

Agenda Report

June 9, 2025

TO: Honorable Mayor and City Council
THROUGH: Finance Committee
FROM: Department of Finance
**SUBJECT: QUARTERLY INVESTMENT REPORT – QUARTER ENDING
MARCH 31, 2025**

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 U.S. economy experienced a mixed first quarter (Q1) in 2025, with a slight Gross Domestic Product (GDP) contraction offset by pockets of resilience in consumer spending, housing, and labor markets. Inflation continued to ease, aided by falling energy prices, while financial markets reflected growing uncertainty. U.S. equities declined, but bonds and global markets offered some stability. The overall picture suggests a slowing, but still adaptive economy navigating a shifting policy and global landscape.

Growth (GDP):

The U.S. economy contracted slightly in Q1 of 2025, with real GDP declining at an annual rate of 0.3%, following 2.4% growth in the previous quarter. The slowdown was mainly due to a rise in imports and a drop in government spending. However, business investment, consumer spending, and exports showed gains.

Labor Market:

In Q1 of 2025, the U.S. labor market remained relatively stable, with a gradual slowdown in hiring and steady unemployment rates. Payroll job growth averaged 152,000 per month, down from the previous quarter's 209,000 reflecting a return to trend following post-pandemic surges. The unemployment rate hovered around 4.1%.

Inflation:

Inflation trends in early 2025 were mostly encouraging. Headline inflation, measured by the Consumer Price Index (CPI), eased to 2.4% over the year through March, down sharply from its 2022 peak. Monthly inflation also slowed, averaging 0.2% in Q1, or 2.6% annualized.

Consumer Spending:

Consumer spending rose in the first quarter, driven by increases in both services and goods. Spending on health care, housing, and utilities led the gains in services. On the goods side, purchases of everyday items (nondurable goods) grew, while spending on big-ticket items (durable goods) declined slightly.

Housing Market:

High mortgage rates of over 7% in January initially slowed the housing market, but conditions improved by March. New home sales rose by 4% for the quarter, and data showed increases in sales and housing starts. Falling mortgage rates and stable home prices helped boost activity, with some buyers taking advantage of refinancing opportunities.

Financial Markets:

U.S. stocks declined in Q1 as investors reacted to tariff concerns, a new administration's spending agenda, and signs of slower economic growth. The S&P 500 fell 4.3%, and the NASDAQ dropped 10.3%, led by big tech. In contrast, international markets showed gains. Developed Markets rose 8.1% and Emerging Markets 4.5%.

Bonds rallied as interest rates fell. The Bloomberg Aggregate Bond Index rose 2.8%, supported by a 0.40% drop in the two-year Treasury yield and a 0.75% drop in the ten-year yield. Lower yields helped ease pressure on the federal budget as refinancing needs grow. While stocks slipped, bonds and global equities provided some balance.

Total Funds Under Management

The table below represents total City funds under management based on their market values as of March 31, 2025.

	03/31/2025	12/31/2024	Change
Pooled Investment Portfolio	\$803,124,387	\$823,742,327	(20,617,940)
Capital Endowment	2,057,320	2,030,339	26,981
Stranded Investment Reserve Portfolio	44,341,759	43,096,162	1,245,597
Special Funds	17,562,688	17,382,085	180,603
Investments Held with Fiscal Agents	33,457,432	27,828,401	5,629,031
PARS Section 115 Trust	16,359,400	16,176,463	182,937
Total Funds Under Management	\$916,902,986	\$930,255,777	\$(13,352,791)

The Pooled Investment Portfolio value decreased by a net \$(20,617,940) due to the following cash transactions during the quarter:

Net Investment Earnings (Fair Market Value Change plus Interest Income)	\$ 10,759,576
Deposits and Credit Card Receipts	144,437,208
Property Tax Revenues	31,925,988
Sales Tax and Other State Apportionments	18,358,367
HUD Receipts Net of Payments and Loans	1,257,749
Payroll and Payroll-related Expenses	(99,724,744)
Vendor Payments and Accounts Payable Checks	(71,264,950)
Debt Service Payments Net of Reimbursements and Subsidies	(20,265,019)
Water and Power Payments Net of Receipts	(40,509,224)
Net Transfer from Other Funds	5,272,163
Purchase of Property from Cal Trans related to the State Route 710 Sales Program	(865,055)
Total	\$ (20,617,940)

The Capital Endowment Fund increased by \$26,981, representing \$23,695 investment earnings for the period adjusted by a \$3,286 increase in market value of investments.

The Stranded Investment Reserve portfolio increased by \$1,245,597, representing investment earnings for the period adjusted by the change in the market value of investments.

Special Funds increased by \$180,603, representing investment earnings for the period adjusted by the change in market value of investments.

Investments held with fiscal agents increased by a net \$5,629,031 as a result of a transfer of \$5,031,717 to the trustee to fund the debt service related to the 2008 Paseo Bonds and the 2016A Rose Bowl Bonds, a decrease in the 2024A Rose Bowl bonds cost of issuance account of \$4,619, and an increase of \$601,933 representing investment earnings adjusted by the change in market value of investments.

The PARS Section 115 Trust account increased by \$182,937. The change was comprised of a \$202,480 increase in market value of investments adjusted by \$19,543 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, 2025, the General Fund's investment balance was estimated at \$91.8 million representing 11.43% of the March 31, 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 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, 2025, the portfolio's effective duration was 1.83 years.

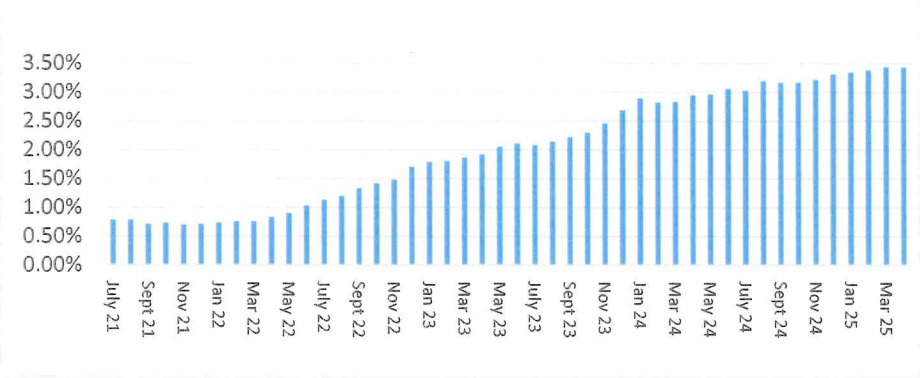
Per government code requirements, attached are reports by each fund indicating the type of investments, date of maturity, par and dollar amount invested in each security, and investment and moneys within the Treasury with market values as of March 31, 2025. On a monthly basis, the City Treasurer prices 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 1/12th of the City's total aggregate annual Operating Budget. As of March 31, 2025, the portfolio had \$113.8 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 April 2025 was 3.43%.

The graph below represents the historic yield of the Pooled Portfolio from July 2021 to period ending April 30, 2025:

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 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

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City Treasurer/Deputy Director of Finance

Approved by:


MIGUEL MÁRQUEZ
City Manager

Attachment: (1)

Attachment A – Quarterly Investment Report - Quarter Ending March 31, 2025