

Agenda Report

March 24, 2014

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

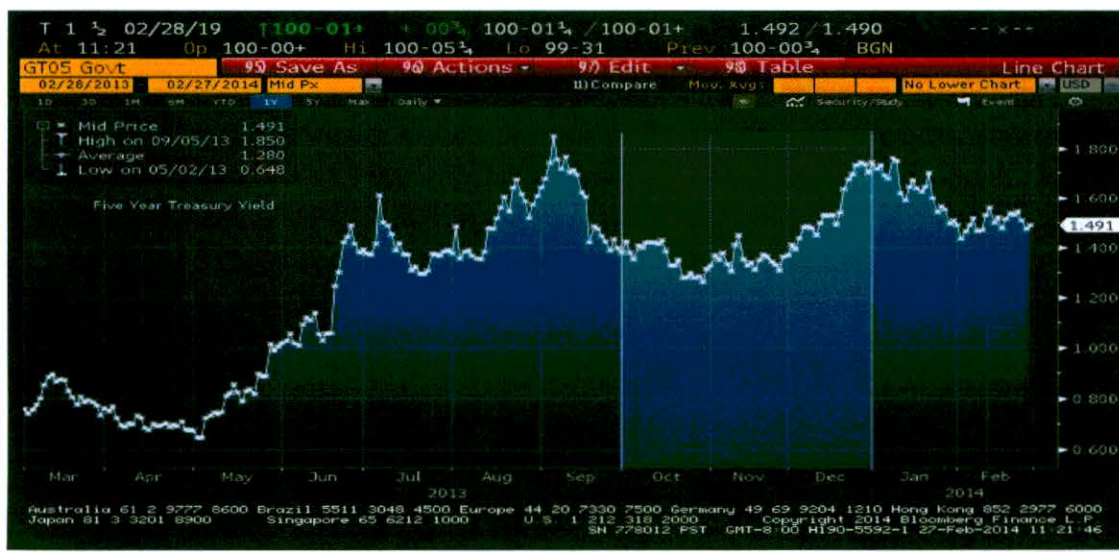
- 1) The type of investment, name of the issuer, date of maturity, par and dollar amount invested in each security, investment, and money within the treasury;
- 2) The weighted average maturity of the investments within the treasury;
- 3) Any funds, investments, or programs, including loans, that are 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 U.S. economy continued to grow steadily during the fourth quarter of 2013. The Gross Domestic Product (“GDP”) measured at a 2.4% annualized rate for the quarter and unemployment dropped to 6.6% rate by the end of December compared to 7.2% the previous quarter. The economy added on average 195,000 jobs per month, still below potential. Inflation remained benign with the year-over-year Consumer Price Index (“CPI”) up 1.5% at year end and the Core CPI, which excludes the more volatile food and energy components, measured at 1.7%, below the Federal Reserve’s (“Fed”) inflation target. The housing market continued to be strong. Home prices nationwide increased in 2013 by an average 11.5% and both existing home sales and new home sales were up by 9.2% and 15.7% respectively. 2013 ended with some optimism given the low inflation rate, improved consumer spending, improved housing market and a strong equity market performance thanks to the Fed’s quantitative easing through its aggressive asset purchase program.

Early December 2013, the Fed surprised the market by announcing the tapering of its asset purchases by \$10 Billion per month, down from \$85 Billion to \$75 Billion and announced that future unwinding of its quantitative easing will be data dependent. Interest rates increased in December as a result of market participants’ reaction to the Fed’s announcement and speculation about the timing of Fed’s future tapering of its asset purchase program. The five year Treasury jumped 0.44% or 44 basis points during the month and the yield on the ten year treasury increased by 0.5% or 50 basis points. Below is the graph representing the five year treasury yield over the last twelve months.



Total Funds Under Management

The following table represents the total City funds under management based on their market values as of December 31, 2013.

	12/31/2013	09/30/2013	\$ Change
Pooled Investment Portfolio	324,902,458	329,968,511	-5,066,053
Capital Endowment	2,420,857	3,618,750	-1,197,893
Stranded Investment Reserve Portfolio	65,939,710	65,972,702	-32,992
Special Funds	100,704,433	34,064,690	66,639,743
Investments Held with Fiscal Agents	84,192,748	75,695,779	8,496,969
Total Funds Under Management	578,160,206	509,320,432	68,839,774

The Pooled Investment Portfolio decreased by \$5,066,053 mainly due to the total debt service payments of \$30,085,653 during the quarter offset by the receipt of \$19,695,855 of property tax revenues and \$5,851,293 in sales tax revenues. The City targets a duration of 2 years in managing the pooled portfolio. As of December 31, the portfolio's duration was 1.79 years, slightly less than the target as a result of anticipated large payments due in January and February of 2014. As of today, the portfolio's duration is closer to the target 2 years and based on current market conditions, the current target duration and philosophy provides a sound balance between risk and return.

The Capital Endowment Fund decreased by 1,197,893 due to the drawdown of \$1,200,000 for project cost adjusted by \$2,107 in investment earnings.

The Stranded Reserve portfolio decreased \$32,992 representing the net investment earnings for the period adjusted by the unrealized paper losses.

The \$66.64 million increase in the Special Funds represents the new bond proceeds from the issuance of the 2013 Electric Revenue Bonds less \$5.34 million draw on the Water Revenue Bonds Project Fund to cover capital cost related to the water system and \$8.9 million payment made to pay off the outstanding Community Facilities District #1 Bonds. .

Investments held in the Fiscal Agents category increased by \$8,496,969. This increase was primarily the net result of 1) the receipt by the Trustee of \$12.78 million debt service pre-payment related to the 1999 and 2004 Pension Obligation Bonds (POBs), 2) investment earnings of \$1.097 million, 3) a drawdown of \$3.24 million from the 2010ABCD Rose Bowl bonds to cover project expenses and 4) debt service payment of \$2.14 to the POB bondholders in November.

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 December 31, 2013, the General Fund had \$35 million invested in the Pooled

Investment Portfolio which represents 6.7 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 December 31, 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 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 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 1.05 percent on the Pooled Portfolio as of December 31, 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 0.32 percent for the same period. The effective yield on the Power Reserve Portfolio was 1.41 percent.

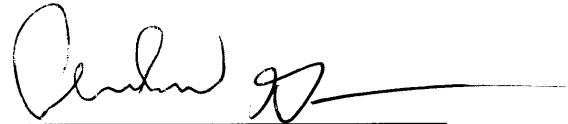
COUNCIL POLICY CONSIDERATION:

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

FISCAL IMPACT:

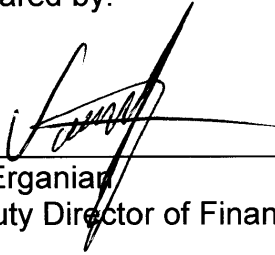
This report is for information only. There is no fiscal impact as a result of this action nor will it have any indirect or support cost requirements. There is no anticipated impact to other operational programs or capital projects as a result of this action.

Respectfully submitted,



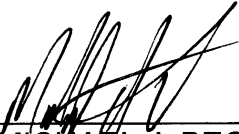
ANDREW GREEN
Director of Finance
Department of Finance

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 12/31/2013)