

Agenda Report

June 23, 2014

TO: Honorable Mayor and City Council

THROUGH: Finance Committee

FROM: Department of Finance

SUBJECT: Quarterly Investment Report
Quarter Ending March 31, 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

The U.S. Gross Domestic Product (“GDP”) which is the broadest measure of economic activity and the principal indicator of economic performance suffered its first contraction since 2011 and fell at a 1% revised annualized rate during the first quarter of 2014 as cold weather and tension between the U.S and Russia dominated the news. This did not come as a surprise and the decline was expected. The median forecast by economists surveyed by Bloomberg was 0.5% drop in the GDP in the first quarter with a bounce back in the spring. The Fed forecast for the US economic growth remains at 2.9% for 2014 and 3.1% for 2015. Economists’ median forecast for U.S. GDP for the second quarter of 2014 as surveyed by Bloomberg news is 2.6%. The Fed and most economists are forecasting a stronger GDP in 2014 as compared to the 1.9% rate in 2013 stating that unemployment continues to gradually decline, inflation is nowhere to be seen and remains below Fed’s concerned level, the Federal deficit continues to decline, housing prices continue to climb, bank balance sheets have significantly improved and are the strongest they have been in years, corporate profits are healthy and interest rates remain low. Consumers, who are the major contributors to the GDP growth rate, are also growing more upbeat about the economy as record stock prices, higher property values and lower unemployment help bolster household finances.

Longer term rates dropped during the quarter despite the reduction in the Fed’s monthly purchase of Treasury and mortgage securities from \$85 billion in December to \$55 billion end of March. The ten year treasury yield declined from 3.03% to 2.72% and the thirty year yield dropped from 3.97% to 3.56%. On the other hand, the yield on shorter maturities, the two to five year Treasuries, slightly increased. Equities had little change during the period and maintained their 2013 gains. The S&P Index ended the quarter with a modest gain of 1.8%.

Total Funds Under Management

The following table represents the total City funds under management based on their market values as of March 31 2014:

	03/31/2014	12/31/2013	\$ Change
Pooled Investment Portfolio	305,753,927	324,902,458	-19,148,531
Capital Endowment	2,422,661	2,420,857	1,804
Stranded Investment Reserve Portfolio	66,655,604	65,939,710	715,894
Special Funds	100,639,293	100,704,433	-65,140
Investments Held with Fiscal Agents	81,068,702	84,192,748	-3,124,046
Total Funds Under Management	556,540,187	578,160,206	-21,620,019

The Pooled Investment Portfolio decreased by \$19,148,531 mainly due to debt service payments of \$22,355,854 made during the quarter along with a \$15,902,088 installment payment to General Electric for the purchase of the turbine engine related to the Electric System’s repowering project, offset by the receipt of \$19,695,855 of property tax revenues. 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 March 31, the portfolio’s duration was 2.04 years,

The Capital Endowment Fund increased by \$1,804 representing investment earnings during the quarter.

The Stranded Reserve portfolio increased by \$715,894 representing the net investment earnings for the period adjusted by the unrealized gains.

The \$65,140 decrease in the Special Funds represents the net of the withdrawals adjusted by the investment earnings for the quarter.

Investments held in the Fiscal Agents category decreased by \$3.124 million as a result of withdrawals made by the trustee on the Pension Obligation Bonds (POB) Debt Service Funds and the SCPA account to cover debt service payments on the POBs during the period and provide funds for SCPA capital projects.

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 March 31, 2014, the General Fund had \$36.6 million invested in the Pooled Investment Portfolio which represents 11.97 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 March 31, 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 2014 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 stabilized at around 1% after gradually declining in the last five 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 1.08 percent on the Pooled Portfolio as of March 31, 2014, compared to the State Treasurer's Local Agency Investment Fund (LAIF) return of 0.25 percent and the average yield on the two-year U.S. Treasury of 0.34 percent for the same period. The effective yield on the Power Reserve Portfolio was 1.38 percent.

COUNCIL POLICY CONSIDERATION:

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

FISCAL IMPACT:

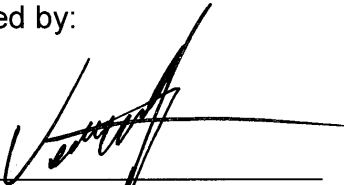
This report is for information only. There is no fiscal impact as a result of this action nor will it have any indirect or support cost requirements. There is no anticipated impact to other operational programs or capital projects as a result of this action.

Respectfully submitted,



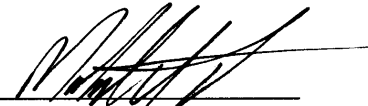
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Director of Finance
Department of Finance

Prepared by:



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Deputy Director of Finance/City Treasurer

Approved by:



MICHAEL J. BECK
City Manager

Attachments: (1)

Attachment A – Quarterly Investment Report (Quarter Ending 03/31/2014)