

Agenda Report

May 9, 2022

TO: Honorable Mayor and City Council
THROUGH: Finance Committee
FROM: Department of Finance
**SUBJECT: QUARTERLY INVESTMENT REPORT – QUARTER ENDING
MARCH 31, 2022**

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:

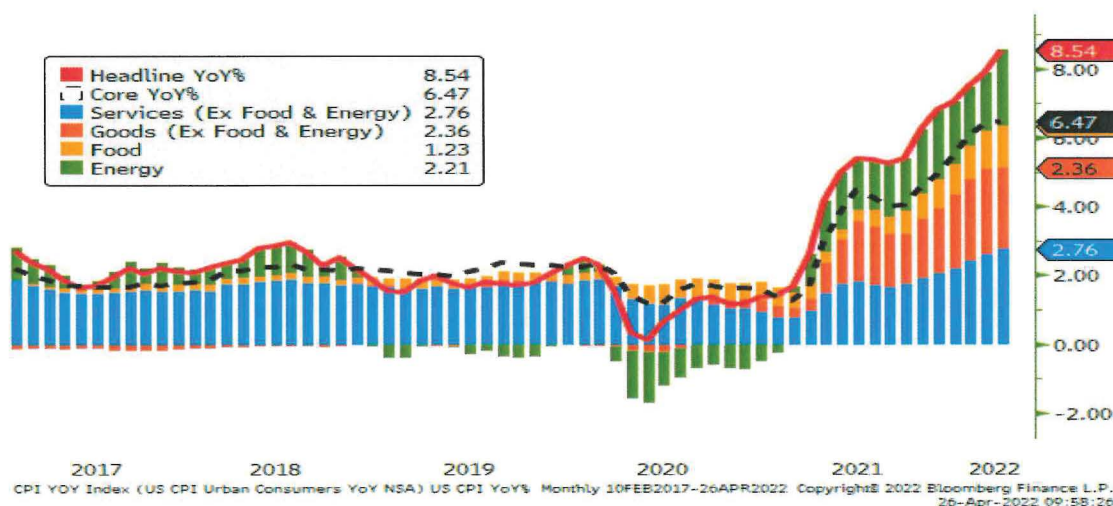
1. The type of investment, name of the issuer, date of maturity, par and dollar amount invested in each security, investment, and money within the treasury;
2. The weighted average maturity of the investments within the treasury;
3. Any funds, investments, or programs, including loans, that are under 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 Summary

The Federal Reserve Bank of Atlanta reported on April 19, 2022, its latest quarterly estimate for Gross Domestic Product (GDP) for the first quarter at 1.3% on an annualized basis compared to the 6.9% rate the prior quarter. The quarter-to-quarter slow down is attributed to consumer concerns over continued higher prices for goods and services, the anticipated rise in interest rates, and conflict spread from Eastern Europe.

On April 1, 2022, the Bureau of Labor Statistics (BLS) noted the U.S. unemployment rate was 3.6%, or 6.0 million unemployed persons at the end of March 2022. The State of California's unemployment rate measured at 4.9% for the same period, the unemployment rate in the County of Los Angeles was also 4.9% and the City of Pasadena's rate was 4.2%. The BLS also reported among the major worker groups, the unemployment rate for adult women was 3.3%, adult men 3.4 %, teenagers 10.0%, Whites 3.2 %, Blacks 6.2 %, Asians 2.8 %, and Hispanics 4.2 %.

Inflation

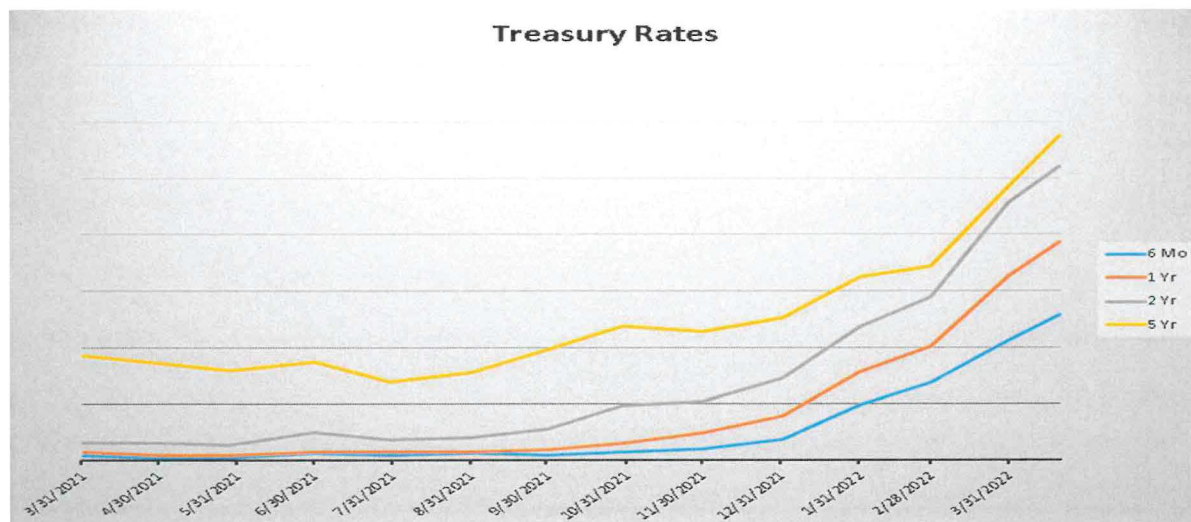


The U.S. economy has not been able to immunize itself from the continued rise in the price of consumer goods. The BLS reported the Consumer Price Index (CPI) for the month of January at 0.6%, unchanged compared to December. However, the CPI for February rose 0.8% and again in March by 1.2%. The BLS reported the annual CPI for the 12-months ending March 2022 at 8.5%. The energy index rose 32% over the last year and the food index increased 8.8%, the most significant 12-month increase since May 1981. The rise in energy cost was further exacerbated by the Russian invasion of Ukraine on February 24, 2022, and subsequent sanctions that limited global supplies.

The Federal Reserve Bank (Fed), after much anticipation and market signaling, raised the interest rate by 0.25% on March 17, 2022. The Wall Street Journal (WSJ) reported that officials signaled they expect to lift the rate to nearly 2% by the end of this year.

This is slightly higher than the level that prevailed before the pandemic hit the U.S. economy two years ago when they slashed rates to near zero. The WSJ's median projections show the rate rising to around 2.75% by the end of 2023, which would be the highest since 2008. The Fed indicated that at its next meeting in May, it might have a concrete plan to reduce its balance sheet, which was \$8.937 trillion at the end of March and hinted that it may raise the Fed Funds rate by 0.5% in May.

New housing construction unexpectedly rose in March 2022 to the highest level since 2006, boosted mainly by multifamily projects as builders seek to replenish housing inventory. Residential home starts jumped 6.8% in February and 0.3% in March to a 1.79 million annualized rate and building permits, a proxy for future construction, climbed to an annualized 1.87 million units. Realtor.com reported at the end of March the national inventory of active listings declined by 18.9% over last year and down 62.3% compared to 2020 right on the onset of the COVID-19 pandemic. It also noted that the total inventory of unsold homes, including pending listings, declined by 12.5%.



The one-year Treasury Bill ended the quarter yielding 1.595% as of March 31, 2022 compared to 0.376% at the end of December. The longer maturities rates have continued to rise, with the five-year yield ending at 2.460% compared to 1.263% at the end of December and the thirty-year at 2.448% on March 31, 2022 compared to 1.903% the end of December. At the end of June 2021, the yield on the one-year, five-year, and thirty-year Treasuries were 0.066%, 0.889%, and 2.086%, respectively. March was on track to be the worst month for US Treasuries since July 2002. In March alone, the Bloomberg US Treasury Aggregate Index returned a negative 3.5% and was 5.6% down year to date. Short term US Treasury notes have withstood the worst of the sell-off as markets priced in significant tightening of monetary policy by the Federal Reserve to contain inflation.

Beginning in January 2022, investors started to feel nervous and not as confident with inflation concerns and the geo-political turmoil increase. The Dow Jones Industrial Average dropped 4.57% during the quarter, the S&P closed down 4.95%, and the NASDAQ returned a negative 9.10% for the quarter ending March 31, 2022.

Total Funds Under Management

The table below represents total City funds under management based on their market values as of March 31, 2022.

	3/31/2022	12/31/2021	\$Change
Pooled Investment Portfolio	\$596,834,937	\$605,016,569	(8,181,632)
Capital Endowment	2,022,906	2,077,819	(54,913)
Stranded Investment Reserve Portfolio	43,684,837	46,907,157	(3,222,320)
Special Funds	36,975,898	39,886,456	(2,910,558)
Investments Held with Fiscal Agents	48,617,721	51,129,015	(2,511,294)
PARS Section 115 Trust	15,158,648	15,991,947	(833,299)
Total Funds Under Management	\$743,294,947	\$761,008,963	(\$17,714,016)

The Pooled Investment Portfolio value decreased by a net \$8,181,632 due to the following transactions during the quarter:

Net Investment Earnings (Fair Market Value Change plus Interest Income)	\$ (17,748,266)
Deposits and Credit Card Receipts	113,507,696
Property Tax Revenues	27,217,188
Sales Tax and Other State Apportionments	19,127,332
HUD Receipts Net of Payments and Loans	5,435,210
Payroll and Payroll-related Expenses	(67,851,253)
Vendor Payments and Accounts Payable Checks	(52,789,134)
Debt Service Payments Net of Reimbursements and Subsidies	(16,940,471)
Water and Power Payments Net of Receipts	(24,081,806)
Net Transfer from Other Funds	3,652,872
Drawdown from 2020A Water Revenue Project Fund	1,753,000
Drawdown from 2021A Water Revenue Project Fund	536,000
Total	\$ (8,181,632)

The Capital Endowment Fund decreased by \$54,913, representing the investment earnings for the period adjusted by the market value change of investments.

The Stranded Investment Reserve portfolio decreased by \$3,222,320 representing \$170,640 investment earnings for the period adjusted by \$3,392,960 in market value change.

Special Funds decreased by \$2,910,558. This was due to a drawdown of \$1,753,000 from the Water Revenue Bonds 2020A series Project Fund, a drawdown of \$536,000 from the Water Revenue Bonds 2021A series Project Fund, and a net change in investment value of \$621,558.

Investments held with fiscal agents decreased by a net \$2,511,294 representing the withdrawal of \$2,000,000 from Southern California Public Powers Authority (SCPPA) held investments to pay the billing for February and March 2022, the transfer of \$3,947,870 to the Trustee to pay debt service on the 2008 Paseo Bonds, 2010 ABCD Rose Bowl Bonds, and the 2016A Rose Bowl Bonds, which were due on April 1, 2022, the withdrawal of \$74,357 from the Cost of Issuance Fund of the 2020A and 2021A Water Revenue Refunding bonds, and an adjustment of 4,384,807 for market value change of investments.

The PARS Section 115 Trust account decreased by \$833,299. The change was comprised of \$814,158 of market value decrease of investments and \$19,141 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 March 31, 2022, the General Fund's investment balance was estimated at \$26 million representing 4.36% of the March 31, 2022 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 March, 2022 the portfolio's effective duration was 2.30 years.

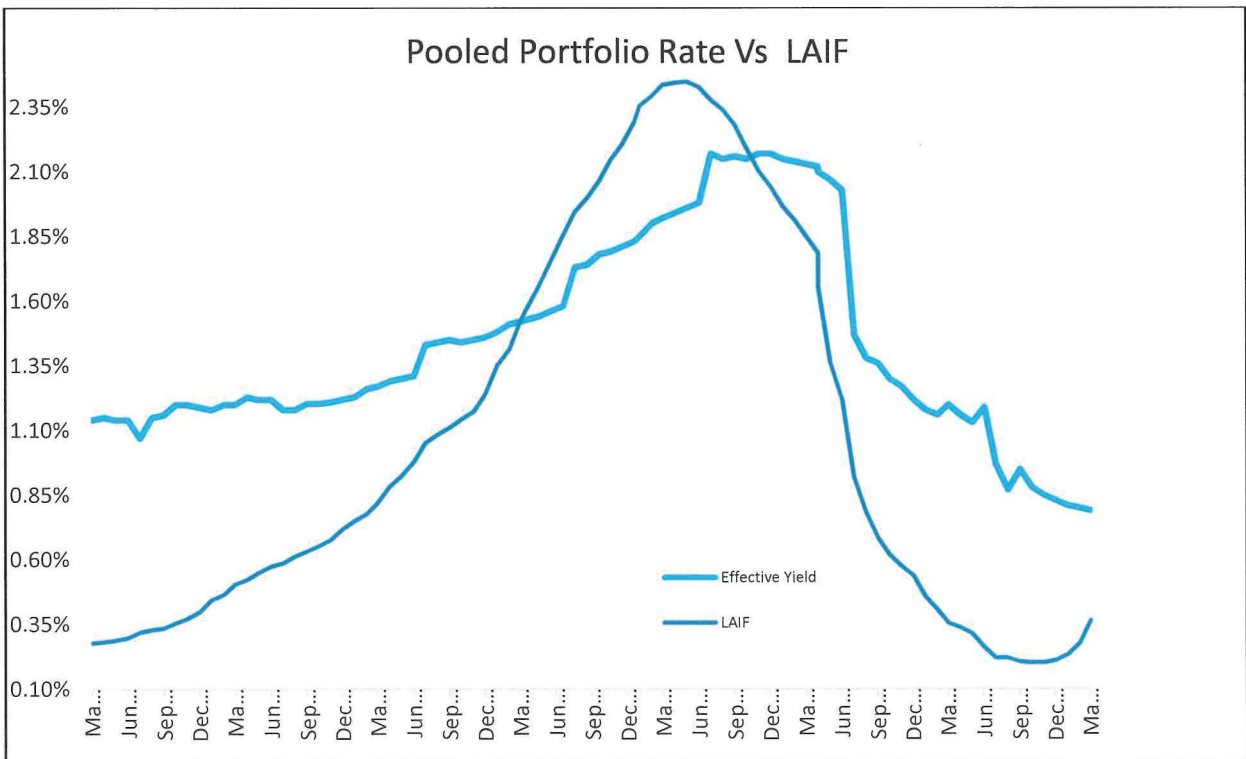
Per government code requirements, attached are reports by each fund indicating the type of investments, date of maturity, par and dollar amount invested in each security, and investment and moneys within the Treasury with market values as of March 31, 2022. On a monthly basis, the City Treasurer prices 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 targets to maintain in excess of \$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. As of March 31, 2022, the portfolio had \$94 million in overnight short term investments. 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 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. As the financial markets now anticipate the Fed to gradually increase the Fed Funds rate in 2022, it is expected that the yield to maturity of the pooled portfolio will gradually increase accordingly. The FY 2022 to date actual effective yield, which includes realized investment gains and losses was 0.79%.

The graph below represents the historic effective yield of the Pooled Portfolio over the last five-years, through March 2022 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:

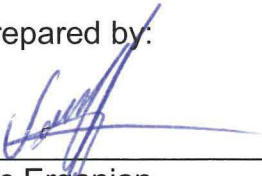
There is no fiscal impact as a result of this action report nor will it have any indirect or support cost requirements. There is no anticipated impact to other operational programs or capital projects.

Respectfully submitted,



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Director of Finance

Prepared by:



Vic Erganian
Deputy Director of Finance/City Treasurer

Approved by:



CYNTHIA J. KURTZ
Interim City Manager

Attachment: (1)

Attachment A – Quarterly Investment Report - Quarter Ending March 31, 2022