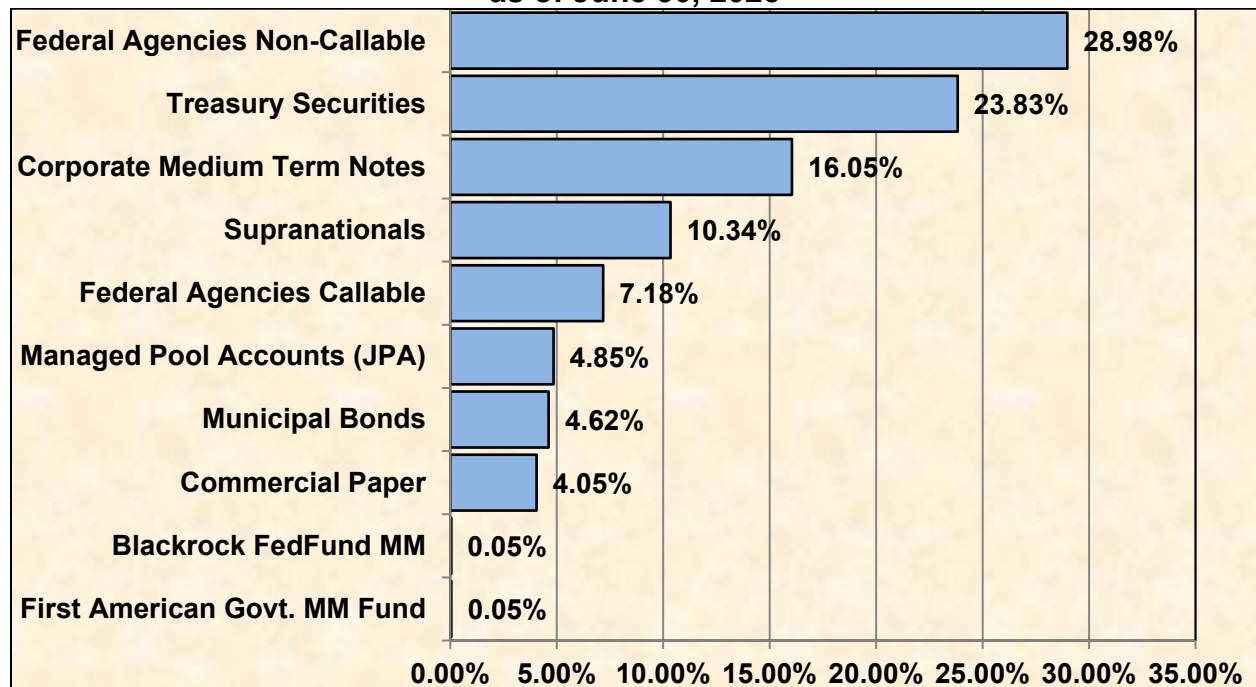
As anticipated, the Irvine Pooled Investment Portfolio's book value increased by \$48.20 million from the previous quarter due to combined revenues of the receipt of property taxes,

sales tax, and developer fees. Portfolio yield to maturity increased for the quarter ended June 30, 2023 by 27 basis points to 2.41 percent as maturing investments were reinvested in the rising rate environment. With market rates moving higher during the quarter, as of June 30, 2023, the portfolio ended with an unrealized loss of \$47.92 million as compared to an unrealized loss of \$39.65 million on March 31, 2023. This is a normal result of the portfolio's modified duration of 2.08 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.

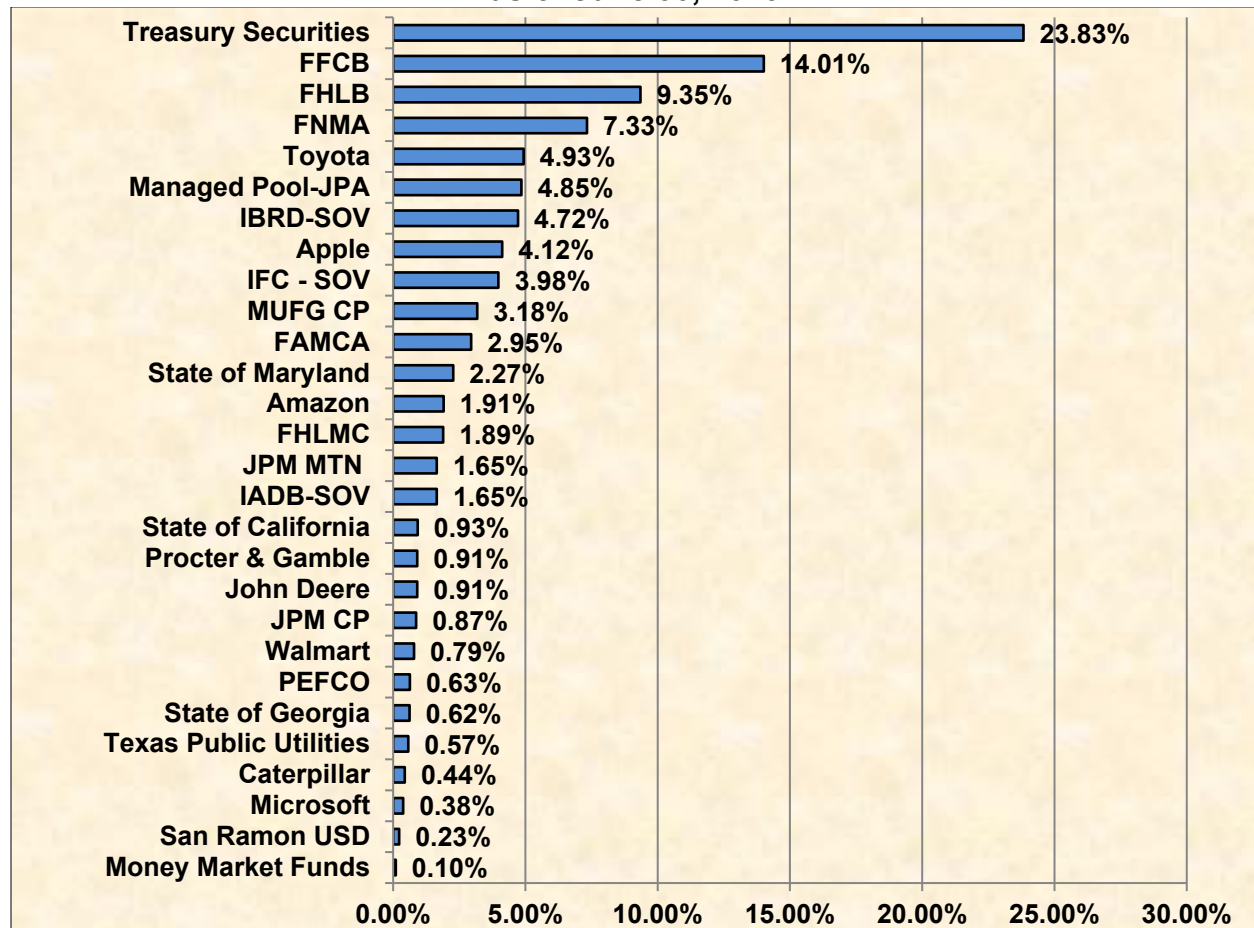
To manage liquidity, the Irvine Pooled Investment Portfolio is invested in Managed Pool Accounts (JPA), First American Government money market fund, Blackrock FedFund money market fund and short-term Commercial Paper. Chart 1 shows the asset allocation of the portfolio.

Irvine Pooled Investment Portfolio
Chart 1 - Asset Allocation
as of June 30, 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 June 30, 2023**



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, 2023, the overnight to 6-month liquidity level for the Irvine Pooled Investment Portfolio was 14.11 percent, and 24.74 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, 2023

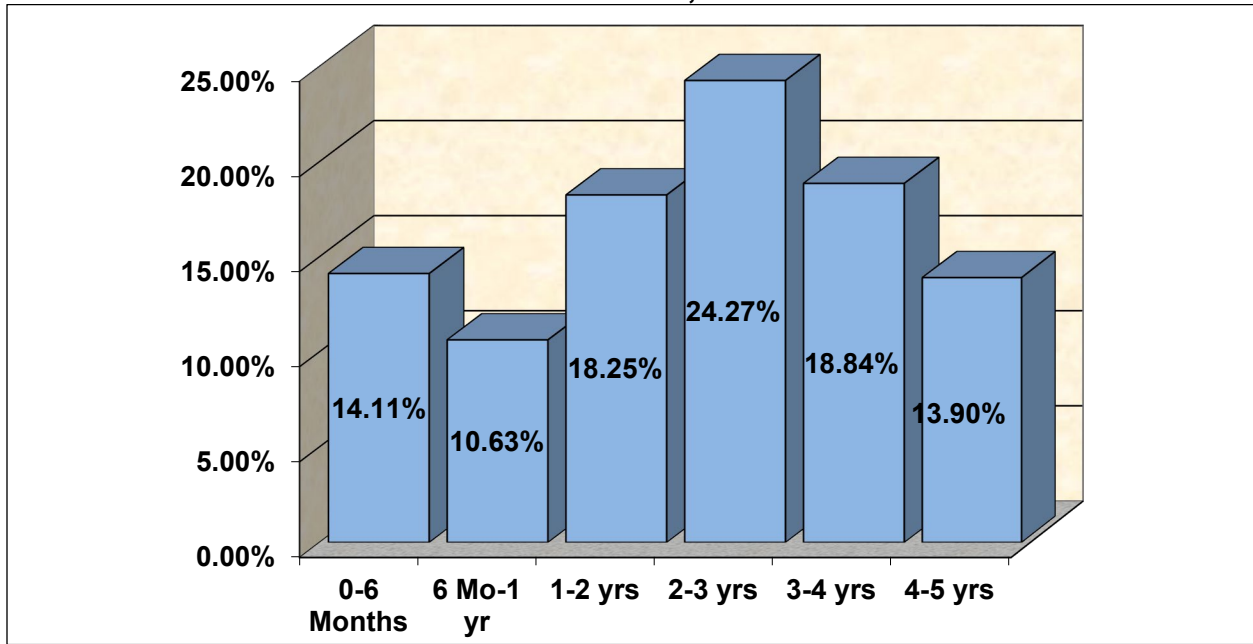
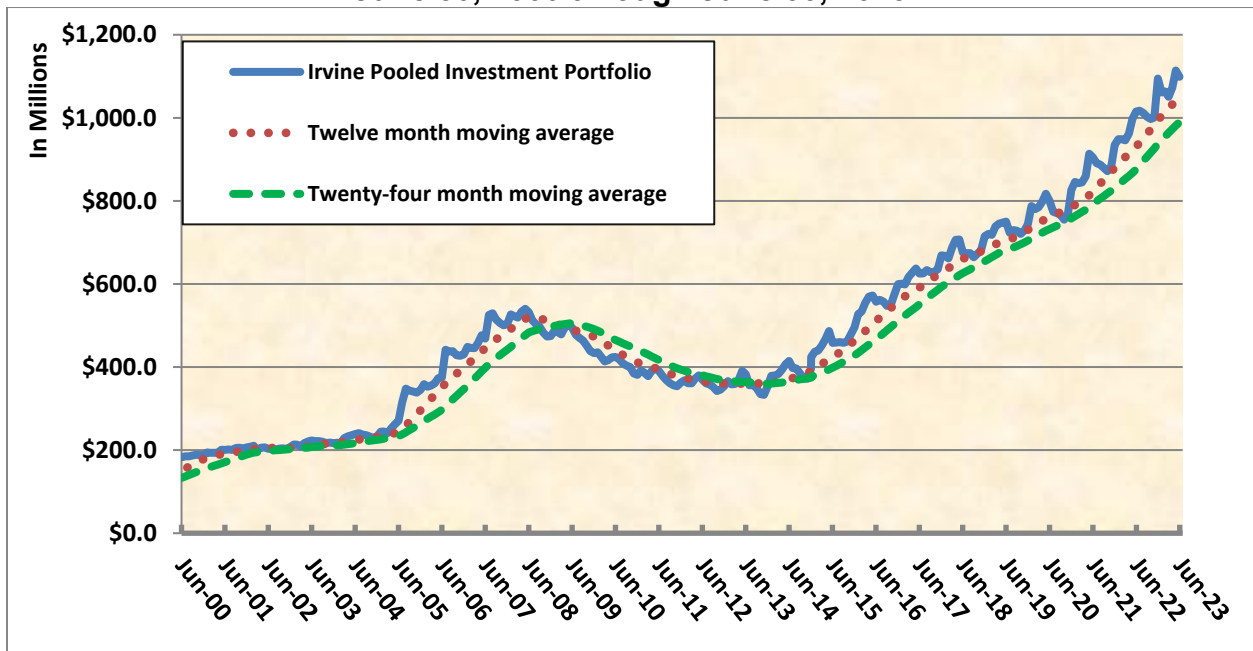
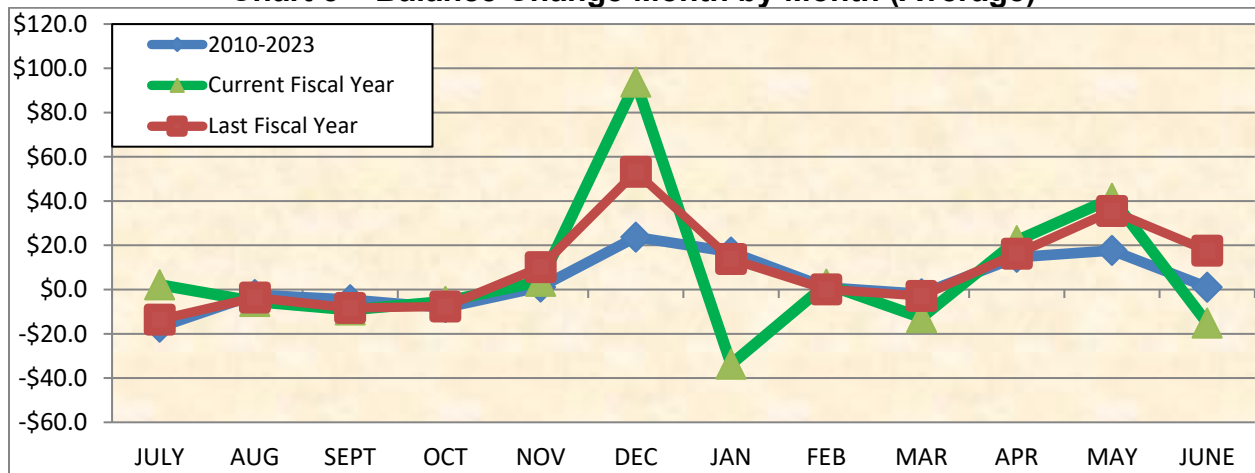


Chart 4 and Chart 5 show the volatility and cyclical nature of the Irvine Pooled Investment Portfolio fund balance and cash flows between 2000 and 2023.

Irvine Pooled Investment Portfolio
Chart 4 - Portfolio Balance
June 30, 2000 through June 30, 2023

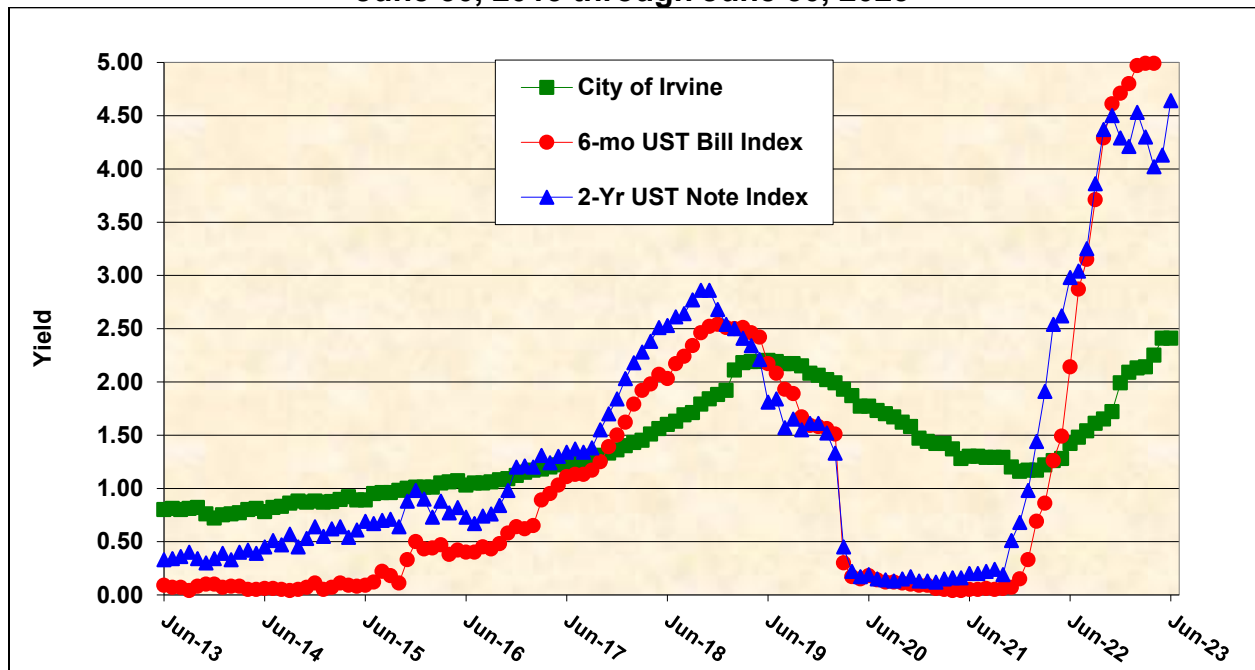


Irvine Pooled Investment Portfolio
Chart 5 – Balance Change Month by Month (Average)



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 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 3.01 percent and lower than the 2-year UST by 2.23 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
June 30, 2013 through June 30, 2023



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, 2023 is \$1.90 million.

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

	June 30, 2023	March 31, 2023	December 31, 2022	September 30, 2022
Book Value	\$68,308,623	\$68,641,000	\$55,000,000	\$75,000,000
Market Value	\$68,308,623	\$67,715,055	\$53,976,409	\$73,557,072
Unrealized Gain/(Loss)	\$0	(\$925,945)	(\$1,023,591)	(\$1,442,928)
Unrealized Gain/(Loss) as % of Book Value	0.00%	(1.35%)	(1.86%)	(1.92%)
Average Yield To Maturity	5.27%	2.88%	2.29%	1.60%
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	\$1,134,082	\$388,618	\$243,324	\$129,146
Fiscal Year to Date Income	\$1,895,170	\$761,088	\$372,470	\$129,146

Special District Funds Portfolio

The Special District Funds Portfolio contains project and reserve funds for 22 AD and RAD bond issues, five CFD bond issues, and one Irvine Facilities Financing Authority bond issue. 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, 2023 is \$6.82 million.

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

	June 30, 2023	March 31, 2023	December 31, 2022	September 30, 2022
Book Value	\$617,058,490	\$169,532,745	\$165,943,966	\$165,310,164
Market Value	\$617,088,967	\$169,672,464	\$165,882,750	\$165,223,340
Unrealized Gain/(Loss)	\$30,477	\$139,719	(\$61,216)	(\$86,824)
Unrealized Gain/(Loss) as % of Book Value	0.00%	0.08%	(0.04%)	(0.05%)
Average Yield To Maturity	5.10%	4.43%	3.60%	1.88%
Average Days To Maturity	5	22	32	75
Quarterly Interest Earnings	\$3,954,174	\$1,383,263	\$1,023,998	\$461,843
Fiscal Year to Date Income	\$6,823,279	\$2,869,104	\$1,485,841	\$461,843

Market Conditions

During the fourth quarter of FY 2022-23, interest rates continued to increase across the entire yield curve. The Federal Reserve elected to raise the federal funds rate at its scheduled meeting on May 3, 2023 by 25 basis points to 5-5.25 percent, but held rates steady at the June 14, 2023 meeting. During the quarter, the yield of the 6-month Treasury bill increased 55 basis points to 5.4 percent, the 2-year Treasury note increased 87 basis points to 4.89 percent, and the 5-year Treasury note increased by 58 basis points to 4.15 percent. The Local Agency Investment Fund (LAIF) daily rate increased from 2.88 percent to 3.26 percent during the quarter. The Joint Power Authority (JPA) daily rate at quarter end is 5.29 percent. The net effect to the Pooled Investment Portfolio was an increase in the unrealized market value loss to \$47.92 million from an unrealized market value loss of \$39.65 million as of June 30, 2023, which is in direct proportion to the stated duration of the portfolio, and the change in market yields.

Over the past fiscal year, interest rates increased dramatically. The Federal Funds rate which is set by the Federal Open Market Committee (FOMC) rose from a range of 1.5-1.75 percent to 5-5.25 percent. The yield of the 6-month Treasury bill increased 385 basis

points to 5.4 percent, the 2-year Treasury note increased 233 basis points to 4.89 percent, and the 5-year Treasury note increased by 133 basis points to 4.15 percent. While we fully anticipate another rate hike in July 2023, recent data suggests that the FOMC may be nearing the end of their hiking cycle. The Federal Reserve's decisions regarding interest rates are based upon a variety of factors such as economic conditions, inflation rates, and monetary policy goals. The Federal Reserve aims to promote stable prices, maximum employment, and moderate long term interest rates.

Inflation continued to decelerate in June, with the headline Consumer Price Index (CPI) rising only 3 percent year-over-year (y/y), to its lowest level since March 2021. Core inflation declined as well for a fourth consecutive month, to 4.8 percent y/y. Most components in the CPI metric continue to deflate with only vehicle insurance and freight storage moving up this past month. The Producer Price Index (PPI) has also dropped to levels not seen since late 2020 falling from a high of 11.65 percent in March 2022 to the most recent 0.13 percent y/y as of June 30, 2023. While Jerome Powell and his governors remain steadfast in their inflation fighting rhetoric, recent data suggest a rate hike pause. The second half of 2023 will remain challenging however as the last six CPI reports in 2022 provide a fairly flat base for the next six CPI reports. As a result, inflation is structurally biased to increase through the rest of 2023.

The economy grew at a 2 percent annualized rate in the first quarter of calendar 2023, a deceleration compared to last quarter's 2.60 percent pace. Consumption, exports and government spending all looked strong, growing at annual rates of 4.2 percent, 7.8 percent, and 5 percent, respectively. However, most of the consumption gains can be attributed to a strong January. These gains were partially offset by decreases in private inventory and residential fixed investment. Notably, a sharp decline in equipment spending indicated a slowdown in business investment spending. Looking ahead, normalizing inventory levels should support growth, but a strained consumer, tighter lending conditions and weaker business spending remain headwinds in the coming months. Additionally, the resumption of repaying Student Loans in the fourth quarter will alter consumer discretionary spending.

The first quarter 2023 earnings season delivered better than expected results for corporate America with 70 percent beating earnings expectations and protecting profit margins. Looking ahead, recession risk is still rising and analyst estimates for earnings likely remains too high, making it difficult to be overly excited about equities now.

Labor remains robust when looking at the headline data with the unemployment rate of 3.6 percent which is up slightly from last quarter's rate of 3.5 percent. Some of the internal data suggests deterioration in the labor market. Temporary help firms (a leading indicator) were down 13,000 last month and down in the last six out of seven months. When headhunters reduce headcount, it does tend to mean that other sectors follow suit with a lag. When you count in the revisions, strip out the Birth-Death model, take into consideration the boom in multiple-job holders which is a sign of stress, employment actually contracted 194,000 in June which equates to a weak report.

In conclusion, the City of Irvine will continue to maximize the duration of its portfolio by utilizing high quality investments within the guidelines of anticipated cash flows, which will be favorable when the yield curve reverts to a more normal slope.

City of Irvine
Summary of Pooled Investment Portfolio Book Value by Fund *
As of June 30, 2023

General Reserve Funds	\$ 247,055,756
Capital Projects Funds:	
Capital Improvement Projects	34,630,587
Irvine Business Complex	118,771,747
North Irvine Transportation Mitigation	93,758,137
Orange County Great Park Development	13,175,582
Park Development	43,731,200
Total	304,067,253
Special Revenue Funds:	
Air Quality Improvement	779,312
County Sales Tax Measure M	11,253,486
Fees and Exactions	8,962,459
State Gasoline Tax	32,193,328
Grants	6,336,172
I Shuttle	587,575
Local Park Fees	152,301,965
Maintenance District	3,823,868
Major Special Events	238,500
Orange County Great Park	241,055,924
Slurry Seal Fees	1,299,319
System Development	18,719,379
Total	477,551,289
Internal Service Funds:	
Equipment & Services	36,285,381
Inventory	77,911
Self-Insurance	22,820,882
Total	59,184,174
Permanent Fund:	
Senior Services	387,557
Senior Services Endowments	500,000
Total	887,557
Fiduciary Fund:	
Successor Agency Debt Service	0
Redevelopment Obligation Retirement	10,112,463
Total	10,112,463
Total Pooled Investments at June 30, 2023	\$ 1,098,858,492

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.