



REQUEST FOR CITY COUNCIL ACTION

MEETING DATE: NOVEMBER 26, 2019

TITLE: TREASURER'S REPORT FOR THE QUARTER ENDED
SEPTEMBER 30, 2019



Director of Financial Management &
Strategic Planning



City Manager

RECOMMENDED ACTION

Receive and file the Treasurer's Report for the quarter ended September 30, 2019.

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, 2019. 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 \$1.02 billion as of September 30, 2019. 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.

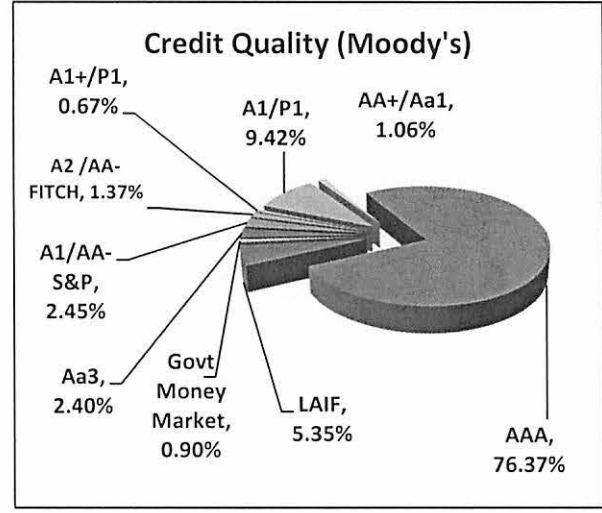
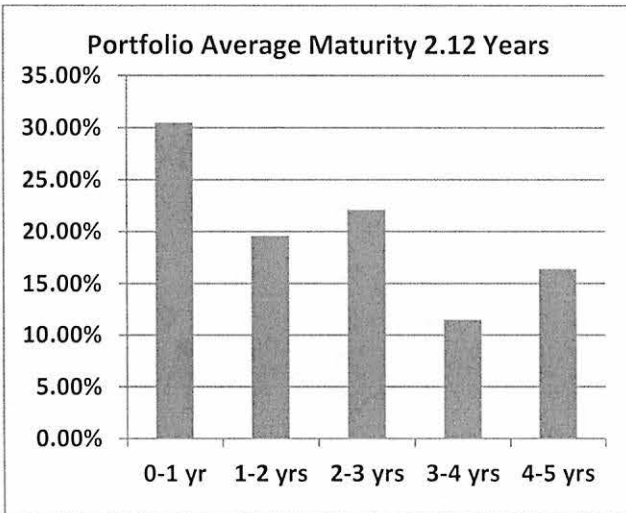
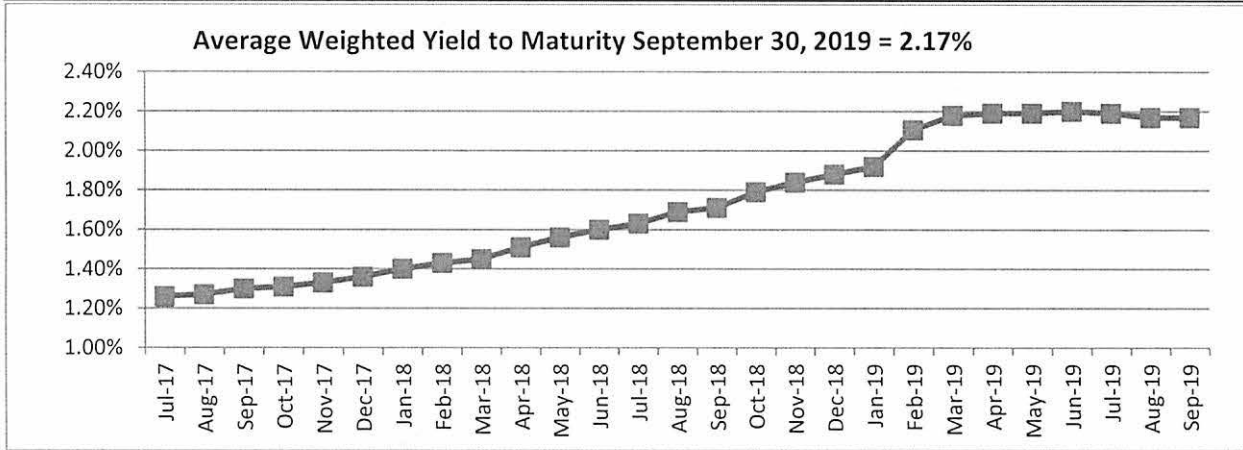
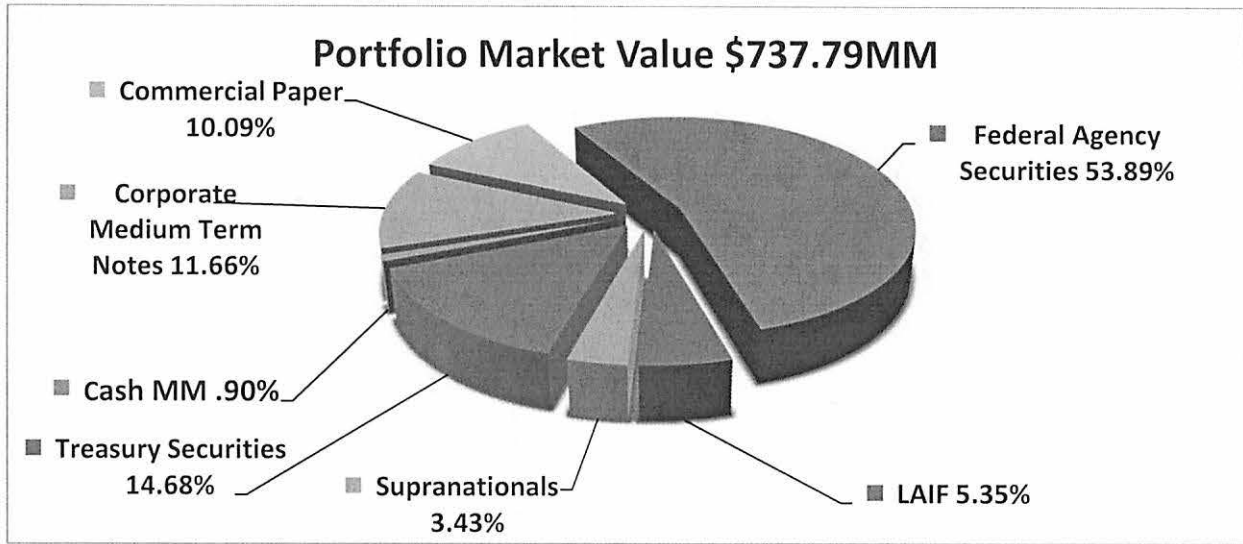
As of September 30, 2019, the City's investment portfolios are in full compliance with the City's Investment Policy, California Government Code Section 53601 et al, and have sufficient cash flow from a combination of liquid and maturing securities, bank deposits, and income to meet the City's expenditure requirements.

COMMISSION/BOARD/COMMITTEE RECOMMENDATION

The Treasurer's Report for the quarter ended September 30, 2019 is scheduled to be presented to the Investment Advisory Committee on November 13, 2019. The Finance Commission is scheduled to review the report at its November 18, 2019 meeting.

ANALYSIS

The Pooled Investment Portfolio holds the City's operating funds. The 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

There were not alternatives considered. 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 \$5.09 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, 2019
2. Summary of Irvine Pooled Investment Portfolio by Fund



**CITY OF IRVINE
TREASURER'S REPORT
For Quarter Ended September 30, 2019**

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, 2019, combined market value of the three portfolios totaled \$1.02 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, 2019, the book value (purchase price of securities as recorded on the City's books) of the portfolio was \$728.4 million and the average yield to maturity was 2.17 percent. Investment revenue (interest payments and capital gains) generated by the portfolio for quarter ending September 30, 2019 was \$3.98 million. The chart below compares the portfolio's statistics over a rolling 12-month period.

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

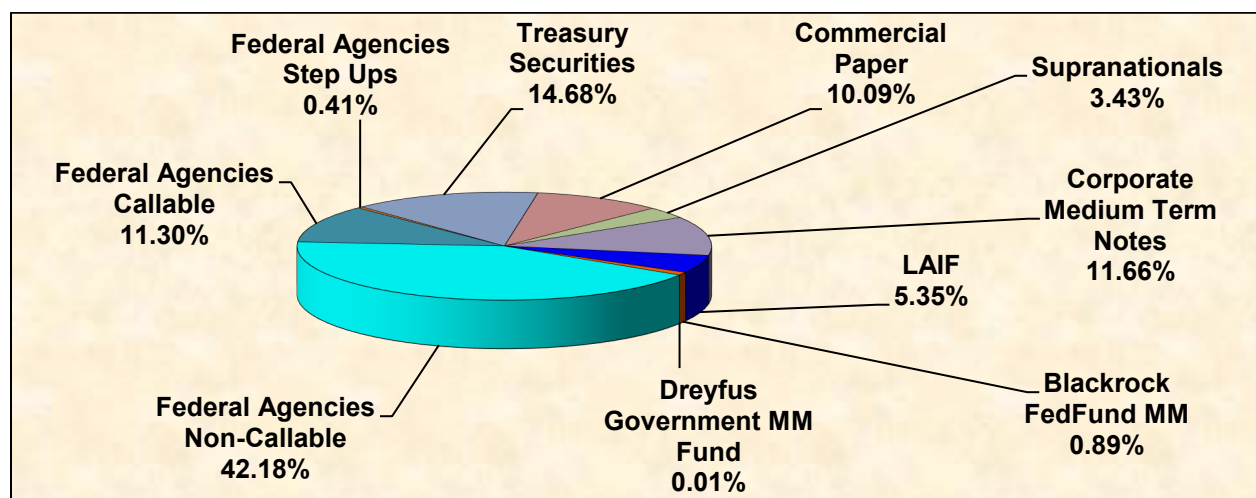
	September 30, 2019	June 30, 2019	March 31, 2019	December 31, 2018
Book Value	\$728,402,898	\$750,125,295	\$718,125,011	\$681,343,699
Market Value	\$737,790,106	\$757,045,215	\$718,456,099	\$677,185,119
Unrealized Gain/(Loss)	\$9,387,208	\$6,919,920	\$331,088	(\$4,158,580)
Unrealized Gain/(Loss) as % of Book Value	1.29%	0.92%	0.05%	-0.61%
Average Yield To Maturity	2.17%	2.20%	2.18%	1.88%
Liquidity 0–6 Months	19.80%	25.08%	21.08%	20.59%
Weighted Average Maturity	2.12	1.97	2.03	1.69
Modified Duration (Years)	2.05	1.90	1.94	1.63
Quarterly Interest Earnings	\$3,979,848	\$2,940,299	\$2,221,958	\$2,869,631
Fiscal Year to Date Income	\$3,979,848	\$10,310,466	\$7,370,167	\$5,148,209

As anticipated, the Irvine Pooled Investment Portfolio's book value decreased by \$21.70 million from the previous quarter due to the budgeted prepayment of CalPERS pension liability for Fiscal Year 2019-20 and higher than average expenses related to capital projects. Portfolio yield to maturity decreased for the quarter ended September 30, 2019 by 3 basis points to 2.17 percent. With market rates decreasing during the quarter, as of September 30, 2019, the portfolio ended with an unrealized gain of \$9.39 million as compared to an unrealized gain of \$6.91 million on June 30, 2019. This is a normal result of the portfolio's modified duration of 2.05 years and its price-sensitivity to changes in market interest rates.

To ensure the safety of the portfolio, investments that hold the highest credit quality are selected. The Irvine Pooled Investment Portfolio is comprised primarily of Treasury Securities and Federal Government sponsored entity debt, otherwise known as federal agency securities. Federal agency securities 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.

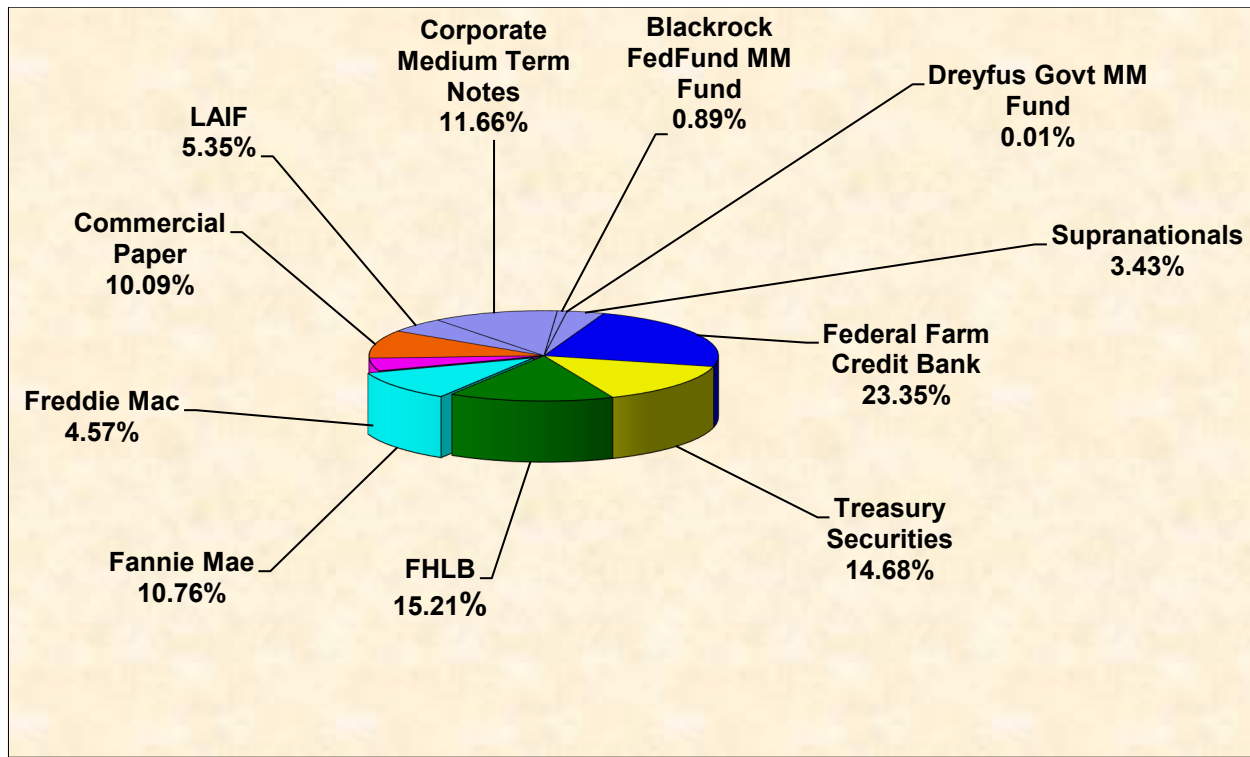
To manage liquidity, the Irvine Pooled Investment Portfolio is invested in Local Agency Investment Funds (LAIF), Dreyfus Government money market fund, Blackrock FedFund money market fund and short-term Commercial Paper. Chart 1 shows the asset allocation of the portfolio.

**Irvine Pooled Investment Portfolio
 Chart 1 - Asset Allocation
 as of September 30, 2019**



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, 2019**



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, 2019, the overnight to 6-month liquidity level for the Irvine Pooled Investment Portfolio was 19.80 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, 2019

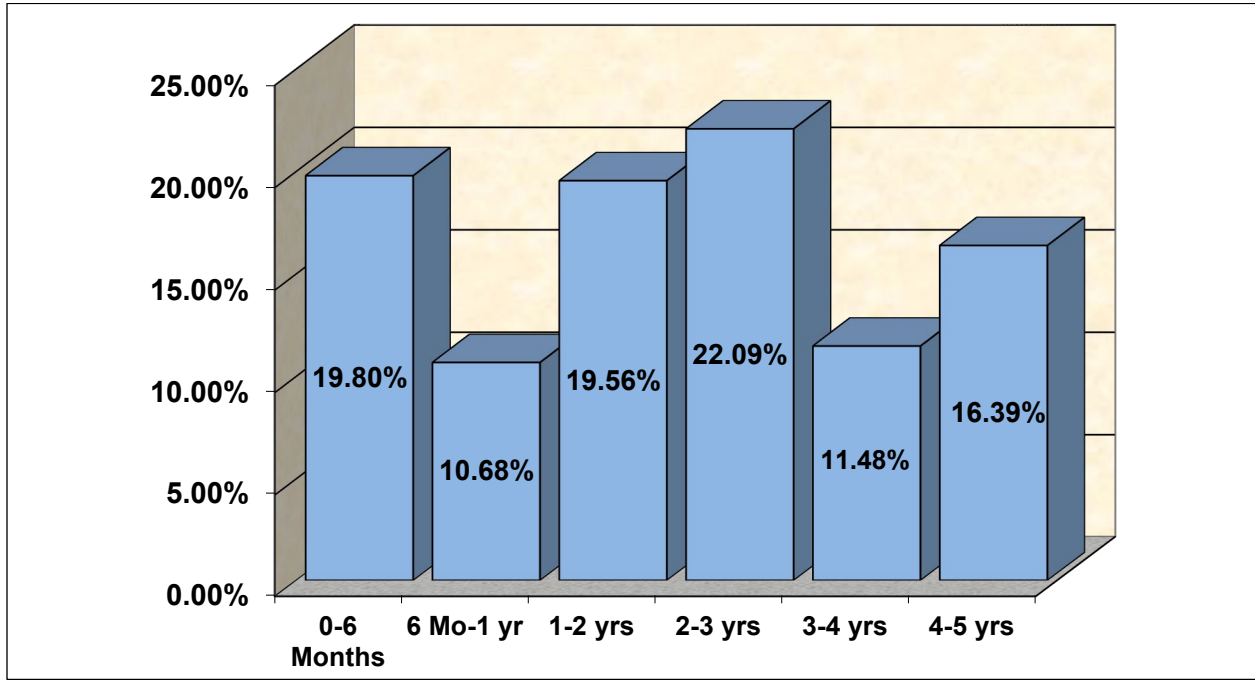
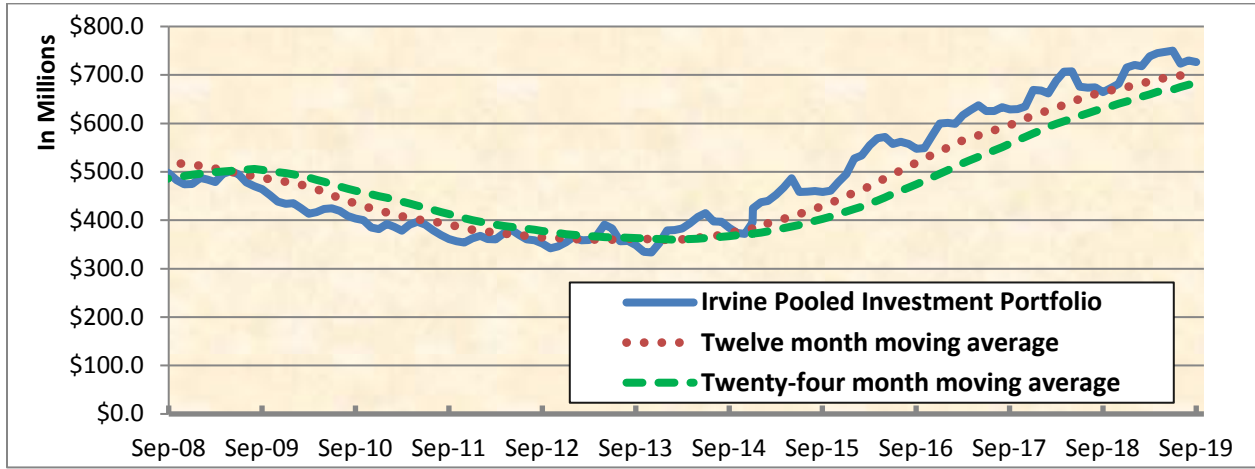
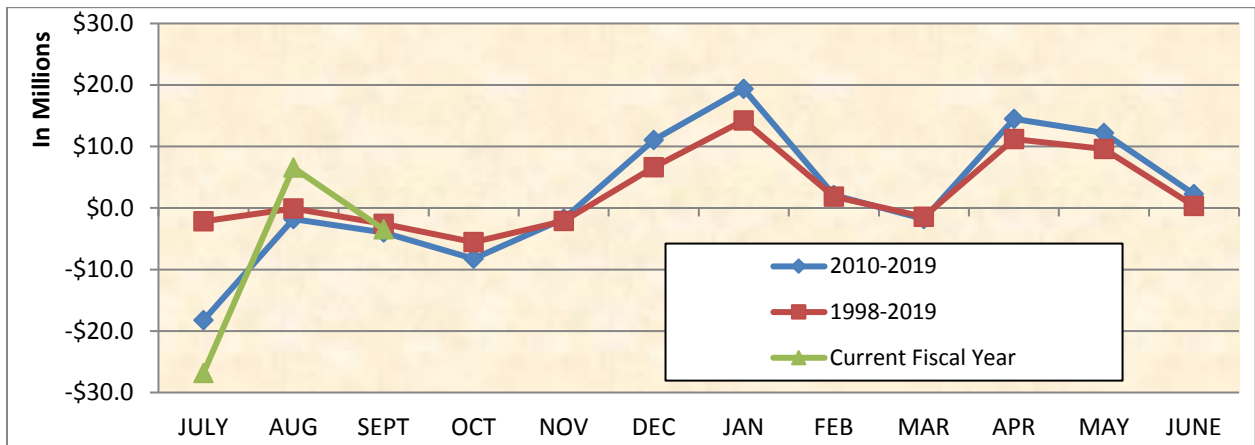


Chart 4 and Chart 5 show the volatility and cyclical nature of the Irvine Pooled Investment Portfolio fund balance and cash flows between 2008 and 2019. As noted in chart 5, the portfolio experienced above average outflows in July due to the prepayment of CalPERS pension liability for Fiscal Year 2019-20, and higher than average expenses related to capital projects.

Irvine Pooled Investment Portfolio
Chart 4 - Portfolio Balance
 September 30, 2008 through September 30, 2019



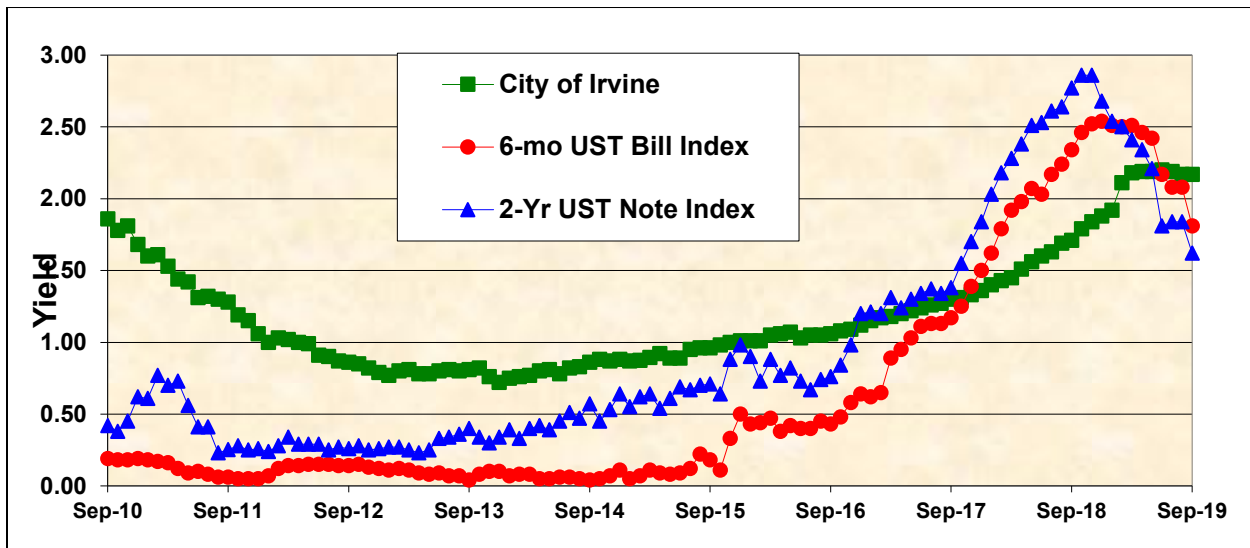
Irvine Pooled Investment Portfolio
Chart 5 – Balance Change Month by Month (Average)



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 nine years. With the recent shift in the forward interest rate outlook from both the markets

and the Federal Reserve, the portfolio's book yield is higher than the 6-month UST by 0.36 percent and the 2-year UST by 0.55 percent.

Irvine Pooled Investment Portfolio
Chart 6 - Yield to Maturity Compared to Assigned Indices
September 30, 2010 through September 30, 2019



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, 2019 was \$90,882. The increase in balance for December 2018 was due to the temporary holding of special assessments and taxes received from the County. These funds were transferred to Special District Portfolio in January 2019.

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

	September 30, 2019	June 30, 2019	March 31, 2019	December 31, 2018
Book Value	\$11,925,000	\$12,162,000	\$10,120,000	\$31,637,000
Market Value	\$11,926,752	\$12,163,787	\$10,098,064	\$31,568,424
Unrealized Gain/(Loss)	\$1,752	\$1,787	(\$21,936)	(\$68,576)
Unrealized Gain/(Loss) as % of Book Value	0.01%	0.01%	(0.22%)	(0.22%)
Average Yield To Maturity	2.32%	2.42%	2.43%	2.32%
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	\$90,882	\$82,097	\$85,468	\$37,548
Fiscal Year to Date Income	\$90,882	\$235,133	\$153,036	\$67,568

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. Quarter to date investment revenue (interest payments and capital gains) generated by the Special District Funds Portfolio as of September 30, 2019 was \$1,023,242.

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

	September 30, 2019	June 30, 2019	March 31, 2019	December 31, 2018
Book Value	\$269,639,482	\$315,165,701	\$306,023,844	\$302,238,128
Market Value	\$269,638,633	\$314,990,336	\$305,889,062	\$302,246,125
Unrealized Gain/(Loss)	(\$849)	(\$175,364)	(\$134,782)	\$7,997
Unrealized Gain/(Loss) as % of Book Value	0.00%	(0.06%)	(0.04%)	0.00%
Average Yield To Maturity	2.09%	2.44%	2.60%	2.55%
Average Days To Maturity	60	44	70	56
Quarterly Interest Earnings	\$1,023,242	\$1,722,687	\$2,051,745	\$1,270,916
Fiscal Year to Date Income	\$1,023,242	\$5,540,922	\$3,818,234	\$1,766,490

Market Conditions

During the first quarter of FY 2019-20, interest rates decreased on securities between six months and 30 years. The Federal Reserve elected to lower the federal funds rate twice by 25 basis points, to the current range of 1.75 to 2.00 percent. During the quarter, the yields of the 6-month Treasury bill decreased 27 basis points to 1.81 percent, the 2-year Treasury note decreased 13 basis points to 1.62 percent, and the 5-year notes decreased by 22 basis points to 1.54 percent. The Local Agency Investment Fund (LAIF) daily rate decreased from 2.42 percent to 2.32 percent during the quarter. The net effect to the Pooled Investment Portfolio was an increase in the unrealized market value gain which was in direct proportion to the stated duration of the portfolio.

The Federal Reserve lowered the federal funds rate for the first time since 2008 by 25 basis points on July 31, 2019, and an additional 25 basis points on September 18, 2019. Concerns over slowing economic growth and other factors, such as trade tensions with China, led the Fed to cut rates in order to buoy the American economy.

Federal Reserve officials viewed the July interest rate cut as a “recalibration” of monetary policy and not as the start of a long string of reductions, according to minutes from the July meeting. The three weeks since the July Federal Reserve meeting were marked by increased trade tensions, volatile stock markets, and a back-and-forth from the president about whether more tax cuts are needed to avoid an economic slowdown. The bond markets flashed a recession warning when the yield on 10-year Treasury bonds briefly fell below the yield on 2-year Treasuries. In September, citing concerns about a potential global economic slowdown, the Federal Reserve cut rates a second time. Officials also left the door open for another rate cut this year if the economy weakens further, reinforcing

the message by Fed Chairman Jerome Powell that policymakers will do whatever is necessary to prevent a recession. "We took this step to keep the economy strong," said Powell during a press conference with reporters.

As of September 30, 2019, the national unemployment rate dropped to 3.50 percent from 3.70 percent. The underemployment rate increased to 6.90 percent from 7.20 percent. The yearly percentage change of the average hourly earnings of US workers decreased slightly to 2.90 percent from the recent high of 3.40 percent. The trend since the financial crisis had been steadily increasing but reversed in February, and is not currently pressuring the Federal Reserve into raising short term rates. Inflation statistics including the US Personal Consumption Expenditure (PCE) year over year (YoY) 1.08 percent, Producer Price Index YoY 1.40 percent, and the Consumer Price Index YoY 1.70 percent, have all remained below the Federal Reserve's 2 percent target rate.

US housing starts jumped 12.3 percent from a month earlier to a seasonally adjusted annual rate of 1,364 thousand units in August 2019, the highest level since June 2007. Building permits and Housing starts had been contracting for the past year but seemed to be benefitting from lower mortgage rates. Home prices are still increasing, but at a lower rate, taking the year over year trend down to 2 percent which is the slowest pace of price gains in nearly seven years.

Globally, investors continued moving into risk averse assets with risks growing for world output heading into 2020. The move lower in yields suggests that the risk of recession with a disinflationary scenario has risen. Current Fed funds futures see a rate cut at the October meeting as increasingly likely, with around an 80 percent probability. Overall, by the end of the year, futures imply about 42 basis points of further easing, with potentially more to come in 2020.

City of Irvine
Summary of Pooled Investment Portfolio Book Value by Fund *
As of September 30, 2019

General Reserve Funds	\$ 103,454,536
Capital Projects Funds:	
Capital Improvement Projects	11,028,568
Irvine Business Complex	98,712,314
North Irvine Transportation Mitigation	84,391,095
Orange County Great Park Development	17,732,223
Park Development	42,940,007
Total	<u>254,804,206</u>
Special Revenue Funds:	
Air Quality Improvement	474,270
County Sales Tax Measure M	2,856,284
Fees and Exactions	14,453,813
State Gasoline Tax	16,488,394
Grants	3,888,540
I Shuttle	994,640
Local Park Fees	122,134,270
Maintenance District	(141,830)
Major Special Events	(31,358)
Orange County Great Park	138,291,876
Slurry Seal Fees	776,260
System Development	29,853,062
Total	<u>330,038,221</u>
Internal Service Funds:	
Equipment & Services	19,167,480
Inventory	74,289
Self-Insurance	17,383,314
Total	<u>36,625,083</u>
Permanent Fund:	
Senior Services	322,879
Senior Services Endowments	495,406
Total	<u>818,285</u>
Fiduciary Fund:	
Successor Agency Debt Service	28,318
Redevelopment Obligation Retirement	2,634,249
Total	<u>2,662,567</u>
Total Pooled Investments at September 30, 2019	<u><u>\$ 728,402,898</u></u>

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

*Balances are not audited