

Agenda Report

April 2, 2012

TO: Honorable Mayor and City Council
THROUGH: Finance Committee
FROM: Department of Finance
SUBJECT: Quarterly Investment Report
Quarter Ending December 31, 2011

RECOMMENDATION:

This report is for information purposes only.

BACKGROUND:

Government Code Section 53646 (2)(b)(1) states that in the case of a local agency, the Treasurer or Chief Fiscal Officer may render a quarterly report to the legislative body of the local agency containing detailed information on: 1) all securities, investments, and moneys of the local agency; 2) a statement of compliance of the portfolio with the statement of investment policy; and 3) a statement of the local agency's ability to meet its pool's expenditure requirements for the next six months. By making these reports optional, this bill does not impose a state-mandated local program but encourages local agencies to continue to report. The bill also states that the Treasurer or Chief Fiscal Officer may report whatever additional information or data may be required by the legislative body of the local agency.

The quarterly report shall include the following:

- 1) The type of investment, name of the issuer, date of maturity, par and dollar amount invested in each security, investment, and money within the treasury.
- 2) The weighted average maturity of the investments within the treasury.
- 3) Any funds, investments, or programs, including loans, that are under the management of contracted parties.

- 4) The market value as of the date of the report, and the source of this valuation for any security within the treasury.
- 5) A description of the compliance with the statement of investment policy.

ECONOMIC SUMMARY:

Despite the slow economic growth, the continued economic crisis in Europe and the fear of double-dip recession, the U.S. economy grew from an anemic 0.4% Gross Domestic Product (GDP) growth rate during the first quarter of 2011 to a 1.3% GDP growth rate in the second quarter followed by a 1.8% growth rate in the third quarter and ended the fourth quarter of 2011 with a 3% growth rate. At year end, unemployment remained high from a historic perspective despite dropping from 9.4% to 8.5%. Housing remained weak while both headline inflation as measured by the Consumer Price Index (CPI) and core CPI increased.

The Fed maintained its accommodative policy by keeping short-term interest rates at a historically low range between 0% and 0.25%. Interest rates remained relatively the same at the end of December 2011 as compared to the previous quarter end. The overall U.S. stock market rallied. The S&P 500 index returned 11.82% during the fourth quarter and the DOW Jones Industrial Average returned 12.74%. Recent comments by Fed Chairman Bernanke at his Congressional testimony revealed his determination to maintain low rates because of the frustrating weak economy with persistently high unemployment. He also reiterated his concerns about the still very weak U.S. housing market. All of this suggests that the Fed will continue its accommodative policy for the remainder of 2012.

TOTAL FUNDS UNDER MANAGEMENT:

The following table represents total City funds under management based on their market values as of December 31, 2011.

	12/31/2011	09/30/2011	\$ Change
Pooled Investment Portfolio	315,412,480	314,552,589	859,891
Capital Endowment	3,596,052	3,591,372	4,680
Stranded Investment Reserve Portfolio	64,437,459	64,011,511	425,948
Special Funds	40,284,669	38,646,047	1,638,622
Investments Held with Fiscal Agents	161,920,301	166,124,297	-4,203,996
Total Funds Under Management	585,650,961	586,925,816	-1,274,855

The Pooled Investment Portfolio increased by a net \$859,891 due mainly to the receipt of \$18.17 million property tax revenues, \$4.67 million sales tax revenues and additional utility payment deposits. These revenues were offset by \$23.64 million debt service payments made during the quarter.

The \$425,948 increase in the Stranded Investment Reserve Portfolio represents investment earnings in the portfolio during the quarter.

The Special Funds increased by a net \$1.6 million. This reflects the receipt of \$2 million from the 2011 Equipment Lease Financing for the Arts Buses and a drawdown of \$455,000 from the 2010A Water Revenue Bond proceeds.

The investments held with Fiscal Agents dropped by \$4.2 million as a result of drawdowns made from the 2010 Rose Bowl Bonds Construction Fund proceeds.

The City pools all internal funds to get the economies of scale and simplify the investment function. There are over 100 funds in the Pooled Investment Portfolio. As of December 31, 2011, the General Fund had \$20.4 million invested in the Pooled Investment Portfolio, which represents 6.48% percent of the Pooled Portfolio value. The General Fund's cash balance fluctuates daily based on the timing of receipt of revenues and payment of expenditures. For example, as of January 31, 2012, the General Fund's cash balance was at \$35.114 million due to the larger portion of the property tax revenues allocated to the City received in January. Investments in the Capital Endowment Fund, the Stranded Investment Reserve Fund, the Special Funds, and funds held with fiscal agents are restricted funds or bond proceeds reserved in accordance to the City Charter, ordinances, and the bond indentures.

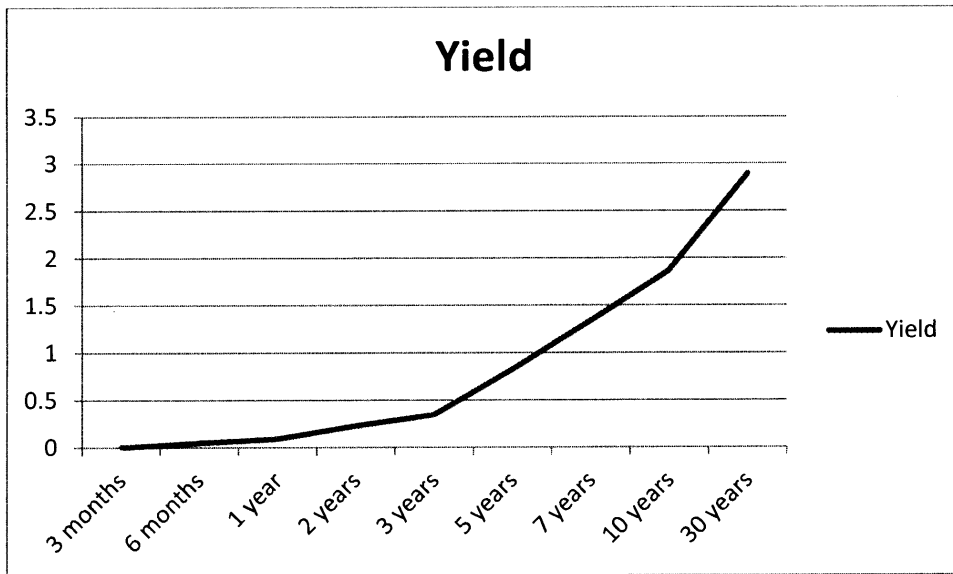
Per the Government Code requirements, attached are the reports by each fund, indicating the type of investments, date of maturity, par and dollar amount invested in each security, as well as investment and moneys within the treasury with market values as of December 31, 2011. The City Treasurer prices the pooled portfolio and all other funds and investments under management on a monthly basis. The market values are obtained from Interactive Data Corporation (IDC) and Bloomberg Financial System. IDC is an independent third party whose sole service is to provide market prices for all types of securities.

The types of securities held in the portfolio and their percentage allocation to the total are in compliance with the City's Fiscal Year 2012 Investment Policy, which was adopted by the City Council on September 26, 2011 and Section 53600 of the State Government Code. The City Treasurer currently maintains at least \$45 million short-term liquid investments (1 to 90 day maturities) which represent 1/12th of the City's aggregate annual operating budget. This balance, along with anticipated cash flows into the City's account, represents a strong liquidity position to meet budgeted expenditures for the next six months.

The book yield on the City's Pooled Portfolio continued to gradually decline in the last two years as short-term rates remained between 0.00 percent and 0.25 percent. All maturing investments were reinvested at lower yielding securities as compared to their original rate. The effective yield on the Pooled Portfolio accounts for realized trading gains and losses. The year-to-date effective yield as of 12/31/2011 was 1.31%, compared to the State Treasurer's Local Agency Investment Fund (LAIF) return of 0.38

percent and the average yield on the two-year U.S. Treasury of 0.26% percent for the same period. Compared to other cities, Pasadena's fiscal year to date blended effective yield (Pooled Portfolio and the Power Reserve portfolio) was 1.395% compared to the reported yield of 1.12% in Glendale and 1.18% in San Diego.

The following graph represents the Treasury yield curve as of December 31, 2011:



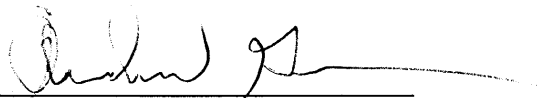
COUNCIL POLICY CONSIDERATION:

This action supports the City Council's strategic goal to maintain fiscal responsibility and stability.

FISCAL IMPACT:

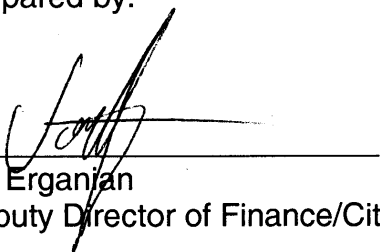
This report is for information only. There is no fiscal impact as a result of this action nor will there be any indirect or support cost requirements. There is no anticipated impact to other operational programs or capital projects as a result of this action.

Respectfully submitted,



ANDREW GREEN
Director of Finance

Prepared by:



Vic Erganjian
Deputy Director of Finance/City Treasurer

Approved by:



MICHAEL J. BECK
City Manager

Attachments: (1)

Attachment A – Quarterly Investment Report (Quarter Ending 12/31/2011)