



REQUEST FOR CITY COUNCIL ACTION

MEETING DATE: MARCH 23, 2021

TITLE: TREASURER'S REPORT FOR THE QUARTER ENDED
DECEMBER 31, 2020

Director of Financial Management
& Strategic Planning

Interim City Manager

RECOMMENDED ACTION

Receive and file the Treasurer's Report for the quarter ended December 31, 2020.

EXECUTIVE SUMMARY

The Treasurer's Report (Attachment 1) provides a synopsis of investment activity for the City's three investment portfolios for the quarter ended December 31, 2020. 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 \$1.15 billion as of December 31, 2020. 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.

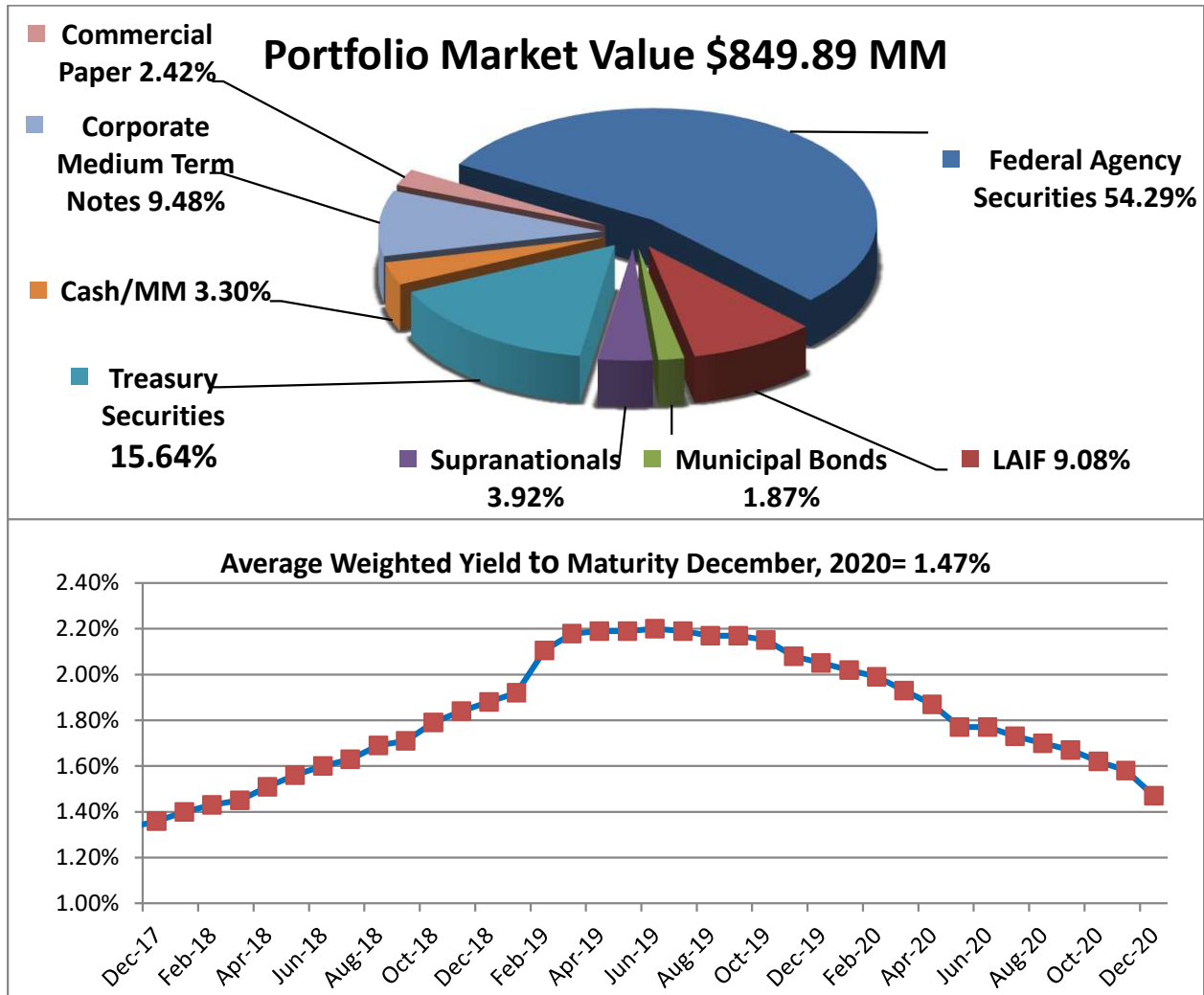
As of December 31, 2020, the City's investment Portfolios are in full compliance with the City's Investment Policy, the California Government Code Section 53601, and have sufficient cash flow from a combination of liquid and maturing securities, bank deposits, and income to meet the City's expenditure requirements.

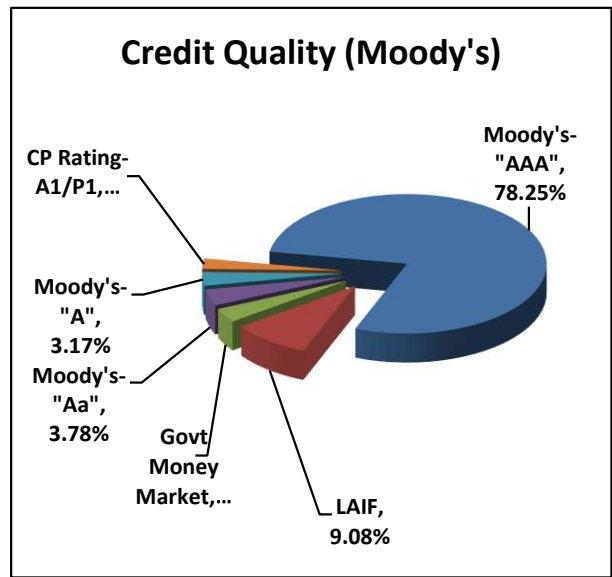
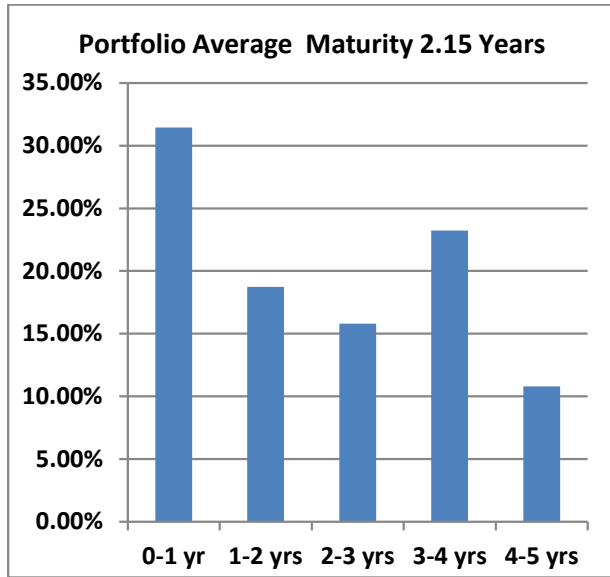
COMMISSION/BOARD/COMMITTEE RECOMMENDATION

At its regular meeting of February 10, 2021, the Investment Advisory Committee recommended that the City Council receive and file the Treasurer's Report for the quarter ended December 31, 2020 by a 4-1 vote (Committee Member Stein absent). At its regular meeting of March 1, 2021, the Finance Commission recommended the City Council receive and file the report by a 5-0 vote.

ANALYSIS

The Pooled Investment Portfolio holds the City’s operating funds. Charts on 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 \$7.62 million with investments structured for security and liquidity.

REPORT PREPARED BY Don Collins, City Treasurer

Attachments:

1. Treasurer’s Report for the quarter ended December 31, 2020
2. Summary of Irvine Pooled Investment Portfolio by Fund



**CITY OF IRVINE
TREASURER'S REPORT
For Quarter Ended December 31, 2020**

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 quarter ended December 31, 2020, combined market value of the three portfolios totaled \$1.18 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 December 31, 2020, the book value (purchase price of securities as recorded on the City's books) of the portfolio was \$826.03 million and the average yield to maturity was 1.47 percent. Fiscal year to date investment revenue (interest payments and capital gains) generated by the portfolio as of December 31, 2020 was \$7.30 million. The spreadsheet below compares the portfolio's statistics over a rolling 12-month period.

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

	December 31, 2020	September 30, 2020	June 30, 2020	March 31, 2020
Book Value	\$826,025,140	\$766,154,560	\$799,798,050	\$784,876,726
Market Value	\$849,894,960	\$792,527,250	\$827,088,345	\$810,207,849
Unrealized Gain/(Loss)	\$23,869,820	\$26,372,690	\$27,290,295	\$25,331,123
Unrealized Gain/(Loss) as % of Book Value	2.89%	3.44%	3.41%	3.23%
Average Yield To Maturity	1.47%	1.67%	1.77%	1.93%
Liquidity 0-6 Months	18.40%	18.90%	21.04%	19.78%
Weighted Average Maturity	2.15	2.03	2.06	2.10
Modified Duration (Years)	2.10	2.00	2.02	2.06
Quarterly Interest Earnings	\$3,520,145	\$3,778,719	\$3,122,477	\$4,273,705
Fiscal Year to Date Income	\$7,298,864	\$3,778,719	\$15,228,013	\$12,105,536

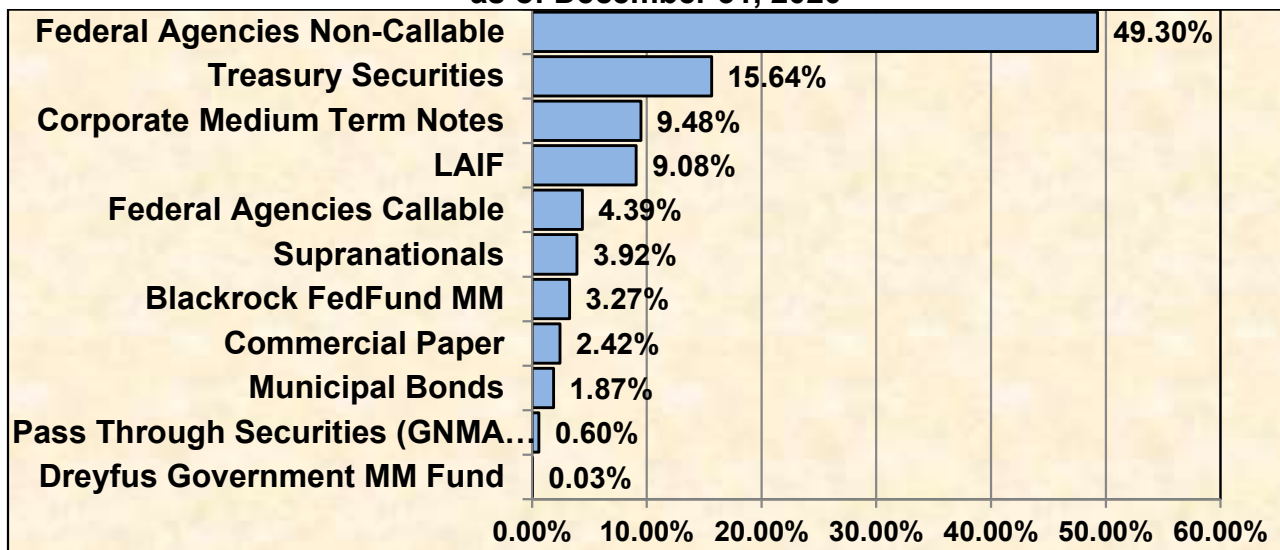
As anticipated, the Irvine Pooled Investment Portfolio's book value increased by \$59.87 million from the previous quarter due a combination of property tax, sales tax, developer fees, and a reduction in year over year accounts payable expenses. Portfolio yield to

maturity decreased for the quarter ended December 31, 2020 by 20 basis points to 1.47 percent as new funds and maturing investments were reinvested in the current low rate environment. With market rates remaining stable and low during the quarter, as of December 31, 2020, the portfolio ended with an unrealized gain of \$23.87 million as compared to an unrealized gain of \$26.37 million on September 30, 2020. This is a normal result of the portfolio's modified duration of 2.00 years and its price-sensitivity to changes in market interest rates.

To ensure the safety of the portfolio, investments held are in compliance with the Irvine Investment Policy, Bond Indentures, and State Code 53601 et al. 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.

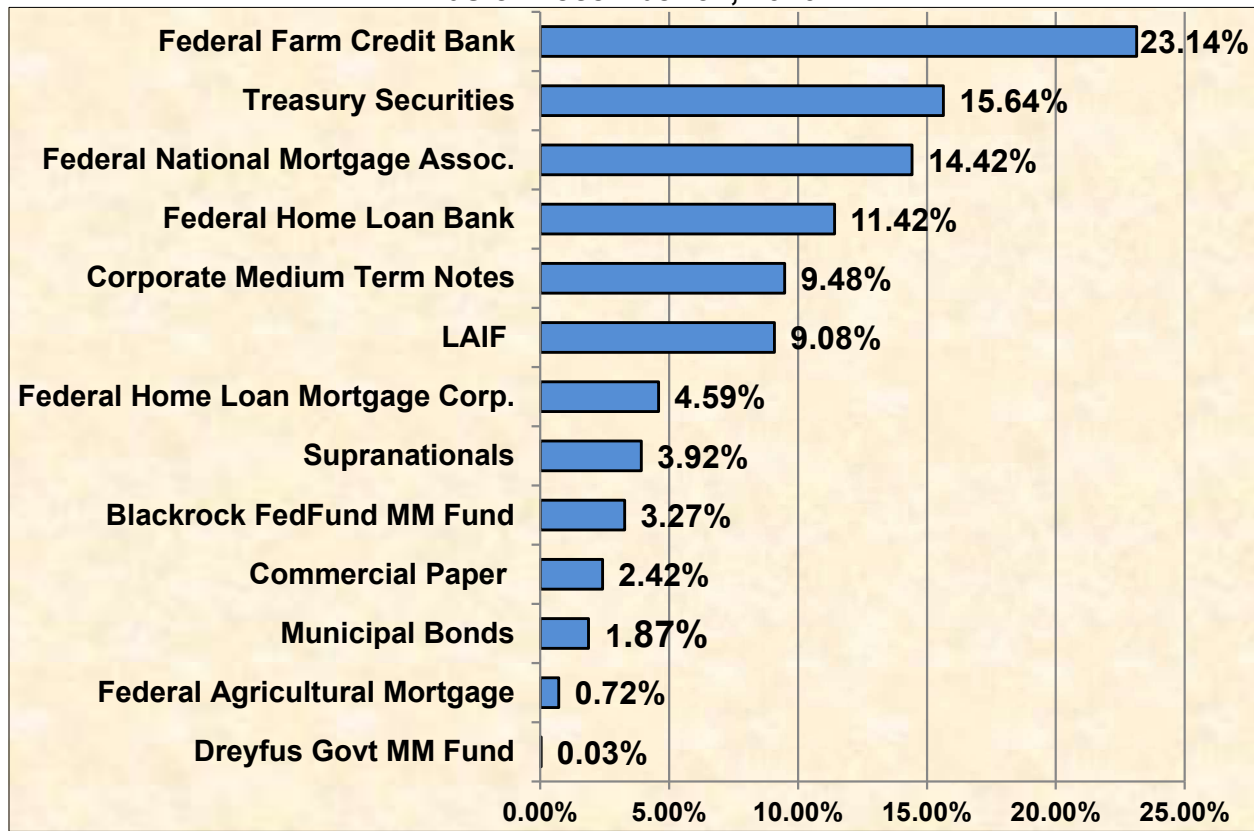
Irvine Pooled Investment Portfolio
Chart 1 - Asset Allocation
as of December 31, 2020



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 five 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), Federal Agricultural Mortgage Corporation (Farmer Mac), 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 December 31, 2020**



Another key component in portfolio management is to ensure that the City has enough funds on hand to meet current expenses. As of December 31, 2020, the overnight to 6-month liquidity level for the Irvine Pooled Investment Portfolio was 18.40 percent. Chart 3, on the following page, is an aging of investment maturities up to five 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 December 31, 2020

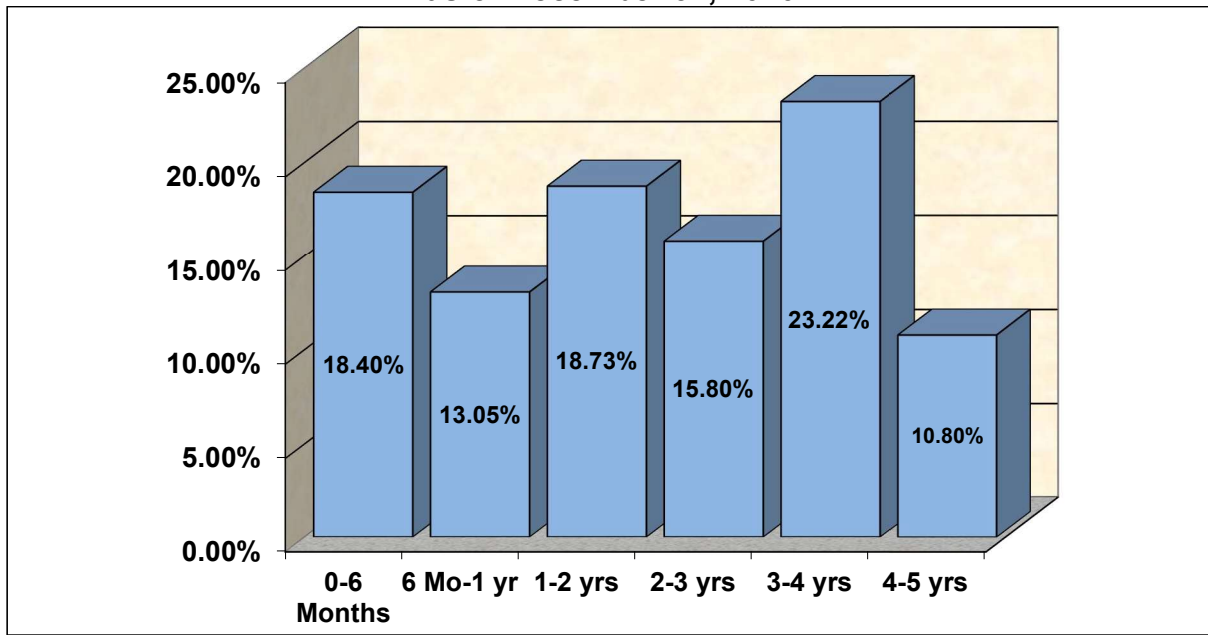
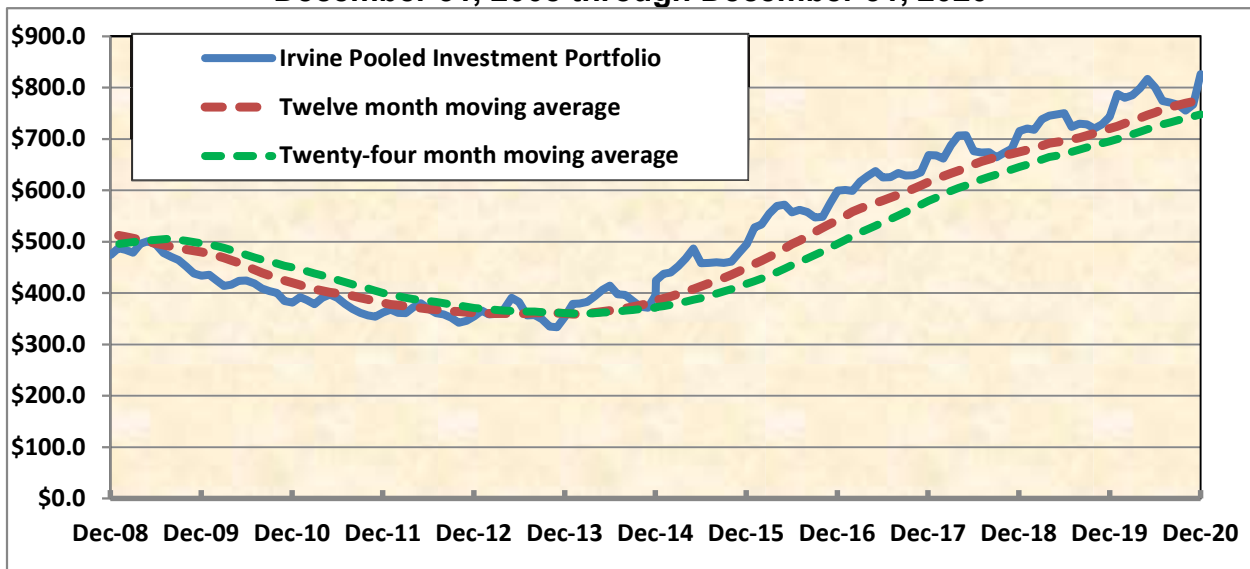
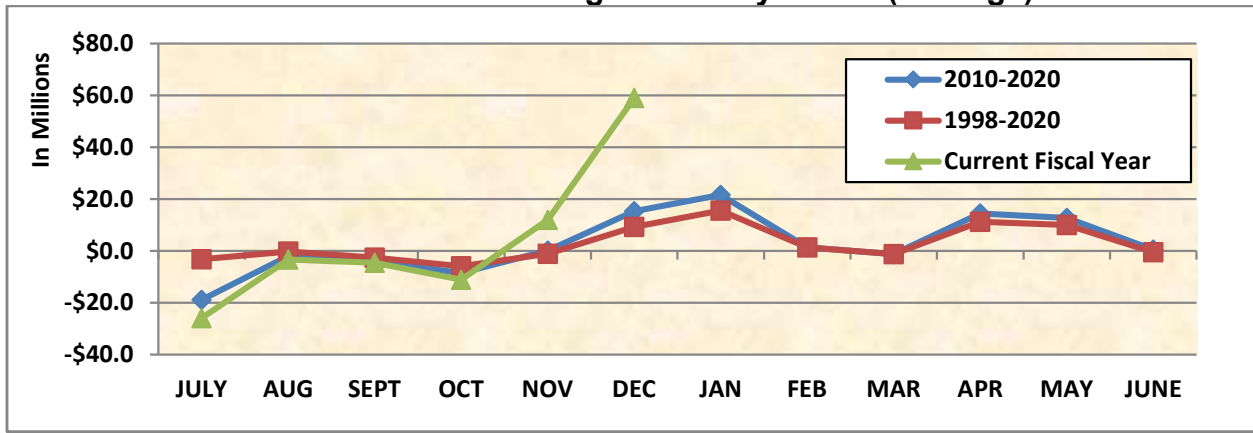


Chart 4 and Chart 5 show the volatility and cyclicity of the Irvine Pooled Investment Portfolio fund balance and cash flows between 2008 and 2020. As noted in chart 5, the portfolio experienced above average inflows in November and December due to the combination of property tax, sales tax, developer fees, and a reduction in year over year accounts payable expenses.

Irvine Pooled Investment Portfolio
Chart 4 - Portfolio Balance
December 31, 2008 through December 31, 2020

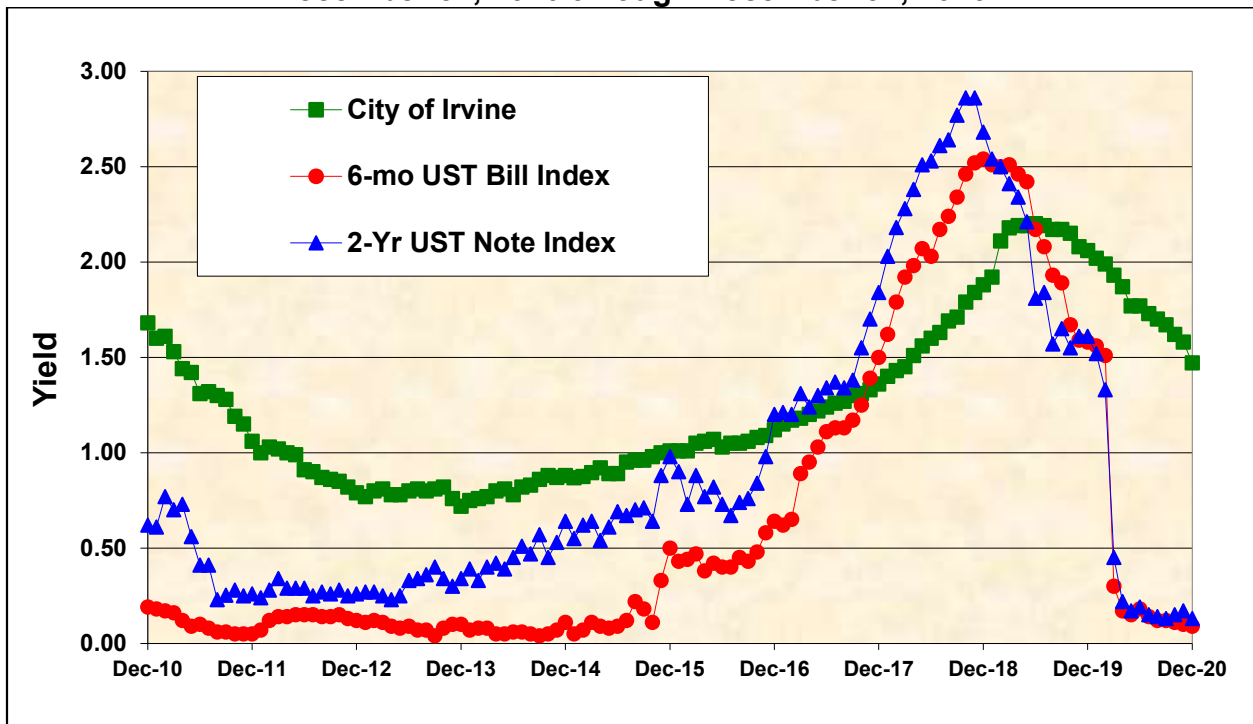


Irvine Pooled Investment Portfolio
Chart 5 – Balance Change Month by Month (Average)



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 ten years. The portfolio's book yield is higher than the 6-month UST by 1.38 percent and the 2-year UST by 1.34 percent, due to the Federal Reserve lowering short term interest rates in response to the current economic slowdown.

Irvine Pooled Investment Portfolio
Chart 6 - Yield to Maturity Compared to Assigned Indices
December 31, 2010 through December 31, 2020



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 December 31, 2020 was \$154,972. The increase in balance for December 2020 was due to the temporary holding of special assessments and taxes received from the County. Funds will be transferred to the Special District Portfolio as scheduled.

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

	December 31, 2020	September 30, 2020	June 30, 2020	March 31, 2020
Book Value	\$39,653,000	\$26,864,000	\$27,561,000	\$20,265,000
Market Value	\$39,743,065	\$26,974,533	\$27,609,791	\$20,300,875
Unrealized Gain/(Loss)	\$90,065	\$110,533	\$48,791	\$35,875
Unrealized Gain/(Loss) as % of Book Value	0.23%	0.41%	0.18%	0.18%
Average Yield To Maturity	0.52%	0.66%	1.15%	1.74%
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	\$57,425	\$97,548	\$101,496	\$109,271
Fiscal Year to Date Income	\$154,972	\$97,548	\$380,038	\$278,543

Special District Funds Portfolio

The Special District Funds Portfolio contains project and reserve funds for 27 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 December 31, 2020 was \$166,760.

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

	December 31, 2020	September 30, 2020	June 30, 2020	March 31, 2020
Book Value	\$288,712,072	\$253,479,687	\$307,819,248	\$288,287,939
Market Value	\$288,774,716	\$253,553,725	\$307,862,001	\$288,200,908
Unrealized Gain/(Loss)	\$62,644	\$74,038	\$42,753	(\$87,031)
Unrealized Gain/(Loss) as % of Book Value	0.02%	0.03%	0.01%	(0.03%)
Average Yield To Maturity	0.12%	0.10%	0.40%	1.02%
Average Days To Maturity	55	32	77	36
Quarterly Interest Earnings	\$70,463	\$96,297	\$837,348	\$1,364,278
Fiscal Year to Date Income	\$166,760	\$96,297	\$4,653,826	\$3,816,478

Market Conditions

During the second quarter of FY 2020-21, interest rates decreased slightly on securities between one month and two years, while increasing on securities between three years and thirty years. The Federal Reserve elected to hold the federal funds rate steady during the quarter at .25 percent. During the quarter, the yield of the 6-month Treasury bill decreased 2 basis points to .10 percent, the 2-year Treasury note remained unchanged at .12 percent, and the 5-year notes increased by 8 basis points to .36 percent. The Local Agency Investment Fund (LAIF) daily rate decreased from .66 percent to .52 percent during the quarter. The net effect to the Pooled Investment Portfolio was a decrease in the unrealized market value gain, which was in direct proportion to the stated duration of the portfolio, and the reinvestment of maturing securities. Over FY 2019-20, interest rates decreased significantly due to softening in the domestic and global economy and the economic shock from COVID-19 (coronavirus disease 19).

In the first half of this year, the COVID-19 pandemic and the mitigation efforts put in place to contain it delivered the most severe blow to the U.S. economy since the Great Depression. Economic activity rebounded in the third quarter and has continued to

recover in the fourth quarter from the severely depressed second quarter. Recently, with the lack of additional fiscal stimulus coupled with a resurgence in COVID-19 infection rates, the pace of improvement has moderated and in some instances reversed. Household spending on goods, especially durable goods, has moved above its pre-pandemic level due in part to pandemic induced expanded unemployment benefits, and past federal fiscal stimulus payments. Contrasting goods spending, services remain well below pre-pandemic levels, particularly in sectors that typically require people to gather closely, including travel, sporting events, hospitality, etc.

United States employment has continued to improve with more than half of the 22 million jobs that were lost in March and April regained, as many people were able to return to work. The unemployment rate has fallen from 14.7 percent in April, to 6.8 percent in December. Continuing jobless claims have also continued to improve, dropping from a high of 24.91 million in May, to 5.07 million currently. Pandemic emergency jobless claims peaked in December at 4.81 million, but may remain elevated as COVID-19 mitigation efforts continue.

New and existing home sales remained robust during the quarter fueled by record low mortgage rates. Home prices continued to rise during the quarter reflecting the dearth of listings, continued housing demand, cheap borrowing costs, which gave sellers more leeway to raise asking prices. Looking forward, the lack of inventory and surge in home prices threaten to slow housing's momentum and price some buyers out of the market.

While gross domestic product (GDP) has rebounded rapidly in the third quarter from the abysmal second quarter, activity seems to have moderated at the end of this calendar year as virus infections surged. The Atlanta Federal Reserve GDPnow data point has moderated to 8.61 as of December 31, 2020 from a high of 36.97 on October 30, 2020.

The median Federal Open Market Committee (FOMC) participant projects that by the end of 2023—a little less than three years from now—the unemployment rate will have fallen below 4 percent, and PCE (personal consumption expenditures) inflation will have returned to 2 percent. Following the 2008 great financial crisis, it took more than eight years for employment and inflation to return to similar mandate-consistent levels.

In conclusion, continued monetary policy support of the Federal reserve as well as proposed fiscal stimulus from Washington, will provide powerful support to the economy as the recovery progresses. Interest rates should remain at the zero bound level for the rest of the fiscal year and into 2022-23. The net effect on the City of Irvine's portfolio's will be lower returns for the remainder of this fiscal year and into fiscal year 2021-22.

City of Irvine
Summary of Pooled Investment Portfolio Book Value by Fund *
As of December 31, 2020

General Reserve Funds	\$ 124,627,090
Capital Projects Funds:	
Capital Improvement Projects	12,384,975
Irvine Business Complex	106,034,339
North Irvine Transportation Mitigation	84,517,990
Orange County Great Park Development	15,029,487
Park Development	<u>46,735,592</u>
Total	<u>264,702,383</u>
Special Revenue Funds:	
Air Quality Improvement	451,332
County Sales Tax Measure M	2,631,220
Fees and Exactions	6,660,994
State Gasoline Tax	19,402,833
Grants	4,019,098
I Shuttle	1,088,012
Local Park Fees	136,238,968
Maintenance District	5,601,057
Major Special Events	99,999
Orange County Great Park	178,475,891
Slurry Seal Fees	970,282
System Development	<u>26,464,266</u>
Total	<u>382,103,953</u>
Internal Service Funds:	
Equipment & Services	27,770,656
Inventory	31,723
Self-Insurance	<u>19,760,056</u>
Total	<u>47,562,434</u>
Permanent Fund:	
Senior Services	371,296
Senior Services Endowments	<u>500,410</u>
Total	<u>871,706</u>
Fiduciary Fund:	
Successor Agency Debt Service	29,053
Redevelopment Obligation Retirement	<u>6,128,521</u>
Total	<u>6,157,573</u>
Total Pooled Investments at December 31, 2020	<u><u>\$ 826,025,140</u></u>

Note: Presentation of funds is consistent with the City's Comprehensive Annual Financial Report (CAFR)

* Balances are not audited