



REQUEST FOR CITY COUNCIL ACTION

MEETING DATE: MARCH 11, 2025

TITLE: TREASURER'S REPORT FOR QUARTER ENDED
DECEMBER 31, 2024

Director of Administrative Services

Signed by:

7809AA719A2B4C7

City Manager

RECOMMENDED ACTION

Receive and file the Treasurer's Report for the quarter ended December 31, 2024.

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, 2024. The portfolios, managed by Meeder Investment Management and Stifel Topalian Investment Group, under the direction of the Treasurer, include the Irvine Pooled Investment Portfolio, Gateway Preserve Portfolio, and the Special District Funds Portfolio. The total book value for all three portfolios was \$1.85 billion as of December 31, 2024. 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.

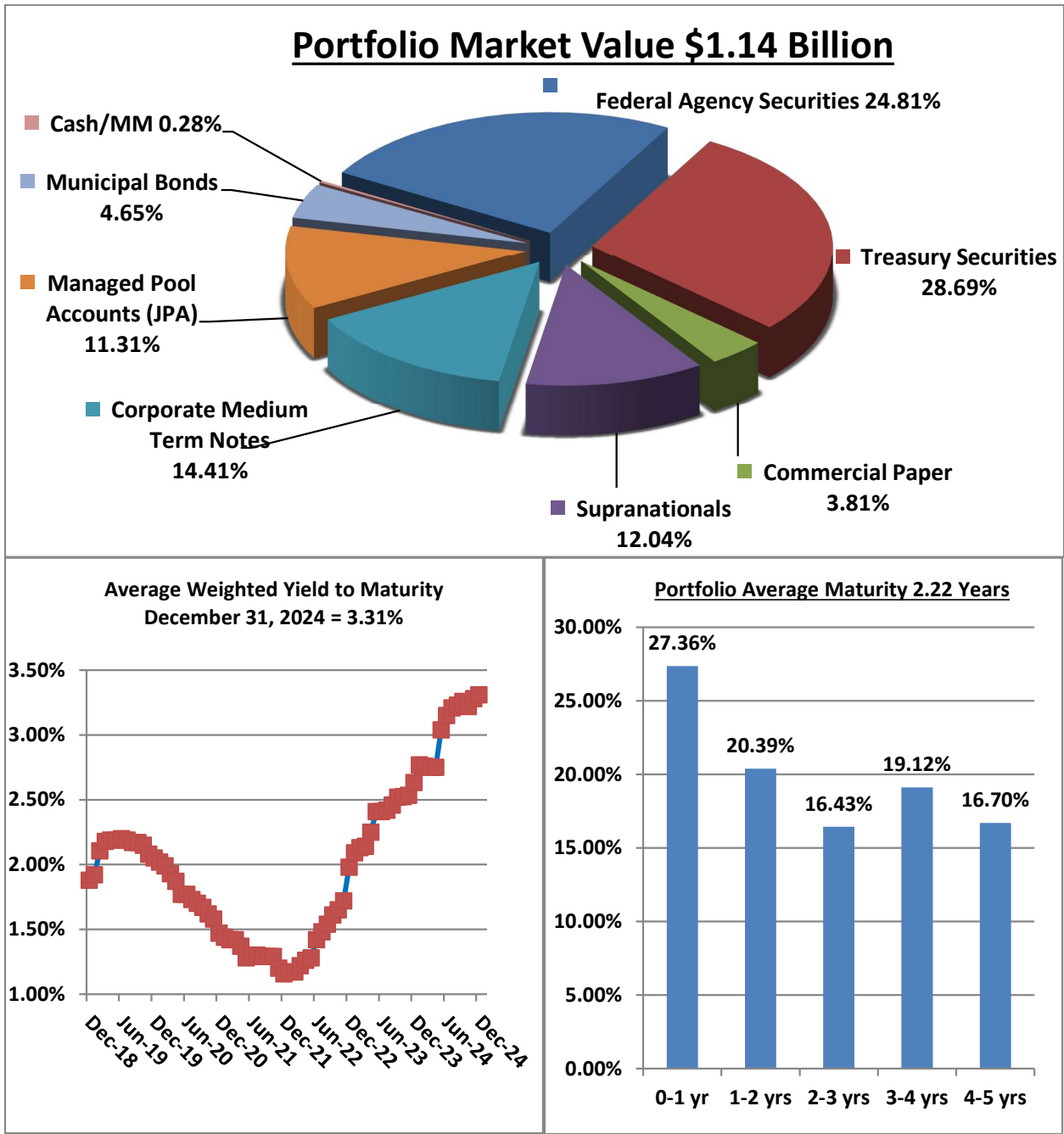
As of December 31, 2024, the City's investment portfolios are in full compliance with the City's Investment Policy, the California Government Code Section 53601, and have sufficient cash flow from a combination of liquid and maturing securities, bank deposits, and income to meet the City's expenditure requirements.

COMMISSION/BOARD/COMMITTEE RECOMMENDATION

At its regular meeting of February 12, 2025, the Investment Advisory Committee recommended that the City Council receive and file the Treasurer's Report for the fiscal year ended December 31, 2024 by a 3-2 vote (Committee Members Judd, Hansen and Kashalkar approving; Committee Members Kandasamy and Wei 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.

City Council Meeting

March 11, 2025

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FINANCIAL IMPACT

Fiscal year-to-date investment income for the Irvine Pooled Investment Portfolio, Gateway Preserve Bond Portfolio, and Special District Funds Portfolio totaled \$41.53 million with investments structured for security and liquidity.

REPORT PREPARED BY Don Collins, City Treasurer

Attachments:

1. Treasurer's Report for the fiscal year ended December 31, 2024
2. Summary of Irvine Pooled Investment Portfolio by Fund



**CITY OF IRVINE
TREASURER'S REPORT
For Quarter Ended December 31, 2024**

The City of Irvine maintains three investment portfolios, the Irvine Pooled Investment Portfolio, Gateway Preserve Portfolio, and the Special District Funds Portfolio. As of the quarter ended, December 31, 2024, combined book value of the three portfolios totaled \$1.85 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 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, 2024, the book value (purchase price of securities as recorded on the City's books) of the portfolio was \$1.15 billion and the average yield to maturity was 3.31 percent. Fiscal year to date investment revenue (interest payments and capital gains) generated by the portfolio as of December 31, 2024 was \$16.81 million. The table below compares the portfolio's statistics over a rolling 12-month period.

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

	December 31, 2024	September 30, 2024	June 30, 2024	March 31, 2024
Book Value	\$1,151,485,608	\$1,142,672,558	\$1,208,214,466	\$1,119,388,780
Market Value	\$1,136,418,365	\$1,140,358,929	\$1,180,415,158	\$1,088,790,615
Unrealized Gain/(Loss)	(\$15,067,243)	(\$2,313,629)	(\$27,799,309)	(\$30,597,166)
Unrealized Gain/(Loss) as % of Book Value	(1.31%)	(0.20%)	(2.30%)	(2.73%)
Average Yield To Maturity	3.31%	3.26%	3.15%	2.75%
Liquidity 0–6 Months	17.83%	19.85%	26.90%	19.37%
Weighted Average Maturity	2.22	2.15	1.96	2.25
Modified Duration (Years)	2.03	2.00	1.81	2.09
Quarterly Interest Earnings	\$8,100,825	\$8,708,092	\$6,300,707	\$7,836,388
Fiscal Year to Date Income	\$16,808,917	\$8,708,092	\$25,019,812	\$18,719,105

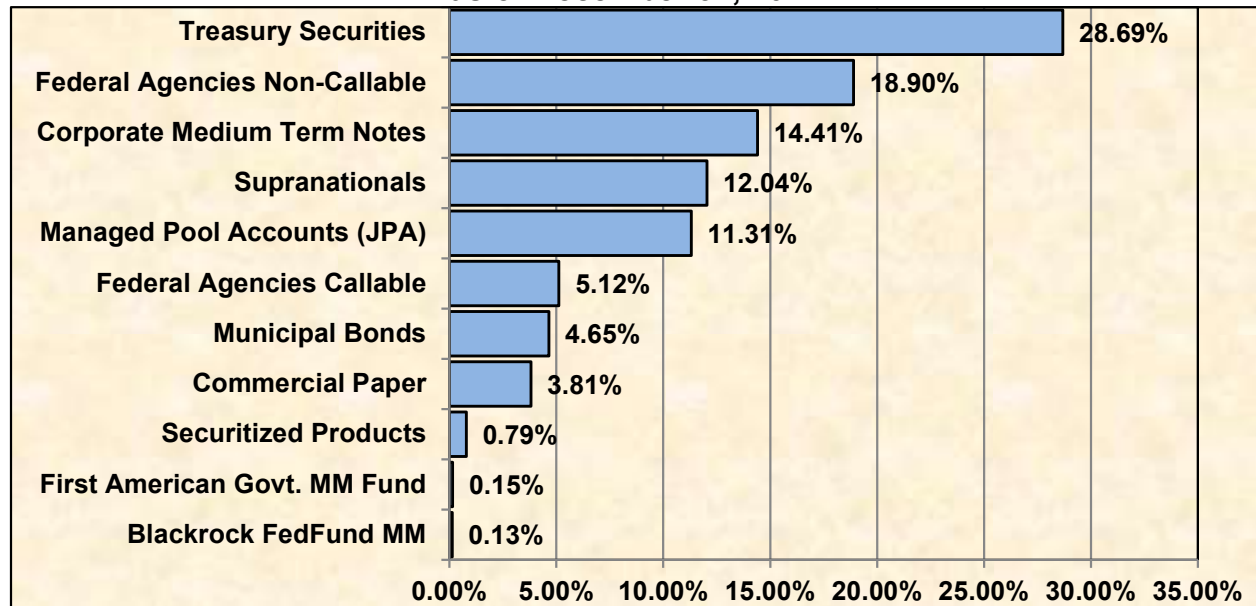
Treasurer’s Report
 Quarter ended December 31, 2024
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As anticipated, the Irvine Pooled Investment Portfolio’s book value increased by \$8.81 million from the previous quarter due to the receipt of property taxes, sales tax, and developer fees. The portfolio yield to maturity increased for the quarter ended December 31, 2024 by 5 basis points to 3.31 percent as maturing investments were reinvested into the higher rate environment. With market rates moving higher during the quarter, as of December 31, 2024, the portfolio ended with an unrealized loss of \$15.07 million as compared to an unrealized loss of \$2.31 million as of September 30, 2024. This is a normal result of the portfolio’s modified duration of 2.03 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 both Treasury and Federal Agency securities were downgraded by Standard & Poor’s to AA+ in August 2011, and by Fitch to AA+ in August 2023, 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 Managed Pool Accounts (JPA), short-term Commercial Paper, Blackrock Fed Fund money market fund, and First American Government money market fund. Chart 1 shows the asset allocation of the portfolio.

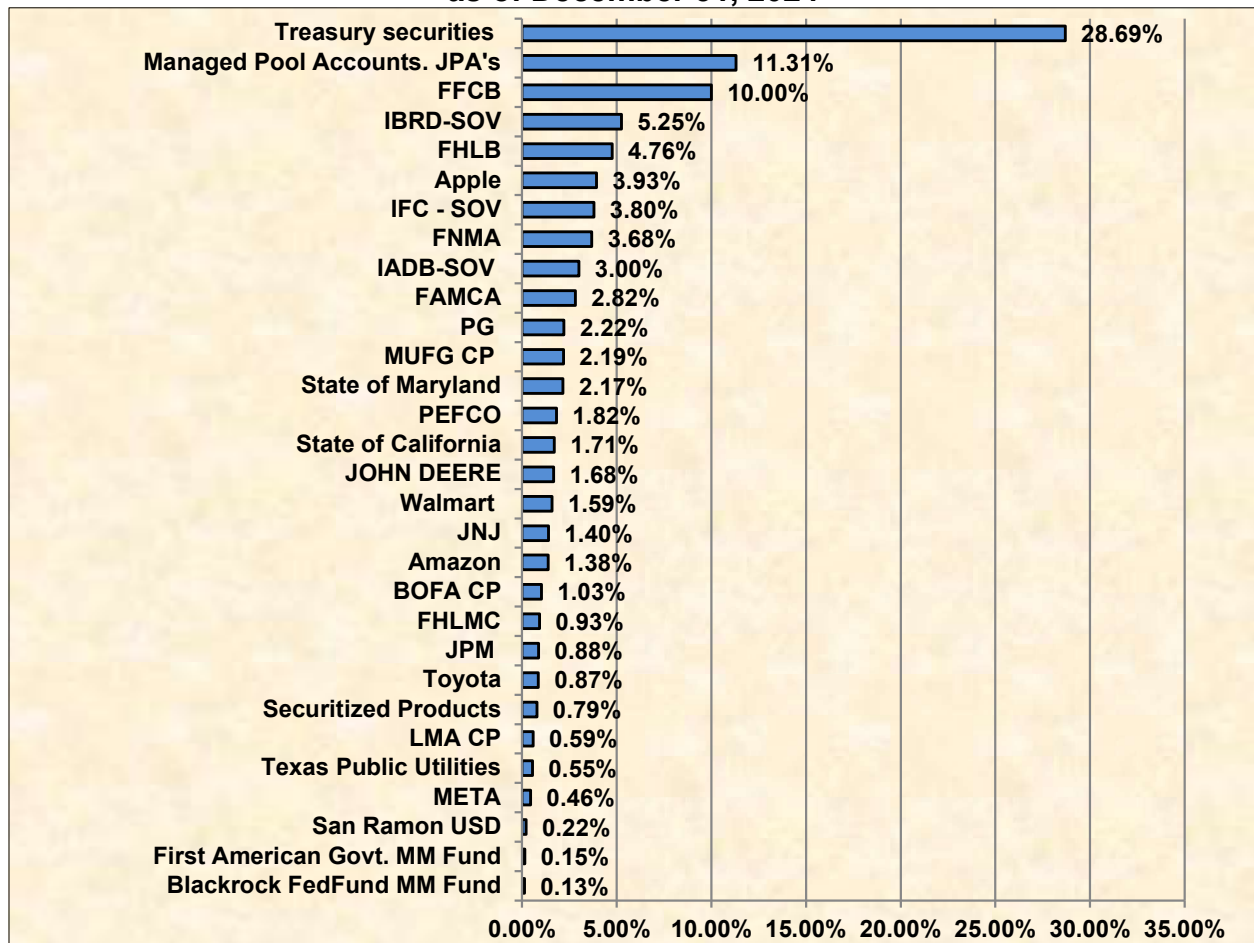
**Irvine Pooled Investment Portfolio
 Chart 1 - Asset Allocation
 as of December 31, 2024**



Treasurer’s Report
 Quarter ended December 31, 2024
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To diversify, the City purchases United States Treasury notes, Commercial Paper, Corporate Medium-term notes, Supranational notes, asset backed securities, 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 December 31, 2024**



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, 2024, the overnight to 6-month liquidity level for the Irvine Pooled Investment Portfolio was 17.83 percent, and 27.36 percent liquidity overnight to one year. 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 December 31, 2024

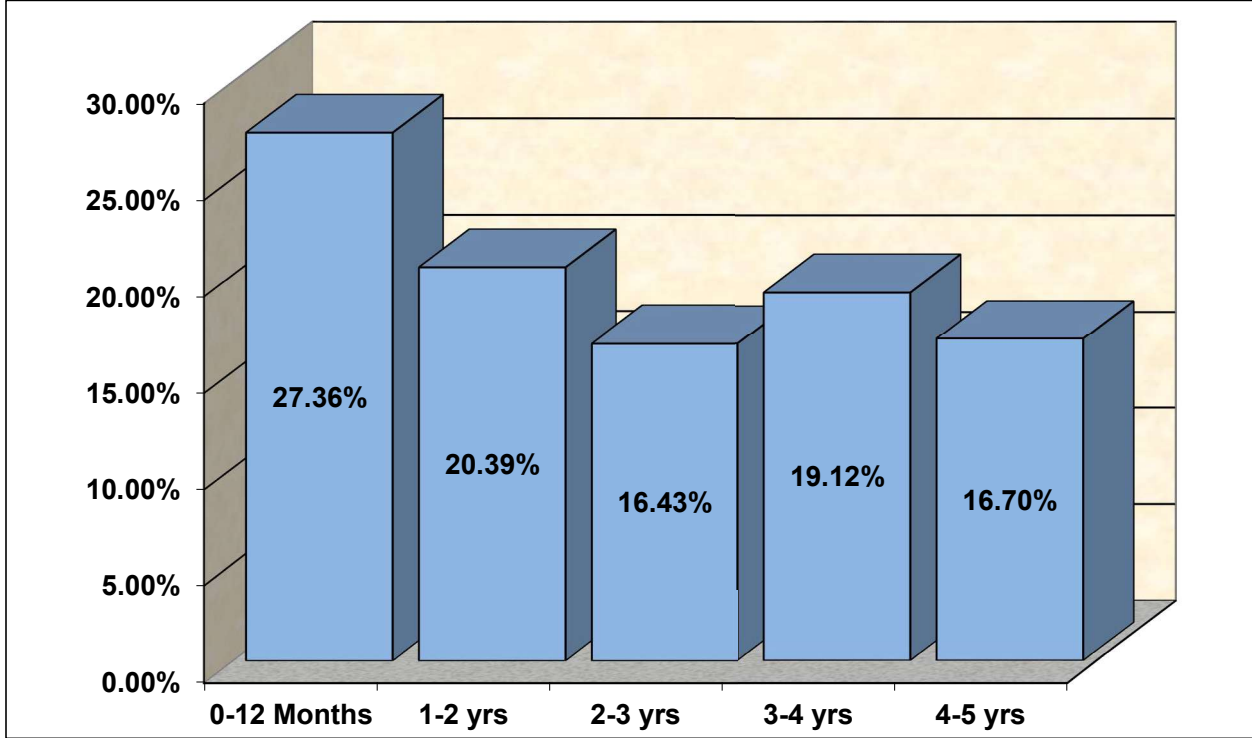
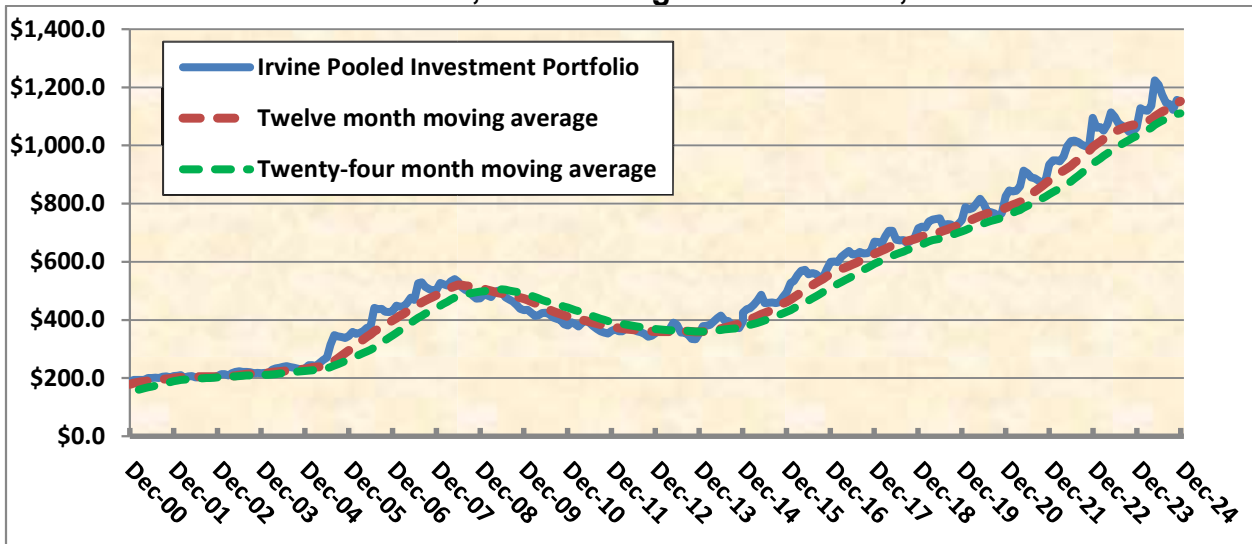
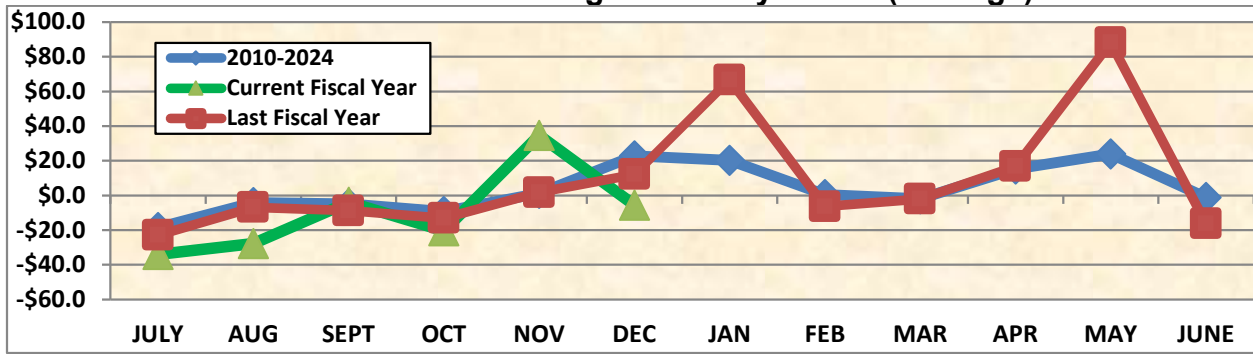


Chart 4 and Chart 5 show the volatility and cyclicality of the Irvine Pooled Investment Portfolio fund balance and cash flows between 2000 and 2024.

Irvine Pooled Investment Portfolio
Chart 4 - Portfolio Balance
December 31, 2000 through December 31, 2024

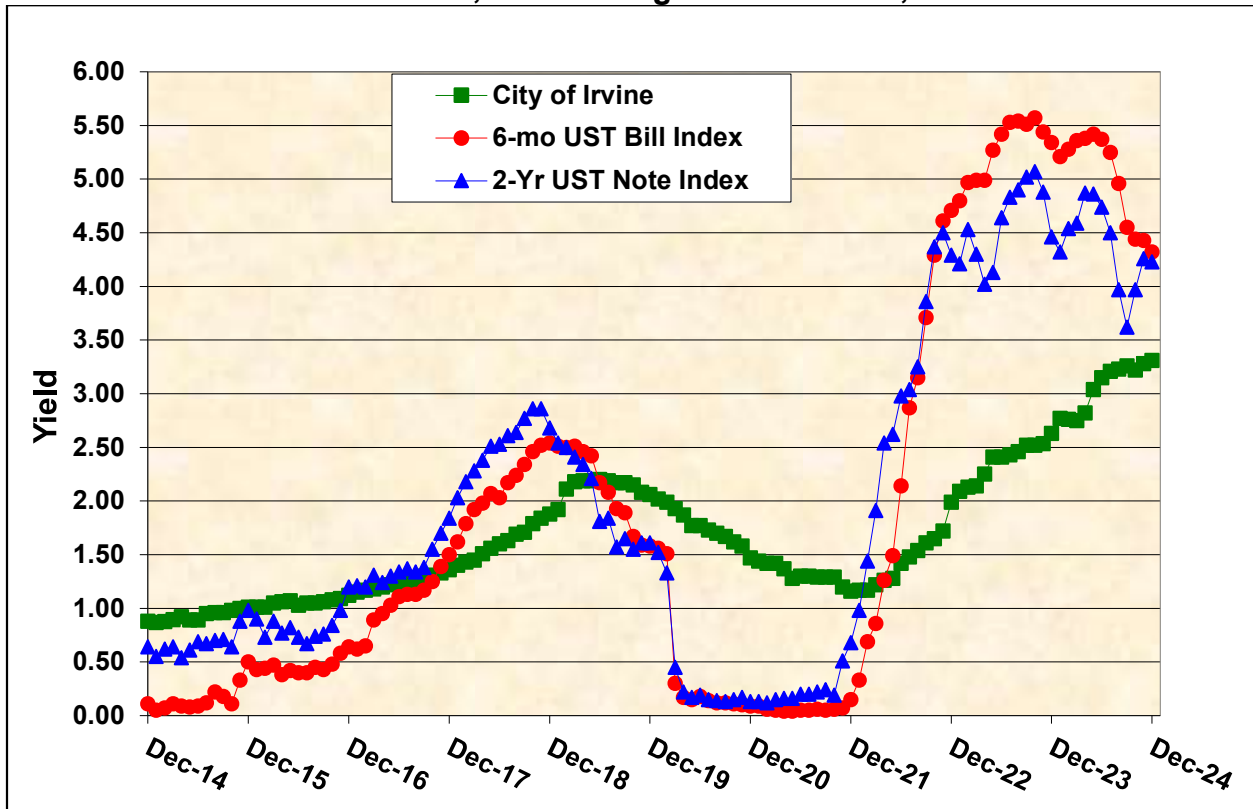


Irvine Pooled Investment Portfolio
Chart 5 – Balance Change Month by Month (Average)



To gauge performance, the City compares the Irvine Pooled Investment Portfolio's book 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 spot yield. 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 lower than the 6-month UST by 1.01 percent and lower than the 2-year UST by 0.92 percent, due to the Federal Reserve rapidly increasing short term interest rates in response to inflation.

Irvine Pooled Investment Portfolio
Chart 6 - Yield to Maturity Compared to Assigned Indices
 December 31, 2014 through December 31, 2024



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Gateway Preserve Portfolio

The Gateway Preserve Portfolio contains funds for the procurement and conversion of the All American Asphalt Plant. Investments in this portfolio are made in accordance with the bond’s indenture and the strategy is based on the cash flow needs. The Gateway Preserve Portfolio must also remain very liquid to provide the acquisition funds needed, as well as meet debt service payment requirements. Fiscal year-to-date investment revenue (interest payments and capital gains) generated by the Gateway Preserve Portfolio as of December 31, 2024 is \$1.61 million

**Gateway Preserve Fund Portfolio
 Rolling Quarterly Comparison**

	December 31, 2024	September 30, 2024	June 30, 2024	March 31, 2024
Book Value	\$31,842,356	\$39,352,939	\$67,093,844	\$74,417,660
Market Value	\$32,661,760	\$40,453,784	\$68,301,147	\$75,124,949
Unrealized Gain/(Loss)	\$819,404	\$1,100,845	\$1,207,302	\$707,289
Unrealized Gain/(Loss) as % of Book Value	2.57%	2.80%	1.80%	0.95%
Average Yield to Maturity	4.58%	4.91%	5.10%	5.12%
Average Days to Maturity	213	230	193	258
Quarterly Interest Earnings	\$765,640	\$845,067	\$486,449	\$367,852
Fiscal Year to Date Income	\$1,610,706	\$845,067	\$7,027,463	\$6,541,014

Special District Funds Portfolio

The Special District Funds Portfolio contains project and reserve funds for 20 AD and RAD bond issues, six CFD bond issues, and one Irvine Facilities Financing Authority bond issue. 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, 2024 is \$23.11 million.

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

	December 31, 2024	September 30, 2024	June 30, 2024	March 31, 2024
Book Value	\$664,111,135	\$625,210,877	\$767,488,147	\$728,664,864
Market Value	\$667,267,631	\$630,593,130	\$773,511,141	\$735,592,983
Unrealized Gain/(Loss)	\$3,156,497	\$5,382,254	\$6,022,993	\$6,928,119
Unrealized Gain/(Loss) as % of Book Value	0.48%	0.86%	0.78%	0.95%
Average Yield To Maturity	4.33%	4.74%	5.20%	5.01%
Average Days To Maturity	18	43	55	124
Quarterly Interest Earnings	\$9,566,875	\$13,546,532	\$10,557,106	\$7,110,121
Fiscal Year to Date Income	\$23,113,407	\$13,546,532	\$30,576,962	\$20,019,856

Market Conditions

During the second quarter of FY 2024-25, interest rates decreased between one- and six-month tenors and rose across the remainder of the yield curve. The Federal Reserve voted to decrease the federal funds rate range by 25 basis points at each of its scheduled meetings on November 8, 2024 and December 19, 2024 to the current range of 4.25 percent to 4.5 percent. During the quarter, the yield of the 6-month Treasury bill decreased 14 basis points to 4.24 percent, the 2-year Treasury note increased 59 basis points to 4.25 percent, and the 5-year Treasury note increased by 80 basis points to 4.38 percent. The Local Agency Investment Fund (LAIF) daily rate decreased from 4.58 percent to 4.4 percent during the quarter. The Joint Power Authority (JPA) daily rate decreased from 5.07 percent to 4.65 percent. The net effect to the Pooled Investment Portfolio was an increase in the unrealized market value loss to \$15.07 million as of December 31, 2024 from an unrealized market value loss of \$2.31 million as of September 30, 2024, which is in direct proportion to the stated duration of the portfolio, and the change in market yields.

At its final meeting of 2024, the Federal Open Market Committee (FOMC) voted to cut the federal funds rate by 25 basis points to a range of 4.25 percent to 4.5 percent. That said, statement language and the new Summary of Economic Projections (SEP) leaned hawkish. In acknowledgement of resilient economic growth, diminished downside risks to the labor market and slower progress on disinflation, the updated SEP showed a higher growth and lower unemployment forecast for 2025, and higher inflation forecasts for 2025 and 2026. Moreover, the committee penciled in just two rate cuts in 2025 versus four in the September SEP. Importantly, a few members incorporated potential fiscal policies and tariffs into their estimates. That said, the pace of rate cuts, while likely to be more gradual, will continue to hinge on the data until we gain more clarity on President-elect Trump’s policy agenda.

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The December jobs report showed an economy with solid hiring momentum heading into 2025. Nonfarm payrolls rose by 256 thousand, well above expectations of 165 thousand, while revisions removed just 8 thousand jobs from the prior two months. Growth remained dominated by the services sector, with health care and social assistance adding 70,000 jobs. Job gains were also solid in retail trade and leisure and hospitality. The unemployment rate unexpectedly fell to 4.1 percent, largely due to a 243,000 increase in the labor force, while wage growth eased to 0.3 percent month over month (m/m) and 3.90 percent year over year (y/y). While annual revisions released next month might paint a picture of a modestly softer labor market, solid economic growth should support steady job gains in the coming months.

The December Consumer Price Index (CPI) report showed an expected tick higher in inflation. That said, core CPI rose at a more modest pace, suggesting underlying inflationary pressures remain well managed. Headline CPI rose 0.4 percent m/m and 2.9 percent y/y, largely due to a spike in energy prices. Excluding food and energy, inflation came in softer than expected, rising 0.2 percent m/m and 3.20 percent y/y. Core goods inflation was a modest 0.1 percent m/m as strength in new and used vehicles was offset by softness elsewhere. Core service inflation rose just 0.20 percent, although airline fares spiked 3.9 percent m/m, likely reflective of a strong holiday travel season. Shelter inflation, responsible for 57 percent of annual inflation, rose 0.3 percent m/m and 4.6 percent y/y. As base effects turn more favorable, inflation should continue its downward trend in 2025.

Calendar third quarter 2024 pro forma earnings per share (EPS) came in at \$61.61, representing growth of 4.6 percent y/y and 1.8 percent quarter over quarter (q/q). Mega cap tech delivered another quarter of double-digit earnings growth as did health care. Elsewhere, cyclical value sectors saw earnings fall. Moving forward, lower rates should provide a boost to manufacturing tied sectors along with financials as management teams ramp up investment. This means less focus on returning capital to shareholders, so sales growth will be an increasingly important driver of future earnings.

Second quarter 2024 Gross Domestic Product (GDP) growth came in at 3.1 percent seasonally adjusted annual rate (saar), notching a second consecutive quarter of above trend growth. Consumer spending continued to power the economy forward, rising 3.7 percent, while government spending also looked strong. Business fixed investment rose 4 percent while residential investment remained a drag. With businesses likely rushing to build up inventory ahead of the port workers strikes in late September, imports jumped 10.7 percent and weighed on growth. Overall, despite concerns about the labor market and the manufacturing sector, the U.S. economy remains solid.

In conclusion, geopolitical tensions and new administration policy uncertainty may heighten market volatility, as a slow-moving economy is more vulnerable to any kind of shock. Additionally, moderating economic growth could weigh on earnings, leaving markets vulnerable at stretched valuations. Fixed income offers attractive levels of income and protection against an economic downturn. The City of Irvine will continue to maximize the duration of its portfolio within the guidelines of anticipated cashflows by utilizing high quality investments.

City of Irvine
Summary of Pooled Investment Portfolio Book Value by Fund *
As of December 31, 2024

General Reserve Funds	\$ 178,374,706
Special Revenue Funds:	
Orange County Great Park	288,134,239
Air Quality Improvement	919,241
County Sales Tax Measure M	12,684,039
Fees and Exactions	12,349,976
Grants	13,450,134
Hotel Improvement District	1,040,296
iShuttle	(1,121,922)
Local Park Fees	141,731,817
Maintenance District	6,283,640
Major Special Events	556,953
OCFA Settlement Agreement	537,078
State Gasoline Tax	30,193,270
Systems Development	21,081,467
Total	<u><u>527,840,228</u></u>
Debt Service Funds:	
Irvine Public Facilities and Infrastructure Authority	(500)
Total	<u><u>(500)</u></u>
Capital Projects Funds:	
Orange County Great Park Development	23,805,348
Gateway Residential Village	(217,216)
Gateway Preserve	(9,999)
Assessment District Fund	3,940,517
Capital Improvement Projects	27,021,920
Community Facilities Districts	(7,295,630)
Irvine Business Complex	124,281,166
North Irvine Transportation Mitigation	160,931,258
Park Development	42,722,752
Slurry Seal Fees	(851,668)
Total	<u><u>374,328,449</u></u>
Permanent Fund:	
Senior Services	432,026
Senior Services Endowments	500,000
Total	<u><u>932,026</u></u>
Internal Service Funds:	
Self-Insurance	19,665,081
Equipment and Services	20,192,414
Inventory	77,896
Total	<u><u>39,935,392</u></u>
Fiduciary Funds:	
Successor Agency Debt Service	-
Redevelopment Obligation Retirement	-
Custodial Funds	30,075,307
Total	<u><u>30,075,307</u></u>
Total Pooled Investments at December 31, 2024	<u><u>\$ 1,151,485,608</u></u>

Note: Presentation of funds is consistent with the City's Annual Comprehensive Financial Report.
 * Balances are not audited