



REQUEST FOR CITY COUNCIL ACTION

MEETING DATE: JUNE 8, 2021

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

Director of Financial Management
& Strategic Planning

Interim City Manager

RECOMMENDED ACTION

Receive and file the Treasurer's Report for the quarter ended March 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 quarter ended March 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 \$1.16 billion as of March 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 March 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.

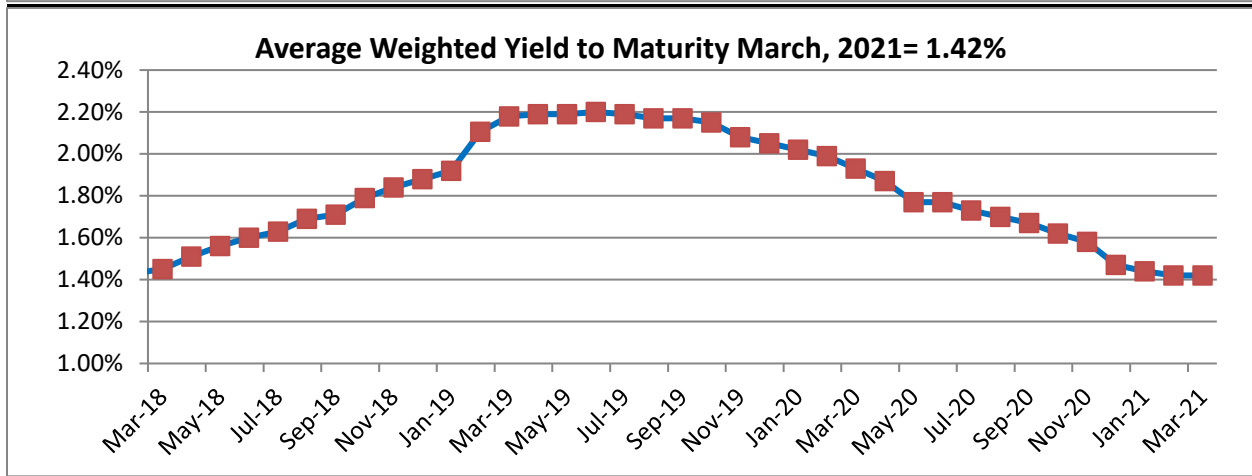
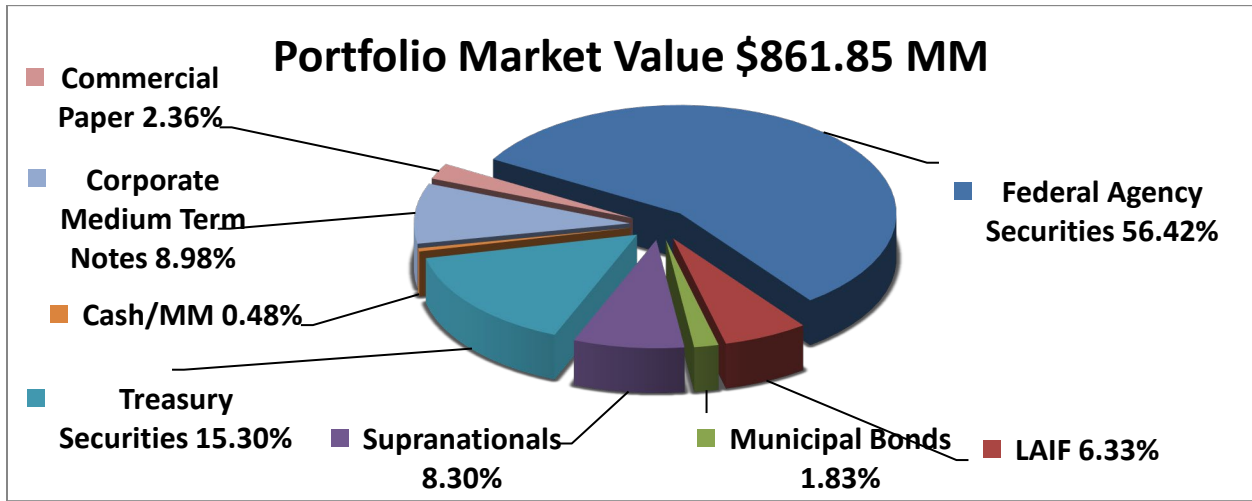
COMMISSION/BOARD/COMMITTEE RECOMMENDATION

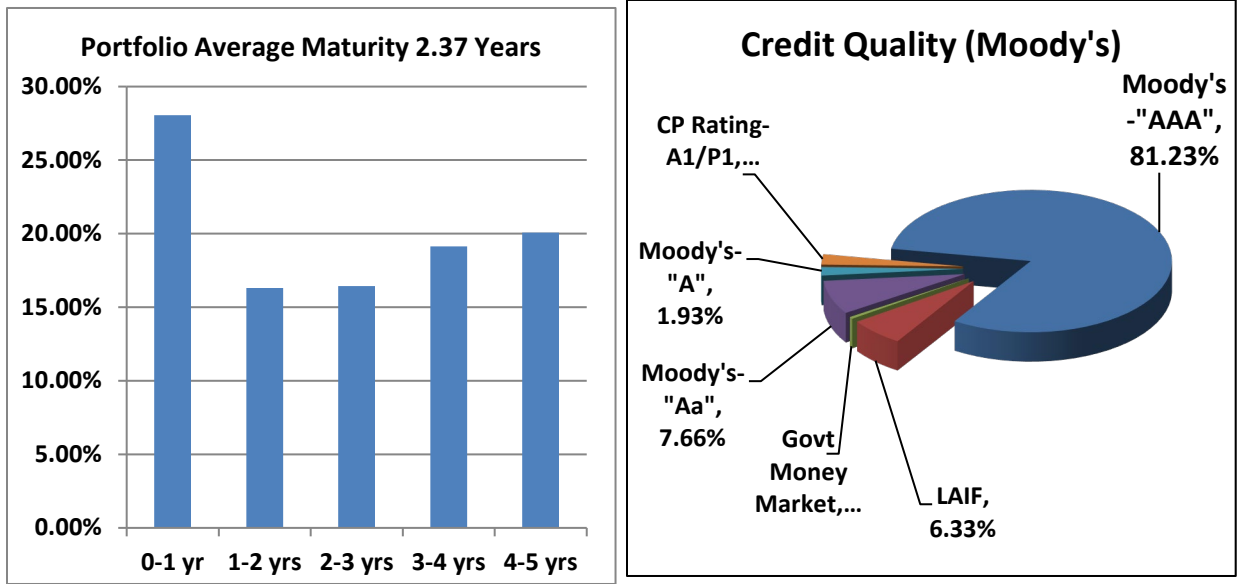
At its regular meeting of May 12, 2021, the Investment Advisory Committee recommended that the City Council receive and file the Treasurer's Report for the quarter ended March 31, 2021 by a 4-1 vote (Committee Member Stein absent). At its regular meeting of May 17, 2021, the Finance Commission recommended 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 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 Districts Funds Portfolio totaled \$10.86 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, 2021
2. Summary of Irvine Pooled Investment Portfolio by Fund



**CITY OF IRVINE
TREASURER'S REPORT
For Quarter Ended March 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 March 31, 2021, combined book value of the three portfolios totaled \$1.16 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 March 31, 2021, the book value (purchase price of securities as recorded on the City's books) of the portfolio was \$844.63 million and the average yield to maturity was 1.42 percent. Fiscal year to date investment revenue (interest payments and capital gains) generated by the portfolio as of March 31, 2021 was \$10.40 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, 2021	December 31, 2020	September 30, 2020	June 30, 2020
Book Value	\$844,631,774	\$826,025,140	\$766,154,560	\$799,798,050
Market Value	\$861,849,864	\$849,894,960	\$792,527,250	\$827,088,345
Unrealized Gain/(Loss)	\$17,218,090	\$23,869,820	\$26,372,690	\$27,290,295
Unrealized Gain/(Loss) as % of Book Value	2.04%	2.89%	3.44%	3.41%
Average Yield To Maturity	1.42%	1.47%	1.67%	1.77%
Liquidity 0–6 Months	17.16%	18.40%	18.90%	21.04%
Weighted Average Maturity	2.37	2.15	2.03	2.06
Modified Duration (Years)	2.30	2.10	2.00	2.02
Quarterly Interest Earnings	\$3,104,828	\$3,520,145	\$3,778,719	\$3,122,477
Fiscal Year to Date Income	\$10,403,692	\$7,298,864	\$3,778,719	\$15,228,013

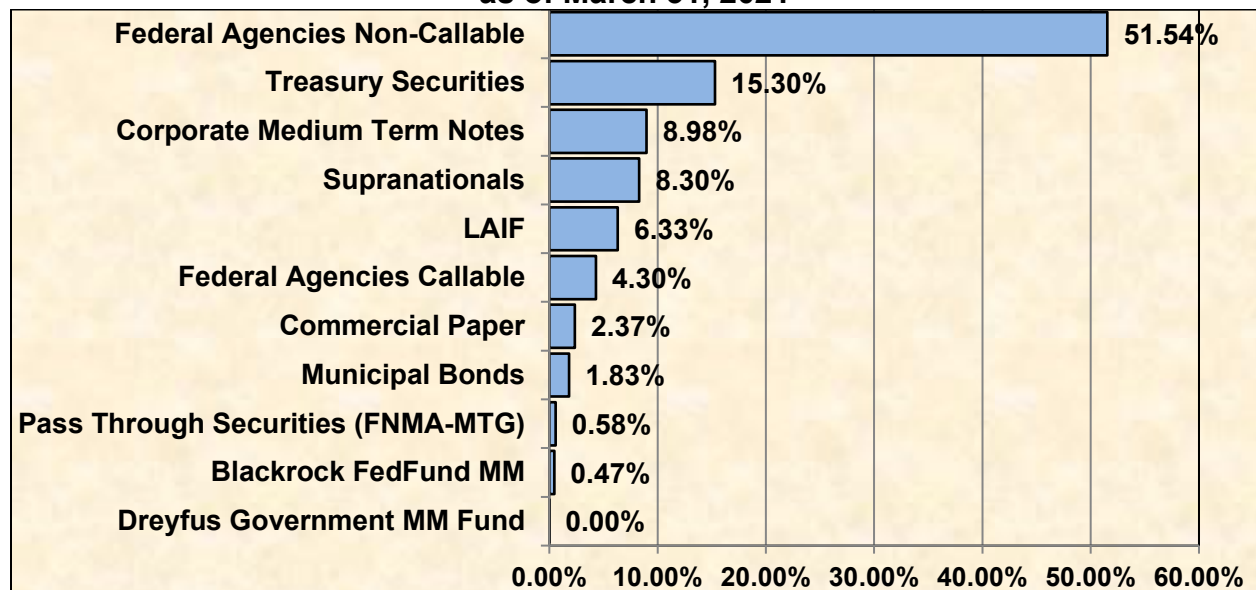
As anticipated, the Irvine Pooled Investment Portfolio's book value increased by \$18.61 million from the previous quarter due a combination of property tax, sales tax, and

developer fees. Portfolio yield to maturity decreased for the quarter ended March 31, 2021 by 5 basis points to 1.42 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 March 31, 2021, the portfolio ended with an unrealized gain of \$17.22 million as compared to an unrealized gain of \$23.87 million on December 31, 2020. This is a normal result of the portfolio's modified duration of 2.30 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.

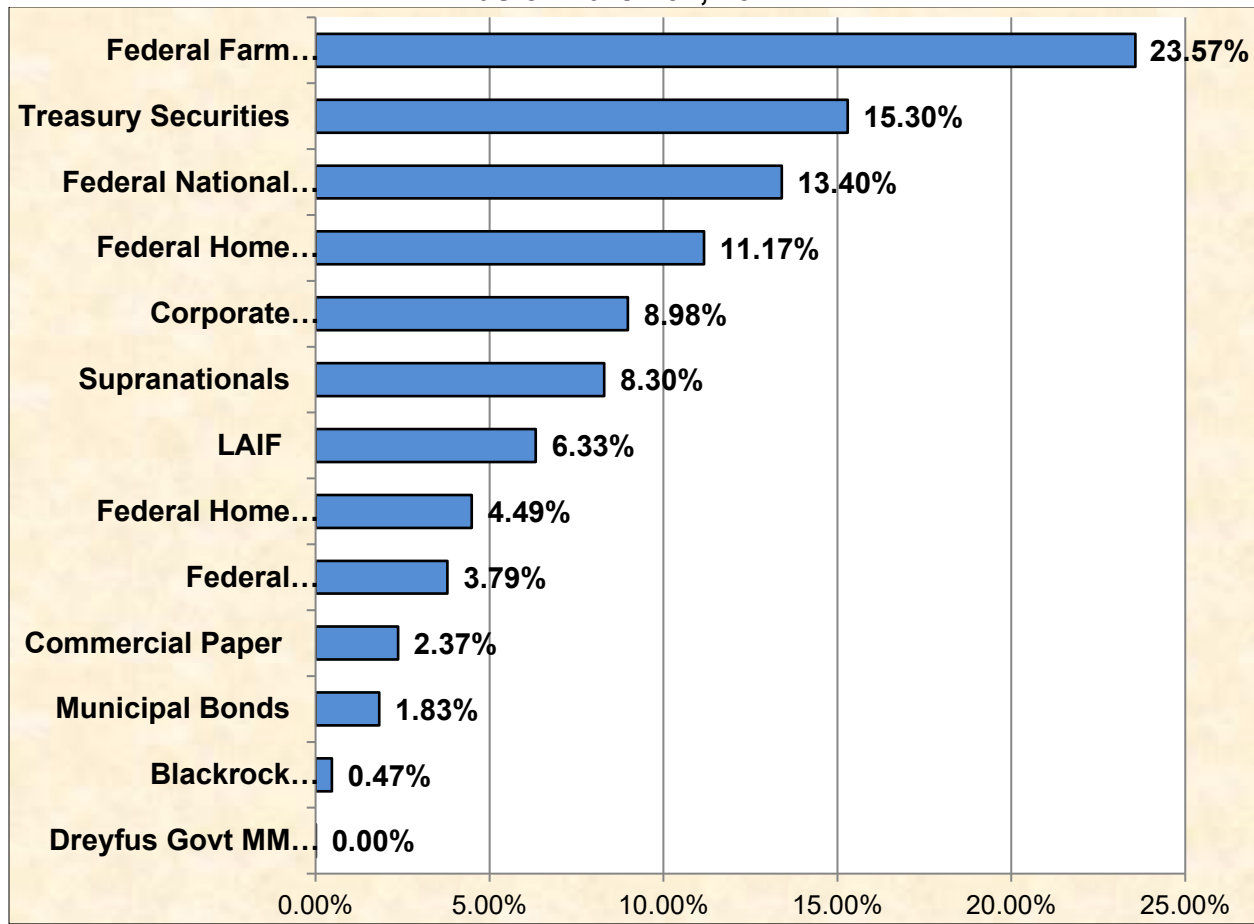
To manage liquidity, the Irvine Pooled Investment Portfolio is invested in Local Agency Investment Funds (LAIF), Dreyfus Government money market fund, Blackrock FedFund money market fund and short-term Commercial Paper. Chart 1 shows the asset allocation of the portfolio.

Irvine Pooled Investment Portfolio
Chart 1 - Asset Allocation
as of March 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 March 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 March 31, 2021 the overnight to 6-month liquidity level for the Irvine Pooled Investment Portfolio was 17.16 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 March 31, 2021

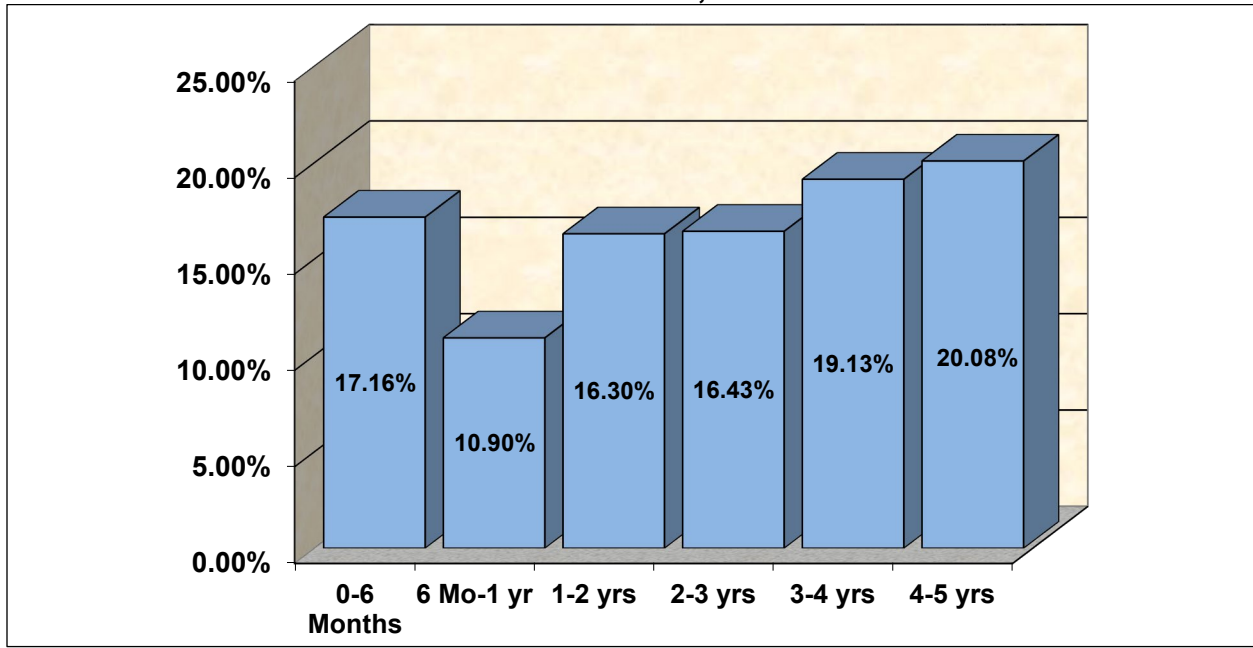
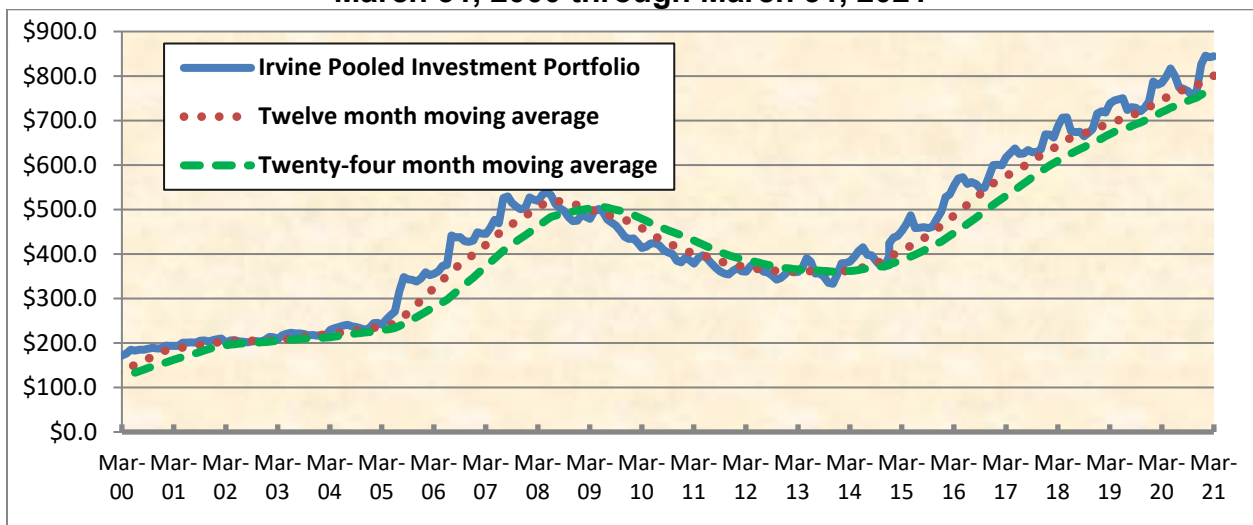
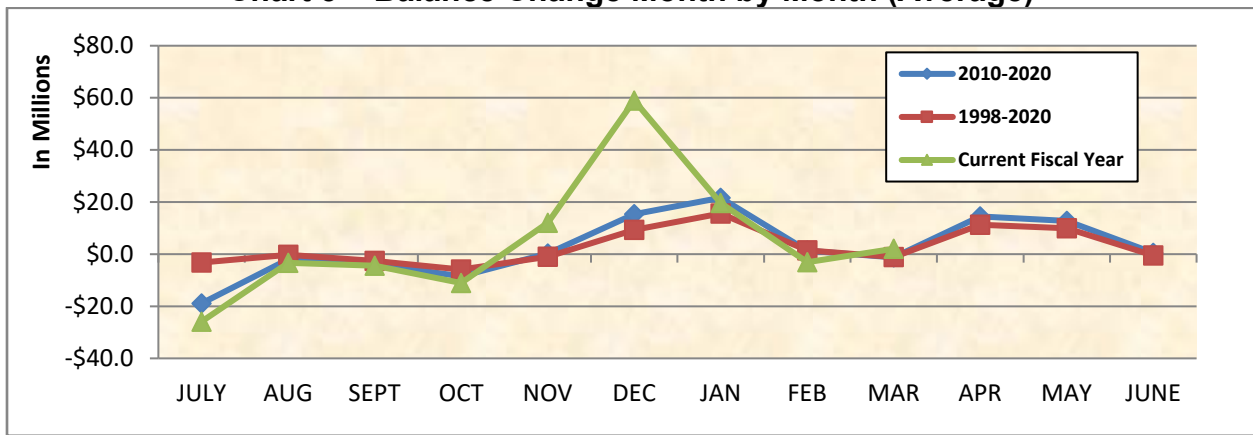


Chart 4 and Chart 5 show the volatility and cyclical nature of the Irvine Pooled Investment Portfolio fund balance and cash flows between 2000 and 2021. As noted in chart 5, the portfolio experienced above average inflows in November and December due to the combination of property tax, sales tax, developer fees, and a reduction in year over year accounts payable expenses.

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

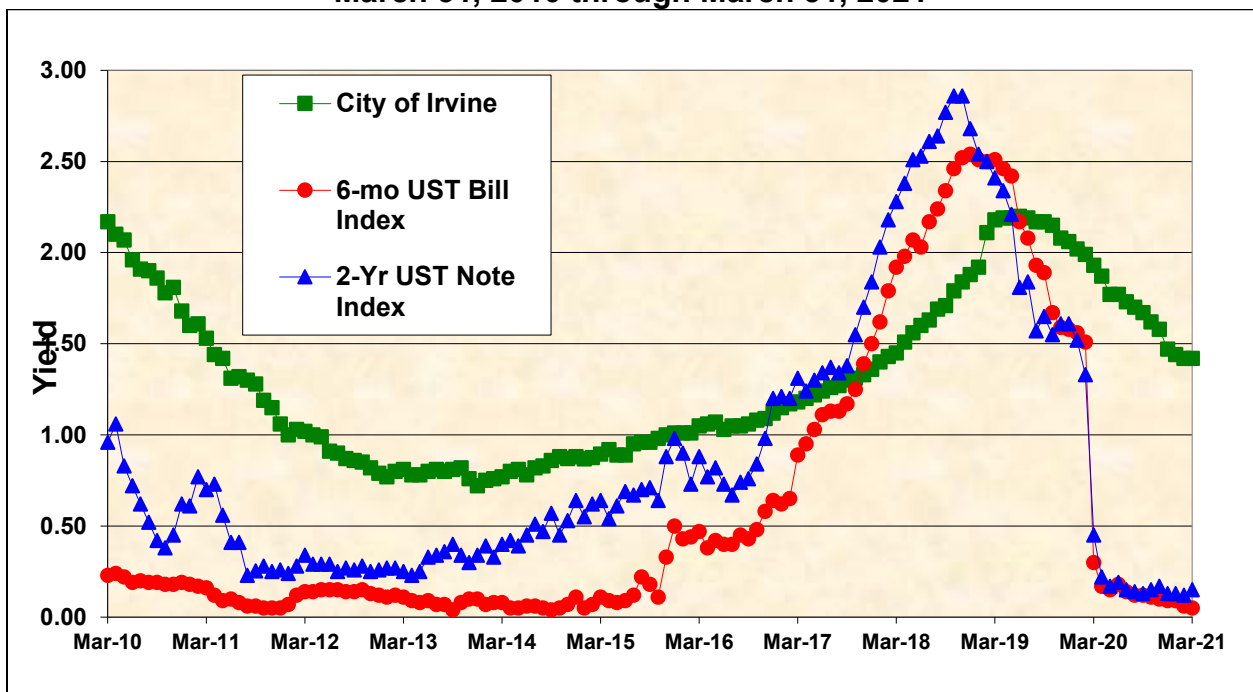


Irvine Pooled Investment Portfolio
Chart 5 – Balance Change Month by Month (Average)



To gauge performance, the City compares the Irvine Pooled Investment Portfolio's 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 1.37 percent and the 2-year UST by 1.27 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
March 31, 2010 through March 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 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 March 31, 2021 was \$208,395. 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**

	March 31, 2021	December 31, 2020	September 30, 2020	June 30, 2020
Book Value	\$40,071,000	\$39,653,000	\$26,864,000	\$27,561,000
Market Value	\$40,121,884	\$39,743,065	\$26,974,533	\$27,609,791
Unrealized Gain/(Loss)	\$50,884	\$90,065	\$110,533	\$48,791
Unrealized Gain/(Loss) as % of Book Value	0.13%	0.23%	0.41%	0.18%
Average Yield To Maturity	0.35%	0.52%	0.66%	1.15%
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	\$53,423	\$57,425	\$97,548	\$101,496
Fiscal Year to Date Income	\$208,395	\$154,972	\$97,548	\$380,038

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 March 31, 2021 was \$252,762.

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

	March 31, 2021	December 31, 2020	September 30, 2020	June 30, 2020
Book Value	\$272,897,741	\$288,712,072	\$253,479,687	\$307,819,248
Market Value	\$272,916,873	\$288,774,712	\$253,553,725	\$307,862,001
Unrealized Gain/(Loss)	\$19,132	\$62,640	\$74,038	\$42,753
Unrealized Gain/(Loss) as % of Book Value	0.01%	0.02%	0.03%	0.01%
Average Yield To Maturity	0.09%	0.12%	0.10%	0.40%
Average Days To Maturity	39	55	32	77
Quarterly Interest Earnings	\$86,002	\$70,463	\$96,297	\$837,348
Fiscal Year to Date Income	\$252,762	\$166,760	\$96,297	\$4,653,826

Market Conditions

During the third quarter of FY 2020-21, interest rates decreased slightly on securities maturing in less than one year, while increasing on securities between two years and thirty years. The Federal Reserve elected to hold the federal funds rate steady at both of its scheduled meetings on January 27, 2021 and March 17, 2021 at .25 percent. During the quarter, the yield of the 6-month Treasury bill decreased 5.1 basis points to .03 percent, the 2-year Treasury note increased 4 basis points to .16 percent, and the 5-year notes increased by 58 basis points to .94 percent. The Local Agency Investment Fund (LAIF) daily rate decreased from .52 percent to .35 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 year has passed since 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. Since then, economic activity has rebounded, and it is clear that the economy has proven to be much more resilient than many forecast or feared one year

ago. Gross domestic product (GDP) grew by almost 8 percent at an annual rate in the second half of 2021, and the median of Federal Open Market Committee (FOMC) participants' projections for 2021 GDP growth is 6.5 percent. The most recent direct payments to Americans, which include 600 dollars per person that was approved in December 2020, and 1,400 dollars per person that was approved March 2021, should continue to support strong third quarter of FY 2020-21 GDP growth. The Federal Reserve Bank of Atlanta GDPNow forecast is currently 6.03 percent.

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 2020, to 6.0 percent in March 2021 and while having improved dramatically, remains elevated as compared to pre-pandemic levels. Continuing jobless claims have also continued to improve, dropping from a high of 24.91 million in May 2020, to 3.79 million currently. Pandemic emergency jobless claims peaked in March 2021 at 6.22 million, and remain elevated as COVID-19 mitigation efforts continue. Additionally, if one factors in the decline in the labor force since the onset of the pandemic and the misclassification of some workers on temporary layoff as employed, the true unemployment rate is closer to 10 percent. The FOMC at its most recent meeting projects the unemployment rate to reach 4.5 percent at the end of this year and 3.5 percent by the end of 2023.

New and existing home sales while coming off of their peak performance last quarter remain above their five-year average. Home prices continued to rise during the quarter reflecting the dearth of listings, continued housing demand, and relatively cheap borrowing costs, which gave sellers more leeway to raise asking prices. Looking forward, the lack of inventory, rising mortgage rates, and surge in home prices threaten to slow housing's momentum and price some buyers out of the market.

Federal Reserve Chairman Jerome Powell has repeatedly stated that it will be appropriate to maintain the current target range for the federal funds rate at 0 to .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.

In conclusion, the economic outlook for the fourth quarter of FY 2020-21 should be positive due to continued monetary and fiscal stimulus. 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 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 March 31, 2021

General Reserve Funds	\$ 130,049,542
Capital Projects Funds:	
Capital Improvement Projects	11,531,445
Irvine Business Complex	110,081,769
North Irvine Transportation Mitigation	84,773,877
Orange County Great Park Development	14,766,812
Park Development	45,228,103
Total	<u>266,382,006</u>
Special Revenue Funds:	
Air Quality Improvement	467,706
County Sales Tax Measure M	4,253,034
Fees and Exactions	9,249,159
State Gasoline Tax	19,820,647
Grants	7,760,037
I Shuttle	1,088,829
Local Park Fees	140,319,073
Maintenance District	3,442,176
Major Special Events	97,361
Orange County Great Park	172,929,942
Slurry Seal Fees	878,007
System Development	31,212,389
Total	<u>391,518,359</u>
Internal Service Funds:	
Equipment & Services	28,603,458
Inventory	18,473
Self-Insurance	21,010,458
Total	<u>49,632,388</u>
Permanent Fund:	
Senior Services	366,398
Senior Services Endowments	500,410
Total	<u>866,808</u>
Fiduciary Fund:	
Successor Agency Debt Service	29,171
Redevelopment Obligation Retirement	6,153,499
Total	<u>6,182,670</u>
Total Pooled Investments at March 31, 2021	<u>\$ 844,631,774</u>

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

* Balances are not audited