

Agenda Report

November 14, 2022

TO: Honorable Mayor and City Council
THROUGH: Finance Committee
FROM: Department of Finance
**SUBJECT: QUARTERLY INVESTMENT REPORT – QUARTER ENDING
September 30, 2022**

RECOMMENDATION:

This report is for information only.

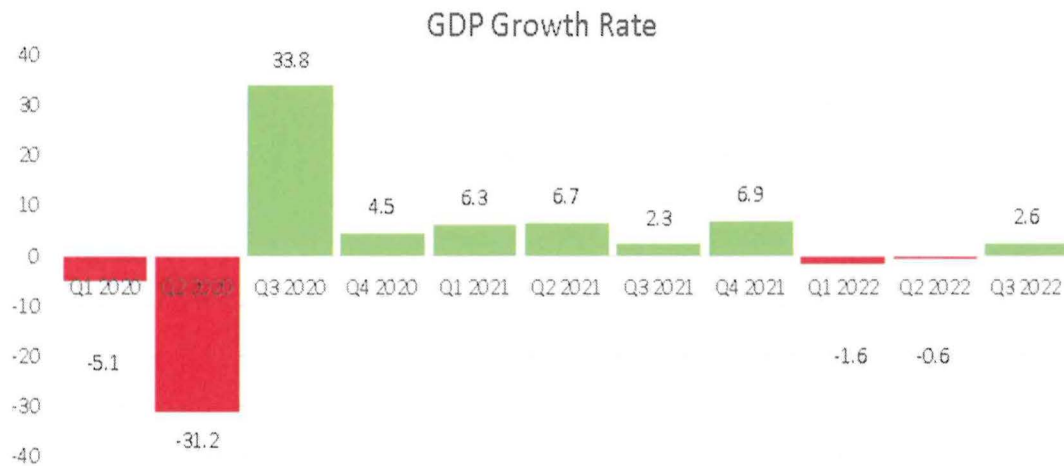
BACKGROUND:

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*.

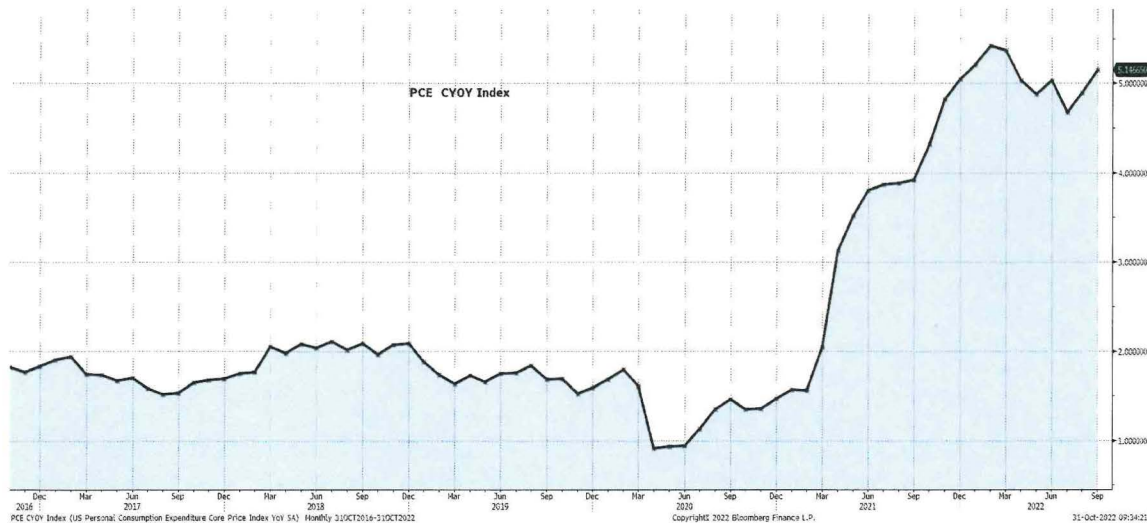
Economic Summary



The U.S. economy began the year with two consecutive quarterly contractions in Gross Domestic Product (GDP), with declines of 1.4% in the first quarter and 0.6% at the end of June. However, the Bureau of Economic Analysis (BEA), in its advance estimate for the third quarter GDP, reported an increase of 2.6%. This starkly contrasts with the 1.4% forecast for the same period by the Federal Reserve Bank of Philadelphia in their August 2022 survey. BEA noted that GDP reflected increases in exports, consumer spending, business investment, and government spending that were partly offset by decreases in housing and inventory investments.

Most economists are now considering the recent economic rebound as unsustainable. The Bloomberg Economics' recession probability model, which is based on 13 indicators, currently points to a 100% probability of a recession in the next 12 months. This actually supports the perception that Fed tightening to control inflation slows down the economy and raises unemployment. Historically Fed rate hikes have typically triggered an economic downturn especially at the current unprecedented level of magnitude.

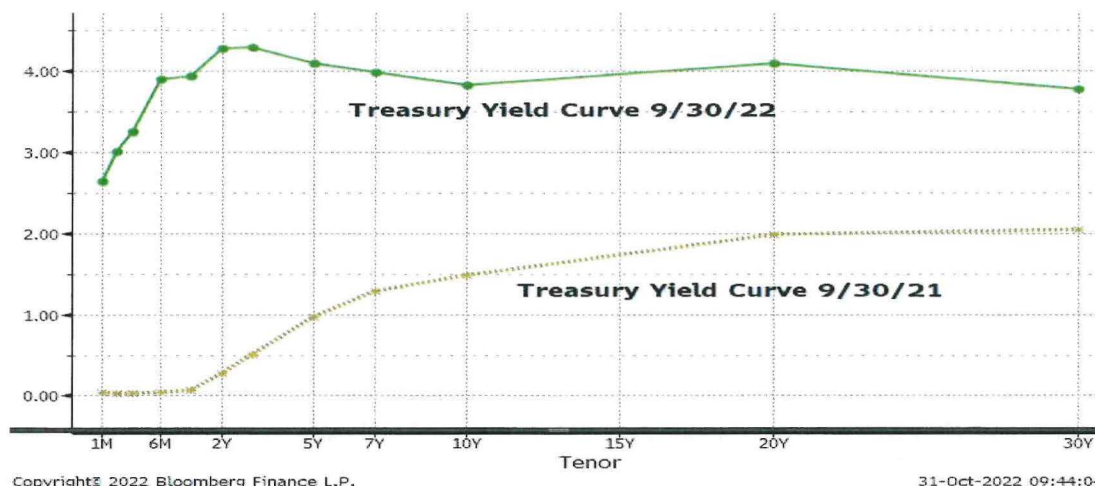
The Bureau of Labor Statistics (BLS) reported the unemployment rate holding at 3.5% or 5.8 million unemployed persons at the end of September. The BLS reported 263,000 jobs were added to the U.S. economy in September, and that monthly job growth has averaged 420,000 thus far in 2022, compared with 562,000 per month in 2021. California's unemployment rate was 3.9% in September 2022, according to the State of California Employment Development Department (EDD). For the same period, the EDD noted the unemployment rate in the County of Los Angeles was reported at 4.5% and 3.7% in the City of Pasadena.



Despite the Federal Reserve's (Fed) actions, the U.S. economy still has not been able to immunize itself from inflation. The year-over-year Consumer Price Index (CPI) was measured at 8.2% in September, which is slightly lower compared to the 9.1% reported in June. CPI increased by 0.4% in the month of September. The BLS reported the increases in the shelter, food, and medical care indexes were the largest of many contributors to the monthly growth and were partially offset by a 4.9% decline in the gasoline index. The personal consumption expenditure (PCE) which is used by the Fed for its inflation target rose 0.3% from a month earlier, topping estimates. Year-over-year, the PCE gauge was up 6.2% also higher than economists' estimates and well above the central bank's 2% goal.

The Fed issued a statement after its Federal Open Market Committee (FOMC) in which it stated that inflation remains elevated, reflecting supply and demand imbalances related to the pandemic, higher food and energy prices, and broader price pressures. The Fed noted that Russia's war against Ukraine has created upward inflation pressure and is weighing on global economic activity. The Fed also reiterated that its goal for a stable monetary environment would be to achieve maximum employment and target inflation at the rate of 2% over the longer run. Hence the reason they increased the interest rate by 75 basis points or 0.75% and brought their balance sheet down to \$8.795 trillion in September. Economists and analysts' consensus is that the central bank will remain vigilant against inflation and anticipate two additional rate hikes this year: 75 basis points or 0.75% in November and 50 basis points or 0.50% in December.

Overall interest rates continued to increase during the quarter. The below graph indicates the Treasury yield curve on September 30, 2022, compared to September 30, 2021.



The U.S. Census Bureau and the U.S. Department of Housing and Urban Development reported that single-family housing starts in September were down 4.7% at 892,000 compared to the August figure of 936,000. At the end of September, Realtor.com reported the national inventory of active listings increased by 26.9% over last year, newly listed homes declined by 9.8% on a year-over-year basis, the median list grew by 13.9%, and average days houses for sale on the market was 50 days. For the City of Pasadena, the Deputy Chief Economist for the California Association of Realtors, Oscar Wei, provided the City of Pasadena housing data for the month of September. The median list price for single-family homes, condos, and townhomes was \$999,500, and the median sold price was \$1,100,000. Also noted for the same period, the median days on the market was 24 days and the active listings at the end of the month were 146.

Total Funds Under Management

The table below represents total City funds under management based on their market values as of September 30, 2022.

	9/30/2022	6/30/2022	\$Change
Pooled Investment Portfolio	\$615,577,316	\$636,590,947	(21,013,631)
Capital Endowment	1,833,119	1,885,618	(52,499)
Stranded Investment Reserve Portfolio	39,374,095	41,862,302	(2,488,207)
Special Funds	32,557,027	33,474,134	(917,107)
Investments Held with Fiscal Agents	38,091,731	38,889,878	(798,147)
PARS Section 115 Trust	13,310,826	13,917,432	(606,606)
Total Funds Under Management	\$740,744,114	\$766,620,311	(25,876,197)

The Pooled Investment Portfolio value decreased by a net \$21,013,631 due to the following cash transactions during the quarter:

Net Investment Earnings (Fair Market Value Change plus Interest Income)	\$ (10,751,322)
Deposits and Credit Card Receipts	138,437,036
Property Tax Revenues	6,318,808
Sales Tax and Other State Apportionments	18,869,611
HUD Receipts Net of Payments and Loans	3,599,003
Payroll and Payroll-related Expenses	(80,242,272)
Vendor Payments and Accounts Payable Checks	(53,510,433)
Debt Service Payments Net of Reimbursements and Subsidies	(8,770,352)
Water and Power Payments Net of Receipts	(38,129,945)
Net Transfer from Other Funds	2,598,235
Drawdown from 2020A Water Revenue Project Fund	568,000
Total	\$ (21,013,631)

The Capital Endowment Fund decreased by \$52,499, representing \$5,106 investment earnings for the period adjusted by \$ 57,605 in market value change.

The Stranded Investment Reserve portfolio decreased by \$2,488,207 representing \$200,972 investment earnings for the period adjusted by \$2,689,179 in market value change.

Special Funds decreased by \$917,107. This was due to a drawdown of \$568,000 from the Water Revenue Bonds 2020A series Project Fund, and a net change in investment value of \$349,107.

Investments held with fiscal agents decreased by a net \$798,147 as a result of a 1) increase of \$486,576 investment in the Southern California Public Powers Authority (SCPPA) held investment account, 2) the debt service payment of \$857,818 to the bonds trustee related to the 2008 Paseo Bonds, the 2010 ABCD Rose Bowl Bonds, and the 2016A Rose Bowl Bonds, and 3) an adjustment of \$2,142,541 for market value change of investments.

The PARS Section 115 Trust account decreased by \$606,606. The change was comprised of \$589,099 of market value decrease of investments and \$17,507 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, 2022, the General Fund's investment balance was estimated at \$56.9 million representing 9.24% of the September 30, 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

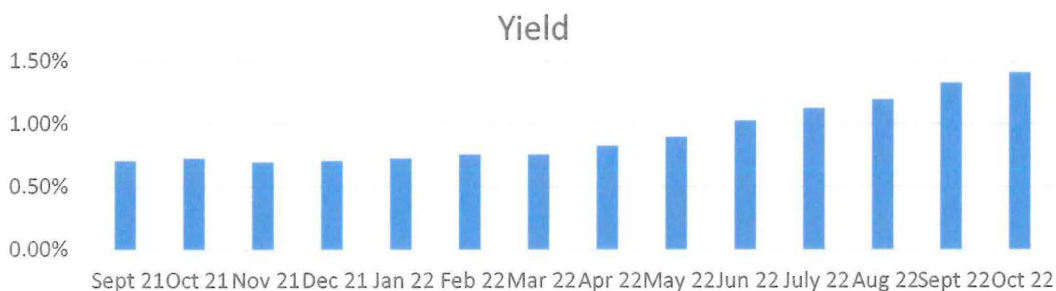
pooled portfolio with a duration range of 1.5 to 2.5 years based on the portfolio’s risk and return evaluation, the Treasury yield curve, and industry best practices as it pertains to public funds management. As of September 2022, the portfolio’s effective duration was 1.96 years.

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, 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) 2023 Investment Policy, which was adopted by the City Council on June 20, 2022, 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 September 30, 2022, the portfolio had \$73.6 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 further 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 2023 to date actual effective yield, which includes realized investment gains and losses was 1.160%.

The graph below represents the historic effective yield of the Pooled Portfolio over the twelve-month period ending October 31, 2022:



COUNCIL POLICY CONSIDERATION:

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

FISCAL IMPACT:

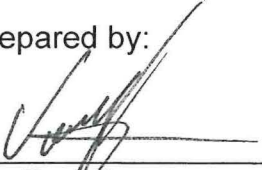
There is no fiscal impact as a result of this action report, nor will it have any indirect or support cost requirements. There is no anticipated impact to other operational programs or capital projects.

Respectfully submitted,




MATTHEW E. HAWKESWORTH
Director of Finance

Prepared by:



Vic Erganian
City Treasurer/Deputy Director of Finance

Approved by:



MIGUEL MÁRQUEZ
City Manager

Attachment: (1)

Attachment A – Quarterly Investment Report - Quarter Ending September 30, 2022