

Agenda Report

March 8, 2021

TO: Honorable Mayor and City Council
THROUGH: Finance Committee (March 4, 2021)
FROM: Department of Finance
**SUBJECT: QUARTERLY INVESTMENT REPORT – QUARTER ENDING
DECEMBER 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, 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 U.S. Department of Commerce Bureau of Economic Analysis (BEA) reported on January 28, 2021, a 4.0% increase in Gross Domestic Product (GDP) for its advance estimate for the fourth quarter of 2020. The BEA had previously reported an increase of 31.4% in GDP for the third quarter, which was later revised upward to 33.4%. The BEA attributed the positive trend in GDP to increases in exports, nonresidential fixed investments, personal consumption expenditures (PCE), residential fixed investments, and private inventory investments. BEA also noted that this growth offset the decrease in state and local government spending and federal government spending. The annualized Real GDP for 2020 was -2.5%.

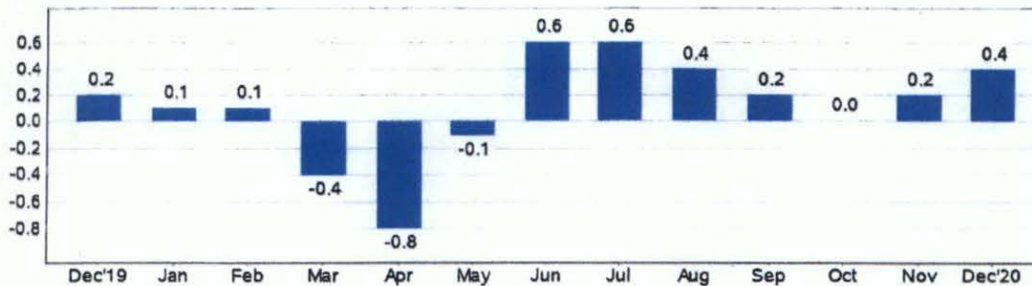


The U.S. Bureau of Labor Statics (BLS) reported the unemployment rate at 6.7% or 10.7 million unemployed persons in December 2020 compared to the unemployment rate of 7.8 percent in September. BLS also reported the December unemployment rates for teenagers (16.0 percent), adult men (6.4 percent), adult women (6.3 percent), Whites (6.0 percent), Hispanics (9.3 percent), Blacks (9.9 percent), and Asians (5.9 percent). The preliminary unemployment rate for the Los Angeles-Long Beach-Anaheim metropolitan area for December was 9.9% versus 13.8% reported in September.

The year-over-year Consumer Price Index (CPI) reported by the BLS at the end of December was 1.4%. The same rate as reported for the twelve trailing months ending September 2020. The year-over-year Core CPI which excludes food and energy components measured at 1.4% at the end of December compared to 1.7% rate reported for the twelve-month period ending September 2020. Financial markets are expecting an increase in the CPI in 2021. The markets have priced in a decent growth in the GDP

in 2021 and expect more pressure on prices as vaccinations against COVID-19 become more available and the economy trends toward normalization. Increases in both CPI and PPI were attributed to the continued rise in the energy index. It is worth noting the most significant increase in December was in gasoline prices at 16.1%. According to the BLS report for December, the indexes for iron and steel, diesel fuel, jet fuel, meats, and home heating oil also moved higher.

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



The Federal Reserve Bank (Fed) continues to bring stability and confidence to the markets by its persistence in injecting liquidity and keeping historic low rates. The Chicago Mercantile Exchange Group reported on December 10, 2020, that Fed's assets totaled \$7.243 trillion, which represented an increase of \$3.464 trillion from August 1, 2019. In contrast, at the end of December 31, 2008, the Fed's balance sheets totaled \$2.239 trillion. Despite these efforts, the Fed's leadership has continued to ask more from Congress legislatively to support the economy in addition to the CARES Act it passed in March. The Fed met twice during the quarter and maintained the Fed Funds rate at 0% to 0.25% range and stated that it will maintain the rate at those levels for a longer period even after CPI exceeds the 2% target rate.

Treasury yields have edged much lower compared to a year ago. The one-year Treasury yield was 0.10% on December 31, 2020 compared to 1.55% a year ago, the two-year Treasury yield was 0.12% compared to 1.57% a year ago and the yield on the five-year Treasury measured at 0.36% compared to 1.69% on December 31, 2019.

After a volatile start, the three major stock indices ended positive for the year. The Dow Jones Industrial Average returned 10.7% during the quarter and ended 2020 calendar year with a total return of 9.4%, dividends reinvested. The S&P 500 returned 12.11% during the quarter and ended 2020 with a total return of 18%. The winner in the post-pandemic world and technology-driven NASDAQ closed at 12,888.28 and was up 15.65% during the quarter and ended the year with a total return of 44.74%.

The National Association of Realtors reported a national inventory decline of 39.6% during the year. Inventories fell below 700,000 for the first time in its records; it also reported a decline in inventory by 0.8% of newly listed properties. In its December report, the National Association of Realtors reported the median listing price at \$340,000, up 13.4% compared to last year, and in large metros, regions it saw an average price gain of 8.8% compared to the previous year.

Total Funds Under Management

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

	12/31/2020	09/30/2020	\$Change
Pooled Investment Portfolio	\$584,809,012	\$564,399,806	\$20,409,206
Capital Endowment	2,071,918	2,066,915	5,003
Stranded Investment Reserve Portfolio	61,338,097	61,186,640	151,457
Special Funds	33,892,855	18,861,303	15,031,552
Investments Held with Fiscal Agents	53,203,463	52,665,758	537,705
PARS Section 115 Trust	15,273,088	14,375,950	897,138
Total Funds Under Management	\$750,588,433	\$713,556,372	\$37,032,061

Net Investment Earnings (Fair Market Value Change plus Interest Income)	1,366,981
Deposits and Credit Card Receipts	117,022,437
Property Tax Revenues	28,726,137
Sales Tax and Other State Apportionments	16,093,911
HUD Receipts Net of Payments and Loans	4,642,547
Payroll and Payroll-related Expenses	(72,647,416)
Due from the Power Reserve Fund	739,702
Vendor Payments and Accounts Payable Checks	(41,573,861)
Debt Service Payments Net of Reimbursements and Subsidies	(9,359,297)
Water and Power Payments Net of Receipts	(26,801,935)
Net Transfer from Other Funds	2,200,000
Total	\$20,409,206

The Capital Endowment Fund increased by \$5,003 representing the investment earnings for the period.

The Stranded Investment Reserve portfolio increased by \$151,457 representing \$212,419 investment earnings for the period and (\$60,962) in market value change.

Special Funds increased by \$15,018,860 representing \$15,000,000 of new bond proceeds from the issuance of the 2020 Water Revenue Bonds and a net investment earnings of \$18,860.

Investments held with fiscal agents increased by a total \$537,705 representing the net investment earnings for the period.

The PARS Section 115 Trust account increased by \$897,138. The change was comprised of \$915,156 of market value increase of investments adjusted by (\$18,018) of investment expense.

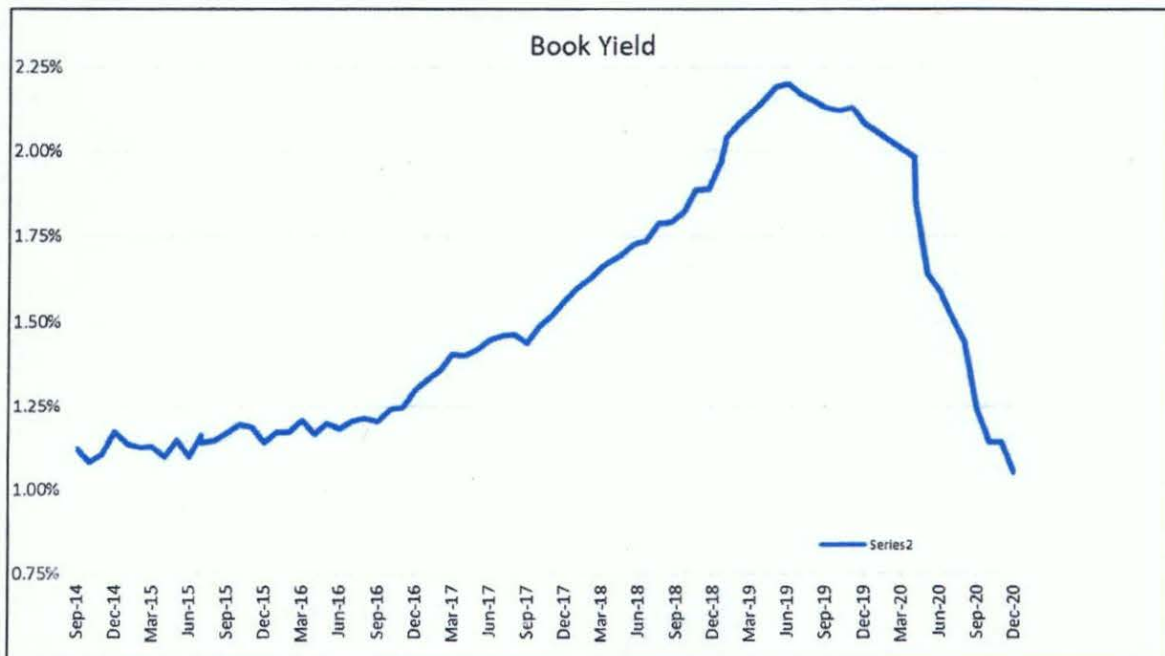
The City pools all internal funds to gain economies of scale and to simplify the investment function. There are over 100 funds in the Pooled Investment Portfolio. As of December 31, 2020, General Fund's investment balance was \$53.7 million representing 9.2% of the December 2020 Pooled Portfolio value. 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 December, 2020 the portfolio's effective duration was 2.18 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 December 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 2021 Investment Policy which was adopted by the City Council on June 15, 2020 and Section 53600 of the State Government Code. The City Treasurer currently maintains over \$60 million short-term, liquid investments (1 to 90 day maturities) which represents approximately 1/12th 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 2020 and began decreasing due to the significant drop of overall interest rates in the financial markets, especially after the Fed cut the Fed Funds rate to 0%-0.25% range. If short-term rates remain the same, and/or continue to decrease, the yield on the City's pooled portfolio will similarly decline.

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



COUNCIL POLICY CONSIDERATION:

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

FISCAL IMPACT:

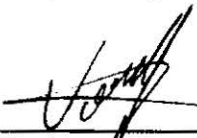
There is no fiscal impact as a result of this action report nor will it have any indirect or support cost requirements. There is no anticipated impact to other operational programs or capital projects.

Respectfully submitted,



MATTHEW E. HAWKESWORTH
Department of Finance

Prepared by:



Vic Ergonian
Deputy Director of Finance/City Treasurer

Approved by:



STEVE MERMELL
City Manager

Attachment: (1)

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