



REQUEST FOR CITY COUNCIL ACTION

MEETING DATE: MARCH 22, 2022

TITLE: TREASURER'S REPORT FOR QUARTER ENDED
DECEMBER 31, 2021

Director of Financial Management
& Strategic Planning

City Manager

RECOMMENDED ACTION

Receive and file the Treasurer's Report for the quarter ended December 31, 2021.

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 December 31, 2021. 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 \$1.26 billion as of December 31, 2021. 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.

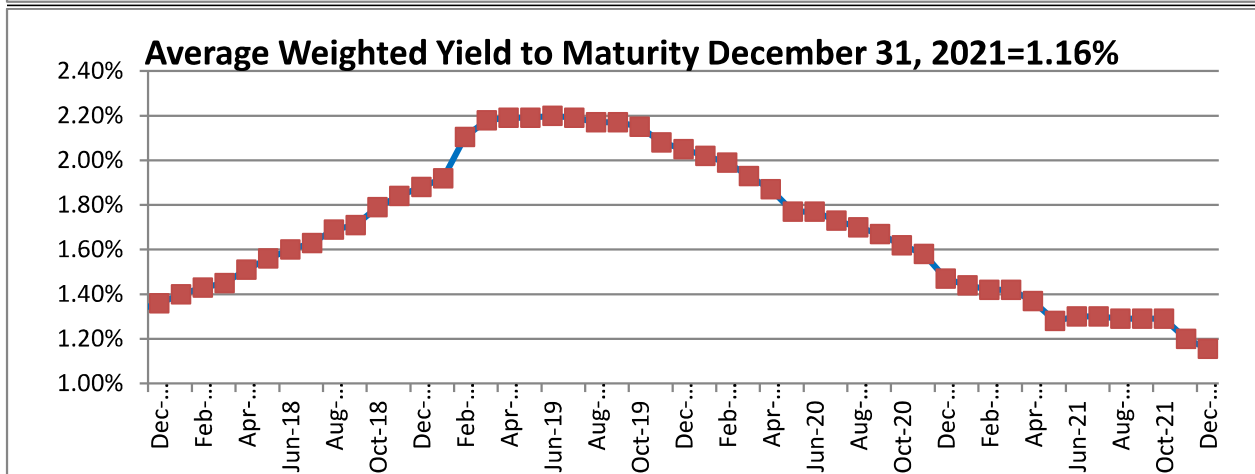
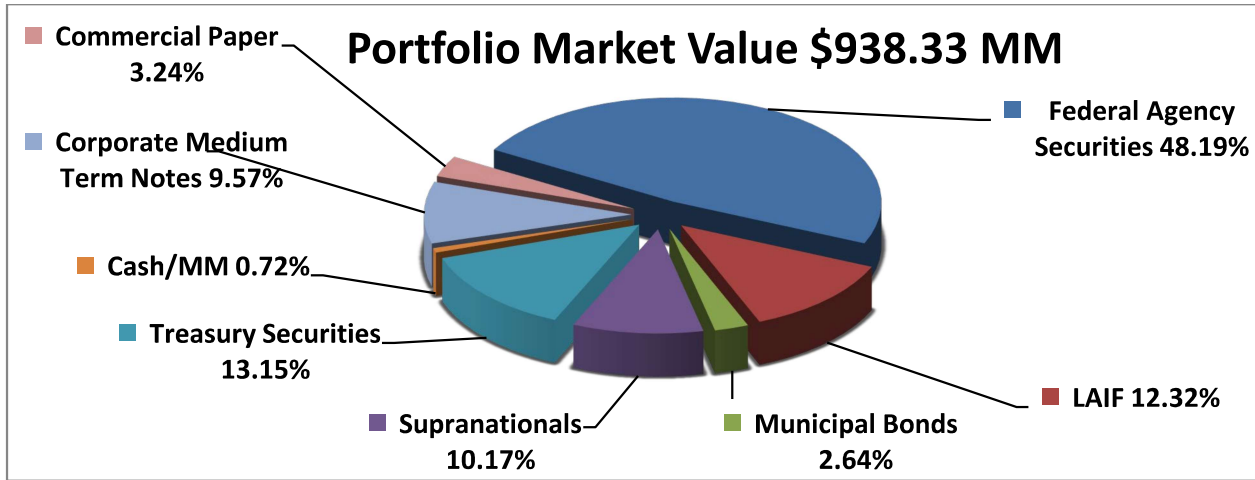
As of December 31, 2021, the City's investment Portfolios are in full compliance with the City's Investment Policy, the California Government Code Section 53601, and have sufficient cash flow from a combination of liquid and maturing securities, bank deposits, and income to meet the City's expenditure requirements.

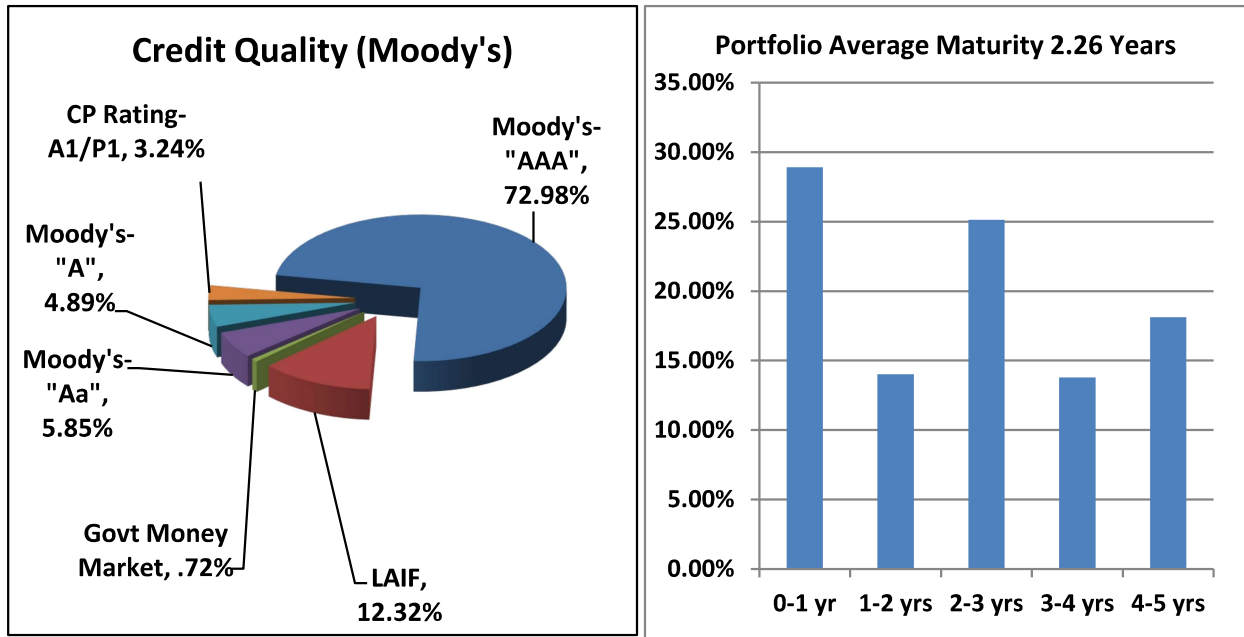
COMMISSION/BOARD/COMMITTEE RECOMMENDATION

At its regular meeting of February 9, 2022, the Investment Advisory Committee recommended that the City Council receive and file the Treasurer's Report for the quarter ended December 31, 2021 by a 5-0 vote. At its regular meeting of February 23, 2022, the Finance Commission recommended the City Council receive and file the report by a 3-0-2 vote (Commissioners Park and Young absent).

ANALYSIS

The Pooled Investment Portfolio holds the City’s operating funds. Charts on the following pages provide 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 District Funds Portfolio totaled \$7.93 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, 2021
2. Summary of Irvine Pooled Investment Portfolio by Fund



**CITY OF IRVINE
TREASURER'S REPORT
For Quarter Ended December 31, 2021**

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, 2021, combined book value of the three portfolios totaled \$1.26 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 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, 2021, the book value (purchase price of securities as recorded on the City's books) of the portfolio was \$934.79 million and the average yield to maturity was 1.16 percent. Fiscal year to date investment revenue (interest payments and capital gains) generated by the portfolio as of December 31, 2021 was \$7.79 million. The spreadsheet below compares the portfolio's statistics over a rolling 12-month period.

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

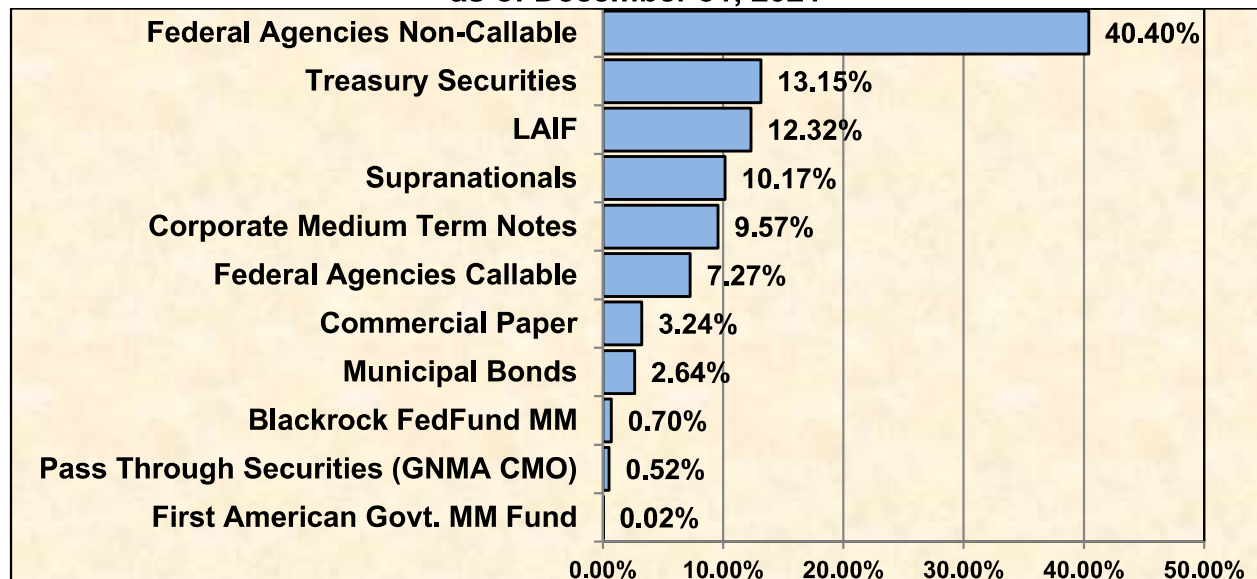
| | December 31, 2021 | September 30, 2021 | June 30, 2021 | March 31, 2021 |
|--|------------------------------|-------------------------------|--------------------------|---------------------------|
| Book Value | \$934,790,655 | \$879,786,112 | \$904,574,544 | \$844,631,774 |
| Market Value | \$938,325,125 | \$892,230,070 | \$920,111,180 | \$861,849,864 |
| Unrealized Gain/(Loss) | \$3,534,470 | \$12,443,958 | \$15,536,636 | \$17,218,090 |
| Unrealized Gain/(Loss) as % of Book Value | 0.38% | 1.41% | 1.72% | 2.04% |
| Average Yield To Maturity | 1.16% | 1.29% | 1.30% | 1.42% |
| Liquidity 0–6 Months | 21.57% | 18.38% | 21.86% | 17.16% |
| Weighted Average Maturity | 2.26 | 2.28 | 2.24 | 2.37 |
| Modified Duration (Years) | 2.19 | 2.22 | 2.17 | 2.30 |
| Quarterly Interest Earnings | \$4,155,732 | \$3,635,068 | \$2,874,451 | \$3,104,828 |
| Fiscal Year to Date Income (rounded) | \$7,790,801 | \$3,635,068 | \$13,278,144 | \$10,403,692 |

As anticipated, the Irvine Pooled Investment Portfolio's book value increased by \$55 million from the previous quarter due a combination of property tax, and sales tax, and developer fees. Portfolio yield to maturity decreased for the quarter ended December 31, 2021 by 13 basis points to 1.16 percent as maturing investments were reinvested in the current low rate environment. With market rates rising modestly during the quarter, as of December 31, 2021, the portfolio ended with an unrealized gain of \$3.53 million as compared to an unrealized gain of \$12.44 million on September 30, 2021. This is a normal result of the portfolio's modified duration of 2.19 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.

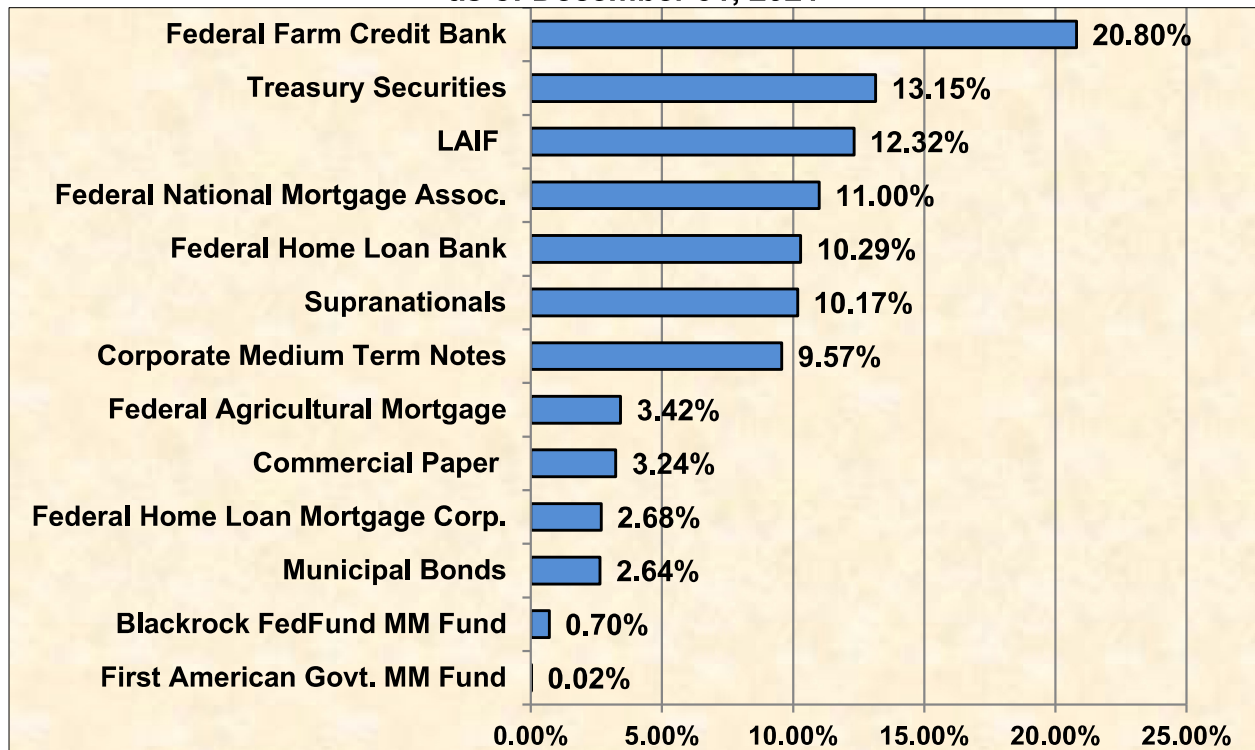
To manage liquidity, the Irvine Pooled Investment Portfolio is invested in Local Agency Investment Funds (LAIF), First American Government money market fund, Blackrock FedFund money market fund and short-term Commercial Paper. Chart 1 shows the asset allocation of the portfolio.

Irvine Pooled Investment Portfolio
Chart 1 - Asset Allocation
as of December 31, 2021



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, 2021**



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, 2021 the overnight to 6-month liquidity level for the Irvine Pooled Investment Portfolio was 21.57 percent (includes \$40.14 million COVID relief funds). 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, 2021

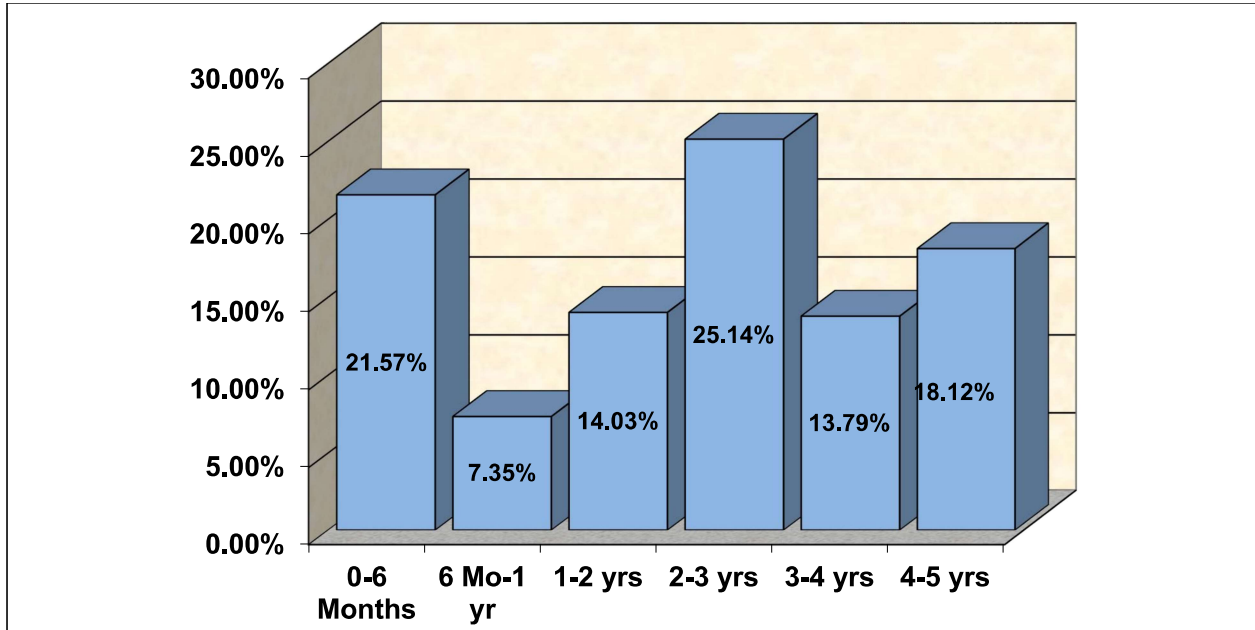
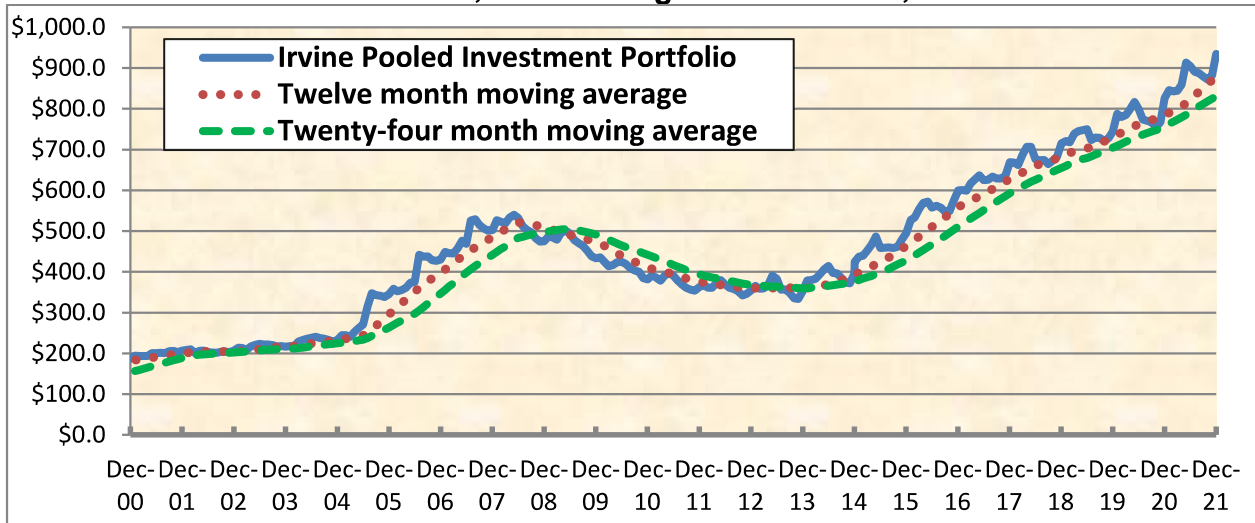
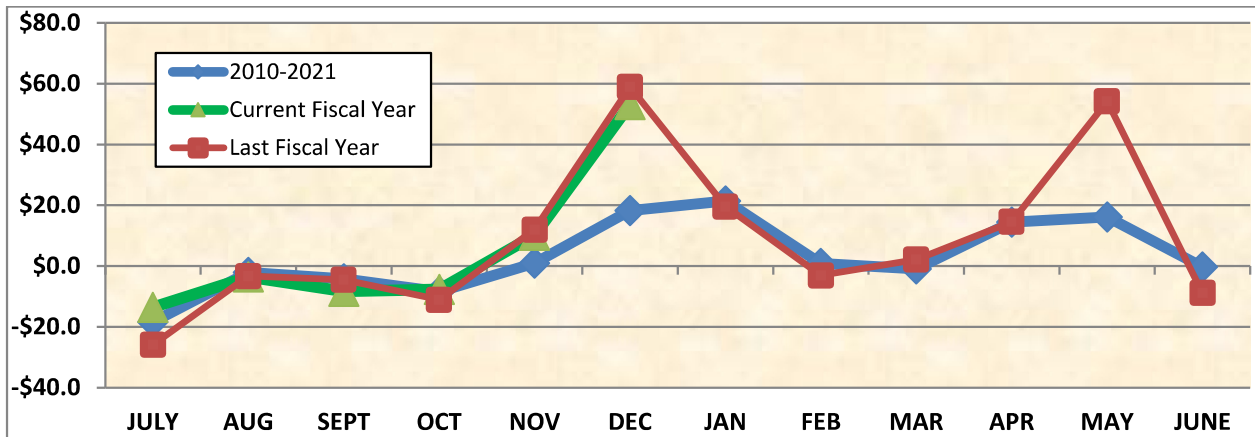


Chart 4 and Chart 5 show the volatility and cyclical nature of the Irvine Pooled Investment Portfolio fund balance and cash flows between 2000 and 2021. The variance in August and September were due to payments to the Orange County Power Authority, and the final United Way payout for rental assistance.

Irvine Pooled Investment Portfolio
Chart 4 - Portfolio Balance
 December 31, 2000 through December 31, 2021

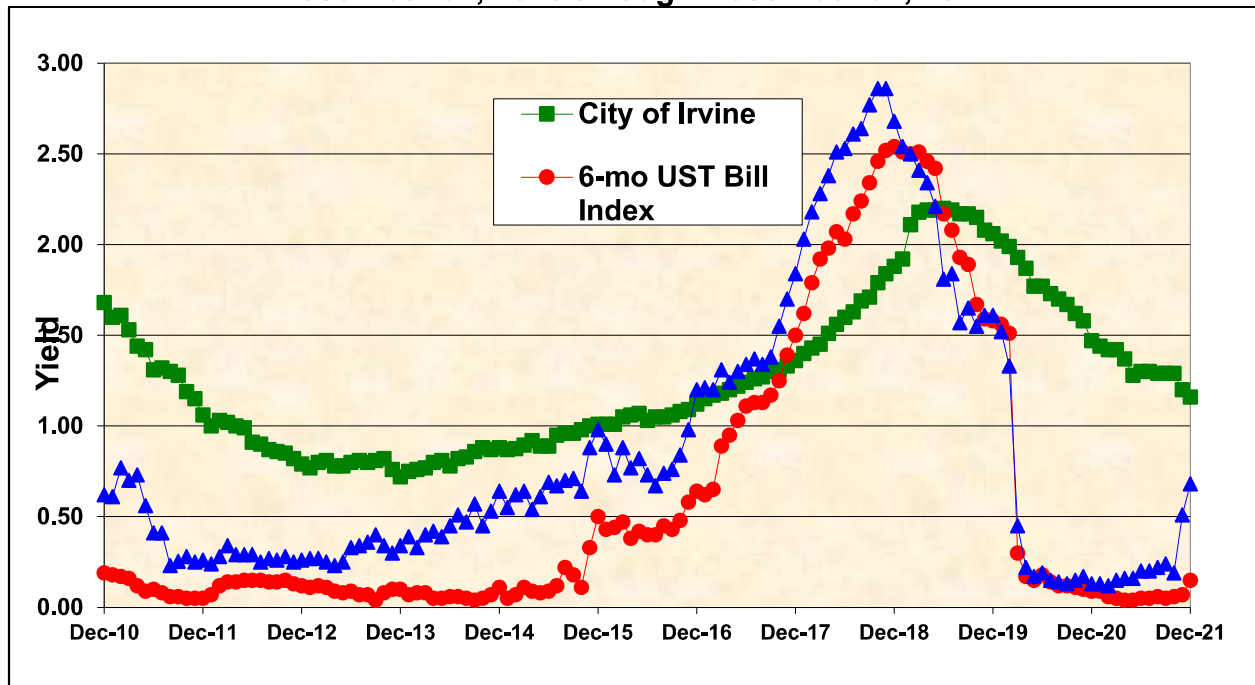


Irvine Pooled Investment Portfolio
Chart 5 – Balance Change Month by Month (Average)



To gauge performance, the City compares the Irvine Pooled Investment Portfolio's book 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 1.01 percent and the 2-year UST by .68 percent, due to the Federal Reserve lowering short term interest rates in response to the pandemic.

Irvine Pooled Investment Portfolio
Chart 6 - Yield to Maturity Compared to Assigned Indices
December 31, 2010 through December 31, 2021



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 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, 2021 was \$66,887.

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

| | December 31, 2021 | September 30, 2021 | June 30, 2021 | March 31, 2021 |
|---|------------------------------|-------------------------------|--------------------------|---------------------------|
| Book Value | \$61,987,000 | \$47,950,000 | \$47,172,000 | \$40,071,000 |
| Market Value | \$61,828,259 | \$47,943,942 | \$47,175,914 | \$40,121,884 |
| Unrealized Gain/(Loss) | (\$158,741) | (\$6,058) | \$3,914 | \$50,884 |
| Unrealized Gain/(Loss) as % of Book Value | -0.26% | -0.01% | 0.01% | 0.13% |
| Average Yield To Maturity | 0.22% | 0.21% | 0.25% | 0.35% |
| 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 | \$28,819 | \$38,068 | \$43,081 | \$53,423 |
| Fiscal Year to Date Income | \$66,887 | \$38,068 | \$251,477 | \$208,395 |

Special District Funds Portfolio

The Special District Funds Portfolio contains project and reserve funds for 24 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, 2021 was \$73,721.

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

| | December 31, 2021 | September 30, 2021 | June 30, 2021 | March 31, 2021 |
|---|------------------------------|-------------------------------|--------------------------|---------------------------|
| Book Value | \$265,068,424 | \$233,560,430 | \$284,187,161 | \$272,897,741 |
| Market Value | \$265,082,770 | \$233,576,817 | \$284,208,531 | \$272,916,873 |
| Unrealized Gain/(Loss) | \$14,345 | \$16,387 | \$21,370 | \$19,132 |
| Unrealized Gain/(Loss) as % of Book Value | 0.01% | 0.01% | 0.01% | 0.01% |
| Average Yield To Maturity | 0.06% | 0.05% | 0.07% | 0.09% |
| Average Days To Maturity | 24 | 11 | 30 | 39 |
| Quarterly Interest Earnings | \$52,638 | \$21,082 | \$83,581 | \$86,002 |
| Fiscal Year to Date Income | \$73,721 | \$21,082 | \$336,342 | \$252,762 |

Market Conditions

During the second quarter of FY 2021-22, interest rates increased on securities maturing six months to ten years, while decreasing on securities between twenty years and thirty years. The Federal Reserve elected to hold the federal funds rate steady at both of its scheduled meetings on November 3, 2021 and December 15, 2021 at 0.00-.25 percent. During the quarter, the yield of the 6-month Treasury bill increased 13 basis points to .17 percent, the 2-year Treasury note increased 45 basis points to .73 percent, and the 5-year notes increased by 30 basis points to 1.26 percent. The Local Agency Investment Fund (LAIF) daily rate increased from .21 percent to .22 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, change in market yields, and the reinvestment of maturing securities.

A rapidly improving labor market and persistent inflationary pressures have pushed the Federal Reserve to adopt a more hawkish stance toward monetary policy. At its December meeting, the Federal Open Market Committee's (FOMC) officially announced its plans to accelerate the taper of its net asset purchases to \$30 billion per month, suggesting the FOMC will conclude tapering by March 2022 and pave the way for rate hikes early this year. The Federal Reserve's (Fed) dot plot now implies three rate hikes in 2022 and 2023. In the statement, the Fed retired the word "transitory", making clear that high inflation and a falling unemployment rate prompted the committee to hasten its tapering timeline.

Inflation has far surpassed the FOMC'S 2.00 percent target, with the headline personal consumption expenditures (PCE) price index rising +0.60 percent month over month, and +5.70 percent year over year in November. The core PCE deflator also rose to +0.50 percent month over month and +4.70 percent year over year. The November consumer price index, (CPI) report showed consumer prices rose at their fastest pace in 40 years as gasoline prices, vehicle prices, and owner's equivalent rate continued to accelerate. Headline CPI met expectations at +0.80 percent month over month and +6.80 percent year over year, while Core CPI rose 0.5 percent month over month and 4.9 percent year over year. However, as we look to 2022, we should see a significant moderation in inflation as supply chain issues ease, energy prices cool, and the reopening categories stabilize.

December nonfarm payrolls rose by just 199K, well below consensus expectations for a 450K gain. On the other hand, the unemployment rate fell more than expected, declining 0.30 points to 3.90 percent, the lowest since the pandemic began. While the headline payrolls number was a significant miss, the overall narrative remains – economic momentum is very strong in spite of the economy rapidly running out of labor resources.

Risks remain looking forward as continued emergence of COVID-19 variants and global vaccine delays continue to hamper economic reopening. Additionally, as extremely accommodative monetary and fiscal policies are reduced and eliminated, this could lead to a boom-bust recession.

In conclusion, while I believe that the economy will continue to grow and heal for the remainder of the fiscal year, the elimination of monetary stimulus in conjunction with a reduction in fiscal stimulus, and potential Fed rate hikes with balance sheet reduction, will put significant pressure on risk asset and current market bubbles. The net effect on the City of Irvine's portfolio's will be a reduction in unrealized gains as market interest rates rise, and reduced earnings as the portfolio continues to adjust to current market rates.

City of Irvine
Summary of Pooled Investment Portfolio Book Value by Fund *
As of December 31, 2021

| | |
|---|------------------------------|
| General Reserve Funds (001-027) | |
| General Funding ** | 64,610,167.45 |
| Contingency Reserve (CC Direction 20-25%) | 56,997,348.50 |
| Infrastructure and Rehab Projects | 13,862,734.63 |
| Other (Payroll, Labor, Comp Abs, School Support) | 6,988,412.60 |
| Total | <u>142,458,663.18</u> |
| Capital Projects Funds***: | |
| Capital Improvement Projects | 39,396,472 |
| Irvine Business Complex | 111,112,288 |
| North Irvine Transportation Mitigation | 90,398,216 |
| Great Park Development | 13,902,732 |
| Citywide Park Development Projects | 48,315,510 |
| Total | <u>303,125,218</u> |
| Special Revenue Funds: | |
| Air Quality Improvement | 509,944 |
| County Sales Tax Measure M (.5 Sales Tax OCTA) | 6,524,963 |
| Fees and Exactions (Advance Development Fees) | 9,696,375 |
| State Gasoline Tax | 23,694,655 |
| Grants (CARES, ARPA, OCFA Sett, PS/CD Grants, Other) | 34,450,996 |
| I Shuttle | 1,103,326 |
| Local Park Fees | 141,835,283 |
| Landscape, Lighting and Park Maintenance District | 5,631,530 |
| Major Special Events | 44,250 |
| Great Park (180 & 181) | 187,396,961 |
| Slurry Seal Fees | 30,612 |
| System Development (1% Dev Fee) | 22,536,039 |
| Total | <u>433,454,933</u> |
| Internal Service Funds: | |
| Equipment & Services (Fleet, Mail, Tech.) | 32,509,605 |
| Warehouse Inventory | 51,813 |
| Self-Insurance (70%) | 21,140,543 |
| Total | <u>53,701,961</u> |
| Permanent Fund: | |
| Senior Services | 245,611 |
| Senior Services Endowments | 12,445 |
| Total | <u>258,056</u> |
| Fiduciary Fund: | |
| Successor Agency Debt Service | 984 |
| Redevelopment Obligation (ROPS) | 6,385,542 |
| Total | <u>6,386,525</u> |
| Total City Pooled Investments at December 31, 2021 | <u>\$ 939,385,357</u> |

*Balances are not audited

**Includes AMP, General Fund, Building & Safety, Irvine Recovery Plan

*** Includes Restricted Funds