

Agenda Report

March 13, 2023

TO: Honorable Mayor and City Council
THROUGH: Finance Committee
FROM: Department of Finance
**SUBJECT: QUARTERLY INVESTMENT REPORT – QUARTER ENDING
DECEMBER 31, 2022**

RECOMMENDATION:

This report is for information only.

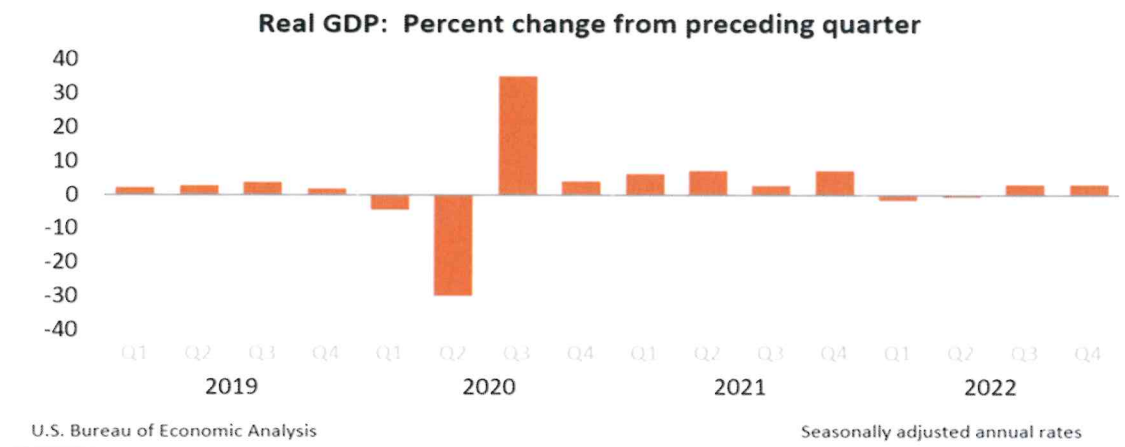
BACKGROUND:

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.

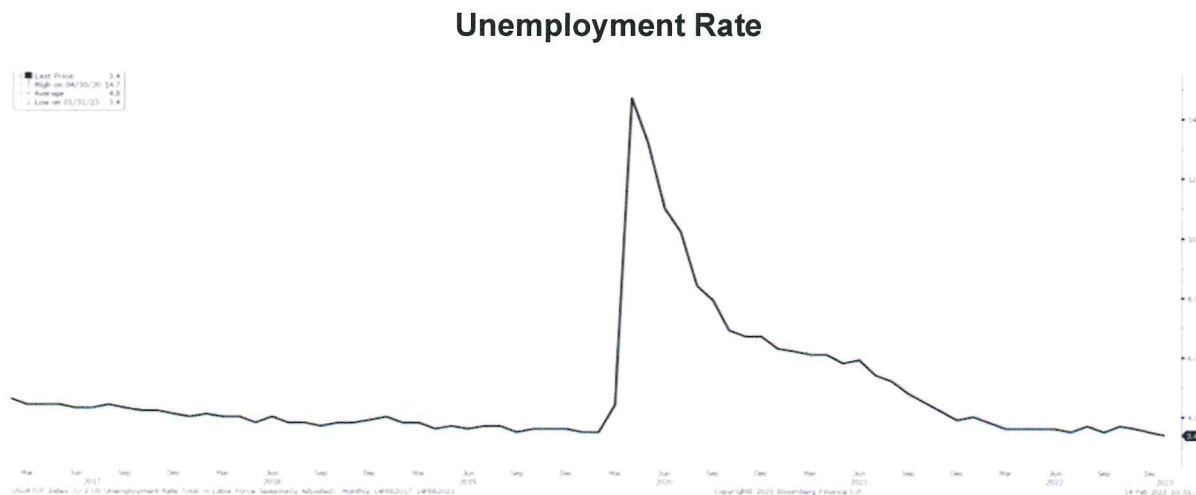
The quarterly report shall include the following:

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

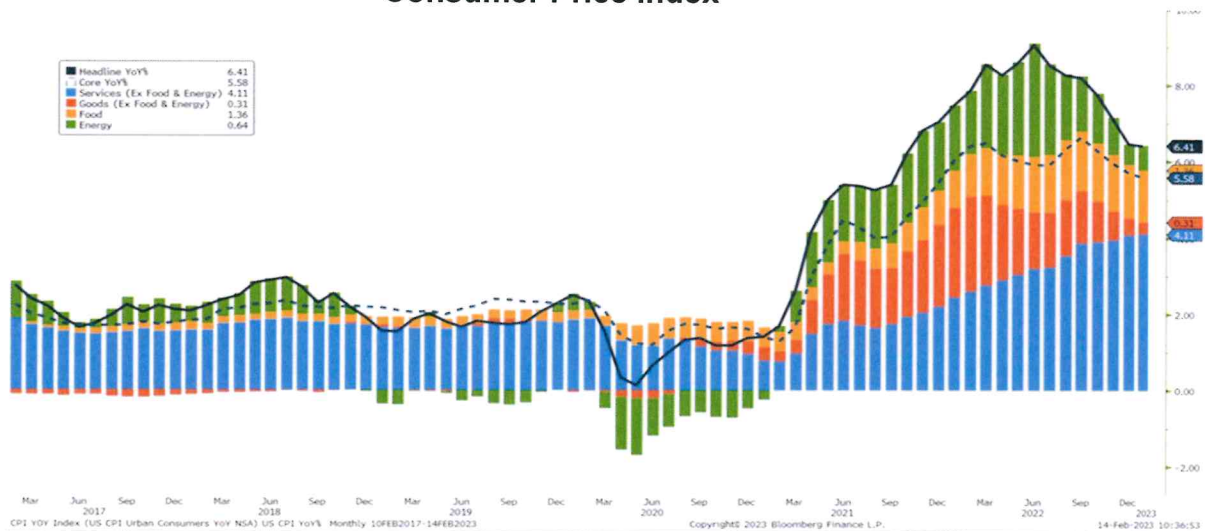


The inflation adjusted Gross Domestic Product (GDP), the value of all goods and services produced in the US, was initially reported at 2.9 percent annualized pace in the fourth quarter of 2022, then revised down to 2.7 percent rate as a result of weaker consumer spending than initially estimated. The growth rate was lower than the 3.2 percent pace in the third quarter. The economy beat expectations in the last quarter, posting the kind of slowdown that the Federal Reserve (The Fed) wants to see in its attempt to reduce inflation without choking off the economic growth. Consumer spending, which accounts for about 68 percent of GDP, was revised at an annualized 1.4 percent as compared to the initial 2.1 percent increase in the final three-months of 2022. More recent statistics; however, point to a rebound in consumer spending at the start of 2023 with a strong job market highlighted by the lowest unemployment rate in more than 50-years.



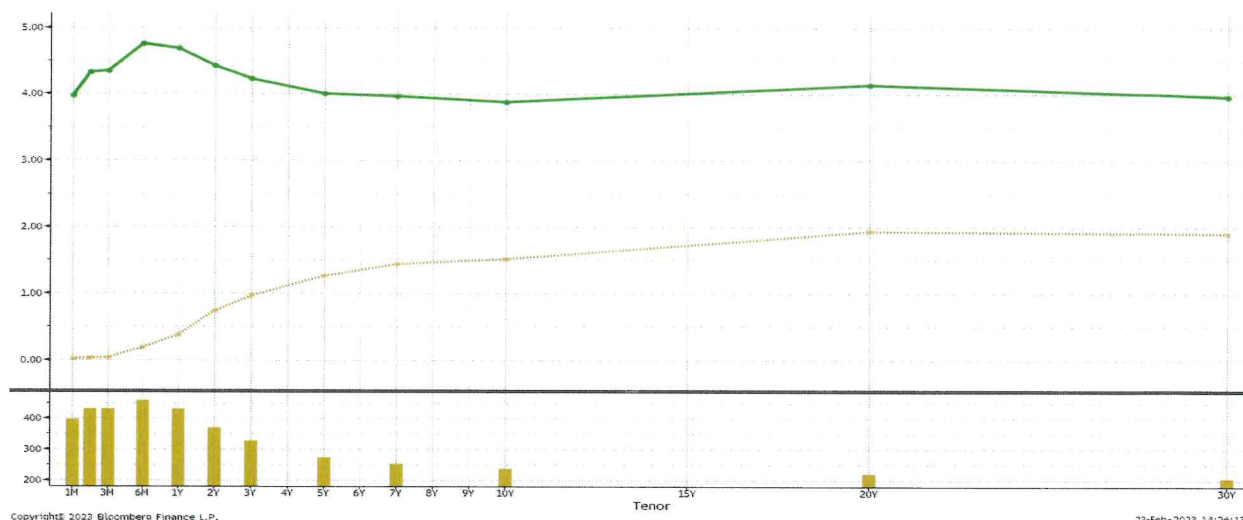
The Bureau of Labor Statistics (BLS) reported the total nonfarm payroll employment increased by 223,000 jobs in December and the unemployment rate dropped to 3.5 percent or 5.7 million unemployed persons. Solid hiring against a backdrop of limited labor supply has driven up wage costs and keeps inflation elevated. The BLS noted among the major worker groups, the unemployment rate for adult men was 3.1 percent, adult women 3.2 percent, teenagers 10.4 percent, Blacks 5.7 percent, Asians 2.4 percent, and Hispanics 4.1 percent. The State of California Employment Development Department (EDD) reported that for December, the State added 16,200 nonfarm payroll jobs, and the unemployment rate dropped to 4.1 percent. In the County of Los Angeles, the unemployment rate was 4.4 percent and in the City of Pasadena the unemployment rate measured 3.7 percent. A strong labor market is seen as inflationary by the Fed. On several occasions, the Fed stated its intention to slowdown the U.S. economic engine by raising the Fed Funds rate with the expectation that the robust labor market will weaken and the unemployment rate will rise.

Consumer Price Index



The Consumer Price Index (CPI) declined 0.1 percent in December on a seasonally adjusted basis after increasing 0.1 percent in November. The year-over-year CPI was 6.5 percent at the end of the year, much higher than the 2 percent target goal by the Fed. The food index increased by 0.3 percent; the index for meats, poultry and fish, increased by 1.0 percent, as the index for eggs rose 11.1 percent. It also noted the energy index fell 4.5 percent in December after falling 1.6 percent in November. The gasoline index declined 9.4 percent over the month, following a 2.0 percent decrease in November. Inflation appears to still remain stubbornly high and above the Fed's goal for 2 percent annual inflation. This compels the Fed to raise the Fed Funds rate higher until it sees a consistent decline in inflation, a slowing of the economy, and until borrowing costs reach sufficiently restrictive levels.

Interest rates Yield curve 12/31/22 vs 12/31/21



The Fed ended the year by raising rates by 50 basis points in December, after it had previously raised rates seven times since March 2022. The Fed has been transparent in its intent to continue raising rates until it brings inflation down to 2.0 percent. It has also continued to shrink its balance sheet by \$244 billion since September and is now at \$8.551 trillion. Fed critics are concerned that the Fed is now overcompensating for its inaction in addressing inflation and labeling it transitory. They also cited home prices remain well above the pre-pandemic trend; and higher mortgage rates have reduced affordability, locked in homeowners, and lowered transaction volumes. The Treasury has noted that higher interest rates have led to dramatic investment reductions, particularly in residential structures.

The major U.S. equity indices turned negative performances during 2022. The tech-heavy NASDAQ was down over 32 percent and the S&P 500 was down 19.44 percent. All the S&P 500 sectors ended the year in negative returns except for the energy sector, which had a positive performance. The rapid increase in interest rates adversely impacted the bond market throughout 2022. The thirty-year Treasury ended the year with a negative 33.25 percent return and the ten-year Treasury was down 16.69 percent. The year 2022 was one of the worst performing years on record as both stocks and bonds had negative performances.

Total Funds Under Management

The table below represents total City funds under management based on their market values as of December 31, 2022.

| | 12/31/2022 | 9/30/2022 | \$Change |
|---------------------------------------|----------------------|----------------------|-------------------|
| Pooled Investment Portfolio | \$631,449,881 | \$615,577,316 | 15,872,565 |
| Capital Endowment | 1,846,492 | 1,833,119 | 13,373 |
| Stranded Investment Reserve Portfolio | 39,552,554 | 39,374,095 | 178,459 |
| Special Funds | 30,017,589 | 32,557,027 | (2,539,438) |
| Investments Held with Fiscal Agents | 40,581,922 | 38,091,731 | 2,490,191 |
| PARS Section 115 Trust | 13,772,958 | 13,310,826 | 462,132 |
| Total Funds Under Management | \$757,221,396 | \$740,744,115 | 16,477,282 |

The Pooled Investment Portfolio value increased by a net \$15,872,565 due to the following cash transactions during the quarter:

| | |
|---|----------------------|
| Net Investment Earnings (Fair Market Value Change plus Interest Income) | \$ 4,917,597 |
| Deposits and Credit Card Receipts | 129,910,977 |
| Property Tax Revenues | 31,447,174 |
| Sales Tax and Other State Apportionments | 19,705,586 |
| HUD Receipts Net of Payments and Loans | 463,400 |
| Payroll and Payroll-related Expenses | (88,408,315) |
| Vendor Payments and Accounts Payable Checks | (50,647,659) |
| Debt Service Payments Net of Reimbursements and Subsidies | (12,037,318) |
| Water and Power Payments Net of Receipts | (28,133,708) |
| Net Transfer from Other Funds | 5,967,832 |
| Drawdown from 2020A Water Revenue Project Fund LAIF Acct | 445,000 |
| Drawdown from 2021A Water Revenue Project Fund LAIF Acct | 2,242,000 |
| Total | \$ 15,872,565 |

The Capital Endowment Fund increased by \$13,373, representing \$5,410 investment earnings for the period adjusted by \$7,963 in market value gain.

The Stranded Investment Reserve portfolio increased by \$178,459 representing the net investment earnings in the portfolio.

Special Funds decreased by \$2,539,438. This was due to a drawdown of \$445,000 from the Water Revenue Bonds 2020A series Project Fund, a drawdown of \$2,242,000 from the Water Revenue Bonds 2021A series Project Fund, a \$6,056 drawdown on an escrow deposit made by Frontier as a result of the termination of its contract with the Pasadena Water and Power Department and a net gain in investment value of \$153,618.

Investments held with fiscal agents increased by \$2,490,191 as a result of 1) a deposit of \$2,674,726 investment in the Southern California Public Powers Authority (SCPPA) held investment account, 2) the debt service payment of \$465,490 to the bonds trustee related to the 2008 Paseo Bonds, and the 2016A Rose Bowl Bonds, and 3) an adjustment of \$280,955 for market value change of investments.

The PARS Section 115 Trust account increased by \$462,132. The change was comprised of \$479,116 increase in the market value of investments adjusted by \$16,984 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 December 31, 2022, the General Fund's investment balance was estimated at \$64.8 million representing 10.26 percent of the December 31, 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 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 December 2022, the portfolio's effective duration was 1.82 years.

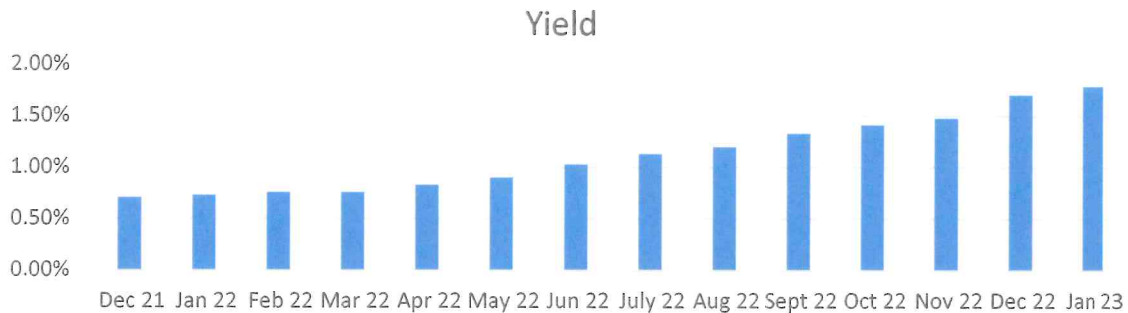
Per government code requirements, attached are reports by each fund indicating the type of investments, date of maturity, par and dollar amount invested in each security, and investment and moneys within the Treasury with market values as of December 31, 2022. On a monthly basis, the City Treasurer prices the pooled portfolio and all other funds and investments under management. The market values are obtained from Interactive Data Corporation (IDC) and from the 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 December 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 began gradually increasing beginning April 2023 as a result of the Fed's 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-months to 2-year maturities. The yield on the pooled portfolio more than doubled in the last six-months and is expected to double again over the next 12-month period. The earnings rate on the pooled portfolio as January 31, 2023 was 1.78 percent.

The graph below represents the historic yield of the Pooled Portfolio over the twelve-month period ending January 31, 2023.



COUNCIL POLICY CONSIDERATION:

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

FISCAL IMPACT:

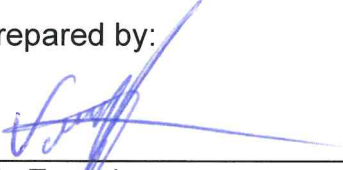
There is no fiscal impact as a result of this action report, nor will it have any indirect or support cost requirements. There is no anticipated impact to other operational programs or capital projects.

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 December 31, 2022