

Agenda Report

November 25, 2024

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

The recent data on the U.S. economy indicates a strong performance in the third quarter, largely driven by robust household consumption, with Gross Domestic Product (GDP) growth estimated at around 2.8% annually, according to the "advance" estimate released by the U.S. Bureau of Economic Analysis.

Growth (GDP): The U.S. economy continued to show strong performance in the third quarter of 2024, with real GDP growing at an annual rate of 2.8%, slightly slower than the 3.0% growth rate seen in the second quarter.

Though the GDP growth rate showed a slight slowdown compared to the second quarter, the underlying trends indicate a resilient economy, driven by strong consumer demand, increased government spending, and solid export performance. These factors continue to support economic expansion, despite some moderation in the growth rate.

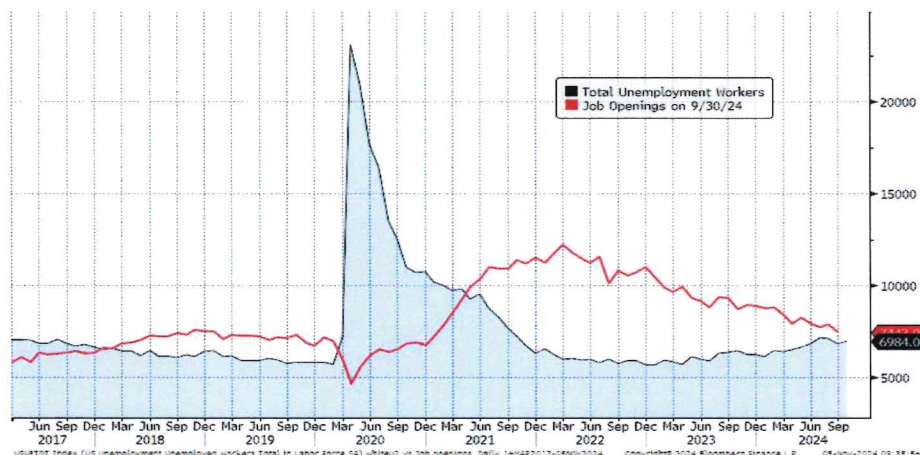


U.S. Bureau of Economic Analysis

Seasonally adjusted annual rates

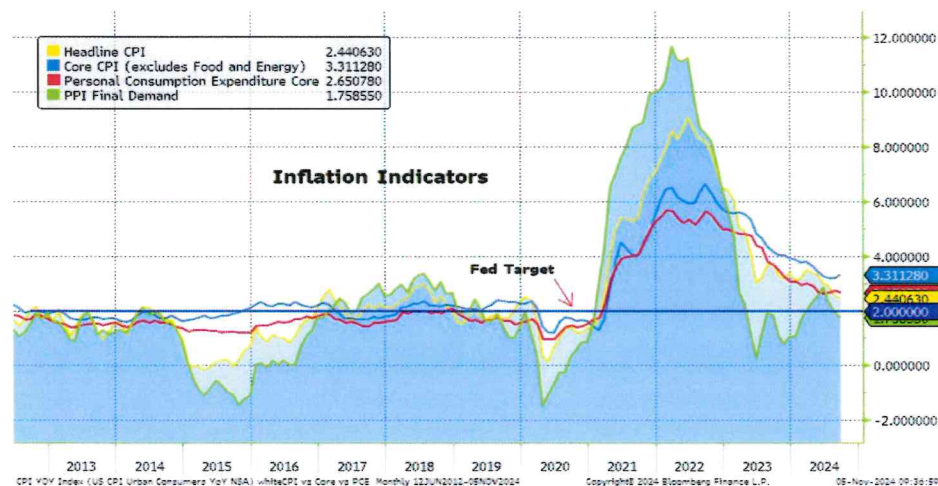
Labor Market:

The third quarter of this year saw an unexpected improvement in labor markets, with job creation averaging 186,000 per month, up from 147,000 in the previous quarter. This increase was largely driven by private sector hiring, which accounted for more than 75% of new jobs. However, job growth remains below the levels seen in the post-pandemic recovery, where averages were over 600,000 in 2021. The Unemployment rate, while hovering above 4%, showed a slight decrease, ending September at 4.1% after rising to 4.3% in July. As of September 2024, the unemployment rate in the State of California as reported by the State Employment Department was 5.3%, the unemployment rate in Los Angeles County was 6% and the unemployment rate in Pasadena was 5.4%.



Inflation

Inflation has seen a notable decline over the past two years. After hitting a peak of 9.1% in June 2022, the annual Consumer Price Index (CPI), the headline inflation rate, fell to 2.4% by September 2024, marking the lowest level since February 2021. The monthly inflation rate increased slightly during the third quarter to 0.2%, which translates to an annualized rate of 2.1%. The Core Personal Consumption Expenditure (PCE) rate, the gauge closely followed by the Fed was at 2.65%.



Consumer Spending: Consumer spending, a key driver of economic activity, surged at a 3.7% annualized rate, marking the fastest growth since early 2023 and a significant increase from the previous quarter's 2.8%. This robust spending contributed 2.46 percentage points to GDP growth, the highest contribution in over a year and a half.

The rise in spending was fueled by increased outlays on both goods and services, including essentials like prescription medications and motor vehicles, as well as discretionary spending on dining and accommodations. This consumption boost is

supported by a strong labor market and a rise in household net worth, driven by a booming stock market and escalating home values.

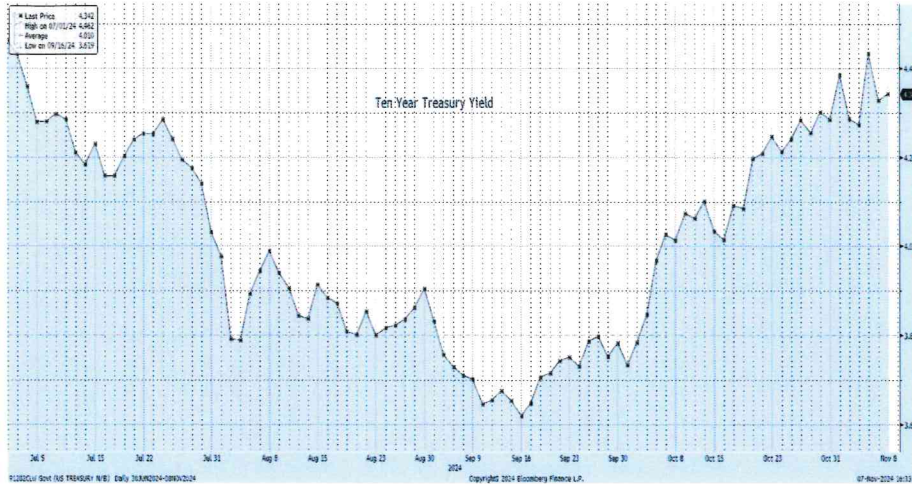
Housing Market: The housing market in the third quarter exhibited mixed trends. While single-family home construction saw notable improvements, the multi-family sector experienced a decline in activity, contributing to a further slowdown in total completion rates. Existing home sales and inventories remained pressured by high home prices and mortgage rates, although the new home market was less affected.

Home price appreciation and rental inflation showed mixed indicators, with inflation rates generally slower than those at the end of the previous year. Overall, home affordability continues to be a significant challenge, driven by both elevated price levels and high mortgage rates.

Financial Markets: In the third quarter of 2024, U.S. equity markets reached new highs, fueled by the Federal Reserve's long-anticipated interest rate cuts and a notable sector rotation. The S&P 500 climbed 5.9%, while the Dow Jones Industrial Average saw a more robust increase of 8.7%. The Nasdaq Composite, heavily influenced by tech stocks, recorded a modest gain of 2.8%, as investors increasingly favored value stocks and smaller companies.



On the fixed income side, the Bloomberg Aggregate Bond Index surged by 5.2% for the quarter, driven by falling inflation rates and the Fed's easing monetary policy, which boosted bond prices. Overall, the combination of supportive monetary policy and sector rotation contributed to a positive market environment. Interest rates dropped during the quarter. Overall, the treasury yield curve declined all across the maturities. The ten-year treasury rate closed at 3.73% yield on September 30th as compared to 4.39% on June 30, 2024. Rates however reversed course in October and November and the ten-year treasury yield climbed back to 4.33% as of November 7, 2024.



Total Funds Under Management

The table below represents total City funds under management based on their market values as of September 30, 2024.

	9/30/2024	6/30/2024	Change
Pooled Investment Portfolio	\$796,416,802	\$740,104,042	\$56,312,760
Capital Endowment	2,007,636	1,976,617	31,019
Stranded Investment Reserve Portfolio	44,012,608	42,265,492	1,747,116
Special Funds	17,225,083	18,584,855	(1,359,772)
Investments Held with Fiscal Agents	38,199,815	35,574,151	2,625,664
PARS Section 115 Trust	16,528,147	15,761,890	766,257
Total Funds Under Management	\$914,390,091	\$854,267,047	\$60,123,044

The Pooled Investment Portfolio value increased by a net \$56,312,760 due to the following cash transactions during the quarter:

Net Investment Earnings (Fair Market Value Change plus Interest Income)	\$ 15,475,563
Deposits and Credit Card Receipts	158,767,141
Property Tax Revenues	5,520,820
Sales Tax and Other State Apportionments	24,422,075
HUD Receipts Net of Payments and Loans	5,174,639
Payroll and Payroll-related Expenses	(89,200,884)
Vendor Payments and Accounts Payable Checks	(75,237,744)
Debt Service Payments Net of Reimbursements and Subsidies	(13,927,397)
Water and Power Payments Net of Receipts	(24,588,390)
Net Transfer from Other Funds	1,579,622
2024A Electric Revenue Refunding Bonds-Bond Proceeds for Project Fund	49,000,000
2024A Electric Revenue Refunding Bonds-Good Faith Funds	1,000,000
Release of Parity Reserve to BNY 2013A Electric Escrow Fund	(1,672,685)
Total	\$ 56,312,760

The Capital Endowment Fund increased by \$31,019, representing \$6,243 investment earnings for the period adjusted by a \$24,776 increase in market value of investments.

The Stranded Investment Reserve portfolio increase by \$1,747,116 representing investment earnings for the period adjusted by the change in market value of investments.

Special Funds decreased by \$1,359,772. This was due to the use of \$1,672,685 from the 2002 and 2013A Electric Parity Reserve fund as a source of funds to close the financing of the 2024A Electric Refunding Revenue Bonds, adjusted by \$31,000 redemption of principal of the Annadale assessment district bond and a net change in market value gain of \$343,913.

Investments held with fiscal agents increased by a net \$2,625,664 as a result of a transfer of \$329,668 to the trustee to fund the debt service payments related to the 2008 Paseo Bonds and the 2016A Rose Bowl Bonds, the new established 2024A Electric Refunding Revenue bonds cost of issuance account with a remaining balance of \$94,182 as of September 30, and an increase of \$2,201,814 representing investment earnings adjusted by the change in market value of investments.

The PARS Section 115 Trust account increase by \$766,257. The change was comprised of \$785,537 increase in market value of investments adjusted by \$19,280 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, 2024, the General Fund's investment balance was estimated at \$98.9 million representing 12.42% of the September 30, 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 today, the portfolio's effective duration is 1.9 years.

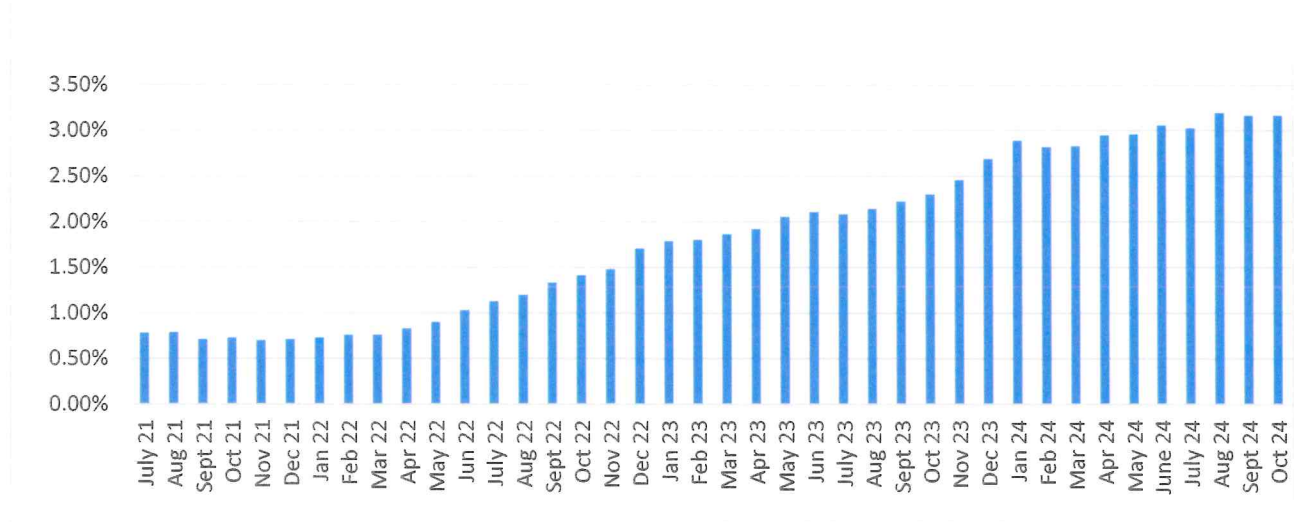
Per government code requirements, attached are reports by each fund indicating the type of investments, date of maturity, par and dollar amount invested in each security, and investment and moneys within the Treasury with market values as of September 30, 2024. On a monthly basis, the City Treasurer 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 2025 Investment Policy, which was adopted by the City Council on July 8, 2024, 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 September 30, 2024, the portfolio had \$143.3 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 tripled in the last twenty-four months and is expected to continue to increase over the next twelve-month period. The earnings rate on the pooled portfolio as of October 2024 was 3.17%.

The graph below represents the historic yield of the Pooled Portfolio July 2021 to period ending October 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 MÁRQUEZ
City Manager

Attachment: (1)

Attachment A – Quarterly Investment Report - Quarter Ending September 30, 2024