



REQUEST FOR CITY COUNCIL ACTION

MEETING DATE: APRIL 28, 2020

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

Director of Financial Management &
Strategic Planning

City Manager

RECOMMENDED ACTION

Receive and file the Treasurer's Report for the quarter ended December 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 December 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 \$1.08 billion as of December 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.

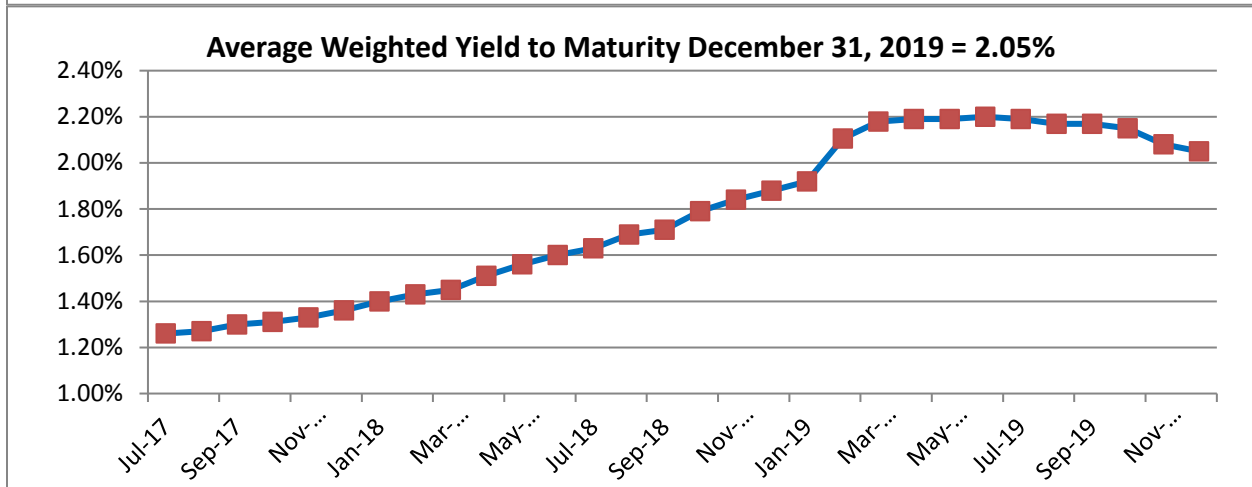
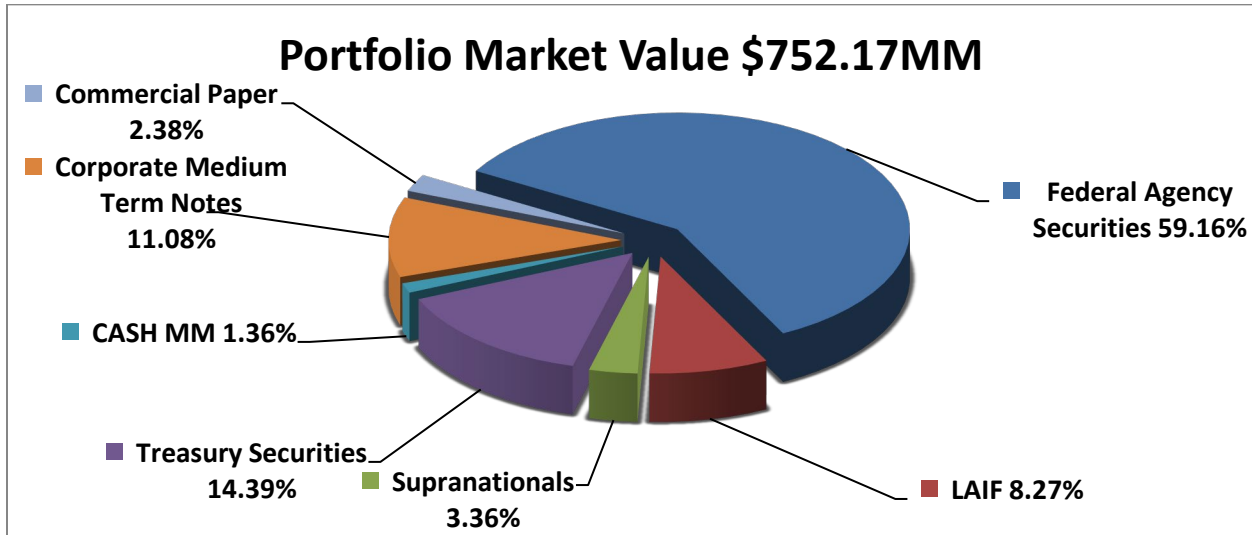
As of December 31, 2019, the City's investment portfolios are in full compliance with the City's Investment Policy, California Government Code Section 53601, and have sufficient cash flow from a combination of liquid and maturing securities, bank deposits, and income to meet the City's expenditure requirements.

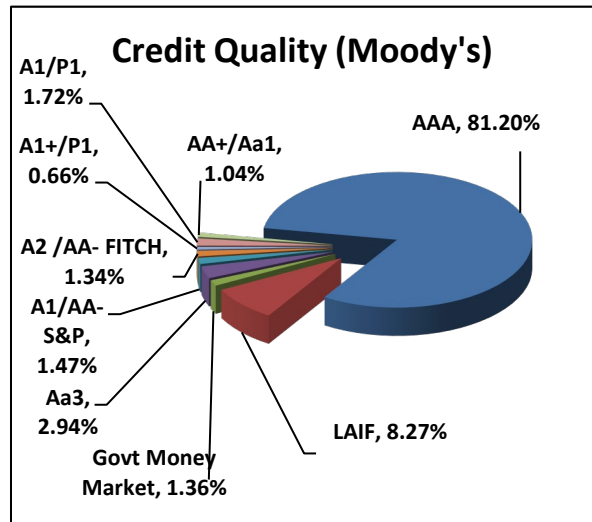
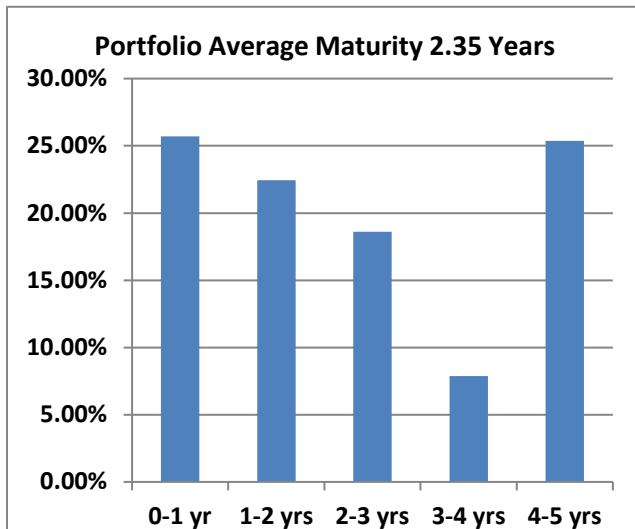
COMMISSION/BOARD/COMMITTEE RECOMMENDATION

At its regular meeting of February 12, 2020, the Investment Advisory Committee recommended that the City Council receive and file the Treasurer's Report for the quarter ended December 31, 2019 by a 4-0-1 vote (Committee Members Carney, Judd, Stein and Sun approving; Committee Member Shen absent). The Finance Commission, at its regular meeting of April 6, 2020, voted to recommend the City Council receive and file the Treasurer's Report for the quarter ended December 31, 2019 by a 4-0 vote (Commissioners Fournier, Kim, Shute, Sievers approving; Vice Chair Young absent for vote).

ANALYSIS

The Pooled Investment Portfolio holds the City’s operating funds. Charts on the 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 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 \$10.45 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 December 31, 2019
2. Summary of Irvine Pooled Investment Portfolio by Fund



**CITY OF IRVINE
TREASURER'S REPORT
For Quarter Ended December 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 the quarter ended December 31, 2019, combined market value of the three portfolios totaled \$1.08 billion. This report provides detailed information for 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, as well as funds reserved for economic uncertainties, future rehabilitation and maintenance needs. The portfolio is a combination of liquid assets from various operational funds. A summary of the Irvine Pooled Investment Portfolio by Fund is presented at the end of this report (Attachment 2).

As of December 31, 2019, the book value (purchase price of securities as recorded on the City's books) of the portfolio was \$743.3 million and the average yield to maturity was 2.06 percent. Fiscal year to date investment revenue (interest payments and capital gains) generated by the portfolio as of December 31, 2019 was \$7.83 million. The chart below compares the portfolio's statistics over a rolling 12-month period.

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

	December 31, 2019	September 30, 2019	June 30, 2019	March 31, 2019
Book Value	\$743,298,891	\$728,402,898	\$750,125,295	\$718,125,011
Market Value	\$752,173,155	\$737,790,106	\$757,045,215	\$718,456,099
Unrealized Gain/(Loss)	\$8,874,264	\$9,387,208	\$6,919,920	\$331,088
Unrealized Gain/(Loss) as % of Book Value	1.19%	1.29%	0.92%	0.05%
Average Yield to Maturity	2.06%	2.17%	2.20%	2.18%
Liquidity 0–6 Months	15.45%	19.80%	21.08%	21.08%
Weighted Average Maturity	2.35	2.12	1.97	2.03
Modified Duration (Years)	2.26	2.05	1.90	1.94
Quarterly Interest Earnings	\$3,851,982	\$3,979,848	\$2,940,299	\$2,221,958
Fiscal Year to Date Income	\$7,831,831	\$3,979,848	\$10,310,466	\$7,370,167

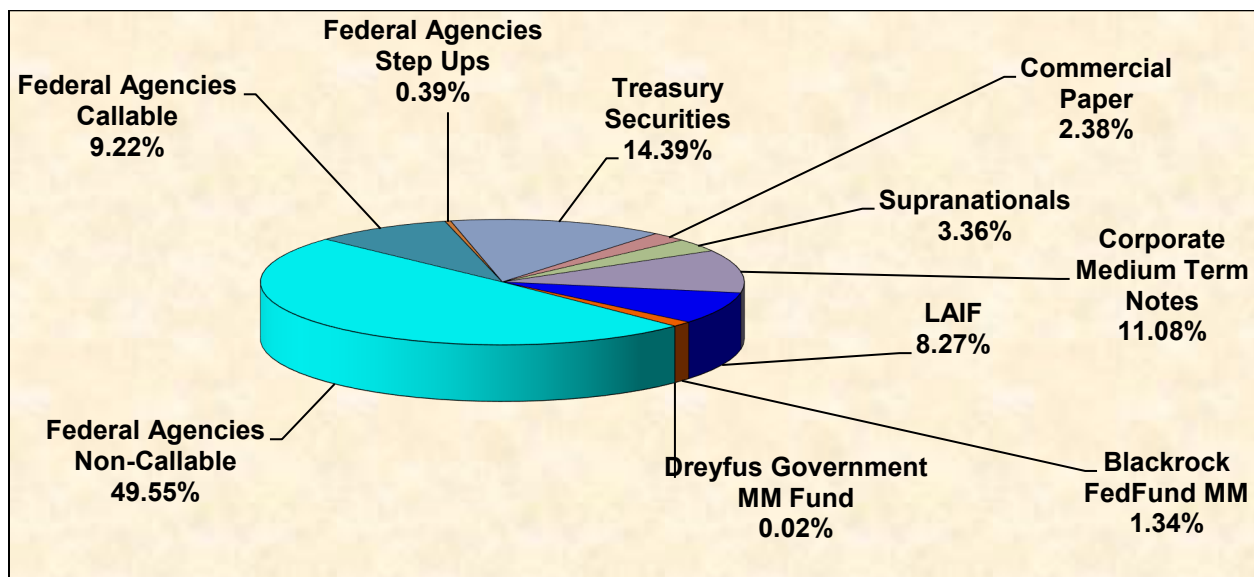
As anticipated, the Irvine Pooled Investment Portfolio's book value increased by \$14.90 million from the previous quarter due to the receipt of property taxes and successor agency (i.e., former redevelopment agency) funds. Portfolio yield to maturity decreased for the quarter ended December 31, 2019 by 11 basis points to 2.06 percent.

With market rates dropping in short maturities and rising in longer maturities during the quarter, as of December 31, 2019, the portfolio ended with an unrealized gain of \$8.87 million as compared to an unrealized gain of \$9.38 million on September 30, 2019. This is a normal result of the portfolio's modified duration of 2.26 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. Federal agency securities 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.

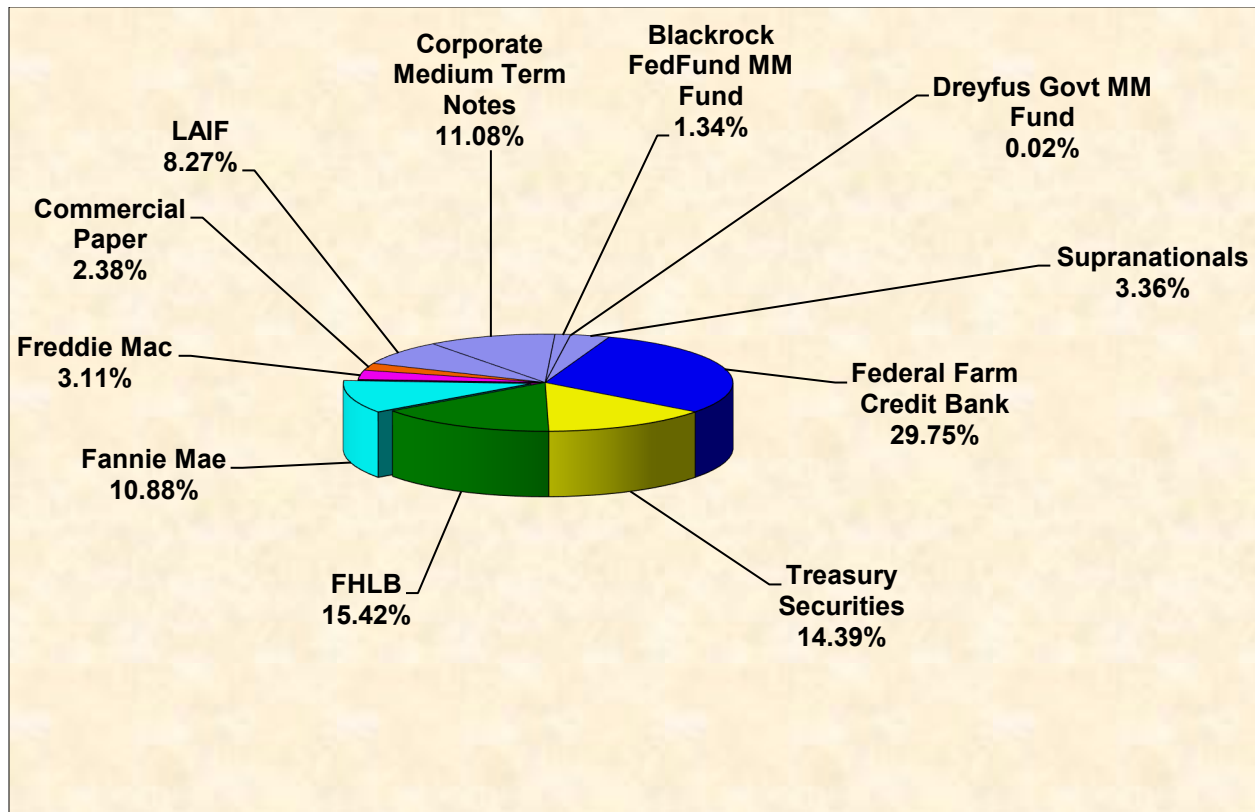
To manage liquidity, the Irvine Pooled Investment Portfolio is invested in Local Agency Investment Funds (LAIF), Dreyfus Government money market fund, Blackrock FedFund money market fund and short-term Commercial Paper. Chart 1 shows the asset allocation of the portfolio.

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



Another key component in portfolio management is to ensure the City has enough funds on hand to meet current expenses (i.e., sufficient liquidity). As of December 31, 2019, the overnight to 6-month liquidity level for the Irvine Pooled Investment Portfolio was 15.45 percent. 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 December 31, 2019

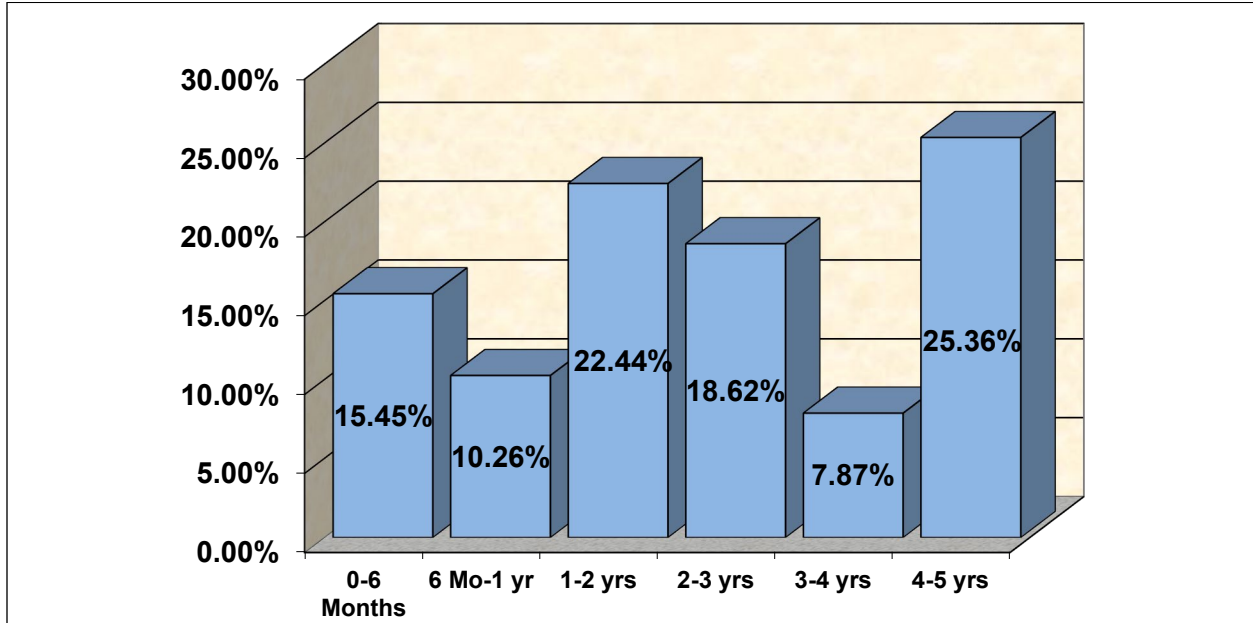
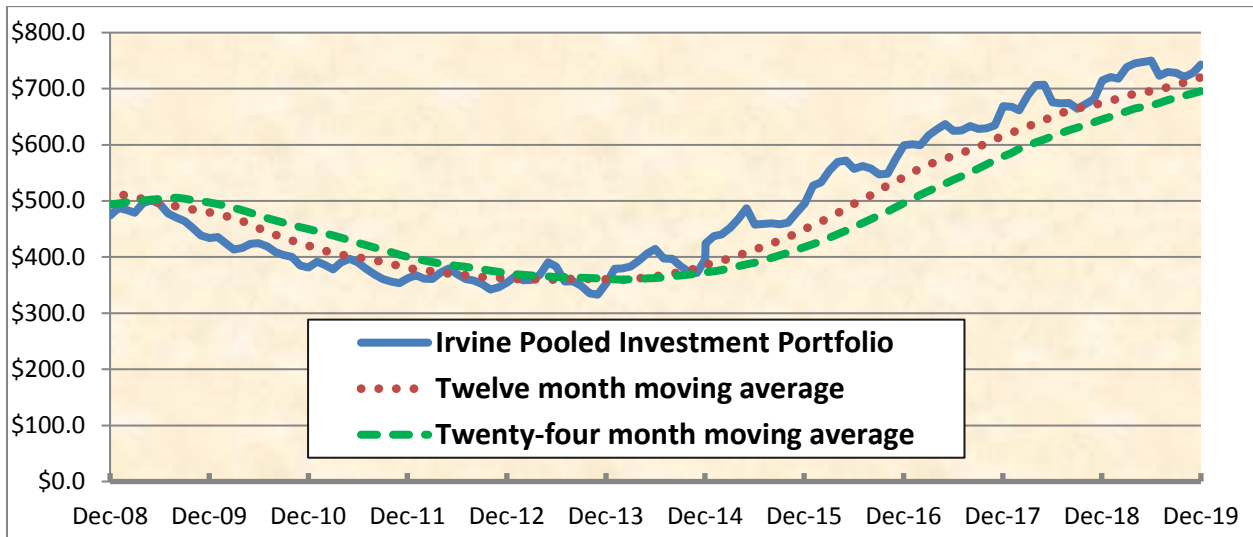
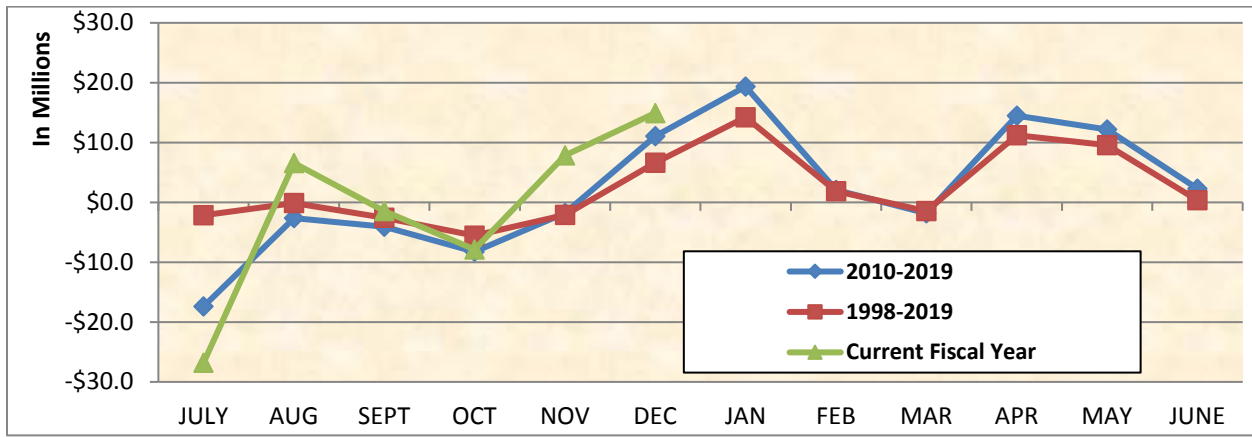


Chart 4 and Chart 5 show the volatility and cyclical nature of the Irvine Pooled Investment Portfolio fund balance and cash flows between 2008 and 2019. As noted in Chart 5, the portfolio experienced above average outflows in July due to the prepayment of CalPERS required expenses for Fiscal Year 2019-20, and higher than average expenses related to capital projects.

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

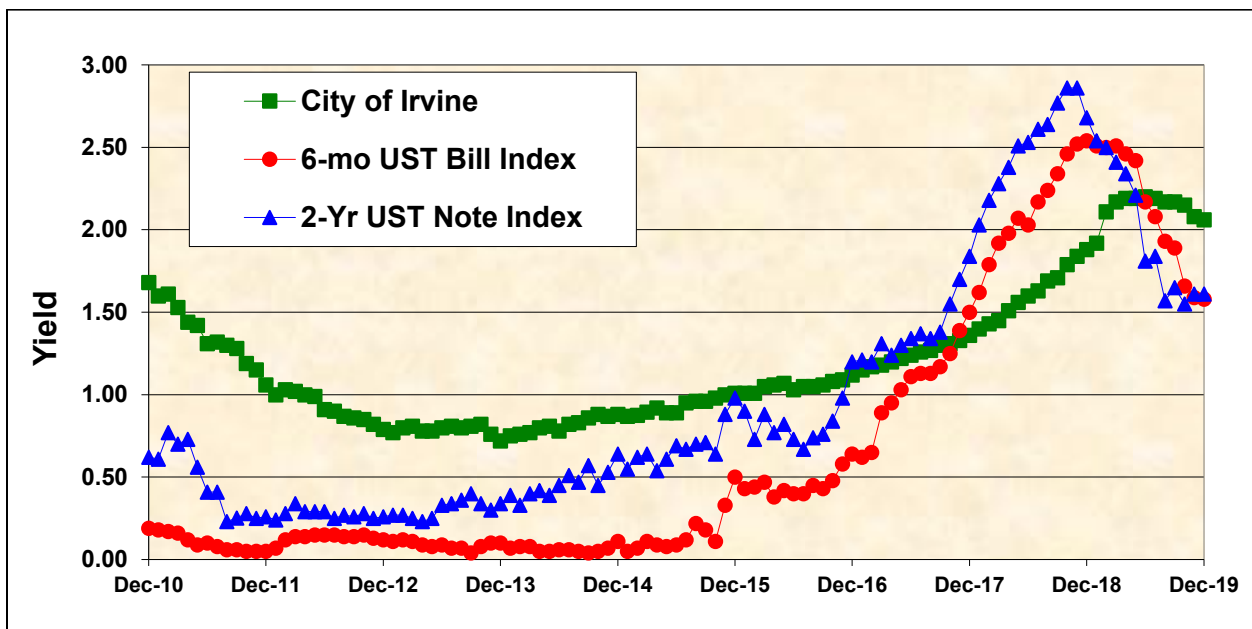


Irvine Pooled Investment Portfolio
Chart 5 – Balance Change Month by Month (Average)



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 recent shift in the forward interest rate outlook from both the markets and the Federal Reserve, the portfolio's book yield is higher than the 6-month UST by 0.48 percent and the 2-year UST by 0.45 percent.

Irvine Pooled Investment Portfolio
Chart 6 - Yield to Maturity Compared to Assigned Indices
 December 31, 2010 through December 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 December 31, 2019 was \$169,272. The increase in balance for December 2019 was due to the temporary holding of special assessments and taxes received from the County. These funds were transferred to the Special District Portfolio in January 2020.

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

	December 31, 2019	September 30, 2019	June 30, 2019	March 31, 2019
Book Value	\$20,777,000	\$11,925,000	\$12,162,000	\$10,120,000
Market Value	\$20,811,133	\$11,926,752	\$12,163,787	\$10,098,064
Unrealized Gain/(Loss)	\$34,133	\$1,752	\$1,787	(\$21,936)
Unrealized Gain/(Loss) as % of Book Value	0.16%	0.01%	0.01%	(0.22%)
Average Yield To Maturity	2.03%	2.32%	2.42%	2.43%
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	\$78,390	\$90,882	\$82,097	\$85,468
Fiscal Year to Date Income	\$169,272	\$90,882	\$235,133	\$153,036

Special District Funds Portfolio

The Special District Funds Portfolio contains project and reserve funds for 27 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 December 31, 2019 was \$2,452,199.

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

	December 31, 2019	September 30, 2019	June 30, 2019	March 31, 2019
Book Value	\$304,718,947	\$269,639,482	\$315,165,701	\$306,023,844
Market Value	\$304,717,215	\$269,638,633	\$314,990,336	\$305,889,062
Unrealized Gain/(Loss)	(\$1,732)	(\$849)	(\$175,364)	(\$134,782)
Unrealized Gain/(Loss) as % of Book Value	(0.00%)	(0.00%)	(0.06%)	(0.04%)
Average Yield to Maturity	1.72%	2.09%	2.44%	2.60%
Average Days to Maturity	53	60	44	70
Quarterly Interest Earnings	\$1,428,957	\$1,023,242	\$1,722,687	\$2,051,745
Fiscal Year to Date Income	\$2,452,199	\$1,023,242	\$5,540,922	\$3,818,234

Market Conditions

During the second quarter of FY 2019-20, interest rates decreased on securities between one month and two years, and increased on securities maturing three years to 30 years. The Federal Reserve elected to lower the federal funds rate by 25 basis points, to the current range of 1.50 to 1.75 percent. During the quarter, the yields of the 6-month Treasury bill decreased 23 basis points to 1.56 percent, the 2-year Treasury note decreased 5 basis points to 1.56 percent, and the 5-year notes increased by 14 basis points to 1.69 percent. The Local Agency Investment Fund (LAIF) daily rate decreased from 2.32 percent to 2.03 percent during the quarter. The net effect to the Pooled Investment Portfolio was a slight decrease in the unrealized market value gain, which was in direct proportion to the stated duration of the portfolio.

The Federal Reserve lowered the federal funds rate for the first time since 2008 by 25 basis points on July 31, 2019, 25 basis points on September 18, 2019 and 25 basis points on October 30, 2019. Concerns over slowing economic growth and other factors, such as trade tensions with China, led the Fed to cut rates in order to buoy the American economy. The Federal Open Market Committee decided to hold rates steady in its final policy decision of 2019, and said in its summary of economic projections that in 2020 the Fed sees 2.00 percent GDP growth, 3.50 percent unemployment and a 1.90 percent core PCE rate, the central bank's preferred inflation gauge.

Federal Reserve Chairman Jerome Powell stated his preference to let inflation rise and hold above the central bank's target before considering future interest rate hikes. While the Federal Reserve is not using the term "Quantitative Easing", its balance sheet increased last quarter by 400 billion dollars by purchasing short term treasury bills. The Federal Reserve and other major central banks have rebuilt their balance sheets to nearly 15 trillion dollars of assets, or four times larger than they were prior to the 2008 financial crisis.

As of December 31, 2019, the unemployment rate remained unchanged at 3.5 percent from the prior quarter ending September 30, 2019. The U6 unemployment rate, which accounts for unemployed and underemployed workers, was 6.7 percent, versus 6.9 percent last quarter. The yearly percentage change of the average hourly earnings of all employees decreased slightly to 2.90 percent from 3.10 percent. The trend since the financial crisis had been steadily increasing but reversed in February 2019, and is not currently pressuring the Federal Reserve into raising short term rates. The yearly percentage change of average hourly earnings for private employees peaked at 3.7 percent in October 2019, but has also reversed lower to 3.0 percent as of December 31, 2019. Inflation statistics including the US Personal Consumption Expenditure (PCE) year over year (YoY) 1.50 percent, Producer Price Index YoY 1.10 percent, and the Consumer Price Index YoY 2.10 percent, have all remained below the Federal Reserve's target rate.

Housing starts continued to trend higher to a seasonally adjusted annual rate of 1.365 million units in November 2019, the highest level since June 2007. Building permits and housing starts which had been contracting for the past year, reversed direction in June and seem to be benefitting from lower mortgage rates. Home price increases which had been decelerating over the last 18 months to 2.0 percent, rose to 2.23 percent during the past quarter, but remains the slowest pace of price gains in nearly seven years.

Asset valuations ended the calendar year on their highs, as 'phase one' with China appeared imminent, Brexit took a back seat, and Geopolitical pressures seemed to abate. Looking forward, impeachment, Iran, and the tax consequences of the presidential election will add to market volatility. Central Banks continue to be accommodative as they grapple with rising asset values which seem to be misaligned with underlying economic fundamentals.

In conclusion, strategy for the City of Irvine's pooled investment portfolio will continue to maintain portfolio duration of between 2 and 2.5 years, while matching the cyclicity of the city's cash flow needs.

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

General Reserve Funds	\$ 116,393,911
Capital Projects Funds:	
Capital Improvement Projects	11,012,556
Irvine Business Complex	98,073,650
North Irvine Transportation Mitigation	84,759,342
Orange County Great Park Development Park Development	17,763,206
	<u>44,259,248</u>
Total	<u>255,868,002</u>
Special Revenue Funds:	
Air Quality Improvement	392,226
County Sales Tax Measure M	3,757,999
Fees and Exactions	14,616,432
State Gasoline Tax	18,657,988
Grants	3,764,707
I Shuttle	997,470
Local Park Fees	120,557,222
Maintenance District	3,997,189
Major Special Events	87,721
Orange County Great Park	131,390,502
Slurry Seal Fees	1,096,343
System Development	<u>28,515,693</u>
Total	<u>327,831,492</u>
Internal Service Funds:	
Equipment & Services	21,348,948
Inventory	80,017
Self-Insurance	<u>18,279,673</u>
Total	<u>39,708,639</u>
Permanent Fund:	
Senior Services	326,769
Senior Services Endowments	<u>495,406</u>
Total	<u>822,175</u>
Fiduciary Fund:	
Successor Agency Debt Service	28,471
Redevelopment Obligation Retirement	<u>2,646,200</u>
Total	<u>2,674,672</u>
Total Pooled Investments at December 31, 2019	<u><u>\$ 743,298,891</u></u>

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

* Balances are not audited