

# Agenda Report

August 28, 2023

**TO:** Honorable Mayor and City Council  
**THROUGH:** Finance Committee  
**FROM:** Department of Finance  
**SUBJECT: QUARTERLY INVESTMENT REPORT – QUARTER ENDING  
June 30, 2023**

## **RECOMMENDATION:**

This report is for information only.

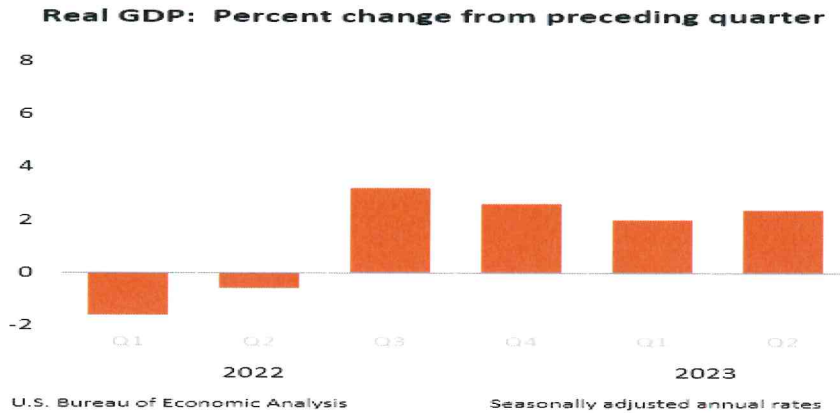
## **BACKGROUND:**

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.

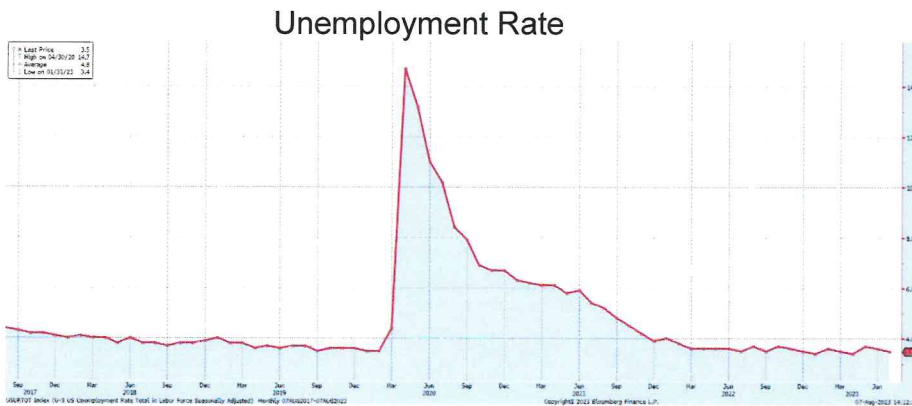
The quarterly report shall include the following:

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*.

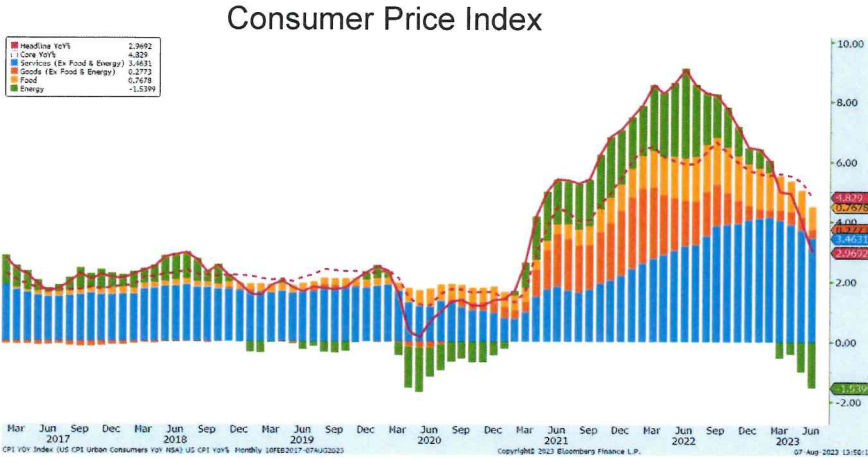
## Economic Summary



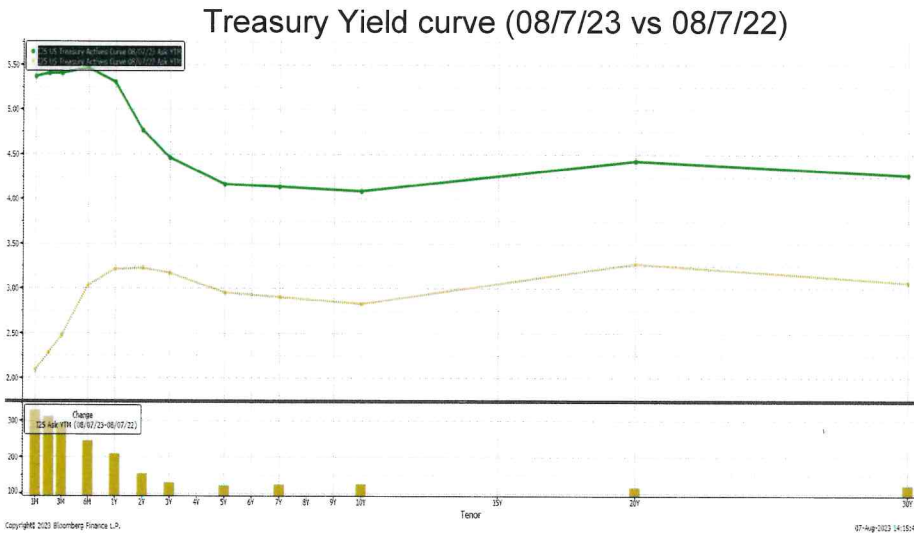
Despite the Federal Reserve’s aggressive monetary tightening campaign, the U.S. Gross Domestic Product (GDP) rose at an annual 2.4% rate during the second quarter of 2023 exceeding economists’ expectation and displaying the resilience of the U.S. economy. While most forecasters are split on the probability of a recession, the Federal Reserve (Fed) staff is no longer forecasting a recession and JPMorgan Chase & Co’s and Bank of America’s economists reversed their call for a recession joining a growing number of economists who now are predicting a soft landing of the economy without going into a recession.



The labor market remains solid, and the persistent strength of the job market is seen as the major support for the economy. The unemployment rate measured at 3.6% at the end of the quarter and dropped to 3.5% in July, one of the lowest readings in decades, fostering the growth in consumer expenditures, which comprise two thirds of the U.S. GDP. From April to June 2023, the economy added 683,000 non-farm payroll jobs and the consumer confidence gauge, according to the Conference Board, rose to 109.7 in June from 102.5 in May, exceeding the projected gain to 104 and the highest reading since January 2022. Also, the consumer sentiment as measured by the University of Michigan Consumer Sentiment Index rose to 63.9 in June, the highest measure of the index in the last four months.



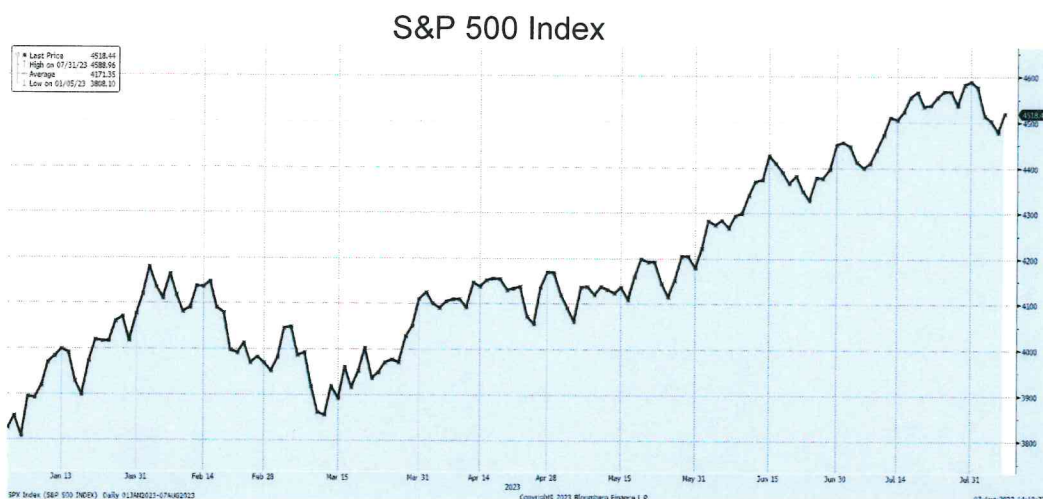
Year-over-year Consumer Price Index (CPI) has been on the decline and U.S. consumers have been feeling a whole lot better as inflation continues to slow. After reaching 9.1% a year ago, the year-over-year CPI was down to 3% in June 2023; however, due to the increase in gasoline and oil prices in July, the CPI increased to 3.2% in July with the Core CPI at 4.7% year-over-year and 0.2% month-over-month. Core Personal Consumption Expenditures (Core PCE), the Federal Reserve’s preferred inflation gauge, increased by 3.8% during the quarter, a drop from 4.9% the prior quarter; however, it remains persistently above the Fed’s target of 2%, therefore, indicating that the Fed may still increase the Fed Funds rate until the Core PCE is reduced closer to 2% annualized growth rate.



U.S. Treasury yield remained inverted with shorter rates higher than the longer rates. Overall, Treasury rates increased during the quarter. The yield on the one-year treasury bond increased 0.80% to 5.39%, the yield on the five-year treasury increased 0.58% to 4.15% and the ten-year yield was 3.82%, up by 0.39%. After increasing the Fed Funds rate 5% over the last fourteen months, the Fed paused in June to assess the effect of prior rate hikes and give a relief to the financial institutions. The Fed however indicated that the pause in June from a rate hike is by no means the end of the monetary



tightening specially when the economy is showing such a resilience and the labor market continues to be very strong.



Despite all the headwinds, the sharp increase in short term-rates, the crisis in the regional banking sector, the ongoing war in Ukraine, China, the world's second largest economy showing signs of trouble, and Price/Earnings ratios (P/E Ratios) being at historic highs, the stock market continued to climb. The S&P 500 index returned 8.3% during the quarter and is up 16.39% year-to-date (as of 8/10/23). The DOW index returned 3.4% during the quarter and is up 7% year to date and the NASDAQ returned 12.8% during the quarter and is up 33.7% year-to-date.

### **Total Funds Under Management**

The table below represents total City funds under management based on their market values as of June 30, 2023.

	<b>6/30/2023</b>	<b>3/31/2023</b>	<b>Change</b>
Pooled Investment Portfolio	\$666,999,570	\$654,280,737	\$12,718,833
Capital Endowment	1,874,968	1,879,618	(4,650)
Stranded Investment Reserve Portfolio	40,490,191	40,576,082	(85,891)
Special Funds	22,783,139	27,582,777	(4,799,638))
Investments Held with Fiscal Agents	34,615,748	41,173,695	(6,557,947)
PARS Section 115 Trust	14,505,964	14,267,041	238,923
<b>Total Funds Under Management</b>	<b>\$781,269,580</b>	<b>\$779,759,950</b>	<b>\$1,509,630</b>

The Pooled Investment Portfolio value increased by a net \$12,718,833 due to the following cash transactions during the quarter:

Net Investment Earnings (Fair Market Value Change plus Interest Income)	\$ 1,134,093
Deposits and Credit Card Receipts	129,989,667
Property Tax Revenues	50,002,730
Sales Tax and Other State Apportionments	17,164,145
HUD Receipts Net of Payments and Loans	5,400,769
Payroll and Payroll-related Expenses	(88,793,901)
Vendor Payments and Accounts Payable Checks	(66,188,371)
Debt Service Payments Net of Reimbursements and Subsidies	(22,227,127)
Water and Power Payments Net of Receipts	(20,234,273)
Net Transfer from Other Funds	1,672,101
Drawdown from 2021A Water Revenue Project Fund LAIF Acct	4,799,000
<b>Total</b>	<b>\$ 12,718,833</b>

The Capital Endowment Fund decreased by \$4,650, representing \$5,779 investment earnings for the period adjusted by \$10,429 change in investment value.

The Stranded Investment Reserve portfolio decreased by \$85,891 representing the net change in market value of investments.

Special Funds decreased by \$4,799,638. This was due to a drawdown of \$4,799,000 from the Water Revenue Bonds 2021A series Project Fund, and a net unrealized loss of \$638.

Investments held with fiscal agents decreased by a net \$6,557,947 as a result of 1) a withdrawal of \$3,980,895 from Southern California Public Powers Authority (SCPPA) held investment account to cover billing for April through June payments, 2) debt service payments of \$2,735,396 made related to the 2008 Paseo Bonds and the 2016A Rose Bowl Bonds, 3) \$112,916 payment made to the City representing the IRS subsidy related to the 2010D Rose Bowl bonds, and 4) an increase of \$271,260 representing net investment earnings.

The PARS Section 115 Trust account increased by \$238,923. The change was comprised of \$256,631 increase in market value of investments adjusted by \$17,708 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, 2023, the General Fund's investment balance was estimated at \$96.5 million representing 14.47% of the June 30, 2023, 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 an effective

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 2023, the portfolio's effective duration was 1.46 years.

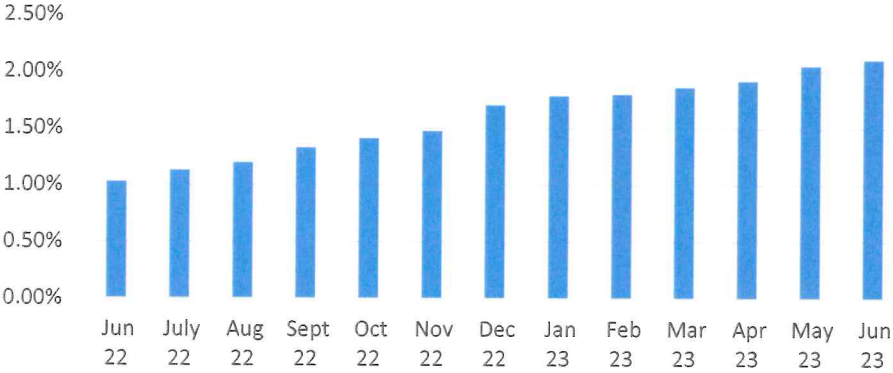
Per government code requirements, attached are reports by each fund indicating the type of investments, date of maturity, par and dollar amount invested in each security, and investment and moneys within the Treasury with market values as of June 30, 2023. On a monthly basis, the City Treasurer prices 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) 2024 Investment Policy, which was adopted by the City Council on June 12, 2023, 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 1/12<sup>th</sup> of the City's total aggregate annual Operating Budget. As of June 30, 2023, the portfolio had \$117.1 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 three-months.

The yield to maturity on the pooled portfolio began gradually increasing beginning April 2023 as a result of the Fed tightening the monetary policy by raising the Fed Funds rate. Interest rates across the treasury yield curve increased with the most increases occurring on the 6-month to 2-year maturities. The yield on the pooled portfolio more than doubled in the last twelve months and is expected to continue to increase over the next 12-month period. The earnings rate on the pooled portfolio as June 30, 2023, was 2.107%.

The graph below represents the historic yield of the Pooled Portfolio over the twelve-month period ending June 30, 2023:

### Pooled Portfolio Yield



**COUNCIL POLICY CONSIDERATION:**

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

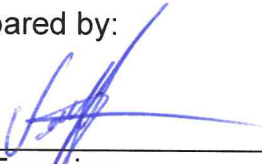
**FISCAL IMPACT:**

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 June 30, 2023