

Agenda Report

November 22, 2021

TO: Honorable Mayor and City Council
THROUGH: Finance Committee
FROM: Department of Finance
**SUBJECT: QUARTERLY INVESTMENT REPORT – QUARTER ENDING
SEPTEMBER 30, 2021**

RECOMMENDATION:

This report is for information only.

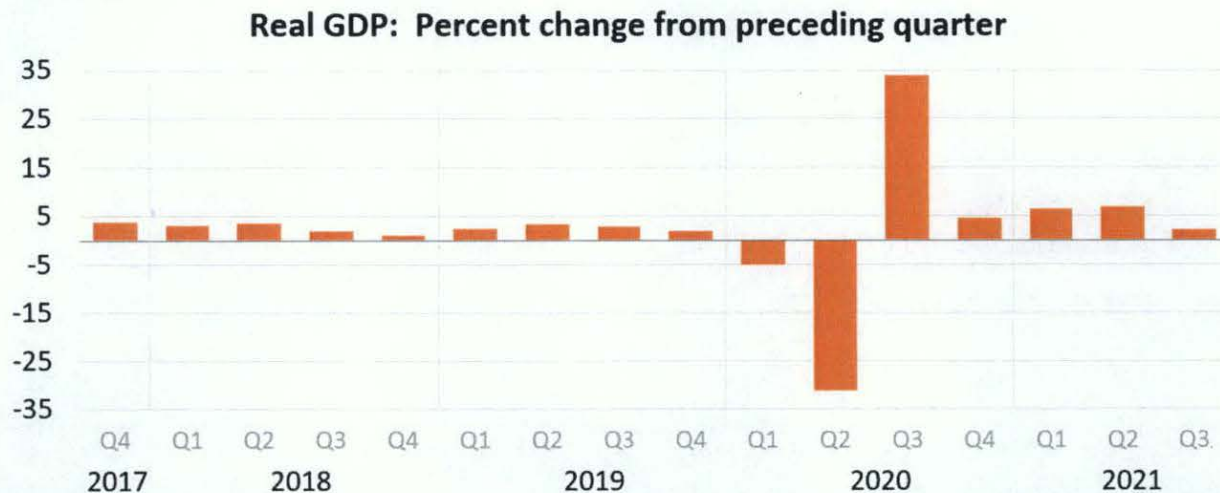
BACKGROUND:

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, however 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; and
5. A description of the compliance with the *Statement of Investment Policy*.

Economic Review



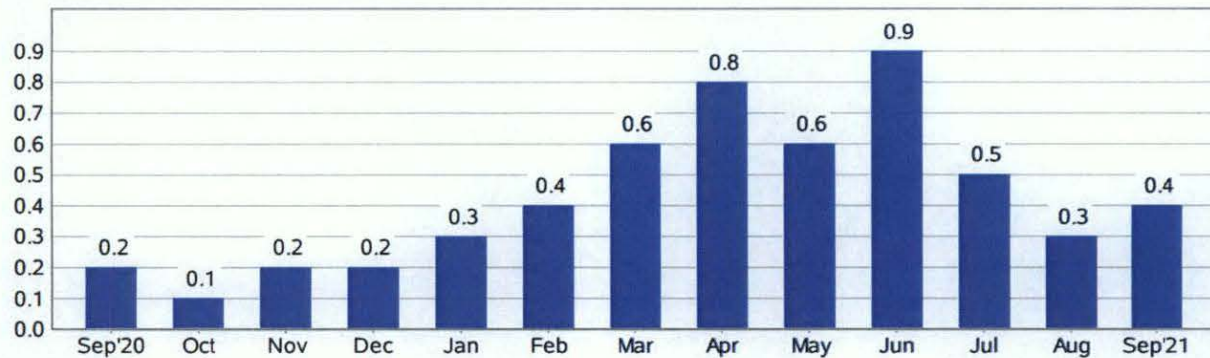
U.S. Bureau of Economic Analysis

Seasonally adjusted at annual rates

The U.S. economy grew at a 2% annualized pace as measured by the Gross Domestic Product (GDP). Although somehow expected, this was still a sharp decline from the previous quarter's 6.7% growth rate and 6.5% growth rate in the first quarter of 2021. The economic activity slowed in the third quarter due to weaker consumer and business spending constrained by product and material shortages, transportation bottlenecks, the expiration of government support programs, and uncertainty related to the delta variant. Those factors plus elevated inflation likely took a significant bite out of real economic growth. Momentum is gaining more traction with the latest COVID-19 wave fading.

At the end of September, the U.S. unemployment rate had dropped to 4.8% or 7.7 million unemployed persons. The State of California's unemployment rate was 7.5% at the end of September and the Bureau of Labor Statistics (BLS) reported the unemployment rate for Los Angeles-Long Beach-Anaheim area at 8.8% in August; a significant drop from the 10.5% rate the previous quarter but still the highest for the metropolitan area.

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



The Consumer Price Index (CPI) increased every month for the quarter, reported by the BLS on October 13, 2021. September CPI rose 0.3%, August increased 0.3%, and July CPI climbed by 0.5%. The increase in CPI was attributed to increases in the food and shelter index at 5.4% and the energy index at 1.3% at the end of September.

Notwithstanding the market concerns regarding inflation, the Federal Reserve Bank (Fed) still remains unfettered on the belief that inflation continues to be transitional. On September 25, 2021, MarketWatch (MW) reported inflation at a pace to edge higher than 5.3%, compared to the FED's 4.2% estimate. MW quoted the Fed Chairman Jerome Powell stating "inflation is elevated and will likely remain so in coming months before moderating, while these supply effects are prominent for now, they will abate. And as they do, inflation is expected to drop back toward our longer-run goal" of 2% annual inflation rate. The Wall Street Journal (WSJ) reported in October from the Minutes of the Federal Open Market Committee (FOMC), a stronger consensus over scaling back the \$120 billion in monthly purchases of Treasury and mortgage securities amid signs that higher inflation and strong demand could call for tighter monetary policy next year. The bond purchases have been a key piece of the Fed's effort to stimulate growth since the coronavirus pandemic disrupted the U.S. economy last year. At the end of September, the Fed's balance sheet totaled \$8.447 trillion.

The U.S. Department of Housing and Urban Development (HUD) reported an increase of 1.5% on new home purchases to 740,000 units in September. HUD also reported that the National Association of Realtors (NAR) saw sales of existing homes fall 2.0% to 5.88 million units in August. HUD also reported new housing starts increased 3.9% to 1.62 million and were up 17.4% year-over-year. Realtor.com reported at the end of September, the national inventory of active listings declined by 22.2% over last year, while the total inventory of unsold homes, including pending listings, declined by 12.6%. The inventory of active listings is down 52.5% compared to 2019.

The one-year Treasury Bill ended the quarter yielding 0.068% as of September 30, 2021. The longer maturities rates have continued to rise, with the five-year yield ending at 0.965% and the thirty-year at 2.045% on September 30, 2021, compared to the 0.889% and 2.086% (respectively at the end of June).

The stock market began the quarter on its continued upward trajectory, then investors began feeling nervous over the pandemic, inflation rising, and the infighting in Washington. The Dow Jones Industrial Average closed at 33,843, down 1.9% for the quarter, the S&P closed at 4,307, up 0.23% for the quarter, and the NASDAQ ended up closing at 14,448 down 0.38% for the quarter ending September 30, 2021.

Total Funds Under Management

The table below represents total City funds under management based on their market values as of September 30, 2021.

	09/30/2021	06/30/2021	\$Change
Pooled Investment Portfolio	\$583,988,591	\$616,444,995	(32,456,404)
Capital Endowment	2,077,883	2,076,566	1,317
Stranded Investment Reserve Portfolio	46,914,014	54,186,606	(7,272,592)
Special Funds	27,904,349	33,822,438	(5,918,089)
Investments Held with Fiscal Agents	47,523,121	46,866,469	656,652
PARS Section 115 Trust	15,728,139	15,839,204	(111,065)
Total Funds Under Management	\$724,136,097	\$769,236,278	\$45,100,181

The Pooled Investment Portfolio value decrease by a net \$32,456,404 due to the following transactions during the quarter:

Net Investment Earnings (Fair Market Value Change plus Interest Income)	\$ 483,651
Deposits and Credit Card Receipts	117,975,247
Property Tax Revenues	4,043,444
Sales Tax and Other State Apportionments	18,340,369
HUD Receipts Net of Payments and Loans	8,224,610
Payroll and Payroll-related Expenses	(66,324,412)
PERS-Retirement Payment for Unfunded Liability	(44,523,467)
Vendor Payments and Accounts Payable Checks	(49,117,968)
Debt Service Payments Net of Reimbursements and Subsidies	(8,677,936)
Water and Power Payments Net of Receipts	(28,158,506)
Net Transfer from Other Funds	2,350,563
Drawdown from 2020A Water Revenue Project Fund	5,928,000
Drawdown from Power Reserve fund Annual per Agenda action	7,000,000
Total	\$ (32,456,404)

The Capital Endowment Fund increased by \$1,317, representing the investment earnings for the period.

The Stranded Investment Reserve portfolio decreased by \$7,272,592 representing \$162,326 investment earnings for the period, (\$434,918) in market value change and \$7,000,000 annual withdrawal from the fund per the Council approved plan.

Special Funds decreased by \$5,918,089 representing a net change in investment value of \$9,911 and \$5,928,000 drawdown on the 2020A Water Revenue Bonds project fund for related capital expenses.

Investments held with fiscal agents increased by a total \$656,652 representing (\$2,138) of net market value change of investments for the period and \$658,790 received by the Trustee for the October 1, 2021 debt service payments.

The PARS Section 115 Trust account decrease by \$111,065. The change was comprised of (\$91,680) of market value decrease of investments and (\$19,385) of 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 September 30, 2021, the General Fund's investment balance was \$34.9 million representing 5.99% of the September 30, 2021 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, the Treasury yield curve, and industry best practices as it pertains to public funds management. As of September, 2021 the portfolio's effective duration was 2.56 years.

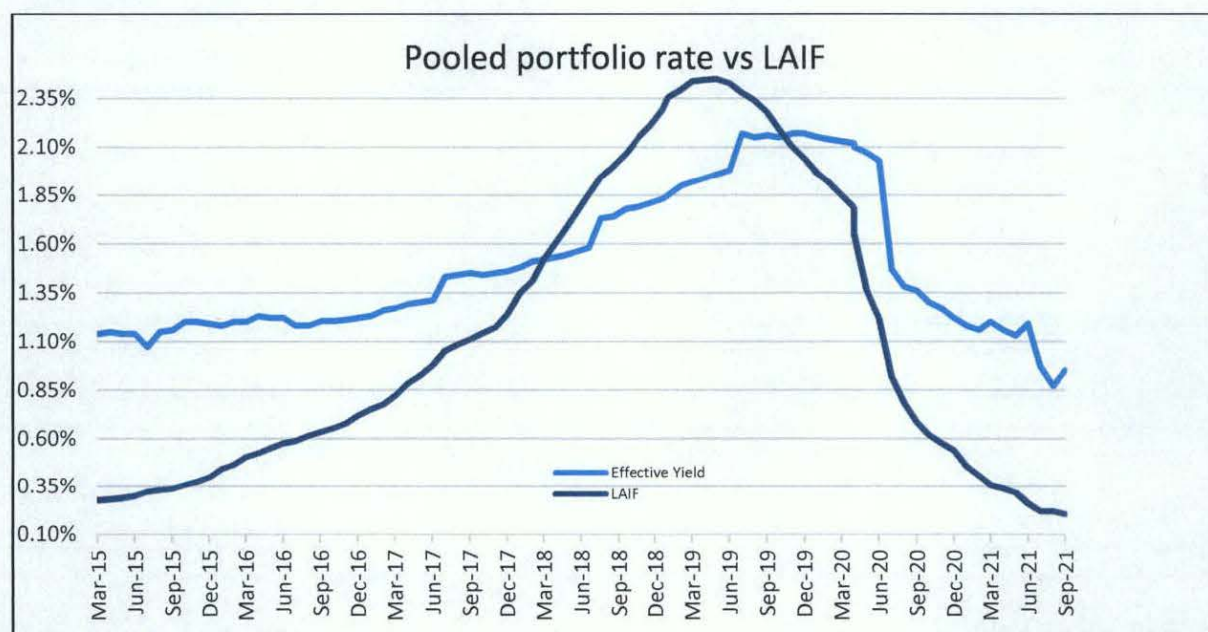
Per government code requirements, attached are reports by each fund indicating the type of investments, date of maturity, par and dollar amount invested in each security, and investment and moneys within the Treasury with market values as of September 30, 2021. On a monthly basis, the City Treasurer 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) 2022 Investment Policy, which was adopted by the City Council on May 24, 2021 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 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 in 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 2022 to date actual effective yield, which includes realized investment gains and losses was 0.95%.

The graph below represents the historic effective yield of the Pooled Portfolio over the last five-years, through September 2021 compared to the Local Agency Investment Pool (LAIF) rate managed by the State Treasurer.



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
Director of Finance

Prepared by:



Vic Eganian
Deputy Director of Finance/City Treasurer

Approved by:



STEVE MERMELL
City Manager

Attachment: (1)

Attachment A – Quarterly Investment Report - Quarter Ending September 30, 2021