

Agenda Report

November 25, 2013

TO: Honorable Mayor and City Council
THROUGH: Finance Committee
FROM: Department of Finance
SUBJECT: Quarterly Investment Report
Quarter Ending September 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 United States economy continued to grow at a modest pace during the third calendar quarter of 2013. Housing continued to recover and was one of the primary drivers for the Gross Domestic Product (GDP) growth rate along with the growth in manufacturing. Inflation remained low and within acceptable levels by the Fed. The year over year Consumer Price Index (CPI) measured 1.2% as of end of September and the Core CPI measured 1.7%. Unemployment has been gradually declining and ended the quarter at 7.2%, down from 7.6% last quarter end and 7.8% a year ago.

Interest rates initially increased during the quarter in anticipation of Fed tapering its bond purchase program. Based on Fed's indications, the market had already priced in this action. Later in September the Fed surprised investors by announcing that it will not begin tapering its stimulus program because it was not convinced that the economy was strong enough to warrant a slow reduction in the Fed's bond purchase program. This announcement reversed the upward trending interest rates which had already increased by 50 basis points or 0.5% rate. The five year treasury yield increased from 1.38% rate on July 1st to 1.85% on September 5th and ended the quarter back down to 1.38% rate. Stocks outperformed bonds during the third quarter with investment data flow indicating capital outflow from bonds and into stocks in anticipation of Fed's tapering its stimulus program. The unexpected announcement by the Fed helped the stock market reach record highs at the end the quarter.

The following graph represents the year to date yield of the five year Treasury bond:



Total Funds Under Management

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

	09/30/2013	06/30/2013	\$ Change
Pooled Investment Portfolio	329,968,511	340,435,841	-10,467,330
Capital Endowment	3,618,750	3,616,778	1,972
Stranded Investment Reserve Portfolio	65,972,702	65,710,962	261,740
Special Funds	34,064,690	36,901,426	-2,836,736
Investments Held with Fiscal Agents	75,695,779	76,603,742	-907,963
Total Funds Under Management	509,320,432	523,268,749	-13,948,317

The Pooled Investment Portfolio decreased by \$10.47 million mainly due to debt service payments made on certain certificates of participation and electric revenue bonds during the period. The Capital Endowment Fund increased by \$1,972 representing the net investment earnings for the period.

The \$261,740 increase in the Stranded Investment Reserve Portfolio represents the investment earnings adjusted by the change in value of investments for the third quarter, and the \$2.8 million decrease in the Special Funds represents withdrawals of bond proceeds for capital projects.

Investments held in the Fiscal Agents category decreased by \$907,963. This decrease was primarily the net result of the receipt of \$3.78 million rebate from the Internal Revenue Service related to the Rose Bowl Build America Bonds and the debt service payment of \$4.8 million on those same bonds on September, 2013.

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 September 30, 2013, the General Fund had \$23.8 million invested in the Pooled Investment Portfolio which represents 6.8 percent of the Pooled Portfolio value. The General Fund's cash balance fluctuates daily based on the timing of revenues receipts and payment of expenditures. 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 September 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 August 12, 2013, 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 1.096 percent on the Pooled Portfolio as of September 30, 2013, compared to the State Treasurer's Local Agency Investment Fund (LAIF) return of 0.26 percent and the average yield on the two-year U.S. Treasury of 0.36 percent for the same period. The effective yield on the Power Reserve Portfolio was 1.37 percent.


COUNCIL POLICY CONSIDERATION:

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

FISCAL IMPACT:

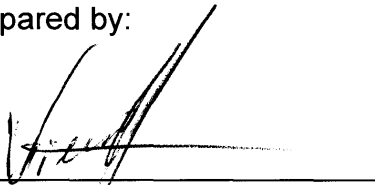
This report is for information only. There is no fiscal impact as a result of this action nor will it have any indirect or support cost requirements. There is no anticipated impact to other operational programs or capital projects as a result of this action.

Respectfully submitted,



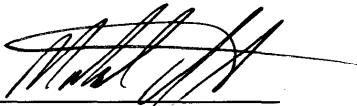
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Director of Finance
Department of Finance

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 09/30/2013)