



REQUEST FOR CITY COUNCIL ACTION

MEETING DATE: SEPTEMBER 14, 2021

TITLE: TREASURER'S REPORT FOR FISCAL YEAR ENDED
JUNE 30, 2021

Director of Financial Management
& Strategic Planning

Interim City Manager

RECOMMENDED ACTION

Receive and file the Treasurer's Report for the fiscal year ended June 30, 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 June 30, 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 \$1.24 billion as of June 30, 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 June 30, 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.

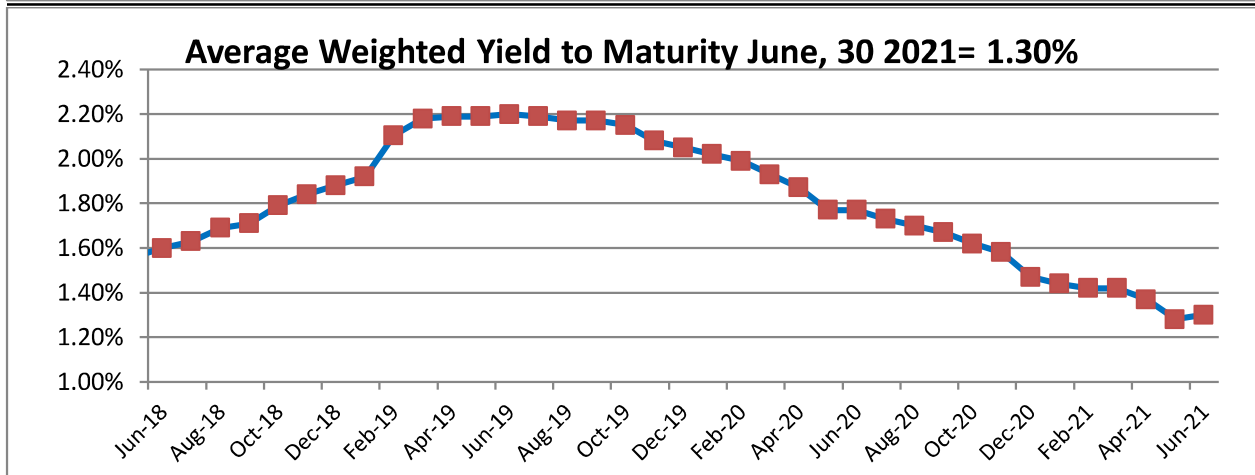
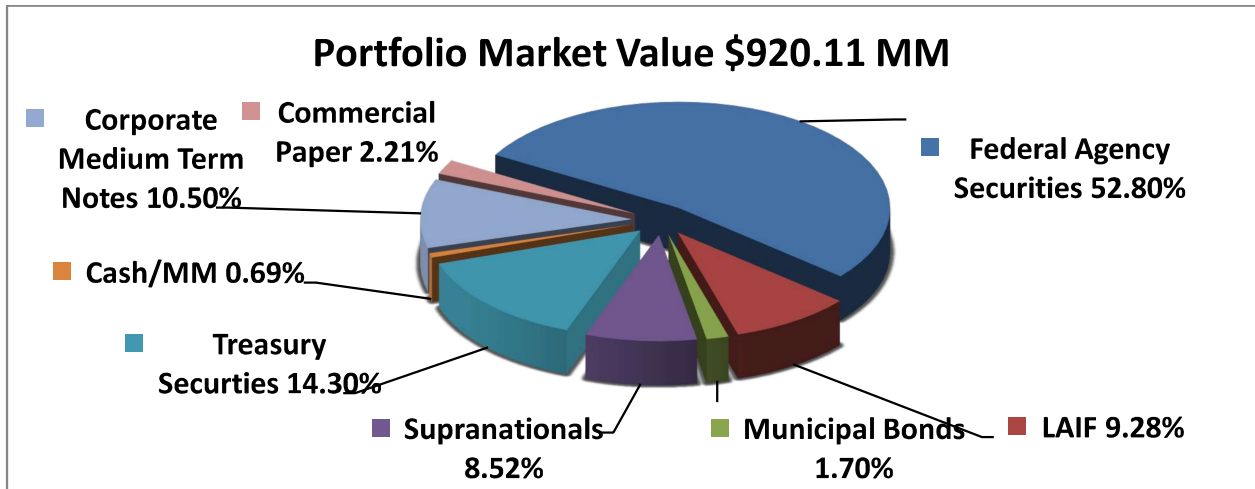
COMMISSION/BOARD/COMMITTEE RECOMMENDATION

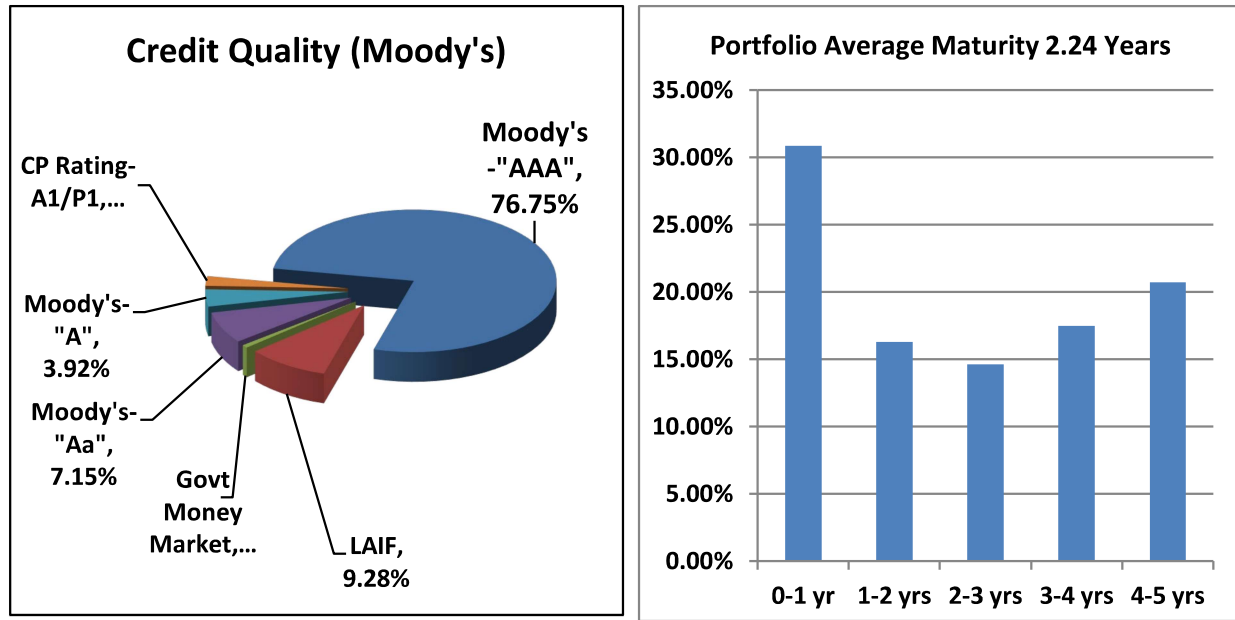
At its regular meeting of August 11, 2021, the Investment Advisory Committee recommended that the City Council receive and file the Treasurer's Report for the Fiscal Year ended June 30, 2021 by a 4-0-1 vote (Committee Member Stein absent). At its regular meeting of August 16, 2021, the Finance Commission recommended the City Council receive and file the report by a 3-0-2 vote (Commissioners Johnson-Norris and Park absent).

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 \$13.87 million with investments structured for security and liquidity.

REPORT PREPARED BY Don Collins, City Treasurer

ATTACHMENTS

1. Treasurer's Report for the quarter ended June 30, 2021
2. Summary of Irvine Pooled Investment Portfolio by Fund



**CITY OF IRVINE
TREASURER'S REPORT
For Fiscal Year Ended June 30, 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 fiscal year ended June 30, 2021, combined book value of the three portfolios totaled \$1.24 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, 2021, the book value (purchase price of securities as recorded on the City's books) of the portfolio was \$904.57 million and the average yield to maturity was 1.30 percent. Fiscal year to date investment revenue (interest payments and capital gains) generated by the portfolio as of June 30, 2021 was \$13.28 million. The spreadsheet below compares the portfolio's statistics over a rolling 12-month period.

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

	June 30, 2021	March 31, 2021	December 31, 2020	September 30, 2020
Book Value	\$904,574,544	\$844,631,774	\$826,025,140	\$766,154,560
Market Value	\$920,111,180	\$861,849,864	\$849,894,960	\$792,527,250
Unrealized Gain/(Loss)	\$15,536,636	\$17,218,090	\$23,869,820	\$26,372,690
Unrealized Gain/(Loss) as % of Book Value	1.72%	2.04%	2.89%	3.44%
Average Yield To Maturity	1.30%	1.42%	1.47%	1.67%
Liquidity 0–6 Months	21.86%	17.16%	18.40%	18.90%
Weighted Average Maturity	2.24	2.37	2.15	2.03
Modified Duration (Years)	2.17	2.30	2.10	2.00
Quarterly Interest Earnings	\$2,874,451	\$3,104,828	\$3,520,145	\$3,778,719
Fiscal Year to Date Income	\$13,278,144	\$10,403,692	\$7,298,864	\$3,778,719

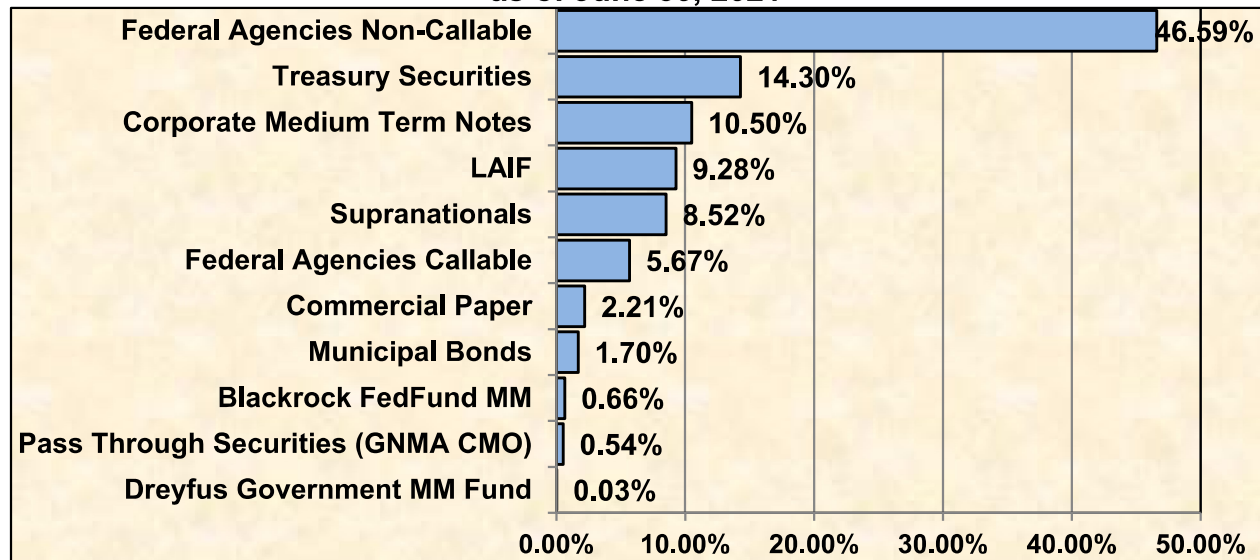
As anticipated, the Irvine Pooled Investment Portfolio's book value increased by \$59.94 million from the previous quarter due a combination of property tax, sales tax, developer

fees and the receipt of Coronavirus Relief Funds. Portfolio yield to maturity decreased for the quarter ended June 30, 2021 by 12 basis points to 1.30 percent as new funds and maturing investments were reinvested in the current low rate environment. With market rates rising modestly during the quarter, as of June 30, 2021, the portfolio ended with an unrealized gain of \$15.54 million as compared to an unrealized gain of \$17.22 million on March 31, 2021. This is a normal result of the portfolio's modified duration of 2.17 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.

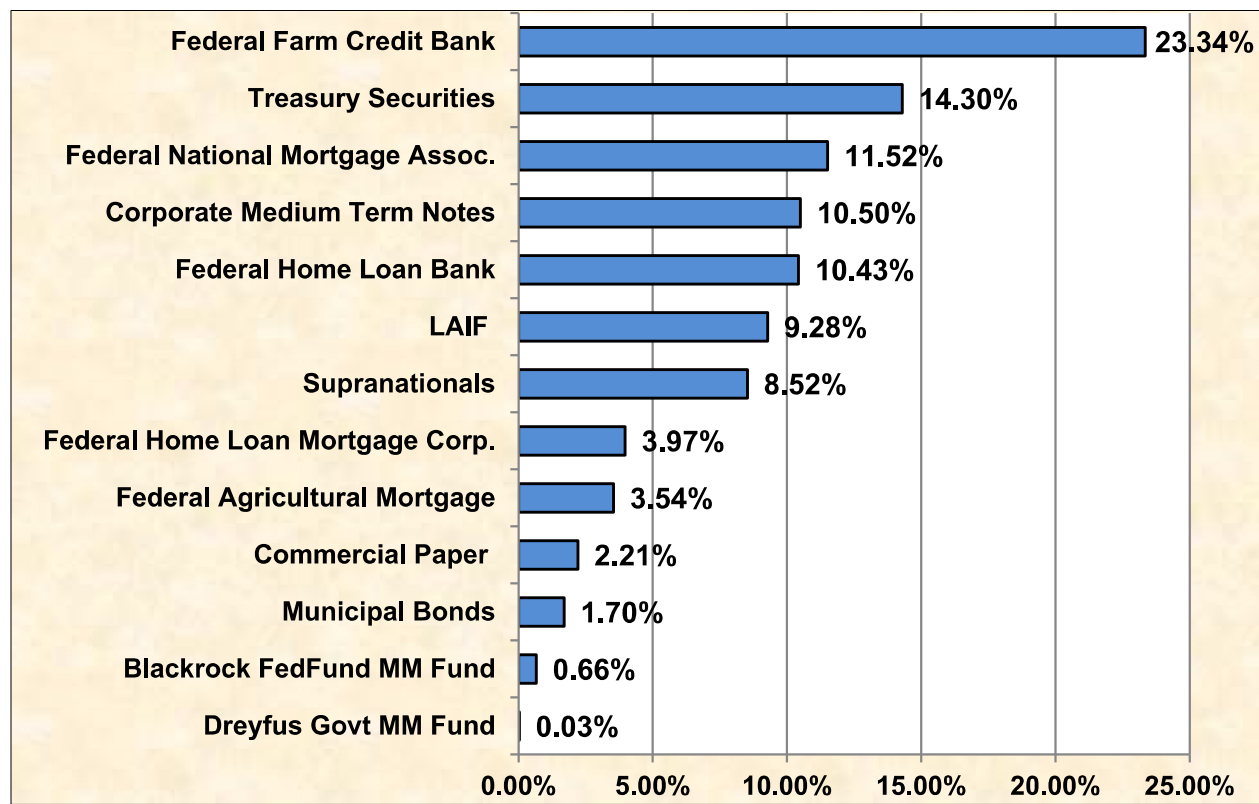
To manage liquidity, the Irvine Pooled Investment Portfolio is invested in Local Agency Investment Funds (LAIF), Dreyfus Government money market fund, Blackrock FedFund money market fund and short-term Commercial Paper. Chart 1 shows the asset allocation of the portfolio.

Irvine Pooled Investment Portfolio
Chart 1 - Asset Allocation
as of June 30, 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 June 30, 2021**



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, 2021 the overnight to 6-month liquidity level for the Irvine Pooled Investment Portfolio was 21.86 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 June 30, 2021

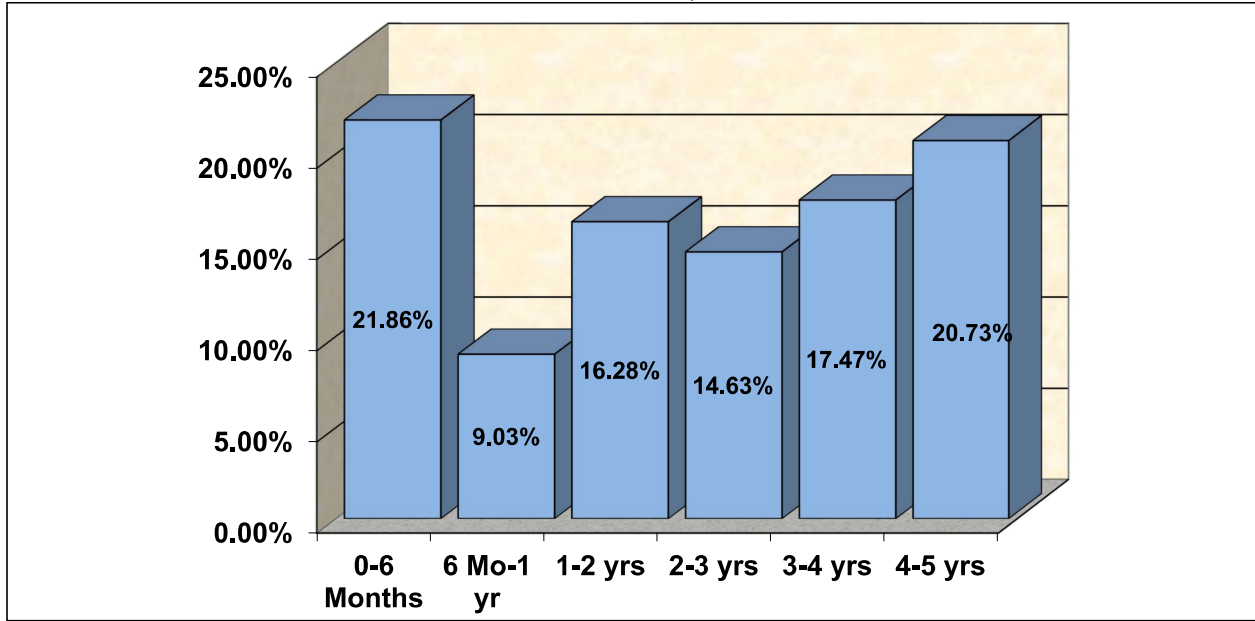
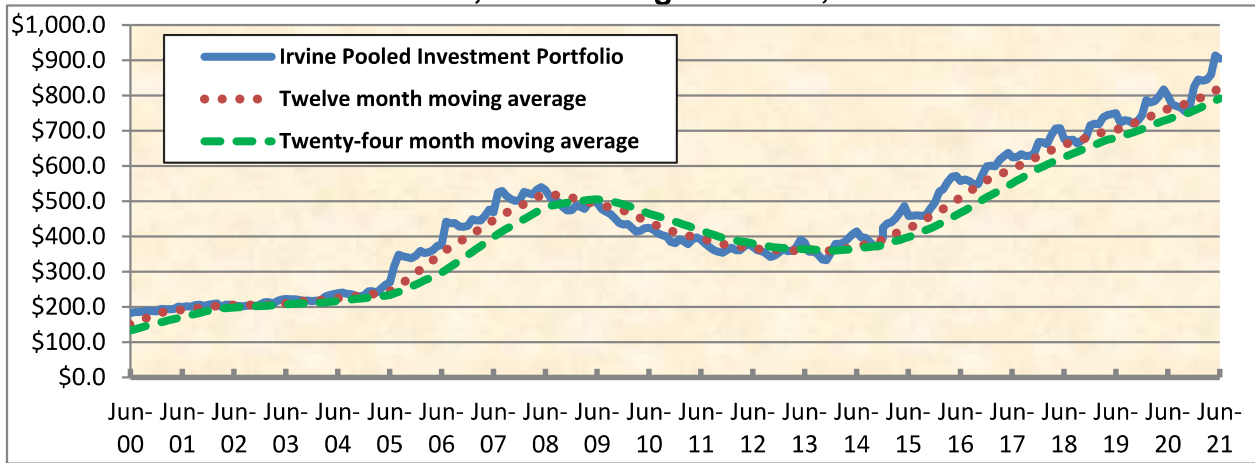
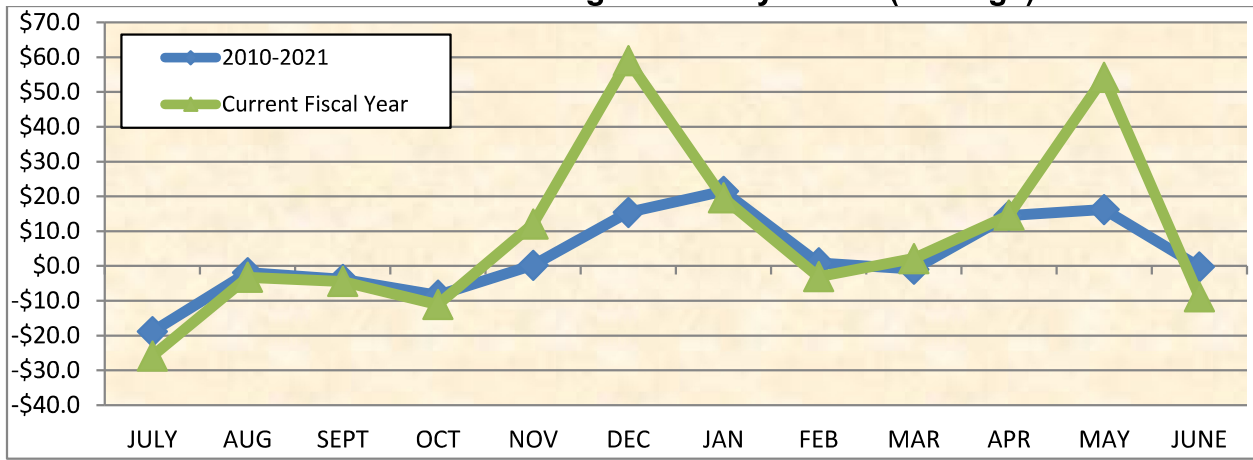


Chart 4 and Chart 5 show the volatility and cyclicity of the Irvine Pooled Investment Portfolio fund balance and cash flows between 2000 and 2021. As noted in chart 5, the portfolio experienced above average inflows in November and December due to the combination of property tax, sales tax, developer fees, and a reduction in year over year accounts payable expenses. May's above average increase was due to the receipt of Coronavirus relief funds.

Irvine Pooled Investment Portfolio
Chart 4 - Portfolio Balance
 June 30, 2000 through June 30, 2021

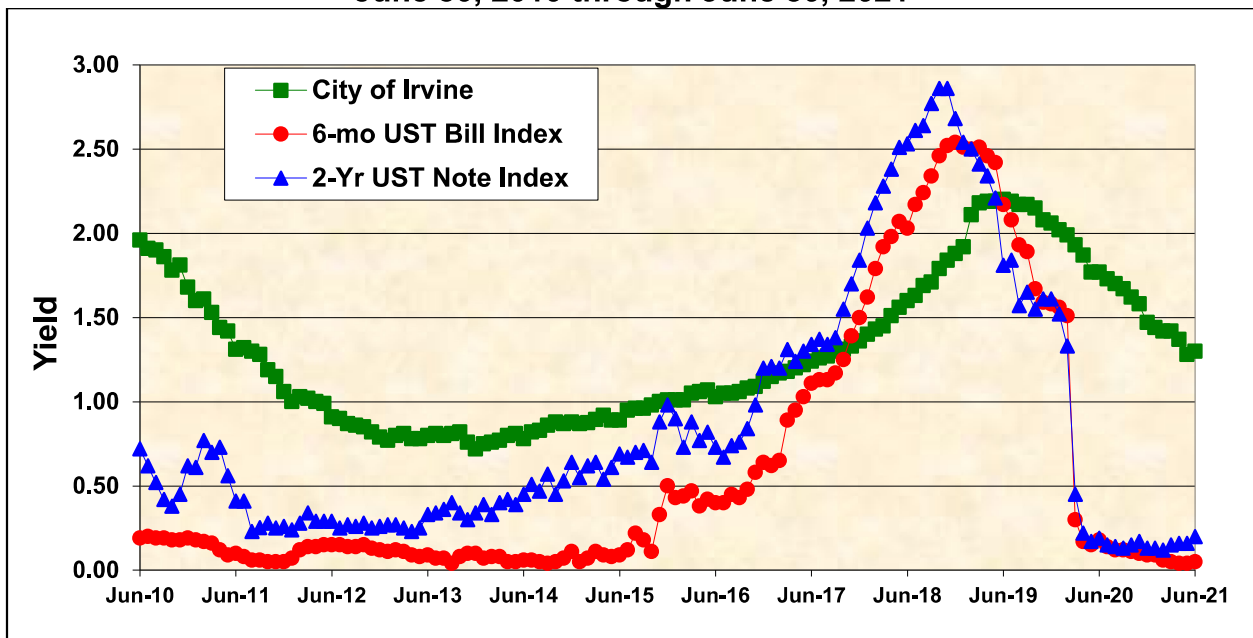


Irvine Pooled Investment Portfolio
Chart 5 – Balance Change Month by Month (Average)



To gauge performance, the City compares the Irvine Pooled Investment Portfolio's 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 1.25 percent and the 2-year UST by 1.10 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
 June 30, 2010 through June 30, 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 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, 2021 was \$251,477. The increase in balance from September 2020 to 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**

	June 30, 2021	March 31, 2021	December 31, 2020	September 30, 2020
Book Value	\$47,172,000	\$40,071,000	\$39,653,000	\$26,864,000
Market Value	\$47,175,914	\$40,121,884	\$39,743,065	\$26,974,533
Unrealized Gain/(Loss)	\$3,914	\$50,884	\$90,065	\$110,533
Unrealized Gain/(Loss) as % of Book Value	0.01%	0.13%	0.23%	0.41%
Average Yield To Maturity	0.25%	0.35%	0.52%	0.66%
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	\$43,081	\$53,423	\$57,425	\$97,548
Fiscal Year to Date Income	\$251,477	\$208,395	\$154,972	\$97,548

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 June 30, 2021 was \$336,342.

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

	June 30, 2021	March 31, 2021	December 31, 2020	September 30, 2020
Book Value	\$284,187,161	\$272,897,741	\$288,712,072	\$253,479,687
Market Value	\$284,208,531	\$272,916,873	\$288,774,712	\$253,553,725
Unrealized Gain/(Loss)	\$21,370	\$19,132	\$62,640	\$74,038
Unrealized Gain/(Loss) as % of Book Value	0.01%	0.01%	0.02%	0.03%
Average Yield To Maturity	0.07%	0.09%	0.12%	0.10%
Average Days To Maturity	30	39	55	32
Quarterly Interest Earnings	\$83,580	\$86,002	\$70,463	\$96,297
Fiscal Year to Date Income	\$336,342	\$252,762	\$166,760	\$96,297

Market Conditions

During the fourth quarter of FY 2020-21, interest rates increased slightly on securities maturing in less than three years, while decreasing on securities between three years and thirty years. The Federal Reserve elected to hold the federal funds rate steady at both of its scheduled meetings on April 28, 2021 and June 16, 2021 at 0.00-.25 percent. During the quarter, the yield of the 6-month Treasury bill increased 1.5 basis points to .04 percent, the 2-year Treasury note increased 8 basis points to .24 percent, and the 5-year notes decreased by 5 basis points to .88 percent. The Local Agency Investment Fund (LAIF) daily rate decreased from .35 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. Over FY 2020-21, interest rates out to one year fell while rising in maturities between two and thirty years as pandemic risks eased.

By the time FY 2020-21 began, the U.S. economy was four months into mitigation efforts of the COVID-19 pandemic. Gross domestic product (GDP) had collapsed by more than 30 percent at an annual rate in the second quarter of 2020; more than 22 million jobs were lost, wiping out a decade of employment gains; the unemployment rate rose from a 50-year low of 3.5 percent in February to almost 15 percent in April; and inflation

plummeted in response to a collapse in aggregate demand that dwarfed the contraction in aggregate supply. As we begin FY 2021-22, it is clear that the economy has proven to be much more resilient than many forecast or feared one year ago. With support from both monetary and fiscal policy—unprecedented in both scale and scope—and the rapid development and deployment of several effective vaccines, the economy stabilized and began a robust recovery in the second half of 2020 which has carried through the end of the second quarter 2021.

GDP rose by an impressive 6.4 percent in the first quarter, with real final sales to private domestic purchasers up 10.6 percent. Household spending on goods is rising robustly, and spending on services is also picking up as contact-intensive sectors begin to reopen and recover. Business and residential investment have more than fully recovered from the 2020 collapse and are operating above pre-pandemic levels.

While employment has improved dramatically over the past year, employment remains 8.2 million below its pre-pandemic peak, and the true unemployment rate adjusted for participation is closer to 8.7 percent than to 5.9 percent. At the recent pace of payroll gains—roughly 500,000 per month over the past six months—it would take until August 2022 to restore employment to its pre-pandemic level. But what this necessary rebalancing of labor supply and demand means for wage and price dynamics will depend importantly on the pace of recovery in labor force participation as well as the extent to which there are post-pandemic mismatches between labor demand and supply in specific sectors of the economy and how long any such imbalances persist.

Inflation data has continued to surge above the Federal Reserve's target rate of 2.0 percent in FY 2020-21 as anticipated due to transitory factors such as a run of year-over-year comparisons with depressed service-sector prices recorded last spring as well as the emergence of some supply bottlenecks that may limit how quickly production can rebound in certain sectors. The one time increases in prices are likely to have only transitory effects on underlying inflation, and over time run somewhat slightly above 2.0 percent. This outcome would be consistent with the new framework the Federal Reserve unanimously adopted in August 2020 and began to implement at the September 2020 Federal Open Market Committee (FOMC) meeting. As announced in the September 2020 FOMC statement and reiterated in the following statements—including the most recent one—with inflation running persistently below 2.0 percent, policy will aim to achieve inflation outcomes that keep inflation expectations well anchored at the 2.0 percent longer-run goal. The Federal Reserve is expected to maintain an accommodative stance of monetary policy until these outcomes—as well as the maximum-employment mandate—are achieved. The Federal Reserve is also expected to maintain the current target range for the federal funds rate at 0.00-.25 percent until labor market conditions have reached levels consistent with the Committee's assessments of maximum employment, until inflation has risen to 2.0 percent, and until inflation is on track to moderately exceed 2.0 percent for some time.

Risks to the recovery exist as new variants of COVID-19 begin to surge globally and vaccination rates slow. Additionally, fiscal stimulus checks are no longer anticipated and the phase-out of added unemployment benefits will drag on GDP. The odds of an

infrastructure package being successfully passed in Washington are also becoming increasingly doubtful.

In conclusion, the economic outlook for the first half of FY 2021-22 should be positive due to the continued residual effects of monetary and fiscal stimulus and the reopening of the economy. Inflation statistics may rise but should be viewed as transitory. Interest rates in the short end of the yield curve should remain anchored at the zero bound. The net effect on the City of Irvine's portfolios will be lower returns heading into fiscal year 2021-22.

City of Irvine
Summary of Pooled Investment Portfolio Book Value by Fund *
As of June 30, 2021

General Reserve Funds	\$ 140,109,427
Capital Projects Funds:	
Capital Improvement Projects	21,809,897
Irvine Business Complex	110,050,523
North Irvine Transportation Mitigation	84,711,491
Orange County Great Park Development	14,372,975
Park Development	45,131,843
Total	<u>276,076,730</u>
Special Revenue Funds:	
Air Quality Improvement	513,529
County Sales Tax Measure M	5,051,700
Fees and Exactions	9,353,925
State Gasoline Tax	21,053,607
Grants	35,237,655
I Shuttle	1,087,904
Local Park Fees	140,527,946
Maintenance District	6,250,646
Major Special Events	76,470
Orange County Great Park	178,496,671
Slurry Seal Fees	279,232
System Development	24,069,775
Total	<u>421,999,062</u>
Internal Service Funds:	
Equipment & Services	30,719,734
Inventory	38,569
Self-Insurance	22,136,882
Total	<u>52,895,185</u>
Permanent Fund:	
Senior Services	361,926
Senior Services Endowments	500,410
Total	<u>862,336</u>
Fiduciary Fund:	
Successor Agency Debt Service	973
Redevelopment Obligation Retirement	12,630,831
Total	<u>12,631,804</u>
Total Pooled Investments at June 30, 2021	<u><u>\$ 904,574,544</u></u>

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

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