



REQUEST FOR CITY COUNCIL ACTION

MEETING DATE: JUNE 11, 2019

TITLE: TREASURER'S REPORT FOR THE QUARTER ENDED
MARCH 31, 2019



Director of Financial Management
& Strategic Planning



City Manager

RECOMMENDED ACTION

Receive and file the Treasurer's Report for the quarter ended March 31, 2019.

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, 2019. 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 \$1.03 billion as of March 31, 2019. 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.

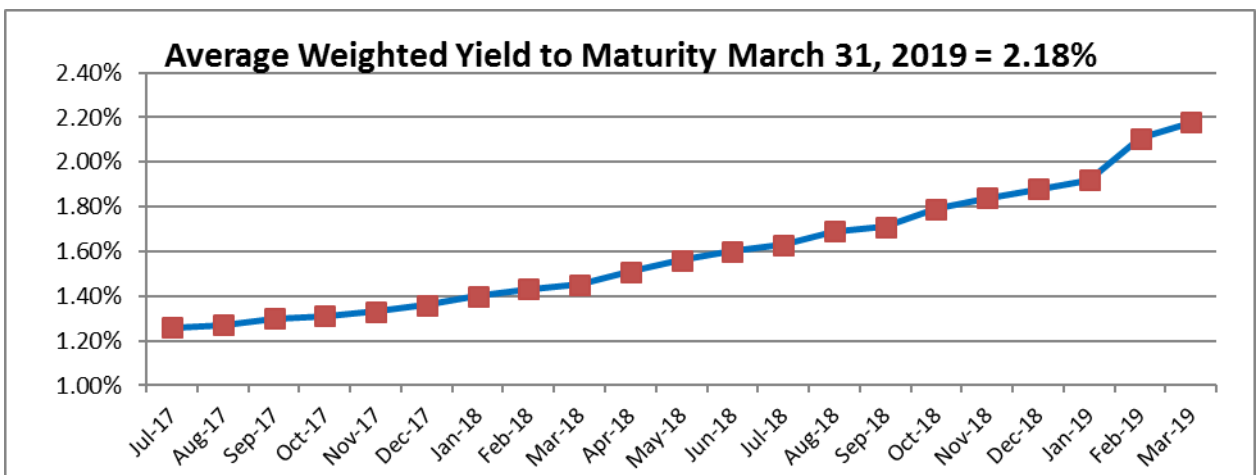
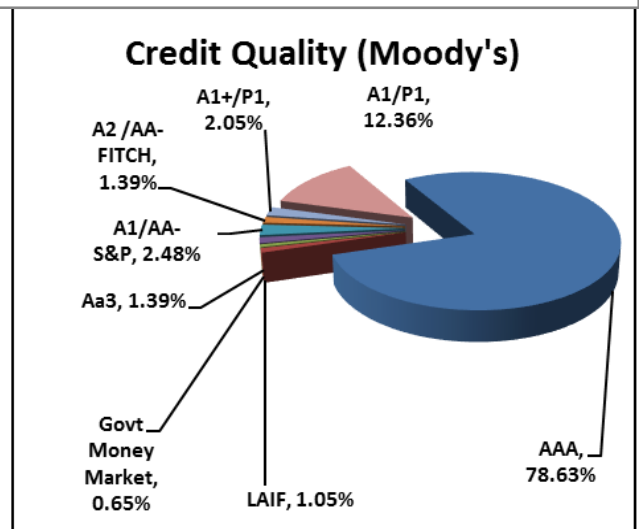
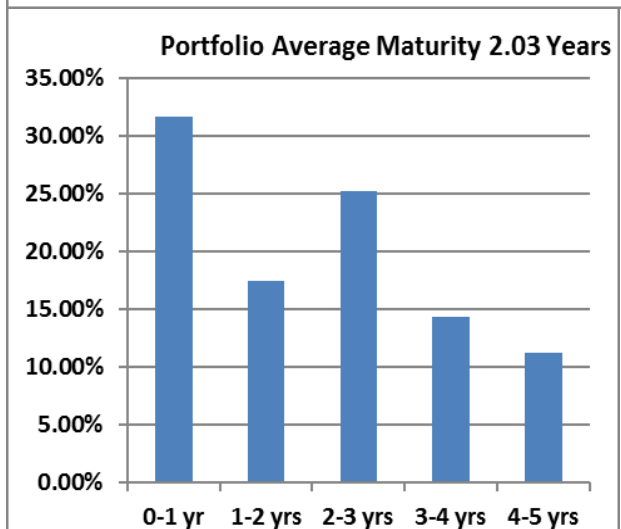
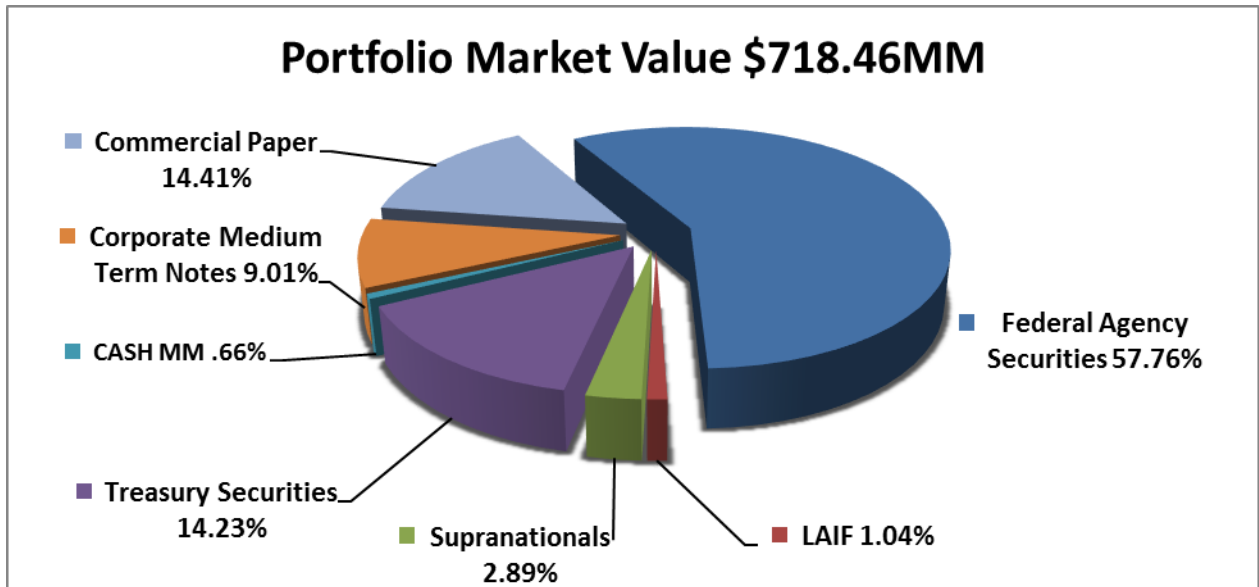
As of March 31, 2019, the City's investment Portfolios are in full compliance with the City's Investment Policy, the California Government Code Section 53601, and have sufficient cash flow from a combination of liquid and maturing securities, bank deposits, and income to meet the City's expenditure requirements.

COMMISSION/BOARD/COMMITTEE RECOMMENDATION

On May 20, 2019, with all members present, the Finance Commission voted 4-0 to recommend City Council receive and file the Treasurer's Report for the quarter ended March 31, 2019.

ANALYSIS

The Pooled Investment Portfolio holds the City's operating funds. Charts on following pages provides 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 Districts Funds Portfolio totaled \$11.34 million with investments structured for security and liquidity.

REPORT PREPARED BY Don Collins, City Treasurer

ATTACHMENTS

1. Treasurer's Report for the Quarter Ending March 31, 2019
2. Summary of Irvine Pooled Investment Portfolio by Fund



**CITY OF IRVINE
TREASURER'S REPORT
For Quarter Ending March 31, 2019**

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 ending March 31, 2019, combined market value of the three portfolios totaled \$1.03 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 Orange County 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, 2019, the book value (purchase price of securities as recorded on the City's books) of the portfolio was \$718.13 million and the average weighted yield to maturity was 2.18 percent. Investment revenue (interest payments and capital gains) generated by the portfolio for quarter ending March 31, 2019 was \$2.22 million. The chart below compares the portfolio's statistics over a rolling 12-month period.

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

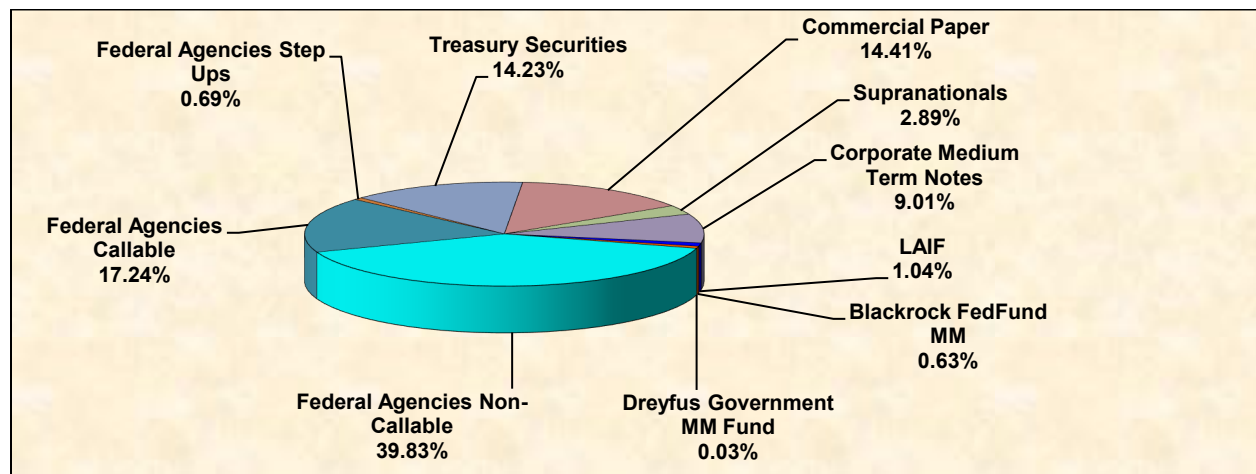
	March 31, 2019	December 31, 2018	September 30, 2018	June 30, 2018
Book Value	\$718,125,011	\$681,343,699	\$674,483,445	\$707,103,573
Market Value	\$718,456,099	\$677,185,119	\$665,082,116	\$698,234,684
Unrealized Gain/(Loss)	\$331,088	(\$4,158,580)	(\$9,401,329)	(\$8,868,889)
Unrealized Gain/(Loss) as % of Book Value	0.05%	(0.61%)	(1.39%)	(1.25%)
Average Yield To Maturity	2.18%	1.88%	1.71%	1.60%
Liquidity 0–6 Months	21.08%	20.59%	18.10%	21.71%
Weighted Average Maturity	2.03	1.69	1.80	1.85
Modified Duration (Years)	1.94	1.63	1.73	1.78
Quarterly Interest Earnings	\$2,221,958	\$2,869,631	\$2,278,578	\$2,078,965
Fiscal Year to Date Income	\$7,370,167	\$5,148,209	\$2,278,578	\$7,976,739

As anticipated, the Irvine Pooled Investment Portfolio's book value increased by \$36.78 million from the previous quarter due to the receipt of property tax, vehicle license Fees, and successor agency transfers. Portfolio yield to maturity increased for the quarter ended March 31, 2019 by 30 basis points to 2.18 percent. This was primarily attributed to portfolio asset reallocation, and the reinvestment of maturing investments into higher rate securities. With market rates decreasing at the end of the quarter, the portfolio ended the quarter with an unrealized gain of \$331 thousand as compared to an unrealized loss of \$4.16 million on December 31, 2018. This is a normal result of the portfolio's modified duration of 2.03 years, and its price-sensitivity to changes in market interest rates.

To ensure the safety of the portfolio, investments that hold the highest credit quality are selected. 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.

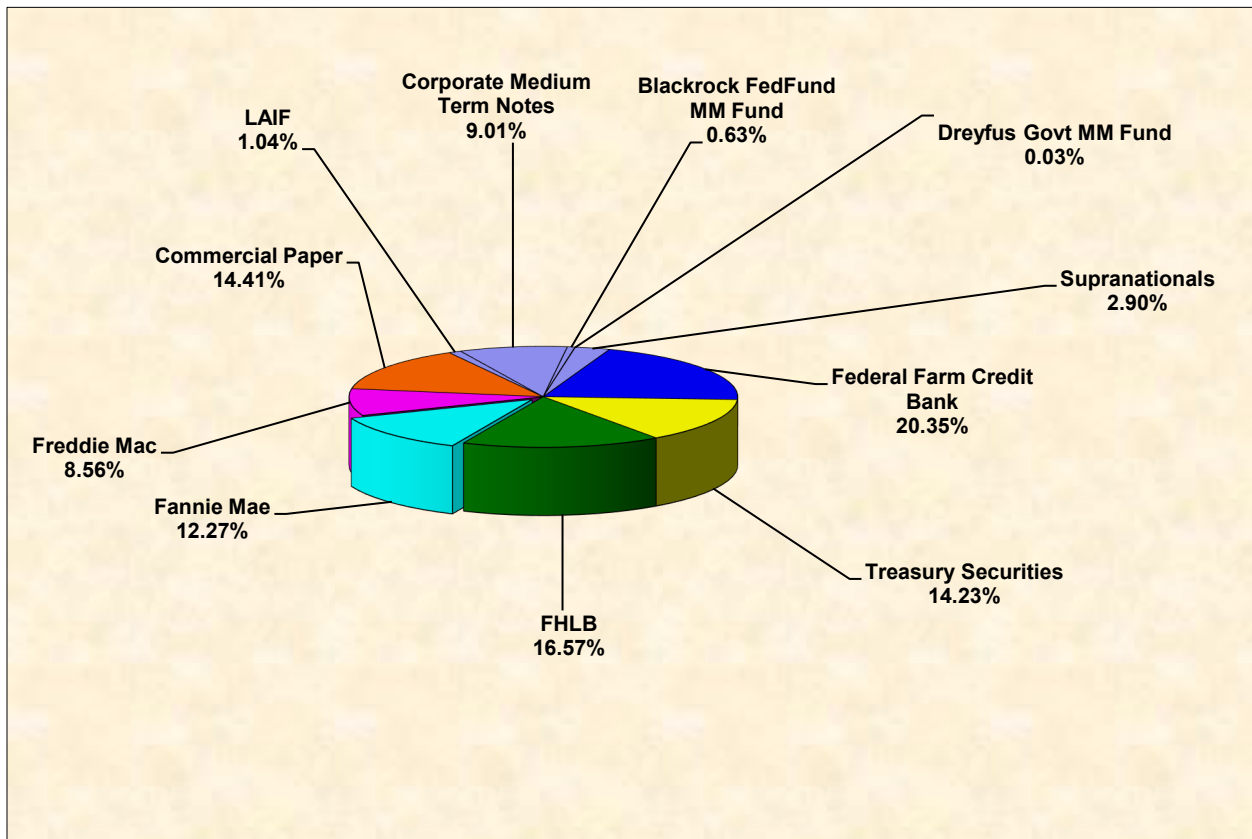
To manage liquidity, the Irvine Pooled Investment Portfolio is invested in Local Agency Investment Funds (LAIF), Dreyfus Government money market fund, Blackrock FedFund money market fund and short term Commercial Paper. Chart 1 shows the asset allocation of the portfolio.

**Irvine Pooled Investment Portfolio
 Chart 1 - Asset Allocation
 as of March 31, 2019**



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 four 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), 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, 2019**



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, 2019, the overnight to 6-month liquidity level for the Irvine Pooled Investment Portfolio was at 21.09 percent. Chart 3, on the following page, is an aging of investment maturities up to 5 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, 2019

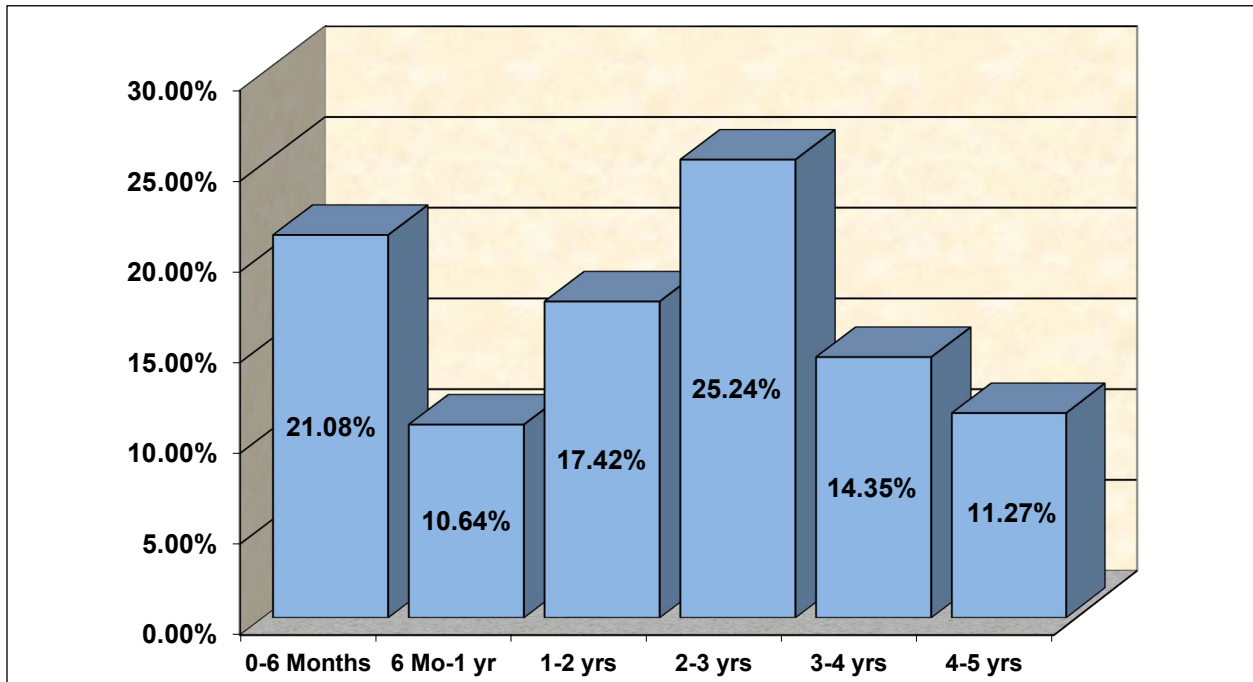
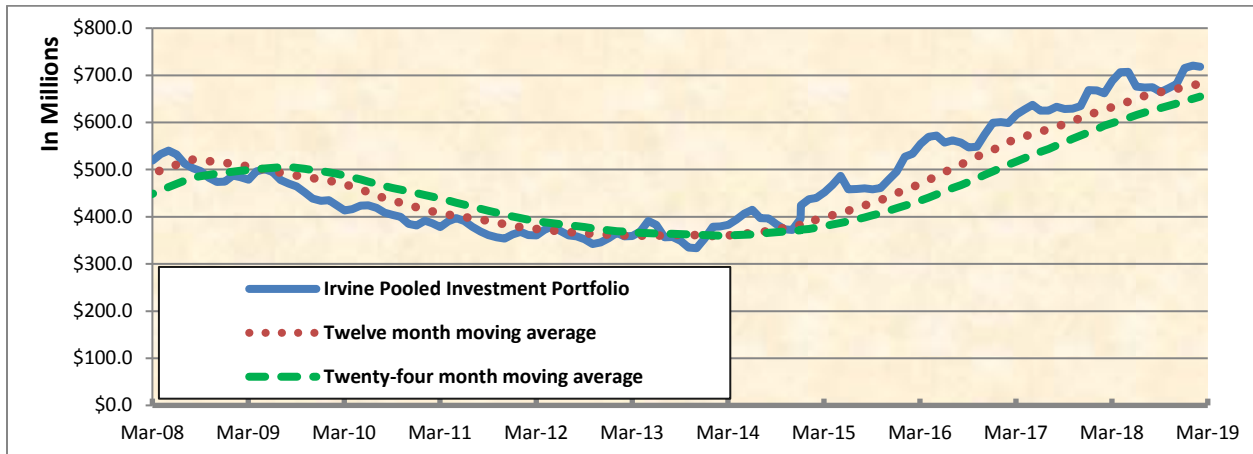
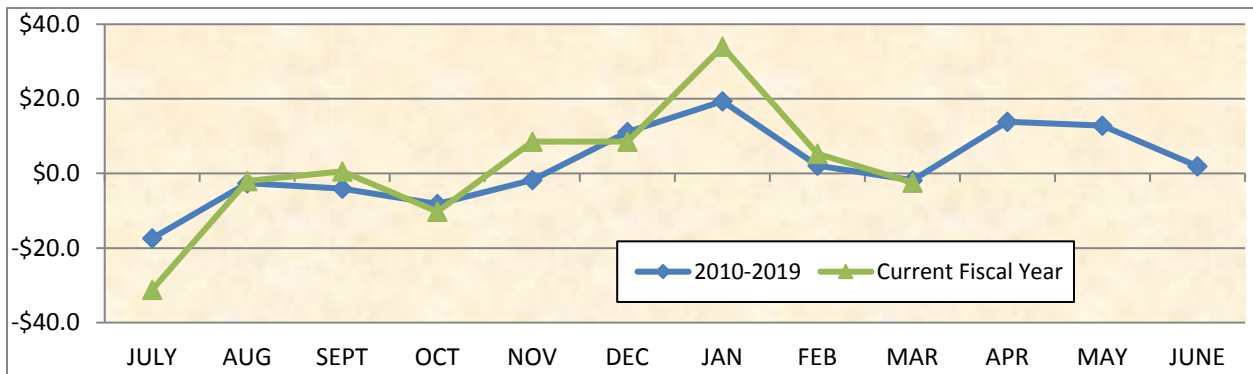


Chart 4 and Chart 5 show the volatility and cyclical nature of the Irvine Pooled Investment Portfolio fund balance and cash flows between 2008 and 2018. As noted in chart 5, the portfolio experienced above average outflows in July due to the prepayment of CalPERS pension liability for Fiscal Year 2018-19, and higher than average expenses related to capital projects.

**Irvine Pooled Investment Portfolio
 Chart 4 - Portfolio Balance
 March 31, 2008 through March 31, 2019**

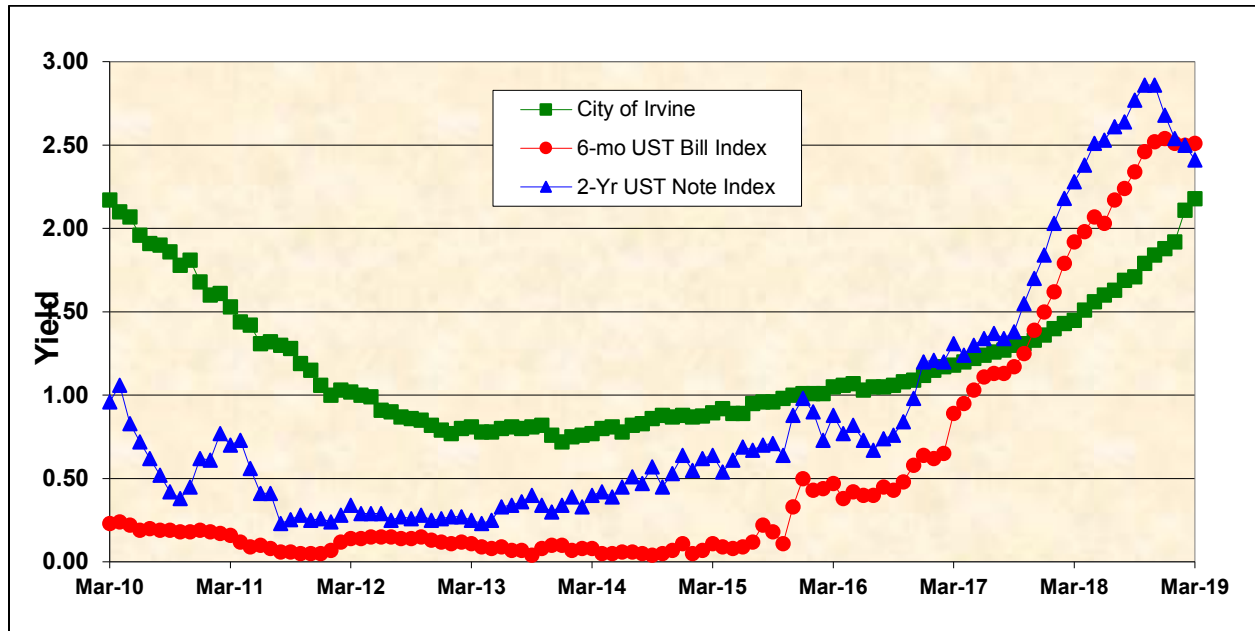


**Irvine Pooled Investment Portfolio
 Chart 5 – Balance Change Month by Month (Average)**



To gauge performance, the City compares the Irvine Pooled Investment Portfolio's 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 nine years. With the Federal Reserve increasing rates in 2017 and 2018, the portfolio's book yield is less than the 6-month UST by 0.33 percent and the 2-year UST by 0.23 percent. However, over a period of 24 months, the average yield on the 2-year Treasury note is 2.12 percent, versus 2.18 percent for the Irvine Pooled Investment Portfolio.

Irvine Pooled Investment Portfolio
Chart 6 - Yield to Maturity Compared to Assigned Indices
March 31, 2010 through March 31, 2019



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 Orange County 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 March 31, 2019 was \$153,036. The increase in balance for December 2018 was due to the temporary holding of special assessments and taxes received from the County. These funds were transferred to Special District Portfolio in January 2019.

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

	March 31, 2019	December 31, 2018	September 30, 2018	June 30, 2018
Book Value	\$10,120,000	\$31,637,000	\$6,580,000	\$6,902,000
Market Value	\$10,098,064	\$31,568,424	\$6,567,675	\$6,885,007
Unrealized Gain/(Loss)	(\$21,936)	(\$68,576)	(\$12,325)	(\$16,993)
Unrealized Gain/(Loss) as % of Book Value	(0.22%)	(0.22%)	(0.19%)	(0.25%)
Average Yield To Maturity	2.43%	2.32%	2.09%	1.76%
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	\$85,468	\$37,548	\$30,020	\$21,583
Fiscal Year to Date Income	\$153,036	\$67,568	\$30,020	\$65,370

Special District Funds Portfolio

The Special District Funds Portfolio contains project and reserve funds for 29 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, 2019 was \$3,818,234.

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

	March 31, 2019	December 31, 2018	September 30, 2018	June 30, 2018
Book Value	\$306,023,844	\$302,238,128	\$194,119,024.00	\$258,697,808
Market Value	\$305,889,062	\$302,246,125	\$194,125,710.00	\$258,660,961
Unrealized Gain/(Loss)	(\$134,782)	\$7,997	\$6,686	(\$36,847)
Unrealized Gain/(Loss) as % of Book Value	(0.04%)	0.00%	0.00%	(0.01%)
Average Yield To Maturity	2.60%	2.55%	2.24%	2.09%
Average Days To Maturity	70	56	64	56
Quarterly Interest Earnings	\$2,051,745	\$1,270,916	\$495,573	\$939,502
Fiscal Year to Date Income	\$3,818,234	\$1,766,490	\$495,573	\$2,908,722

Market Conditions

During the third quarter of FY 2018-19, interest rates decreased on securities between six months and thirty years. The Federal Reserve elected to hold the federal funds rate steady during the quarter keeping the range of 2.25 to 2.50 percent. During the quarter, the yields of the 6-month Treasury bill decreased five basis points to 2.42 percent, the two year Treasury note decreased twenty-two basis points to 2.26 percent, and the five year notes decreased by twenty-seven basis points to 2.23 percent. The Local Agency Investment Fund (LAIF) daily rate increased from 2.32 percent to 2.44 percent during the quarter. The net effect to the Pooled Investment Portfolio was a decrease in the unrealized market value loss which was in direct proportion to the stated duration of the portfolio. Additional portfolio securities reallocation increased the duration of the portfolio and the overall rate of return.

Volatility in asset prices decreased during the quarter primarily due to the shift in guidance from the Federal Reserve regarding the probability of future rate increases. The Federal Reserve remains focused on maximum employment, stable prices, and moderate long term interest rates. The probability of a rate increase during calendar year 2019 has fallen to zero with markets now pricing in the probability of a rate decrease by September 2019. Asset volatility, global growth concerns, coupled with weakening economic data contributed to the Federal Reserve shift in policy and forward rate guidance.

As of March 31, 2019 the unemployment rate dropped to 3.8 percent from 3.9 percent in December. The underemployment rate also dropped to 7.3 percent from 7.60 percent. The yearly percentage change of the average hourly earnings decreased slightly to 3.2 percent from the recent high of 3.4 percent. The trend since the financial crisis has been steadily increasing, but is not currently pressuring the Federal Reserve into raising short

term rates. Inflation statistics including the US Personal Consumption Expenditure year over year (YoY) 1.8 percent, Producer Price Index YoY 0.5 percent, and the Consumer Price Index YoY 1.5 percent, have all remained within the Federal Reserves comfort zone.

Housing which peaked last summer remains tepid at best with both housing starts and new home sales remaining below their long term averages. Mortgage rates moved lower during the quarter which may reverse last quarter's contraction.

Risk to the economic outlook has led to the Federal Reserve policy makers defend their forward rate guidance as being flexible and data dependent. The International Monetary Fund (IMF) cut its outlook for global growth to the lowest since the financial crisis amid a bleaker outlook in most major advanced economies and signs that higher tariffs are weighing on trade. It is the third time the IMF has downgraded its outlook in six months. Trade, monetary policy, and well as political turmoil in Washington would suggest continued uncertainty in the final quarter of fiscal year 2018-19.

City of Irvine
Summary of Pooled Investment Portfolio Book Value by Fund
As of March 31, 2019

General Reserve Funds	\$ 117,634,736
Capital Projects Funds:	
Capital Improvement Projects	14,737,530
Irvine Business Complex	95,949,103
North Irvine Transportation Mitigation	81,352,897
Orange County Great Park Development	13,371,814
Park Development	37,267,026
Total	242,678,370
Special Revenue Funds:	
Air Quality Improvement	392,007
County Sales Tax Measure M	4,474,080
Fees and Exactions	14,359,153
State Gasoline Tax	15,383,824
Grants	3,443,134
I Shuttle	884,815
Local Park Fees	117,129,172
Maintenance District	971,252
Major Special Events	116,040
Orange County Great Park	130,653,747
Slurry Seal Fees	1,794,885
System Development	31,010,026
Total	320,612,134
Internal Service Funds:	
Equipment & Services	17,215,351
Inventory	85,316
Self-Insurance	18,088,879
Total	35,389,546
Permanent Fund:	
Senior Services	346,564
Senior Services Endowments	495,406
Total	841,970
Fiduciary Fund:	
Successor Agency Debt Service	28,110
Redevelopment Obligation Retirement	940,145
Total	968,255
Total Pooled Investments at March 31, 2019	\$ 718,125,011

Notes:

1. Funds presented are consistent with the City's Comprehensive Annual Financial Report (CAFR).
2. Balances are not audited and subject to changes due to fiscal year end reconciliation.