

# Agenda Report

August 25, 2025

**TO:** Honorable Mayor and City Council  
**THROUGH:** Finance Committee  
**FROM:** Department of Finance  
**SUBJECT: QUARTERLY INVESTMENT REPORT – QUARTER ENDING  
JUNE 30, 2025**

## **RECOMMENDATION:**

This report is for information. There is no staff recommendation for this item. The City Council may, however, take action relating to this item as it deems appropriate following consideration and discussion of the matter.

## **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 U.S. economy showed renewed strength in the second quarter (Q2), of 2025 rebounding from a slow start to the year with solid Gross Domestic Product (GDP) growth, steady job gains, and resilient consumer spending. Housing activity held firm despite elevated mortgage rates, while inflation pressures eased, supporting real wage growth and household purchasing power. Financial markets rallied sharply, fueled by improved trade policy signals, pushing major equity indexes to record highs and boosting bond performance. Overall, the quarter's data points to healthy economic momentum heading into the second half of the year.

#### **Growth (GDP):**

The U.S. economy grew at an annual rate of 3.0% in Q2 of 2025, a strong turnaround from the 0.5% decline seen in the first quarter. This rebound was driven primarily by a drop in imports and a rise in consumer spending, particularly in health care, dining, and vehicle purchases. However, gains were partially offset by weaker business investment and lower exports. Overall, the data reflects renewed economic momentum and continued consumer strength heading into the second half of the year.

#### **Consumer Spending:**

Consumer spending rose in the second quarter, with gains across both services and goods. Leading the way in services were health care (notably outpatient and hospital care), dining and accommodations, and financial services. On the goods side, increased spending was driven by strong sales of new light trucks and pharmaceutical products.

#### **Housing Market:**

The residential real estate market held steady in Q2 of 2025, showing resilience despite mortgage rates hovering around 6.8%. While total home sales remained flat compared to the previous quarter, the market became more favorable for buyers. Inventory levels rose sharply to over 30% more than a year ago. Home prices showed signs of moderation, with the national price index expected to grow just 2.9%, barely outpacing inflation.



## **Labor Market:**

The labor market remained strong and balanced in the second quarter. Job growth accelerated to an average of 150,000 new jobs per month, up from 111,000 in the first quarter, while unemployment held steady near 4.1-4.2%, a level consistent with stable inflation. Labor force participation edged down slightly overall, though participation among prime-age workers stayed historically high. Job openings remained steady at about 7.6 million, indicating continued demand for workers. Lower inflation in the first half of the year boosted real wages, supporting expectations for solid consumer spending in the months ahead.

## **Inflation:**

Inflation pressures remained limited in the second quarter. Headline Consumer Price Index rose 2.7% over the past year, though much of the uptick reflected base effects from last year's unusually low readings. Quarterly inflation slowed to 2.4% on an annualized basis, just above the Federal Reserve's 2% target. Energy prices edged higher, food inflation continued to ease, and rent growth held steady at its slowest pace since early 2022. Core inflation, excluding food and energy, remained contained, with notable cooling in auto insurance and airline fares. Overall, price trends point to continued moderation in the months ahead.

## **Financial Markets:**

The second quarter of 2025 marked a sharp rebound for equity markets. The S&P 500 surged 10.94%, reversing earlier losses as investor sentiment improved following a temporary pause on new tariffs by the administration. Markets reacted positively to the shift, with both the S&P 500 and Nasdaq 100 hitting new all-time highs in June. Bond markets remained volatile in the second quarter of 2025, influenced by shifting trade policies and ongoing fiscal concerns. Short-term Treasury yields declined while long-term yields edged slightly higher, continuing the steepening trend from the first quarter. Credit spreads were choppy early in the quarter but narrowed significantly by June, helping drive performance. High-yield corporate bonds outperformed investment-grade bonds again this quarter. Despite rate volatility, core bond benchmarks posted positive returns: the Bloomberg US Aggregate Bond Index rose 1.2%, and the High Yield Index gained 3.5%. Municipal bonds; however, faced pressure from increased supply and ended the quarter down slightly at -0.1%.

### **Total Funds Under Management**

The table below represents total City funds under management based on their market values as of June 30, 2025.

	<b>06/30/2025</b>	<b>03/31/2025</b>	<b>Change</b>
Pooled Investment Portfolio	\$815,652,671	\$803,124,387	12,528,284
Capital Endowment	1,528,677	2,057,320	(528,643)
Stranded Investment Reserve Portfolio	44,807,154	44,341,759	465,395
Special Funds	17,728,913	17,562,688	166,225
Investments Held with Fiscal Agents	232,737,959	33,457,432	199,280,527
PARS Section 115 Trust	16,979,488	16,359,400	620,088
<b>Total Funds Under Management</b>	<b>\$1,129,434,862</b>	<b>\$916,902,986</b>	<b>\$212,531,876</b>

The Pooled Investment Portfolio value increased by a net \$12,528.284 due to the following cash transactions during the quarter:

Net Investment Earnings (Fair Market Value Change plus Interest Income)	\$ 9,371,317
Deposits and Credit Card Receipts	141,497,023
Property Tax Revenues	55,592,957
Sales Tax and Other State Apportionments	18,645,744
HUD Receipts Net of Payments and Loans	8,396,343
Payroll and Payroll-related Expenses	(99,634,904)
Vendor Payments and Accounts Payable Checks	(69,707,271)
Debt Service Payments Net of Reimbursements and Subsidies	(20,695,645)
Water and Power Payments Net of Receipts	(27,167,870)
Net Transfer from Other Funds	(380,262)
Purchase of Property from Cal Trans related to the 710 highway Project	(139,148)
Short-term construcion loan for 1878 E Walnut Street Per City Agreement No. 24,237	(3,250,000)
<b>Total</b>	<b>\$ 12,528,284</b>

The Capital Endowment Fund decrease by \$528,643, representing \$23,535 investment earnings for the period adjusted by a \$2,178 decrease in market value of investments and drawdown of \$550,000 for Capital project expenses

The Stranded Investment Reserve portfolio increased by \$465,395, representing investment earnings for the period adjusted by the change in the market value of investments.

Special Funds increased by \$166,225, representing investment earnings for the period adjusted by the change in market value of investments.



Investments held with fiscal agents increased by a net \$199,280,527 due to the following:

- A decrease of \$5,038,543 in trustee accounts for debt service payments on the 2008 Paseo Bonds and 2016A Rose Bowl Bonds.
- A \$19,626 reduction in the 2024A Rose Bowl Bonds cost of issuance account.
- An increase of \$534,524 from investment earnings, adjusted for changes in the market value of investments.
- An increase from General Obligation bond proceeds, including:
  - \$195,951,654 deposited in the project fund.
  - \$7,832,330 deposited in the capitalized interest account.
  - \$20,188 remaining in the cost of issuance account.

The PARS Section 115 Trust account increased by \$620,088. The change was comprised of a \$639,700 increase in market value of investments adjusted by \$19,612 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, 2025, the General Fund's investment balance was estimated at \$94.2 million representing 8.34% of the June 30, 2025, 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, 2025, the portfolio's effective duration was 1.83 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 June 30, 2025. 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

1/12<sup>th</sup> of the City's total aggregate annual Operating Budget. As of June 30, 2025, the portfolio had \$101.9 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 April 2023 as a result of the Fed tightening the monetary policy by raising the Fed Funds rate. However, interest rates across the Treasury yield curve decreased during the quarter with the most declines occurring on the two to five-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 July 2025 was 3.55%.

The graph below represents the historic yield of the Pooled Portfolio from July 2021 to period ending July 31, 2025:



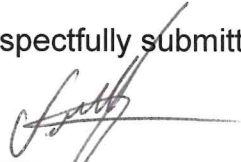
### **COUNCIL POLICY CONSIDERATION:**

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 report, nor will it have any indirect or support cost requirements. There is no anticipated impact to other operational programs or capital projects.

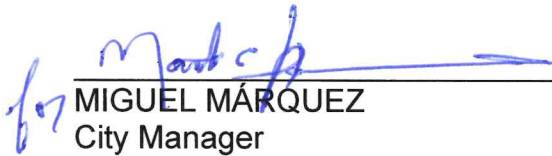
Respectfully submitted,



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VICKEN (VIC) ERGANIAN  
Acting Director of Finance

Approved by:

  
MIGUEL MÁRQUEZ  
City Manager

Attachment: (1)

Attachment A – Quarterly Investment Report - Quarter Ending June 30, 2025