CITY OF PASADENA ★ INCORPORATED JUNE 1886 ★

Agenda Report

September 15, 2026

TO: Honorable Mayor and City Council

THROUGH: Finance Committee

FROM: Department of Finance

SUBJECT: **QUARTERLY INVESTMENT REPORT – QUARTER ENDING JUNE 30, 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

In the second quarter of 2026, the National U.S. economy expanded at a moderated pace of 1.5 percent annualized real Gross Domestic Product (GDP) growth, supported by stronger consumer spending, investment, and exports despite a pullback in government outlays.

The national housing market showed measured improvement amid high mortgage rates and the labor market strengthened with accelerating job gains and stable unemployment near 4.3 percent.

Inflation pressures eased on a monthly basis even as year-over-year readings remained elevated partly due to earlier energy shocks from geopolitical tensions, and financial markets delivered solid equity gains led by a 15.2 percent rise in the S&P 500 alongside mixed fixed-income results.

Growth (GDP):

GDP grew at an annual rate of 1.5 percent in Q2 of 2026, according to the advance estimate released today by the U.S. Bureau of Economic Analysis (BEA), down from 2.1 percent growth in the first quarter. The increase was driven by gains in consumer spending, investment, and exports, which were partially offset by a decline in government spending. Imports rose during the quarter, subtracting from overall GDP growth.

Consumer Spending:

Personal consumption expenditures, which account for roughly two-thirds of the United States economy, were the strongest contributor to GDP growth. Growth in personal consumption expenditures accelerated sharply to 3.2 percent from the previous quarter's 0.5 percent rate, adding 2.1 percentage points to real GDP growth.

Consumer spending on goods, led by prescription drugs and motor vehicles and parts, as well as services, led by food services and accommodations, picked up in the second quarter.

Housing Market:

The national residential real estate market experienced a measured pace of activity this spring amid economic uncertainty. Improved affordability supported home purchases, with existing home sales rising 2 percent and new home sales increasing 5.3 percent compared to the first quarter. Builders offered greater price concessions and incentives to manage elevated inventory levels, while many existing homeowners lowered their asking prices. Buyers and sellers showed greater willingness to adapt to elevated interest rates, as evidenced by new home listings reaching their highest level in four years and an increase in first-time home buyers entering the market. However, activity remained constrained by weaker buyer confidence and the highest thirty-year fixed mortgage rates in nine months.

Labor Market:

Job growth sped up significantly in the second quarter of 2026, and other indicators of labor market strength either improved or held relatively steady. Unemployment claims in mid-July dropped to their lowest level since 1969. While the overall labor force participation rate continued to decline because of demographic trends, the rate for people ages 25 to 54 stayed high. Job openings also rose both in total numbers and relative to the number of unemployed people. As of June 30, 2026, the U.S. National unemployment rate was 4.2 percent. The unemployment rate for the State of California was 4.2 percent; Los Angeles County's unemployment rate was 5.3 percent and the unemployment rate for the City of Pasadena was 4.8 percent.

Net job gains in the second quarter of 2026 exceeded most estimates of the growth needed to keep employment levels steady, which helped keep the unemployment rate broadly stable. The rate held at the first-quarter average of 4.3 percent, matching mainstream views of the level consistent with stable inflation and free of swings in overall demand. By June 2026 it improved further to 4.2 percent.

Inflation:

Inflation pressures eased in the second quarter of 2026, with average monthly headline consumer price index inflation slowing to 0.2 percent from 0.4 percent in the first quarter, and the index itself declining 0.4 percent in June from the prior month. Over the twelve months through June 2026, headline consumer price index inflation stood at 3.5 percent, higher than the 2.7 percent rate a year earlier largely because of hostilities with Iran, while core inflation excluding food and energy slowed to 2.6 percent from 2.9 percent. The personal consumption expenditures price index, which the Federal Reserve targets at 2 percent, rose 3.7 percent over the same twelve-month period, up from 2.6 percent the prior year, with earlier energy price swings contributing notably to the increase.

Inflation in Los Angeles County as measured by the LA-Long Beach-Anaheim CPI Index was 3.4 percent year-over-year as of July 2026. Almost one percent increase of the index was contributed to food and energy.

Financial Markets:

Equity markets rallied strongly in the second quarter of 2026, supported by easing geopolitical tensions around the United States-Iran conflict and a robust corporate earnings season. The S&P 500 Index gained 15.2 percent for the quarter, recovering all first-quarter losses and bringing year-to-date returns to 10.2 percent. Market gains broadened beyond large artificial intelligence-focused companies, with United States small-company stocks and emerging markets leading the way.

Fixed income markets in the second quarter experienced elevated yield volatility and new structural risks under Federal Reserve Chair Kevin Warsh. The 10-year Treasury yield began the quarter at approximately 4.30 percent, peaked at 4.67 percent in mid-May, and ended at 4.47 percent after retreating on hopes of a Middle East peace deal, producing a net negative effect for duration-sensitive bond portfolios. Despite rising rates, the Bloomberg U.S. Aggregate Bond Index rose 0.7 percent for the quarter as higher starting yields allowed coupon income to largely offset price declines.

Total Funds Under Management

The table below represents total City funds under management based on their market values as of June 30, 2026:

	6/30/2026	3/31/2026	Change
Pooled Investment Portfolio	$843,840,666	$831,765,745	12,074,921
Capital Endowment	1,038,671	1,576,480	(537,809)
Power Fund Reserve for Working Capital	46,552,835	46,254,869	297,966
Special Funds	18,376,042	18,209,935	166,107
Investments Held with Fiscal Agents	231,260,378	244,960,747	(13,700,369)
PARS Section 115 Trust	11,288,524	10,772,23	516,501
Total Funds Under Management	**$1,152,357,116**	**$1,153,539,799**	**$(1,182,683)**

The Pooled Investment Portfolio value decreased by a net of $12,074,921 due to the following cash transactions during the quarter:

Net Investment Earnings (Fair Market Value Change plus Interest Income)	$ 6,244,804
Deposits and Credit Card Receipts	150,790,612
Property Tax Revenues	60,891,546
Sales Tax and Other State Apportionments	19,748,714
HUD Receipts Net of Payments and Loans	3,291,518
Payroll and Payroll-related Expenses	(103,660,359)
Vendor Payments and Accounts Payable Checks	(89,555,003)
Debt Service Payments Net of Reimbursements and Subsidies	(21,621,257)
Water and Power Payments Net of Receipts	(25,706,610)
Net Transfer from Other Funds	1,242,475
Received Drawdown from General Obligatin Bonds for Library Project Expenses	10,408,481
Total	**$ 12,074,921**

The Capital Endowment Fund decreased by $537,809, representing investment earnings for the period of $12,191 and $550,000 drawdown for Capital Improvement Project expenses for Fiscal Year 2026.

The Power Fund Reserve for Working Capital portfolio increased by $297,966, representing investment earnings for the period adjusted by the change in the market value of investments.

The Special Funds increased by $166,107, representing investment earnings for the period adjusted by the change in market value of investments.

Investments held with fiscal agents decreased by a net $13,700,369 due to the following:

- A net decrease of $5,344,275 in trustee accounts for debt service payments made on the 2008 Paseo Bonds and 2016A Rose Bowl Bonds paid on 4/1/2026 by trustee.
- An increase of $113,604 for IRS subsidy received by trustee for 3/1/2026 payment related to 2010D Rose Bowl Bonds.
- An increase of $1,938,783 in investment earnings, adjusted for changes in the market value of investments.
- A decrease of $10,408,481 representing drawdowns from the proceeds of the General Obligation Bonds for the Library Project expenses.

The PARS Section 115 Trust account increased by $516,501. The change was comprised of a $531,138 increase in market value of investments adjusted by $14,637 in 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, 2026, the General Fund's investment balance was estimated at $93.2 million, representing 8.09 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, 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, 2026, the portfolio's effective duration was 2.41 years.

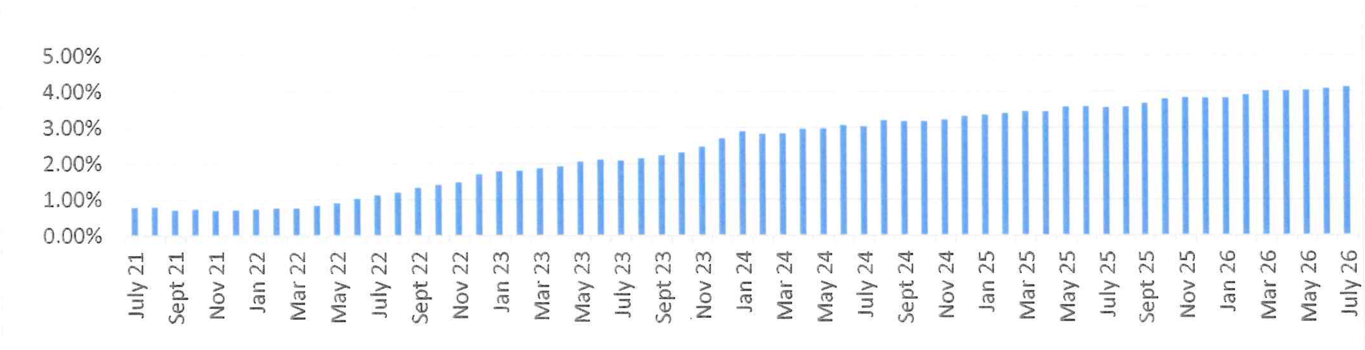
Per government code requirements, attached are reports by each fund indicating the type of investments, date of maturity, par and dollar amount invested in each security, and investment and moneys within the Treasury with market values as of June 30, 2026. On a monthly basis, the City Treasurer prices 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 June 30, 2026, the portfolio had $135.7 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 market currently is anticipating two 25 basis points (0.25%) increase in the Fed Funds rate in the next twelve months. The yield on the pooled portfolio tripled in the last twenty-four months and is expected to moderately increase depending on the Fed's actions over the next twelve-month period. The earnings rate on the pooled portfolio as of July 2026 was 4.11 percent.

The graph below represents the historic yield of the Pooled Portfolio from July 2021 to period ending July 31, 2026:

Pooled Portfolio Yield



<u>COUNCIL POLICY CONSIDERATION</u>:

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

KARIN SCHNAIDER
Director of Finance

Prepared by:

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for

Vic Erganian
City Treasurer/Deputy Finance Director

Approved by:

MATTHEW E. HAWKESWORTH
Interim City Manager

Attachment: (1)
Attachment A – Quarterly Investment Report - Quarter Ending June 30, 2026