

Agenda Report

September 16, 2024

TO: Honorable Mayor and City Council
THROUGH: Finance Committee (September 9, 2024)
FROM: Department of Finance
**SUBJECT: QUARTERLY INVESTMENT REPORT – QUARTER ENDING
JUNE 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.

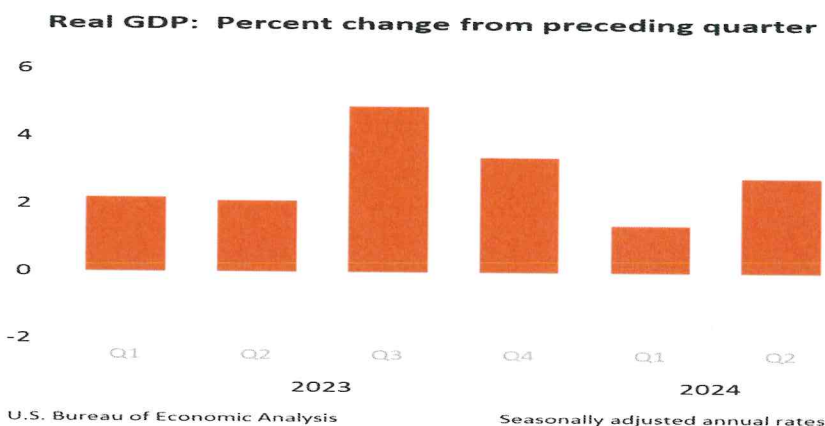
The quarterly report shall include the following:

1. The type of investment, name of the issuer, date of maturity, par, dollar amount invested in each security, 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*.

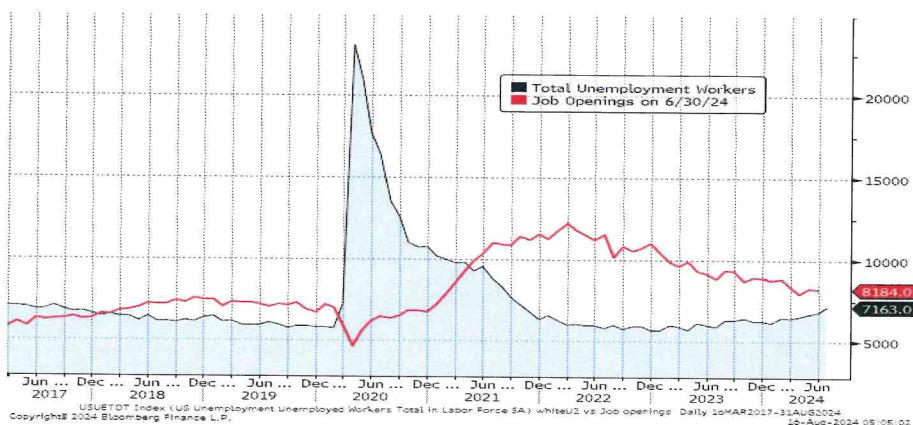
Economic Summary:

The US economy started 2024 with positive performance in the first and second quarter (Q1, Q2) of 2024. Here's a breakdown of key indicators:

Growth : Real Gross Domestic Product (GDP) grew at an annualized rate of 2.8% for Q2 of 2024, according to the latest estimates of the U.S. Bureau of Economic Analysis. This was higher than the forecasted 2.0% growth, coming in above analyst expectations. The Q2 growth increased from a 1.4% expansion in Q1 2024.

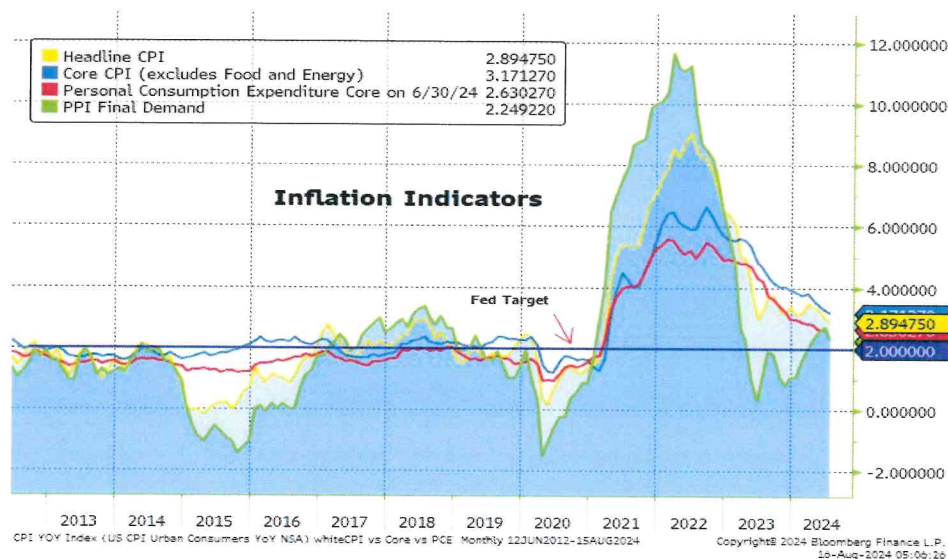


Labor Market: The US added a significant number of jobs in the first three-months of 2024, but cooled in the Q2 of the year per the latest report from the Bureau of Labor Statics. Job creation in April, May, and June was in line with census estimates, with 175,000, 272,000, and 206,000 jobs added to the U.S. economy in each of the respective months. The unemployment rate however ticked up to 4.1% in June, up from 3.9% and 4.0% in April and May and increased to 4.3% in July.



Inflation: Inflation has eased since its June 2022 peak of 9.1 %, and this trend continued in Q2 of 2024. As measured by the consumer price index, headline inflation over the year through June 2024 had slowed to 3.0 %. During Q2, the average monthly

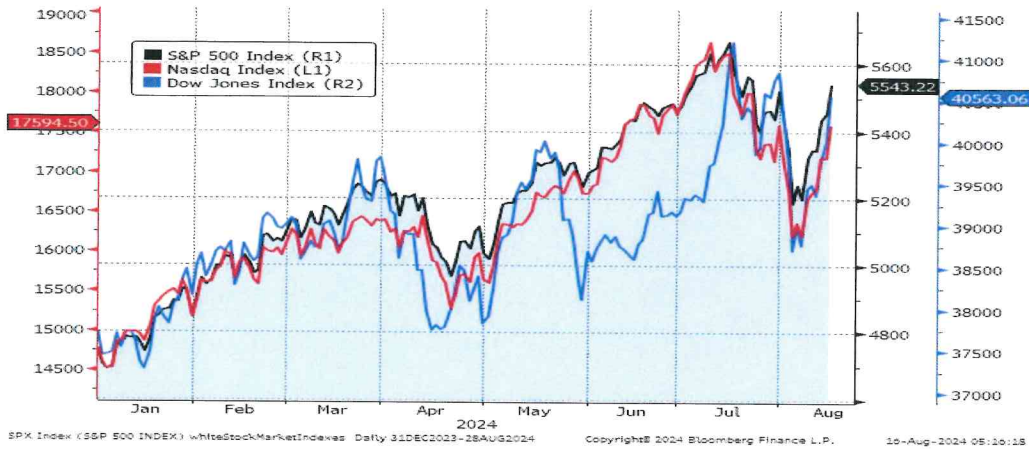
rate of inflation was just 0.1% (or 1.1 % at an annual rate), slowing from an average of 0.4 % per month (4.6 % annualized) during Q1 of this year.



Consumer Spending: Consumer spending continued to be a source of strength for the U.S. economy accounting for nearly 70% of the Q2, GDP growth. It grew 2.3% year-over-year adjusted for inflation in Q2. The increase reflected higher spending on both goods and services. Retail sales recorded a solid increase in July, up by 1% month-over-month compared to 0% growth rate the prior month and 0.4% growth expectation by the market survey.

Housing Market: The housing market slowed in Q2. Elevated mortgage rates and higher home prices, lead to a sales drop in both existing and new homes. The inventory-to-sales ratios for new and existing homes increased as the supply of homes arriving on the market rose more than sales. The Housing Starts month-over-month declined by 6.8% in July and the month-to-month Building Permits dropped by 4%.

Equity Markets: The stock market started 2024 on a positive trend and the trend continued in Q2. For the first six-months of 2024, the Dow Jones Industrial Average was up 4.8%, the S&P 500 was up 15.3%, and the NASDAQ was up 18.6%. The equity market rapidly recovered after it dipped by as much as 7% the first week of August and as of August 21, 2024, the Dow Industrial Average was up 8.39% for the year, the S&P was up 17.66% and the NASDAQ was up 19%.



On August 21, 2024, the Bureau of Labor Statistics (BLS), in preliminary data, marked down the U.S. payroll numbers by the most it had done since 2009. The US job growth was far less robust as reported by the BLS and is expected to be revised down by 818,000 jobs for the twelve-month period ending March 2024. The financial market has already priced in Fed Funds rate cuts in September, November, and December and the recent payroll number revision by the BLS encouraged the traders of the interest rate futures to price in Fed Funds rate cuts by as much as 1% by the end of 2024.

Total Funds Under Management

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

	6/30/2024	3/31/2024	Change
Pooled Investment Portfolio	\$740,104,042	\$723,191,335	\$16,912,707
Capital Endowment	1,976,617	1,955,294	21,323
Stranded Investment Reserve Portfolio	42,265,492	41,890,618	374,874
Special Funds	18,584,855	18,400,619	184,236
Investments Held with Fiscal Agents	35,574,151	40,453,898	(4,879,747)
PARS Section 115 Trust	15,707,890	15,581,239	126,651
Total Funds Under Management	\$854,213,047	\$841,473,003	\$12,740,044

The Pooled Investment Portfolio value increased by a net \$16,912,707 due to the following cash transactions during the quarter:

Net Investment Earnings (Fair Market Value Change plus Interest Income)	\$ 7,583,948
Deposits and Credit Card Receipts	136,105,658
Property Tax Revenues	52,909,306
Sales Tax and Other State Apportionments	17,647,728
HUD Receipts Net of Payments and Loans	3,758,996
Payroll and Payroll-related Expenses	(90,779,938)
Vendor Payments and Accounts Payable Checks	(63,403,820)
Debt Service Payments Net of Reimbursements and Subsidies	(18,601,131)
Water and Power Payments Net of Receipts	(20,133,739)
Net Transfer from Other Funds	(1,815,640)
Purchase Property on 2111 E Walnut	(3,858,661)
PCOC Loan for 10 year per Council Approval	(2,500,000)
Total	\$ 16,912,707

The Capital Endowment Fund increased by \$21,323, representing \$6,158 investment earnings for the period and an increase in market value of investments by \$15,165.

The Stranded Investment Reserve portfolio increase by \$374,874 representing investment earnings for the period adjusted by the change in market value of investments.

Special Funds increased by \$184,236 representing investment earnings and the net increase in the market value of investments.

Investments held with fiscal agents decreased by a net \$4,879,747 due to a \$4,760,191 debt service payment made to the 2008 Paseo Bonds and the 2016A Rose Bowl Bonds and a decrease of \$119,556 representing investment earnings adjusted by the change in market value of the investments.

The PARS Section 115 Trust account increase by \$126,651. The change was comprised of a \$145,450 increase in market value of investments adjusted by \$18,799 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 June 30, 2024, the General Fund's investment balance was estimated at \$117.7 million representing 15.90% of the June 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 the portfolio's risk and return evaluation, the Treasury yield curve, and industry best practices as it pertains to public funds management. As of June 30, 2024, the portfolio's effective duration was 1.42 years.

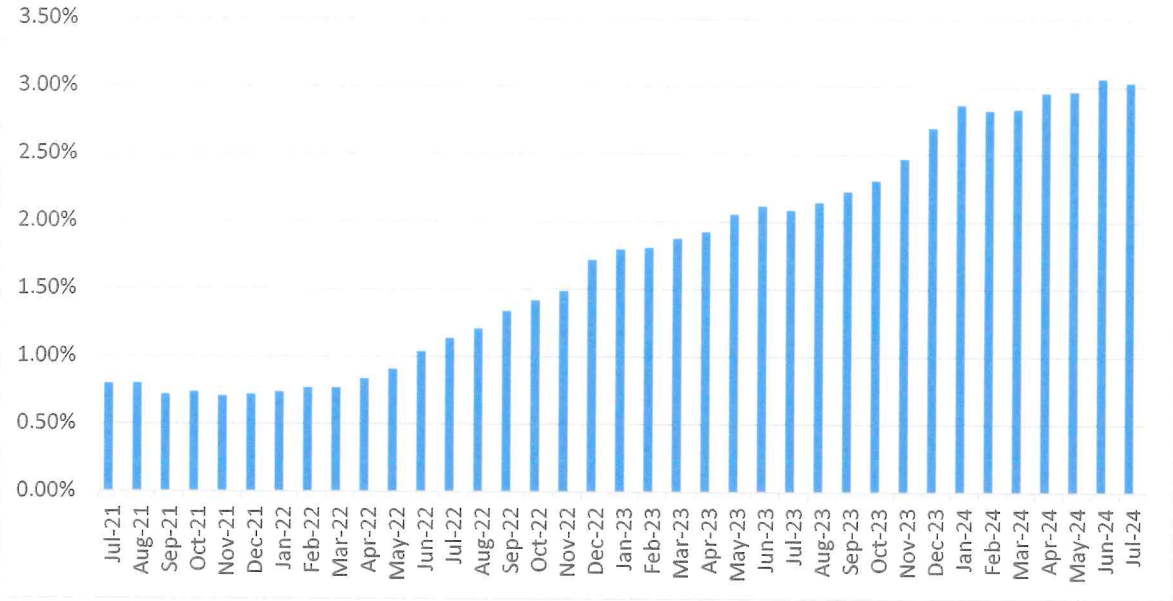
Per government code requirements, attached are reports by each fund indicating the type of investments, date of maturity, par and dollar amount invested in each security, and investment and moneys within the Treasury with market values as of March 31, 2024. On a monthly basis, the City Treasurer prices 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 at least \$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 June 30, 2024, the portfolio had \$92.6 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 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 more than doubled in the last twelve-months and is expected to continue to increase over the next 12-month period. The earnings rate on the pooled portfolio as of the quarter ending June 2024 was 3.057%.

The graph below represents the historic yield of the Pooled Portfolio from July 2021 to July 31, 2024:

Pooled Portfolio earnings rate



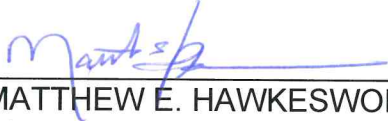
COUNCIL POLICY CONSIDERATION:

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 June 30, 2024