



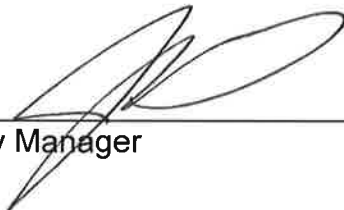
REQUEST FOR CITY COUNCIL ACTION

MEETING DATE: MARCH 26, 2019

TITLE: TREASURER'S REPORT FOR THE QUARTER ENDED
DECEMBER 31, 2018



Director of Financial Management &
Strategic Planning



City Manager

RECOMMENDED ACTION

Receive and file the Treasurer's Report for the quarter ended December 31, 2018.

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 December 31, 2018. 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 \$1.01 billion as of December 31, 2018. 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 December 31, 2018, 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..

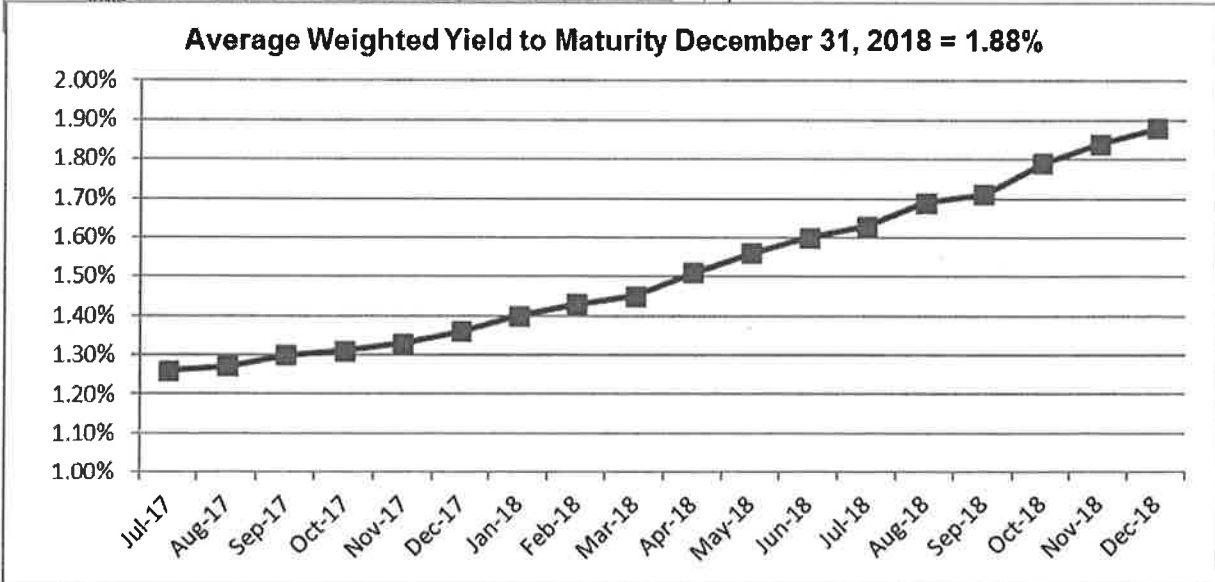
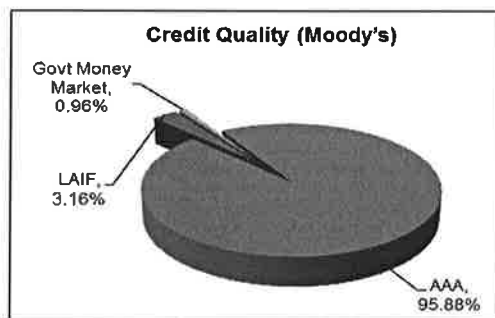
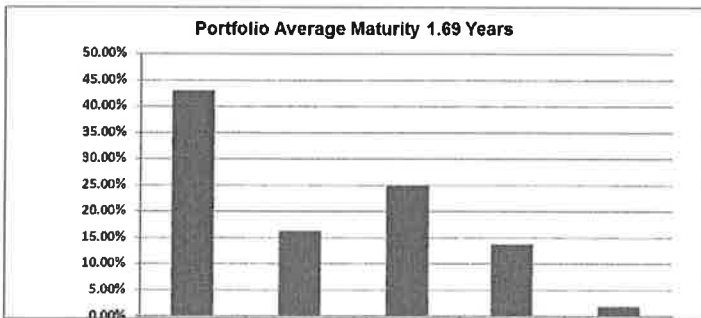
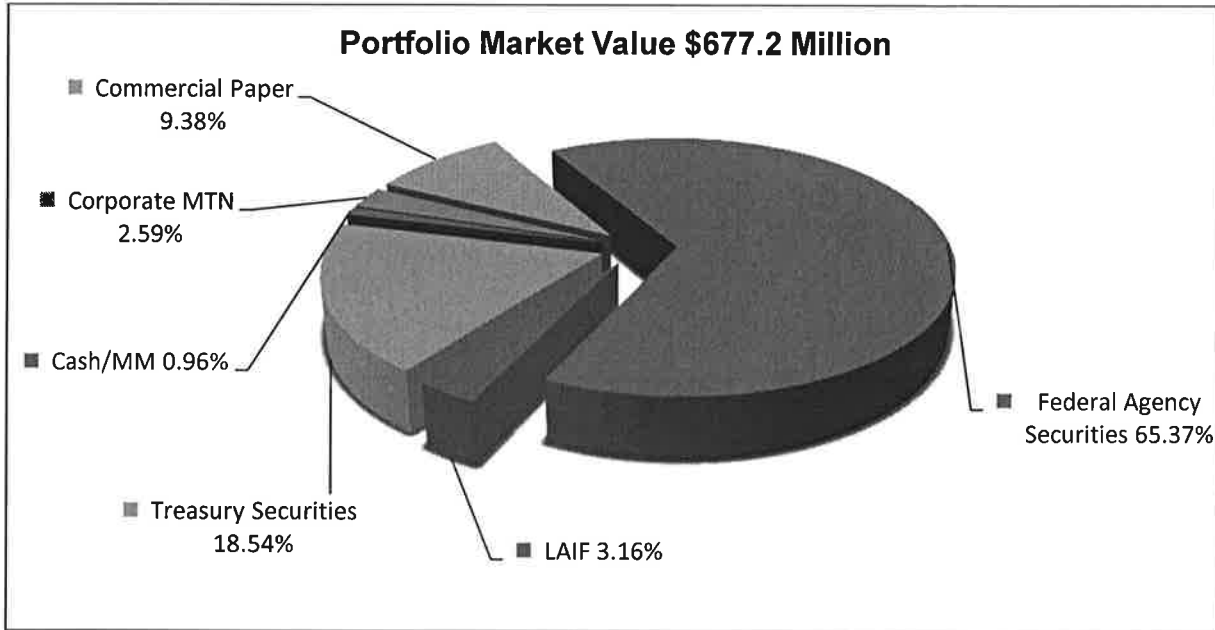
COMMISSION/BOARD/COMMITTEE RECOMMENDATION

On March 4, 2019, with all members present, the Finance Commission voted 5-0 to recommend City Council receive and file the Treasurer's Report for the quarter ended December 31, 2018. At its regular meeting on February 13, 2019, the Investment Advisory Committee unanimously voted to recommend that the City Council receive and file the Treasurer's Report.

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 \$6.98 million with investments structured for security and liquidity.

REPORT PREPARED BY Don Collins, City Treasurer

ATTACHMENTS

Attachment 1: Treasurer's Report for the Quarter Ended December 31, 2018
Attachment 2: Summary of Irvine Pooled Investment Portfolio by Fund



**CITY OF IRVINE
TREASURER'S REPORT
For Quarter Ended December 31, 2018**

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 ending December 31, 2018, combined market value of the three portfolios totaled \$1.01 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 December 31, 2018, the book value (purchase price of securities as recorded on the City's books) of the portfolio was \$681.34 million and the average weighted yield to maturity was 1.88 percent. Investment revenue (interest payments and capital gains) generated by the portfolio for quarter ending December 31, 2018 was \$2.87 million. The following chart compares the portfolio's statistics over a rolling 12-month period.

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

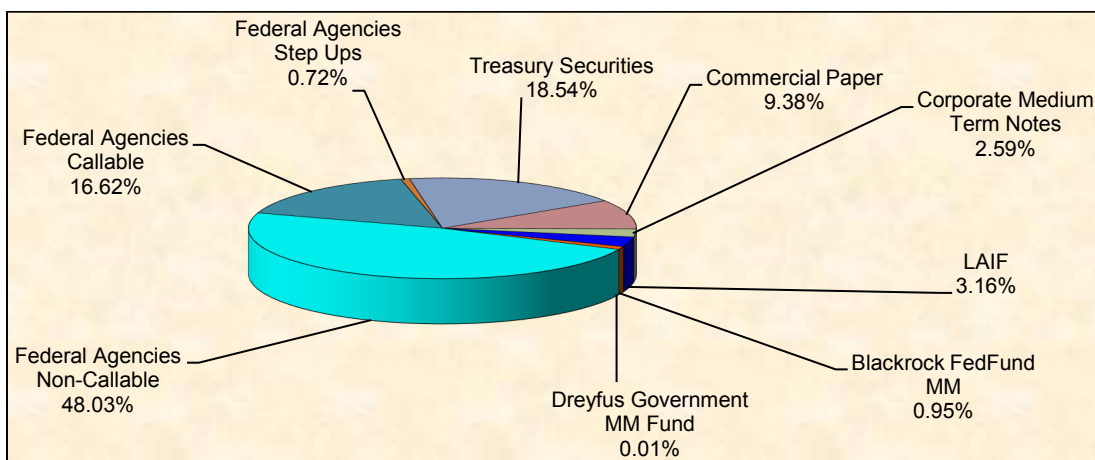
	December 31, 2018	September 30, 2018	June 30, 2018	March 31, 2018
Book Value	\$681,343,699	\$674,483,445	\$707,103,573	\$661,611,807
Market Value	\$677,185,119	\$665,082,116	\$698,234,684	\$653,215,825
Unrealized Gain/(Loss)	(\$4,158,580)	(\$9,401,329)	(\$8,868,889)	(\$8,395,982)
Unrealized Gain/(Loss) as % of Book Value	(0.61%)	(1.39%)	(1.25%)	(1.27%)
Average Yield To Maturity	1.88%	1.71%	1.60%	1.45%
Liquidity 0–6 Months	20.59%	18.10%	21.71%	17.40%
Average Years To Maturity	1.69	1.80	1.85	1.90
Modified Duration (Years)	1.63	1.73	1.78	1.83
Quarterly Interest Earnings	\$2,869,631	\$2,278,578	\$2,078,965	\$2,025,642
Fiscal Year to Date Income	\$5,148,209	\$2,278,578	\$7,976,739	\$5,897,774

As anticipated, the Irvine Pooled Investment Portfolio's book value increased by \$12.10 million from the previous quarter due to the receipt of property taxes. Portfolio yield to maturity increased for the quarter ended December 31, 2018 by 17 basis points to 1.88 percent. This was directly attributed to the increasing rate environment as maturing investments were reinvested into higher rate securities. With market rates decreasing at the end of the quarter, the portfolio ended the quarter with an unrealized loss of \$4.16 million as compared to an unrealized loss of \$9.40 million on September 30, 2018. This is a normal result of the portfolio's modified duration of 1.63 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. 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.

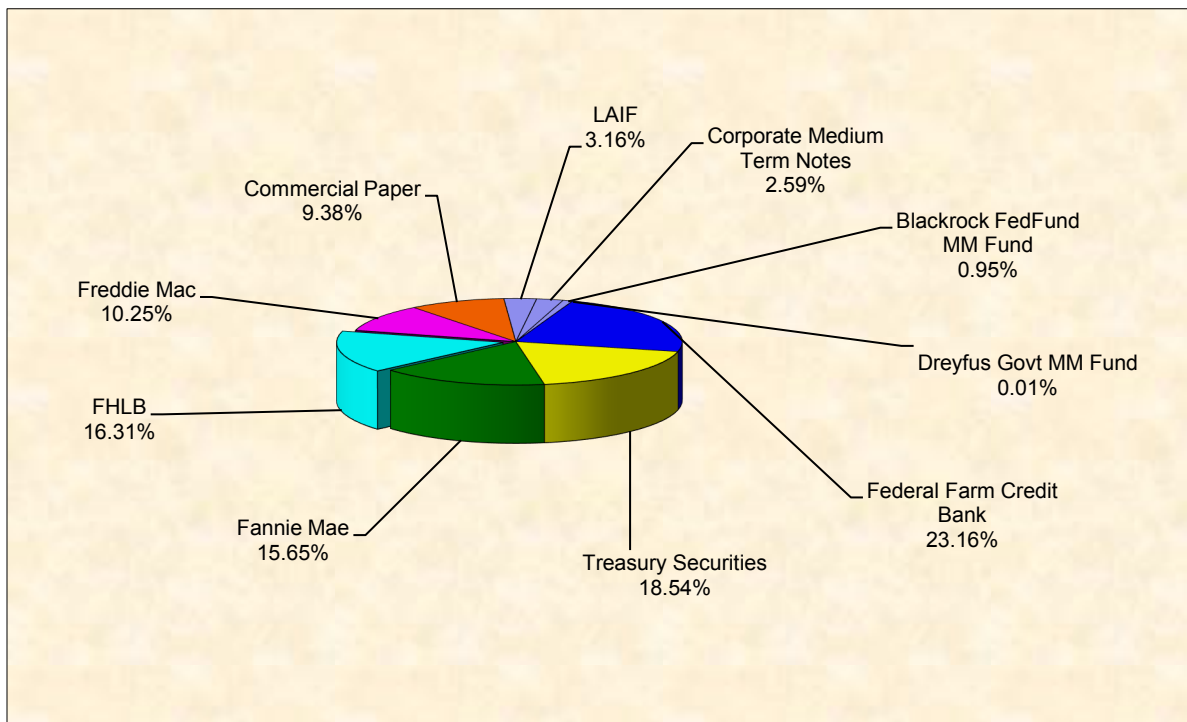
To manage liquidity, the Irvine Pooled Investment Portfolio is invested in Local Agency Investment Funds (LAIF), Dreyfus Government money market fund, Blackrock FedFund money market fund and short term Commercial Paper. Chart 1 shows the asset allocation of the portfolio.

**Irvine Pooled Investment Portfolio
Chart 1 - Asset Allocation
as of December 31, 2018**



To diversify, the City purchases United States Treasury notes Commercial Paper, Corporate Medium term 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
as of December 31, 2018**



Another key component in portfolio management is to ensure that the City has enough funds on hand to meet current expenses. As of December 31, 2018, the overnight to 6-month liquidity level for the Irvine Pooled Investment Portfolio was at 20.59 percent. Chart 3, on the following page, is an aging of investment maturities up to 5 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 December 31, 2018

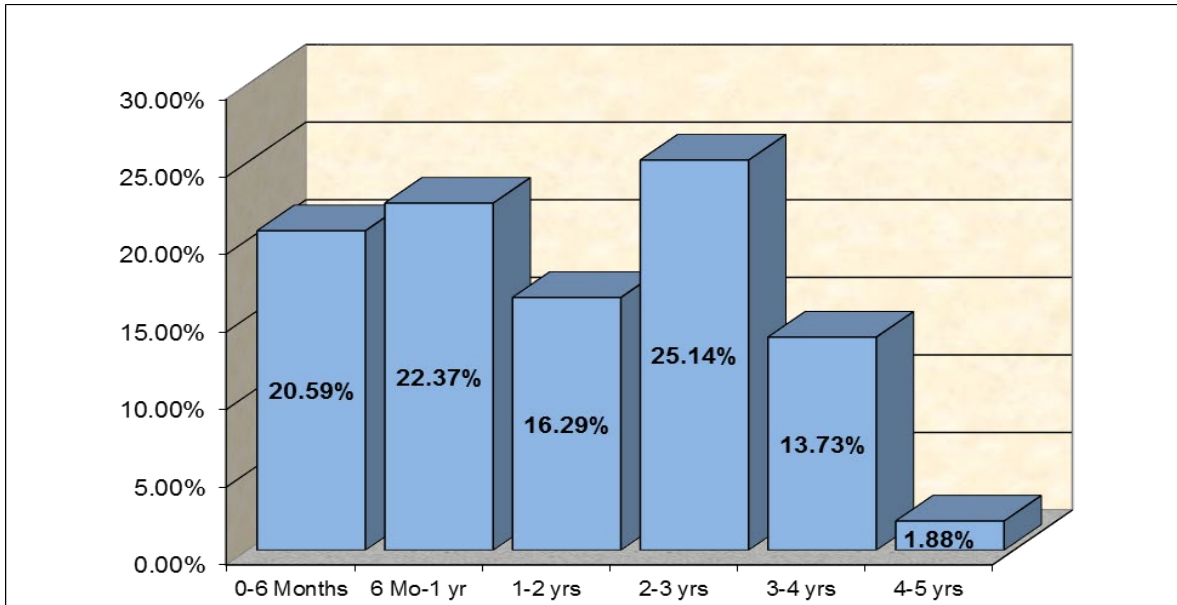
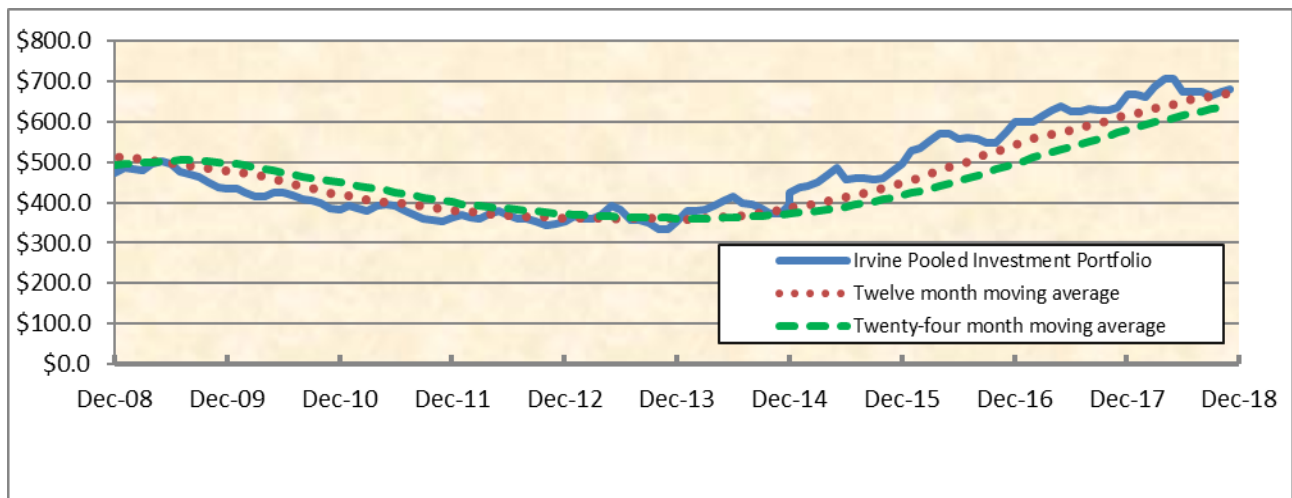
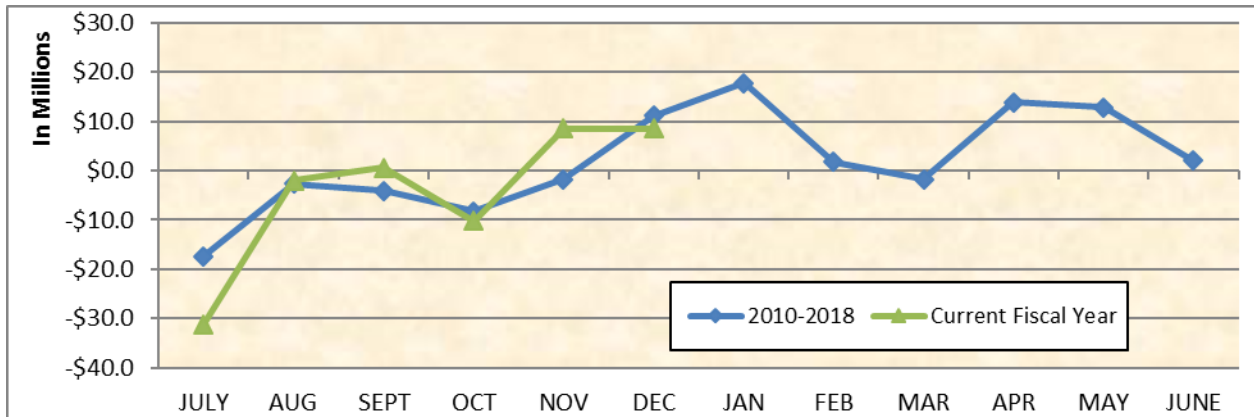


Chart 4 and chart 5 show the volatility and cyclical nature of the Irvine Pooled Investment Portfolio fund balance and cash flows between 2008 and 2018. As noted in chart 5, the portfolio experienced above average outflows in July due to the prepayment of CalPERS pension liability for Fiscal Year 2018-19, and higher than average expenses related to capital projects.

Irvine Pooled Investment Portfolio
Chart 4 - Portfolio Balance
December 31, 2008 through December 31, 2018

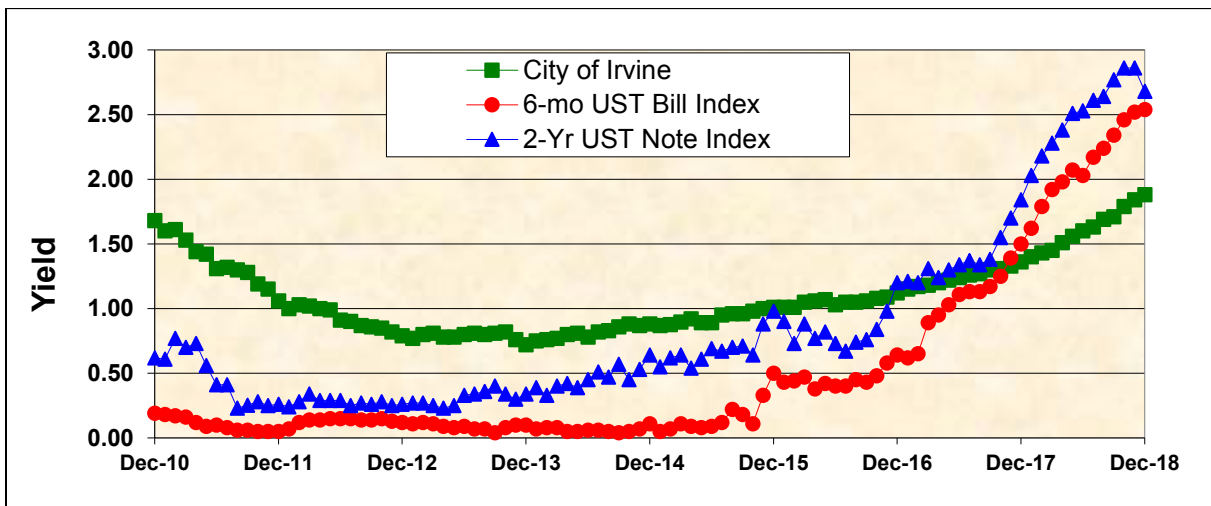


Irvine Pooled Investment Portfolio
Chart 5 – Balance Change Month by Month (Average)



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. The reference notes are used as a measure of the portfolio against market movement. 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 eight years. With the recent Federal Reserve rate hikes, the portfolio's book yield is less than the 6-month UST by 0.66 percent and the 2-year UST by 0.88 percent. However, over a period of 24 months, the average yield on the 2-year Treasury note is 1.97 percent, versus 1.88 percent for the Irvine Pooled Investment Portfolio.

Irvine Pooled Investment Portfolio
Chart 6 - Yield to Maturity Compared to Assigned Indices
December 31, 2010 through December 31, 2018



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 December 31, 2018 was \$67,568. The increase in balance as of December 2018 was due to the temporary holding of special assessments and taxes received from the County. These funds were transferred to the Special District Portfolio in January 2019.

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

	December 31, 2018	September 30, 2018	June 30, 2018	March 31, 2018
Book Value	\$31,637,000	\$6,580,000	\$6,902,000	\$6,056,000
Market Value	\$31,568,424	\$6,567,675	\$6,885,007	\$6,044,454
Unrealized Gain/(Loss)	(\$68,576)	(\$12,325)	(\$16,993)	(\$11,546)
Unrealized Gain/(Loss) as % of Book Value	(0.22%)	(0.19%)	(0.25%)	(0.19%)
Average Yield To Maturity	2.32%	2.09%	1.76%	1.52%
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 Interst Earnings	\$37,548	\$30,020	\$21,583	\$15,734
Fiscal Year to Date Income	\$67,568	\$30,020	\$65,370	\$43,787

Special District Funds Portfolio

The Special District Funds Portfolio contains project and reserve funds for 29 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 December 31, 2018 was \$1,766,490.

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

	December 31, 2018	September 30, 2018	June 30, 2018	March 31, 2018
Book Value	\$302,238,128	\$194,119,024	\$258,697,808	\$265,277,405
Market Value	\$302,246,125	\$194,125,710	\$258,660,961	\$265,185,789
Unrealized Gain/(Loss)	\$7,997	\$6,686	(\$36,847)	(\$91,616)
Unrealized Gain/(Loss) as % of Book Value	0.00%	0.00%	-0.01%	-0.03%
Average Yield To Maturity	2.55%	2.24%	2.09%	1.74%
Average Days To Maturity	56	64	56	70
Quarterly Interest Earnings	\$1,270,916	\$495,573	\$939,502	\$1,105,780
Fiscal Year to Date Income	\$1,766,490	\$495,573	\$2,908,722	\$1,969,221

Market Conditions

During the second quarter of FY 2018-19, interest rates increased on securities with maturities of less than one year and decreased on securities with longer maturities as the slope of the yield curve flattened. As expected, the Federal Reserve increased the federal funds rate range by 25 basis points for the fourth time in the past 12 months at the December 19, 2018 Federal Open Market Committee (FOMC) meeting. The current federal funds rate range is 2.25 to 2.50 percent. During the quarter, the yields of the 6-month Treasury notes increased 11.10 basis points to 2.47 percent, the two-year notes decreased 33.10 basis points to 2.48 percent, and the five-year notes decreased 44.20 basis points to 2.51 percent. The Local Agency Investment Fund (LAIF) daily rate increased from 2.09 percent to 2.32 percent during the past quarter. The net effect to the Pooled Investment Portfolio was a decrease in the unrealized market value loss which was in direct proportion to the stated duration of the portfolio. As bonds mature, proceeds are reinvested into higher yielding government bonds which increase the average rate of return.

Volatility in asset prices rose during the quarter as the combined impact of ongoing trade conflicts, monetary tightening, global growth concerns and political uncertainty forced traders to reassess risk. As of December 31, 2018 the unemployment rate rose to 3.90 percent from 3.70 percent in the prior quarter. The rise was due almost entirely to a rise in the labor participation rate to 63.10 percent from 62.90 percent. The under-employment rate also increased to 7.60 percent from 7.50 percent. The yearly percentage change of the average hourly earnings has steadily risen since the financial crisis ended and its year-over-year pace is above 3.00 percent for the third consecutive month. This is a strong sign that wage pressures will intensify in 2019 and lift consumer inflation above the Federal Reserve's 2.00 percent target. Conversely, the credit-sensitive housing sector has been contracting for 12 of the past 13 month as pending home sales year-over-year trend is negative 7.70 percent. Consumer confidence which peaked in October of this year is also declining as the 'expectations' component dropped to a 25 month low of 99.10 from 112.30 in November. It is the 'expectations' that drive future consumer spending. Equity indexes have moved into or just above bear market ranges, oil prices have dropped 40.00 percent and copper is down nearly 20.00 percent.

The Federal Reserve remains focused on maximum employment, stable prices, and moderate long term interest rates. The probability of a rate increase at the March 20, 2019 FOMC meeting is currently 2.80 percent, down from 45.50 percent in the prior quarter. Fed Chairman Jerome Powell reiterated that the economy remains on solid footing, despite volatility in the equity markets and weak survey data. He reconfirmed the central bank's commitment to unwinding the balance sheet, but adjustments would be made only if the reduction conflicts with the Federal Reserve fulfilling its dual mandate.

Risks to the economic outlook have become more tilted to the downside recently which has led Federal Reserve policy makers to more staunchly defend their forward rate guidance as being flexible, and data dependent. Fiscal policies with regard to federal government spending and taxation, trade issues, as well as the transition from loose monetary policy to tighter monetary policy, would suggest continued volatility in the next quarter.

City of Irvine
Summary of Pooled Investment Portfolio Book Value by Fund
As of December 31, 2018

General Fund	\$	104,552,236
Capital Projects Funds:		
Capital Improvement Projects		15,867,919
Irvine Business Complex		94,947,688
North Irvine Transportation Mitigation		81,956,307
Orange County Great Park Development		5,092,019
Park Development		32,275,228
Total		230,139,161
Special Revenue Funds:		
Air Quality Improvement		393,849
County Sales Tax Measure M		3,010,796
Fees and Exactions		14,224,748
Grants		3,306,278
I Shuttle		885,554
Local Park Fees		119,222,634
Maintenance District		2,857,049
Major Special Events		89,606
Orange County Great Park		116,440,061
Slurry Seal Fees		1,659,746
State Gasoline Tax		14,053,422
Systems Development		34,757,698
Total		310,901,441
Internal Service Funds:		
Equipment & Services		16,144,068
Inventory		75,069
Self-Insurance		17,739,453
Total		33,958,590
Permanent Fund:		
Senior Services		826,716
Total		826,716
Fiduciary Fund:		
Successor Agency Debt Service		28,029
Redevelopment Obligation Retirement		937,526
Total		965,555
Total Pooled Investments at December 31, 2018	\$	681,343,699

Notes:

1. Funds presented are consistent with the City's Comprehensive Annual Financial Report (CAFR).
2. Balances are not audited and subject to changes due to fiscal year end reconciliation.