



# REQUEST FOR CITY COUNCIL ACTION

**MEETING DATE:** NOVEMBER 28, 2023

**TITLE:** TREASURER'S REPORT FOR QUARTER ENDED  
SEPTEMBER 30, 2023

Director of Administrative Services

City Manager

## RECOMMENDED ACTION

Receive and file the Treasurer's Report for the quarter ended September 30, 2023.

## EXECUTIVE SUMMARY

The Treasurer's Report (Attachment 1) provides a synopsis of investment activity for the City's four investment portfolios for the quarter ended September 30, 2023. The portfolios, managed by Meeder Investment Management and Stifel Topalian Investment Group, under the direction of the Treasurer, include the Irvine Pooled Investment Portfolio, Bond Proceeds Fund Portfolio, Gateway Preserve Bond Portfolio, and the Special District Funds Portfolio. The total book value for all four portfolios was \$2.10 billion as of September 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.

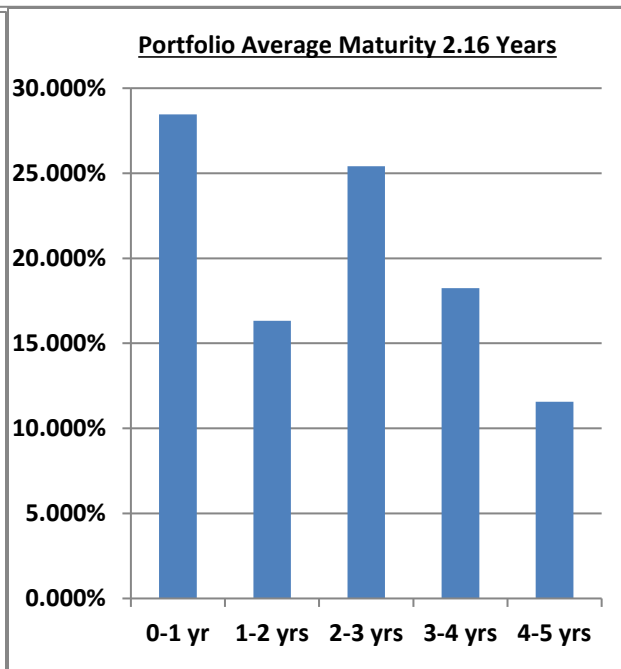
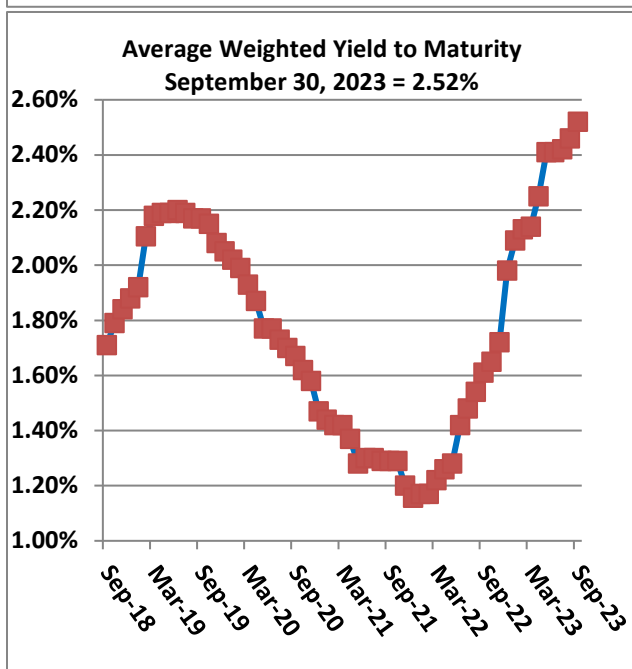
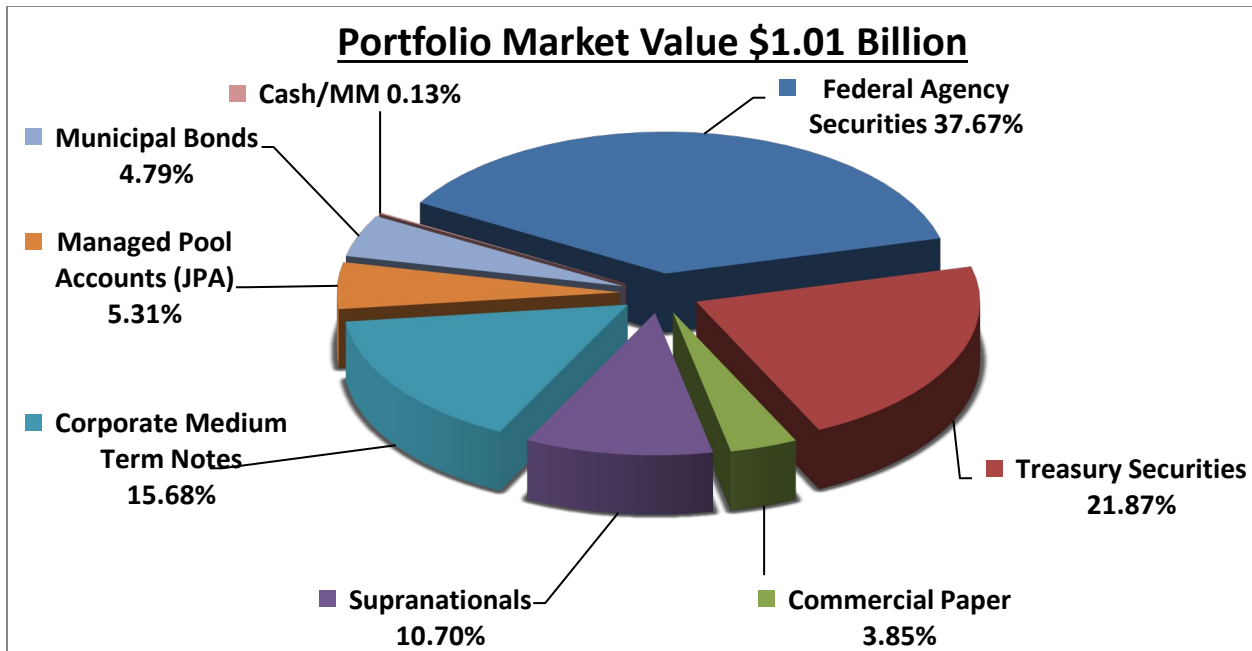
As of September 30, 2023, the City's investment portfolios are in full compliance with the City's Investment Policy, the California Government Code Section 53601, and have sufficient cash flow from a combination of liquid and maturing securities, bank deposits, and income to meet the City's expenditure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

## COMMISSION/BOARD/COMMITTEE RECOMMENDATION

At its regular meeting of November 8, 2023, the Investment Advisory Committee recommended that the City Council receive and file the Treasurer's Report for the quarter ended September 30, 2023 by a 3-1 (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, Gateway Preserve Bond Portfolio, and Special District Funds Portfolio totaled \$15.73 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 September 30, 2023
2. Summary of Irvine Pooled Investment Portfolio by Fund



**CITY OF IRVINE  
TREASURER'S REPORT  
For Quarter Ended September 30, 2023**

The City of Irvine maintains four investment portfolios, the Irvine Pooled Investment Portfolio, the Bond Proceeds Fund Portfolio, Gateway Preserve Bond Portfolio, and the Special District Funds Portfolio. As of the quarter ended, September 30, 2023, combined book value of the four portfolios totaled \$2.10 billion. This report provides detailed information of all four 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, 2023, the book value (purchase price of securities as recorded on the City's books) of the portfolio was \$1.06 billion and the average yield to maturity was 2.52 percent. Fiscal year to date investment revenue (interest payments and capital gains) generated by the portfolio as of September 30, 2023 was \$5.09 million. The table below compares the portfolio's statistics over a rolling 12-month period.

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

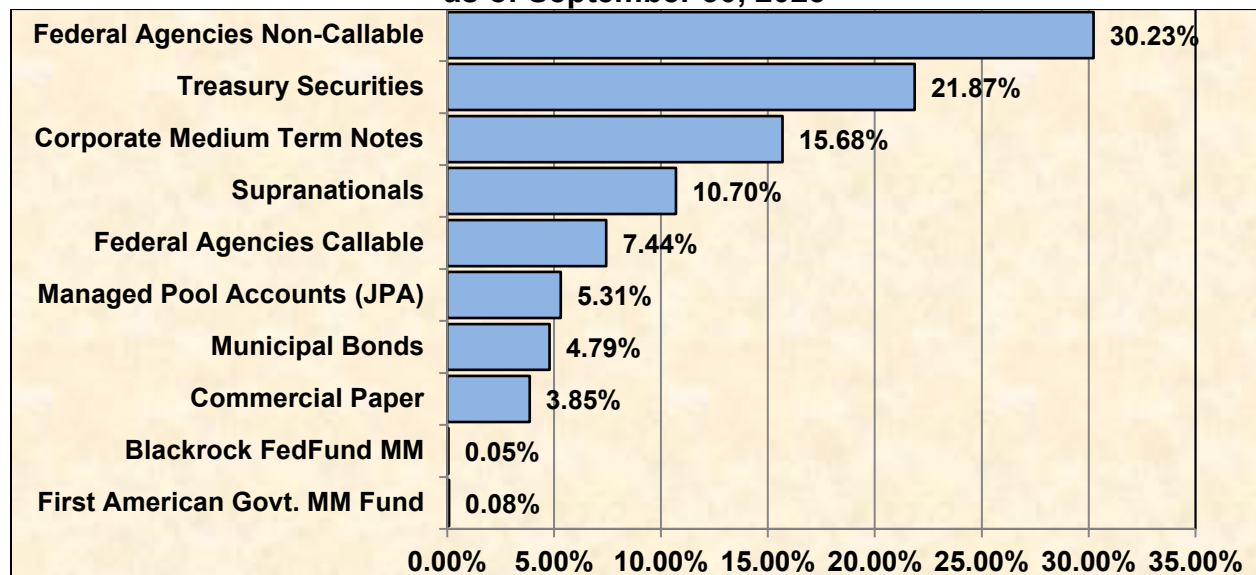
	<b>September 30, 2023</b>	<b>June 30, 2023</b>	<b>March 31, 2023</b>	<b>December 31, 2022</b>
Book Value	\$1,060,380,663	\$1,098,858,492	\$1,050,662,874	\$1,094,758,092
Market Value	\$1,012,304,922	\$1,050,924,019	\$1,011,013,947	\$1,042,801,093
Unrealized Gain/(Loss)	(\$48,075,741)	(\$47,934,473)	(\$39,648,927)	(\$51,956,999)
Unrealized Gain/(Loss) as % of Book Value	(4.53%)	(4.36%)	(3.77%)	(4.75%)
Average Yield To Maturity	2.52%	2.41%	2.14%	1.99%
Liquidity 0–6 Months	14.65%	14.11%	11.16%	19.82%
Weighted Average Maturity	2.16	2.23	2.32	2.11
Modified Duration (Years)	2.01	2.08	2.19	1.98
Quarterly Interest Earnings	\$5,088,235	\$4,708,140	\$4,008,636	\$3,788,206
Fiscal Year to Date Income	\$5,088,235	\$14,973,928	\$10,265,788	\$6,257,152

As anticipated, the Irvine Pooled Investment Portfolio's book value decreased by \$38.50 million from the previous quarter due to the prepayment of CalPERS pension liability for Fiscal Year 2023-24, as well as various planned capital improvement projects. Portfolio yield to maturity increased for the quarter ended September 30, 2023 by 11 basis points to 2.52 percent as maturing investments were reinvested in the rising rate environment. With market rates moving higher during the quarter, as of September 30, 2023, the portfolio ended with an unrealized loss of \$48.08 million as compared to an unrealized loss of \$47.92 million on June 30, 2023. This is a normal result of the portfolio's modified duration of 2.01 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 both Treasury and Federal Agency securities were downgraded by Standard & Poor's to AA+ in August 2011, and by Fitch to AA+ in August 2023, 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.

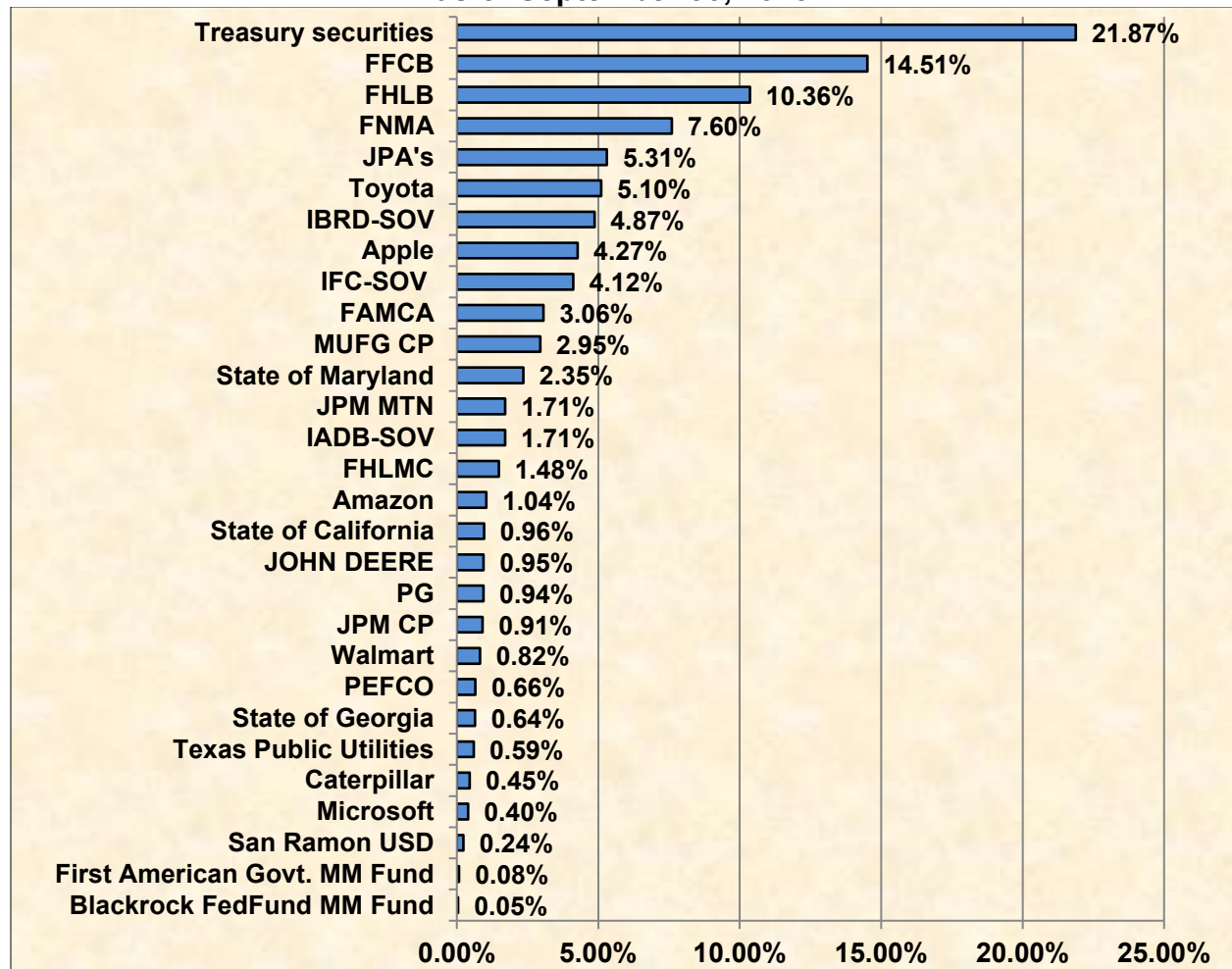
To manage liquidity, the Irvine Pooled Investment Portfolio is invested in Managed Pool Accounts (JPA), First American Government money market fund, Blackrock FedFund money market fund and short-term Commercial Paper. Chart 1 shows the asset allocation of the portfolio.

**Irvine Pooled Investment Portfolio**  
**Chart 1 - Asset Allocation**  
**as of September 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 September 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 September 30, 2023, the overnight to 6-month liquidity level for the Irvine Pooled Investment Portfolio was 14.65 percent, and 28.46 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 September 30, 2023**

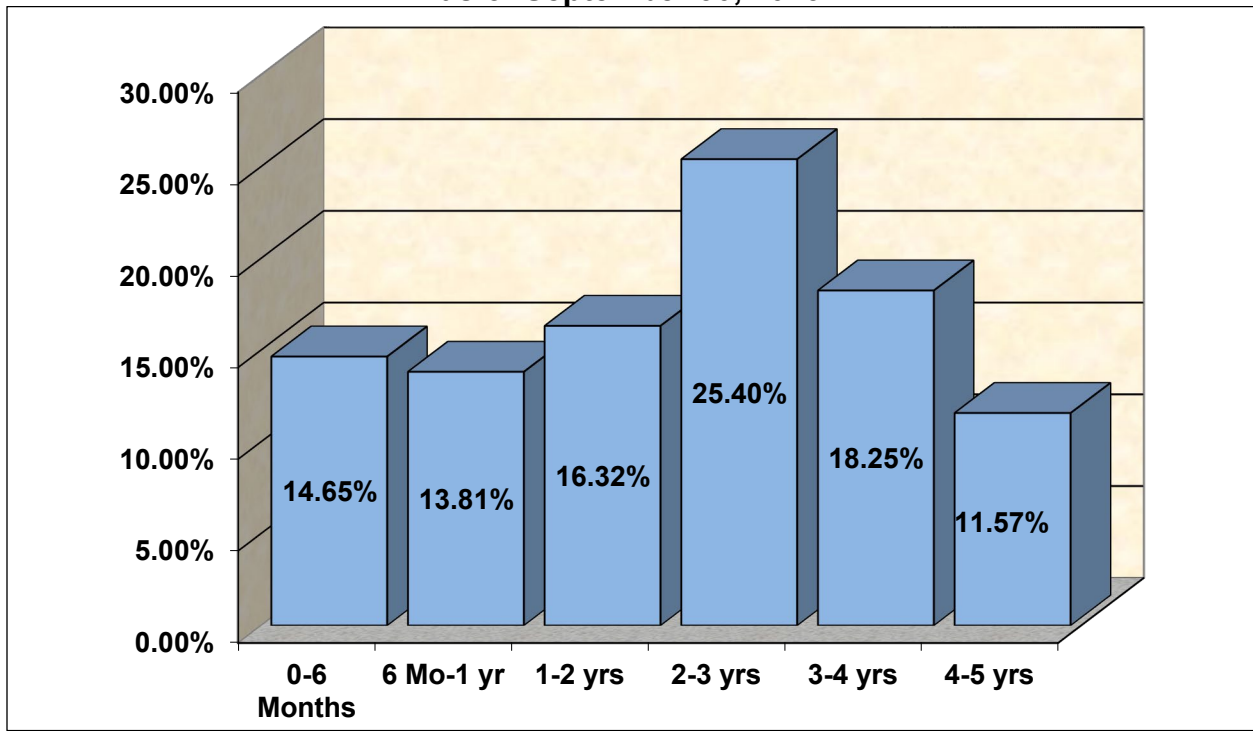
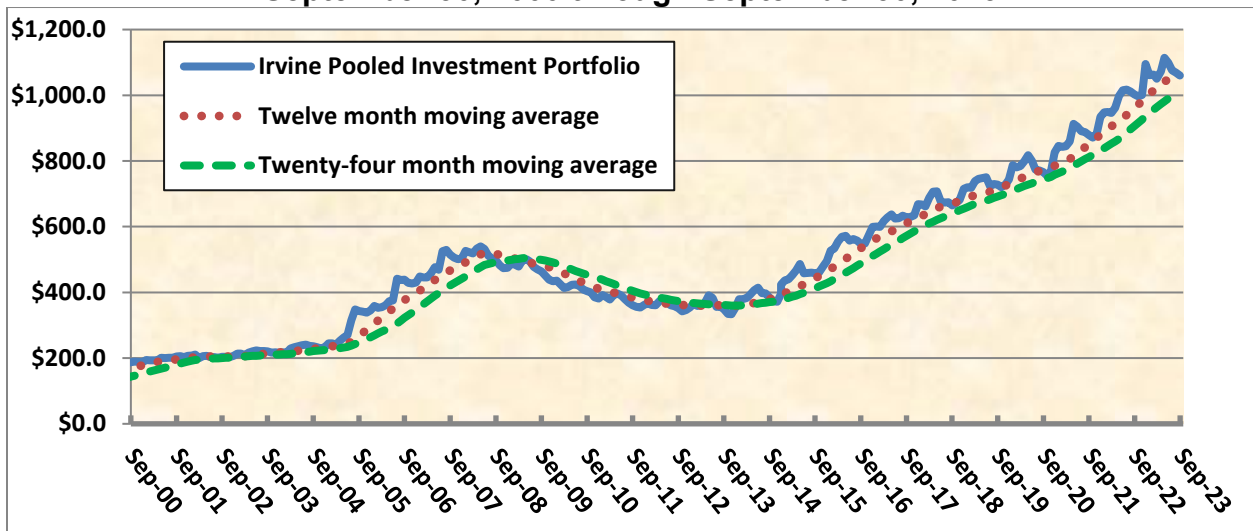
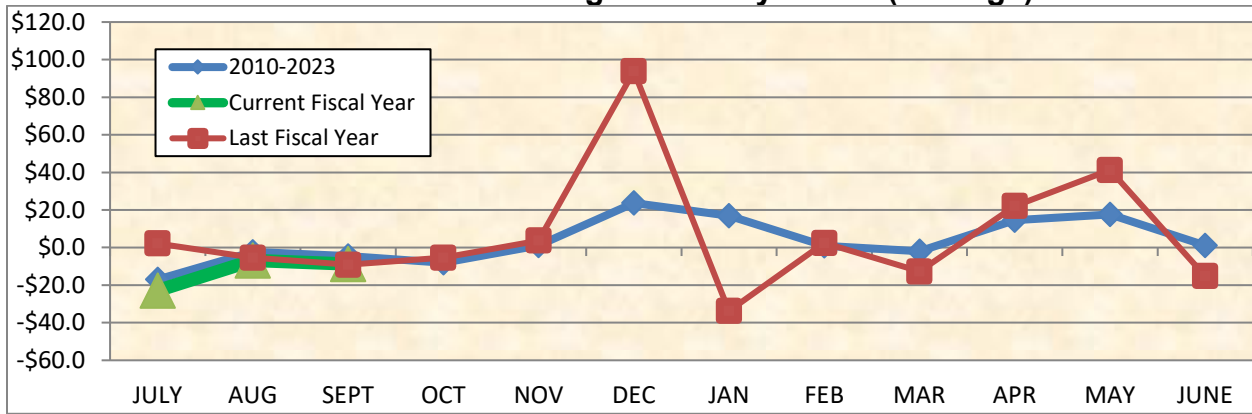


Chart 4 and Chart 5 show the volatility and cyclicity of the Irvine Pooled Investment Portfolio fund balance and cash flows between 2000 and 2023.

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

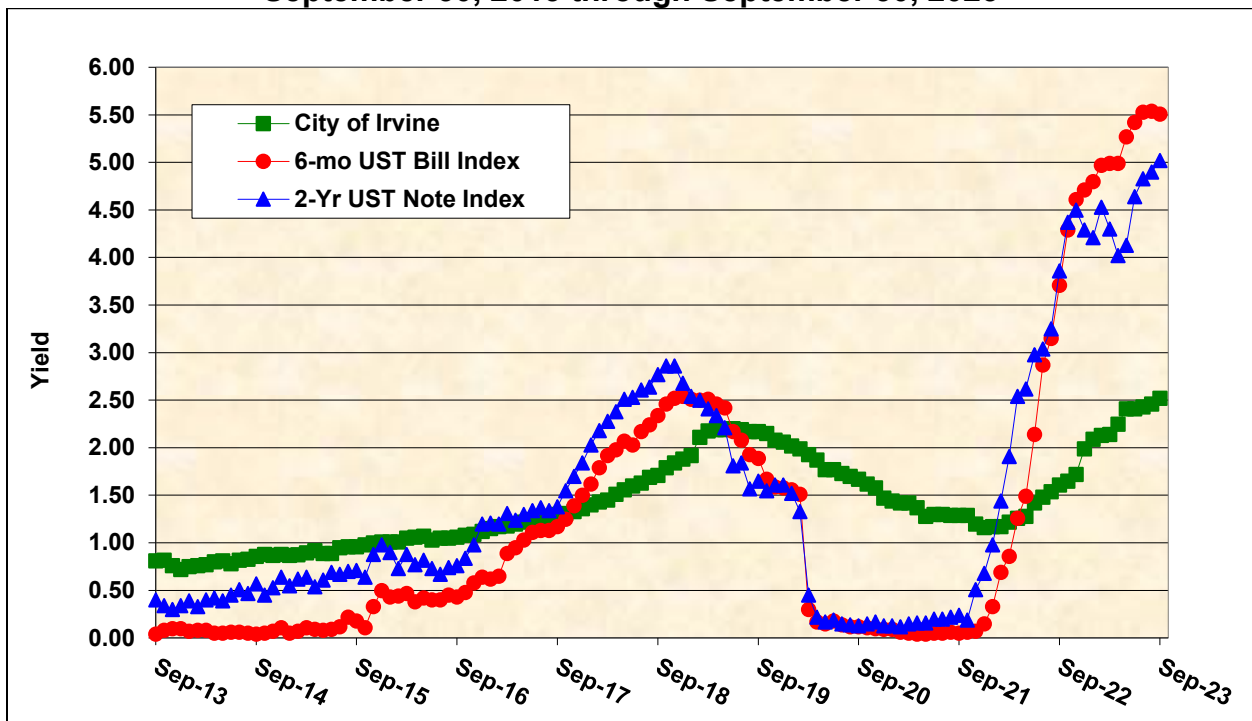


**Irvine Pooled Investment Portfolio**  
**Chart 5 – Balance Change Month by Month (Average)**



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 spot yield. 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 2.99 percent and lower than the 2-year UST by 2.50 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**  
**September 30, 2013 through September 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 September 30, 2023 is \$1.09 million.

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

	<b>September 30, 2023</b>	<b>June 30, 2023</b>	<b>March 31, 2023</b>	<b>December 31, 2022</b>
Book Value	\$68,523,880	\$68,308,623	\$68,641,000	\$55,000,000
Market Value	\$68,523,880	\$68,308,623	\$67,715,055	\$53,976,409
Unrealized Gain/(Loss)	\$0	\$0	(\$925,945)	(\$1,023,591)
Unrealized Gain/(Loss) as % of Book Value	0.00%	0.00%	(1.35%)	(1.86%)
Average Yield To Maturity	5.55%	5.27%	2.88%	2.29%
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	\$1,094,304	\$1,134,082	\$388,618	\$243,324
Fiscal Year to Date Income	\$1,094,304	\$1,895,170	\$761,088	\$372,470

**Gateway Preserve Bond Portfolio**

The Gateway Preserve Bond Portfolio contains funds for the procurement of the All American Asphalt Plant. Investments in this portfolio are made in accordance with the bond's indenture and the strategy is based on the cash flow needs. The Gateway Preserve Bond Portfolio must also remain very liquid to provide acquisition 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 Gateway Preserve Bond Portfolio as of September 30, 2023 is \$4.62 million.

**Gateway Preserve Bond Portfolio  
 Rolling Quarterly Comparison**

	<b>September 30, 2023</b>	<b>June 30, 2023</b>
Book Value	\$306,145,876	\$301,913,895
Market Value	\$306,033,942	\$301,913,895
Unrealized Gain/(Loss)	(\$111,934)	\$0
Unrealized Gain/(Loss) as % of Book Value	(0.04%)	0.00%
Average Yield To Maturity	5.28%	5.20%
Average Days To Maturity	95	1
Quarterly Interest Earnings	\$4,616,706	\$0
Fiscal Year to Date Income	\$4,616,706	\$0

**Special District Funds Portfolio**

The Special District Funds Portfolio contains project and reserve funds for 21 AD and RAD bond issues, six 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 September 30, 2023 is \$4.93 million.

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

	<b>September 30, 2023</b>	<b>June 30, 2023</b>	<b>March 31, 2023</b>	<b>December 31, 2022</b>
Book Value	\$660,431,030	\$617,058,490	\$169,532,745	\$165,943,966
Market Value	\$660,901,917	\$617,088,967	\$169,672,464	\$165,882,750
Unrealized Gain/(Loss)	\$470,887	\$30,477	\$139,719	(\$61,216)
Unrealized Gain/(Loss) as % of Book Value	0.07%	0.00%	0.08%	(0.04%)
Average Yield To Maturity	5.32%	5.10%	4.43%	3.60%
Average Days To Maturity	243	5	22	32
Quarterly Interest Earnings	\$4,926,366	\$3,954,174	\$1,383,263	\$1,023,998
Fiscal Year to Date Income	\$4,926,366	\$6,823,279	\$2,869,104	\$1,485,841

**Market Conditions**

During the first quarter of FY 2023-24, 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 July 26, 2023 by 25 basis points to 5.25 - 5.50 percent, but held rates steady at the September 20, 2023 meeting. During the quarter, the yield of the 6-month Treasury bill increased 13 basis points to 5.54 percent, the 2-year Treasury note increased 15 basis points to 5.04 percent, and the 5-year Treasury note increased by 45 basis points to 4.61 percent. The Local Agency Investment Fund (LAIF) daily rate increased from 3.26 percent to 3.50 percent during the quarter. The Joint Power Authority (JPA) daily rate at quarter end is 5.55 percent. The net effect to the Pooled Investment Portfolio was an increase in the unrealized market value loss to \$48.08 million from an unrealized market value loss of \$47.92 million as of June 30, 2023, which is in direct proportion to the stated duration of the portfolio, and the change in market yields.

The Federal Open Market Committee (FOMC) voted to leave the federal funds rate unchanged at a range of 5.25 percent to 5.50 percent at its September meeting. The updated "dot plot" remained hawkish, with the median FOMC member now expecting only two cuts in 2024. This likely stems from the Fed's expectation for continued economic resilience. In the Summary of Economic Projections, real Gross Domestic Product (GDP) growth expectations rose meaningfully for 2023 and 2024. Elsewhere, the median forecast for the unemployment rate fell to 3.80 percent while the core Personal Consumption Expenditures Price Index (PCE) forecast moved lower. Overall, the Federal Reserve appears to be forecasting a "soft-landing" scenario. However, with plenty of headwinds facing the current economic expansion, the risk of overtightening could challenge this outlook.

The September Consumer Price Index report (CPI) was mostly in-line with expectations with core inflation continuing to show signs of moderation. Headline CPI rose by 0.40 percent month over month (m/m) and 3.70 percent year over year (y/y), slightly higher

than expected, while core CPI rose by 0.30 percent m/m and 4.10 percent y/y. In the details, elevated energy prices as well as shelter and transportation costs increased headline inflation, whereas lower goods prices allowed some easing in the core measure. Core services inflation ex-shelter also saw continued moderation, but remains dominated by the rise in car insurance premiums this year. Energy prices may also contribute to future headline CPI volatility in the coming months, but continued progress on core disinflation and rising real yields make another rate hike from the Federal Reserve less necessary.

The September Jobs report showed that the labor market remains resilient, with strong hiring momentum but a notable lack of upwards wage pressure. Non-farm payrolls rose by 336 thousand, well above expectations of 170 thousand, with upward revisions of 119 thousand jobs to the prior two months. Job gains were widespread but most significant in the sectors that have had the hardest time finding workers, pointing to a continued normalization in the labor market. Average hourly earnings rose by a modest 0.20 percent m/m, bringing the year-over-year rate down to 4.20 percent, despite strong job gains. The unemployment rate remained at 3.80 percent as modest labor force growth was matched with a gain in workers. Overall, this report clearly shows a picture of labor market strength, but also underscores the economy's ability to maintain unemployment below 4.00 percent with only moderate wage growth.

Despite many macro risks threatening the U.S. economy, the third quarter earnings season should be a bright spot for investors. Projected operating earnings per share (EPS) of \$54.79, which would represent y/y earnings growth of 8.80 percent and a q/q decline of -0.10 percent, if realized. Margins are expected to drive the majority of profit growth, supported by easing input and wage costs. Revenue growth is also expected to contribute, but may come under pressure amidst easing inflation, a challenged consumer and weakening global growth.

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 cashflows, 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 September 30, 2023**

General Reserve Funds	\$	223,689,159
<b>Special Revenue Funds:</b>		
Orange County Great Park		234,105,138
Local Park Fees		152,436,059
State Gasoline Tax		35,594,462
System Development		15,810,080
County Sales Tax Measure M		13,495,566
Fees and Exactions		9,236,638
Grants		7,830,011
Slurry Seal Fees		1,206,010
Hotel Improvement District		976,324
Air Quality Improvement		836,999
OCFA Settlement Agreement		748,696
iShuttle		594,917
Major Special Events		292,582
Gateway Preserve		-
Maintenance District		(646,730)
<b>Total</b>		<u><u>472,516,752</u></u>
<b>Capital Projects Funds:</b>		
Irvine Business Complex		120,129,313
North Irvine Transportation Mitigation		93,858,425
Park Development		44,340,976
Capital Improvement Projects		35,168,136
Orange County Great Park Development		13,841,404
<b>Total</b>		<u><u>307,338,253</u></u>
<b>Permanent Fund:</b>		
Senior Services		399,053
Senior Services Endowments		500,000
<b>Total</b>		<u><u>899,053</u></u>
<b>Debt Service Funds:</b>		
Gateway Preserve Debt Service		(2,113)
<b>Total</b>		<u><u>(2,113)</u></u>
<b>Internal Service Funds:</b>		
Equipment & Services		32,711,655
Self-Insurance		18,500,785
Inventory		27,708
<b>Total</b>		<u><u>51,240,147</u></u>
<b>Fiduciary Funds:</b>		
Successor Agency Debt Service		4,699,412
Redevelopment Obligation Retirement		-
<b>Total</b>		<u><u>4,699,412</u></u>
<b>Total Pooled Investments at September 30, 2023</b>	<b>\$</b>	<u><u><u>1,060,380,663</u></u></u>

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

\* Balances are not audited