



AGENDA ITEM NO. 11

December 8, 2014

TO: Honorable Mayor and City Council
THROUGH: Finance Committee (November 24, 2014)
FROM: Department of Finance
SUBJECT: Quarterly Investment Report
Quarter Ending September 30, 2014

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

After a strong GDP (Gross Domestic Product) come back of 4.6% growth rate in the second quarter of 2014, the third quarter annualized GDP expanded at 3.5% annual rate, more than forecast, capping its strongest six months in more than a decade. The median of 89 economists' forecast for U.S. GDP for the entire 2014 is now estimated at 2.2%. The labor market continued to improve during the quarter. Recent data solidified the strength of the labor market as the economy added 671,000 jobs during the quarter and the unemployment rate dropped to 5.9%, the lowest level since 2008. The Fed is closely monitoring the developments in the labor market as it considers a shift in monetary policy and is now looking at a broader range of labor statistics including the labor participation rate which was 62.8%, the lowest in thirty years, and held steady for the last several months. Consumer sentiment continued to improve and was at a 14 month high as household net worth continued to rise with solid job growth, higher home values, rising equity prices, and modest wage increases. The housing sector continued to improve. New home sales hit recent high records while existing home sales growth slowed down. Home prices continued to rise but have given up their double digit increases and rose 8-10% year over year. The year over year Consumer Price Index rose 1.7% in September and core prices rose 1.7%, below the Fed's target of 2%. The Fed reiterated that longer-term inflation expectations remain stable and will closely monitor for any developments. The Fed continued its tapering of the economic stimulus and ended its asset purchase program in October 2014.

The yield slightly flattened as of September 30th. The thirty year treasury yield dropped 16 basis points (0.16%) and the ten year yield was down 4 basis points (0.04%). The short end underperformed with the two year treasury yield posting an 11 basis points (0.11%) increase and the five year 17 basis points (0.17%) increase. Most fixed income spread products offered little upside as spreads remain near historic lows. Despite geopolitical tensions, equities rallied. The Dow Industrial Average returned 1.87% and the S&P 500 index returned 1.12% during the quarter.

Total Funds Under Management

The following table represents the total City funds under management based on their market values as of September 30, 2014:

	09/30/2014	06/30/2014	\$ Change
Pooled Investment Portfolio	326,018,755	322,281,962	3,736,793
Capital Endowment	2,426,972	2,424,832	2,140
Stranded Investment Reserve Portfolio	67,359,977	67,193,320	166,657
Special Funds	80,959,080	87,378,869	-6,419,789
Investments Held with Fiscal Agents	64,619,505	67,334,377	-2,714,872
Total Funds Under Management	541,384,289	546,613,360	-5,229,071

The Pooled Investment Portfolio value increased by \$3.74 million mainly due to the receipt of \$8.65 million in property and sales tax revenues, and \$7.14 million increase in check deposits offset by \$11.23 million in debt service payments during the period. The City targets a duration of 2 years in managing the pooled portfolio based on the portfolio's risk and return evaluation and industry best practice as it pertains to public funds management. As of September 30, 2014 the portfolio's duration was 2.2 years.

The Capital Endowment Fund increased by \$2,140 representing investment earnings during the quarter.

The Stranded Reserve portfolio increased by \$166,657 representing the net investment earnings for the period adjusted by the unrealized gains.

Special Funds declined by a net \$6.42 million mainly due to withdrawals of \$6.5 million made from the 2013A Electric Revenue Bond proceeds to cover cost related to the GT5 repowering project.

Investments held with the Fiscal Agents declined by \$2.7 million mainly as a result of a \$2.67 million pre-planned withdrawal on the 2013 Rose Bowl bond proceeds to cover cost of the renovation project.

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, 2014, the General Fund had an estimated unaudited \$34 million invested in the Pooled Investment Portfolio which represents 10.42 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, 2014. 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 2015 Investment Policy, which was adopted by the City Council on August 11, 2014, and Section 53600 of the State Government Code. The City Treasurer currently maintains a minimum of \$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 gradually increase after it stabilized at around 1% due to declining interest rates in the last five years as short-term rates remained between 0.00 percent and 0.25 percent. The fiscal year to date effective yield which represents the portfolio investment earnings rate adjusted by the realized trading gains and losses was 1.09 percent for the Pooled Portfolio as of September 30, 2014, compared to the State Treasurer's Local Agency Investment Fund (LAIF) of 0.24 percent, the Los Angeles County Treasurer's Pooled portfolio yield of 0.70 percent, and the average yield on the two-year U.S Treasury of 0.50 percent. The fiscal year to date effective yield for the Power Reserve portfolio was 1.50 percent.

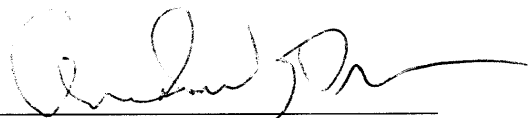
COUNCIL POLICY CONSIDERATION:

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 09/30/2014)