



"A City for All Ages"

CITY OF PORT ST. LUCIE

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STEPHEN OKIYE, CPA
FINANCE DIRECTOR/CITY TREASURER

Memorandum

To: Mayor and City Council

VIA: Russ Blackburn, City Manager 
Kristina Ciuperger, Deputy City Manager 

From: Stephen Okiye, Finance Director 
Karen Russell, Finance Investment Manager 

Date: October 27, 2022

RE: Annual Investments Report – FY2022

Investment Policy and Processes

During the 4th quarter of fiscal year (FY) 2022, rising wages and other inflationary factors prompted the U.S. Federal Reserve to continue to raise interest rates. Therefore, staff is monitoring the markets and pursuing short-term investments to take advantage of the rising interest rates.

Strategy and Economic Summary

Based on the current investment policy, the City manages investments at the pooled level and maintains investments in three portfolios: cash portfolio (Money Market Accounts ("MMA")); enhanced cash portfolio (investment pool and short-term Certificate of Deposit ("CDs")); and the longer-term core (fixed income) portfolio.

Inflation continues to be a concern and the Federal Reserve continues to implement monetary policies to control the market. According to Hilltop Securities, an investment management firm, after hiking the overnight rate by 75 basis points in September 2022, the Fed is expected to hike it another 75 basis points in November 2022 and 50-75 basis points in December 2022. Current interest rates are between 3.00% - 3.25%. New projections show interest rates between 4.25 and 4.50 percent by the end of 2022.

There are two inflation measurements referenced, the Consumer Price Index (CPI) for urban households and the Personal Consumption Expenditures (PCE) price index for all households. The preferred index used by the Federal Reserve is the PCE with a target of 2 percent average.

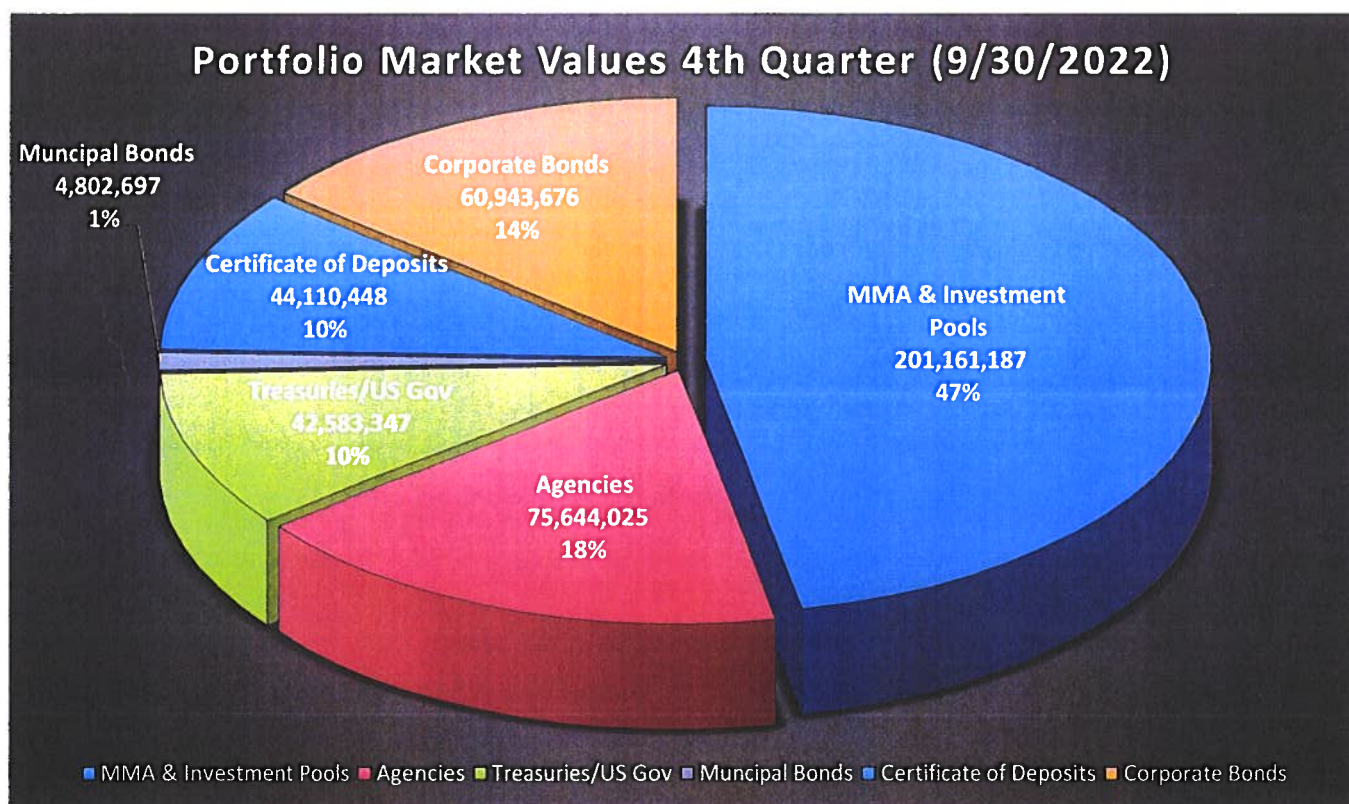
According to the US Bureau of Labor Statistics, CPI unadjusted for the twelve-month ending September 30, 2022, indicated inflation was 8.2 percent (all items). PCE was 6.2 percent on a 12-month basis, and PCE - excluding food and energy - was 5.9 percent on a 12-month basis. The Federal Reserve targets an average of 2 percent inflation over the medium term for prices as measured by the personal consumption expenditures (PCE) price index.

The short-term strategy for the foreseeable future is to invest in Qualified Public Depositories (QPD). The strategy for the longer-term core portfolio is to continue to maximize allocation to federal instruments.

Quarter in Review

During Q4 2022, we were compliant with the investment policy. We ended the quarter with 10% of portfolio in CDs, 47% in Money Market Accounts and Investment Pools, and 43% in bonds (corporate, municipal, agencies and treasuries).

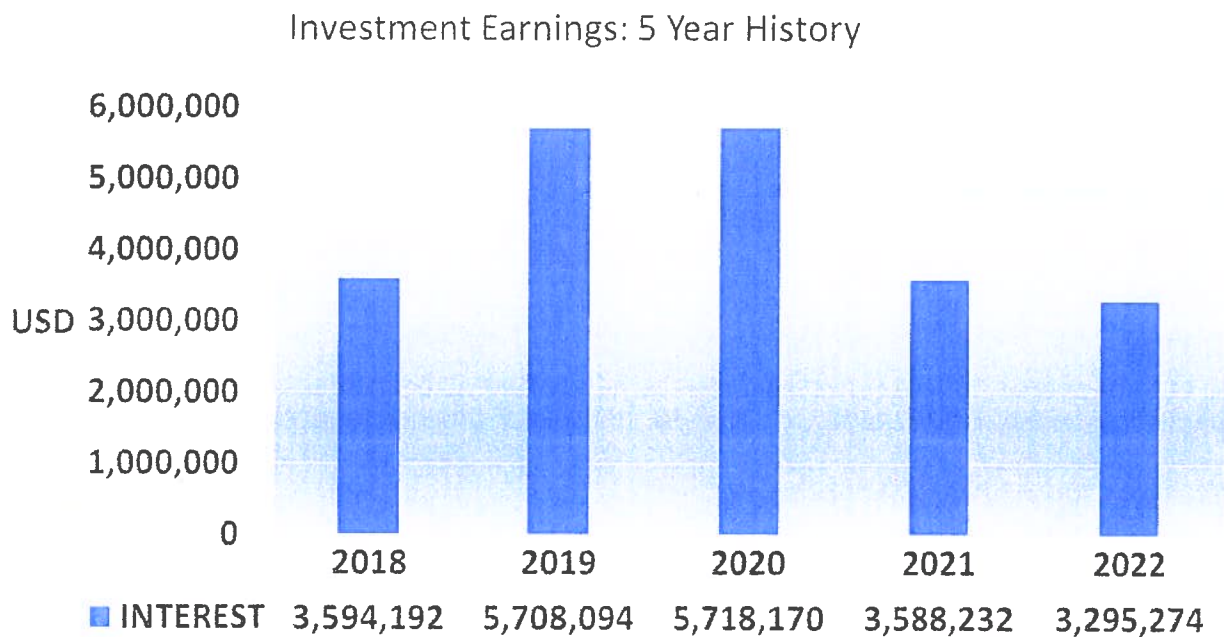
Chart 1
City of Port St Lucie
Q4 2022: Investment Balances



Assets (Millions)	YTD 9/30/2022	Percentage of Portfolio
Bonds	183,973,744	43%
MMA & Investment Pools	201,161,187	47%
Certificate of Deposits	44,110,448	10%
Total	429,245,379	100%

The City's current strategy is to hold fixed income, specifically bonds, to term. This strategy insulates the City from interest fluctuations so that no unrealized losses or gains materialize. In chart 2, the path of total interest over the past five years is highlighted. In FY 2022, our interest earnings were \$3,295,274 compared with \$3,588,232 in FY 2021. The 8.2 percent drop in earnings was due to low interest rates, and our flight to safety strategy in the previous 2 years. Both are a result of the pandemic and slow economic recovery. However, as interest rates continue to increase, staff are paying close attention to the new rates and investing accordingly.

Chart 2
City of Port St Lucie
Investment Earnings



As of September 30, 2022, the City held \$245.3 million in the liquid cash and enhanced cash portfolios, compared with \$226.7 million as of September 30, 2021.

As disclosed in prior reports, although our investments are higher than in prior years, we were in an environment of low or nearly zero interest rates prior to 2022. Since March of 2022, the Fed's have continually increased interest rates. Unfortunately, that doesn't help the older investments that were purchased when rates were lower. Until those investments mature, we will continue to experience low returns.

Table 1 below represents the City's combined investment portfolio as of September 30, 2022, compared with balances as of September 30, 2020, and 2021. It is important to note, the increase in investment funds from September 2020 to September 2022 was due to the City issuing Capital Improvement Bonds, Utility Bonds and receiving ARPA grant funds. We are actively monitoring the market, reviewing cash forecasts, and moving balances mainly to QPD bank accounts or short duration bonds to maximize earnings and maintain liquidity and safety.

Table 1: Market Values as of Sept 30th Quarter 4 (3 Years) including operating bank balances

Assets	FYE 9/30/2020	FYE 9/30/2021	FYE 9/30/2022
MMA & Investment Pool	84,434,770	153,036,802	201,161,187
Agencies	53,397,338	62,394,007	75,644,025
Treasuries	5,548,281	30,660,781	42,583,347
Commercial Paper	-	-	-
Municipal Bonds	4,979,304	4,401,190	4,802,697
Certificate of Deposit	87,998,398	57,638,172	44,110,448
Corporate Bonds	50,001,377	69,659,189	60,943,676
TOTAL	286,359,468	377,790,141	429,245,379

Risk Review

As of September 30, 2022, the total market value of the fixed income portfolio, not including accrued interest, is \$183,973,744. The risk metric for this portfolio is reflected in Table 2.

We have expanded on the following:

- Final Maturity
- Duration (sensitivity to changes in interest rates)
- Credit rating

Table 2: Fixed Income (bonds) Risk Summary

Risk Metric	Value
Fixed income (bonds)	\$183,973,744
Duration (years)	2.159
Years to Final Maturity	2.327
Years to Effective Maturity	2.327
Yield	3.769
Book Yield	0.900
Average Credit Rating	AA-/Aa3/AA-

The years to final maturity measure of 2.327 suggests that many of the securities in our bond portfolio will mature over the next approximately 28 months; years to effective maturity is 2.327. Yields have moderately increased for bonds with five-year maturities. So, we have resumed purchasing treasuries and corporate debt.

Chart 3
City of Port St Lucie
Q4 2022: Time to Maturity

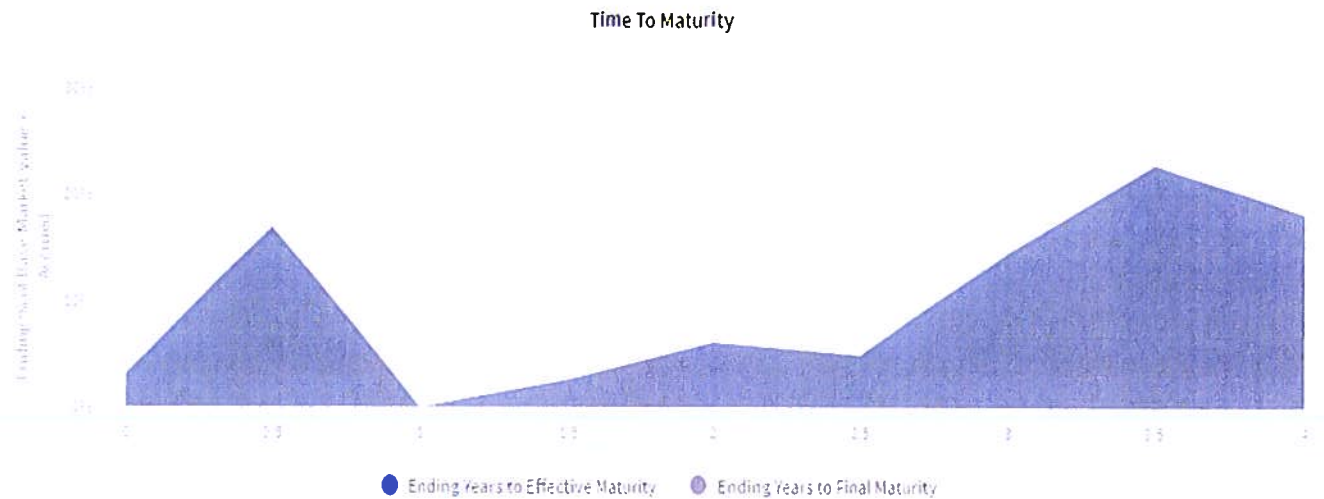


Chart 4
City of Port St Lucie
Q4 2022: Exposure Duration / Sensitivity to Interest Rate Risk

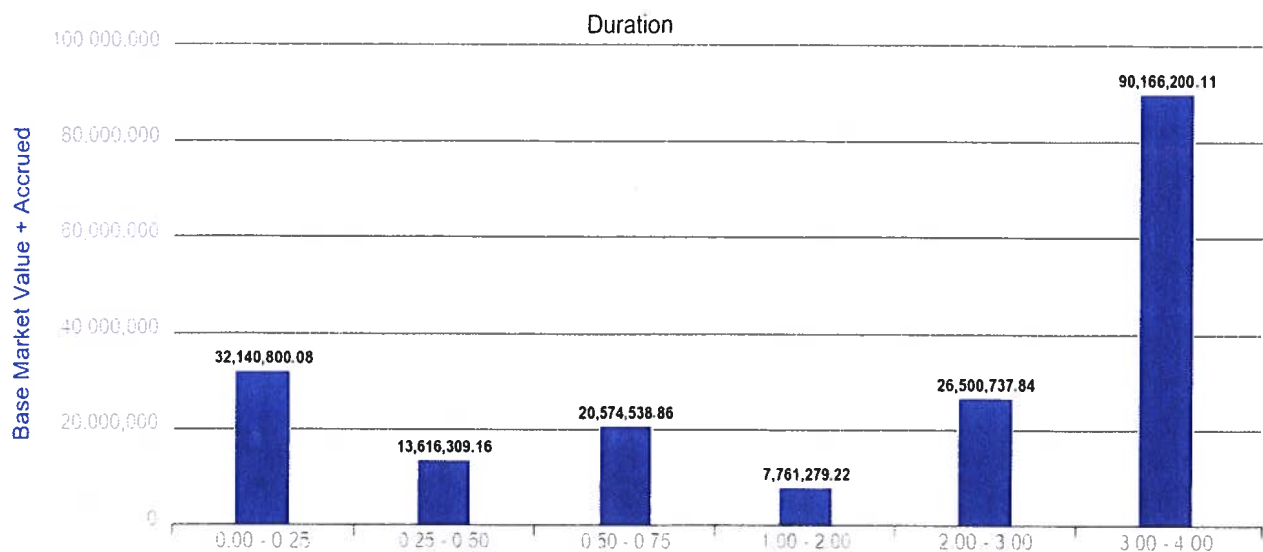
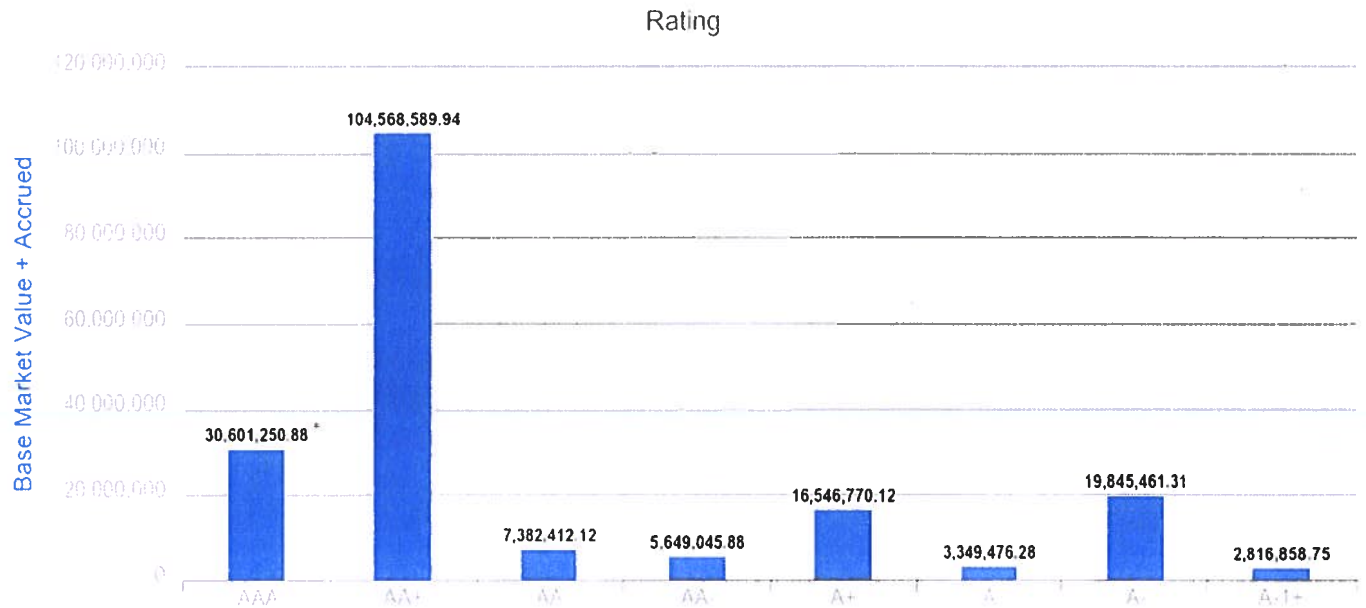


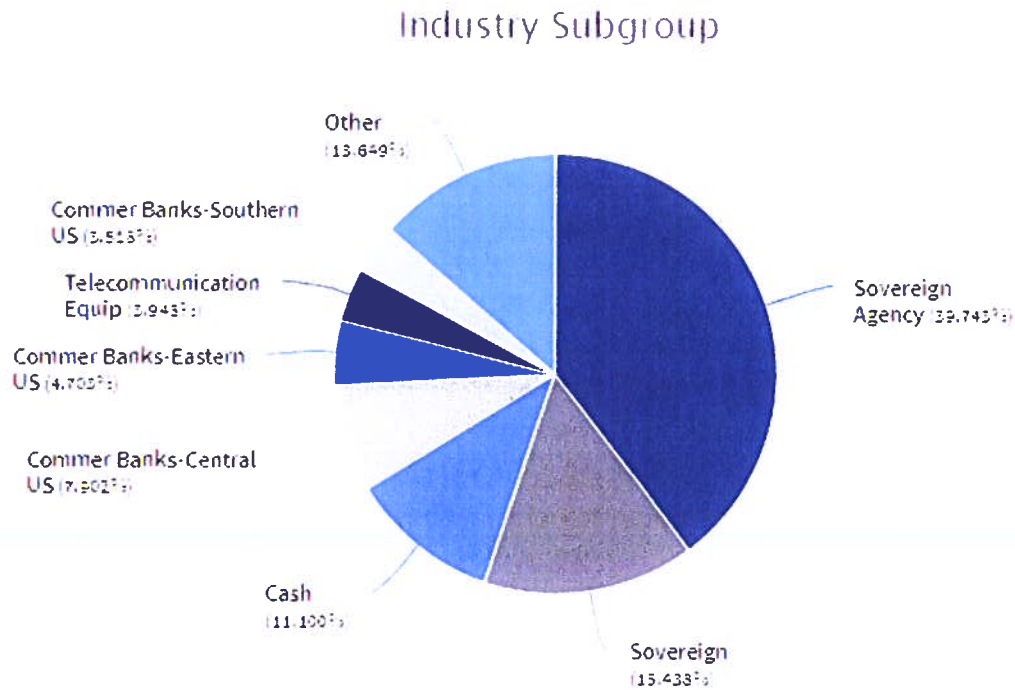
Chart 5
City of Port St Lucie
Q4 2022: Exposure Credit Rating

Many of the income portfolio holdings are AA+. As suggested in the strategy section we are maintaining our position of flight to quality.



*Approximately \$6.8 Million of the AAA is cash holdings. The total of all ratings is \$190.76 Million.

Chart 6
City of Port St Lucie
Q4 2022: Exposure Industry
Subgroup



Our portfolio is diversified to have both a short-term and long-term focus, and we are continually monitoring the markets now that interest rates have increased. “GFOA recommends that state and local governments properly manage the risk in their portfolios to achieve their investment objectives and comply with their investment constraints. It further recommends the use of diversification to manage risk.”

Chart 7
City of Port St Lucie
Q4 2022: U.S. Yield Curve Rates (source Treasury.gov)

Asset Type	9.30.2022	9.30.2021	9.30.2020	9.30.2019
3-Month T-Bill	3.33	0.04	0.10	1.88
1-Year Treasury	4.05	0.09	0.12	1.75
2-Year Treasury	4.22	0.28	0.13	1.63
5-Year Treasury	4.06	0.98	0.28	1.55
10-Year Treasury	3.83	1.52	0.69	1.68
30-Year Treasury	3.79	2.08	1.46	2.12

Source: <https://www.treasury.gov/resource-center/data-chart-center/interest-rates/Pages/TextView.aspx?data=yieldYear&year=2022>

Overall Summary:

We followed GFOA's recommended practice and our investment strategy of safety first, then liquidity and then yield. According to the GFOA, "Government investors have a fiduciary responsibility to manage their investments in order to achieve the investment objectives of safety, liquidity and return."

The market continues to stabilize with some statistics but at the same time remains volatile with others. As of September 30, 2022, national unemployment was 3.5%, returning to its July level, and inflation was at 8.2% (US Department of Labor). Although inflation is going down, it remains higher than normal. Knowing this, the feds are expected to continue aggressively hiking the overnight funds target as the stock market remains wildly volatile.

Over the last year, the market did experience some recovery and growth; however, supply chain challenges continue and there has been continued labor shortages in certain sectors. It is anticipated that the Federal Reserve will remain hawkish right now and the City will maintain the course of safety, liquidity and returns respectively.

The outlook for next year is to maintain liquidity in the portfolio. The intent is to hold cash in short-term instruments and as the economy continues to recover and interest rates rise, we will continue purchasing bonds in the 1st and 2nd quarters of FY2023.

Our department strategy is to continually focus on the City's investments as they mature which will allow us to benefit from the rising interest rate environment. Once again, a lot of our current market portfolio above was invested when interest rates were lower and near zero. But as soon as our investments reach maturity, the team will be discussing changes in the market and making decisions on where to place these funds. We do this to keep our investments safe and liquid, while also maximizing our earnings over time.