



REQUEST FOR CITY COUNCIL ACTION

MEETING DATE: JUNE 25, 2024

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

Director of Administrative Services

DocuSigned by:

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City Manager

RECOMMENDED ACTION

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

EXECUTIVE SUMMARY

The Treasurer's Report (Attachment 1) provides a synopsis of investment activity for the City's four investment portfolios for the quarter ended March 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, Bond Proceeds Fund Portfolio, Gateway Preserve Bond Portfolio, and the Special District Funds Portfolio. The total book value for all four portfolios was \$1.92 billion as of March 31, 2024. The report provides information on assets, allocations, average maturities, yields, and valuations for each of the four portfolios. A discussion of market conditions is included to give additional perspective to these measurements.

As of March 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.

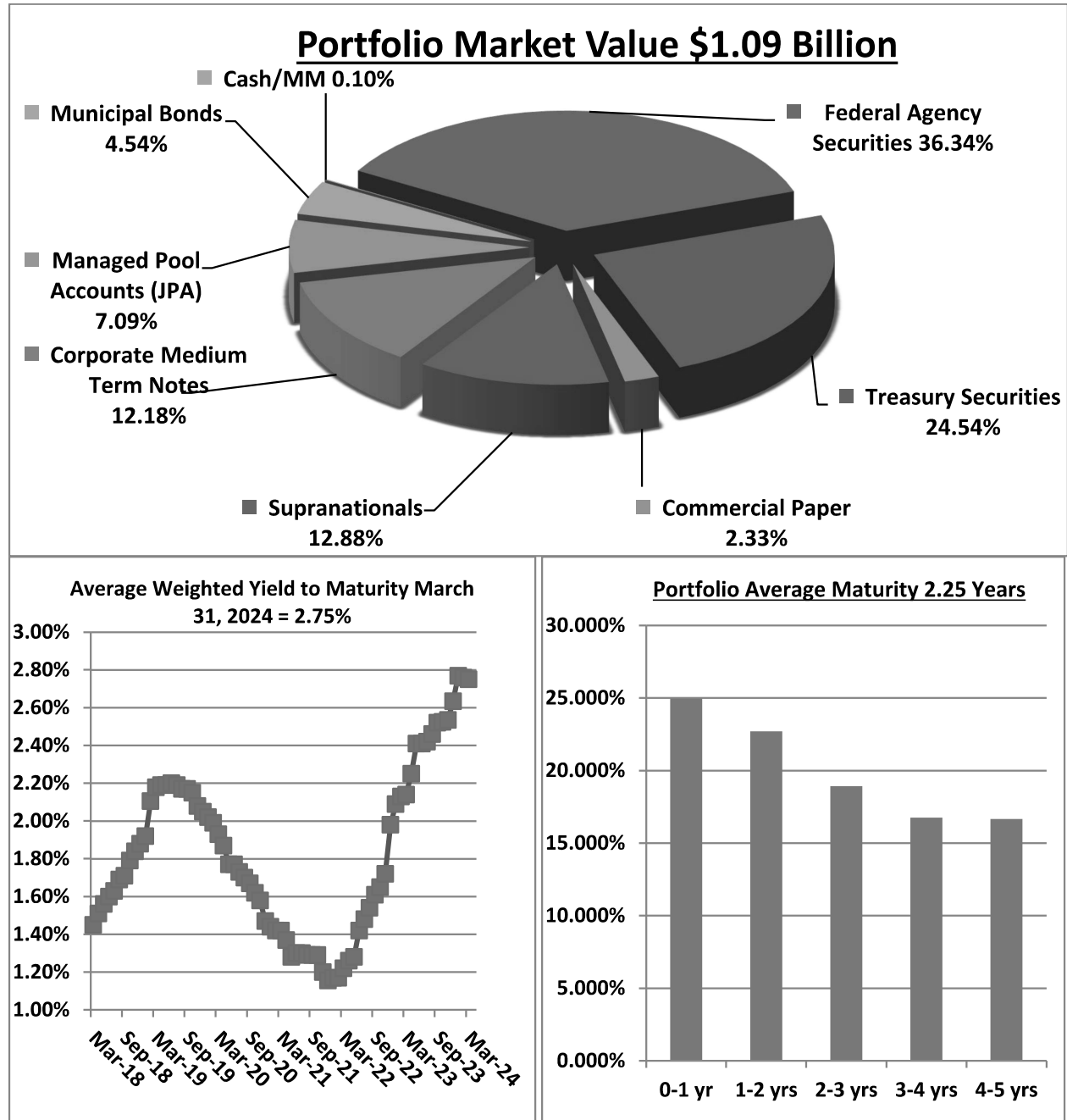
COMMISSION/BOARD/COMMITTEE RECOMMENDATION

At its regular meeting of June 12, 2024, the Investment Advisory Committee recommended that the City Council receive and file the Treasurer's Report for the quarter ended March 31, 2024 by a 3-2 vote (Committee Members Chung, Kan and Kandasamy approving; Committee Members Judd 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 four 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, Gateway Preserve Bond Portfolio, and Special District Funds Portfolio totaled \$44.87 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 March 31, 2024
2. Summary of Irvine Pooled Investment Portfolio by Fund



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

The City of Irvine maintains four investment portfolios, the Irvine Pooled Investment Portfolio, the Bond Proceeds Fund Portfolio, Gateway Preserve Fund Portfolio, and the Special District Funds Portfolio. As of the quarter ended, March 31, 2024, combined book value of the four portfolios totaled \$1.92 billion. This report provides detailed information of all four 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 March 31, 2024, the book value (purchase price of securities as recorded on the City's books) of the portfolio was \$1.12 billion and the average yield to maturity was 2.75 percent. Fiscal year to date investment revenue (interest payments and capital gains) generated by the portfolio as of March 31, 2024 was \$18.72 million. The table below compares the portfolio's statistics over a rolling 12-month period.

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

	March 31, 2024	December 31, 2023	September 30, 2023	June 30, 2023
Book Value	\$1,119,387,780	\$1,061,097,453	\$1,060,380,663	\$1,098,858,492
Market Value	\$1,088,790,615	\$1,033,917,036	\$1,012,304,922	\$1,050,924,019
Unrealized Gain/(Loss)	(\$30,597,166)	(\$27,180,417)	(\$48,075,741)	(\$47,934,473)
Unrealized Gain/(Loss) as % of Book Value	(2.73%)	(2.56%)	(4.53%)	(4.36%)
Average Yield to Maturity	2.75%	2.63%	2.52%	2.41%
Liquidity 0–6 Months	19.37%	16.11%	14.65%	14.11%
Weighted Average Maturity	2.25	2.12	2.16	2.23
Modified Duration (Years)	2.09	1.99	2.01	2.08
Quarterly Interest Earnings	\$7,836,388	\$5,794,482	\$5,088,235	\$4,708,140
Fiscal Year to Date Income	\$18,719,105	\$10,882,717	\$5,088,235	\$14,973,928

As anticipated, the Irvine Pooled Investment Portfolio's book value increased by \$58.29 million from the previous quarter due to a combination of the receipt of sales tax, developer fees and the transfer of funds from Bond Proceeds Fund Portfolio. The portfolio yield to maturity increased for the quarter ended March 31, 2024 by 12 basis points to 2.75 percent as maturing investments were reinvested into the higher rate environment. With market rates moving slightly higher during the quarter, as of March 31, 2024, the portfolio ended with an unrealized loss of \$30.60 million as compared to an unrealized loss of \$27.18 million December 31, 2023. This is a normal result of the portfolio's modified duration of 2.09 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.

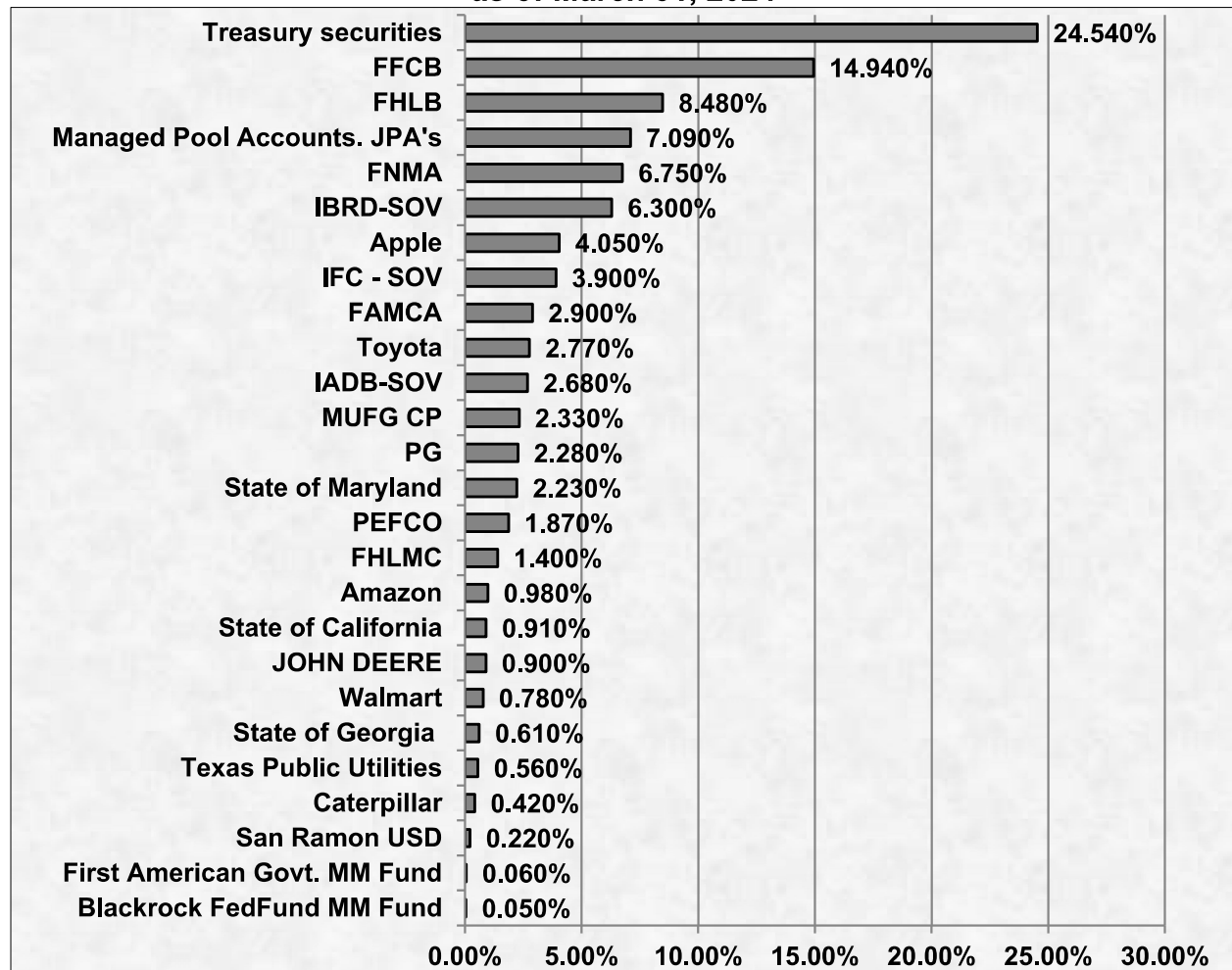
To manage liquidity, the Irvine Pooled Investment Portfolio is invested in Managed Pool Accounts (JPA), short-term Commercial Paper, Blackrock Fed Fund money market fund, and First American Government money market fund. Chart 1 shows the asset allocation of the portfolio.

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



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, 2024**



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, 2024, the overnight to 6-month liquidity level for the Irvine Pooled Investment Portfolio was 19.37 percent, and 25 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 March 31, 2024

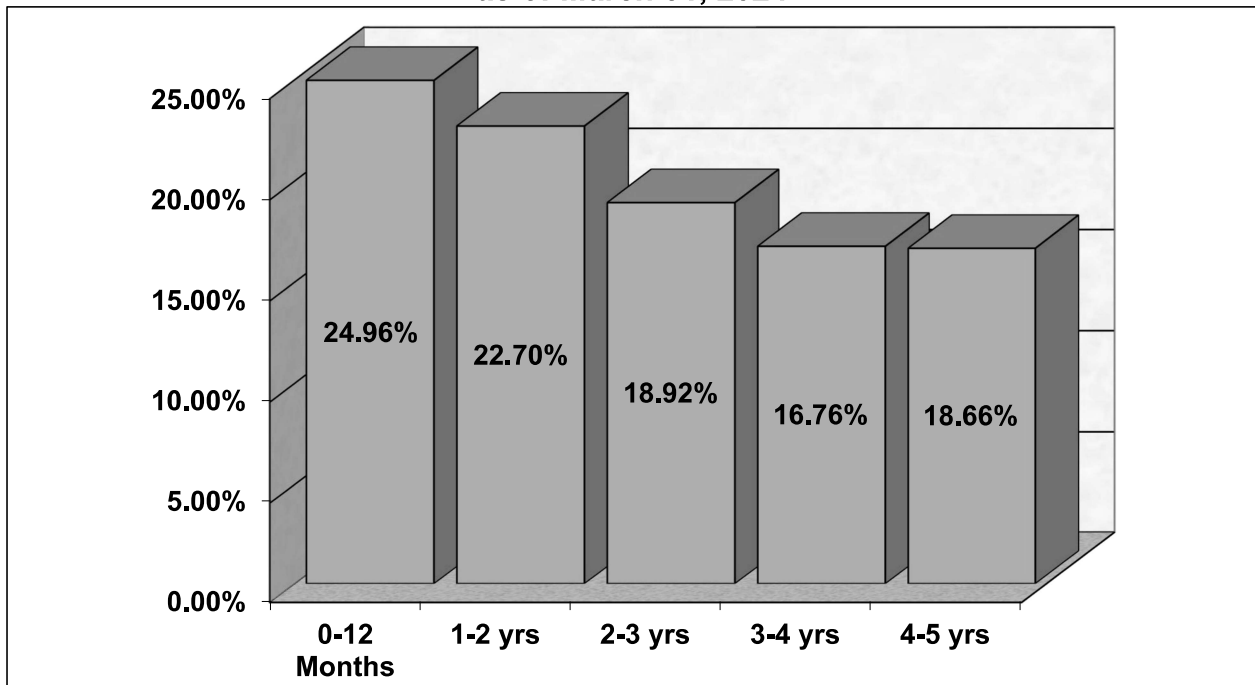
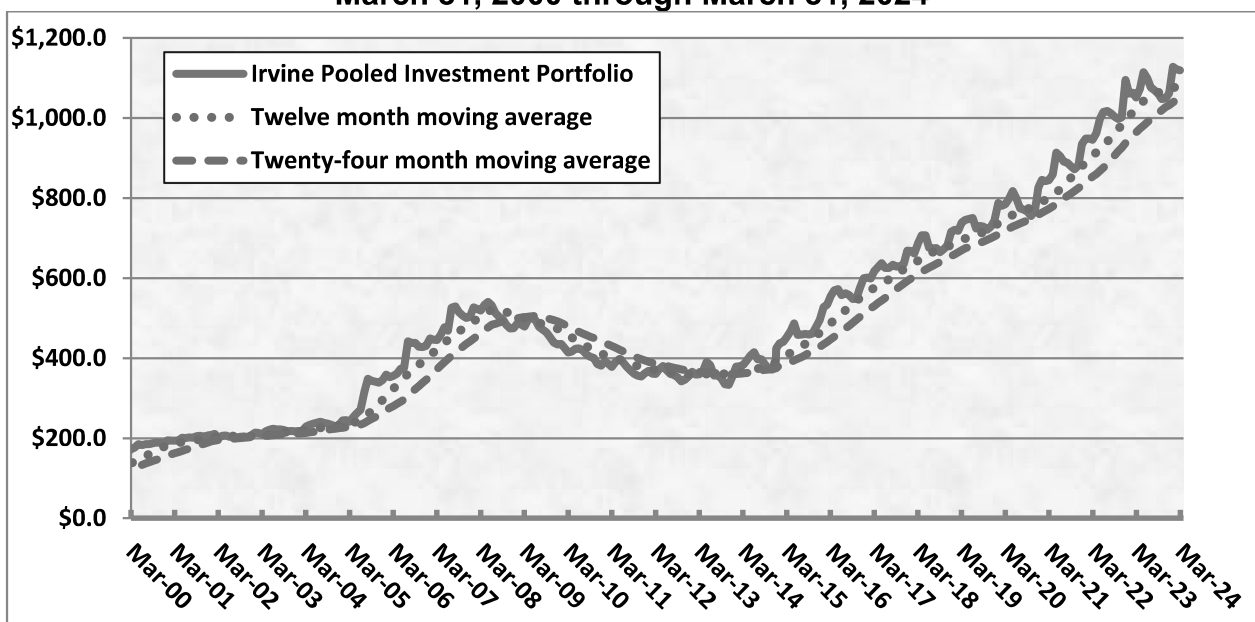
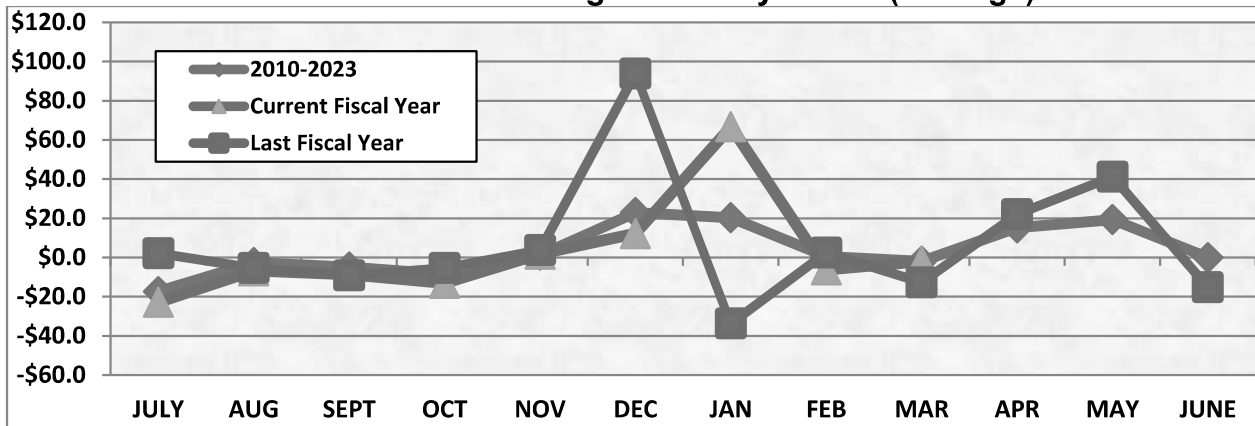


Chart 4 and Chart 5 show the volatility and cyclical nature of the Irvine Pooled Investment Portfolio fund balance and cash flows between 2000 and 2024.

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

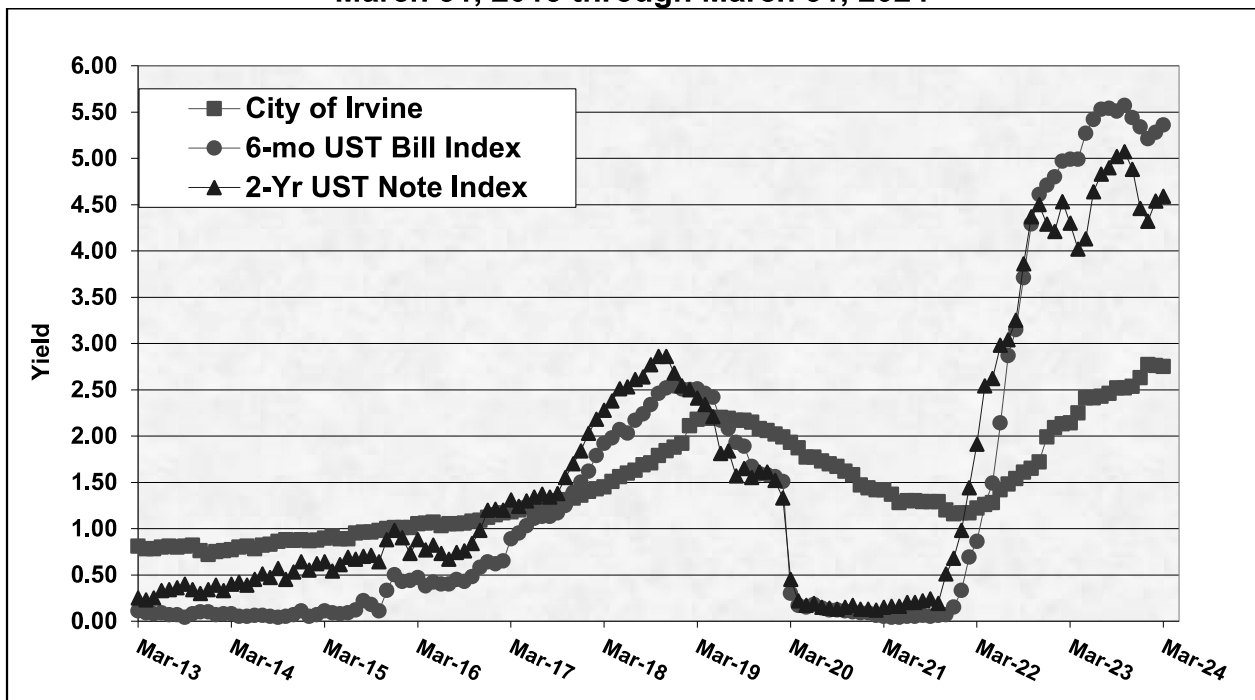


Irvine Pooled Investment Portfolio
Chart 5 – Balance Change Month by Month (Average)



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 2.61 percent and lower than the 2-year UST by 1.84 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
March 31, 2013 through March 31, 2024



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 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 March 31, 2024 is \$2.91 million.

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

	March 31, 2024	December 31, 2023	September 30, 2023	June 30, 2023
Book Value	\$50,838,296	\$102,824,026	\$68,523,880	\$68,308,623
Market Value	\$50,838,296	\$102,824,026	\$68,523,880	\$68,308,623
Unrealized Gain/(Loss)	\$0	\$0	\$0	\$0
Unrealized Gain/(Loss) as % of Book Value	0.00%	0.00%	0.00%	0.00%
Average Yield To Maturity	5.48%	5.56%	5.55%	5.27%
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	\$742,279	\$1,077,718	\$1,094,304	\$1,134,082
Fiscal Year to Date Income	\$2,914,301	\$2,172,022	\$1,094,304	\$1,895,170

Gateway Preserve Fund Portfolio

The Gateway Preserve Bond 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 Bond 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 Bond Portfolio as of March 31, 2024 is \$6.13 million.

**Gateway Preserve Fund Portfolio
 Rolling Quarterly Comparison**

	March 31, 2024	December 31, 2023	September 30, 2023	June 30, 2023
Book Value	\$74,417,660	\$74,986,363	\$306,145,876	\$301,913,895
Market Value	\$75,124,949	\$75,159,772	\$306,033,942	\$301,913,895
Unrealized Gain/(Loss)	\$707,289	\$173,409	(\$111,934)	\$0
Unrealized Gain/(Loss) as % of Book Value	0.95%	0.23%	-0.04%	0.00%
Average Yield to Maturity	5.12%	5.14%	5.28%	5.20%
Average Days to Maturity	258	245	95	1
Quarterly Interest Earnings	\$367,181	\$1,149,216	\$4,613,706	\$0
Fiscal Year to Date Income	\$6,130,103	\$5,762,922	\$4,613,706	0

Special District Funds Portfolio

The Special District Funds Portfolio contains project and reserve funds for 21 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 March 31, 2024 is \$17.11 million.

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

	March 31, 2024	December 31, 2023	September 30, 2023	June 30, 2023
Book Value	\$677,826,568	\$682,175,970	\$660,431,030	\$617,058,490
Market Value	\$684,754,687	\$687,834,219	\$660,901,917	\$617,088,967
Unrealized Gain/(Loss)	\$6,928,119	\$5,658,249	\$470,887	\$30,477
Unrealized Gain/(Loss) as % of Book Value	1.02%	0.83%	0.07%	0.00%
Average Yield To Maturity	4.97%	4.98%	5.32%	5.10%
Average Days To Maturity	133	170	243	5
Quarterly Interest Earnings	\$6,367,842	\$5,811,347	\$4,926,366	\$3,954,174
Fiscal Year to Date Income	\$17,105,555	\$10,737,713	\$4,926,366	\$6,823,279

Market Conditions

During the third quarter of FY 2023-24, interest rates increased across the entire yield curve. The Federal Reserve elected to hold the federal funds rate steady at its scheduled meetings on January 31, 2024, and March 20, 2024. During the quarter, the yield of the 6-month Treasury bill increased 7 basis points to 5.31 percent, the 2-year Treasury note increased 37 basis points to 4.62 percent, and the 5-year Treasury note increased by 36 basis points to 4.21 percent. The Local Agency Investment Fund (LAIF) daily rate increased from 3.96 percent to 4.27 percent during the quarter. The Joint Power Authority (JPA) daily rate at quarter end is 5.48 percent. The net effect to the Pooled Investment Portfolio was an increase in the unrealized market value loss to \$30.60 million from an unrealized market value loss of \$27.18 million as of December 31, 2023, which is in direct proportion to the stated duration of the portfolio, and the change in market yields.

The Federal Open Market Committee (FOMC) voted to hold rates steady at 5.25 percent to 5.5 percent at both its January 31, 2024 and March 20, 2024 meetings. The changes to the Summary of Economy Projections were mixed with year-end core Personal Consumption Expenditure (PCE) being revised up to 2.6 percent from 2.4 percent, and 2024 growth being revised up to 2.1 percent from 1.4 percent in December. The median dot still showed three rate cuts for this year, and one fewer cut for next year for a total of three cuts in 2025 and 2026. The first rate cut in 2024 is still expected to take place sometime this summer. During the press conference, Chairman Powell did not seem concerned about the elevated inflation prints in January and February, and the FOMC seems intent on starting to cut rates this year to ensure a soft-landing scenario.

The March Consumer Price Inflation (CPI) report came in stronger than expected, with many of the usual data points driving the bulk of this strength. Headline CPI rose 0.4 percent month over month (m/m) and 3.5 percent year over year (y/y), its fastest annual increase since September, while core CPI rose 0.4 percent m/m and 3.8 percent y/y.

Energy prices rose for a second consecutive month, supported by higher gasoline prices, while food inflation remained relatively benign. Elsewhere, lower vehicle prices offset a spike in apparel prices, allowing core goods disinflation to continue. Across core services, shelter and auto insurance, up 0.4 percent m/m and 2.6 percent m/m, respectively, remained problematic. Overall, stalling progress on disinflation limits the likelihood of a Fed rate cut in June, although underlying disinflationary trends should allow inflation to march lower over the course of this year.

The March Jobs report showed a very strong labor market, but not an inflationary one. Nonfarm payrolls rose by an impressive 303,000, handily beating expectations, while revisions to the prior two months added another 22,000 jobs. Most sectors added jobs this month, with the most outsized gains seen in government and health care. In the household survey, the labor force increased by 469 thousand, and the unemployment rate ticked down to 3.8 percent. Elsewhere, wage growth rose to 0.3 percent m/m and moderated to 4.1 percent y/y. Overall, strong labor supply gains, mainly fueled by immigration, should allow the U.S. economy to keep adding jobs at a robust pace without sparking inflationary pressures.

The fourth quarter 2023 earnings season closed, and the final estimate for operating earnings per share (EPS) is \$53.91. This represents y/y earnings growth of 7 percent and q/q growth of 3.2 percent. Corporate profits ended 2023 on a high note, as economic activity remained resilient. Across sectors, information technology and communication services both had strong quarters, while lower oil and natural gas prices weighed on the energy sector. Looking forward, downbeat forward guidance from management teams could weigh on consensus estimates for earnings growth in 2024.

In conclusion, risks to the economy, bond market, equity market are predicated on significant geo-political turmoil, weakening consumer spending power, and tight financial conditions. The City of Irvine will continue to maximize the duration of its portfolio by utilizing high quality investments within the guidelines of anticipated cashflows, 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 March 31, 2024

General Reserve Funds	\$ 232,643,716
Special Revenue Funds:	
Orange County Great Park	279,338,651
Local Park Fees	149,926,947
County Sales Tax Measure M	7,889,995
State Gasoline Tax	33,345,444
Systems Development	11,094,990
Maintenance District	5,243,454
Air Quality Improvement	879,213
OCFA Settlement Agreement	436,824
Major Special Events	409,407
iShuttle	551,404
Fees and Exactions	11,113,781
Grants	9,923,526
Gateway Preserve	(277,465)
Hotel Improvement District	1,338,051
Total	<u><u>511,214,224</u></u>
Debt Service Funds:	
Irvine Public Facilities and Infrastructure Authority	(2,130)
Total	<u><u>(2,130)</u></u>
Capital Projects Funds:	
Orange County Great Park Development	15,530,454
Community Facilities Districts	(2,987,426)
Slurry Seal Fees	1,473,631
Park Development	49,538,415
Capital Improvement Projects	39,840,280
Assessment District Fund	3,783,657
Irvine Business Complex	121,592,441
North Irvine Transportation Mitigation	95,987,953
Total	<u><u>324,759,404</u></u>
Permanent Fund:	
Senior Services	413,920
Senior Services Endowments	500,000
Total	<u><u>913,920</u></u>
Internal Service Funds:	
Self-Insurance	17,813,695
Equipment and Services	28,211,670
Inventory	66,532
Total	<u><u>46,091,897</u></u>
Fiduciary Funds:	
Successor Agency Debt Service	(6,893)
Redevelopment Obligation Retirement	-
Custodial Funds	3,774,642
Total	<u><u>3,767,750</u></u>
Total Pooled Investments at March 31, 2024	<u><u>\$ 1,119,388,780</u></u>

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

* Balances are not audited