

Agenda Report

December 11, 2023

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

RECOMMENDATION:

This report is for information only.

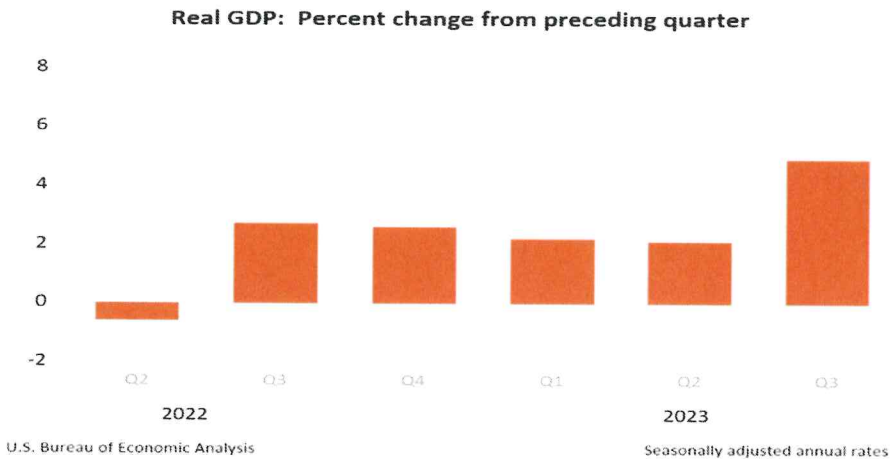
BACKGROUND:

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.

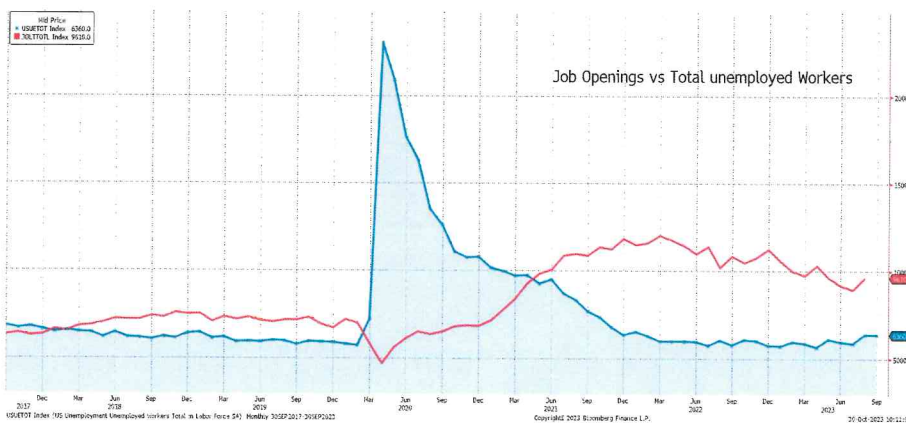
The quarterly report shall include the following:

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*.

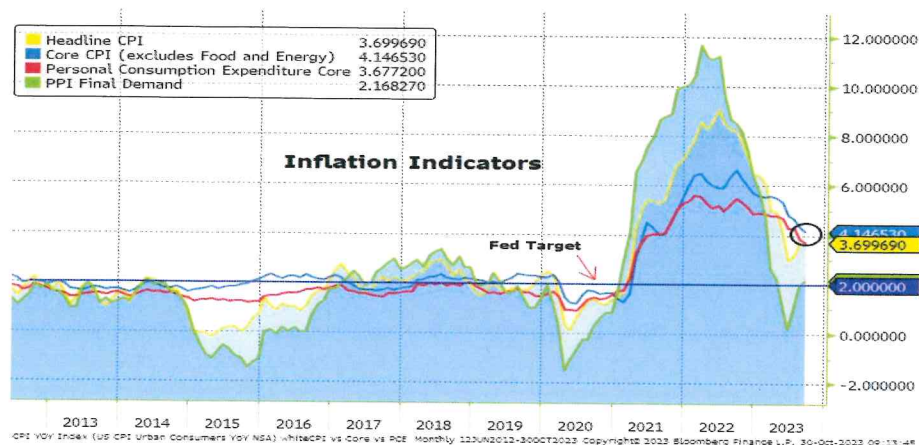
Economic Summary



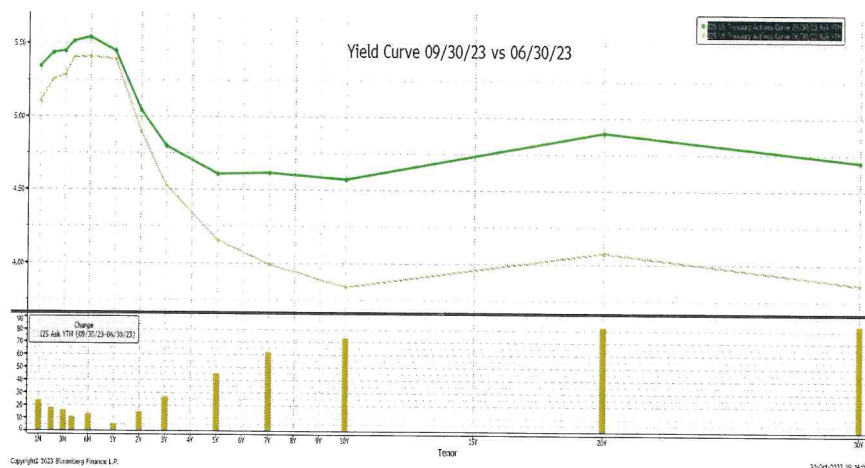
The U.S. economy experienced a strong rebound and grew at the fastest pace in nearly two years despite the Fed’s aggressive campaign to tame inflation, the unstable political and fiscal outlook, the financial problems experienced in the regional banking system and the geopolitical conflicts. According to the “advance” Gross Domestic Product (GDP) estimate released by the Bureau of Economic Analysis, the real U.S. GDP increased at an annual 4.9% rate in the third quarter of 2023 exceeding economists’ 4.5% consensus rate. This strong performance was contributed to increases in consumer spending in both services and goods, increases in both federal and state and local government spending, and upturns in exports and residential fixed investment.



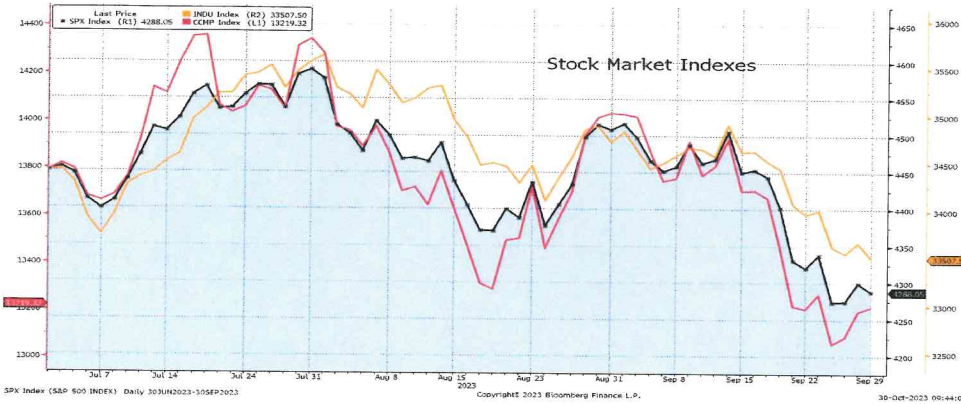
The labor market remained solid with unemployment rate measuring at 3.8% at the end of September 2023 and the number of unemployed persons was unchanged at 6.4 million. The economy added 799,000 non-farm jobs during the quarter with the majority in the leisure and hospitality and government sectors. The unemployment rate in California was 4.7%, the fourth highest unemployment rate in the nation after DC, Nevada, and Puerto Rico. The unemployment rate in Los Angeles County was 5.8% and the unemployment rate in Pasadena was 5.6%.



The Consumer Price Index (CPI) rose 3.7% for the last 12 months ending September. CPI remained elevated in September as gas and rents kept prices high. Food prices however were at their lowest rate and grew at 2.4% annual rate compared to headline inflation of 3.7%. The Core CPI, which excludes food and energy, has been declining. After reaching 6.1% a year ago, the year-over-year Core CPI measured at 4.1% rate at the end of September 2023. The Core Personal Consumption Expenditures (PCE) rate, the Federal Reserve’s preferred inflation gauge dropped to 2.4% compared to 3.7% last quarter, a sign that inflation is gradually subsiding and the Fed might be reaching the end of its tightening cycle. The Fed’s target for the Core PCE is 2%.



Treasury yields continued to increase during the quarter. The one-month treasury yield closed at 5.345%, an increase of 23.8 basis points or 0.238% from the previous quarter end. The two-year yield ended at 5.044% compared to 5.39% the prior quarter. The ten-year treasury yield was 4.897% on September 30, compared to 4.072% end of June, an increase of 82.5 basis points or 0.825% and the long bond closed at 4.699% compared to 3.86% end of June 2023. The treasury yield remained inverted where short term rates remained higher than longer term treasury rates and mortgage rates continued to climb exceeding 7.5% rate.



U.S. equity markets lost momentum after a strong performance in the first half of the year. The S&P index dropped 3.65% during the third quarter, the Dow Industrial Average Index declined 2.62% and NASDAQ dropped 4.12% during the period; however, all three indexes rebounded in the fourth quarter and had a strong year to date returns. As of November 27, 2023, the year to date return of the S&P was 18.55%, the DOW had a year to date return of 6.54% and NASDAQ had an impressive return of 36.23%.

Total Funds Under Management

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

	9/30/2023	6/30/2023	Change
Pooled Investment Portfolio	\$677,018,590	\$666,999,570	\$10,019,020
Capital Endowment	1,898,329	1,874,968	23,361
Stranded Investment Reserve Portfolio	39,528,732	40,490,191	(961,459)
Special Funds	17,863,556	22,783,139	(4,919,583)
Investments Held with Fiscal Agents	33,626,835	34,615,748	(988,913)
PARS Section 115 Trust	14,085,603	14,505,964	(420,361)
Total Funds Under Management	\$784,021,645	\$781,269,580	\$2,752,065

The Pooled Investment Portfolio value increased by a net \$10,019,020 due to the following cash transactions during the quarter:

Net Investment Earnings (Fair Market Value Change plus Interest Income)	\$ 6,272,530
Deposits and Credit Card Receipts	152,021,441
Property Tax Revenues	4,420,561
Sales Tax and Other State Apportionments	19,401,969
HUD Receipts Net of Payments and Loans	4,769,188
Payroll and Payroll-related Expenses	(85,901,567)
Vendor Payments and Accounts Payable Checks	(65,314,595)
Debt Service Payments Net of Reimbursements and Subsidies	(8,562,362)
Water and Power Payments Net of Receipts	(28,492,048)
Net Transfer from Other Funds	6,290,138
Drawdown from 2021A Water Revenue Project Fund LAIF Acct	5,113,765
Total	\$ 10,019,020

The Capital Endowment Fund increased by \$23,361, representing \$5,950 investment earnings for the period and an increase in market value of investment by \$17,411.

The Stranded Investment Reserve portfolio decreased by \$961,459 representing the net change in market value of investments.

Special Funds decreased by \$4,919,583. This was due to a drawdown of \$5,113,765 from the Water Revenue Bonds 2021A Series Project Fund, \$29,300 redemption of principal for the Annadale Investment and a net market value gain of \$223,482.

Investments held with fiscal agents decreased by a net \$988,913 due to 1) \$427,573 transferred to the trustee related to the 2008 Paseo Bonds and the 2016A Rose Bowl Bonds and 2) a decrease of \$1,755,471 representing net change in market value of investments adjusted by investment earnings.

The PARS Section 115 Trust account decreased by \$420,361. The change was comprised of \$402,384 decrease in market value of investments and \$17,977 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, 2023, the General Fund's investment balance in the pool was estimated at \$59.9 million representing 8.85% of the September 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

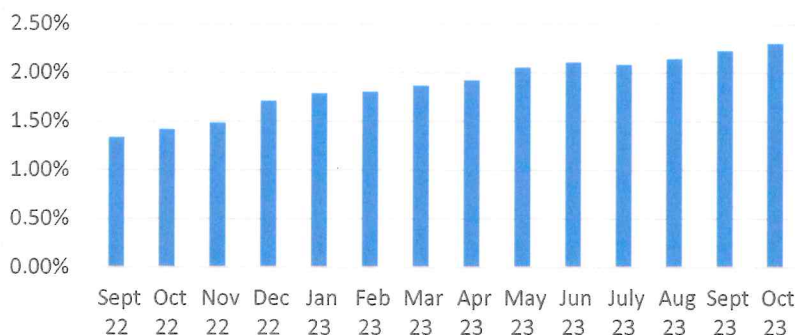
pooled portfolio with an effective duration range of 1.5 to 2.5 years based on market conditions and portfolio's risk and return evaluation, the Treasury yield curve, and industry best practices as it pertains to public funds management. As of September 30, 2023, the portfolio's effective duration was 1.28 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 1/12th of the City's total aggregate annual Operating Budget. As of September 30, 2023, the portfolio had \$98.0 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 six-month to two-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 twelve-month period. The earnings rate on the pooled portfolio as September 30, 2023, was 2.223%.

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



COUNCIL POLICY CONSIDERATION:

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

FISCAL IMPACT:

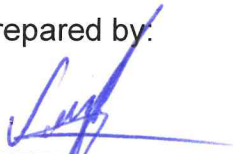
There is no fiscal impact as a result of this action report, nor will it have any indirect or support cost requirements. There is no anticipated impact to other operational programs or capital projects.

Respectfully submitted,



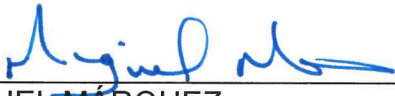
MATTHEW E. HAWKESWORTH
Director of Finance

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, 2023