



REQUEST FOR CITY COUNCIL ACTION

MEETING DATE: JUNE 28, 2022

TITLE: TREASURER'S REPORT FOR QUARTER ENDED
MARCH 31, 2022

Interim Director of Financial
Management & Strategic Planning

Oliver Chi

City Manager

RECOMMENDED ACTION

Receive and file the Treasurer's Report for the quarter ended March 31, 2022.

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 March 31, 2022. 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 March 31, 2022. 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.

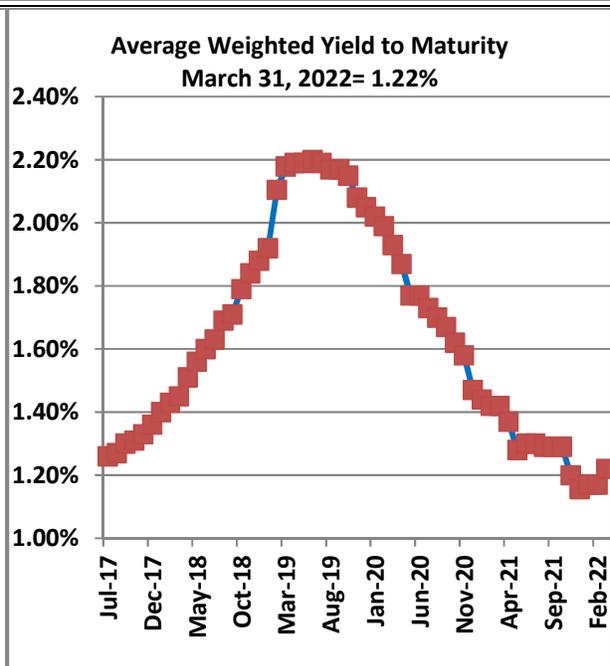
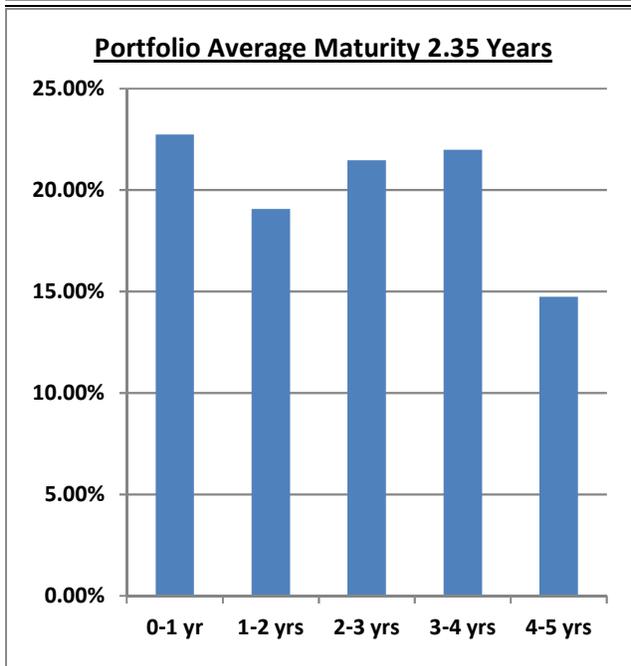
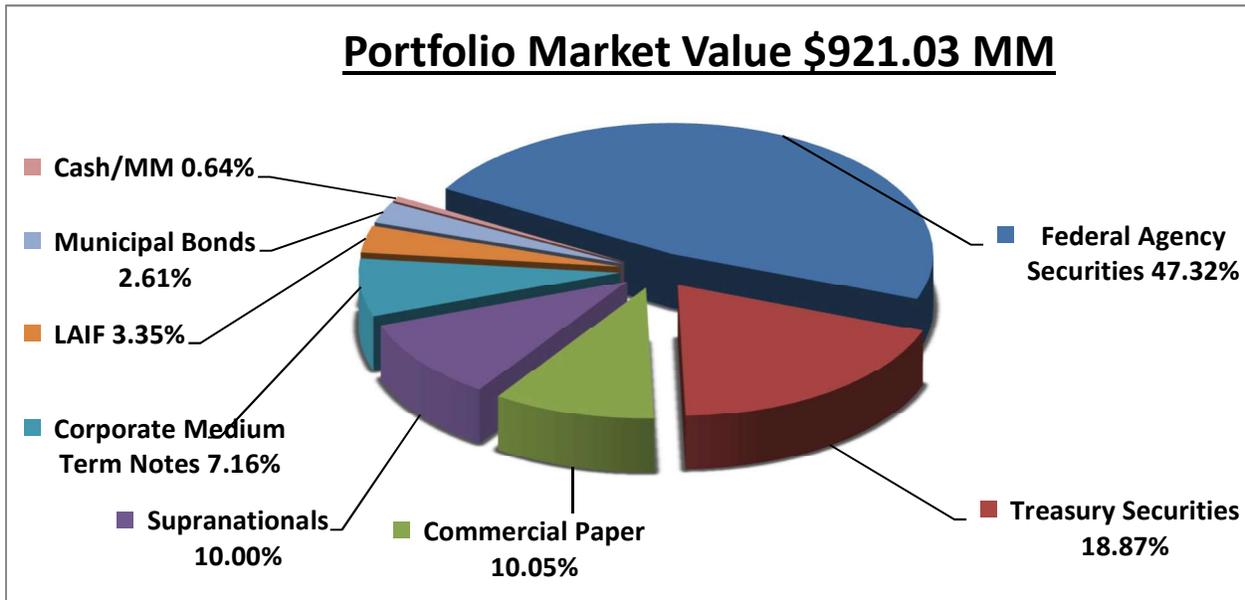
As of March 31, 2022, the City's investment Portfolios are in full compliance with the City's Investment Policy, the California Government Code Section 53601, and have sufficient cash flow from a combination of liquid and maturing securities, bank deposits, and income to meet the City's expenditure requirements.

COMMISSION/BOARD/COMMITTEE RECOMMENDATION

At its regular meeting of May 11, 2022, the Investment Advisory Committee recommended that the City Council receive and file the Treasurer's Report for the quarter ended March 31, 2022 by a 5-0 vote.

ANALYSIS

The Pooled Investment Portfolio holds the City's operating funds. Charts on 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 \$11.49 million with investments structured for security and liquidity.

REPORT PREPARED BY Don Collins, City Treasurer

Attachments:

1. Treasurer's Report for the quarter ended March 31, 2022
2. Summary of Irvine Pooled Investment Portfolio by Fund



**CITY OF IRVINE
TREASURER'S REPORT
For Quarter Ended March 31, 2022**

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 March 31, 2022, 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 March 31, 2022, the book value (purchase price of securities as recorded on the City's books) of the portfolio was \$945.75 million and the average yield to maturity was 1.22 percent. Fiscal year to date investment revenue (interest payments and capital gains) generated by the portfolio as of March 31, 2022 was \$11.29 million. The spreadsheet below compares the portfolio's statistics over a rolling 12-month period.

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

	March 31, 2022	December 31, 2021	September 30, 2021	June 30, 2021
Book Value	\$945,748,989	\$934,790,655	\$879,786,112	\$904,574,544
Market Value	\$921,034,785	\$938,325,125	\$892,230,070	\$920,111,180
Unrealized Gain/(Loss)	(\$24,714,204)	\$3,534,470	\$12,443,958	\$15,536,636
Unrealized Gain/(Loss) as % of Book Value	(2.61%)	0.38%	1.41%	1.72%
Average Yield To Maturity	1.22%	1.16%	1.29%	1.30%
Liquidity 0–6 Months	11.11%	21.57%	18.38%	21.86%
Weighted Average Maturity	2.35	2.26	2.28	2.24
Modified Duration (Years)	2.25	2.19	2.22	2.17
Quarterly Interest Earnings	\$3,502,502	\$4,155,732	\$3,635,068	\$2,874,451
Fiscal Year to Date Income	\$11,293,303	\$7,790,801	\$3,635,068	\$13,278,144

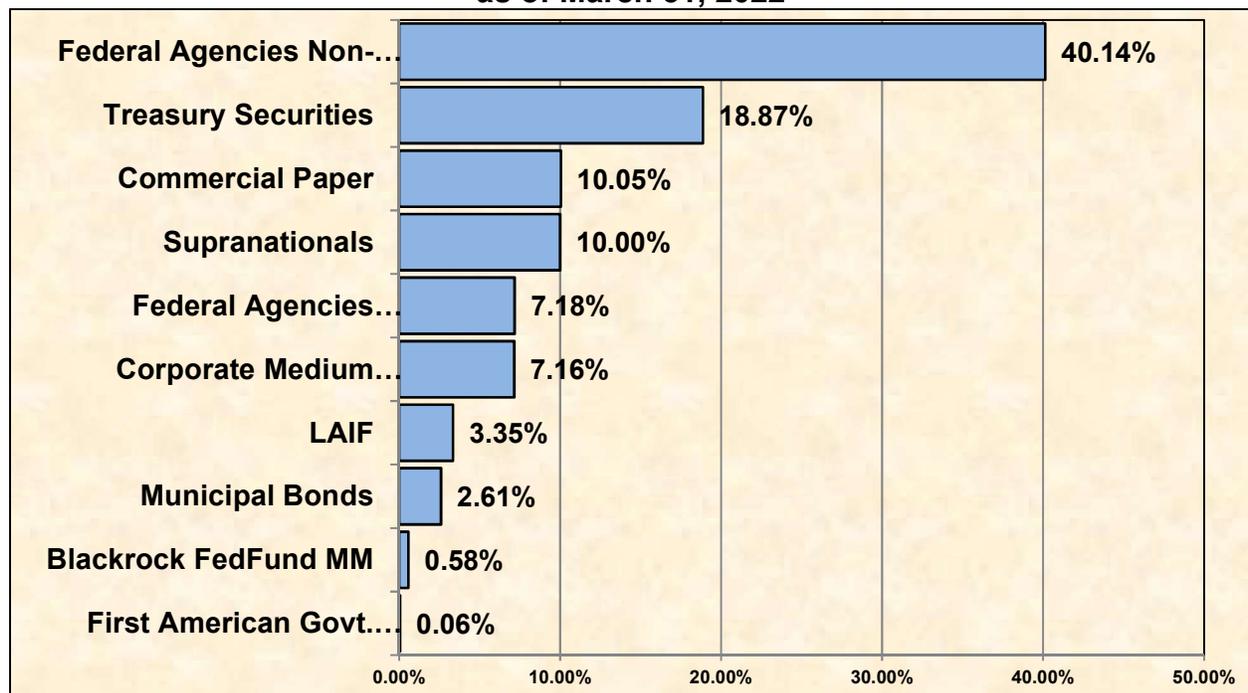
As anticipated, the Irvine Pooled Investment Portfolio's book value increased by \$10.96 million from the previous quarter due to a combination of property tax, and sales tax, and

developer fees. Portfolio yield to maturity increased for the quarter ended March 31, 2022 by 6 basis points to 1.22 percent as maturing investments were reinvested in the rising rate environment. With market rates rising during the quarter, as of March 31, 2022, the portfolio ended with an unrealized loss of \$24.71 million as compared to an unrealized gain of \$3.53 million on December 31, 2021. This is a normal result of the portfolio's modified duration of 2.25 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.

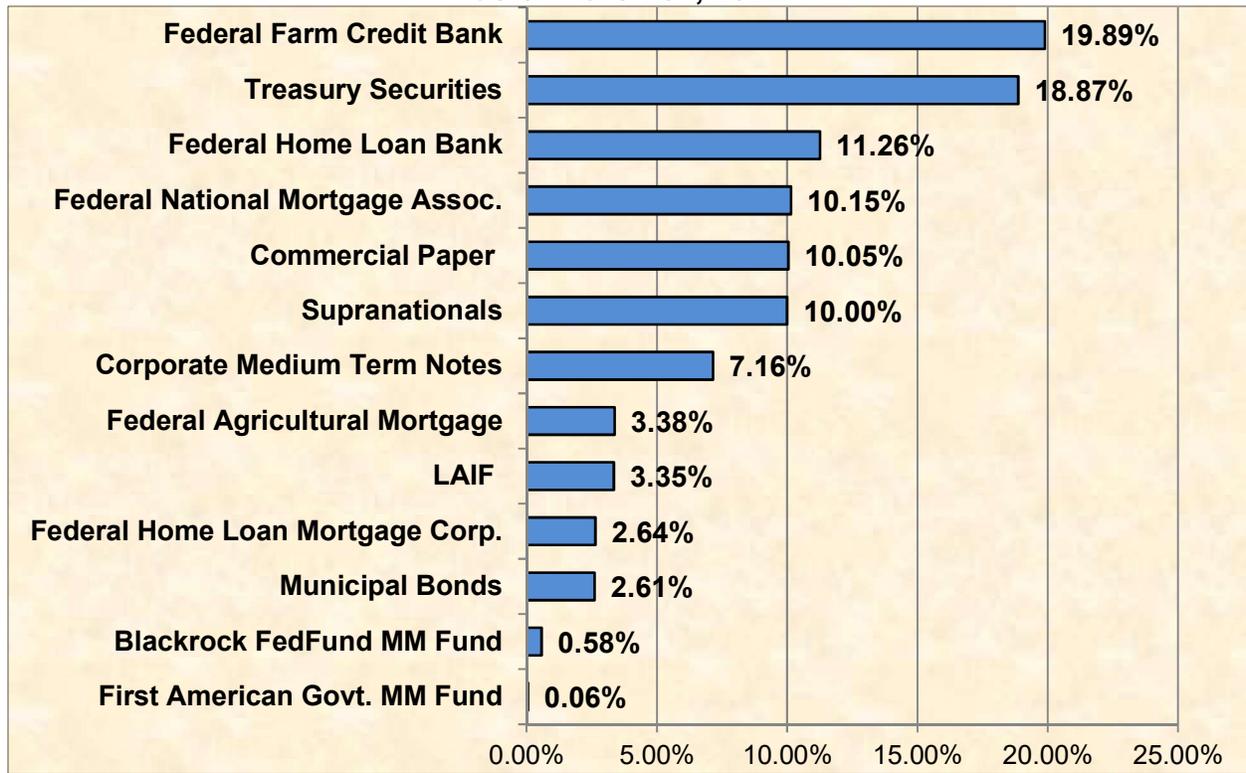
To manage liquidity, the Irvine Pooled Investment Portfolio is invested in Local Agency Investment Funds (LAIF), First American Government money market fund, Blackrock FedFund money market fund and short-term Commercial Paper. Chart 1 shows the asset allocation of the portfolio.

Irvine Pooled Investment Portfolio
Chart 1 - Asset Allocation
as of March 31, 2022



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 March 31, 2022**



Another key component in portfolio management is to ensure that the City has enough funds on hand to meet current expenses. As of March 31, 2022 the overnight to 6-month liquidity level for the Irvine Pooled Investment Portfolio was 11.11 percent, and 22.74 percent liquidity overnight to one year. 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 March 31, 2022

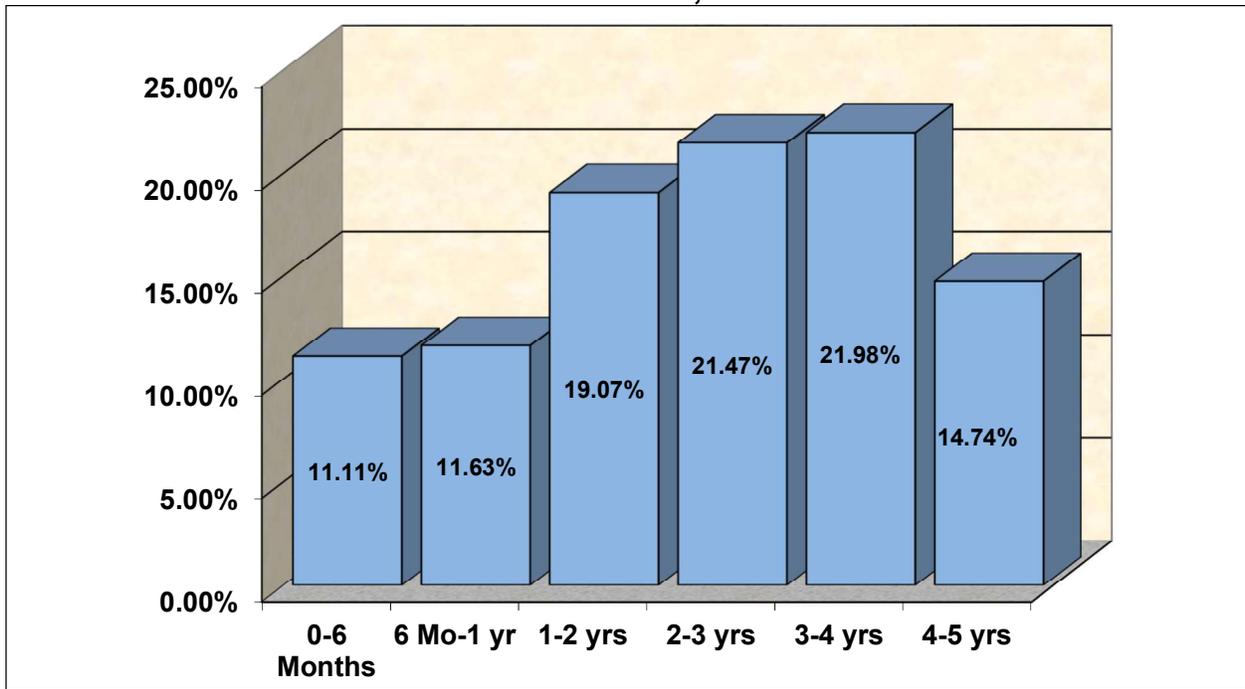
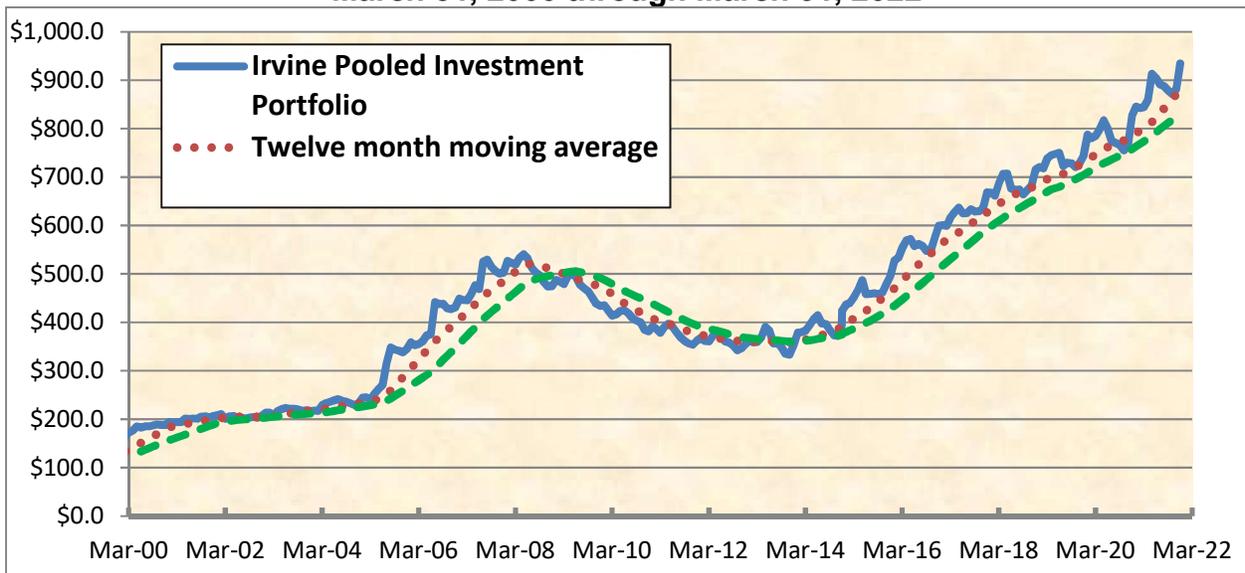
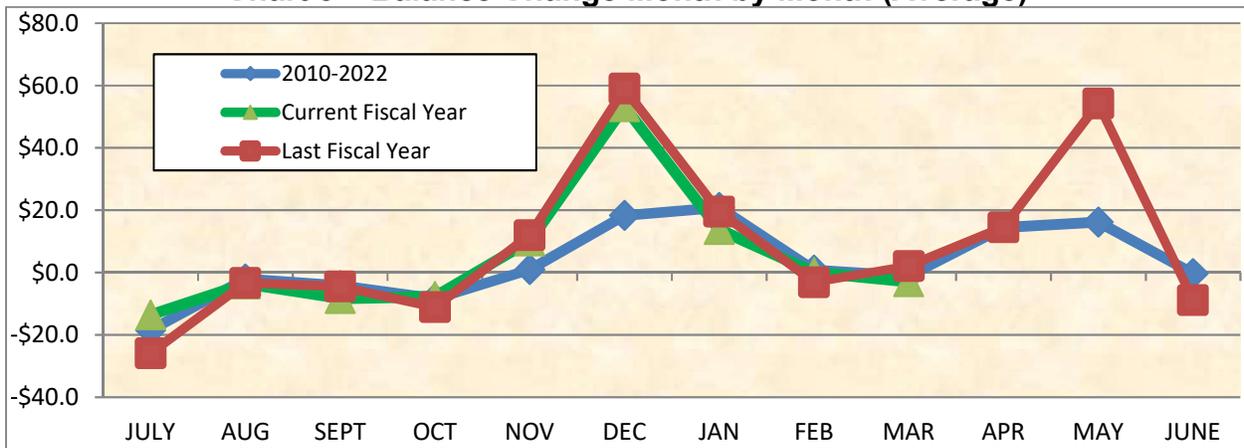


Chart 4 and Chart 5 show the volatility and cyclicity of the Irvine Pooled Investment Portfolio fund balance and cash flows between 2000 and 2022.

Irvine Pooled Investment Portfolio
Chart 4 - Portfolio Balance
March 31, 2000 through March 31, 2022

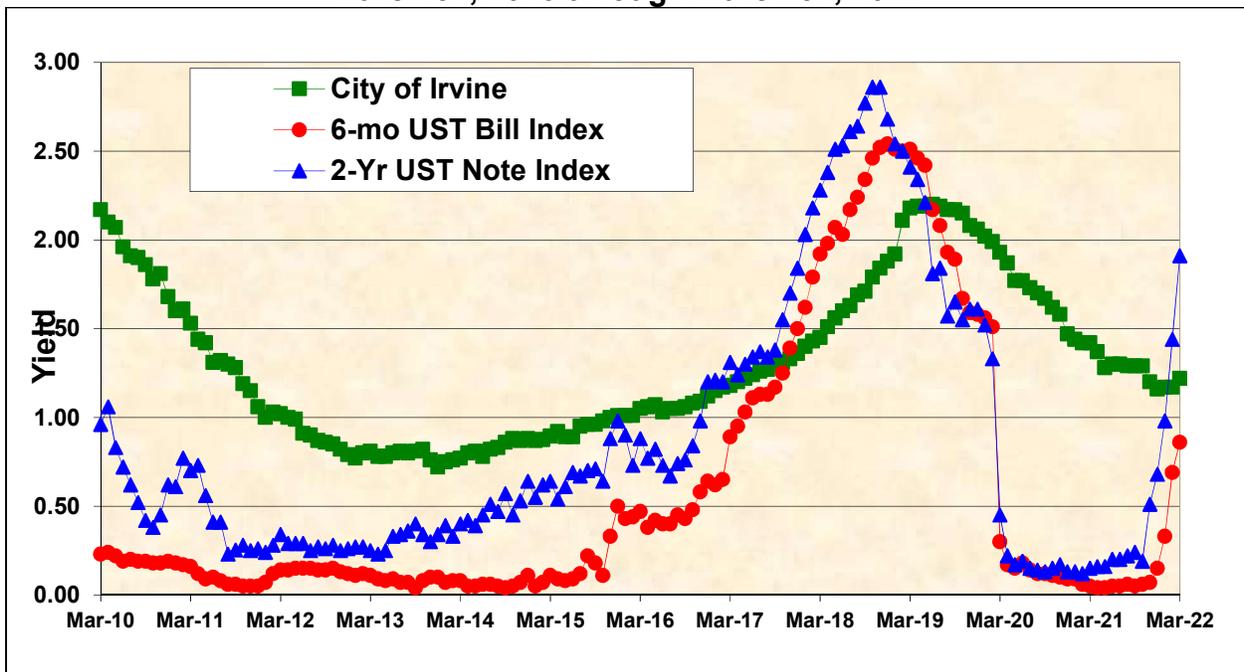


Irvine Pooled Investment Portfolio
Chart 5 – Balance Change Month by Month (Average)



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 .36 percent and lower than the 2-year UST by .69 percent, due to the Federal Reserve increasing short term interest rates in response to the inflation.

Irvine Pooled Investment Portfolio
Chart 6 - Yield to Maturity Compared to Assigned Indices
March 31, 2010 through March 31, 2022



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 March 31, 2022 was \$98,396.

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

	March 31, 2022	December 31, 2021	September 30, 2021	June 30, 2021
Book Value	\$62,230,000	\$61,987,000	\$47,950,000	\$47,172,000
Market Value	\$61,530,133	\$61,828,259	\$47,943,942	\$47,175,914
Unrealized Gain/(Loss)	(\$699,867)	(\$158,741)	(\$6,058)	\$3,914
Unrealized Gain/(Loss) as % of Book Value	(1.12%)	(0.26%)	(0.01%)	0.01%
Average Yield To Maturity	0.42%	0.22%	0.21%	0.25%
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	\$31,509	\$28,819	\$38,068	\$43,081
Fiscal Year to Date Income	\$98,396	\$66,887	\$38,068	\$251,477

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 March 31, 2022 was \$95,912.

Special District Funds Portfolio Rolling 12-Month Quarterly Comparison

	March 31, 2022	December 31, 2021	September 30, 2021	June 30, 2021
Book Value	\$250,677,550	\$265,068,424	\$233,560,430	\$284,187,161
Market Value	\$250,693,545	\$265,082,770	\$233,576,817	\$284,208,531
Unrealized Gain/(Loss)	\$15,995	\$14,345	\$16,387	\$21,370
Unrealized Gain/(Loss) as % of Book Value	0.01%	0.01%	0.01%	0.01%
Average Yield To Maturity	0.46%	0.06%	0.05%	0.07%
Average Days To Maturity	91	24	11	30
Quarterly Interest Earnings	\$22,191	\$52,638	\$21,082	\$83,581
Fiscal Year to Date Income	\$95,912	\$73,721	\$21,082	\$336,342

Market Conditions

During the third quarter of FY 2021-22, interest rates increased across the yield curve, with the majority of the increase on securities maturing six months to ten years. The Federal Reserve elected to hold the federal funds rate steady at its scheduled meeting on January 26, 2022 at 0.00 -.25 percent, but increased the federal funds rate at the scheduled March 16, 2022 meeting by 25 basis points to its current range of .25 -.50 percent. During the quarter, the yield of the 6-month Treasury bill increased 83 basis points to 1.00 percent, the 2-year Treasury note increased 155 basis points to 2.28 percent, and the 5-year notes increased by 116 basis points to 2.42 percent. The Local Agency Investment Fund (LAIF) daily rate increased from .22 percent to .42 percent during the quarter. The net effect to the Pooled Investment Portfolio was a decrease in the unrealized market value gain of \$3.53 million to an unrealized loss of \$24.71 million, which was in direct proportion to the stated duration of the portfolio, and the change in market yields.

During the past quarter, Russia attacked Ukraine which is a human tragedy and a seismic geopolitical event. It is far too early to judge how this conflict will affect the world, or the world economy, and what the implications will be for the U.S. economy. This situation

adds uncertainty to the economic outlook as the global commodity supply shock associated with Russia's actions skews inflation risks to the upside and is expected to exacerbate high prices for gasoline and food as well as supply chain bottlenecks in goods sectors. The combination of strong consumer demand and supply constraints has produced very high inflation. The Consumer Price Index (CPI) was up 8.50 percent for the 12 months through March, the highest yearly rate in 40 years. With appropriate monetary policy, and the expected easing in supply constraints, inflation should move down over the course of this calendar year, even with the recent geopolitical developments.

The broadest measure of labor compensation, covering wages and benefits, is the employment cost index, which for private sector workers rose at a 4 percent annual rate in October, November and December, the fastest pace in 20 years. Average hourly earnings of 5.60 percent Year over Year for March 2022 also continue to grow more strongly than they have in decades, and the gains are widespread across sectors. Job vacancies also indicate labor demand is exceptionally strong with nearly three million more vacancies than individuals looking for work. The unemployment rate of 3.60 percent, and the underemployment rate of 6.90 percent are back to pre-pandemic levels but labor participation while improving, continues to lag at 62.40 percent.

As stated by various Federal Reserve policy makers, it is of paramount importance to get inflation down. Accordingly, the Committee will continue tightening monetary policy methodically through a series of interest rate increases and by starting to reduce the balance sheet at a rapid pace as soon as their May meeting. The reduction in the balance sheet will contribute to monetary policy tightening over and above the expected increases in the policy rate reflected in market pricing and the Committee's Summary of Economic Projections.

In conclusion, economic uncertainty with regard to geopolitical events in conjunction with an aggressive reversal in monetary and fiscal policy will likely lead to continued slowing in the growth rate of the economy. The net effect to the City of Irvine's portfolio will be an increase in the unrealized loss in the short term, as well as an increase in earnings as the portfolio continues to adjust to market rates.

City of Irvine
Summary of Pooled Investment Portfolio Book Value by Fund *
As of March 31, 2022

General Reserve Funds	\$	182,905,465
Capital Projects Funds:		
Capital Improvement Projects		39,572,222
Irvine Business Complex		112,779,491
North Irvine Transportation Mitigation		90,708,198
Orange County Great Park Development		14,472,945
Park Development		46,927,443
Total		<u>304,460,300</u>
Special Revenue Funds:		
Air Quality Improvement		543,254
County Sales Tax Measure M		5,506,434
Fees and Exactions		9,999,528
State Gasoline Tax		22,603,672
Grants		5,350,398
I Shuttle		1,072,663
Local Park Fees		144,270,355
Maintenance District		2,745,112
Major Special Events		67,436
Orange County Great Park		179,336,489
Slurry Seal Fees		1,066,065
System Development		21,950,423
Total		<u>394,511,830</u>
Internal Service Funds:		
Equipment & Services		34,330,386
Inventory		57,071
Self-Insurance		22,182,570
Total		<u>56,570,026</u>
Permanent Fund:		
Senior Services		388,709
Senior Services Endowments		500,410
Total		<u>889,119</u>
Fiduciary Fund:		
Successor Agency Debt Service		988
Redevelopment Obligation Retirement		6,411,261
Total		<u>6,412,249</u>
Total Pooled Investments at March 31, 2022	\$	<u>945,748,989</u>

Note: Presentation of funds is consistent with the City's Annual Comprehensive Financial Re
* Balances are not audited