



# Agenda Report

June 22, 2026

**TO:** Honorable Mayor and City Council  
**THROUGH:** Finance Committee  
**FROM:** Department of Finance  
**SUBJECT: QUARTERLY INVESTMENT REPORT – QUARTER ENDING  
MARCH 31, 2026**

## **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 moderate but broad-based growth in the first quarter (Q1) of 2026, supported by stronger business investment, resilient consumer spending, and improving labor market conditions. At the same time, households and businesses continued to navigate elevated inflation, higher energy costs, housing market challenges, and increased financial market volatility driven by geopolitical tensions and economic uncertainty.

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

The U.S. economy grew at a solid annual rate of 2.0 percent in Q1 of 2026 according to the advance estimate released by the U.S. Bureau of Economic Analysis, up from 0.5 percent growth in the fourth quarter of 2025. This acceleration was driven by stronger investment, exports, and government spending, along with continued consumer spending. Imports also rose during the period, which subtracts from the overall gross domestic product calculation.

#### **Consumer Spending:**

Consumer spending in early 2026 remained resilient but showed clear shifts in behavior. Growth was driven primarily by spending on services, while purchases of durable goods were flat and spending on non-durable goods declined slightly. Inflation pressures increased during the quarter, with higher gasoline prices contributing to rising household costs.

#### **Housing Market:**

The residential housing market showed improvement compared to last year, with mortgage rates falling below 6 percent in February and spurring greater activity. More listings and slower home price growth also helped affordability. However, persistent economic concerns, unseasonable weather, and a late-quarter rise in interest rates held back performance. As a result, existing home sales were flat for the quarter, while single-family starts and new home sales declined. Builders faced challenges from storms, higher construction costs, and elevated unsold inventory, and buyer hesitation increased amid broader uncertainties.

#### **Labor Market:**

Labor market conditions improved in early 2026, with stronger job growth, a slightly lower unemployment rate, and continued resilience in workforce participation among prime-age workers. Private sector hiring increased significantly after slowing at the end of 2025, while reductions in federal government payroll declines also supported overall

job gains. The unemployment rate averaged 4.3 percent during the first quarter, remaining consistent with a stable economic environment. Job openings also increased modestly after declining throughout 2025, while layoffs and unemployment claims remained low by historical standards.

**Inflation:**

Inflation trends in early 2026 were mixed. Core inflation, which excludes food and energy prices, continued to moderate on an annual basis, reflecting slower increases in housing costs and generally stable goods prices. However, some service categories, including medical services and air travel, saw renewed price increases during the first quarter. Food price inflation also eased somewhat compared with a year earlier, although prices for dining out remained elevated.

Headline inflation increased more noticeably due largely to higher energy prices linked in part to the conflict with Iran. Despite recent increases in energy-related costs, underlying inflation pressures outside of those categories showed signs of continued moderation overall.

**Financial Markets:**

US equities started the year on a positive note but declined overall during Q1 of 2026 amid concerns over artificial intelligence disruptions, stress in private credit markets, and rising geopolitical tensions in the Middle East. The S&P 500 Index fell 4.3 percent.

Fixed income markets were largely unchanged as the Federal Reserve kept interest rates steady amid persistent inflation. The Bloomberg US Aggregate Bond Index was flat for the quarter. Commodities delivered strong gains, with the Bloomberg Commodity Index rising 24.4 percent. Oil prices jumped 76.8 percent, driven by supply disruptions from Middle East tensions, ending the quarter at \$101.38 dollars per barrel. Gold prices increased 7.1 percent overall.

**Total Funds Under Management**

The table below represents total City funds under management based on their market values as of March 31, 2026:

	<b>3/31/2026</b>	<b>12/31/2025</b>	<b>Change</b>
Pooled Investment Portfolio	\$831,765,745	\$847,426,361	(15,660,616)
Capital Endowment	1,576,480	1,561,705	14,775
Power Fund Reserve for Working Capital	46,254,869	45,939,555	315,314
Special Funds	18,209,935	18,044,639	165,296
Investments Held with Fiscal Agents	244,960,747	243,247,221	1,713,526
PARS Section 115 Trust	10,772,023	17,830,662	(7,058,639)
<b>Total Funds Under Management</b>	<b>\$1,153,539,799</b>	<b>\$1,174,050,143</b>	<b>\$(20,510,344)</b>

The Pooled Investment Portfolio value decreased by a net of \$15,660,616 due to the following cash transactions during the quarter:

Net Investment Earnings (Fair Market Value Change plus Interest Income)	\$ 5,459,714
Deposits and Credit Card Receipts	132,247,865
Property Tax Revenues	34,103,389
Sales Tax and Other State Apportionments	20,473,522
HUD Receipts Net of Payments and Loans	5,648,531
Payroll and Payroll-related Expenses	(100,210,504)
Vendor Payments and Accounts Payable Checks	(86,672,601)
Debt Service Payments Net of Reimbursements and Subsidies	(21,074,643)
Water and Power Payments Net of Receipts	(23,396,431)
Net Transfer from Other Funds	4,079,531
Sales Proceeds for Property from Cal Trans related to the 710 highway Project	12,681,012
One Arroyo Foundation Grant	1,000,000
Received funds from PARS Section 115 to pay unfunded Accrued Liability for Plan 75	7,000,000
Paid CALPERS Unfunded Accrued Liability Additional Contribution on Plan 75	(7,000,000)
<b>Total</b>	<b>\$ (15,660,616)</b>

The Capital Endowment Fund increased by \$14,775, representing investment earnings for the period.

The Power Fund Reserve for Working Capital portfolio increased by \$315,314, representing investment earnings for the period adjusted by the change in the market value of investments.

The Special Funds increased by \$165,296, representing investment earnings for the period adjusted by the change in market value of investments.

Investments held with fiscal agents increased by a net \$1,713,526 due to the following:

- A decrease of \$5,139,476 in trustee accounts for debt service payments made on the 2008 Paseo Bonds, 2010D Rose Bowl Bonds and 2025 General Obligation bonds.
- An increase of \$5,345,375 in trustee accounts for debt service payment received on 3/27/2026 but paid on 4/1/2026 related to the 2016A Rose Bowl Bonds
- An increase of \$1,507,627 from investment earnings, adjusted for changes in the market value of investments.

The PARS Section 115 Trust account decreased by \$7,058,639. The change was comprised of a \$42,000 decrease in market value adjusted by \$16,639 in investment expenses and withdrawal of \$7 million from Pension account to pay CalPERS to reduce future Liability

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, 2026, the General Fund's investment balance was estimated at \$83.6 million,

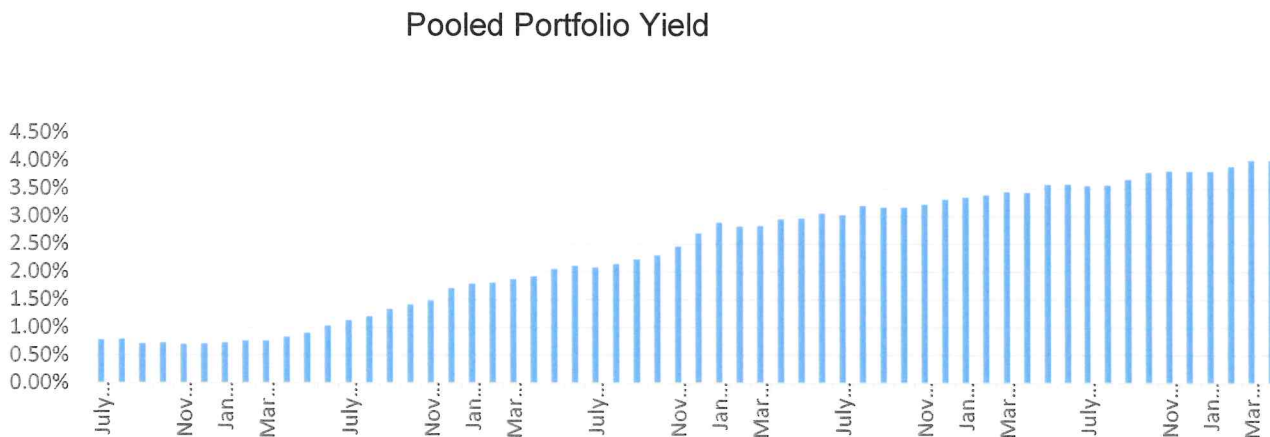
representing 7.25 percent of the Pooled Portfolio value. The General Fund's cash balance fluctuates daily based on the timing of revenues, receipts, and payment of expenditures. Investments in the Capital Endowment Fund, the Power Fund Reserve for Working Capital, the Special Funds, the PARS Section 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 March 31, 2026, the portfolio's effective duration was 2.42 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, 2026. 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 2026 Investment Policy, which was adopted by the City Council on June 9, 2025, 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 represent approximately 1/12 of the City's total aggregate annual Operating Budget. As of March 31, 2026, the portfolio had \$167.9 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, the Fed cut the overnight Fed Funds rate three times in 2025 and 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 moderate depending on the Fed's actions over the next twelve-month period. The earnings rate on the pooled portfolio as of April 2026 was 4.01 percent.

The graph below represents the historic yield of the Pooled Portfolio from July 2021 to period ending April 30, 2026:



### **Banking Regulations:**

Pursuant to City Council’s request for an explanation of the new banking regulations implemented as a result of the 2008 banking crisis, the following is a summary of the regulations:

Following the 2007–2008 Great Financial Crisis, global regulators fundamentally overhauled the rules governing the banking sector to prevent another systemic meltdown. The cornerstone of this effort was the Basel III Accord, an international regulatory framework implemented to ensure banks could survive severe economic stress. Regulators dramatically increased capital requirements, forcing banks to hold a significantly larger buffer of high-quality assets (like common equity) relative to their risk exposures. The goal was simple: if a bank's loans went bad, it needed enough of its capital to absorb the losses without requiring a government bailout. Alongside capital, strict liquidity requirements were introduced for the first time, mandating that banks hold enough easily sellable, high-quality liquid assets to survive a 30-day severe cash crunch.

In the United States, these global efforts were codified and expanded through the landmark Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010. A major pillar of this legislation was the Volcker Rule, which prohibited commercial banks from engaging in proprietary trading—essentially stopping them from gambling with depositors' insured money for their own profit. Additionally, regulators introduced annual "stress tests" (Comprehensive Capital Analysis and Review, or CCAR) for large financial institutions. These simulations force banks to prove they have enough capital to weather hypothetical economic disasters, like skyrocketing unemployment or a collapsing housing market. For the largest institutions deemed "Too Big to Fail," regulators imposed extra capital surcharges and required them to submit "living wills" detailed structural maps outlining how they could be dismantled in bankruptcy without requiring a taxpayer bailout.

**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,

  
KARIN SCHNAIDER  
Director of Finance

Prepared by:

  
\_\_\_\_\_  
Vic Erganian  
City Treasurer/Deputy Finance Director

Approved by:

  
\_\_\_\_\_  
MATTHEW E HAWKESWORTH  
Interim City Manager

Attachment: (1)

Attachment A – Quarterly Investment Report - Quarter Ending March 31, 2026