



REQUEST FOR CITY COUNCIL ACTION

MEETING DATE: MARCH 12, 2024

TITLE: TREASURER'S REPORT FOR QUARTER ENDED
DECEMBER 31, 2023

Director of Administrative Services

City Manager

RECOMMENDED ACTION

Receive and file the Treasurer's Report for the quarter ended December 31, 2023.

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 December 31, 2023. 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 December 31, 2023. 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.

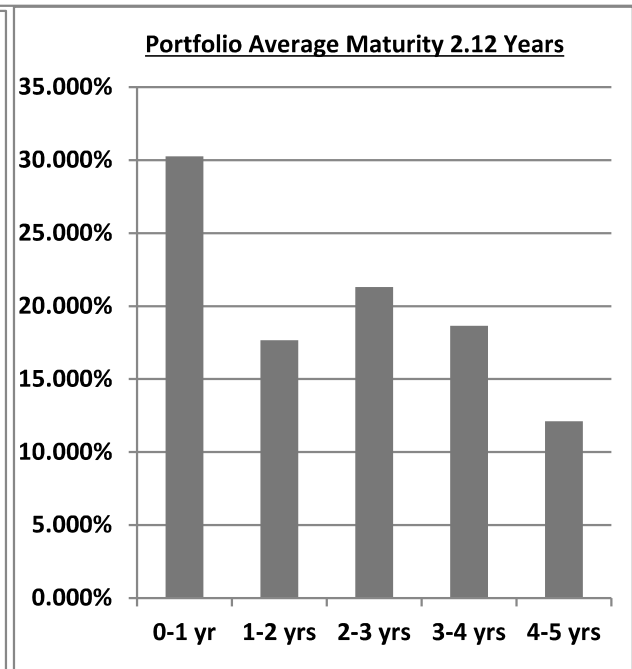
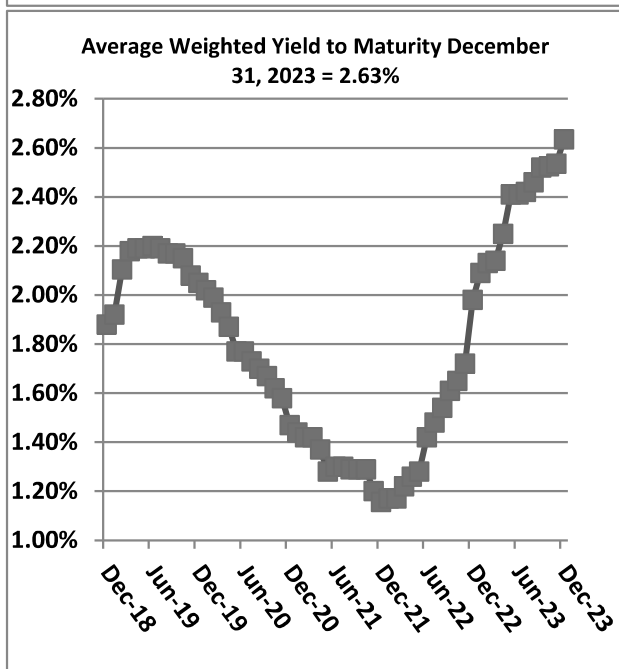
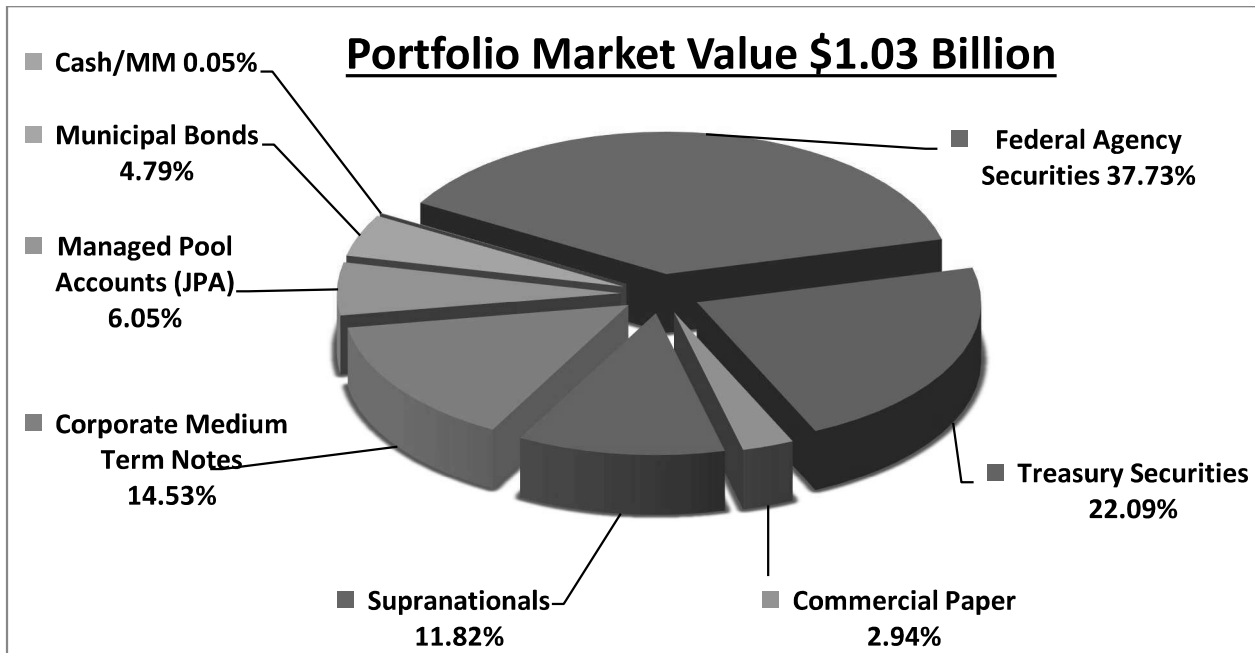
As of December 31, 2023, the City's investment portfolios are in full compliance with the City's Investment Policy, the California Government Code Section 53601, and have sufficient cash flow from a combination of liquid and maturing securities, bank deposits, and income to meet the City's expenditure requirements.

COMMISSION/BOARD/COMMITTEE RECOMMENDATION

At its regular meeting of February 14, 2024, the Investment Advisory Committee recommended that the City Council receive and file the Treasurer's Report for the quarter ended December 31, 2023 by a 4-1 (Vice Chair 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 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 \$29.56 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, 2023
2. Summary of Irvine Pooled Investment Portfolio by Fund



**CITY OF IRVINE
TREASURER'S REPORT
For Quarter Ended December 31, 2023**

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, December 31, 2023, 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 December 31, 2023, the book value (purchase price of securities as recorded on the City's books) of the portfolio was \$1.06 billion and the average yield to maturity was 2.63 percent. Fiscal year to date investment revenue (interest payments and capital gains) generated by the portfolio as of December 31, 2023 was \$10.88 million. The table below compares the portfolio's statistics over a rolling 12-month period.

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

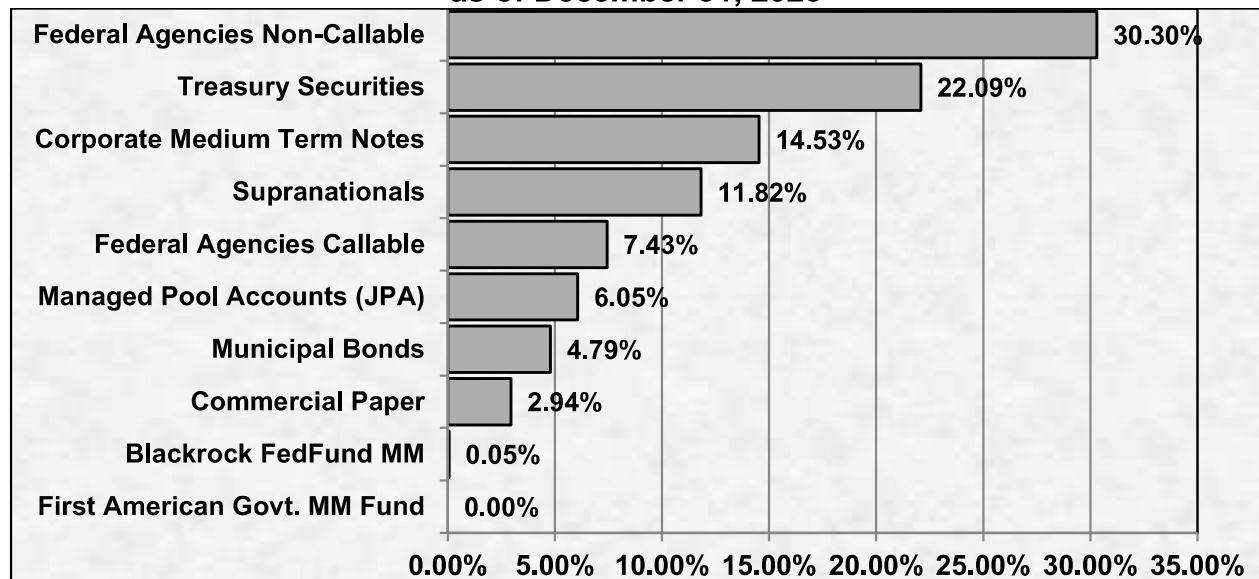
	December 31, 2023	September 30, 2023	June 30, 2023	March 31, 2023
Book Value	\$1,061,097,453	\$1,060,380,663	\$1,098,858,492	\$1,050,662,874
Market Value	\$1,033,917,036	\$1,012,304,922	\$1,050,924,019	\$1,011,013,947
Unrealized Gain/(Loss)	(\$27,180,417)	(\$48,075,741)	(\$47,934,473)	(\$39,648,927)
Unrealized Gain/(Loss) as % of Book Value	-2.56%	-4.53%	-4.36%	-3.77%
Average Yield To Maturity	2.63%	2.52%	2.41%	2.14%
Liquidity 0–6 Months	16.11%	14.65%	14.11%	11.16%
Weighted Average Maturity	2.12	2.16	2.23	2.32
Modified Duration (Years)	1.99	2.01	2.08	2.19
Quarterly Interest Earnings	\$5,794,482	\$5,088,235	\$4,708,140	\$4,008,636
Fiscal Year to Date Income	\$10,882,717	\$5,088,235	\$14,973,928	\$10,265,788

As anticipated, the Irvine Pooled Investment Portfolio's book value increased by \$716,790 from the previous quarter due to a combination of the receipt of property taxes, sales tax, and developer fees. Portfolio yield to maturity increased for the quarter ended December 31, 2023 by 11 basis points to 2.63 percent as maturing investments were reinvested into the higher rate environment. With market rates moving lower during the quarter, as of December 31, 2023, the portfolio ended with an unrealized loss of \$27.18 million as compared to an unrealized loss of \$48.08 million September 30, 2023. This is a normal result of the portfolio's modified duration of 1.99 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.

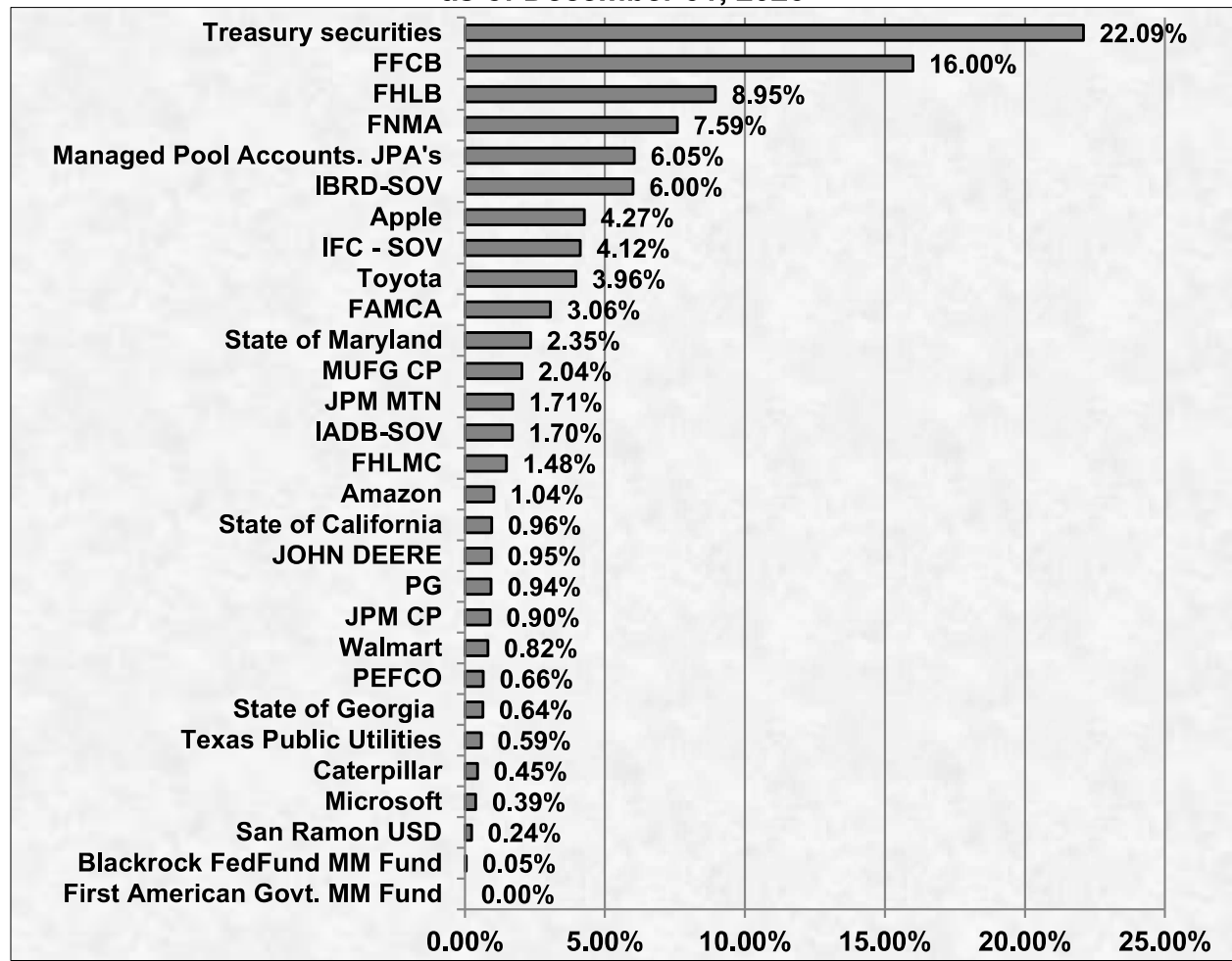
To manage liquidity, the Irvine Pooled Investment Portfolio is invested in Managed Pool Accounts (JPA), short-term Commercial Paper, Blackrock Fed Fund money market fund, and First American Government money market fund. Chart 1 shows the asset allocation of the portfolio.

Irvine Pooled Investment Portfolio
Chart 1 - Asset Allocation
as of December 31, 2023



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 December 31, 2023**



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, 2023, the overnight to 6-month liquidity level for the Irvine Pooled Investment Portfolio was 16.11 percent, and 30.26 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, 2023

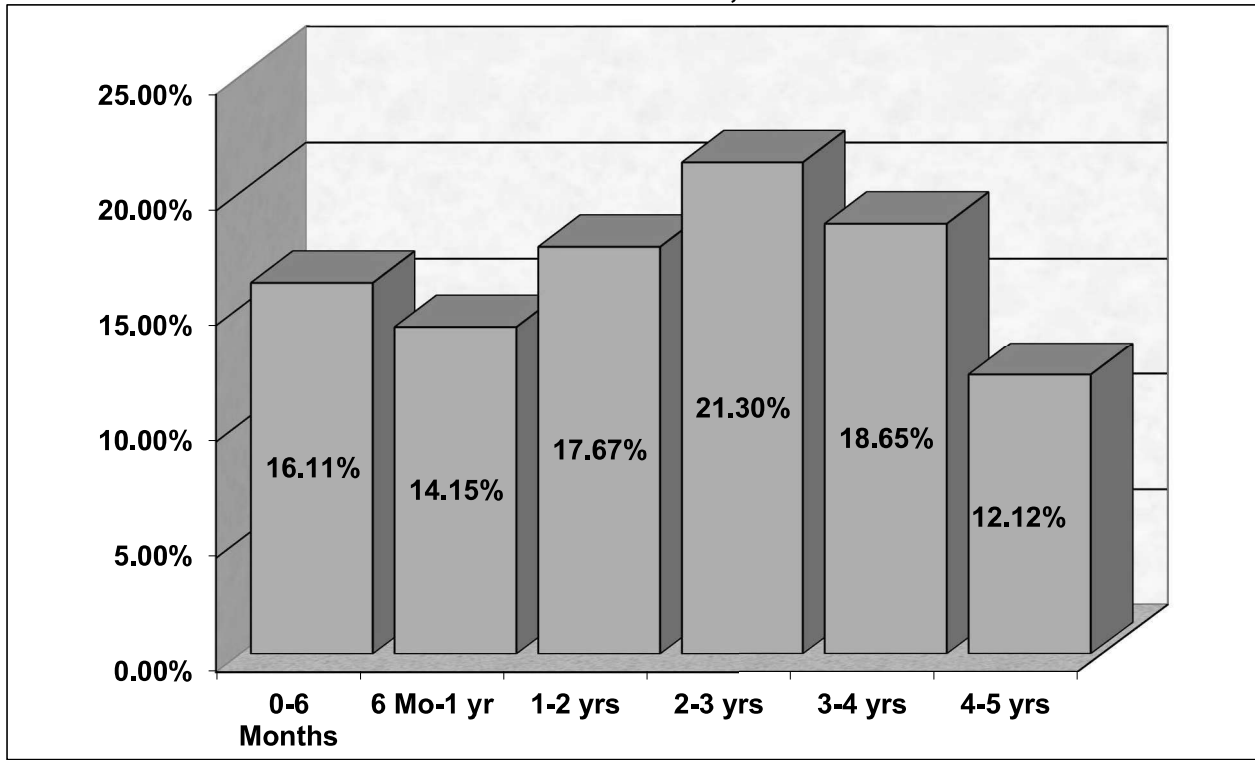
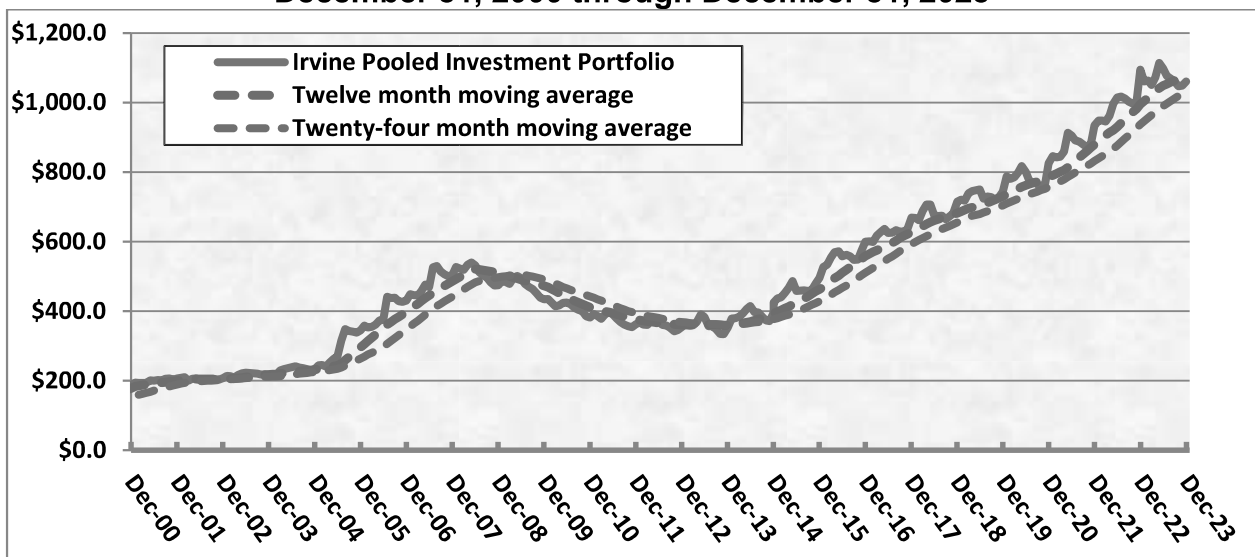
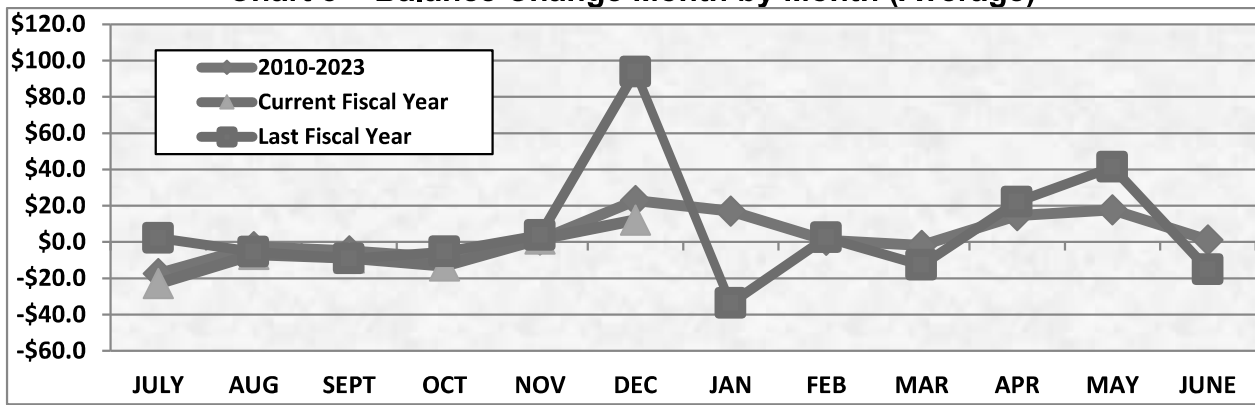


Chart 4 and Chart 5 show the volatility and cyclicalty of the Irvine Pooled Investment Portfolio fund balance and cash flows between 2000 and 2023.

Irvine Pooled Investment Portfolio
Chart 4 - Portfolio Balance
December 31, 2000 through December 31, 2023

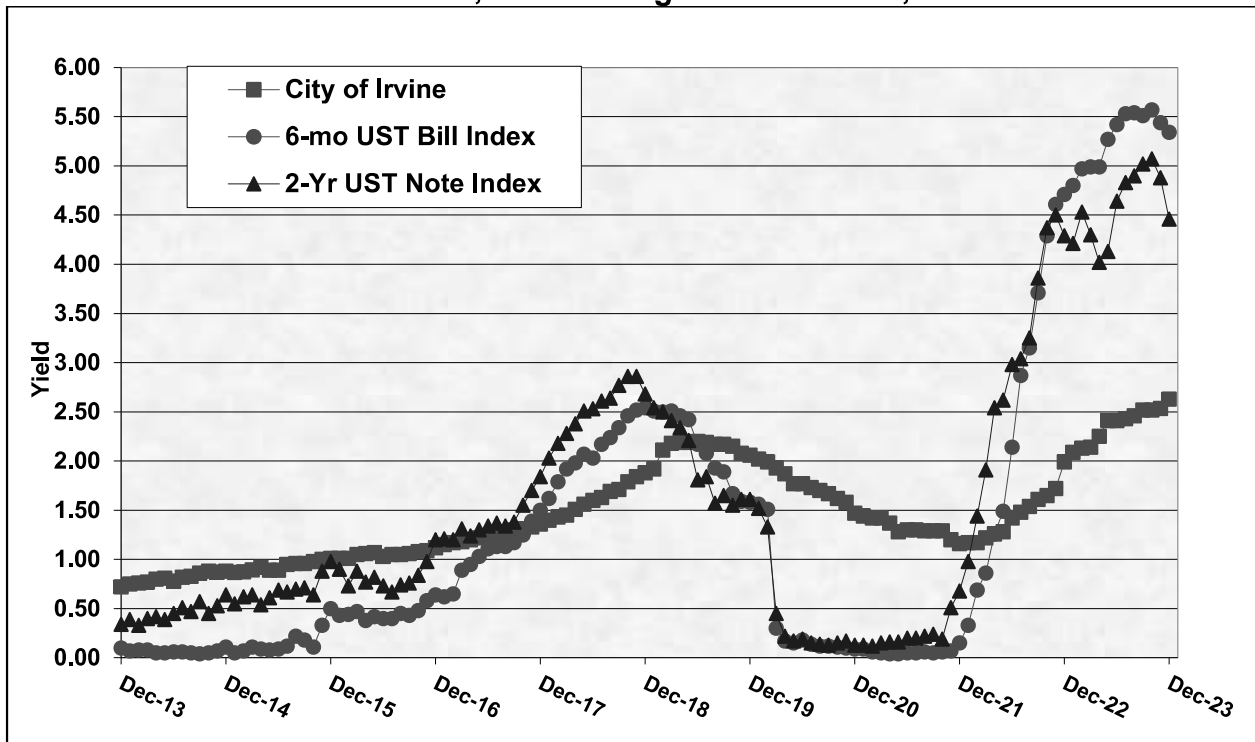


Irvine Pooled Investment Portfolio
Chart 5 – Balance Change Month by Month (Average)



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 2.71 percent and lower than the 2-year UST by 1.83 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, 2013 through December 31, 2023



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 December 31, 2023 is \$2.17 million.

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

	December 31, 2023	September 30, 2023	June 30, 2023	March 31, 2023
Book Value	\$102,824,026	\$68,523,880	\$68,308,623	\$68,641,000
Market Value	\$102,824,026	\$68,523,880	\$68,308,623	\$67,715,055
Unrealized Gain/(Loss)	\$0	\$0	\$0	(\$925,945)
Unrealized Gain/(Loss) as % of Book Value	0.00%	0.00%	0.00%	(1.35%)
Average Yield to Maturity	5.56%	5.55%	5.27%	2.88%
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	\$1,077,718	\$1,094,304	\$1,134,082	\$388,618
Fiscal Year to Date Income	\$2,172,022	\$1,094,304	\$1,895,170	\$761,088

Gateway Preserve Fund Portfolio

The Gateway Preserve Bond Portfolio contains funds for the procurement 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 December 31, 2023 is \$5.76 million.

**Gateway Preserve Fund Portfolio
Rolling Quarterly Comparison**

	December 31, 2023	September 30, 2023	June 30, 2023
Book Value	\$74,986,363	\$306,145,876	\$301,913,895
Market Value	\$75,159,772	\$306,033,942	\$301,913,895
Unrealized Gain/(Loss)	\$173,409	(\$111,934)	\$0
Unrealized Gain/(Loss) as % of Book Value	0.23%	-0.04%	0.00%
Average Yield to Maturity	5.14%	5.28%	5.20%
Average Days to Maturity	254	95	1
Quarterly Interest Earnings	\$1,149,216	\$4,616,706	\$0
Fiscal Year to Date Income	\$5,762,922	\$4,616,706	\$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 December 31, 2023 is \$10.74 million.

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

	December 31, 2023	September 30, 2023	June 30, 2023	March 31, 2023
Book Value	\$682,175,970	\$660,431,030	\$617,058,490	\$169,532,745
Market Value	\$687,834,219	\$660,901,917	\$617,088,967	\$169,672,464
Unrealized Gain/(Loss)	\$5,658,249	\$470,887	\$30,477	\$139,719
Unrealized Gain/(Loss) as % of Book Value	0.83%	0.07%	0.00%	0.08%
Average Yield to Maturity	4.98%	5.32%	5.10%	4.43%
Average Days to Maturity	170	243	5	22
Quarterly Interest Earnings	\$5,811,347	\$4,926,366	\$3,954,174	\$1,383,263
Fiscal Year to Date Income	\$10,737,713	\$4,926,366	\$6,823,279	\$2,869,104

Market Conditions

During the second quarter of FY 2023-24, interest rates declined across the entire yield curve. The Federal Reserve elected to hold the federal funds rate steady at its scheduled meetings on November 1, 2023, and December 13, 2023. During the quarter, the yield of the 6-month Treasury bill decreased 29 basis points to 5.24 percent, the 2-year Treasury note decreased 79 basis points to 4.25 percent, and the 5-year Treasury note decreased by 76 basis points to 3.84 percent. The Local Agency Investment Fund (LAIF) daily rate increased from 3.50 percent to 3.96 percent during the quarter. The Joint Power Authority (JPA) daily rate at quarter end is 5.56 percent. The net effect to the Pooled Investment Portfolio was a decrease in the unrealized market value loss to \$27.18 million from an unrealized market value loss of \$48.08 million as of September 30, 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 leave the federal funds rate unchanged at a range of 5.25 percent to 5.5 percent at both the November and December meetings while strongly hinting that rates here at their cycle peak. The median FOMC member now expects three rate cuts next year to 4.60 percent, an extra cut compared to the September dot plot. Moreover, updates to the Summary of Economic Projections showed lower inflation forecasts for 2023, 2024 and 2025 without material revisions to the growth or employment forecasts, suggesting that the Fed is forecasting a soft landing. In the press conference, Fed Chairman Powell did not push back against easing financial conditions or the idea of rate cuts, as he has done in the past, and forward guidance was decisively dovish. Looking ahead, the next policy move will likely be a cut next year.

The November Consumer Price Index report (CPI) provided further evidence that inflation is trending back to target. Headline CPI rose 0.1 percent month over month (m/m) and 3.1 percent year over year (y/y) in November, slightly above consensus but down from October, while core CPI rose 0.3 percent m/m and 4 percent y/y. In the details, a sharp decline in energy prices helped alleviate pressure in the headline figure. Core inflation was supported by gains in auto insurance and shelter prices, but forward-looking rent and

auto prices suggest a trend lower ahead. Elsewhere, the Personal Consumption Expenditures Price Index (PCE) price index showed further progress on inflation. Headline PCE fell by 0.1 percent m/m and rose 2.6 percent y/y, while the core measure gained 0.1 percent m/m and 3.2 percent y/y. While the CPI report was slightly stronger than expected, recent data confirms that inflation is moving in the right direction and may reach the Fed's target by mid-2024.

The December Jobs report showed stronger than expected job gains to end 2023, but the underlying details suggested more weakness than meets the eye. Nonfarm payrolls rose by 216,000, handily beating expectations, although downward revisions removed 71 thousand in gains from the prior two months. In the household survey, the unemployment rate remained at 3.7 percent. However, a 676,000 decline in the labor force and 683,000 thousand decline in the number of employed persons pointed to a lack of momentum. Wage growth came in above expectations, rising by 0.4 percent m/m and 4.1 percent y/y. While strong at the headline level, this report showed slower than expected labor market momentum and stalling progress on wage growth, challenging the "goldilocks" narrative of both strong economic growth and lower inflation.

The third quarter of 2023 earnings season is now complete and the final estimate for operating earnings per share (EPS) is \$52.23, which represents y/y earnings growth of 3.7 percent and a quarter over quarter decline of 4.8 percent. Revenue growth has been the largest contributor to earnings, adding 4 percent, while contracting margins pared back gains. Across sectors, energy has been the largest detractor, while consumer discretionary has been the largest contributor. Management commentary was relatively downbeat, painting a picture of a more challenged business environment ahead.

The U.S. economy grew at an impressive 4.9 percent annualized rate in third quarter of 2023, a sharp acceleration compared to last quarter. Many of the underlying details looked strong, as consumption, private inventories, single-family homebuilding and government spending all contributed to growth. On the other hand, weaker equipment spending helped pare back gains. While the continued resilience of the U.S. economy is welcomed, this strength will be difficult to maintain. In the months ahead, a weaker consumer, tighter financial conditions and slower business spending should weigh on growth.

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 December 31, 2023

General Reserve Funds	\$ 1,010,437,843
Special Revenue Funds:	
Orange County Great Park	18,241,362
Local Park Fees	849,411
County Sales Tax Measure M	1,324,090
State Gasoline Tax	2,935,722
Systems Development	1,757,266
Maintenance District	6,415,039
Air Quality Improvement	10,114
OCFA Settlement Agreement	(154,123)
Major Special Events	254,112
iShuttle	3,317
Fees and Exactions	163,182
Grants	2,552,589
Gateway Preserve	(152,172)
Hotel Improvement District	276,815
Total	<u><u>34,476,724</u></u>
Debt Service Funds:	
Irvine Public Facilities and Infrastructure Authority	-
Total	<u><u>-</u></u>
Capital Projects Funds:	
Orange County Great Park Development	(389,140)
Community Facilities Districts	(4,795,187)
Slurry Seal Fees	(2,179,572)
Park Development	(4,644,037)
Capital Improvement Projects	(5,317,996)
Assessment District Fund	2,496,602
Irvine Business Complex	530,209
North Irvine Transportation Mitigation	(242,516)
Total	<u><u>(14,541,637)</u></u>
Permanent Fund:	
Senior Services	(4,389)
Senior Services Endowments	500,000
Total	<u><u>495,611</u></u>
Internal Service Funds:	
Self-Insurance	665,494
Equipment and Services	(1,706,670)
Inventory	(8,968)
Total	<u><u>(1,050,143)</u></u>
Fiduciary Funds:	
Successor Agency Debt Service	9,353
Redevelopment Obligation Retirement	-
Custodial Funds	31,269,702
Total	<u><u>31,279,055</u></u>
Total Pooled Investments at December 31, 2023	<u><u>\$ 1,061,097,453</u></u>

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

* Balances are not audited