

Agenda Report

September 12, 2022

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



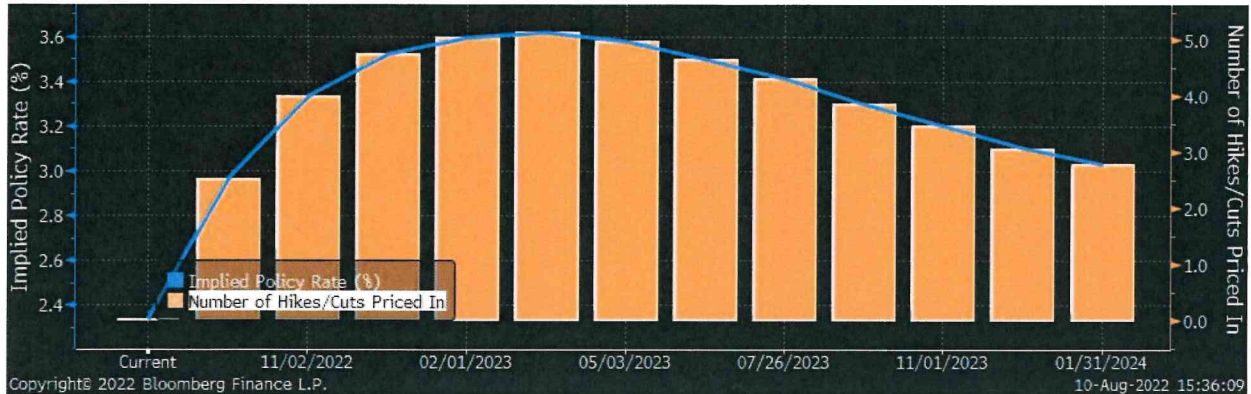
The U.S. economy began losing momentum heading into the second half of the year. Gross Domestic Product (GDP) fell at a 0.9% annualized rate during the second quarter of 2022 after a 1.6% decline in the first three months of the year. The Bureau of Economic Analysis attributed the recent decline in GDP to the decreases in private inventory investment, residential fixed investment, federal government spending, state and local government spending, and nonresidential fixed investment. It is important to note that by definition, two consecutive quarters of GDP contraction have been previously considered a recession. Currently, the labor market remains buoyant and comments from the Chair of the Federal Reserve Bank (Fed) stated that there are too many areas of the economy that are performing too well to officially declare a recession. The drumbeat of recession grew louder after the economy shrank for a second straight quarter as decades-high inflation undercut consumer spending and Federal Reserve interest rate hikes slowed down business activities and the housing market.

The labor market remained strong. The U.S. economy added 528,000 jobs in July, more than double market's expectations of 250,000 and unemployment dropped from 3.6% in June to 3.5% in July, returning to its pre-pandemic level. Average hourly earnings rose 5.1% year-over-year in June, adding to broader inflationary pressures in the economy. California's unemployment rate fell to 4.2% in June 2022, according to the State of California Employment Development Department (EDD). As of June 30, 2022 the unemployment rate in the County of Los Angeles was reported at 5.2% and 4.5% in the City of Pasadena.



The year-over-year Consumer Price Index (CPI), which measured at 9.1% in June, the highest level recorded in more than 40 years, sent shockwaves and fear in the financial markets. Notwithstanding the Fed's efforts to combat inflation, CPI increased 1.3% just in the month of June, according to the Bureau of Labor Statistics (BLS) report. The same report noted the increase was broad-based, with the indexes for gasoline, shelter, and food being the largest contributors. Despite inflation impacting the U.S. economy, the University Of Michigan's survey of consumers' expectation of change in Inflation rate in June 2022 was estimated at 5.3% for next year and 3.1% in five-years, signaling consumer optimism in future decreases in inflation. Fortunately, the year-over-year CPI came in at 8.5% in July, better than analysts' expectation and brought some relief to most market participants. While some economists strongly believe that the worst is behind us, others believe it is too soon to come to that conclusion and the more relevant concern should be whether the economy will re-inflate and whether the Federal Reserve's efforts to tame inflation ultimately cause the U.S. economy to slide into a recession.

Economic pundits have not been as optimistic and have remained critical of the Fed's slow action and initial transitory definition. Despite its critics, the Fed has remained cautious in its approach and increased interest rates by 0.50% on May 5, 2022, then by 0.75% on June 16, 2022, and again 0.75% on July 27, 2022. At the end of June, the Fed balance sheet decreased slightly to \$8.913 trillion and has affirmed its commitment to continue to gradually bring its balance down.



The above implied overnight rate graph indicates the financial market's current expectation and pricing of several rate hikes reaching a Fed Funds rate of 3.5% level by March 2023 followed by gradual cuts to normalize it at 3% by December 2023.

Housing Starts dropped 2% in June after declining 14.4% in May and Building Permits were down 0.6% in June after dropping 7% in May. At the end of June 2022, Realtor.com reported the inventory of active listings was down 34.1% compared to June 2020, the early days of the COVID-19 pandemic and down 53.2% compared to June 2019. It also reported for the same month that the national median listing price for active listings was \$450,000, up 16.9% compared to last year and up 31.4% compared to June 2020. According to Zillow, the value of a typical house in Pasadena has gone up 14.2% in the last year and is now at \$1,199,000.

The one-year Treasury Bill ended the quarter yielding 2.742% as of June 30, 2022, compared to 0.06% a year ago and 1.595% at the end of March 2022. The longer maturities rates have continued to rise, with the five-year yield ending at 3.038% compared to 0.88% a year ago and 2.460% at the end of March. The thirty-year treasury yield closed at 3.183% on June 30, 2022, compared to 2.08% a year ago and 2.448% at the end of March.

Similar to the bond market, the stock market continued to decline, had one of its worst quarterly performance, and crossed into bear market territory as it priced in the Fed rate hikes, the supply chain challenges, and the continued war in Ukraine. The Dow Jones Industrial Average dropped 11.25% during the quarter, the S&P closed down 16.44% and the NASDAQ fared the worst of major indices with a 22.44% decline for the quarter ending June 30, 2022.

Total Funds Under Management

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

	6/30/2022	3/31/2022	\$Change
Pooled Investment Portfolio	\$636,590,947	\$596,834,937	39,756,010
Capital Endowment	1,885,618	2,022,906	(137,288)
Stranded Investment Reserve Portfolio	41,862,302	43,684,837	(1,822,535)
Special Funds	33,474,134	36,975,898	(3,501,764)
Investments Held with Fiscal Agents	38,889,878	48,617,721	(9,727,843)
PARS Section 115 Trust	13,917,432	15,158,648	(1,241,216)
Total Funds Under Management	\$766,620,311	\$743,294,947	23,325,364

The Pooled Investment Portfolio value increased by a net \$39,756,010 due to the following transactions during the quarter:

Net Investment Earnings (Fair Market Value Change plus Interest Income)	\$ (5,154,012)
Deposits and Credit Card Receipts	119,144,317
ARPA Funds	26,312,988
Property Tax Revenues	45,817,275
Sales Tax and Other State Apportionments	18,883,880
HUD Receipts Net of Payments and Loans	2,041,142
Payroll and Payroll-related Expenses	(71,587,742)
Vendor Payments and Accounts Payable Checks	(54,303,670)
Debt Service Payments Net of Reimbursements and Subsidies	(24,242,955)
Water and Power Payments Net of Receipts	(23,579,334)
Net Transfer from Other Funds	3,148,121
Drawdown from 2020A Water Revenue Project Fund	1,899,000
Drawdown from 2021A Water Revenue Project Fund	1,377,000
Total	\$ 39,756,010

The Capital Endowment Fund decreased by \$137,288, representing \$13,288 in net investment earnings for the period adjusted by the market value change of investments and a \$124,000 drawdown for capital project expenses in June 2022.

The Stranded Investment Reserve portfolio decreased by \$1,822,535 representing \$183,224 investment earnings for the period adjusted by \$2,005,759 in market value change.

Special Funds decreased by \$3,501,764. This was due to a drawdown of \$1,377,000 from the Water Revenue Bonds 2020A series Project Fund, a drawdown of \$1,899,000 from the Water Revenue Bonds 2021A series Project Fund, a drawdown of \$94,530 from Frontier and a net change in investment value of \$131,234.

Investments held with fiscal agents decreased by \$9,727,843 representing the withdrawal of \$2,000,000 from Southern California Public Powers Authority (SCPPA) held investments to pay the billing for April and June 2022, payment of a total \$3,893,410 in debt service by the bond trustee related to the 2008 Paseo Bonds, 2010 ABCD Rose Bowl Bonds, the 2016A Rose Bowl Bonds, and an adjustment of \$3,834,433 for market value change in investments.

The PARS Section 115 Trust account decreased by \$1,241,216. The change was comprised of \$1,223,029 of market value decrease of investments and \$18,187 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 June 30, 2022, the General Fund's investment balance was estimated at \$82 million representing 12.89% of the June 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 June, 2022 the portfolio's effective duration was 2.04 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 June 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 an 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 June 30, 2022, the portfolio had \$99.8 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 began increasing in April and is currently at 1.13% rate compared to the 0.78% yield last quarter end. As the financial markets have priced in additional Fed rate hikes and overall yields have increased, 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 0.82%.

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



COUNCIL POLICY CONSIDERATION:

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

FISCAL IMPACT:

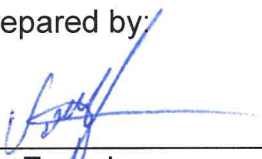
There is no fiscal impact as a result of this action report nor will it have any indirect or support cost requirements. There is no anticipated impact to other operational programs or capital projects.

Respectfully submitted,



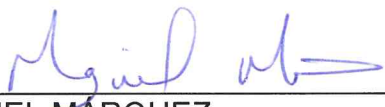
MATTHEW E. HAWKESWORTH
Director of Finance

Prepared by:



Vic Erganian
Deputy Director of Finance/City Treasurer

Approved by:



MIGUEL MARQUEZ
City Manager

Attachment: (1)

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