




# REQUEST FOR CITY COUNCIL ACTION

**MEETING DATE:** SEPTEMBER 10, 2019

**TITLE:** TREASURER'S REPORT FOR THE FISCAL YEAR ENDED  
JUNE 30, 2019

  
\_\_\_\_\_  
Director of Financial Management  
& Strategic Planning

  
\_\_\_\_\_  
for City Manager

## RECOMMENDED ACTION

Receive and file the Treasurer's Report for the fiscal year ended June 30, 2019.

## EXECUTIVE SUMMARY

The Treasurer's Report (Attachment 1) provides a synopsis of investment activity for the City's three investment portfolios for the fiscal year ended June 30, 2019. The portfolios, managed by Meeder Investment Management under the direction of the Treasurer, include the Irvine Pooled Investment Portfolio, Bond Proceeds Fund Portfolio, and the Special District Funds Portfolio. The total book value for all three portfolios was \$1.08 billion as of June 30, 2019. The report provides information on assets, allocations, average maturities, yields, and valuations for each of the three portfolios. A discussion of market conditions is included to give additional perspective to these measurements.

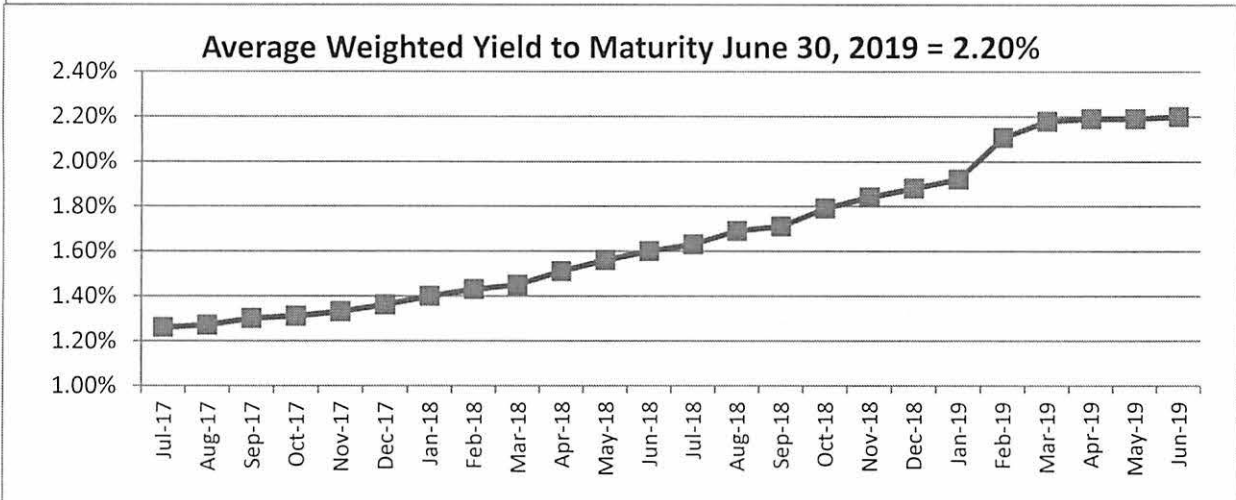
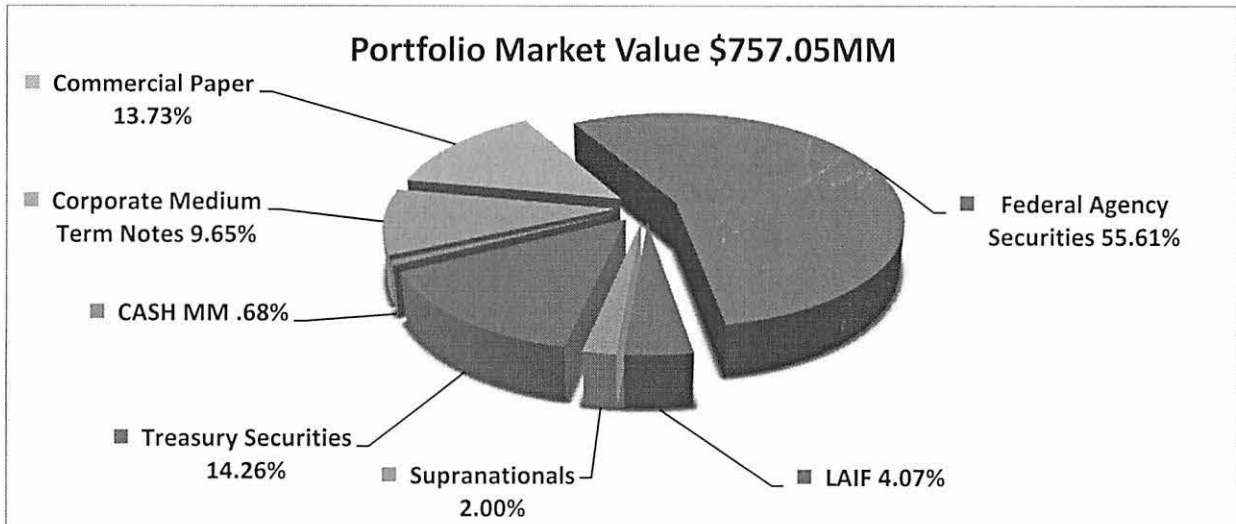
As of June 30, 2019, the City's investment Portfolios are in full compliance with the City's Investment Policy, the California Government Code Section 53601, and have sufficient cash flow from a combination of liquid and maturing securities, bank deposits, and income to meet the City's expenditure requirements.

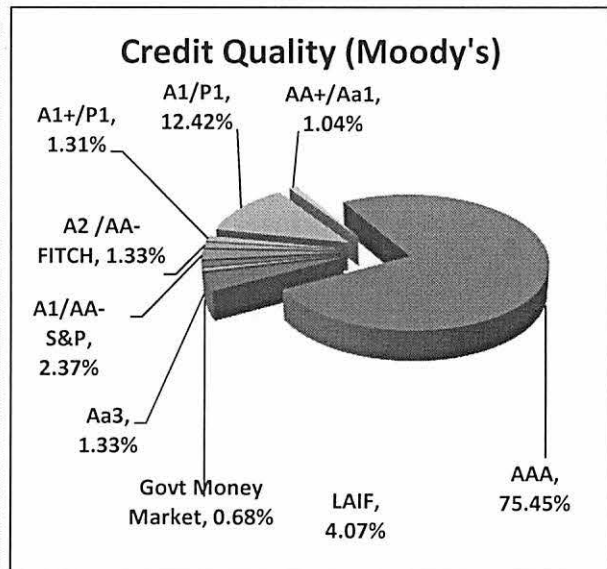
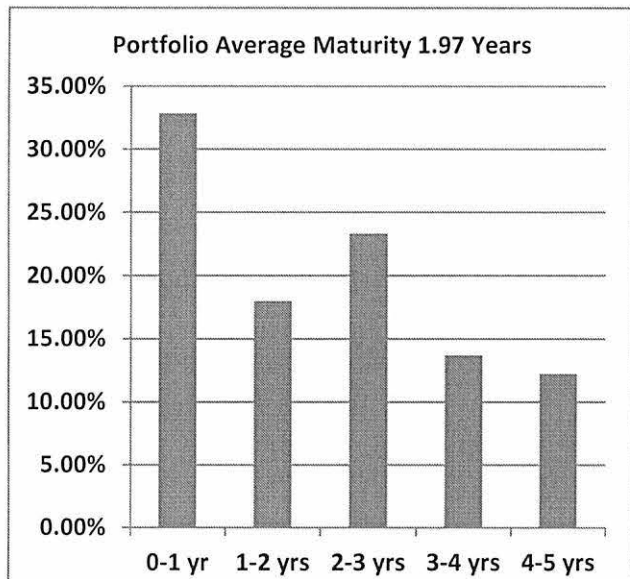
## COMMISSION/BOARD/COMMITTEE RECOMMENDATION

At its regular meeting of August 19, 2019, the Finance Commission voted to recommend the City Council receive and file the Treasurer's Report for the fiscal year ended June 30, 2019 by a 4-0-1 vote (Commissioners Shute, Sievers, Fournier and Young approving; Commissioner Cheema absent).

## ANALYSIS

The Pooled Investment Portfolio holds the City's operating funds. The charts on the following pages provides highlights on asset allocation, maturity distribution, credit quality, as well as the book yield history of this portfolio only. The Treasurer's Report provides detailed information on all three portfolios.





**ALTERNATIVES CONSIDERED**

None. The Treasurer’s Report is intended to provide historical information about the City’s investment portfolios. Pursuant to the City’s Investment Policy, the Treasurer is required to submit quarterly Treasurer’s reports to the Investment Advisory Committee, the Finance Commission, and the City Council.

**FINANCIAL IMPACT**

Fiscal year-to-date investment income for the Irvine Pooled Investment Portfolio, Bond Proceeds Funds Portfolio, and Special Districts Funds Portfolio totaled \$16.09 million with investments structured for security and liquidity.

**REPORT PREPARED BY** Don Collins, City Treasurer

**Attachments:**

1. Treasurer’s Report for the Fiscal Year Ended June 30, 2019
2. Summary of Irvine Pooled Investment Portfolio by Fund



**CITY OF IRVINE  
TREASURER'S REPORT  
For Fiscal Year Ended June 30, 2019**

The City of Irvine maintains three investment portfolios, the Irvine Pooled Investment Portfolio, the Bond Proceeds Fund Portfolio, and the Special District Funds Portfolio. As of fiscal year ended June 30, 2019, combined market value of the three portfolios totaled \$1.08 billion. This report provides detailed information of all three portfolios, along with an analysis of market conditions.

**Irvine Pooled Investment Portfolio**

The Irvine Pooled Investment Portfolio contains funds invested for the daily operational requirements of the City and funds reserved for economic uncertainties, future rehabilitation and maintenance needs. The portfolio is a combination of various operational funds, including the City's Asset Management Plan and funds earmarked for the development of the Orange County Great Park. A summary of Irvine Pooled Investment Portfolio by Fund is presented at the end of this report (Attachment 2).

As of June 30, 2019, the book value (purchase price of securities as recorded on the City's books) of the portfolio was \$750.12 million and the average yield to maturity was 2.20 percent. Investment revenue (interest payments and capital gains) generated by the portfolio for quarter ending June 30, 2019 was \$2.94 million. The chart below compares the portfolio's statistics over a rolling 12-month period.

**Irvine Pooled Investment Portfolio  
Rolling 12-Month Quarterly Comparison**

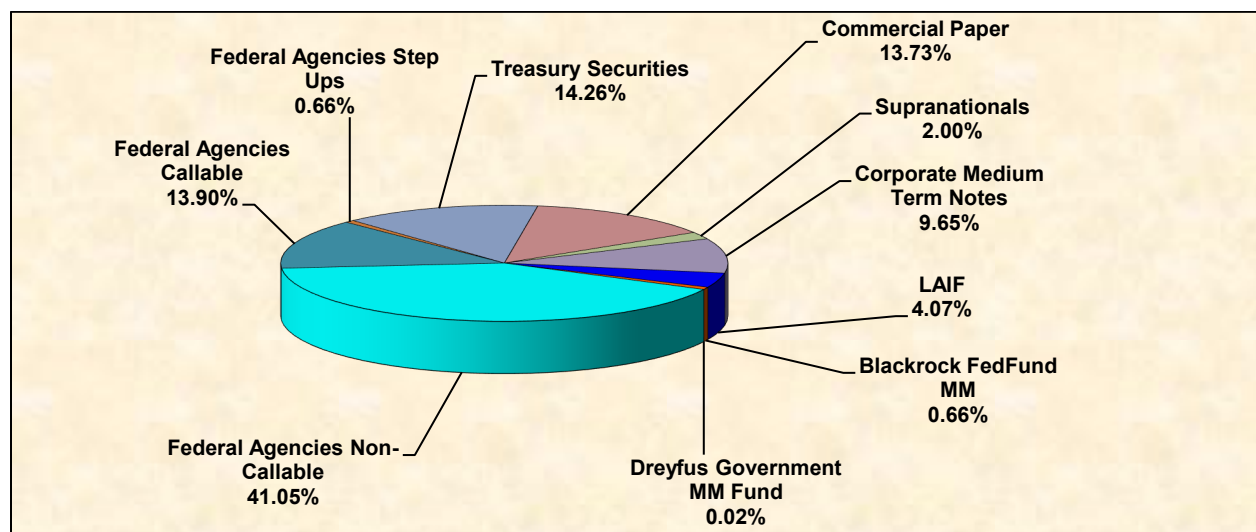
	<b>June 30, 2019</b>	<b>March 31, 2019</b>	<b>December 31, 2018</b>	<b>September 30, 2018</b>
Book Value	\$750,125,295	\$718,125,011	\$681,343,699	\$674,483,445
Market Value	\$757,045,215	\$718,456,099	\$677,185,119	\$665,082,116
Unrealized Gain/(Loss)	\$6,919,920	\$331,088	(\$4,158,580)	(\$9,401,329)
Unrealized Gain/(Loss) as % of Book Value	0.92%	0.05%	(0.61%)	(1.39%)
Average Yield To Maturity	2.20%	2.18%	1.88%	1.71%
Liquidity 0–6 Months	25.81%	21.08%	20.59%	18.10%
Weighted Average Maturity	1.97	2.03	1.69	1.80
Modified Duration (Years)	1.90	1.94	1.63	1.73
Quarterly Interest Earnings	\$2,940,299	\$2,221,958	\$2,869,631	\$2,278,578
Fiscal Year to Date Income	\$10,310,466	\$7,370,167	\$5,148,209	\$2,278,578

As anticipated, the Irvine Pooled Investment Portfolio's book value increased by \$32.00 million from the previous quarter due to the receipt of property tax, vehicle license Fees, and successor agency transfers. Portfolio yield to maturity increased for the quarter ended June 30, 2019 by 2 basis points to 2.2 percent. With market rates decreasing during the quarter, as of June 30, 2019 the portfolio ended with an unrealized gain of \$6.20 million as compared to an unrealized gain of \$331 thousand on March 31, 2019. This is a normal result of the portfolio's modified duration of 1.90 years, and its price-sensitivity to changes in market interest rates.

To ensure the safety of the portfolio, investments that hold the highest credit quality are selected. The Irvine Pooled Investment Portfolio is comprised primarily of Treasury Securities and Federal Government sponsored entity debt, otherwise known as federal agency securities. Although federal agency securities were downgraded by Standard & Poor's to AA+ in August 2011, they continue to be regarded as among the safest securities in the global market. Two of the government sponsored agencies, Federal National Mortgage Association (Fannie Mae) and Federal Home Loan Mortgage Corporation (Freddie Mac), remain under conservatorship and carry an implicit guarantee by the Federal Government. In addition, both are carefully monitored by the City's investment manager and Treasurer to ensure the continued safety of the City's funds.

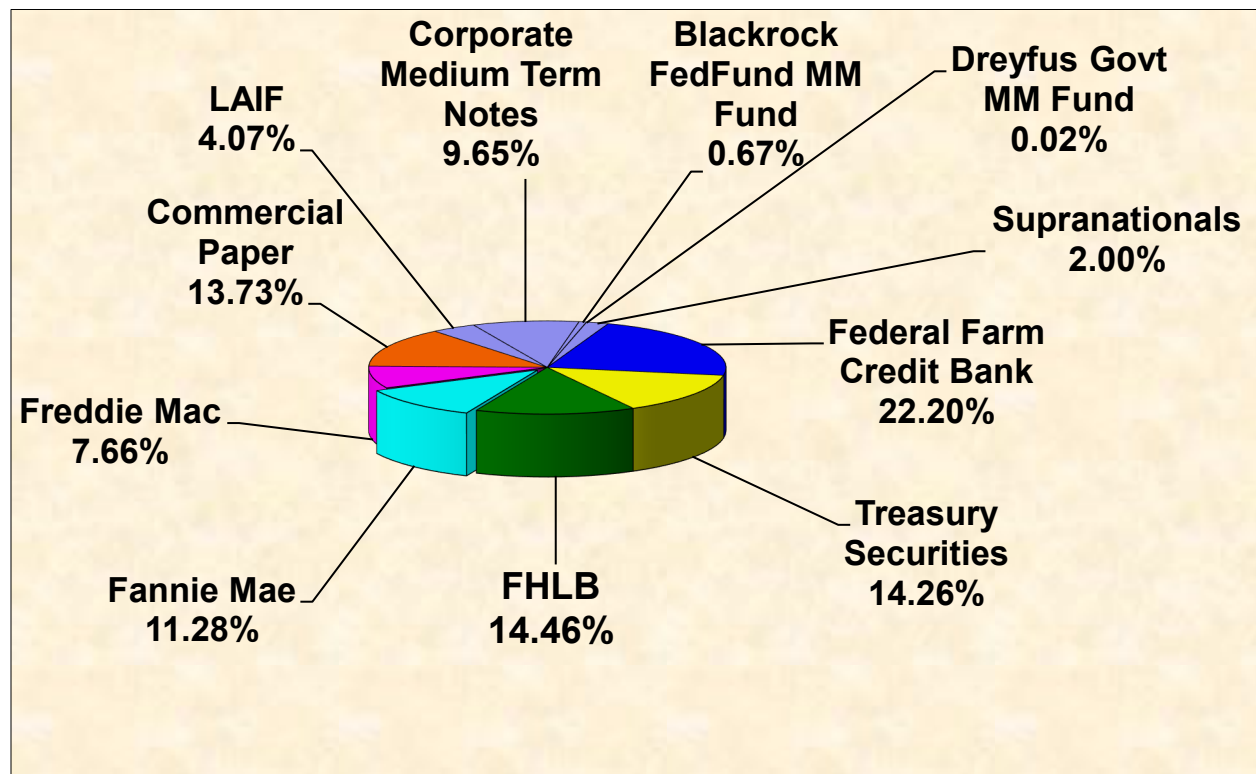
To manage liquidity, the Irvine Pooled Investment Portfolio is invested in Local Agency Investment Funds (LAIF), Dreyfus Government money market fund, Blackrock FedFund money market fund and short term Commercial Paper. Chart 1 shows the asset allocation of the portfolio.

**Irvine Pooled Investment Portfolio**  
**Chart 1 - Asset Allocation**  
**as of June 30, 2019**



To diversify, the City purchases United States Treasury notes Commercial Paper, Corporate Medium term notes, Supranational notes, and securities from several different federal agencies. The four Federal Government sponsored entities the City owns are: Federal National Mortgage Association (Fannie Mae), Federal Home Loan Mortgage Corporation (Freddie Mac), Federal Home Loan Bank (Home Loan), and Federal Farm Credit Bank (Farm Credit). Chart 2 identifies portfolio holdings by issuer name.

**Irvine Pooled Investment Portfolio  
Chart 2 - Holdings by Issuer Name  
as of June 30, 2019**



Another key component in portfolio management is to ensure that the City has enough funds on hand to meet current expenses. As of June 30, 2019, the overnight to 6-month liquidity level for the Irvine Pooled Investment Portfolio was at 25.81 percent. Chart 3, on the following page, is an aging of investment maturities up to 5 years (the maximum maturity allowable by policy and state code) of the Irvine Pooled Investment Portfolio.

**Irvine Pooled Investment Portfolio**  
**Chart 3 - Aging of Maturing Investments (Maturity Value)**  
**as of June 30, 2019**

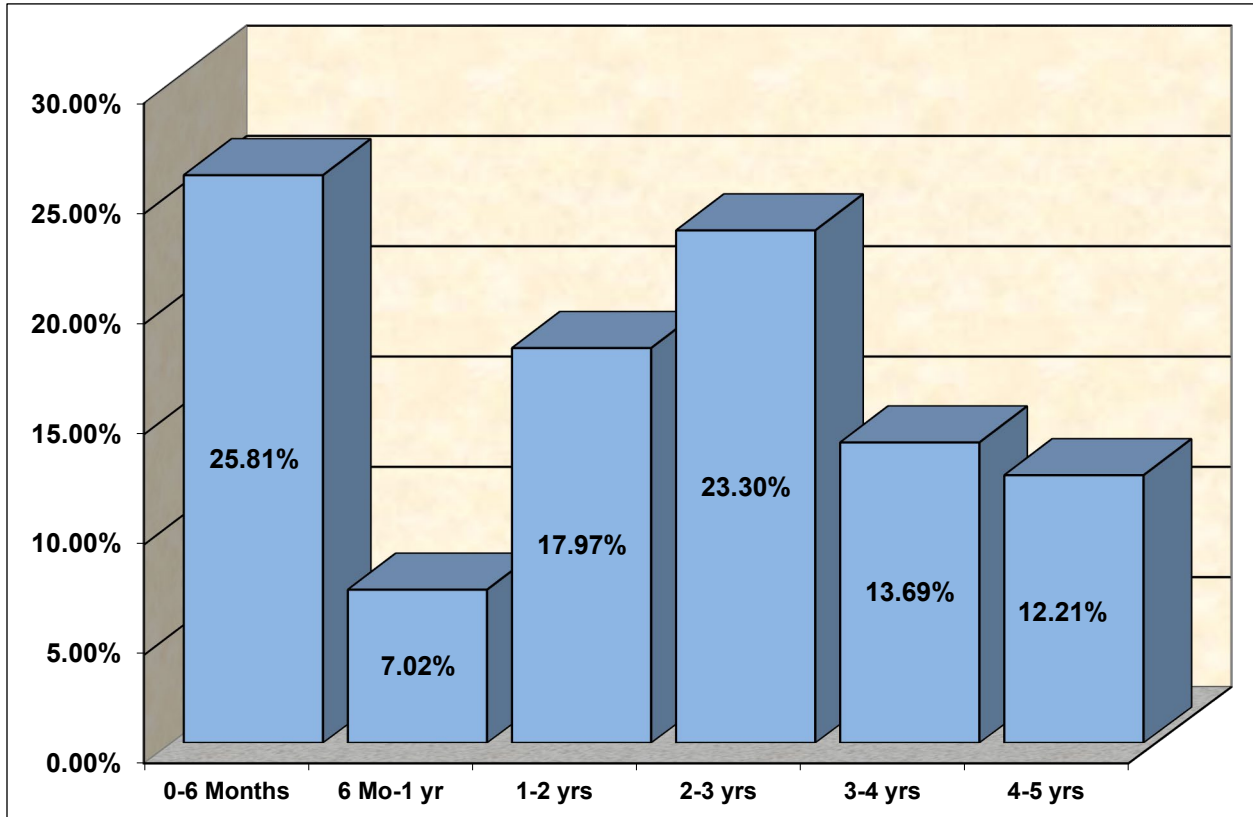
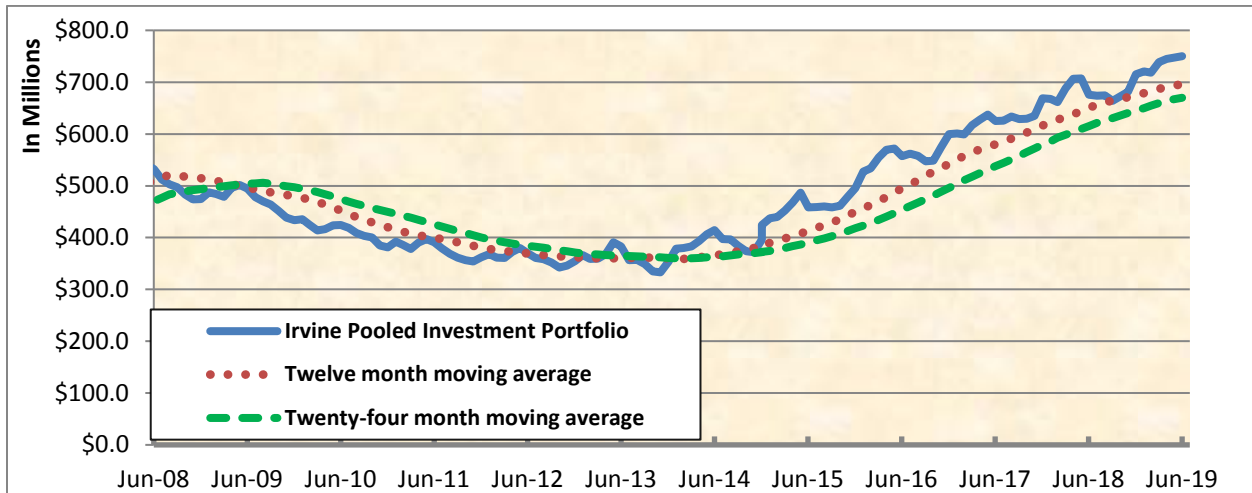
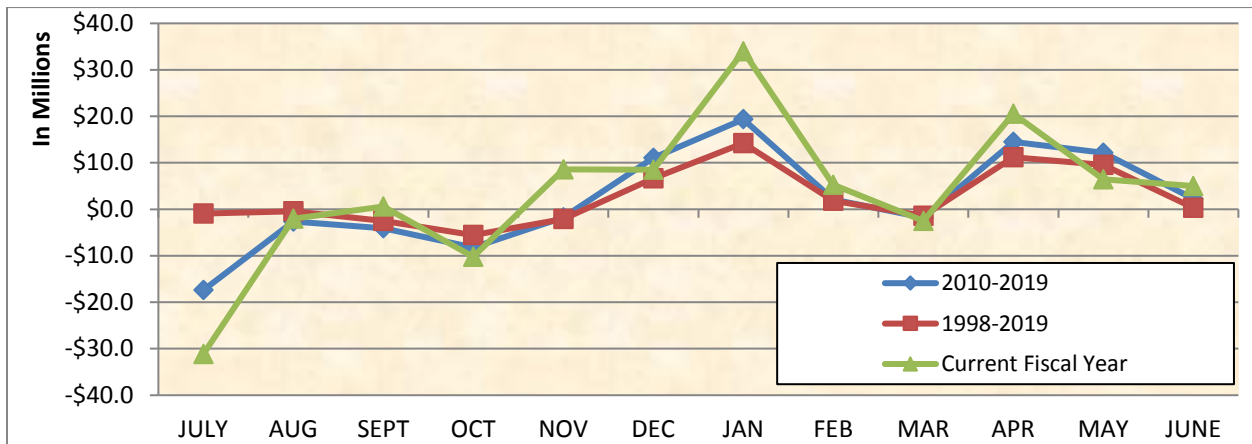


Chart 4 and Chart 5 show the volatility and cyclical nature of the Irvine Pooled Investment Portfolio fund balance and cash flows between 2008 and 2019. As noted in chart 5, the portfolio experienced above average outflows in July due to the prepayment of CalPERS pension liability for Fiscal Year 2018-19, and higher than average expenses related to capital projects.

**Irvine Pooled Investment Portfolio  
 Chart 4 - Portfolio Balance  
 June 30, 2008 through June 30, 2019**



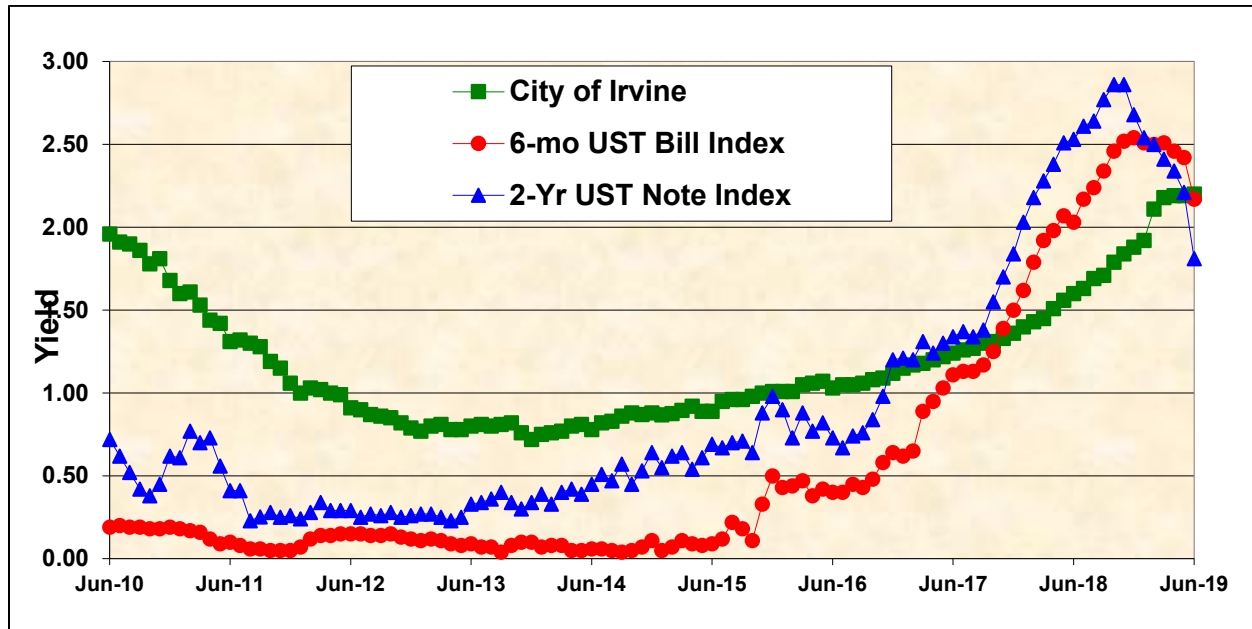
**Irvine Pooled Investment Portfolio  
 Chart 5 – Balance Change Month by Month (Average)**



To gauge performance, the City compares the Irvine Pooled Investment Portfolio's yield to maturity against two reference notes set in the City's Annual Investment Policy: the 6-month United States Treasury (UST) Bill Index and 2-year UST Note Index. Chart 6 compares the average yield to maturity of the portfolio to these reference notes, and shows the spread (difference between the index and the yield to maturity) for the past nine years. With the recent shift in the forward interest rate outlook from both the markets and the Federal Reserve, the portfolio's book yield is higher than the 6-month UST by 0.03 percent and the 2-year UST by 0.39 percent.



**Irvine Pooled Investment Portfolio**  
**Chart 6 - Yield to Maturity Compared to Assigned Indices**  
**June 30, 2010 through June 30, 2019**



### **Bond Proceeds Fund Portfolio**

The Bond Proceeds Fund Portfolio contains special district construction and administration funds that are not held by a trustee. These include older bond issues, and funds on hand to finance the City's special district administration. Investment strategy in the Bond Proceeds Fund Portfolio differs from the Irvine Pooled Investment Portfolio due to the different cash needs between the two. The Bond Proceeds Fund Portfolio requires greater liquidity to meet debt related payments. The account balance in the Bond Proceeds Fund Portfolio fluctuates from quarter to quarter due to the timing of property assessment collections from the County of Orange and subsequent distributions. Several times a year, the portfolio receives special assessments and tax levies collected by the County. The special assessments and tax levies contain three major components:

- (1) The collections from the various Assessment Districts (AD), Reassessment Districts (RAD) and Community Facilities Districts (CFD). Upon receipt, the City transfers these funds to the Districts' bond trustees.
- (2) The collections for the guaranteed maintenance amount of the Great Park CFD. Upon receipt, the City transfers this amount to the Orange County Great Park Fund.
- (3) The collections for the Districts' construction and administration funds held and managed by the City. This portion remains in the Bond Proceeds Fund Portfolio

Fiscal year-to-date investment revenue (interest payments and capital gains) generated by the Bond Proceeds Fund Portfolio as of June 30, 2019 was \$235,133. The increase in balance for December 2018 was due to the temporary holding of special assessments and taxes received from the County. These funds were transferred to Special District Portfolio in January 2019.

**Bond Proceeds Fund Portfolio  
 Rolling 12-Month Quarterly Comparison**

	<b>June 30, 2019</b>	<b>March 31, 2019</b>	<b>December 31, 2018</b>	<b>September 30, 2018</b>
Book Value	\$12,162,000	\$10,120,000	\$31,637,000	\$6,580,000
Market Value	\$12,163,787	\$10,098,064	\$31,568,424	\$6,567,675
Unrealized Gain/(Loss)	\$1,787	(\$21,936)	(\$68,576)	(\$12,325)
Unrealized Gain/(Loss) as % of Book Value	0.01%	(0.22%)	(0.22%)	(0.19%)
Average Yield To Maturity	2.42%	2.43%	2.32%	2.09%
Liquidity 0–6 Months	100.00%	100.00%	100.00%	100.00%
Average Days To Maturity	1	1	1	1
Modified Duration in Days	1	1	1	1
Quarterly Interest Earnings	\$82,097	\$85,468	\$37,548	\$30,020
Fiscal Year to Date Income	\$235,133	\$153,036	\$67,568	\$30,020

**Special District Funds Portfolio**

The Special District Funds Portfolio contains project and reserve funds for 29 AD and RAD bond issues and five CFD bond issues. Investments in this portfolio are made in accordance with each bond's indenture and the strategy is based on the cash flow needs of each district. The Special District Funds Portfolio must also remain very liquid to provide project funds, when needed, as well as meet debt service payment requirements. Fiscal year-to-date investment revenue (interest payments and capital gains) generated by the Special District Funds Portfolio as of June 30, 2019 was \$5,540,922.

**Special District Funds Portfolio  
 Rolling 12-Month Quarterly Comparison**

	<b>June 30, 2019</b>	<b>March 31, 2019</b>	<b>December 31, 2018</b>	<b>September 30, 2018</b>
Book Value	\$315,165,701	\$306,023,844	\$302,238,128	\$194,119,024.00
Market Value	\$314,990,336	\$305,889,062	\$302,246,125	\$194,125,710.00
Unrealized Gain/(Loss)	(\$175,364)	(\$134,782)	\$7,997	\$6,686
Unrealized Gain/(Loss) as % of Book Value	(0.06%)	(0.04%)	0.00%	0.00%
Average Yield To Maturity	2.44%	2.60%	2.55%	2.24%
Average Days To Maturity	44	70	56	64
Quarterly Interest Earnings	\$1,722,687	\$2,051,745	\$1,270,916	\$495,573
Fiscal Year to Date Income	\$5,540,922	\$3,818,234	\$1,766,490	\$495,573

**Market Conditions**

During the fourth quarter of FY 2018-19, interest rates decreased on securities between six months and thirty years. The Federal Reserve elected to hold the federal funds rate steady during the quarter keeping the range of 2.25 to 2.50 percent. During the quarter, the yields of the 6-month Treasury bill decreased thirty-three basis points to 2.09 percent, the two year Treasury note decreased fifty basis points to 1.75 percent, and the five year notes decreased by forty-six basis points to 1.76 percent. The Local Agency Investment Fund (LAIF) daily rate decreased from 2.44 percent to 2.42 percent during the quarter. The net effect to the Pooled Investment Portfolio was an increase in the unrealized market value gain which was in direct proportion to the stated duration of the portfolio.

Volatility in asset prices increased during the quarter but remains relatively subdued as compared to the last quarter of calendar year 2018. Federal Reserve Chairman Jerome Powell shifted monetary policy from policy-tightening in 2018, by curtailing the balance sheet roll off, and focusing on domestic and global growth risks. He has warned that the risks to global growth have increased in recent months, reinforcing expectations that the central bank is likely to cut interest rates in the coming months. The Federal Reserve remains focused on maximum employment, stable prices, and moderate long term

interest rates. The probability of a rate increase during calendar year 2019 has fallen to zero, with markets now pricing in the probability of a rate decrease at the July, September, and December 2019 Federal Open Market Committee meetings. Asset volatility, global growth concerns, geopolitical trade tension, coupled with weakening economic data contributed to the Federal Reserve shift in policy and forward rate guidance.

As of June 7, 2019 the unemployment rate dropped to 3.60 percent from 3.80 percent in March. The underemployment rate also dropped to 7.10 percent from 7.30 percent. The yearly percentage change of the average hourly earnings decreased slightly to 3.1 percent from the recent high of 3.4 percent. The trend since the financial crisis had been steadily increasing but reversed in February, and is not currently pressuring the Federal Reserve into raising short term rates. Inflation statistics including the US Personal Consumption Expenditure year over year (YoY) 1.5 percent, Producer Price Index YoY 1.0 percent, and the Consumer Price Index YoY 1.8 percent, have all remained within the Federal Reserve's comfort zone.

Housing remains tepid at best with both housing starts and new home sales remaining below their long term averages. Mortgage rates moved lower during the quarter which may reverse last quarter's contraction.

Risks to the economic outlook will keep the Federal Reserve's policy forward rate guidance as being flexible and data dependent. The International Monetary Fund (IMF) cut its outlook for global growth to the lowest since the financial crisis, citing trade tensions and tariff hikes between the United States and China, a decline in business confidence, a tightening of financial conditions, and higher policy uncertainty across many economies. It is the third time the IMF has downgraded its outlook in six months. Trade, monetary policy, and well as political turmoil in Washington would suggest continued uncertainty in the new fiscal year 2019-20.

**City of Irvine**  
**Summary of Pooled Investment Portfolio Book Value by Fund \***  
**As of June 30, 2019**

<b>General Reserve Funds</b>	<b>\$ 129,731,783</b>
<b>Capital Projects Funds:</b>	
Capital Improvement Projects	13,564,584
Irvine Business Complex	96,505,256
North Irvine Transportation Mitigation	83,751,694
Orange County Great Park Development	18,999,555
Park Development	<u>43,592,708</u>
<b>Total</b>	<b><u>256,413,796</u></b>
<b>Special Revenue Funds:</b>	
Air Quality Improvement	477,095
County Sales Tax Measure M	1,196,363
Fees and Exactions	14,570,880
State Gasoline Tax	15,639,690
Grants	2,909,565
I Shuttle	931,187
Local Park Fees	118,012,461
Maintenance District	2,991,416
Major Special Events	(21,851)
Orange County Great Park	134,141,464
Slurry Seal Fees	1,724,124
System Development	<u>27,393,496</u>
<b>Total</b>	<b><u>319,965,888</u></b>
<b>Internal Service Funds:</b>	
Equipment & Services	18,547,874
Inventory	90,713
Self-Insurance	<u>19,256,954</u>
<b>Total</b>	<b><u>37,895,540</u></b>
<b>Permanent Fund:</b>	
Senior Services	329,555
Senior Services Endowments	<u>495,406</u>
<b>Total</b>	<b><u>824,961</u></b>
<b>Fiduciary Fund:</b>	
Successor Agency Debt Service	28,179
Redevelopment Obligation Retirement	<u>5,265,148</u>
<b>Total</b>	<b><u>5,293,327</u></b>
<b>Total Pooled Investments at June 30, 2019</b>	<b><u>\$ 750,125,295</u></b>

Note: Funds are as presented in the City's Comprehensive Annual Financial Report (CAFR)

\* Balances are subject to changes due to fiscal year end reconciliations.