



Agenda Report

March 25, 2024

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

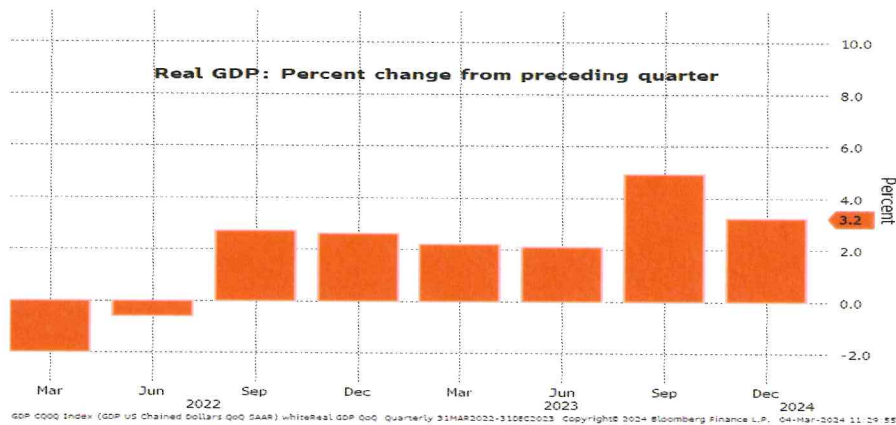
The quarterly report shall include the following:

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 US economy capped off 2023 with a positive performance in the fourth quarter. Here's a breakdown of key indicators:

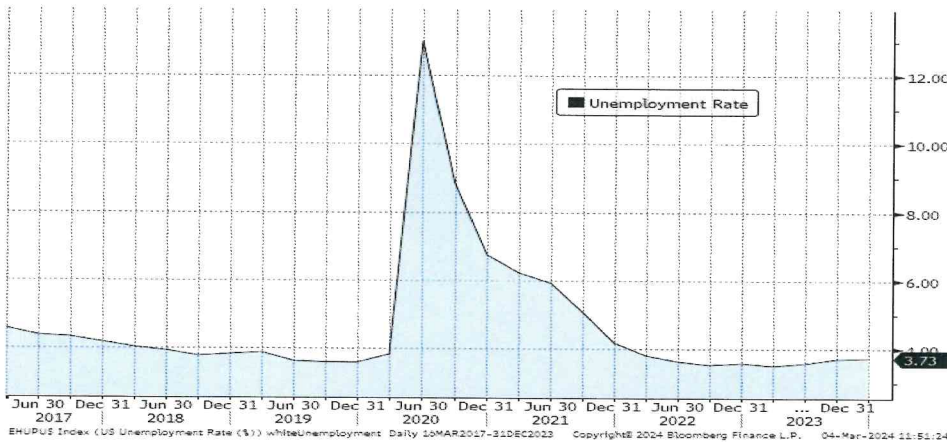
Growth (GDP): Real Gross Domestic Product (GDP) grew at an annualized rate of 3.2%, according to the latest estimates of the U.S. Bureau of Economic Analysis. This was slightly lower than the initial estimate of 3.3%, but still a healthy pace, exceeding analyst expectations. This growth followed a strong 4.9% expansion in the third quarter.



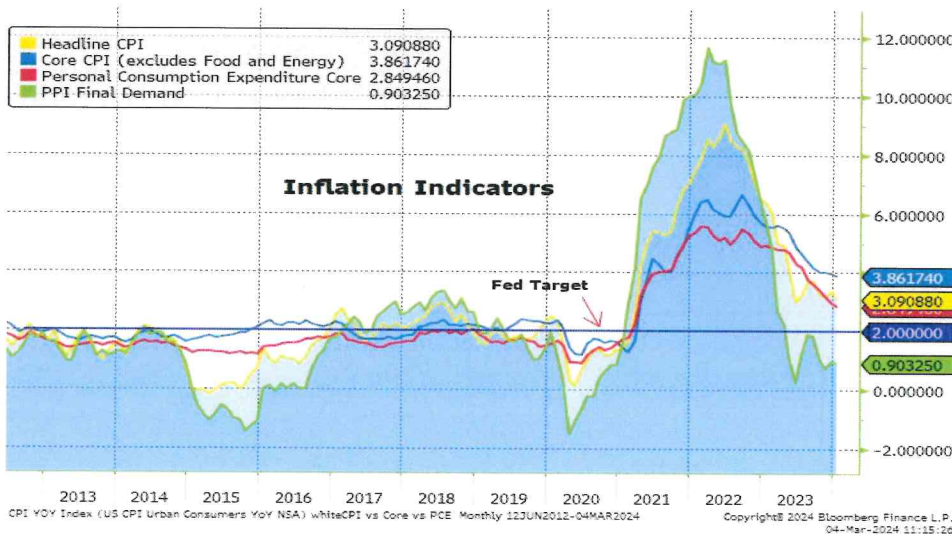
Consumer Spending: According to the Department of Commerce, the main driver of growth was consumer spending, which remained robust. Americans continued to spend on both goods and services, exceeding forecasts for November and December. This reflects healthy consumer confidence and potentially pent-up demand from earlier in the year.

Housing Market: The housing market showed signs of moderation in the fourth quarter. While housing prices continued to rise, the pace of growth slowed compared to the previous quarters. Rising interest rates likely contributed to this shift.

Labor Market: The job market remained a bright spot. The US added a significant number of jobs throughout 2023, with the total reaching 2.7 million for the year according to the U.S. Department of Commerce. This translates to a tight labor market with low unemployment. The U.S. unemployment rate measured at 3.7% at the end of 2023. The unemployment rate in the State of California was 5.1% as of December 31, 2023. Unemployment rate in Los Angeles County was 5.2% and 4.4% in the City of Pasadena.



Inflation: Inflation, which was a major concern in prior periods, showed signs of easing in the fourth quarter. The price index for gross domestic purchases increased by 3.4% in 2023, a significant improvement from the 6.8% inflation rate in 2022 according to the U.S. Bureau of Economic Analysis. While inflation remains above the Federal Reserve's target, the downward trend offers some relief. The year-over-year Consumer Price Index (CPI) was 3.4% at the end of December 2023 while the Core CPI, which excludes food and energy components, came in at 3.9%.



Despite a slight slowdown from the previous quarter, the US economy ended 2023 on a strong 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.

The stock market had a stellar performance in 2023. The S&P Index ended the year with a 26.33% total return with dividends reinvested in the index, the DOW Industrial Average index returned 16.23% and NASDAQ had a 44.85% return for the year.

Total Funds Under Management

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

	12/31/2023	9/30/2023	Change
Pooled Investment Portfolio	\$701,509,755	\$677,018,590	\$24,491,165
Capital Endowment	1,934,810	1,898,329	36,481
Stranded Investment Reserve Portfolio	42,080,638	39,528,732	2,551,906
Special Funds	18,270,587	17,863,556	407,031
Investments Held with Fiscal Agents	35,571,775	33,626,835	1,944,940
PARS Section 115 Trust	15,229,927	14,085,603	1,144,324
Total Funds Under Management	\$814,597,492	\$784,021,645	\$30,575,847

The Pooled Investment Portfolio value increased by a net \$24,491,165 due to the following cash transactions during the quarter:

Net Investment Earnings (Fair Market Value Change plus Interest Income)	\$ 14,971,452
Deposits and Credit Card Receipts	151,842,317
Property Tax Revenues	33,017,304
Sales Tax and Other State Apportionments	18,810,466
HUD Receipts Net of Payments and Loans	4,149,335
Payroll and Payroll-related Expenses	(94,050,106)
Vendor Payments and Accounts Payable Checks	(51,678,070)
Debt Service Payments Net of Reimbursements and Subsidies	(10,289,490)
Water and Power Payments Net of Receipts	(21,704,028)
Net Transfer from Other Funds	(9,574,162)
Escrow Deposit for the Purchase of the Kaiser Property on 450 N. Lake	(11,003,853)
Total	\$ 24,491,165

The Capital Endowment Fund increased by \$36,481, representing \$6,040 investment earnings for the period and an increase in market value of investments by \$30,441.

The Stranded Investment Reserve portfolio increased by \$2,551,906 representing investment earnings for the period adjusted by the change in market value of investments.

Special Funds increased by \$407,031 representing the net market value increase of investments.

Investments held with fiscal agents increased by a net \$1,944,940 due to a decrease of \$439,174 due to the debt service payments made by the bond trustee related to the 2008 Paseo Bonds and the 2016A Rose Bowl Bonds and an increase of \$2,384,114.

The PARS Section 115 Trust account increase by \$1,144,324. The change was comprised of a \$1,161,918 increase in market value of investments adjusted by \$17,594 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, 2023, the General Fund's investment balance was estimated at \$107.7 million representing 15.36% of the December 31, 2023, Pooled Portfolio value. The General Fund's cash balance fluctuates daily based on the timing of revenue 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 risk and return evaluation, the Treasury yield curve, and industry best practices as it pertains to public funds management. As of December 31, 2023, the portfolio's effective duration was 1.5 years.

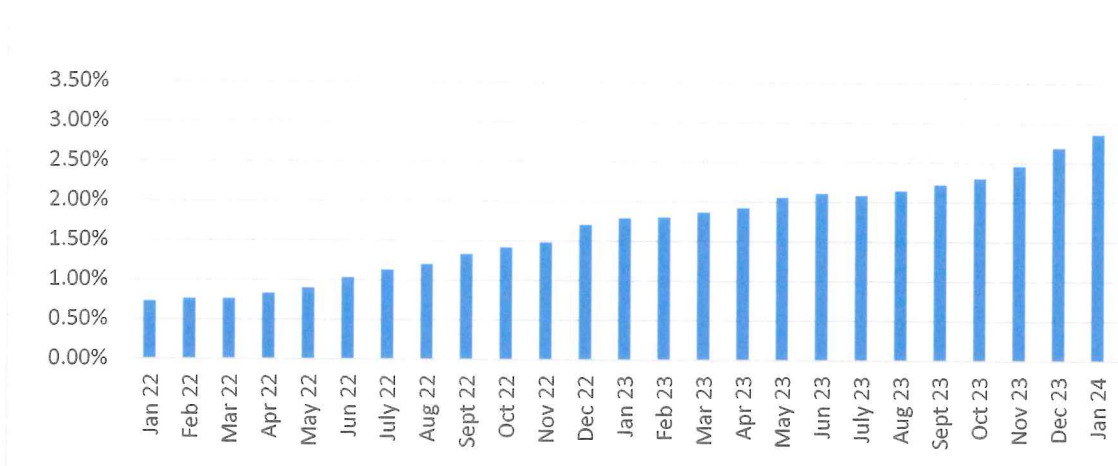
Per government code requirements, attached are reports by each fund indicating the type of investments, date of maturity, par and dollar amount invested in each security, and investment and moneys within the Treasury with market values as of December 31, 2023. On a monthly basis, the City Treasurer prices 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 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 an 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 December 31, 2023, the portfolio had \$94.0 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 six-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 2-year maturities. The yield on the pooled portfolio more than doubled in the last 12-months and is expected to continue to increase over the next 12-month period. The earnings rate on the pooled portfolio as of January 2023 was 2.85%.

The graph below represents the historic yield of the Pooled Portfolio over the 24-month period ending January 31, 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 December 31, 2023