

Agenda Report

September 13, 2021

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

RECOMMENDATION:

This report is for information only.

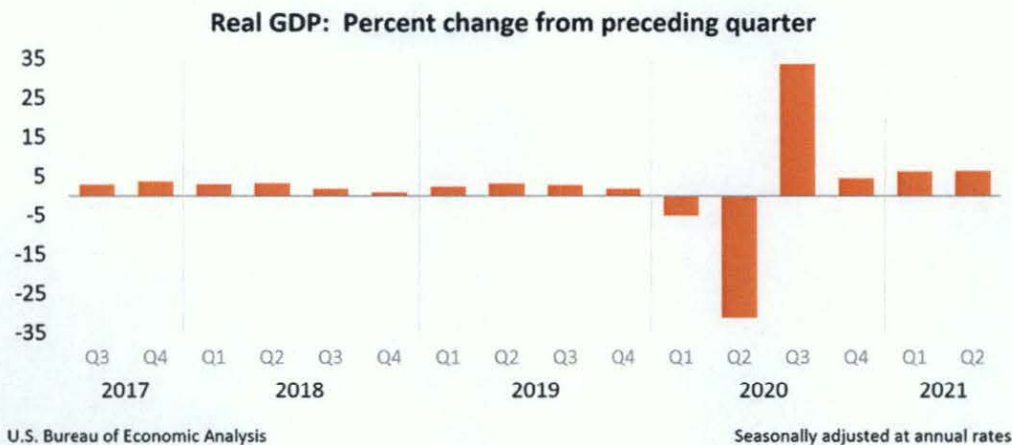
BACKGROUND:

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*.

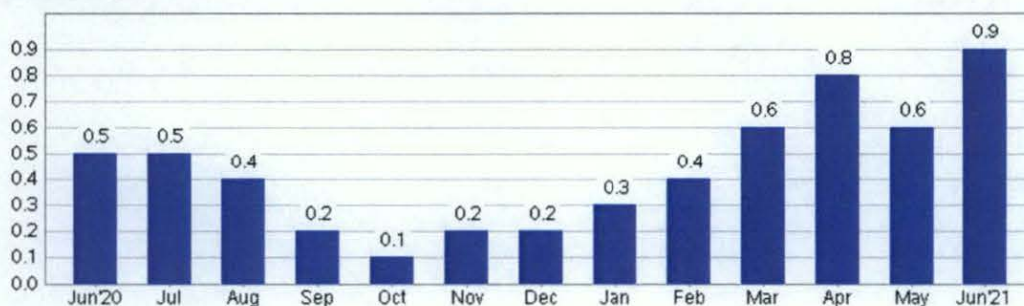
Economic Review



The Bureau of Economic Analysis (BEA) reported an annualized 6.5% Gross Domestic Product (GDP) growth rate for the second quarter of 2021, which was below the consensus forecast of 8%. The economy was officially considered fully recovered from the Coronavirus pandemic as of June, although a lot of uncertainties still remain that could adversely impact the economy. Most economists still hope and expect for a continued growth in 2021, but that optimism is waning down by the recent surge of Coronavirus cases and the rapid spread of the Delta variant.

The U.S Bureau of Labor Statistics (BLS) reported on July 2, 2021, that the unemployment rate was 5.9% or 8.7 million unemployed persons at the end of June 2021. The BLS also reported that for the populous metropolitan areas, the Los Angeles-Long Beach-Glendale, CA, had the highest rate of unemployment among the 38 divisions at 10.5%. The underemployment rate was reported at 9.8% for the same period while the year-over-year average hourly earnings were up 3.6%.

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



The BLS reported on July 13, 2021, the Consumer Price Index (CPI) rose 0.9% for June, and it had previously reported a 0.6% increase for May. The year-over-year CPI as of June 2021 was 5.4%, the highest rate since 2008. The June rise was attributed to an increase of 10.5% in the used cars and trucks index; this increase accounted for more than one-third of the seasonally adjusted of all items increased.

The U.S. Census Bureau and the U.S. Department of Housing and Urban Development (HUD) reported that 1,585,000 new homes were sold during the quarter as compared to 2,689,000 new homes sold the previous quarter. On July 1, 2021, Chief Economist, Danielle Hale and Senior Economist, Sabrina Speianu both from Realtor.com, reported for June the national inventory of active listings declined by 43.1% over last year and the total inventory of unsold homes, including pending listings, declined by 20.3%. They also reported median listing price for active listings was \$385,000, up 12.7% compared to last year, and the typical home spent 37 days on the market in June, much less than the 72 days during the same month in 2020. Also noted in their report in the Los Angeles-Long Beach-Anaheim area, the median listing price was \$1,025,000, and the median days on the market was 44 days.

The Federal Reserve Bank (FED) who is driving the “transitory” inflation camp continues to insist that the current surge in inflation is temporary and reversible within the next few months while others strongly believe that inflation is here to stay and will continue and will force the FED to gradually taper its asset purchase program.

With the positive economic numbers and the number of unemployed persons continuing to decline, economists are left speculating on what the FED will do next. At the Federal Open Market Committee (FOMC) on June 15-16, the FED signaled that it is not ready to reduce its monthly \$120 billion asset purchase program of treasuries and mortgage back securities. At the end of June, the FED’s balance sheet totaled \$8.078 trillion. The Wall Street Journal (Journal) reported from the FOMC minutes that FED officials still expect inflation to be temporary, and it is caused by bottlenecks and shortages stemming from the pandemic. The Journal, also reported from the meeting, that 13 of the 18 officials projected they would raise interest rates from near zero by 2023, with most expecting to raise their benchmark rate by 0.5 percentage points. Seven of the 13 officials expected to raise rates next year.

The one-year Treasury ended the quarter at 0.066% yield, down considerably from the 0.15% yield a year ago (for the same period). Conversely, the longer-term yields have continued to increase, with the five-year yielding 0.889% on June 30, 2021, compared to the 0.288% a year ago. The thirty-year at the end of the quarter was yielding 2.086%, compared to 1.411% a year ago.

The stock market has continued on its upward trajectory, driven by investors who are still staying away from the bond market and looking for higher equities returns. Also, fueling the rally has been the confidence of the economic recovery and the possibility of a bipartisan infrastructure deal. The Dow Jones Industrial Average closed at 34,503, up 4.61% for the quarter, the S&P closed at 4,297, up 8.17% for the period and NASDAQ ended up closing at 14,503 returning 9.49% for the quarter ending June 30, 2021.

Total Funds Under Management

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

	06/30/2021	03/31/2021	\$Change
Pooled Investment Portfolio	\$616,444,995	\$580,904,288	35,540,707
Capital Endowment	2,076,566	2,074,719	1,847
Stranded Investment Reserve Portfolio	54,186,606	52,854,038	1,332,568
Special Funds	33,822,438	33,799,823	22,615
Investments Held with Fiscal Agents	46,866,469	49,918,249	(3,051,780)
PARS Section 115 Trust	15,839,204	15,294,211	544,993
Total Funds Under Management	\$769,236,278	\$734,845,328	\$34,390,950

The Pooled Investment Portfolio value increased by a net \$35,540,707 due to the following transactions during the quarter:

Net Investment Earnings (Fair Market Value Change plus Interest Income)	\$ 2,091,513
Deposits and Credit Card Receipts	100,150,847
Property Tax Revenues	46,031,308
Sales Tax and Other State Apportionments	16,517,411
HUD Receipts Net of Payments and Loans	4,262,060
Payroll and Payroll-related Expenses	(69,792,658)
Vendor Payments and Accounts Payable Checks	(42,931,665)
Debt Service Payments Net of Reimbursements and Subsidies	(25,911,836)
Water and Power Payments Net of Receipts	(22,975,927)
Net Transfer from Other Funds	1,786,666
COVID-19 Relief Funds	26,312,988
Total	\$ 35,540,707

The Capital Endowment Fund increased by \$1,847, representing the investment earnings for the period.

The Stranded Investment Reserve portfolio increased by \$1,332,568 representing \$186,608 investment earnings for the period and \$1,145,960 in market value change.

Special Funds decreased by \$22,615 representing a net change in investment value.

Investments held with fiscal agents decreased by a total (\$3,051,780) representing \$1,552,724 of net market value change of investments for the period, (\$546,642) net debt service payment made, (\$4,000,000) withdrawal from investments held with Southern California Public Power Authority (SCPPA) and (\$57,862) final drawdown of funds from escrow account for Parking Access and Revenue Control System equipment financing.

The PARS Section 115 Trust account increased by \$544,993. The change was comprised of \$564,072 of market value increase of investments adjusted by (\$19,079) of investment expense.

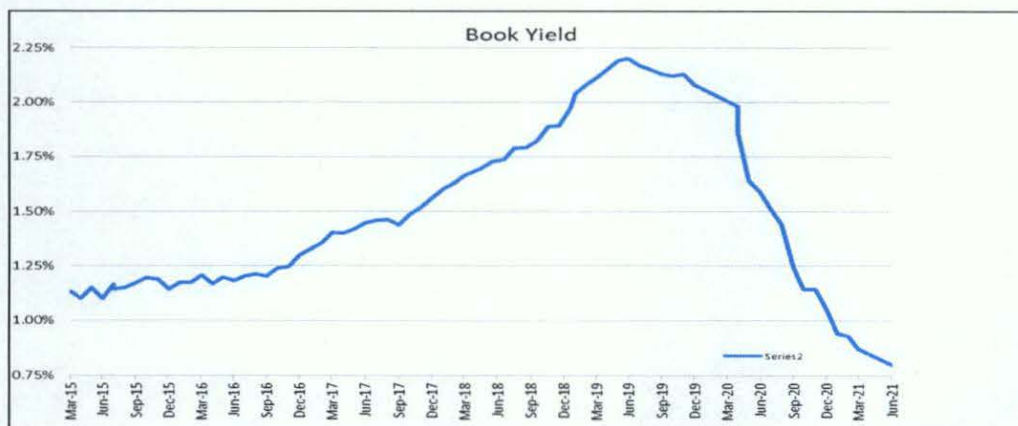
The City pools all internal funds to gain economies of scale and to simplify the investment function. There are over 100 funds in the Pooled Investment Portfolio. As of June 30, 2021, the General Fund's investment balance was \$66.3 million representing 10.75% of the June 30, 2021 Pooled Portfolio value. 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 and industry best practices as it pertains to public funds management. As of June, 2021 the portfolio's effective duration was 2.52 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, 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) 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 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 2021 to date actual effective yield, which includes realized investment gains and losses was 1.2%.

The graph below represents the historic yield to maturity (YTM) of the Pooled Portfolio over the last five-years, through June 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
Director of Finance

Prepared by:


Vic Erganian
Deputy Director of Finance/City Treasurer

Approved by:


STEVE MERMELL
City Manager

Attachment: (1)

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