

# Agenda Report

May 24, 2021

**TO:** Honorable Mayor and City Council  
**THROUGH:** Finance Committee  
**FROM:** Department of Finance  
**SUBJECT: QUARTERLY INVESTMENT REPORT – QUARTER ENDING  
MARCH 31, 2021**

## **RECOMMENDATION:**

This report is for information only.

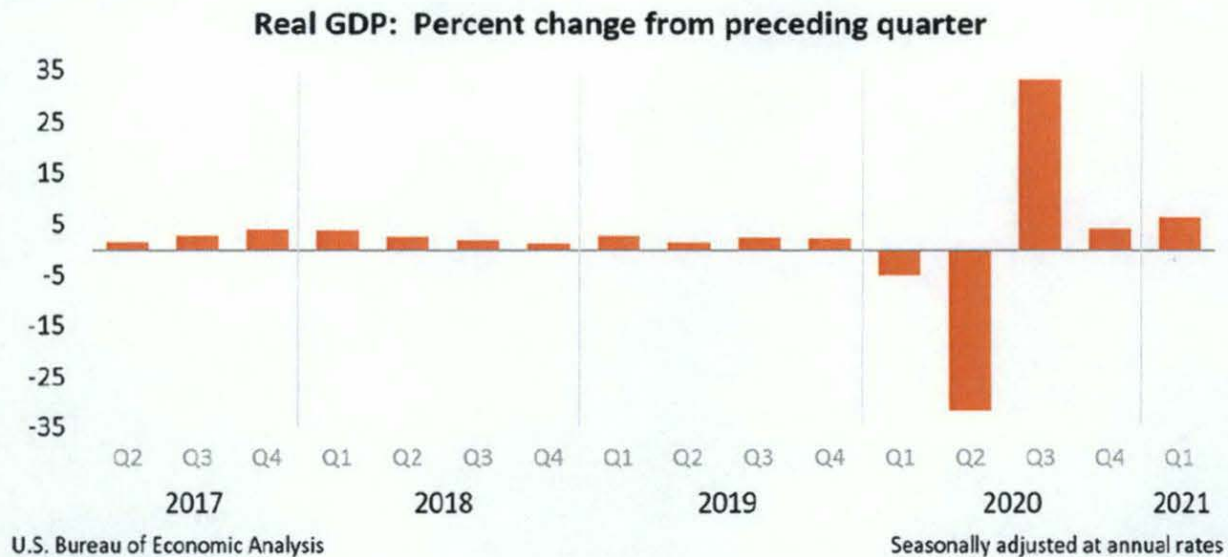
## **BACKGROUND:**

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**



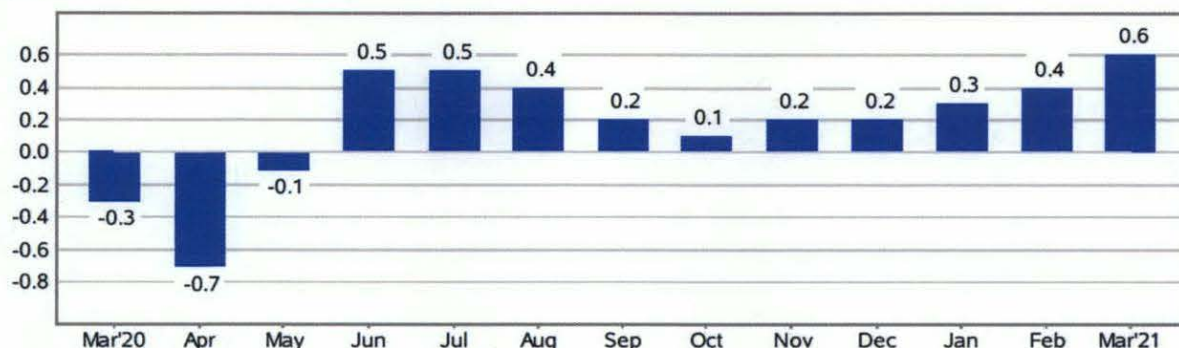
Gross Domestic Product (GDP) for the period increased by 6.4 percent according to the U.S. Department of Commerce Bureau of Economic Analysis (BEA) reported on April 29, 2021. The previous quarter's GDP numbers were also revised upward to 4.3 percent versus 4.0 percent. The quarterly GDP growth was attributed to increases in personal consumption expenditures (PCE), nonresidential fixed investments, federal government spending, residential fixed investments, and state and local governments spending.

The unemployment rate continued to trend downward as reported by the U.S Bureau of Labor Statistics (BLS) on April 2, 2021, the March unemployment rate was at 6.0 percent or 9.7 million unemployed persons. This is still 4.0 million more unemployed persons compared to February 2020. The BLS report on metropolitan area employment and unemployment for March indicates that of the 51 metropolitan areas with a 2010 Census population of 1 million or more, Los Angeles, Long Beach, Anaheim, CA, had the highest unemployment rate in March at 9.8 percent. The U.S. Department of Labor (DOL) reported in their weekly insurance claims for the week ending March 27, 2021 initial unemployment claims of 719,000, an increase of 61,000 from the previous week's revised level. The four-week moving average was 719,000, a decrease of 10,500 from last week's revised average from the DOL.

The month over month Consumer Price Index (CPI) in March was reported at 0.6 percent. The continued rise in CPI was attributed to increases in energy cost at 5.0 percent; within the energy segment, the notable standouts were commodities at 8.9 percent increase and gasoline (all types) at a 9.1 percent increase. The Producer Price Index (PPI) for the same period rose 1.0 percent, compared to the 0.3 percentage increase in December 2020. The rise in PPI can be broken down by the final demand goods, which increased 1.7 percent (food, energy, and less food and energy), and the final demand service, which rose 0.7 percent (trade, transportation & warehousing, and others) in March 2021.



Chart 1. One-month percent change in CPI for All Urban Consumers (CPI-U), seasonally adjusted, Mar. 2020 - Mar. 2021  
 Percent change



The U.S. Census Bureau and the Department of Housing and Urban Development (HUD) reported March sales of new single-family houses at 1,021,000. This is 20.7 percent above the revised February rate of 846,000 and is 66.8 percent above the March 2020 estimate of 612,000. Chief economist for Realtor.com, Danielle Hale, in the week of March 27, 2021, reported the median listing price grew at 17.2 percent over last year. Total active inventory continued to decline (dropping 53 percent), and the period homes for sale on the market declined by eight days compared to a year ago. HUD also reported in March, privately-owned housing permits rose 2.7 percent to an adjusted annual rate of 1,766,000 and privately-owned housing starts rose 19.4 percent to an adjusted annual rate of 1,580,000.

Notwithstanding the improving economic numbers, the Federal Reserve Bank (FED) continues adding to its balance sheet by continuing its asset purchase program and buying \$120 billion in bonds per month (its balance sheet at the end of March 2021 totaled \$7.688 trillion). During this period, the Fed announced it would more than likely not raise interest rates until 2023 and let core inflation run above 2.0 percent. FED officials expect GDP growth at 6.5 percent this year but still are cautious about growth and view vaccination efforts as a key to a healthy economy. The Wall Street Journal recently quoted Fed Chair Jerome Powell, "Viruses are no respecters of borders, and until the world really is vaccinated we're all going to be at risk of new mutations...I would look at global vaccination as a risk really...to the progress that we are making."

The one-year Treasury yielded 0.102 percent at the end of December, and dropped to 0.066 percent as of March 31, 2021. The longer maturities rates have continued to rise, with the five-year yielding 0.939 percent and the thirty-year 2.414 percent, compared to the 0.362 percent and 1.649 percent as of December 31, 2020.

The Dow Jones Industrial Average closed at 32,981.55 on March 31, 2021, up 7.76 percent, and the S&P 500 closed at 3,972.89, up 5.77 percent. The technology-driven NASDAQ, which benefited from the COVID-19 economy last year, did not fare well and closed at 13,246.87, up 2.78 percent for the quarter. The rise in the three major indices is attributed to the passing of the American Rescue Plan and the successful vaccine rollout this year. The Nasdaq Market Intelligence Team noted, "the stimulus at the end

of 2020 (\$900B) and the relief package signed in early March (\$1.9T) equate to nearly 14% of US GDP.

### **Total Funds Under Management**

The table below represents total City funds under management based on their market values as of March 31, 2021.

	<b>03/31/2021</b>	<b>12/31/2020</b>	<b>\$Change</b>
Pooled Investment Portfolio	\$580,904,288	\$584,809,012	(\$3,904,724)
Capital Endowment	2,074,719	2,071,918	2,801
Stranded Investment Reserve Portfolio	52,854,038	61,338,097	(8,484,059)
Special Funds	33,799,823	33,892,855	(93,032)
Investments Held with Fiscal Agents	49,918,249	53,203,463	(3,285,214)
PARS Section 115 Trust	15,294,211	15,273,088	21,123
<b>Total Funds Under Management</b>	<b>\$734,845,328</b>	<b>\$750,588,433</b>	<b>(15,743,105)</b>

The Pooled Investment Portfolio value decreased by a net \$3,904,724 due to the following transactions during the quarter:

Net Investment Earnings (Fair Market Value Change plus Interest Income)	(2,726,712)
Deposits and Credit Card Receipts	97,197,129
Property Tax Revenues	26,552,452
Sales Tax and Other State Apportionments	16,246,111
HUD Receipts Net of Payments and Loans	4,882,652
Payroll and Payroll-related Expenses	(65,854,193)
Vendor Payments and Accounts Payable Checks	(46,664,398)
Debt Service Payments Net of Reimbursements and Subsidies	(14,521,101)
Water and Power Payments Net of Receipts	(27,994,920)
Net Transfer from Other Funds	8,978,256
<b>Total</b>	<b>(3,904,724)</b>

The Capital Endowment Fund increased by \$2,801, representing the investment earnings for the period.

The Stranded Investment Reserve portfolio decrease by (\$8,484,055) representing \$192,330 investment earnings for the period, (\$1,676,385) in market value change and (\$7,000,000) annual drawdown per agenda action.

Special Funds decreased by (\$93,032) representing a net change in investment value.

Investments held with fiscal agents decreased by a total (\$3,285,214) representing (\$2,226,534) of net market value change for the period, (\$426,919) net debt service payment made, \$311,071 adjustment to SCPA due to overbilling credit, (\$866,267)

drawdown of funds from escrow account for PACRS equipment financing and (\$36,563.74) payment made out of the cost of issuance account for the 2020 Water Revenue Bonds.

The PARS Section 115 Trust account increased by \$21,123. The change was comprised of \$40,006 of market value increase of investments adjusted by (\$18,883) 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 March 31, 2021, the General Fund's investment balance was \$47.3 million representing 8.15% 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.

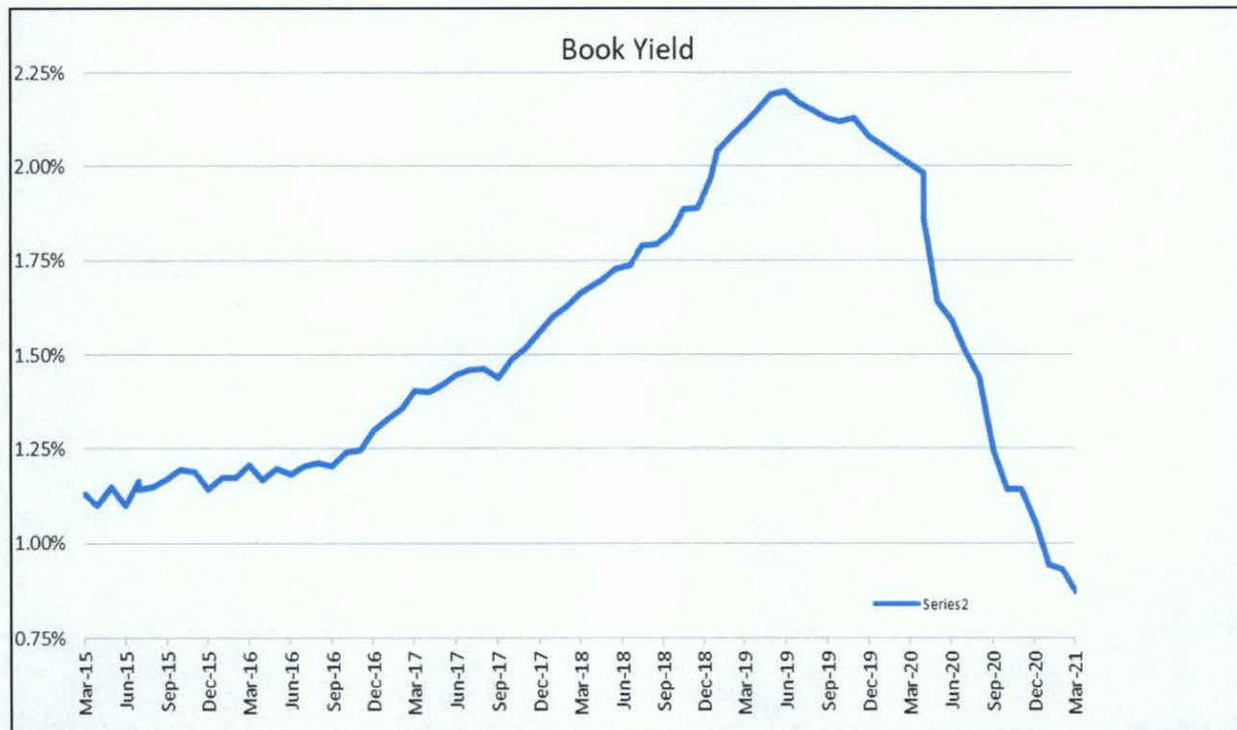
The types of securities held in the portfolio and their percentage allocation to the total are in compliance with the City's Fiscal Year (FY) 2021 Investment Policy which was adopted by the City Council on June 15, 2020 and Section 53600 of the State Government Code. The City Treasurer currently maintains over \$60 million short-term, liquid investments (1 to 90 day maturities) which represents approximately 1/12<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 yield to maturity (YTM) had increased several quarters until March 2019 when rates reversed their course and began to gradually decline all across the yield curve. The yield to maturity on the pooled portfolio plateaued beginning the FY 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 the 0%-0.25% range. 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 FY 2021 to date actual effective yield, which includes realized investment gains and losses was 1.2%.

The graph below represents the historic YTM of the Pooled Portfolio over the last five years, through March 2021.



**COUNCIL POLICY CONSIDERATION:**

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

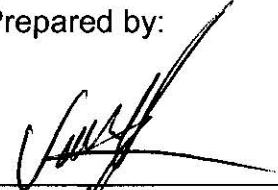
**FISCAL IMPACT:**

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 December 31, 2020