REQUEST FOR CITY COUNCIL ACTION

MEETING DATE: OCTOBER 27, 2020

TITLE: TREASURER'S REPORT FOR THE FISCAL YEAR ENDED JUNE 30, 2020

Director of Financial Management and Strategic Planning

Marianna Marysheva
Interim City Manager

RECOMMENDED ACTION

Receive and file the Treasurer's Report for the fiscal year ended June 30, 2020.

EXECUTIVE SUMMARY

The Treasurer's Report (Attachment 1) provides a synopsis of investment activity for the City's three investment portfolios for the fiscal year ended June 30, 2020. 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 $1.14 billion as of June 30, 2020. 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.

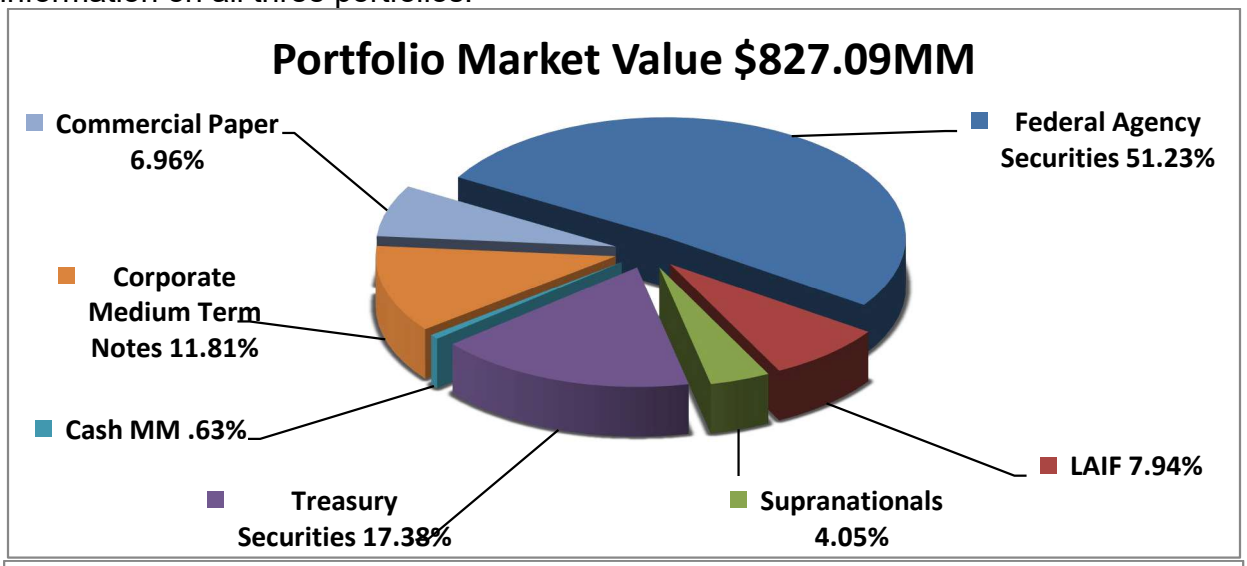
As of June 30, 2020, the City's investment Portfolios are in full compliance with the City's Investment Policy, the California Government Code Section 53601, and have sufficient cash flow from a combination of liquid and maturing securities, bank deposits, and income to meet the City's expenditure requirements.

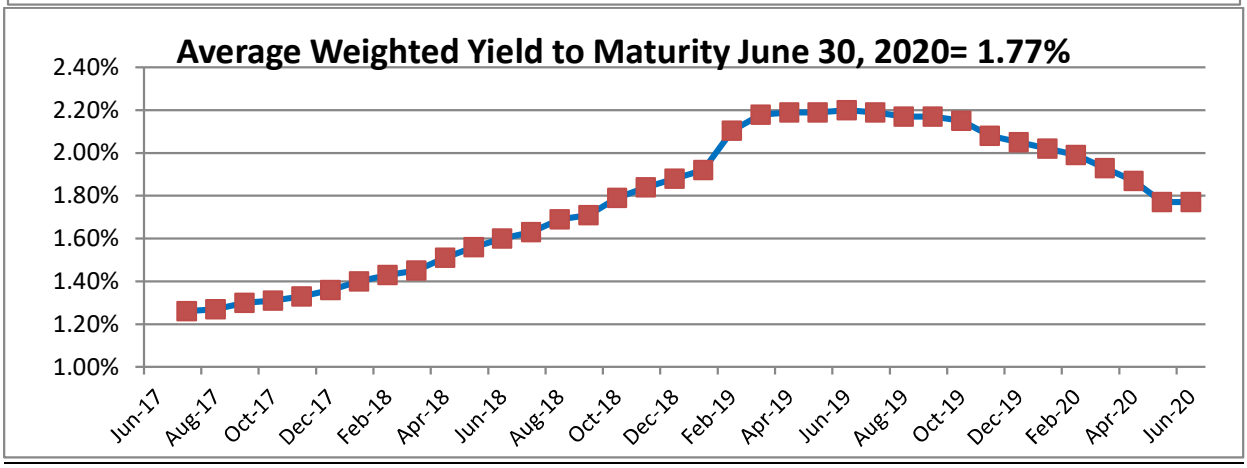
COMMISSION/BOARD/COMMITTEE RECOMMENDATION

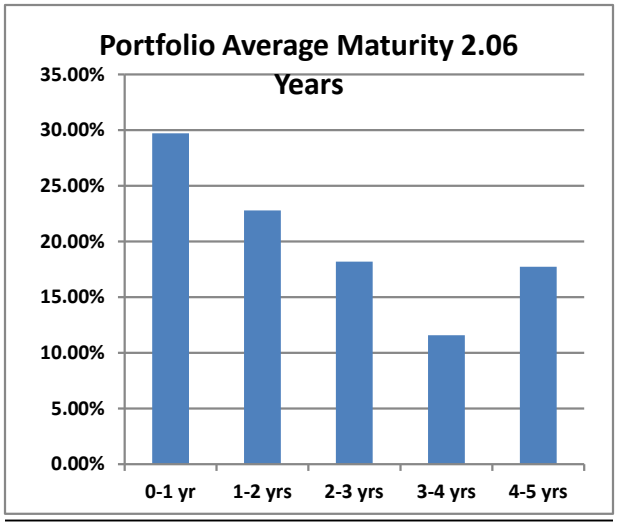
At its regular meeting of August 12, 2020, the Investment Advisory Committee recommended that the City Council receive and file the Treasurer's Report for the quarter ended June 30, 2020 by a 5-0 vote. At its regular meeting of September 21, 2020, the Finance Commission recommended that the City Council receive and file the Treasurer's Report for the quarter ended June 30, 2020 by a 5-0 vote.

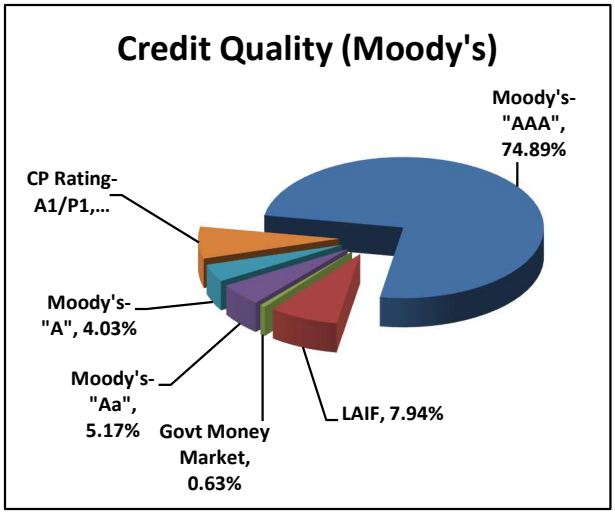
ANALYSIS

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.

FINANCIAL IMPACT

Fiscal year-to-date investment income for the Irvine Pooled Investment Portfolio, Bond Proceeds Funds Portfolio, and Special Districts Funds Portfolio totaled $20.26 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 June 30, 2020
2. Summary of Irvine Pooled Investment Portfolio by Fund

CITY OF IRVINE
TREASURER'S REPORT
For Fiscal Year Ended June 30, 2020

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 fiscal year ended June 30, 2020, combined market value of the three portfolios totaled $1.16 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 June 30, 2020, the book value (purchase price of securities as recorded on the City's books) of the portfolio was $799.79 million and the average yield to maturity was 1.77 percent. Fiscal year to date investment revenue (interest payments and capital gains) generated by the portfolio as of June 30, 2020 was $15.23 million. The spreadsheet below compares the portfolio's statistics over a rolling 12-month period.

Irvine Pooled Investment Portfolio
Rolling 12-Month Quarterly Comparison

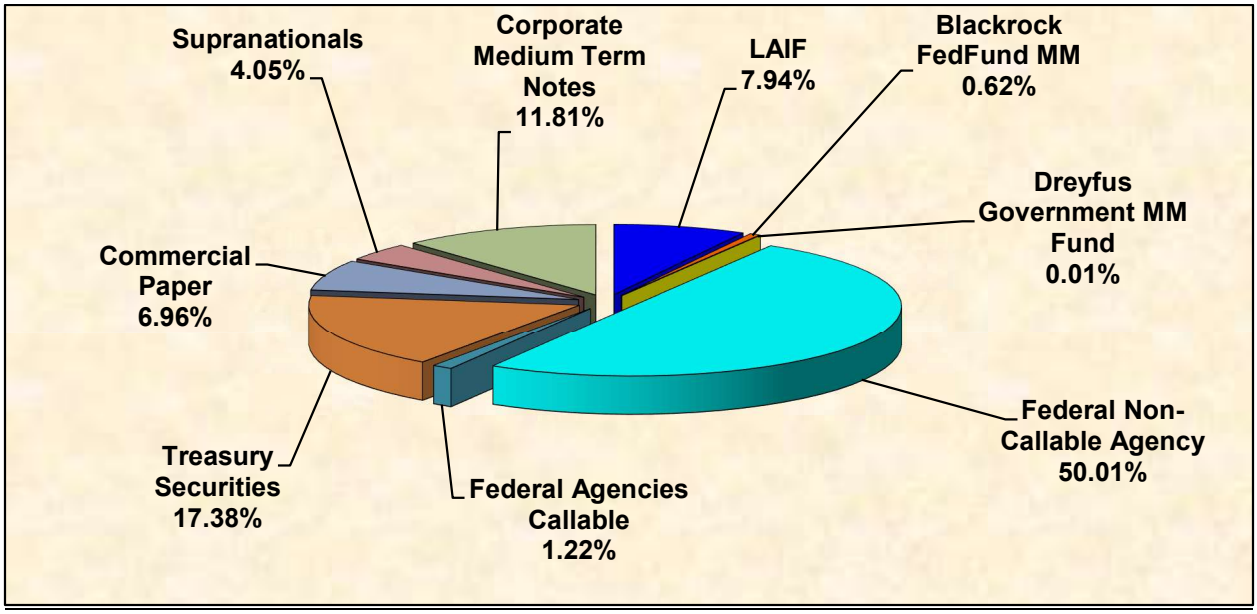
	June 30, 2020	March 31, 2020	December 31, 2019	September 30, 2019
Book Value	$799,798,050	$784,876,726	$743,298,891	$728,402,898
Market Value	$827,088,345	$810,207,849	$752,173,155	$737,790,106
Unrealized Gain/(Loss)	$27,290,295	$25,331,123	$8,874,264	$9,387,208
Unrealized Gain/(Loss) as % of Book Value	3.41%	3.23%	1.19%	1.29%
Average Yield To Maturity	1.77%	1.93%	2.06%	2.17%
Liquidity 0–6 Months	21.04%	19.78%	15.45%	19.80%
Weighted Average Maturity	2.06	2.10	2.35	2.12
Modified Duration (Years)	2.02	2.06	2.26	2.05
Quarterly Interest Earnings	$3,122,477	$4,273,705	$3,851,982	$3,979,848
Fiscal Year to Date Income	$15,228,013	$12,105,536	$7,831,831	$3,979,848

As anticipated, the Irvine Pooled Investment Portfolio's book value increased by $14.92 million from the previous quarter due to the receipt of property taxes, vehicle license fees, developer fees and successor agency funds. Portfolio yield to maturity decreased for the quarter ended June 30, 2020 by 16 basis points to 1.77 percent. With market rates continuing to decline during the quarter, as of June 30, 2020, the portfolio ended with an unrealized gain of $27.29 million as compared to an unrealized gain of $25.33 million on March 31, 2020. This is a normal result of the portfolio's modified duration of 2.02 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 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.

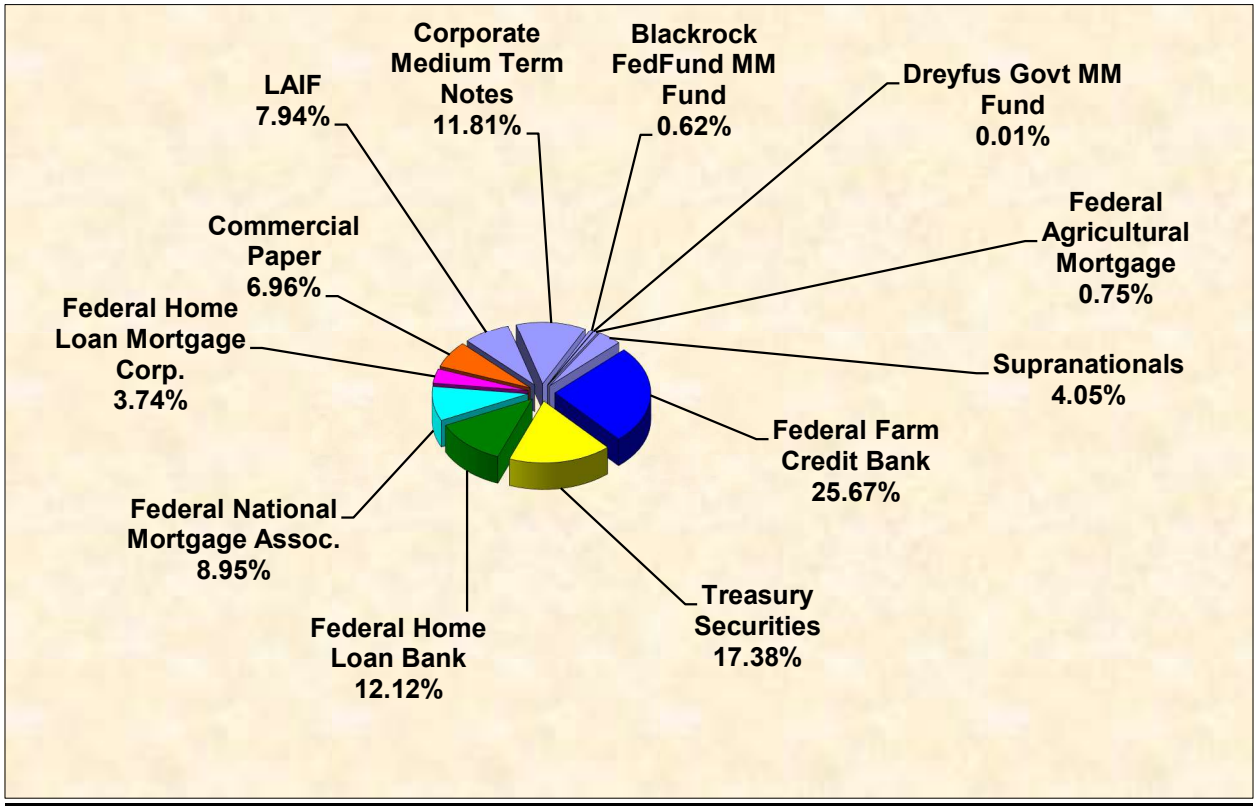
To manage liquidity, the Irvine Pooled Investment Portfolio is invested in Local Agency Investment Funds (LAIF), Dreyfus Government money market fund, Blackrock FedFund money market fund and short-term Commercial Paper. Chart 1 shows the asset allocation of the portfolio.

Irvine Pooled Investment Portfolio
Chart 1 - Asset Allocation
as of June 30, 2020



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 June 30, 2020



Another key component in portfolio management is to ensure that the City has enough funds on hand to meet current expenses. As of June 30, 2020, the overnight to 6-month liquidity level for the Irvine Pooled Investment Portfolio was 21.04 percent. 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 June 30, 2020

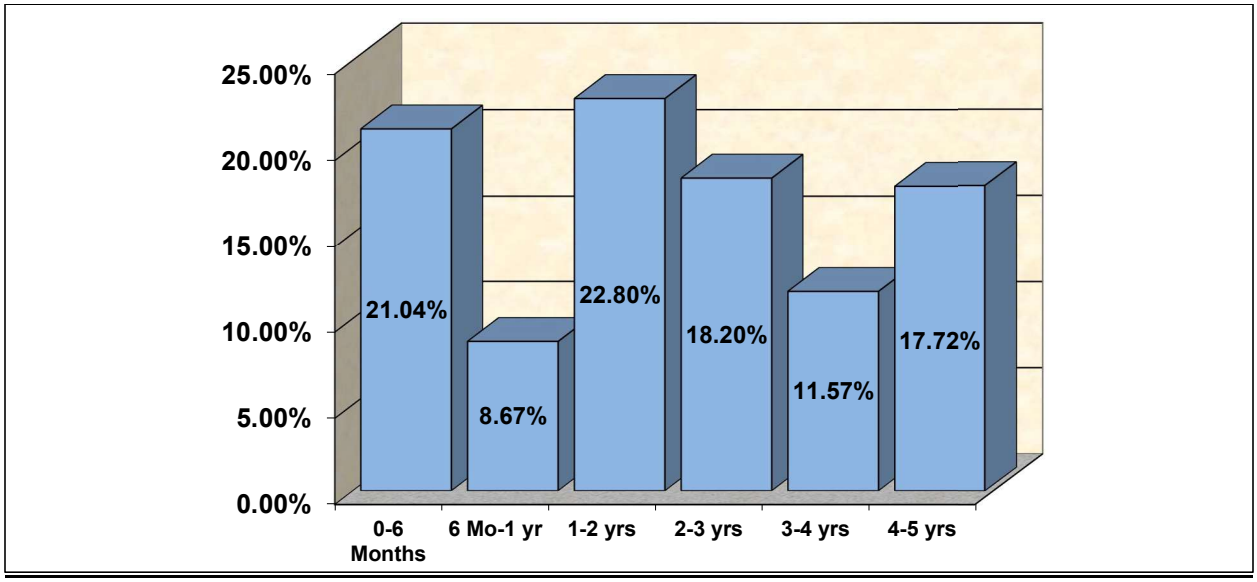
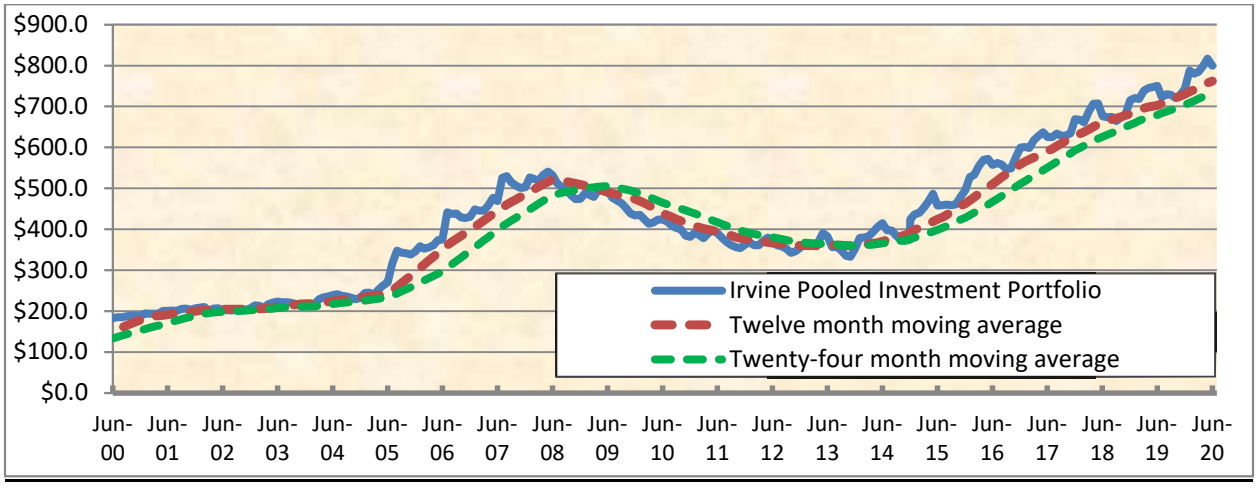
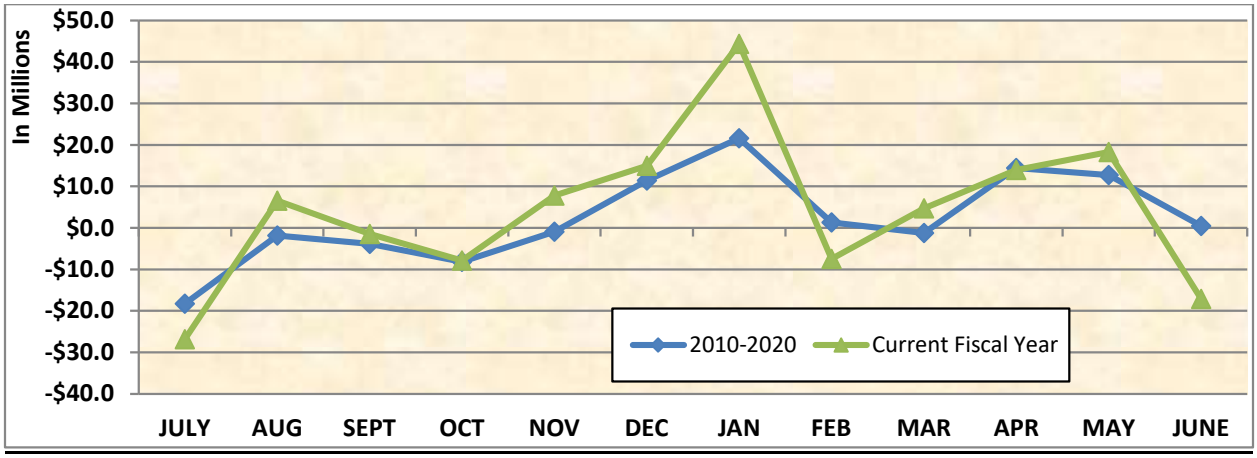


Chart 4 and Chart 5 show the volatility and cyclicality of the Irvine Pooled Investment Portfolio fund balance and cash flows between 2000 and 2020. As noted in chart 5, the portfolio experienced above average outflows in July due to the prepayment of CalPERS pension liability for Fiscal Year 2019-20, and higher than average expenses related to capital projects. January's above average inflow was due to higher than average Successor Agency funds received. The above normal outflow in June can be attributed to lower than budgeted offsetting revenues due to the recent economic downturn.

Irvine Pooled Investment Portfolio
Chart 4 - Portfolio Balance
June 30, 2008 through June 30, 2020

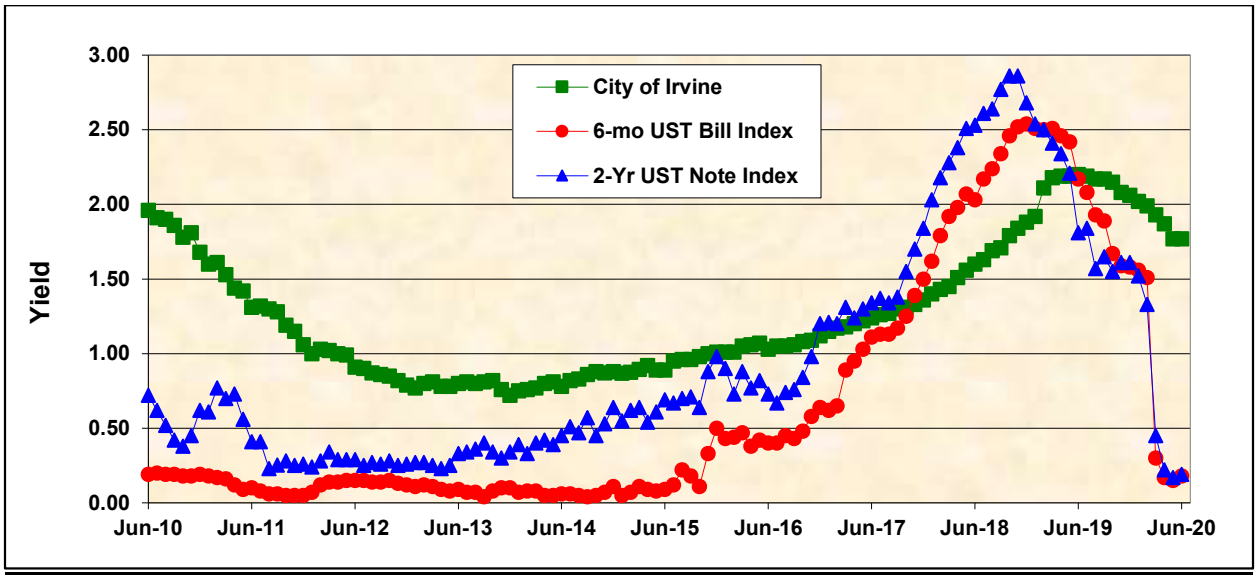


Irvine Pooled Investment Portfolio
Chart 5 – Balance Change Month by Month (Average)



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. 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. With the recent shift in the forward interest rate outlook from both the market and the Federal Reserve, the portfolio's book yield is higher than the 6-month UST by 1.63 percent and the 2-year UST by 1.48 percent.

Irvine Pooled Investment Portfolio
Chart 6 - Yield to Maturity Compared to Assigned Indices
June 30, 2010 through June 30, 2020



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 June 30, 2020 was $380,038. The increase in balance for December 2019 was due to the temporary holding of special assessments and taxes received from the County. Funds will be transferred to the Special District Portfolio as scheduled.

Bond Proceeds Fund Portfolio
Rolling 12-Month Quarterly Comparison

	June 30, 2020	March 31, 2020	December 31, 2019	September 30, 2019
Book Value	$27,561,000	$20,265,000	$20,777,000	$11,925,000
Market Value	$27,609,791	$20,300,875	$20,811,133	$11,926,752
Unrealized Gain/(Loss)	$48,791	$35,875	$34,133	$1,752
Unrealized Gain/(Loss) as % of Book Value	0.18%	0.18%	0.16%	0.01%
Average Yield To Maturity	1.15%	1.74%	2.03%	2.32%
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	$101,496	$109,271	$78,390	$90,882
Fiscal Year to Date Income	$380,038	$278,543	$169,272	$90,882

Special District Funds Portfolio

The Special District Funds Portfolio contains project and reserve funds for 27 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 June 30, 2020 was $4,653,826.

Special District Funds Portfolio
Rolling 12-Month Quarterly Comparison

	June 30, 2020	March 31, 2020	December 31, 2019	September 30, 2019
Book Value	$307,819,248	$288,287,939	$304,718,947	$269,639,482
Market Value	$307,862,001	$288,200,908	$304,717,215	$269,638,633
Unrealized Gain/(Loss)	$42,753	($87,031)	($1,732)	($849)
Unrealized Gain/(Loss) as % of Book Value	0.01%	(0.03%)	(0.00%)	(0.00%)
Average Yield To Maturity	.40%	1.02%	1.72%	2.09%
Average Days To Maturity	77	36	53	60
Quarterly Interest Earnings	$837,348	$1,364,278	$1,428,957	$1,023,242
Fiscal Year to Date Income	$4,653,826	$3,816,478	$2,452,199	$1,023,242

Market Conditions

During the fourth quarter of FY 2019-20, interest rates decreased on securities between six months and thirty years. The Federal Reserve elected to hold the federal funds rate steady during the quarter at .25 percent. During the quarter, the yields of the 6-month Treasury bill decreased 1 basis point to .13 percent, the 2-year Treasury note decreased 10 basis points to .15 percent, and the 5-year notes decreased by 9 basis points to .29 percent. The Local Agency Investment Fund (LAIF) daily rate decreased from 1.74 percent to 1.15 percent during the quarter. The net effect to the Pooled Investment Portfolio was an increase in the unrealized market value gain, which was in direct proportion to the stated duration of the portfolio. Over FY 2019-20, interest rates decreased significantly due to softening in the domestic and global economy and the economic shock from the coronavirus (COVID-19).

While the COVID-19 pandemic has taken a tragic human toll measured in terms of lives lost and suffering inflicted, the pandemic has also dramatically reduced the levels of activity and employment in the U.S. economy, as a direct result of the necessary public

health policies put in place to mitigate and control the spread of the virus. Real gross domestic product (GDP) declined at a 5 percent annual rate in the first quarter of 2020 and is expected to continue contracting at an unprecedented pace in the second quarter. The Federal Reserve Bank of Atlanta index GDPNow is negative 35.48 percent as of July 9, 2020. The unemployment rate, which reached a 50-year low of 3.5 percent as recently as February of this year, surged to 14.7 percent in April, an 80-year high. In May and June, there was a notable rebound in employment and a decline in the unemployment rate to 11.1 percent. Moreover, in recent weeks, some other indicators suggest a stabilization or even a modest rebound in some segments of the economy. But activity in many parts of the economy has yet to pick up, and GDP is falling deeply below its recent peak. Despite the improvements seen in the June jobs report, the unemployment rate, at 11.1 percent, remains historically high.

After the extreme market turbulence in March, financial markets across many sectors have normalized and are again serving their essential role of intermediating flows of savings and investment among borrowers and lenders. In direct policy response to the crisis, the Federal Reserve eased monetary financial conditions by reducing the Federal Funds Overnight rates from a range of 2.25-2.50 percent to .25 percent during the past fiscal year. Additionally, the Federal Reserve launched 11 new program facilities to support the flow of credit to households and firms. While the easing of financial conditions in conjunction with the 11 facilities have helped normalize market conditions, it may not prove to be durable, depending on the course that the COVID-19 contagion takes and the duration of the recession that it causes.

The COVID-19 contagion shock seems to be disinflationary, not inflationary, and the data that is emerging so far are consistent with this projection. Core CPI (consumer price inflation) prices fell 0.4 percent in April, the largest monthly decrease since the beginning of the series in 1957. Although the decline in core CPI was smaller in May (negative .10 percent) and most recently June, (.02 percent), on a year-over-year basis, core CPI is running at 1.20 percent, the slowest pace in nine years. The Federal Reserve's dual mandate of maximum employment and price stability (2.0 percent inflation objective) should anchor rates at the lower range for the foreseeable future.

New and existing home sales had been improving over the past fiscal year but have turned dramatically lower since March 2020. Existing home sales contracted to 3.91 million units annualized in May, while New Home sales rose to 676,000 units. Lower mortgage rates and low housing inventory seem to be stabilizing home prices currently.

In conclusion, the coronavirus pandemic poses the most serious threat to maximum employment and, potentially, to price stability that the United States has faced in our lifetimes. There is much that policymakers-and epidemiologists-simply do not know right now about the potential course that the virus, and thus the economy, will take. Additionally, CARES Act Pandemic Unemployment Assistance program currently

ending July 31 2020, election politics, geopolitical pressures, and fiscal policy unknowns will add to market uncertainty. The net effect on the City of Irvine's portfolio's will be reduced interest earnings expected in the new fiscal year.

City of Irvine

Summary of Pooled Investment Portfolio Book Value by Fund *

As of June 30, 2020

General Reserve Funds	**$ 136,483,264**
Capital Projects Funds:	
Capital Improvement Projects	**8,971,781**
Irvine Business Complex	**98,607,954**
North Irvine Transportation Mitigation	**84,847,482**
Orange County Great Park Development	**14,186,008**
Park Development	**44,139,467**
Total	**250,752,693**
Special Revenue Funds:	
Air Quality Improvement	**469,566**
County Sales Tax Measure M	**501,386**
Fees and Exactions	**7,676,651**
State Gasoline Tax	**19,733,941**
Grants	**5,414,843**
I Shuttle	**1,054,975**
Local Park Fees	**122,265,414**
Maintenance District	**3,427,345**
Major Special Events	**175,510**
Orange County Great Park	**162,136,180**
Slurry Seal Fees	**3,507,748**
System Development	**30,858,626**
Total	**357,222,187**
Internal Service Funds:	
Equipment & Services	**25,331,339**
Inventory	**14,673**
Self-Insurance	**19,829,219**
Total	**45,175,232**
Permanent Fund:	
Senior Services	**312,917**
Senior Services Endowments	**500,410**
Total	**813,327**
Fiduciary Fund:	
Successor Agency Debt Service	**28,716**
Redevelopment Obligation Retirement	**9,322,632**
Total	**9,351,348**
Total Pooled Investments at June 30, 2020	**$ 799,798,050**

Note: Funds are as presented in the City's Comprehensive Annual Financial Report (CAFR)

* Balances are subject to changes due to fiscal year end reconciliations.

ATTACHMENT 2