

# Agenda Report

September 14, 2020

**TO:** Honorable Mayor and City Council

**THROUGH:** Finance Committee (September 10, 2020)

**FROM:** Department of Finance

**SUBJECT: Quarterly Investment Report – Quarter Ending June 30, 2020**

## **RECOMMENDATION:**

This report is for information only.

## **BACKGROUND:**

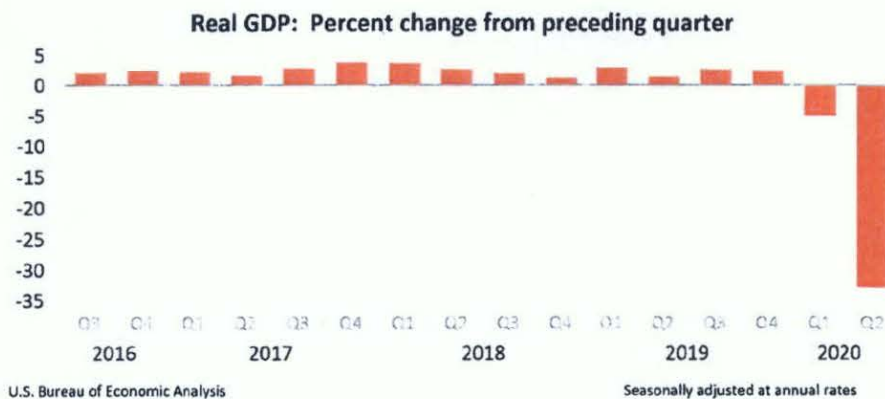
Government Code Section 53646 (2)(b)(1) states that in the case of a local agency, the Treasurer or Chief Fiscal Officer (CFO) may render a quarterly report to the legislative body of the local agency containing detailed information on: 1) all securities, investments, and moneys of the local agency; 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, investment, 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

The latest report from the Bureau of Economic Analysis of the U.S. Department of Commerce, the Gross Domestic Product (GDP) decreased 32.5% according to the revised advance GDP estimate for the second quarter for 2020. This is a stark contrast to the 2% growth in the U.S. economy for the same period in 2019. The COVID 19 health crisis and subsequent shutdown have continued to weigh down world economies as governments bifurcate efforts in battling the pandemic and reopening their respective economies.

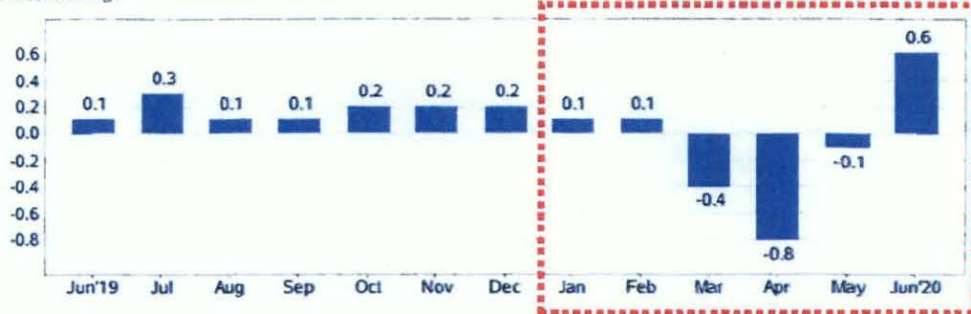


With the U.S. economy transitioning from opening, closing, to partially reopened, it has impacted the employment numbers being reported. After declining by 20.7 million in April, non-farm payroll numbers rose 2.7 million in May and 4.8 million in June, and the unemployment rate declined from the high of 14.7% to 11.1% in June bringing the number of unemployed persons to 17.8 million, as reported by the U.S. Bureau of Labor Statics (BLS). The unemployment rate for the Los Angeles-Long Beach-Anaheim metropolitan area for June was 18.1%. The Department of Labor reported its weekly national unemployment insurance claims for the week ending August 1 at 1,186,000, which was 249,000 fewer new claims from the previous week, with a 4-week moving average of total 16,628,250 claims. These numbers will undoubtedly change with employees transitioning from temporarily furloughed to unemployed and business transition to temporarily close to unable to reopen. The Wall Street Journal reported last month U.S. retailers are on track to close 25,000 stores this year as a result of the pandemic.

The Consumer Price Index (CPI) reported a year-over-year increase of 0.6% for June 2020, compared to a 1.6% increase for the same period last year. The Core CPI, which excludes the food and energy components was up 1.2%. It is essential to note the gyrations in the CPI during the pandemic, with the steepest reported monthly drop in April at negative 0.8%.



Chart 1. One-month percent change in CPI for All Urban Consumers (CPI-U), seasonally adjusted, June 2019 - June 2020  
Percent change



The Federal Reserve Economic Data (FRED) reported retail sales for April down by 14.7% and up 18.2% for May. The most recent available data for June reflected an increase of 7.5% for a total of \$524.3 billion in retail sales, which is almost at par with January sales of \$529 billion.

Since March, the Federal Reserve Bank has taken an active approach in an attempt to stabilize markets by facilitating liquidity. In addition to cutting rates 150 basis points to almost zero percent, it launched several programs to support local governments and corporations by purchasing debt through special purpose vehicles. Through these programs, the Fed's balance sheet grew to \$7.1 trillion on June 1, 2020 compared to the \$4.1 trillion on January 1. Despite the Fed's aggressive monetary policy efforts, the Fed Chair has reiterated that more needs to be done fiscally from Congress in addition to The Coronavirus Aid, Relief, and Economic Security (CARES) Act.

Notwithstanding the pandemic, housing inventories continued to decline as prices continued to rise. For the month ending June 2020, data released by Realtor.com indicated a year-over-year decline by 27.4% in the national housing inventory and a 19.3% decline in newly listed properties. The June national median listing price was \$342,000 which was up 5.1% from a year ago.

Treasury yields continue to be under pressure in this low-interest-rate environment. The one-year is currently yielding 0.12%, while the five-year 0.29%, and the thirty-year 1.41%.

The domestic equity markets experienced a V-shape recovery during the quarter. The broad-based S&P 500 composite index returned 20.5% during the quarter, the Dow Jones Industrial Average (DJIA) returned 18.47% and the NASDAQ composite index was up 30.9%.

**Total Funds Under Management**

The following table represents total City funds under management based on their market values as of June 30, 2020.

	06/30/2020	03/31/2020	\$Change
Pooled Investment Portfolio	\$645,407,061	\$644,197,240	\$1,209,821
Capital Endowment	2,060,956	2,008,941	52,015
Stranded Investment Reserve Portfolio	61,037,714	60,659,411	378,303
Special Funds	18,878,311	18,795,135	83,176
Investments Held with Fiscal Agents	52,243,143	63,244,697	(11,001,554)
PARS Section 115 Trust	13,922,346	12,726,019	1,196,327
<b>Total Funds Under Management</b>	<b>\$793,549,531</b>	<b>\$801,631,443</b>	<b>\$8,081,912</b>

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)	6,037,820
Deposits and Credit Card Receipts	83,346,090
Property Tax Revenues	41,510,981
Sales Tax and Other State Apportionments	13,401,942
HUD Receipts Net of Payments and Loans	5,160,304
Payroll and Payroll-related Expenses	(70,997,524)
Vendor Payments and Accounts Payable Checks	(53,959,775)
Debt Service Payments Net of Reimbursements and Subsidies	(24,969,264)
Water and Power Payments Net of Receipts	(18,437,801)
Net Transfer from Other Funds	20,117,050
<b>Total</b>	<b>1,209,821</b>

The Capital Endowment Fund decreased by \$52,015 representing the investment earnings of \$10,510 adjusted by the market value change of \$41,504.

The Stranded Investment Reserve portfolio increased by \$378,303 representing \$255,635 investment earnings for the period and \$122,667 in market value gain.

Special Funds increased \$83,175 representing \$98,515 investment earnings for the quarter adjusted by \$15,340 in market value loss.

Investments held with fiscal agents decreased by a total \$11,001,554 as a result of the withdrawal from the trustees' held accounts of \$6,800,679 lease financing proceeds for the new Motorola Radio equipment, the withdrawal of \$2,000,000 to cover SCPPA project cost, the withdrawal of \$1,501,901 to cover the capital cost of the PACR Parking

Equipment, the total debt service payments of \$583,674 for the 2016A Rose Bowl Lease Revenue Bonds and the 2008 Paseo bonds, and a \$115,300 drop in the market value of investments.

The PARS Section 115 Trust account increased by \$1,196,326. The change was comprised of \$1,213,021 of market value increase of investments adjusted by \$16,695 of investment expense.

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 June 30, 2020, General Fund's investment balance is estimated at \$87.5 million representing 13.5% of the June 2020 Pooled Portfolio value. The General Fund's cash balance fluctuates daily based on the timing of revenues 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 with a duration range of 1.5 to 2.5 years based on the portfolio's risk and return evaluation and industry best practices as it pertains to public funds management. As of June, 2020 the portfolio's effective duration was 2.4 years.

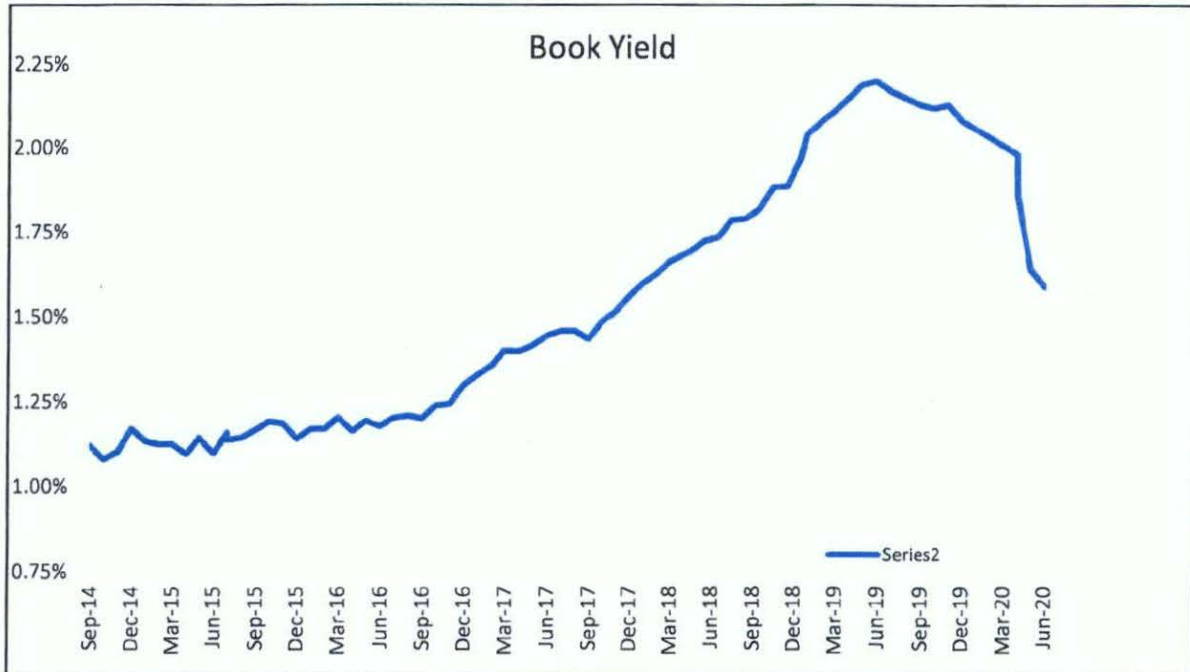
Per government code requirements, attached are reports by each fund indicating the type of investments, date of maturity, par and dollar amount invested in each security, as well as investment and moneys within the Treasury with market values as of June 30, 2020. On a monthly basis, the City Treasurer 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 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 \$60 million short-term, liquid investments (1 to 90 day maturities) which represents approximately 1/12<sup>th</sup> 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 beginning the fiscal year and began decreasing due to the significant drop of overall interest rates in the financial markets

specially after the Fed cut the Fed Funds rate by 1.5% during the second quarter of 2020. 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 June 2020.






**COUNCIL POLICY CONSIDERATION:**

This 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 June 30, 2020