

Agenda Report

March 17, 2025

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

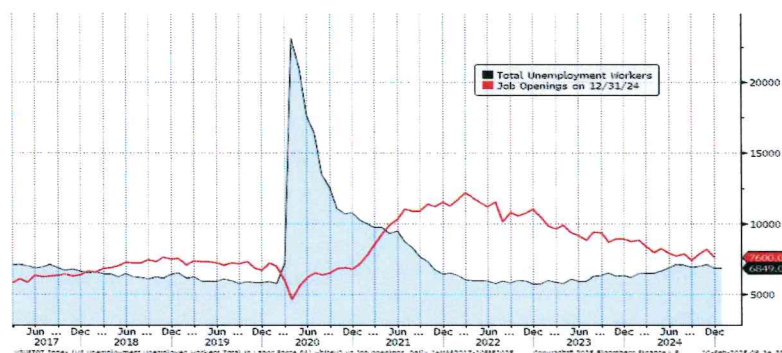
Economic Summary

In the fourth quarter of 2024 (Q4), U.S. economic growth slowed to 2.3% from 3.1% in the previous quarter, primarily due to declines in investments and exports. However, consumer spending, residential investment, and government spending helped sustain growth.

Growth (GDP):

In Q4, the U.S. economy grew at an annual rate of 2.3% according to the advance estimate released by the U.S. Bureau of Economic Analysis, slowing from 3.1% in the previous quarter. This growth was primarily driven by increases in consumer spending and government spending, while investments declined. Imports, which subtract from GDP, also decreased. The slowdown in Gross Domestic Product (GDP) growth compared to the third quarter of 2024 (Q3) was mainly due to declines in investments and exports. Inflation picked up slightly, with the price index for gross domestic purchases rising 2.2%, compared to 1.9% in Q3. The personal consumption expenditures (PCE) price index increased 2.3%, with core PCE (excluding food and energy) rising 2.5%, both higher than in Q3. For the full year of 2024, real GDP grew by 2.8%, slightly lower than 2.9% in 2023.

Labor Market:

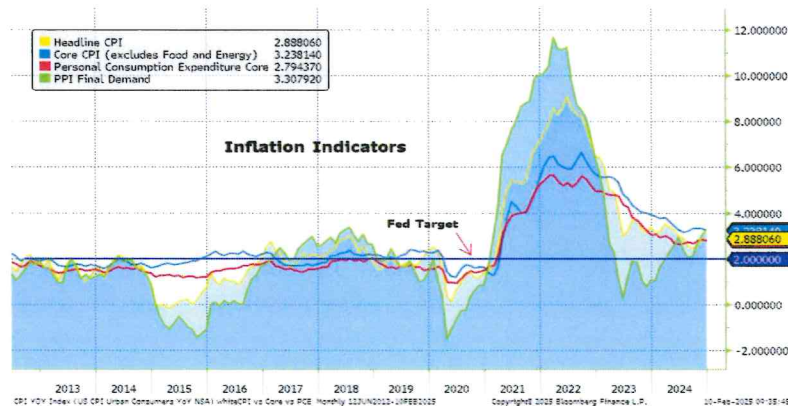


The labor market remained strong in Q4, despite temporary disruptions from labor strikes and severe weather. Job growth rebounded in November and December, averaging 170,000 new jobs per month, though the pace of hiring has slowed over recent years. Most job gains were in the public sector and government-adjacent industries, reflecting a shift from pre-pandemic trends.

The unemployment rate edged down to 4.1%, aligning with estimates for stable inflation. Unemployment insurance claims remained low, though briefly spiking due to hurricanes and California wildfires. The Unemployment rate in the State of California was 5.5%, the unemployment rate in Los Angeles County was 5.7%, and the unemployment rate in the City of Pasadena was 5.3% as of December 31, 2024.

Overall, the labor market showed resilience with solid job growth, low unemployment, and stable wages, though some indicators suggest a gradual cooling.

Inflation:



Inflation has significantly declined from its peak of 9.1% in June 2022 to 2.9% in December of 2024, but recent trends show signs of acceleration. In Q4, the Consumer Price Index rose at an annualized rate of 3.9%, up from 2.1% in the third quarter. Energy prices, which had been declining in previous quarters, turned positive, rising by 0.9% per month on average. Food inflation continued to climb for the third consecutive quarter, reaching 0.3% per month, the highest pace since early 2023. A new avian flu outbreak in the U.S. has raised concerns about further price increases for eggs and poultry.

Consumer Spending:

Consumer spending increased due to growth in both services and goods. Health care was the largest contributor within services, driven by higher spending on hospital, nursing home, and outpatient services based on employment and earnings data. In the goods sector, recreational goods and vehicles saw an increase, particularly in information processing equipment, while motor vehicles and parts experienced growth, led by new light truck sales. These trends were supported by employment statistics and retail trade data, reflecting overall economic expansion.

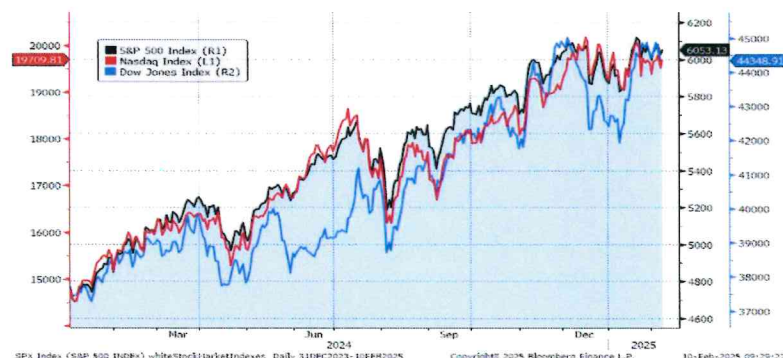
Housing Market:

The U.S. housing market remains highly unaffordable, with existing home sales dropping to a nearly 30-year low due to high mortgage rates, record home prices, and a persistent housing shortage. Sales fell 0.7% to 4.06 million homes, the lowest since 1995. Mortgage rates hovering around 7%, have significantly reduced affordability, while limited inventory has pushed the national median home price to a record \$407,500, up 4.7% from the previous year.

Although home sales rose slightly in December, experts predict it could take years, possibly until the 2030's, for sales to return to historical levels. A decade of underbuilding and homeowners holding onto properties has worsened the inventory shortage. While mortgage rates may decline slightly in 2025, they are unlikely to drop

below 6%, meaning affordability challenges will persist, keeping many prospective buyers on the sidelines.

Financial Markets:



Global financial markets experienced another strong year in 2024, with the U.S. leading the way. The S&P 500 posted a 25.0% return, marking its second consecutive year of gains exceeding 20%. The Federal Reserve initiated interest rate cuts, signaling a shift in monetary policy, while the U.S. Presidential election introduced uncertainty about future economic policies. Equity markets performed well, particularly in the technology sector, where the NASDAQ Composite surged 29.6%.

In fixed income markets, the Federal Reserve pivoted from its “higher for longer” stance to a more accommodative policy, implementing a total of 100 basis points in rate cuts beginning in September. However, as inflation progress slowed and economic growth remained strong, expectations for further rate cuts in 2025 diminished. The bond market experienced losses in the latter part of the year, with the Bloomberg Aggregate Index declining 3.1% in the Q4, ultimately delivering a modest 1.25% return for the year. Rising bond yields weighed on fixed income investors, limiting gains. Overall, U.S. equities, particularly technology stocks, drove market growth in 2024, while international equities and bonds faced headwinds.

Total Funds Under Management

The table below represents total City funds under management based on their market values as of December 31, 2024.

	12/31/2024	9/30/2024	Change
Pooled Investment Portfolio	\$823,742,327	\$796,416,802	\$27,325,525
Capital Endowment	2,030,339	2,007,636	22,703
Stranded Investment Reserve Portfolio	43,096,162	44,012,608	(916,446)
Special Funds	17,382,085	17,225,083	157,002
Investments Held with Fiscal Agents	27,828,401	38,199,815	(10,371,414)
PARS Section 115 Trust	16,176,463	16,528,147	(351,684)
Total Funds Under Management	\$930,255,777	\$914,390,091	\$15,865,686

The Pooled Investment Portfolio value increased by a net \$27,325,525 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	160,506,174
Property Tax Revenues	34,460,567
Sales Tax and Other State Apportionments	18,398,045
HUD Receipts Net of Payments and Loans	2,455,439
Payroll and Payroll-related Expenses	(98,646,311)
Vendor Payments and Accounts Payable Checks	(62,795,773)
Debt Service Payments Net of Reimbursements and Subsidies	(7,526,729)
Water and Power Payments Net of Receipts	(26,102,980)
Net Transfer from Other Funds	(6,638,794)
Received Concord Property Payment from Developer	12,104,515
Transfer FPRS portion of Concord payment to US Bank Trustee for Investment	(11,070,000)
City Funds the Reserve Fund for the 2024A Rose Bowl Refunding Bonds	(3,294,191)
Total	\$ 27,325,525

The Capital Endowment Fund increased by \$22,703, representing \$13,203 investment earnings for the period adjusted by a \$9,500 increase in market value of investments.

The Stranded Investment Reserve portfolio decreased by \$916,446 representing investment earnings for the period adjusted by the change in market value of investments.

Special Funds increased by \$157,002 representing investment earnings for the period adjusted by the change in market value of investments.

Investments held with fiscal agents decreased by a net \$10,371,414 as a result of a transfer of \$335,105 from the trustee to fund the debt service payments related to the 2008 Paseo Bonds and the 2016A Rose Bowl Bonds, the new established 2024A Rose Bowl bond Cost of Issuance Fund in the amount of \$24,245, the liquidation of \$10,814,803 in 2010 Build America Bonds (BABs) Reserve Fund as a result of refunding the BABs, an increase of \$1,694,486 in the Water and Power investments with Southern California Public Power Authority (SCPPA) due to a credit related to SCPPA's overbilling in Fiscal Year (FY) 2024, and a net decrease of \$940,237 representing investment earnings adjusted by the change in market value of investments.

The PARS Section 115 Trust account decrease by \$351,684. The change was comprised of \$332,088 decrease in market value of investments adjusted by \$19,596 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, 2024, the General Fund's investment balance was estimated at \$103.5 million, representing 12.57% of the December 31, 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 that is 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 December 31, 2024, the portfolio's effective duration was 1.8 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, 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 (FY) 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 December 31, 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 at the beginning of 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. As the Fed began its cycle of cutting interest rates beginning in September of 2024, the City's pooled portfolio was able to maintain its gradual increase in its yield. The yield on the pooled portfolio tripled in the last twenty-four months and is expected to continue to incrementally increase over the next twelve-month period. The earnings rate on the pooled portfolio as of January 2025 was 3.34%.

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