



REQUEST FOR CITY COUNCIL ACTION

MEETING DATE: DECEMBER 8, 2020

TITLE: TREASURER'S REPORT FOR THE QUARTER ENDED
SEPTEMBER 30, 2020

Director of Financial Management
& Strategic Planning

Interim City Manager

RECOMMENDED ACTION

Receive and file the Treasurer's Report for the quarter ended September 30, 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 September 30, 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 \$1.05 billion as of September 30, 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 September 30, 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.

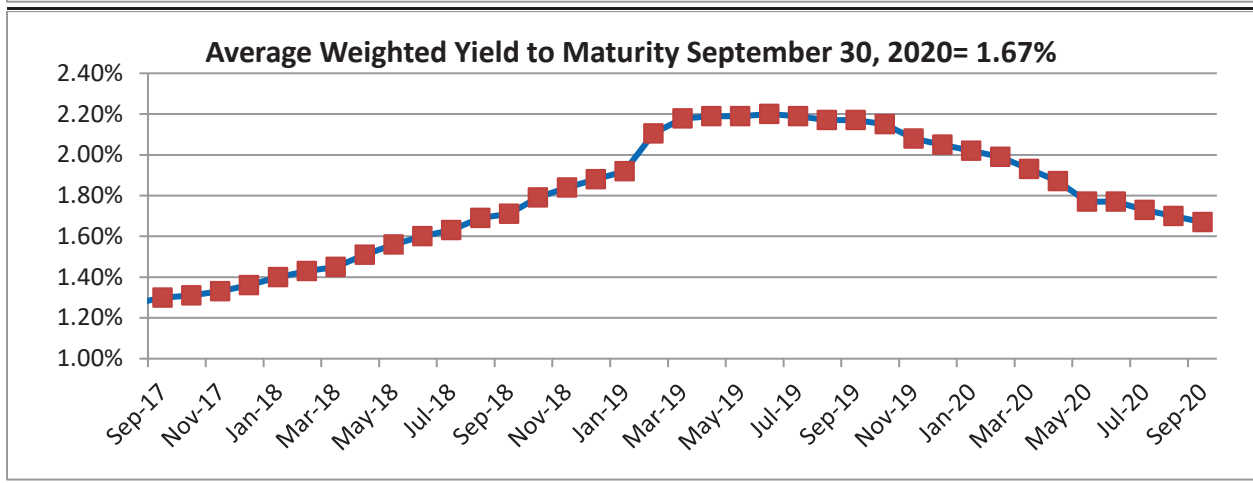
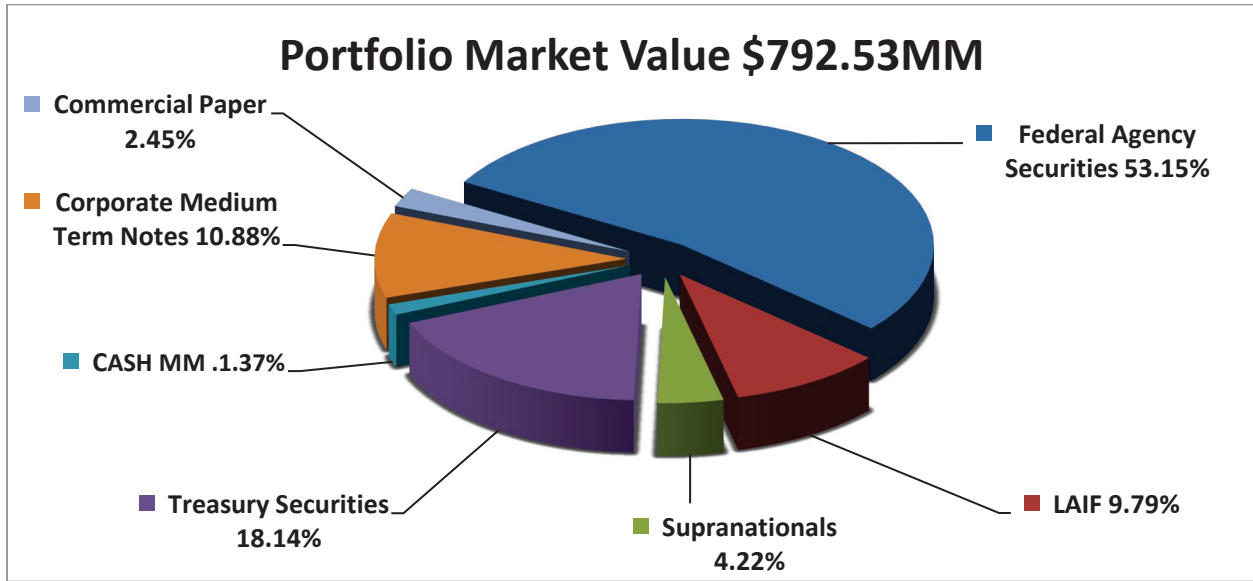
COMMISSION/BOARD/COMMITTEE RECOMMENDATION

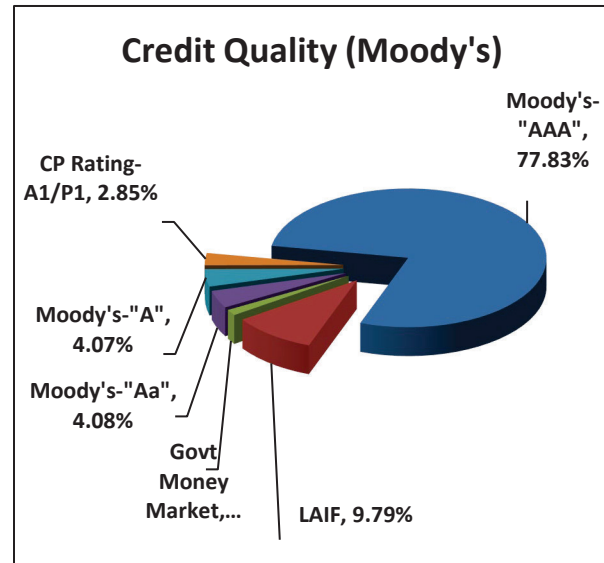
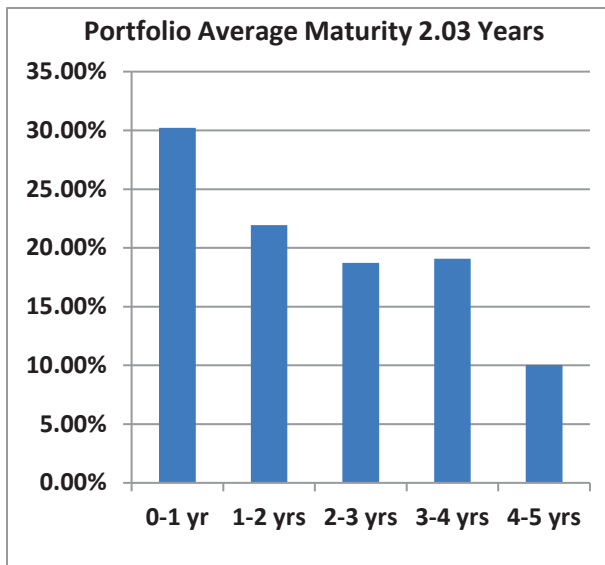
At its regular meeting of November 4, 2020, the Investment Advisory Committee recommended that the City Council receive and file the Treasurer's Report for the quarter ended September 30, 2020 by a 5-0 vote. At its regular meeting of November 16, 2020, the Finance Commission recommended that the City 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 \$3.97 million with investments structured for security and liquidity.

REPORT PREPARED BY Don Collins, City Treasurer

Attachments:

1. Treasurer’s Report for the quarter ended September 30, 2020
2. Summary of Irvine Pooled Investment Portfolio by Fund



**CITY OF IRVINE
TREASURER'S REPORT
For Quarter Ended September 30, 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 September 30, 2020, combined market value of the three portfolios totaled \$1.07 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 September 30, 2020, the book value (purchase price of securities as recorded on the City's books) of the portfolio was \$766.15 million and the average yield to maturity was 1.67 percent. Fiscal year to date investment revenue (interest payments and capital gains) generated by the portfolio as of September 30, 2020 was \$3.78 million. The spreadsheet below compares the portfolio's statistics over a rolling 12-month period.

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

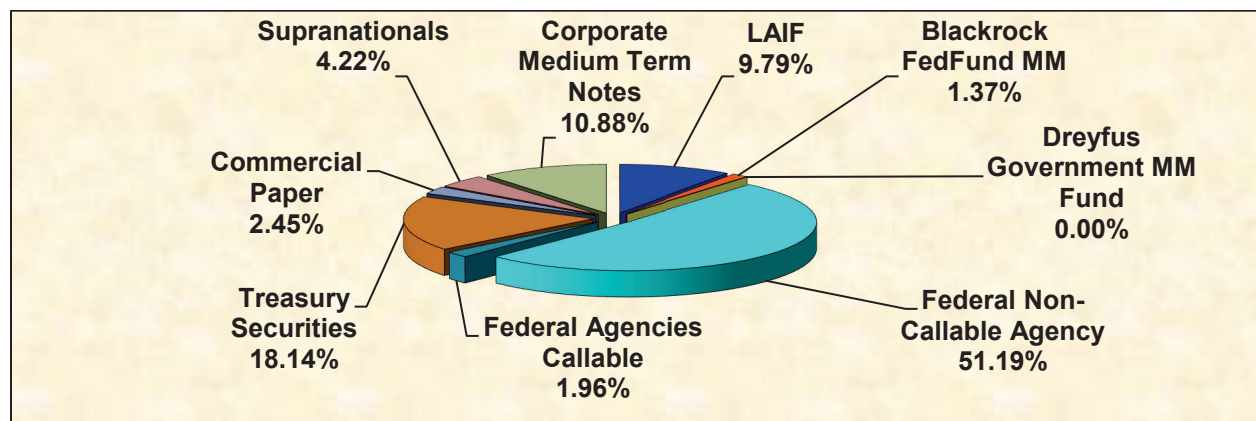
	September 30, 2020	June 30, 2020	March 31, 2020	December 31, 2019
Book Value	\$766,154,560	\$799,798,050	\$784,876,726	\$743,298,891
Market Value	\$792,527,250	\$827,088,345	\$810,207,849	\$752,173,155
Unrealized Gain/(Loss)	\$26,372,690	\$27,290,295	\$25,331,123	\$8,874,264
Unrealized Gain/(Loss) as % of Book Value	3.44%	3.41%	3.23%	1.19%
Average Yield To Maturity	1.67%	1.77%	1.93%	2.06%
Liquidity 0–6 Months	18.90%	21.04%	19.78%	15.45%
Weighted Average Maturity	2.03	2.06	2.10	2.35
Modified Duration (Years)	2.00	2.02	2.06	2.26
Quarterly Interest Earnings	\$3,778,719	\$3,122,477	\$4,273,705	\$3,851,982
Fiscal Year to Date Income	\$3,778,719	\$15,228,013	\$12,105,536	\$7,831,831

As anticipated, the Irvine Pooled Investment Portfolio's book value decreased by \$33.64 million from the previous quarter due to the prepayment of CalPERS pension liability for Fiscal Year 2020-21 and higher than average expenses related to capital projects. Additionally, due to COVID-19, revenues, such as program and service fees, and transit occupancy tax among others declined, or are under budget expectations. Portfolio yield to maturity decreased for the quarter ended September 30, 2020 by 10 basis points to 1.67 percent. With market rates remaining stable and low during the quarter, as of September 30, 2020, the portfolio ended with an unrealized gain of \$26.37 million as compared to an unrealized gain of \$27.29 million on June 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.

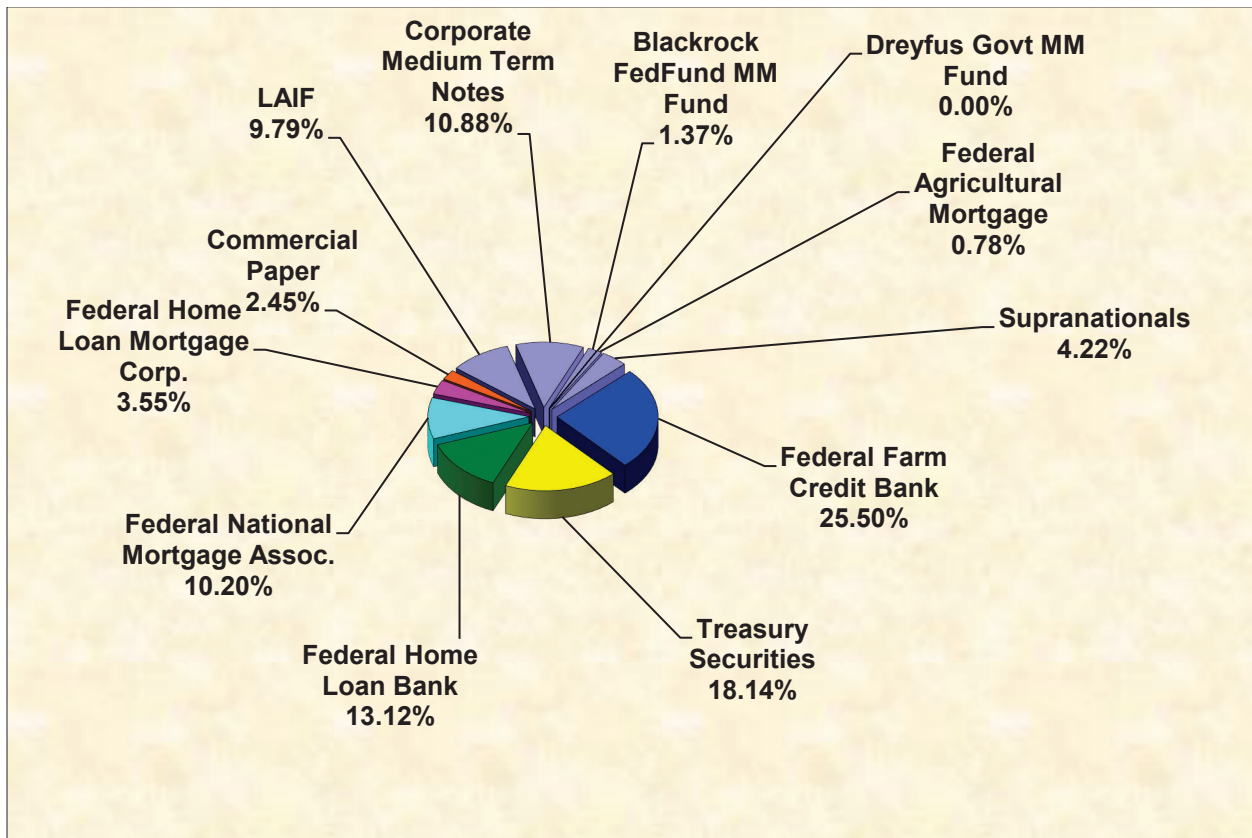
To manage liquidity, the Irvine Pooled Investment Portfolio is invested in Local Agency Investment Funds (LAIF), Dreyfus Government money market fund, Blackrock FedFund money market fund and short-term Commercial Paper. Chart 1 shows the asset allocation of the portfolio.

**Irvine Pooled Investment Portfolio
Chart 1 - Asset Allocation
as of September 30, 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 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 September 30, 2020**



Another key component in portfolio management is to ensure that the City has enough funds on hand to meet current expenses. As of September 30, 2020, the overnight to 6-month liquidity level for the Irvine Pooled Investment Portfolio was 18.90 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 September 30, 2020

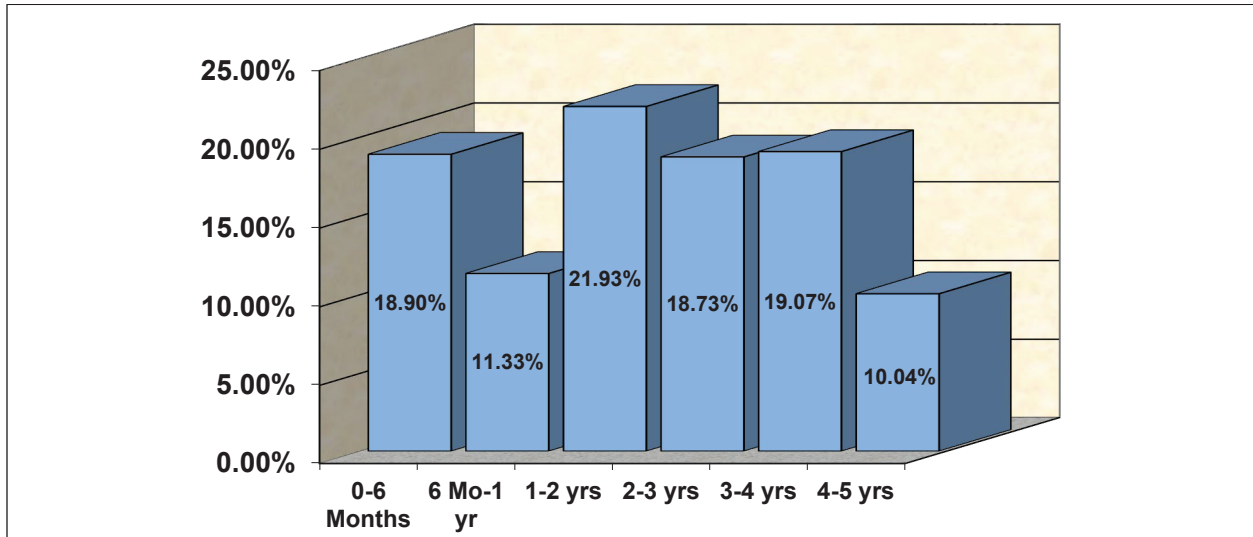
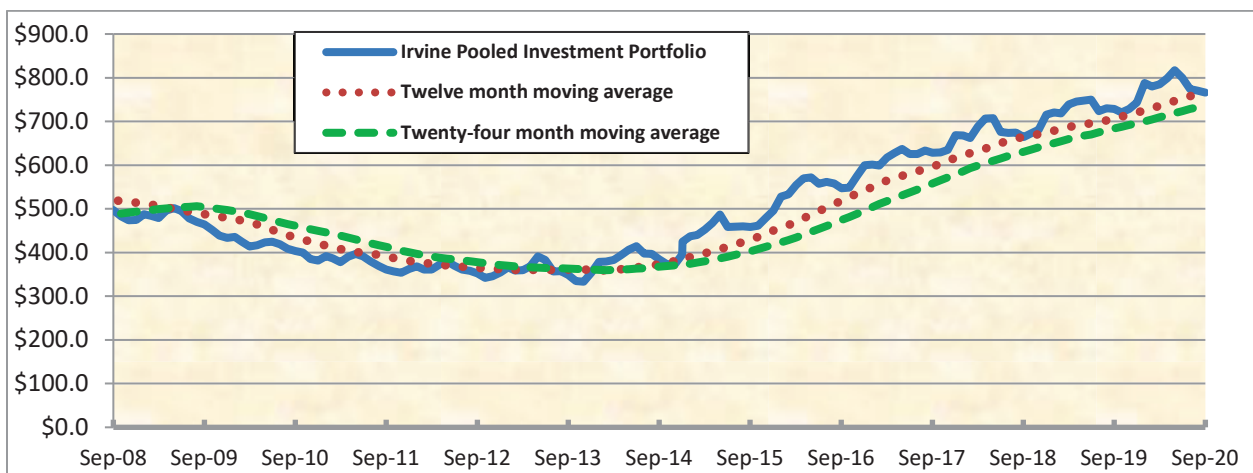
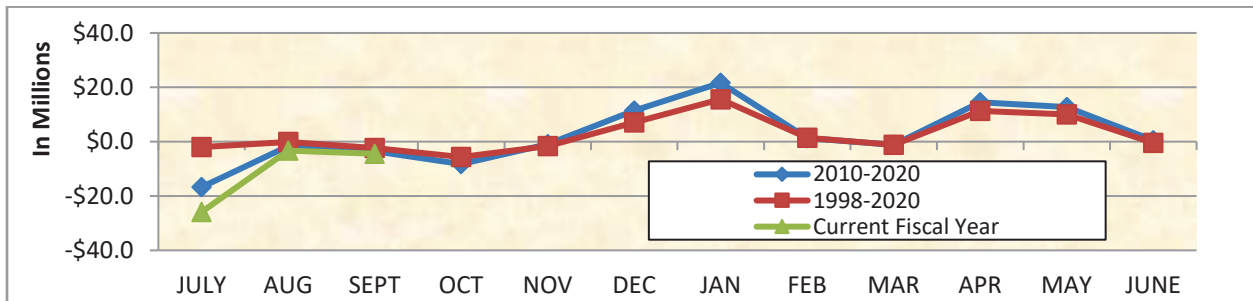


Chart 4 and Chart 5 show the volatility and cyclical nature of the Irvine Pooled Investment Portfolio fund balance and cash flows between 2000 and 2020. As noted in chart 5, the portfolio experienced above average outflows in July due to the prepayment of CalPERS pension liability for Fiscal Year 2020-21, and higher than average expenses related to capital projects. Additionally, due to Covid-19, revenues such as program and service fees, transit occupancy tax, among other revenue sources, declined or are below budget.

Irvine Pooled Investment Portfolio
Chart 4 - Portfolio Balance
September 30, 2008 through September 30, 2020

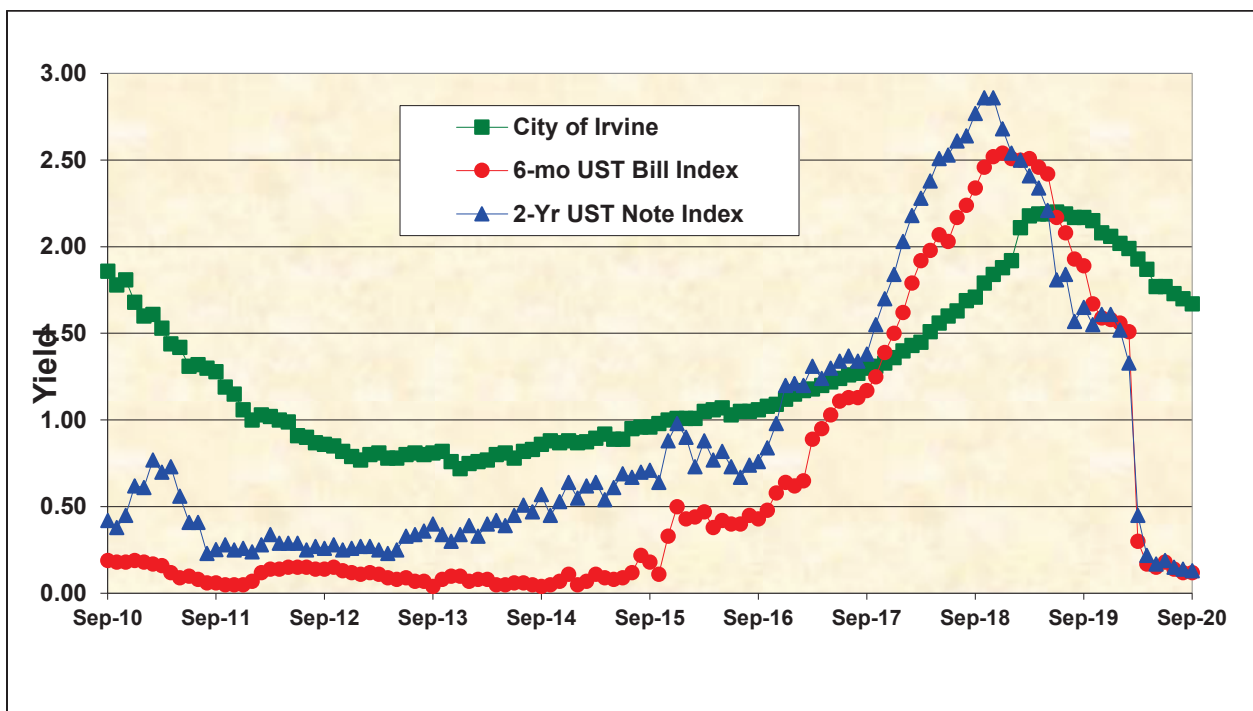


Irvine Pooled Investment Portfolio
Chart 5 – Balance Change Month by Month (Average)



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 1.55 percent and the 2-year UST by 1.54 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
 September 30, 2010 through September 30, 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 September 30, 2020 was \$97,548. The increase in balance for June 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**

	September 30, 2020	June 30, 2020	March 31, 2020	December 31, 2019
Book Value	\$26,864,000	\$27,561,000	\$20,265,000	\$20,777,000
Market Value	\$26,974,533	\$27,609,791	\$20,300,875	\$20,811,133
Unrealized Gain/(Loss)	\$110,533	\$48,791	\$35,875	\$34,133
Unrealized Gain/(Loss) as % of Book Value	0.41%	0.18%	0.18%	0.16%
Average Yield To Maturity	0.66%	1.15%	1.74%	2.03%
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	\$97,548	\$101,496	\$109,271	\$78,390
Fiscal Year to Date Income	\$97,548	\$380,038	\$278,543	\$169,272

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 September 30, 2020 was \$96,297.

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

	September 30, 2020	June 30, 2020	March 31, 2020	December 31, 2019
Book Value	\$253,479,687	\$307,819,248	\$288,287,939	\$304,718,947
Market Value	\$253,553,725	\$307,862,001	\$288,200,908	\$304,717,215
Unrealized Gain/(Loss)	\$74,038	\$42,753	(\$87,031)	(\$1,732)
Unrealized Gain/(Loss) as % of Book Value	0.03%	0.01%	-0.03%	0.00%
Average Yield to Maturity	0.10%	0.40%	1.02%	1.72%
Average Days to Maturity	32	77	36	53
Quarterly Interest Earnings	\$96,297	\$837,348	\$1,364,278	\$1,428,957
Fiscal Year to Date Income	\$96,297	\$4,653,826	\$3,816,478	\$2,452,199

Market Conditions

During the first quarter of FY 2020-21, interest rates decreased slightly on securities between one month and seven years, while increasing slightly on securities between ten 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 yields of the 6-month Treasury bill decreased 3 basis points to .10 percent, the 2-year Treasury note decreased 2 basis points to .12 percent, and the 5-year notes decreased by 1 basis points to .27 percent. The Local Agency Investment Fund (LAIF) daily rate decreased from 1.15 percent to .66 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 2019).

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. Gross domestic product (GDP) collapsed at an almost 32 percent annual rate in the second quarter, and more than 22 million jobs were lost in March and April. This recession was by far the deepest one in postwar history, but it also may turn out to be the briefest recession in U.S. history. The flow of macro-data received since May has been surprisingly strong, and GDP growth in the third quarter is estimated by many forecasters to have potentially rebounded to a 25 to 30 percent annual rate. While high-frequency activity indicators have flat-lined recently and COVID-19 cases are surging regionally, the U.S. economy continues to show improvement. Spending on many services continues to lag, but the rebound in the GDP data has been broad based across indicators of goods consumption, housing, and investment. These components of aggregate demand have benefited from both monetary and fiscal support (Paycheck Protection Program and expanded unemployment benefits). In the labor market, about half of the 22 million jobs that were lost in the spring have been restored, and the unemployment rate has fallen from 14.7 percent in April to 7.9 percent as of September.

While the recovery seems robust, the COVID-19 recession threw the economy into a very deep hole, and it will take some time, for the level of GDP to fully recover to its previous 2019 peak. It will likely take even longer than that for the unemployment rate to return to a level consistent with the Federal Reserve's maximum-employment mandate. The median projection of the Federal Open Market Committee (FOMC) is that the unemployment rate will fall to 4.00 percent by the end of 2023 along with PCE (personal consumption expenditures) increasing to 2.00 percent. At the September FOMC meeting, guidance regarding the future path of the federal funds rate was upgraded to include forward guidance regarding the long term inflation goal of 2.00 percent. Monetary policy will remain accommodative until the dual goal of maximum-employment, and inflation moderately exceeding 2 percent are reached for an extended period of time. Federal Reserve Chair Jerome Powell recently discussed the shift in strategy from "flexible inflation targeting" to "flexible average inflation targeting".

New and existing home sales have been improving since May 2020 as sales continue to be fueled by record low mortgage rates. California's median home price was 706,900 dollars, up 14.50 percent from August 2019.

While the combination of monetary and fiscal stimulus which has largely supported the economy during COVID-19, the July 31, 2020 reduction and eventual elimination of supplemental unemployment insurance means that personal incomes declined in September, and barring additional fiscal stimulus will likely correspond to reduced consumer spending in calendar fourth quarter 2020. Reduced state and local revenues have also substantially dropped this year with California's Governor Gavin Newsom estimating a 54.30 billion dollar budget shortfall.

Without a new round of fiscal stimulus, that also includes state and local government, the ultimate path that the economy follows will depend on the course of the virus, social-distancing norms, and mitigation efforts put in place to contain it. The net effect on the City of Irvine's portfolios will be lower returns expected in the 2020-21 fiscal year.

City of Irvine
Summary of Pooled Investment Portfolio Book Value by Fund *
 As of September 30, 2020

General Reserve Funds	\$ 109,428,352
Capital Projects Funds:	
Capital Improvement Projects	12,524,831
Irvine Business Complex	100,040,739
North Irvine Transportation Mitigation	84,793,736
Orange County Great Park Development	14,019,088
Park Development	45,631,328
Total	<u>257,009,723</u>
Special Revenue Funds:	
Air Quality Improvement	507,800
County Sales Tax Measure M	1,918,721
Fees and Exactions	7,681,011
State Gasoline Tax	17,897,451
Grants	5,867,124
I Shuttle	1,004,302
Local Park Fees	122,854,561
Maintenance District	(13,622)
Major Special Events	178,437
Orange County Great Park	162,750,432
Slurry Seal Fees	1,046,993
System Development	26,471,637
Total	<u>348,164,849</u>
Internal Service Funds:	
Equipment & Services	26,171,562
Inventory	13,185
Self-Insurance	18,361,452
Total	<u>44,546,200</u>
Permanent Fund:	
Senior Services	374,721
Senior Services Endowments	500,410
Total	<u>875,131</u>
Fiduciary Fund:	
Successor Agency Debt Service	28,909
Redevelopment Obligation Retirement	6,101,397
Total	<u>6,130,307</u>
Total Pooled Investments at September 30, 2020	<u><u>\$ 766,154,560</u></u>

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

* Balances are not audited