



Agenda Report

June 12, 2023

TO: Honorable Mayor and City Council
THROUGH: Finance Committee
FROM: Department of Finance
**SUBJECT: QUARTERLY INVESTMENT REPORT – QUARTER ENDING
MARCH 31, 2023**

RECOMMENDATION:

This report is for information only.

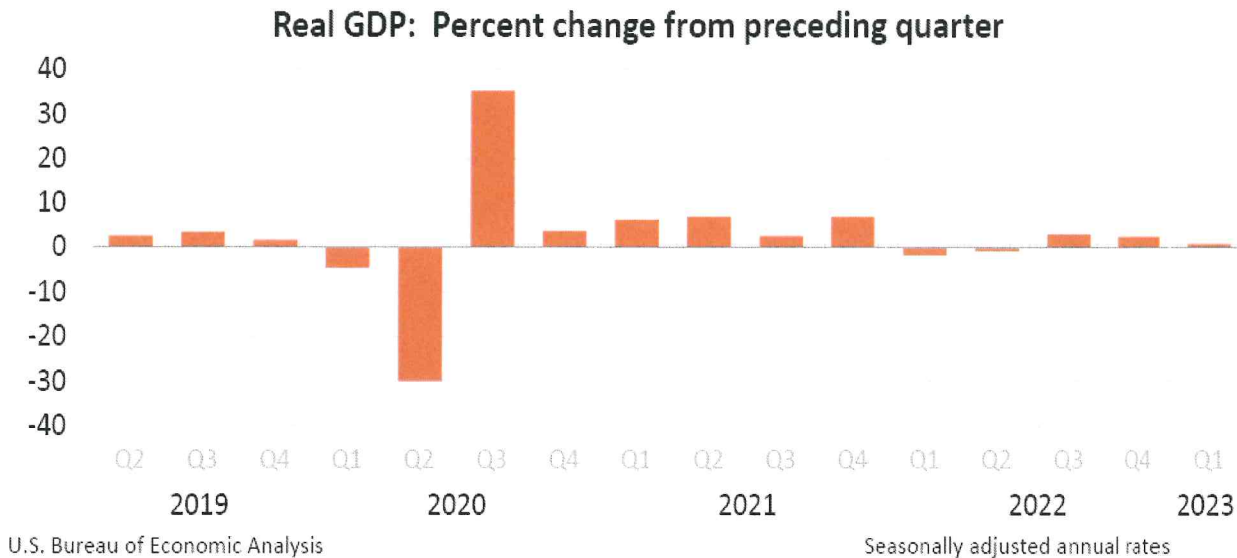
BACKGROUND:

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.

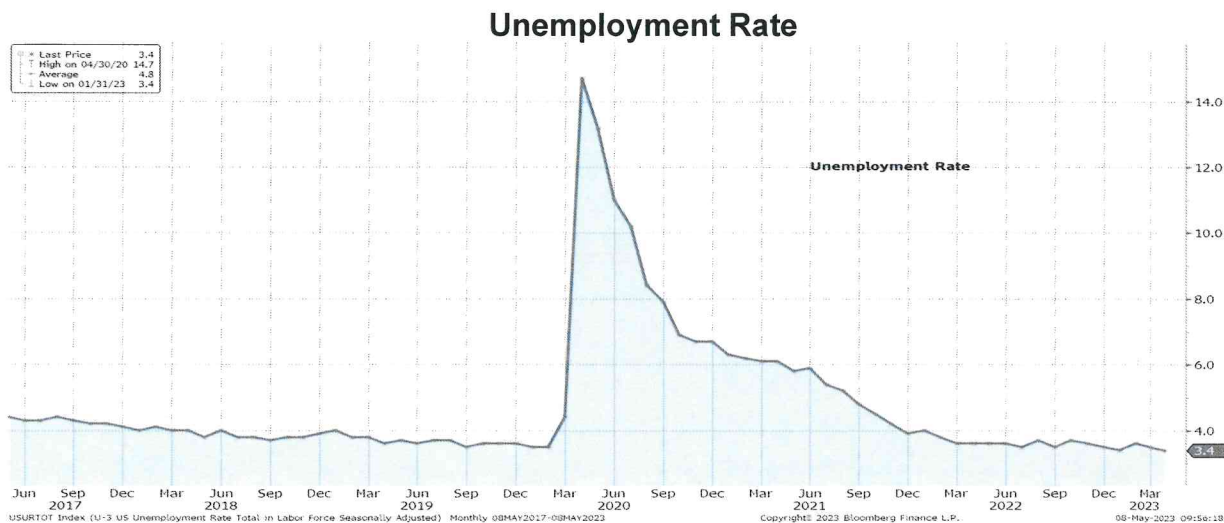
The quarterly report shall include the following:

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

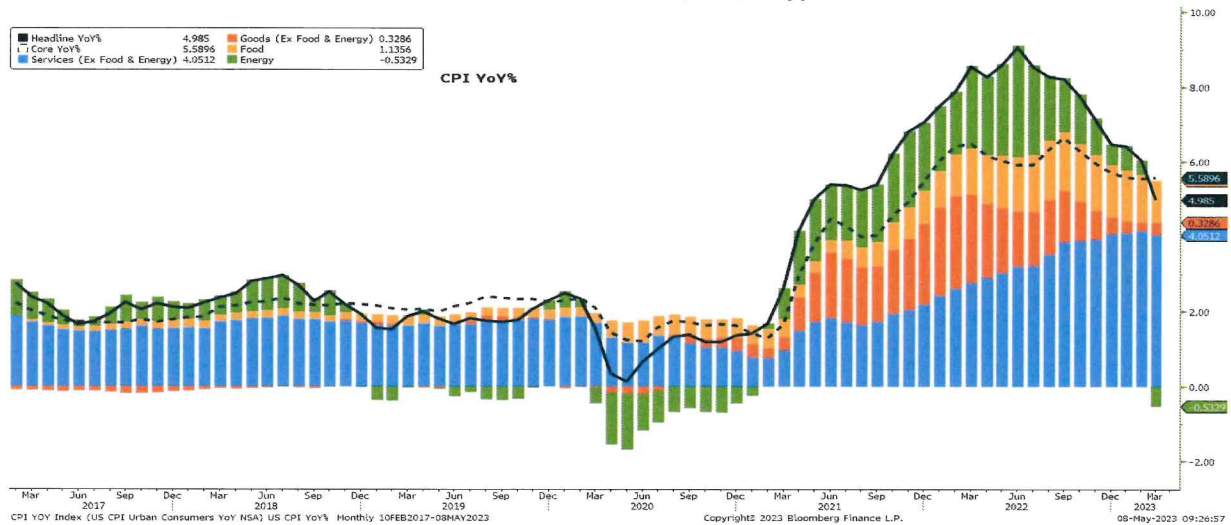


The Gross Domestic Product, a measure of all goods and services produced for the period, rose at an annualized 1.1 percent rate in the first quarter of 2023 compared to the 2.6 percent growth rate the prior quarter. The slowdown was mainly driven by the reduction in private inventory investment led by wholesale trade and in manufacturing led by transportation, petroleum, and coal products. The economic expansion in the first quarter of 2023 was in the areas of goods and services sectors. In the goods sector, the primary driver of growth was the motor vehicles and parts industry, which saw a significant increase in production and sales. In the services sector, the most substantial contributions came from the healthcare industry and the combined food services and accommodations sector.



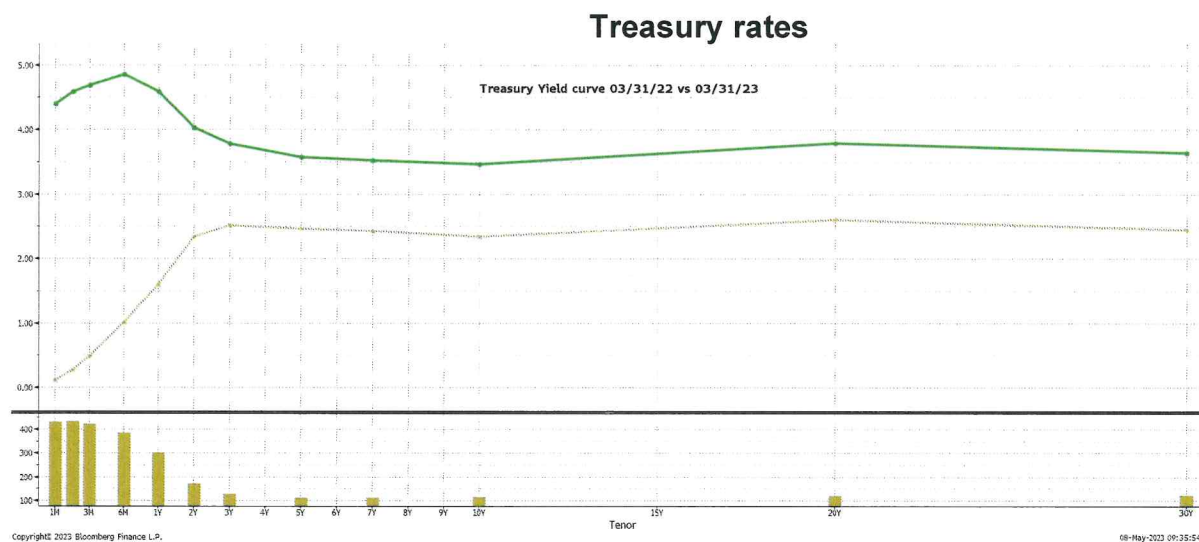
In March, the U.S. Bureau of Labor Statistics reported that total nonfarm payroll employment increased by 236,000, while the unemployment rate remained relatively stable at 3.5 percent. The number of unemployed individuals stayed nearly the same, with approximately 5.8 million persons actively looking for work. The healthcare sector continued to expand, providing more job opportunities in medical facilities, clinics, and other related services. The California Employment Development Department (EDD) reported that the state's unemployment rate stood at 4.4 percent. In March, the EDD noted six of California's 11 industry sectors experienced job growth. Leading the way was the Private Education and Health Services sector, which added 7,000 jobs. Government employment followed closely behind, with an increase of 6,900 jobs. However, not all sectors experienced growth in March. The Construction industry faced the most significant reduction in month-over-month employment, losing 8,200 jobs. The unemployment rate in the County of Los Angeles was at 5 percent and the unemployment rate in the City of Pasadena was 4.5 percent at the end of March 2023.

Inflation – YOY CPI%



The year-over-year Consumer Price Index (CPI) was 5 percent at the end of March 2023. The Core CPI, which excludes the energy and food components in the index, measured 5.6 percent. After a barrage of interest rate hikes by the Federal Reserve (Fed), price pressures are moderating, but not as quickly as policymakers would like. Some economists believe that we still have a long way to go before inflation drops to the Fed's desired 2 percent annualized rate. The Fed has already raised the Fed Funds rate ten times since March of last year raising it from 0 percent level to 5.25 percent in order to combat inflation. Most market participants expect the Fed to pause after the latest increase and several politicians called for a halt in the Fed Funds rate increase, after it caused severe damage to the regional banking sector. The Fed continues to indicate that any further action on rates will be data dependent, leaving the door open for further increases in rates, if economic conditions justify.

When the Federal Reserve increases interest rates, mortgage rates also increase, which impact the housing market. Higher mortgage rates make houses less affordable, reducing demand and discourage homeowners from refinancing and builders from starting new projects. Realtor.com reported in March 2023 that nationwide there were 59.9 percent more homes for sale compared to the same period last year and the median price of a house was \$424,000. The report also noted the number of unsold homes grew by 9.3 percent, including those already under contract and stayed on the market for 54 days, longer time than the previous year, but still less than before the pandemic. The California Association of Realtors (CAR) reported in March 2023 about the state's housing market in California. The median home price in California was \$791,490, which was 7.6 percent higher than in February, but 7.0 percent lower than a year ago. Active listings increased 27.9 percent on a month-to-month basis from the prior month and the average days on the market for homes were 19 days, compared to 8 days in March 2022.



On March 31, 2023, the one-year Treasury Bill yielded 4.94 percent, while the five-year Treasury yield was at 3.81%, and the thirty-year yield was at 3.67 percent. An inverted yield curve occurs when short-term interest rates, in this case, the one-year Treasury Bill, are higher than long-term interest rates, such as the five-year and thirty-year yields. An inverted yield curve is often seen as a warning signal for an upcoming recession or an economic slowdown. The reason behind this is that it reflects investors' expectations of lower interest rates and weaker economic growth in the future. In a healthy economy, investors generally demand higher yields for long-term investments, as they are exposed to more risk over time.

The U.S. equity markets ended positive at the end of the first quarter of 2023. The Dow Industrial Average Index was up 0.38 percent, the S&P Index returned 7 percent for the quarter and the NASDAQ ended up 16.7 percent for the period.

Total Funds Under Management

The table below represents total City funds under management based on their market values as of March 31, 2023.

	3/31/2023	12/3/2022	\$Change
Pooled Investment Portfolio	\$654,280,737	\$631,449,881	22,830,856
Capital Endowment	1,879,618	1,846,492	33,126
Stranded Investment Reserve Portfolio	40,576,082	39,552,554	1,023,528
Special Funds	27,582,777	30,017,589	(2,434,812)
Investments Held with Fiscal Agents	41,173,695	40,581,922	591,773
PARS Section 115 Trust	14,267,041	13,772,958	494,083
Total Funds Under Management	\$779,759,950	\$757,221,396	22,538,554

The Pooled Investment Portfolio value increased by a net \$22,830,856 due to the following cash transactions during the quarter:

Net Investment Earnings (Fair Market Value Change plus Interest Income)	\$ 9,781,992
Deposits and Credit Card Receipts	133,106,439
Property Tax Revenues	29,968,941
Sales Tax and Other State Apportionments	19,871,230
HUD Receipts Net of Payments and Loans	4,980,357
Payroll and Payroll-related Expenses	(83,913,996)
Vendor Payments and Accounts Payable Checks	(51,564,246)
Debt Service Payments Net of Reimbursements and Subsidies	(17,184,006)
Water and Power Payments Net of Receipts	(38,674,184)
Net Transfer from Other Funds	13,657,641
Drawdown from 2020A Water Revenue Project Fund LAIF Acct	2,128,688
Drawdown from 2021A Water Revenue Project Fund LAIF Acct	672,000
Total	\$ 22,830,856

The Capital Endowment Fund increased by \$33,126, representing \$5,629 investment earnings for the period adjusted by \$27,497 in market value gain.

The Stranded Investment Reserve portfolio increased by \$1,023,528 representing the net investment earnings in the portfolio.

Special Funds decreased by \$2,434,812. This was due to a total drawdown of \$2,131,996 from the Water Revenue Bonds 2020A series Project Fund (\$2,128,688 from the LAIF Project Fund account and \$3,308 from the Project Fund invested the Money Market Account), a drawdown of \$672,000 from the Water Revenue Bonds 2021A series Project Fund, and a net gain in investment value of \$369,184.

Investments held with fiscal agents increased by a net \$591,773 as a result of 1) a deposit of \$115,000 investment in the Southern California Public Powers Authority

(SCPPA) held investment account, 2) a withdrawal of \$1,999,827 from Southern California Public Powers Authority (SCPPA) held investment account to cover billing for February payments, 3) the debt service amount of \$1,999,859 received by the trustee related to the 2008 Paseo Bonds, and the 2016A Rose Bowl Bonds, and 3) an increase of \$476,741 representing investment gains.

The PARS Section 115 Trust account increased by \$494,083. This was comprised of a \$511,551 gain in investments adjusted by \$17,468 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, 2023, the General Fund's investment balance was estimated at \$76.9 million, representing 11.76% of the March 31, 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 March 2023, the portfolio's effective duration was 1.63 years.

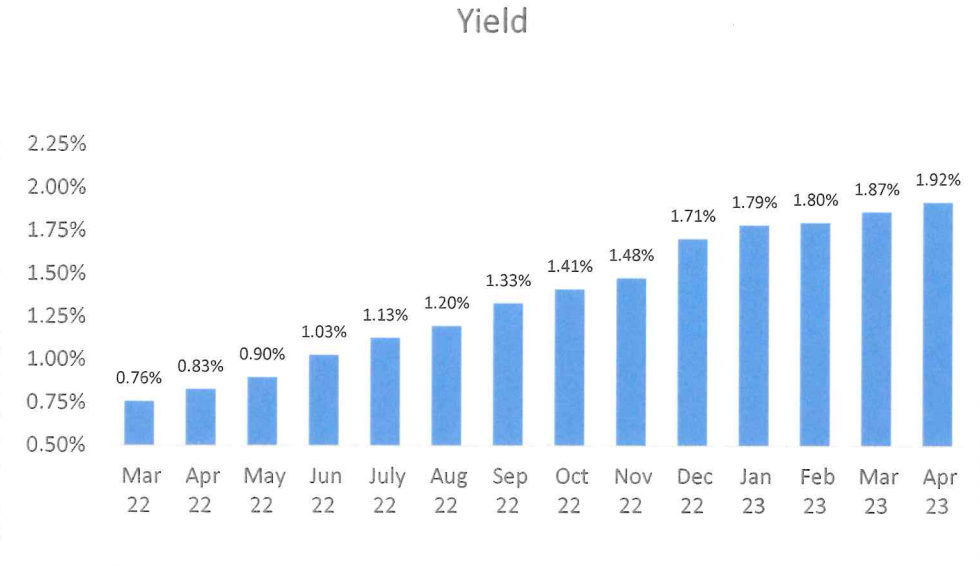
Per government code requirements, attached are reports by each fund indicating the type of investments, date of maturity, par and dollar amount invested in each security, and investment and moneys within the Treasury with market values as of March 31, 2023. On a monthly basis, the City Treasurer prices 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 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 March 30, 2023, the portfolio had \$94.9 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 in April 2023, as a result of the Fed tightening the monetary policy by raising the Fed Funds rate. Interest rates increased across the Treasury yield curve with the most increases occurring on the 6-months 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-months. The earnings rate on the pooled portfolio as April 30, 2023, was 1.92 percent.

The graph below represents the Pooled Portfolio’s historic yield to maturity over the twelve-month period ending April 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, nor will it have any indirect or support cost requirements. There is no anticipated impact to other operational programs or capital projects.

Respectfully submitted,



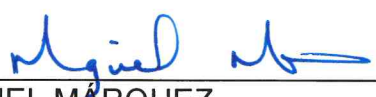
MATTHEW E. HAWKESWORTH
Director of Finance

Prepared by:



Vic Erganian
City Treasurer/Deputy Director of Finance

Approved by:



MIGUEL MARQUEZ
City Manager

Attachment: (1)

Attachment A – Quarterly Investment Report - Quarter Ending March 31, 2023