



REQUEST FOR CITY COUNCIL ACTION

MEETING DATE: NOVEMBER 26, 2024

TITLE: TREASURER'S REPORT FOR QUARTER ENDED
SEPTEMBER 30, 2024

Director of Administrative Services

Signed by:

7809AA719A2B4C7
City Manager

RECOMMENDED ACTION

Receive and file the Treasurer's Report for the quarter ended September 30, 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 September 30, 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 \$1.81 billion as of September 30, 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.

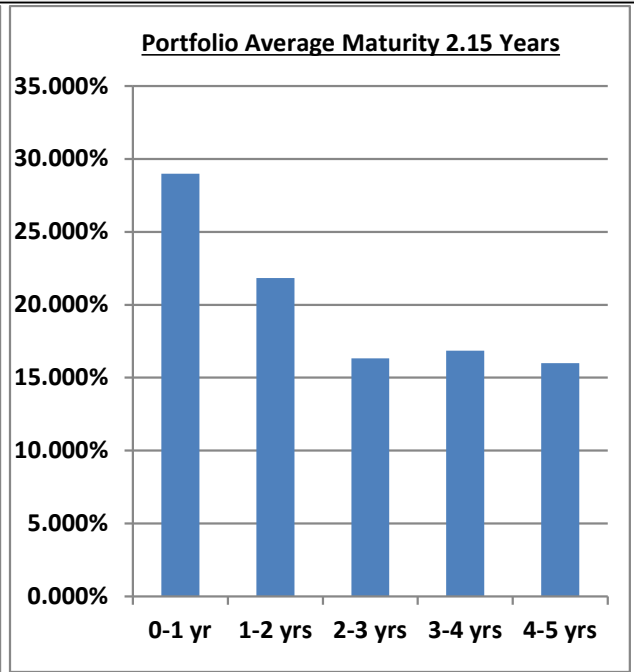
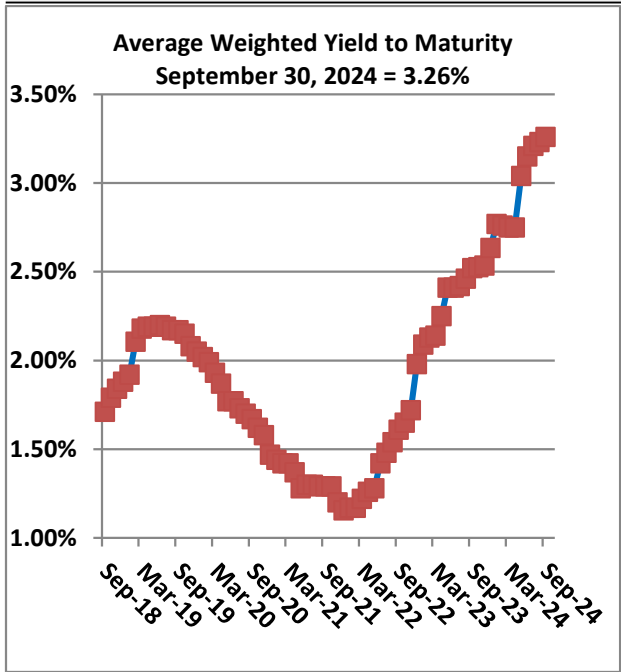
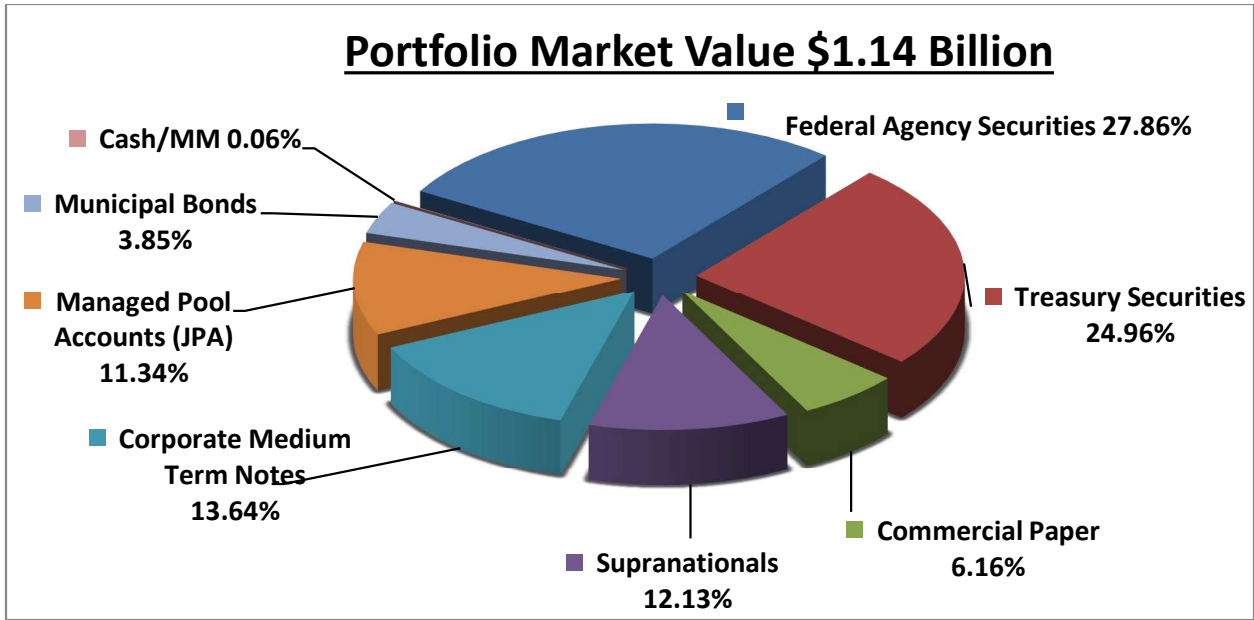
As of September 30, 2024, the City's investment portfolios are in full compliance with the City's Investment Policy, the California Government Code Section 53601, and have sufficient cash flow from a combination of liquid and maturing securities, bank deposits, and income to meet the City's expenditure requirements.

COMMISSION/BOARD/COMMITTEE RECOMMENDATION

This item is scheduled to be presented to the Investment Advisory Committee on November 14, 2024.

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
November 26, 2024
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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 \$22.76 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 September 30, 2024
2. Summary of Irvine Pooled Investment Portfolio by Fund



**CITY OF IRVINE
TREASURER'S REPORT
For Quarter Ended September 30, 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, September 30, 2024, combined book value of the three portfolios totaled \$1.81 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 September 30, 2024, the book value (purchase price of securities as recorded on the City's books) of the portfolio was \$1.14 billion and the average yield to maturity was 3.26 percent. Fiscal year to date investment revenue (interest payments and capital gains) generated by the portfolio as of September 30, 2024 was \$8.71 million. The table below compares the portfolio's statistics over a rolling 12-month period.

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

	September 30, 2024	June 30, 2024	March 31, 2024	December 31, 2023
Book Value	\$1,142,672,558	\$1,208,214,466	\$1,119,387,780	\$1,061,097,453
Market Value	\$1,140,358,929	\$1,180,415,158	\$1,088,790,615	\$1,033,917,036
Unrealized Gain/(Loss)	(\$2,313,629)	(\$27,799,309)	(\$30,597,166)	(\$27,180,417)
Unrealized Gain/(Loss) as % of Book Value	(0.20%)	(2.30%)	(2.73%)	(2.56%)
Average Yield To Maturity	3.26%	3.15%	2.75%	2.63%
Liquidity 0–6 Months	19.85%	26.90%	19.37%	16.11%
Weighted Average Maturity	2.15	1.96	2.25	2.12
Modified Duration (Years)	2.00	1.81	2.09	1.99
Quarterly Interest Earnings	\$8,708,092	\$6,300,707	\$7,836,388	\$5,794,482
Fiscal Year to Date Income	\$8,708,092	\$25,019,812	\$18,719,105	\$10,882,717

As anticipated, the Irvine Pooled Investment Portfolio's book value decreased by \$65.54 million from the previous quarter due to the prepayment of CalPERS pension liability for Fiscal Year 2024-25, as well as various planned capital improvement projects, and the

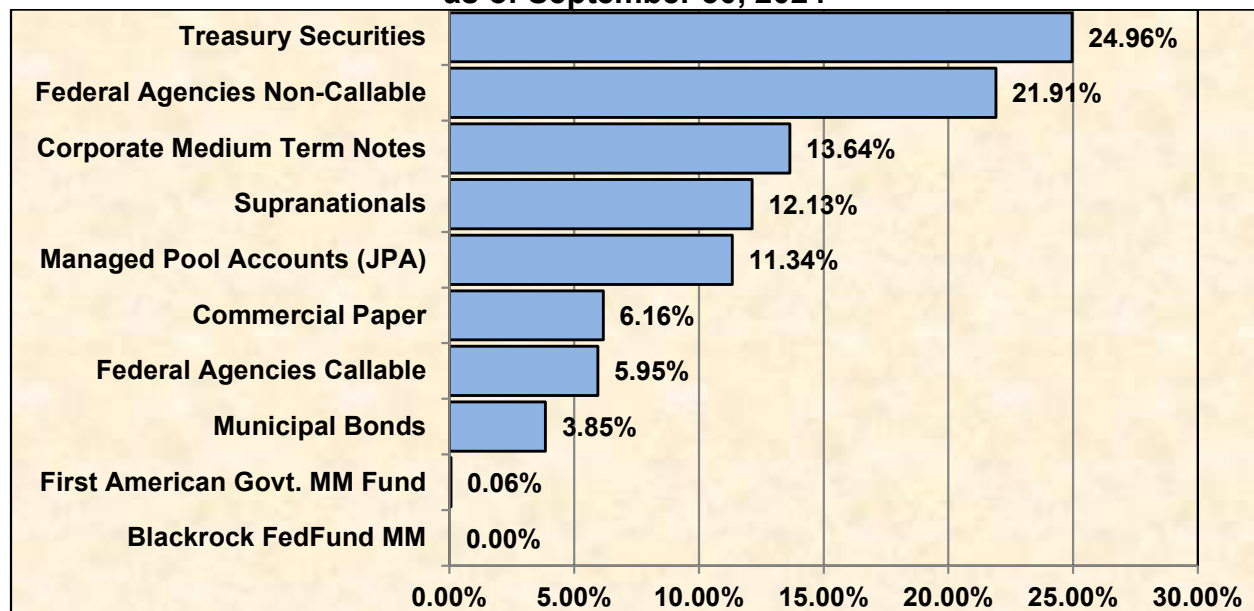
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 Quarter ended September 30, 2024
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purchase of municipal buildings. The portfolio yield to maturity increased for the quarter ended September 30, 2024 by 11 basis points to 3.26 percent as maturing investments were reinvested into the higher rate environment. With market rates moving lower during the quarter, as of September 30, 2024, the portfolio ended with an unrealized loss of \$2.31 million as compared to an unrealized loss of \$27.80 million as of June 30, 2024. This is a normal result of the portfolio’s modified duration of 2 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.

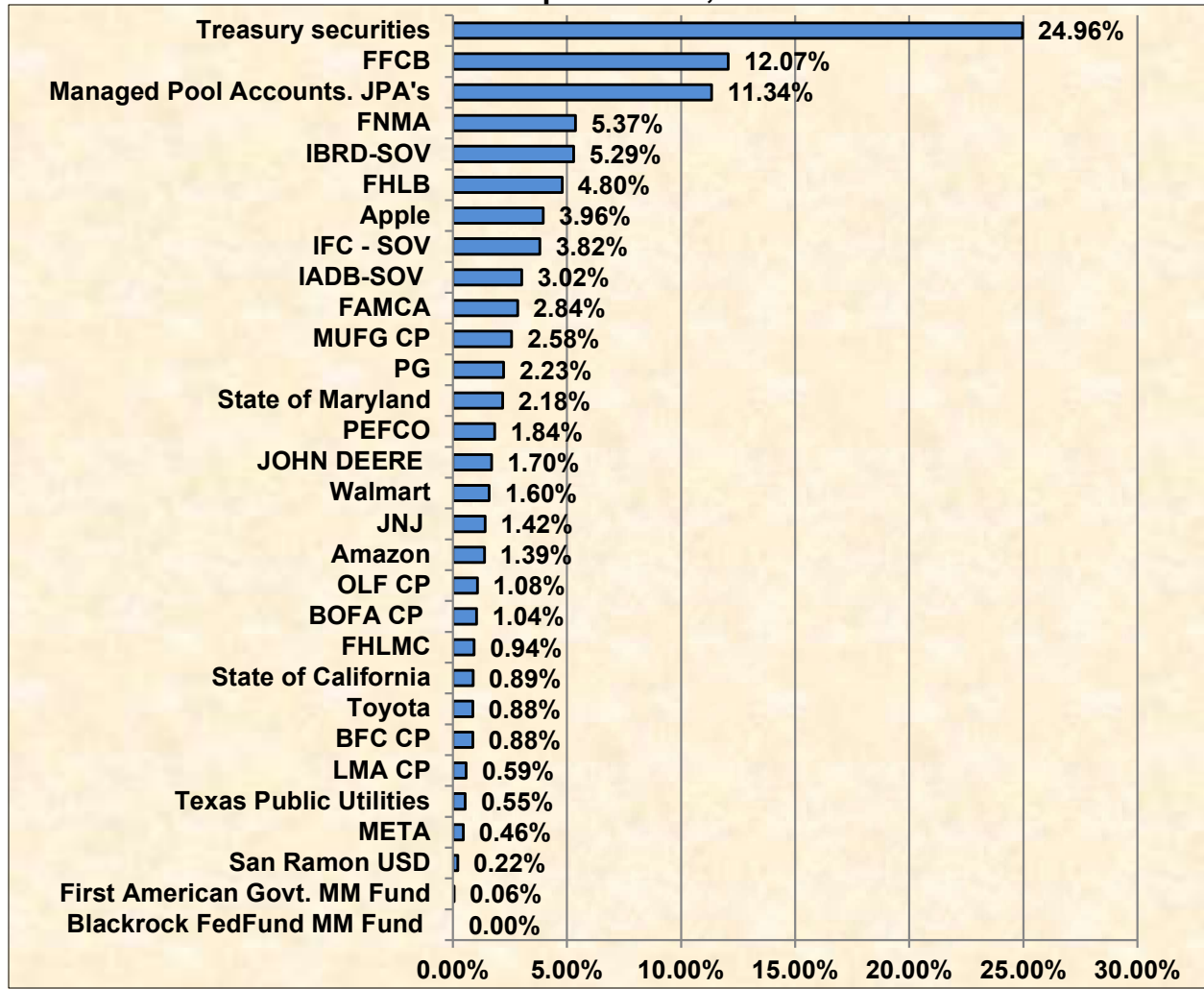
Irvine Pooled Investment Portfolio
Chart 1 - Asset Allocation
as of September 30, 2024



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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 September 30, 2024**



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, 2024, the overnight to 6-month liquidity level for the Irvine Pooled Investment Portfolio was 19.85 percent, and 29 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 September 30, 2024

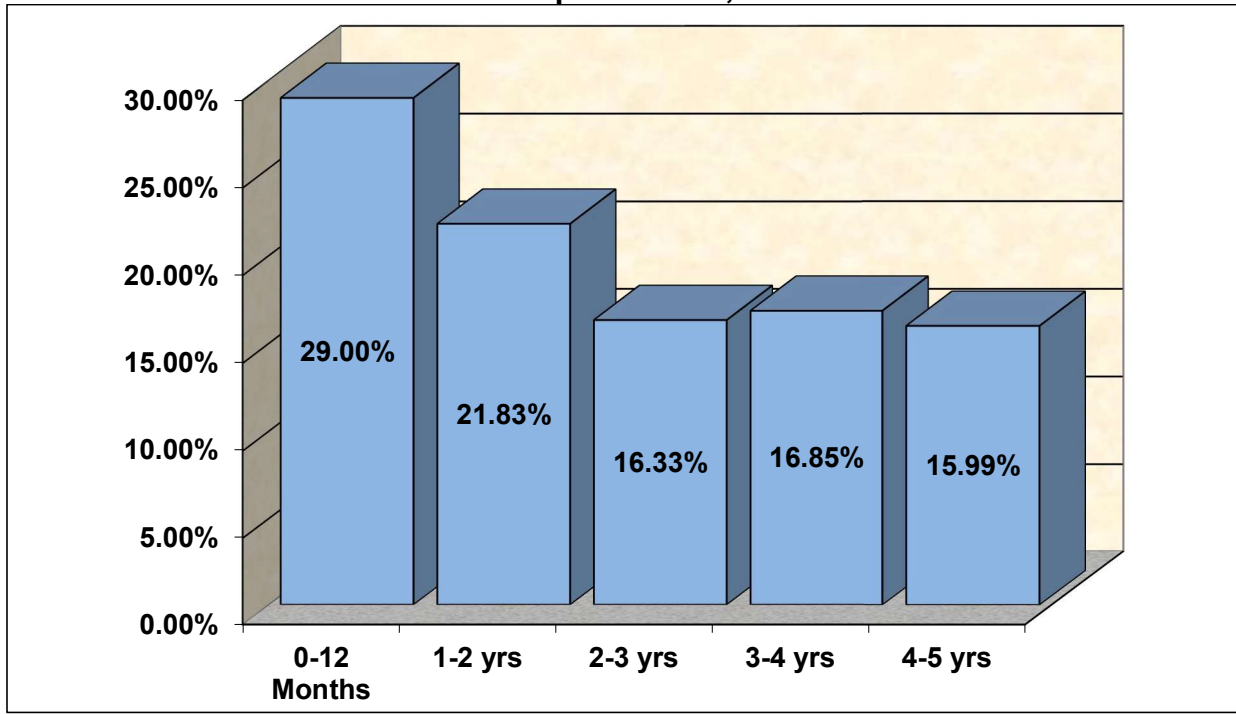
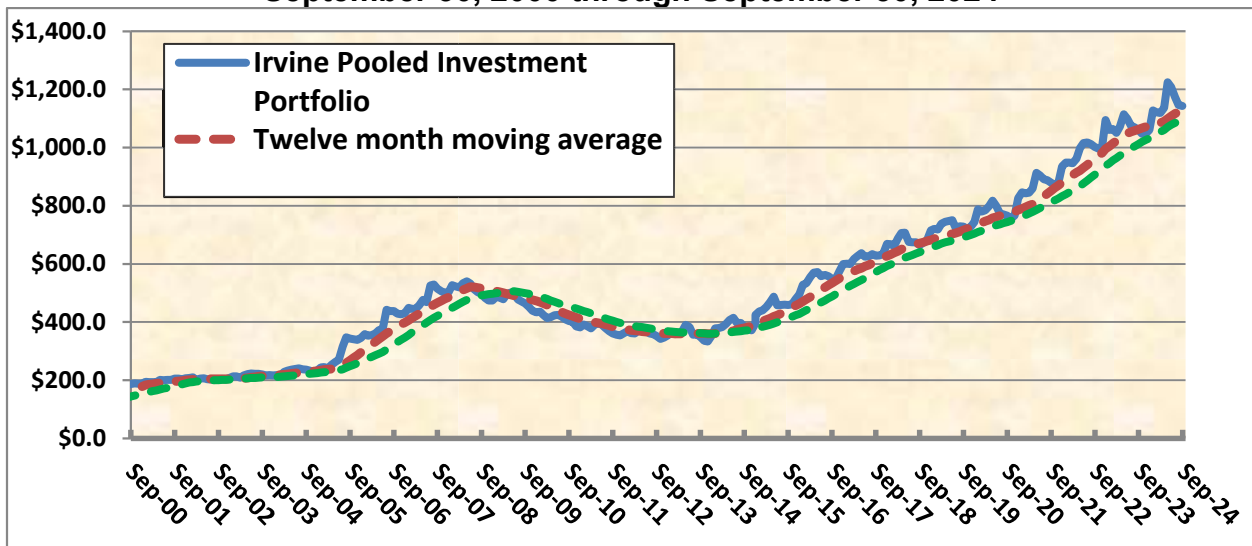
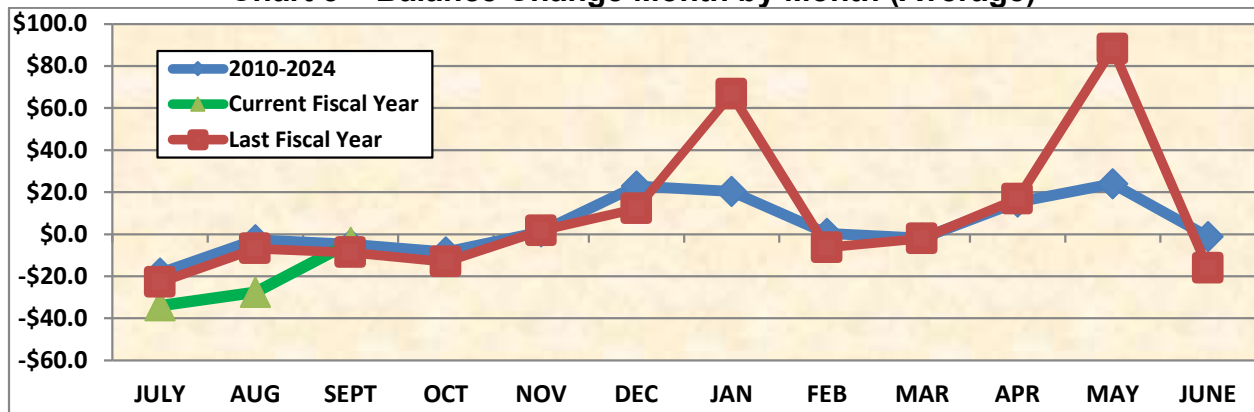


Chart 4 and Chart 5 show the volatility and cyclical nature of the Irvine Pooled Investment Portfolio fund balance and cash flows between 2000 and 2024.

Irvine Pooled Investment Portfolio
Chart 4 - Portfolio Balance
September 30, 2000 through September 30, 2024

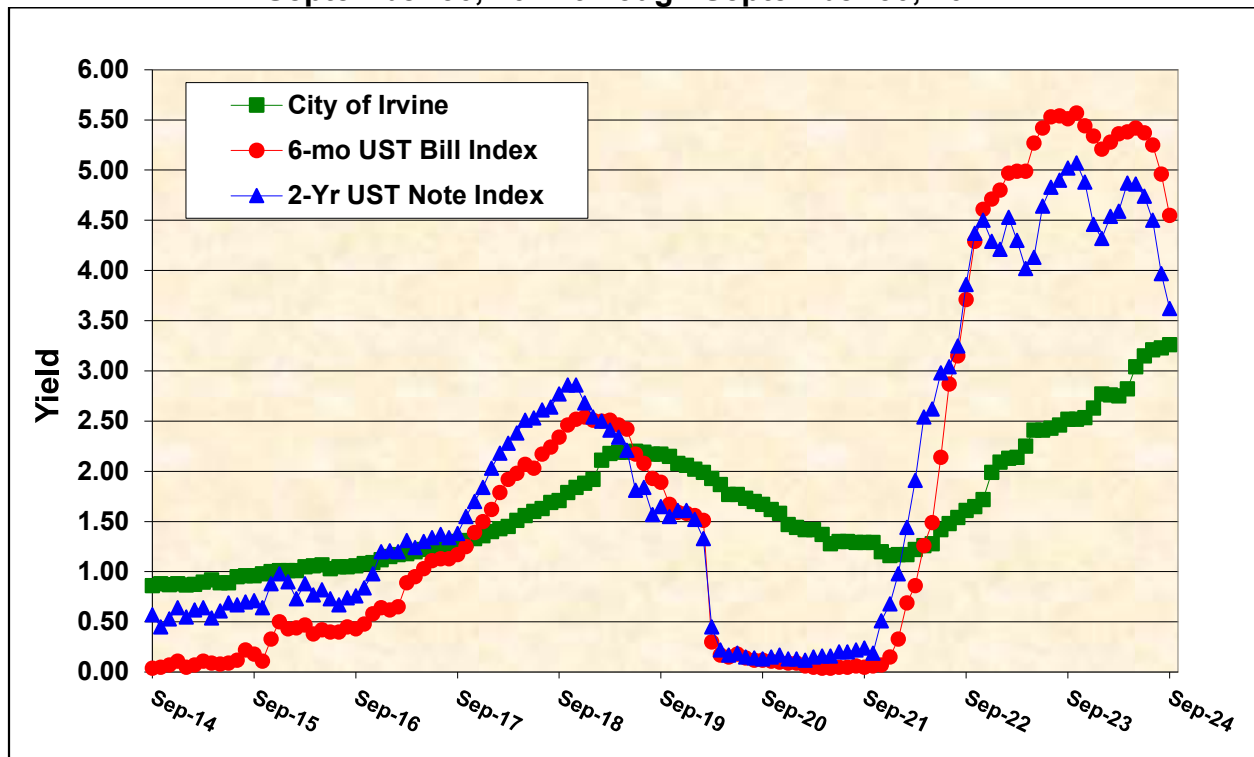


Irvine Pooled Investment Portfolio
Chart 5 – Balance Change Month by Month (Average)



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 1.29 percent and lower than the 2-year UST by 0.36 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
 September 30, 2014 through September 30, 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 September 30, 2024 is \$845,067.

**Gateway Preserve Fund Portfolio
 Rolling Quarterly Comparison**

	September 30, 2024	June 30, 2024	March 31, 2024	December 31, 2023
Book Value	\$39,352,939	\$67,093,844	\$74,417,660	\$74,986,363
Market Value	\$40,453,784	\$68,301,147	\$75,124,949	\$75,159,772
Unrealized Gain/(Loss)	\$1,100,845	\$1,207,302	\$707,289	\$173,409
Unrealized Gain/(Loss) as % of Book Value	2.80%	1.80%	0.95%	0.23%
Average Yield to Maturity	4.91%	5.10%	5.12%	5.14%
Average Days to Maturity	230	193	258	254
Quarterly Interest Earnings	\$845,067	\$486,449	\$367,852	\$2,805,452
Fiscal Year to Date Income	\$845,067	\$7,027,463	\$6,541,014	\$6,173,163

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 September 30, 2024 is \$13.21 million.

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Special District Funds Portfolio
Rolling 12-Month Quarterly Comparison

	September 30, 2024	June 30, 2024	March 31, 2024	December 31, 2023
Book Value	\$625,210,877	\$767,488,147	\$728,664,864	\$784,999,996
Market Value	\$630,593,130	\$773,511,141	\$735,592,983	\$790,658,245
Unrealized Gain/(Loss)	\$5,382,254	\$6,022,993	\$6,928,119	\$5,658,249
Unrealized Gain/(Loss) as % of Book Value	0.86%	0.78%	0.95%	0.72%
Average Yield To Maturity	4.74%	5.20%	5.01%	5.05%
Average Days To Maturity	43	55	124	148
Quarterly Interest Earnings	\$13,211,558	\$10,557,106	\$7,110,121	\$6,889,065
Fiscal Year to Date Income	\$13,211,558	\$30,576,962	\$20,019,856	\$12,909,735

Market Conditions

During the first quarter of FY 2024-25, interest rates decreased across the entire yield curve. While the Federal Reserve voted to hold the federal funds rate range at its scheduled meeting on July 31, 2024 at 5.25 percent to 5.5 percent, they voted to decrease the federal funds rate at the September 18, 2024 meeting by 50 basis points. During the quarter, the yield of the 6-month Treasury bill decreased 96 basis points to 4.35 percent, the 2-year Treasury note decreased 115 basis points to 3.6 percent, and the 5-year Treasury note decreased by 92 basis points to 3.51 percent. The Local Agency Investment Fund (LAIF) daily rate increased from 4.56 percent to 4.58 percent during the quarter. The Joint Power Authority (JPA) daily rate decreased from 5.43 percent to 5.07 percent. The net effect to the Pooled Investment Portfolio was a decrease in the unrealized market value loss to \$2.31 million as of September 30, 2024 from an unrealized market value loss of \$27.80 million as of June 30, 2024, which is in direct proportion to the stated duration of the portfolio, and the change in market yields.

At its September meeting, the Federal Open Market Committee (FOMC) voted to lower the federal funds rate by 50 basis points to a range of 4.75 percent to 5 percent. The policy decision was not unanimous, as Michelle Bowman voted in favor of a 25 basis points cut. During the press conference, Chair Jerome Powell struck a cautiously upbeat tone on the economy while acknowledging the risks of a slowing labor market, although he pointed to a broad set of indicators that suggest the labor market still looks solid. In summary, policy normalization has begun, and the pace of rate cuts in the coming months will hinge on the incoming data. While the Federal Reserve opted to begin its easing cycle with a larger cut, future rate cuts could be more gradual barring a more material economic slowdown. Going forward, the Federal Reserve will carefully assess upcoming data prints. The September Consumer Price Index (CPI) report, the Personal Consumption Expenditures (PCE) deflator (set for release on October 31) and the October jobs report (set for release on November 1), will likely play large roles in the Fed's decision-making.

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The September CPI report came in a touch stronger than expected, although inflation remained on its steady path lower. Headline inflation rose 0.2 percent m/m and 2.4 percent y/y, marking the slowest annual increase since early 2021, while core inflation rose 0.3 percent m/m and 3.3 percent y/y. In the details, food prices (+0.4 percent m/m) rose at their fastest pace since early 2023. This was partially offset by lower energy prices, reflecting sharp declines in gasoline and fuel oils. Core goods ended a 6-month streak of deflation, driven by strength in apparel prices, but remained benign. Elsewhere, shelter inflation came in below expectations, easing to 0.2 percent m/m. Excluding shelter, higher auto insurance prices (+1.2 percent) and airfares (+3.2 percent) caused core services inflation to accelerate. Overall, while inflation could see some fits and starts, it remains on a well-paved, predictable path downward. Additionally, the Producer Price Index (PPI) came in a touch softer than expected with the headline flat and the year over year number at 1.8 percent. The key metrics that feed into the Fed's core PCE number didn't materially move expectations. Estimates for m/m core PCE is 0.24 percent to 0.28 percent bringing y/y to 2.6 percent. Core PCE y/y has been running at 2.7 percent the last few months so this would just be a continuation of that theme.

The September jobs report showed higher-than-expected job gains of 254,000, quelling fears of a sharp labor market slowdown. In addition, upward revisions added 72 thousand jobs to the prior two months, and the unemployment rate ticked down to 4.1 percent. Lastly, wages grew 0.4 percent m/m (4 percent y/y), likely marking the 17th consecutive month in which wage growth has outpaced inflation. Overall, this report shows that the jobs market is still in good shape.

The second quarter 2024 earnings season has come to a close! Second quarter 2024 pro-forma earnings per share (EPS) were \$60.55, representing growth of 11.1 percent y/y and 7.3 percent q/q. Across sectors, information technology and communication services delivered another quarter of double-digit earnings growth, and health care bounced back after a challenging first quarter. Elsewhere, some of the more cyclical sectors, like industrials and materials, saw earnings fall relative to last year. Moving forward, as wage pressures fade and companies focus more on cost management, margins are expected to be the largest contributor to earnings growth.

Second quarter 2024 Gross Domestic Product (GDP) growth came in at 3 percent q/q seasonally adjusted annual rate (saar), well above last quarter's 1.6 percent. In the details, consumer spending rose by 2.8 percent due to a bounce back in spending on goods, while strong nonresidential fixed investment and inventory investment supported impressive business spending growth of 8.30 percent saar. While the U.S. economy has slowed from its 3.8 percent pace in second half of 2023, growth remained solid at 2.3 percent in first half of 2024.

In conclusion, risks to the economy, bond market, and equity market are predicated on significant geo-political turmoil, the upcoming election, weakening consumer spending power, and changing financial conditions. A slow-moving economy is more vulnerable to any kind of shock. The City of Irvine will continue to maximize the duration of its portfolio

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within the guidelines of anticipated cashflows by utilizing high quality investments, which will be favorable when the yield curve reverts to a more normal slope.

City of Irvine
Summary of Pooled Investment Portfolio Book Value by Fund *
As of September 30, 2024

General Reserve Funds	\$	206,928,899
Special Revenue Funds:		
Orange County Great Park		297,970,557
Air Quality Improvement		884,886
County Sales Tax Measure M		11,338,150
Fees and Exactions		9,903,997
Grants		10,851,066
Hotel Improvement District		844,859
iShuttle		(488,903)
Local Park Fees		140,581,227
Maintenance District		3,534,870
Major Special Events		287,731
OCFA Settlement Agreement		719,772
State Gasoline Tax		26,776,055
Systems Development		16,851,362
Total		<u><u>520,055,630</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		15,315,102
Gateway Residential Village		(160,544)
Gateway Preserve		(157,624)
Assessment District Fund		3,882,593
Capital Improvement Projects		32,871,728
Community Facilities Districts		(5,840,723)
Irvine Business Complex		124,549,432
North Irvine Transportation Mitigation		159,559,873
Park Development		43,988,818
Slurry Seal Fees		341,989
Total		<u><u>374,350,643</u></u>
Permanent Fund:		
Senior Services		422,448
Senior Services Endowments		500,000
Total		<u><u>922,448</u></u>
Internal Service Funds:		
Self-Insurance		20,077,886
Equipment and Services		19,370,576
Inventory		76,953
Total		<u><u>39,525,415</u></u>
Fiduciary Funds:		
Successor Agency Debt Service		(8,632)
Redevelopment Obligation Retirement		-
Custodial Funds		898,655
Total		<u><u>890,023</u></u>
Total Pooled Investments at September 30, 2024	\$	<u><u>1,142,672,558</u></u>

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