

Agenda Report

June 15, 2020

TO: Honorable Mayor and City Council
THROUGH: Finance Committee (June 11, 2020)
FROM: Department of Finance
SUBJECT: Quarterly Investment Report – Quarter Ending March 31, 2020

RECOMMENDATION:

This report is for information only.

BACKGROUND:

Government Code Section 53646 (2)(b)(1) states that in the case of a local agency, the Treasurer or Chief Fiscal Officer (CFO) may render a quarterly report to the legislative body of the local agency containing detailed information on: 1) all securities, investments, and moneys of the local agency; 2) a statement of compliance of the portfolio with the statement of investment policy; and 3) a statement of the local agency's ability to meet its pool's expenditure requirements for the next six-months. By making these reports optional, this bill does not impose a state-mandated local program but encourages local agencies to continue to report. The bill also states that the Treasurer or CFO may report whatever additional information or data may be required by the legislative body of the local agency.

The quarterly report shall include the following:

1. The type of investment, name of the issuer, date of maturity, par and dollar amount invested in each security, and money within the treasury;
2. The weighted average maturity of the investments within the treasury;
3. Any funds, investments, or programs, including loans, that are under the management of contracted parties;
4. The market value as of the date of the report and the source of this valuation for any security within the treasury;
5. A description of the compliance with the *Statement of Investment Policy*.

Economic Review

According to the advance estimate released by the Bureau of Economic Analysis of the U.S. Department of Commerce, the Gross Domestic Product (GDP) decreased by 4.8 % annualized rate during the first quarter of 2020 as Governments issued “Stay-At-Home” orders in March as a response of the spread of COVID-19. According to Bloomberg’s most recent economic survey, GDP is expected to drop by 32.7% during the second quarter of 2020 versus the prior survey of -25 % and the overall GDP is projected at a -5.7% for 2020 followed by 3.9% increase in 2021 and 3% growth in 2022.

Due to the Coronavirus pandemic’s economic shutdown, the number of Americans filing for unemployment benefits surged in March and April. The pandemic brought the economy to a standstill and joblessness significantly rose and now stands at the highest rate since the great depression era of the 1930’s. As of today, over 35 million Americans filed for unemployment benefits, more than tripling the unemployment rate to 14.7% as of the end of April. Most analysts are predicting a current unemployment rate of closer to 20%. The majority of analysts agree that a lot of the job losses are temporary and employers will hire as the economy opens up, but they also conclude that that it is going to take several years to get the economy back to where it was several months ago.

Retail sales fell 8.7% in March, the largest monthly decline dating back to 1946, while food and beverage stores, posted a record 25.6% surge as consumers stocked up on essential goods.

Congress passed legislation for a \$3.2 trillion rescue package to help blunt the pandemic’s toll on the economy. Qualified individuals and families received \$560 Billion, \$340 Billion was for State and local governments, and the balance went to small and large businesses.

After a half-point cut in the Fed Funds rate on March 3, 2020, the Federal Open Market Committee held an unscheduled meeting on March 15 and reduced the target Fed Funds rate to 0-0.25%, matching the near-zero rates of the financial crisis from ten-years ago.

Domestic equities dropped during the first quarter of 2020. The broad-based S&P 500 composite posted a 19.5% decline during the quarter. The Dow Jones Industrial Average (DJIA) similarly dropped 22.6%. The NASDAQ, which is dominated by Information Technology stocks, followed a similar pattern with a 13.8% loss during the first quarter of 2020. Yields on the two-year Treasury dropped 85%, from the high of 1.58% on January 13, 2020 to 0.23% as of March 31, 2020 and the yield on the five-year Treasury dropped 78%, from 1.69% at the beginning of the quarter to 0.38% on March 31, 2020.

Total Funds Under Management

The following table represents the total City funds under management based on their market values as of March 31, 2020.

| | 03/31/2020 | 12/31/2019 | Change |
|---------------------------------------|----------------------|----------------------|---------------------|
| Pooled Investment Portfolio | \$644,197,240 | \$629,791,190 | \$14,406,050 |
| Capital Endowment | 2,008,941 | 2,010,867 | (1,926) |
| Stranded Investment Reserve Portfolio | 60,659,411 | 64,086,916 | (3,427,505) |
| Special Funds | 18,795,135 | 21,720,360 | (2,925,225) |
| Investments Held with Fiscal Agents | 63,244,697 | 56,521,525 | 6,723,172 |
| PARS Section 115 Trust | 12,726,019 | 13,856,107 | (1,130,088) |
| Total Funds Under Management | \$801,631,443 | \$787,986,965 | \$13,644,478 |

The Pooled Investment Portfolio value increased by a net \$14,406,050 due to the following transactions during the quarter:

| | |
|---|-------------------|
| Net Investment Earnings (Fair Market Value Change plus Interest Income) | 3,162,096 |
| Deposits and Credit Card Receipts | 113,140,982 |
| Property Tax Revenues | 24,793,449 |
| Sales Tax and Other State Apportionments | 16,641,593 |
| HUD Receipts Net of Payments and Loans | 2,172,901 |
| Payroll and Payroll-related Expenses | (74,566,716) |
| Vendor Payments and Accounts Payable Checks | (44,174,222) |
| Debt Service Payments Net of Reimbursements and Subsidies | (14,051,615) |
| Water and Power Payments Net of Receipts | (23,896,554) |
| Net Transfer from Other Funds | 11,184,136 |
| Net Total | 14,406,050 |

The Capital Endowment Fund decreased by \$1,926 representing the investment earnings of \$10,513 adjusted by the market value change of (\$12,439).

The Stranded Investment Reserve portfolio decreased by \$3,427,505 representing \$572,495 investment earnings for the period, which includes the market value change of investments adjusted by a \$4,000,000 transfer to the Electric Fund as stated in the City Council's approved financial plan.

Special Funds decreased by \$2,925,225 representing \$171,681 in investment earnings for the quarter adjusted by a \$3,096,907 transfer out of the excess reserve earnings to the Power Fund.

Investments held with fiscal agents increased by \$6,723,172 as a result of a \$6,800,000 deposit of the new Motorola Radio equipment lease proceeds, \$409,412 in investment

earnings, a \$546,514 transfer into the Rose Bowl debt service fund, a \$89,443 deposit in the 2020 Pension Obligation Bonds, Cost of Issuance Fund, adjusted by a reduction of \$711,538, a drawdown from the parking equipment lease purchase fund, to cover the cost of the project and a drawdown of \$410,658 to cover the project cost from Southern California Public Power Authority.

The PARS Section 115 Trust account decreased by \$1,130,088. The change was comprised of \$1,112,715 in the market value decline of investments and \$17,373 in investment expenses.

The City pools all internal funds to gain economies of scale and to simplify the investment function. There are over 100 funds in the Pooled Investment Portfolio. As of March 31, 2020, the General Fund's investment balance was \$78.5 million, representing 12% of the March 2020 Pooled Portfolio value. The General Fund's cash balance fluctuates daily based on the timing of revenue receipts and payment of expenditures. Investments in the Capital Endowment Fund, the Stranded Investment Reserve Fund, the Special Funds, the PARS Section 115 Trust account, and funds held with fiscal agents are restricted funds or bond proceeds reserved in accordance with the City Charter, City ordinances, bond indentures, and Trust Agreements. The City targets an average duration of two-years in managing the pooled portfolio based on the portfolio's risk and return evaluation and industry best practices as it pertains to public funds management. As of March 31, 2020 the portfolio's effective duration was 2.3 years.

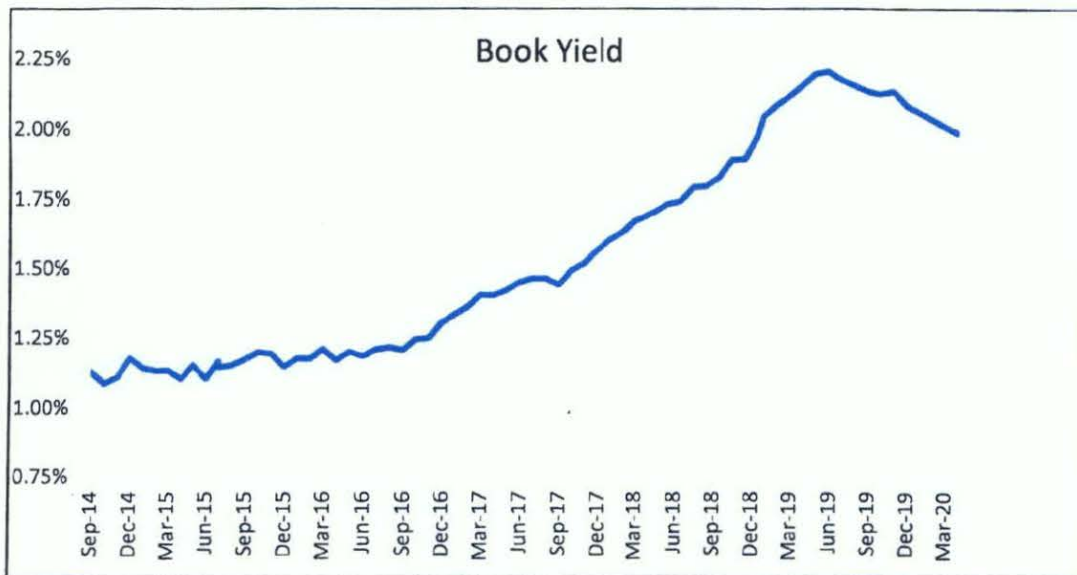
Consistent with government code requirements, attached are reports by each fund indicating the type of investments, date of maturity, par, and dollar amount invested in each security, as well as investments and monies within the Treasury with market values as of March 31, 2020. On a monthly-basis, the City Treasurer prices the pooled portfolio and all other funds and investments under management. The market values are obtained from Interactive Data Corporation (IDC) and from Bloomberg Financial System. IDC is an independent third party whose sole service is to provide market prices for all types of securities.

The types of securities held in the portfolio and their percentage allocation to the total are in compliance with the City's Fiscal Year 2020 (FY 2020) Investment Policy, which was adopted by the City Council on July 22, 2019 and Section 53600 of the State Government Code with the exception of Boeing Corporation. On January 30, 2020, Moody's lowered Boeing Corporation's bond rating to Baa1 from A2. Staff's recommendation is to hold the investment until it matures on October 30, 2020. The City Treasurer currently maintains over \$50 million short-term, liquid investments (1 to 90 day maturities), which represents approximately 1/12 of the City's total aggregate annual operating budget. This balance, along with anticipated cash flows into the City's account, represents a strong liquidity position to meet budgeted expenditures for the next six-months.

The Pooled Portfolio's book yield had increased several quarters until March 2019, when rates reversed their course and began to gradually decline all across the yield curve.

The yield on the pooled portfolio plateaued at the beginning of FY 2020 and began decreasing, due to the significant drop of overall interest rates in the financial markets. If current rates remain the same and/or continue to decrease, the yield on the City's pooled portfolio will similarly decline, reflecting the rapid drop in interest rates.

The graph below represents the historic book yield of the Pooled Portfolio over the last five-years, through March 2020.



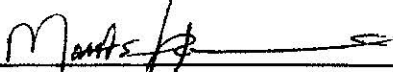
COUNCIL POLICY CONSIDERATION:

The quarterly report supports the City Council's strategic planning goal to maintain fiscal responsibility and stability.

FISCAL IMPACT:

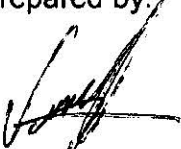
There is no fiscal impact as a result of this action report nor will it have any indirect or support cost requirements. There is no anticipated impact to other operational programs or capital projects.

Respectfully submitted,



MATTHEW E. HAWKESWORTH
Department of Finance

Prepared by:



Vic Erganian
Deputy Director of Finance/City Treasurer

Approved by:



STEVE MERMELL
City Manager

Attachment: (1)

1) Attachment A – Quarterly Investment Report - Quarter Ending March 31, 2020