

Agenda Report

August 12, 2013

TO: Honorable Mayor and City Council

THROUGH: Finance Committee

FROM: Department of Finance

SUBJECT: Quarterly Investment Report
Quarter Ending June 30, 2013

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 (CFO) 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 CFO 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;

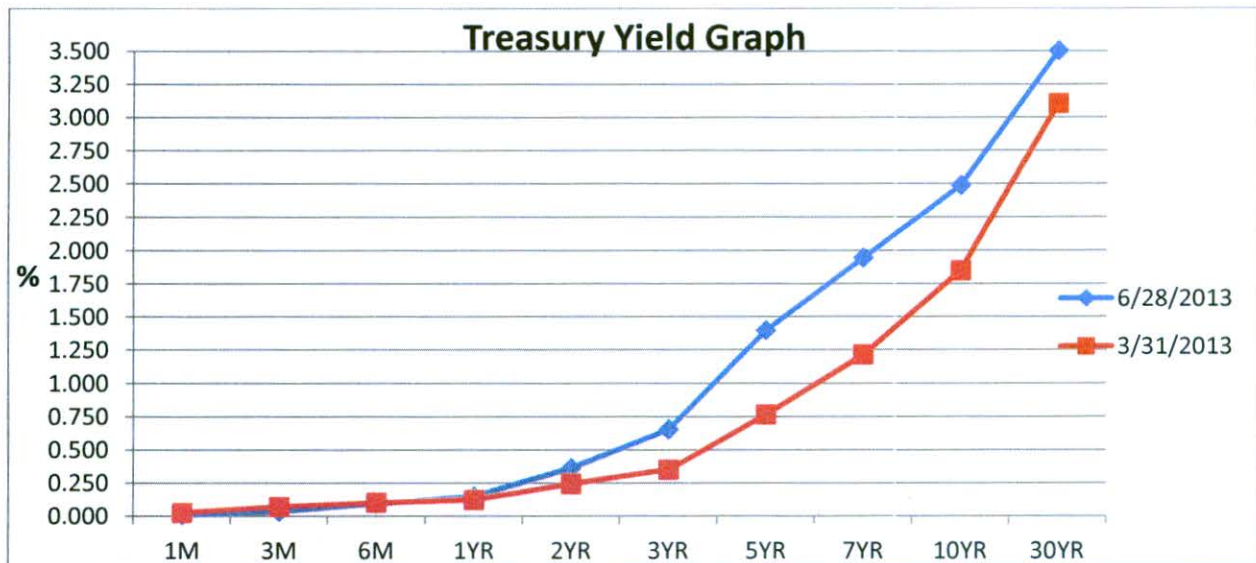
- 4) The market value as of the date of the report, and the source of this valuation for any security within the treasury;
- 5) A description of the compliance with the Statement of Investment Policy.

Economic Summary

The economy in the United States continued to show signs of improvement while the world economy was unable to pick up pace over the same period. The U.S. housing market continued to recover. Sales of new and existing homes exceeded expectations and were up 30 percent from a year ago while existing inventories declined. Data released by S&P/Case-Schiller composite shows that American home prices climbed in the twelve months ending April 2013 by an average of over 12 percent in the 20 City-Composite, making it the largest year-over-year gain in the last seven years. Consumer confidence reached its highest level since January 2008 as consumers felt more positive about current business and the labor market. Unemployment has been on a slow decline over the last three years but remained unchanged at 7.6 percent at the end of the quarter as compared to the previous one. The economy added on average 195,000 new jobs per month, the same as the previous quarter. The Gross Domestic Product (GDP) measured at an annualized 1.8 percent during the first quarter and is estimated by most analysts to be at a weak 1 percent growth rate for the second quarter of 2013. Inflation remained under control and below the Fed's targeted rate of 2 percent. As a result, the Fed has indicated that the economy may not need as much monetary stimulus in the future. The Fed did not indicate the elimination of the asset purchase program but to tapering the level of asset purchases if the economic statistics in the near future continue to show significant improvement. The Fed Chairman's remark led to a sharp sell-off in both stocks and bonds. Treasury yields spiked to their highest level in 15 months.

The five-year treasury yield increased by 0.64 percent during the second quarter and closed at 1.395 percent. The ten-year yield increased from 1.84 percent to 2.48 percent and the thirty-year bond yield closed at 3.5 percent. The total return for the Barclays U.S. Aggregate Bond Index returned a negative 2.33 percent for the period while both the DOW and S&P indexes returned a positive 2.91 percent. The price of gold declined 23 percent to close at \$1,234 per ounce.

The following graph represents the treasury yield curve as of June 30, 2013:



Total Funds Under Management

The following table represents the total City funds under management based on their market values as of June 30, 2013.

	06/30/2013	03/31/2013	\$ Change
Pooled Investment Portfolio	340,435,841	337,398,062	3,037,779
Capital Endowment	3,616,778	3,613,765	3,013
Stranded Investment Reserve Portfolio	65,710,962	66,647,547	-936,585
Special Funds	36,901,426	33,459,001	3,442,425
Investments Held with Fiscal Agents	76,603,742	89,425,155	-12,821,413
Total Funds Under Management	523,268,749	530,543,530	-7,274,781

The Pooled Investment Portfolio increased by a net \$3 million mainly due to the receipt of property tax revenues in April and May offset by \$16.2 million in debt service payments, \$3.6 million in withdrawals for capital projects, and \$1.78 million in a change in pooled portfolio value of investments during the quarter.

The \$3,013 increase in the Capital Endowment Fund represents net investment earnings for the second quarter.

The \$936,585 decrease in the Stranded Investment Reserve Portfolio represents the investment earnings adjusted by the change in value of investments for the second quarter.

The Special Funds increased by \$3,442,425 mainly due to the receipt of net proceeds from the redemption of the CFD bonds in the total amount of \$7.4 million adjusted by drawdowns of a total of \$4 million made from the 2010A Water Revenue bond proceeds.

Investments held in the Fiscal Agents category decreased by \$12.8 million. This decrease was due to a drawdown of \$2.17 million from the 2013 Rose Bowl bond proceeds, a drawdown of \$8.9 million from the 1999 Pension Obligation Bonds Debt Service Fund, and a \$1.72 million change in the value of investments held by the trustees.

The City pools all internal funds to gain economies of scale and to simplify the investment function. There are over 100 funds in the Pooled Investment Portfolio. As of June 30, 2013, the General Fund had \$37.8 million invested in the Pooled Investment Portfolio which represents 11.1 percent of the Pooled Portfolio value. The General Fund's cash balance fluctuates daily based on the timing revenues receipts, payment of expenditures, and year end audit adjustments. 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 with the City Charter, City ordinances, and the bond indentures.

Per 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 June 30, 2013. On a monthly basis, the City Treasurer prices the pooled portfolio and all other funds and investments under management. 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 2013 Investment Policy, which was adopted by the City Council on September 24, 2012, 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 approximately 1/12th of the City's total 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 yield to maturity on the City's Pooled Portfolio began to stabilize after gradually declining in the last four 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 year-to-date effective yield which represents the portfolio investment earnings rate adjusted by the realized trading gains and losses was 1.19 percent on the Pooled Portfolio as of June 30, 2013, compared to the State Treasurer's Local Agency Investment Fund (LAIF) return of 0.33 percent and the

average yield on the two-year U.S. Treasury of 0.25 percent for the same period. The effective yield on the Power Reserve Portfolio was 1.86 percent.

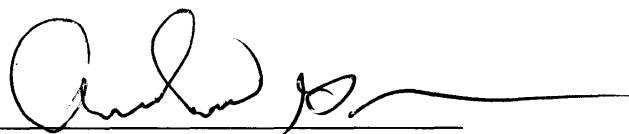
COUNCIL POLICY CONSIDERATION:

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

FISCAL IMPACT:

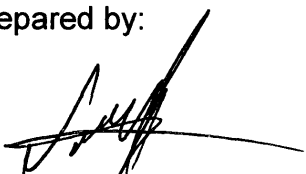
This report is for information only. There is no fiscal impact as a result of this action nor will it have any indirect or support cost requirements. There is no anticipated impact to other operational programs or capital projects as a result of this action.

Respectfully submitted,



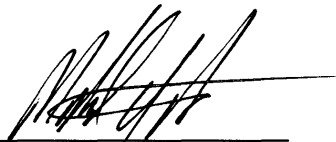
ANDREW GREEN
Director of Finance
Department of Finance

Prepared by:



Vic Erganian
Deputy Director of Finance/City Treasurer

Approved by:



MICHAEL J. BECK
City Manager

Attachments: (1)

Attachment A – Quarterly Investment Report (Quarter Ending 03/31/2013)