

Agenda Report

July 8, 2024

TO: Honorable Mayor and City Council
THROUGH: Finance Committee
FROM: Department of Finance
SUBJECT: QUARTERLY INVESTMENT REPORT – QUARTER ENDING MARCH 31, 2024

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:

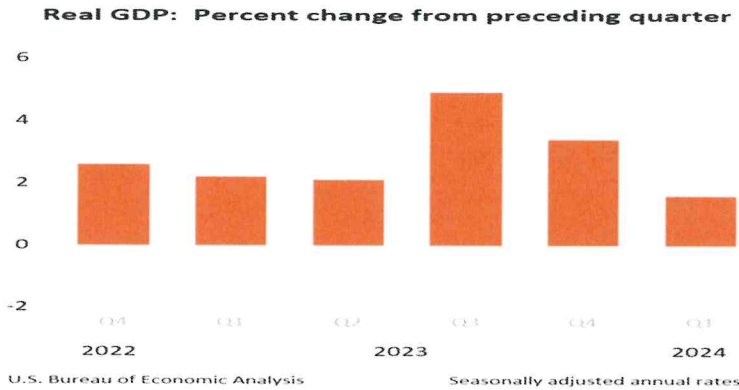
1. The type of investment, name of the issuer, date of maturity, par, and dollar amount invested in each security, investment, and money within the treasury;
2. The weighted average maturity of the investments within the treasury;
3. Any funds, investments, or programs, including loans, that are under 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

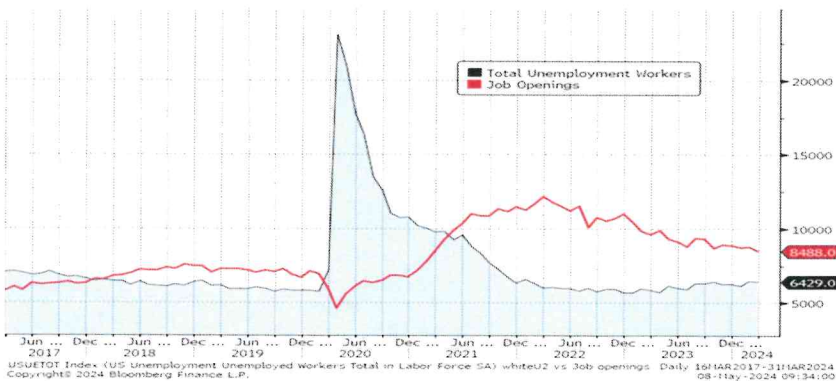
Despite a slight slowdown from the previous quarter, the US economy started 2024 on a positive note. Consumer spending remained resilient, the job market continued to add jobs, and inflation showed signs of cooling. However, the housing market and continued inflation remain areas to watch in the coming quarters.

Here's a breakdown of key indicators:

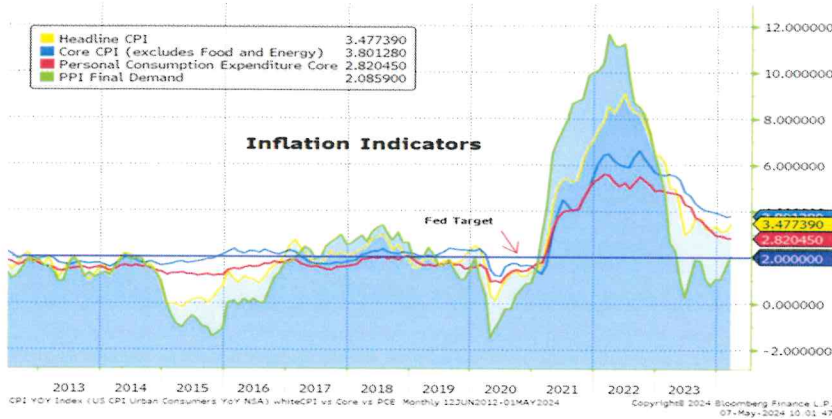
Growth (GDP): Real Gross Domestic Product (GDP) grew at an annualized rate of 1.6% for the first quarter (Q1) of 2024, according to the latest estimates of the U.S. Bureau of Economic Analysis. This was lower than the initial estimate of 2.2%, coming in below analyst expectations. The Q1 growth slowed from a strong 3.4% expansion in Q4 2023.



Labor Market: The job market remains a bright spot. The US added a significant number of jobs in the first three-months of 2024 according to the U.S. Department of Commerce. Job creation in January, February, and March exceeded expectations, with over 350,000, 275,000, and 303,000 jobs added to the U.S. economy in each of the respective months. The unemployment rate was measured at 3.8% in March 2024.



Inflation: Inflation picked up in Q1 of 2024, but was still running significantly below the June 2022 peak. As measured by the consumer price index (CPI), the average monthly rate of inflation during Q1 was 0.4% (or 4.6 % at an annual rate), up from an average 0.2 % per month (1.9 % annualized) during Q4 of 2023.



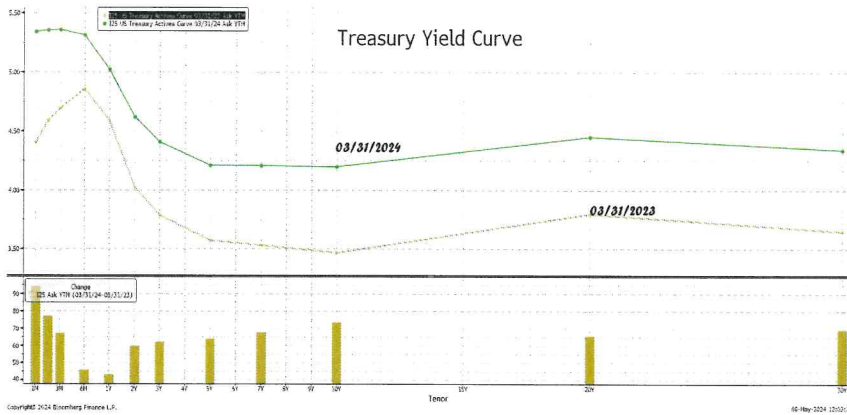
Consumer Spending: Consumer spending was weaker in Q1 of 2024 due to a decline in spending on durable goods and flat nondurable goods growth. Spending on services accelerated in the first quarter, led by higher spending on health care, financial services, and insurance.

Housing Market: The housing market had benefitted from stable mortgage rates at the start of 2024, but experienced a slowdown in March due to an increase in mortgage rates. Total home sales for March fell by 2.7% from February.

The Stock Market: Equities started 2024 on a positive trend. The S&P Index started the year with a 10.6% total return with dividends reinvested in the index, the DOW Industrial Average index returned 6.1% and NASDAQ had a 9.3% return for the year.



Interest Rates: Yields increased across the Treasury yield curve during Q1 of 2024. The two-year Treasury yield increased by 37 basis points or 0.37%, the yield on the three-year treasury increased by 40 basis points or 0.4%, the five-year yield jumped 0.36 basis points or 0.36% and the ten-year treasury yield increased by 31 basis points. Compared to a year ago, yields on all maturities increased and the yield curve remained inverted with shorter maturity rates remaining higher than longer maturity rates. The graph below represents the yield curve as of March 31, 2024, compared to the yield curve a year ago:



Total Funds Under Management

The table below represents total City funds under management based on their market values as of March 31, 2024.

	3/31/2024	12/31/2023	Change
Pooled Investment Portfolio	\$723,191,335	\$701,509,755	\$21,681,580
Capital Endowment	1,955,294	1,934,810	20,484
Stranded Investment Reserve Portfolio	41,890,618	42,080,638	(190,020)
Special Funds	18,400,619	18,270,587	130,032
Investments Held with Fiscal Agents	40,453,898	35,571,775	4,882,123
PARS Section 115 Trust	15,581,239	15,229,927	351,312
Total Funds Under Management	\$841,473,003	\$814,597,492	\$26,875,511

The Pooled Investment Portfolio value increased by a net \$21,681,580 due to the following cash transactions during the quarter:

Net Investment Earnings (Fair Market Value Change plus Interest Income)	\$ 5,643,531
Deposits and Credit Card Receipts	136,806,305
Property Tax Revenues	29,937,486
Sales Tax and Other State Apportionments	21,067,593
HUD Receipts Net of Payments and Loans	2,993,153
Payroll and Payroll-related Expenses	(87,069,569)
Vendor Payments and Accounts Payable Checks	(60,838,326)
Debt Service Payments Net of Reimbursements and Subsidies	(20,409,047)
Water and Power Payments Net of Receipts	(25,887,155)
Net Transfer from Other Funds	19,437,611
Total	\$ 21,681,580

The Capital Endowment Fund increased by \$20,484, representing \$6,125 investment earnings for the period and an increase in market value of investments by \$14,359.

The Stranded Investment Reserve portfolio decreased by \$190,020 representing investment earnings for the period adjusted by the change in market value of investments.

Special Funds increased by \$130,032 representing the net market value of investments.

Investments held with fiscal agents increased by a net \$4,882,123 as a result of a \$4,404,617 transfer made to the trustee to fund the debt service payments related to the 2008 Paseo Bonds and the 2016A Rose Bowl Bonds along with an increase of \$477,506 representing investment earnings adjusted by the change in market value of investments.

The PARS Section 115 Trust account increase by \$351,312. The change was comprised of \$369,935 increase in market value of investments adjusted by \$18,623 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, 2024, the General Fund's investment balance was estimated at \$116.4 million representing 16.10% of the March 31, 2024, 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 historic 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 March 31, 2024, the portfolio's effective duration was 1.5 years.

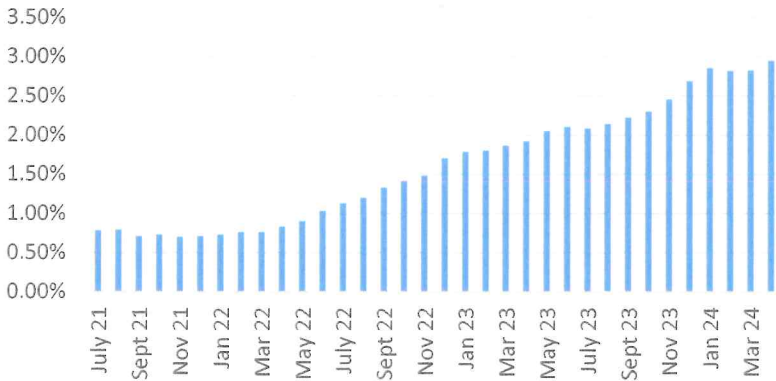
Per government code requirements, attached are reports by each fund indicating the type of investments, date of maturity, par and dollar amount invested in each security, and investment and moneys within the Treasury with market values as of March 31, 2024. On a monthly basis, the City Treasurer prices 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 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 \$70 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 31, 2024, the portfolio had \$79.9 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 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 of April 2024 was 2.95%.

The graph below represents Pooled portfolio’s historic yield from July 2021 through April 30, 2024:

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,



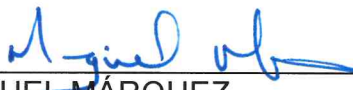
MATTHEW E. HAWKESWORTH
Director of Finance

Prepared by:



Vic Erganian
City Treasurer/Deputy Director of Finance

Approved by:



MIGUEL MARQUEZ
City Manager

Attachment: (1)

Attachment A – Quarterly Investment Report - Quarter Ending March 31, 2024