

Agenda Report

March 23, 2015

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

After a strong GDP (Gross Domestic Product) come back of 4.6% and 5% growth rates consecutively in the second and third quarter, the preliminary estimate for the last quarter of 2014 annualized GDP slowed down to 2.6% rate but continued to demonstrate solid progress. Sustained improvement in the labor market coupled with the drop in oil prices and improved government finances increased consumer and federal government spending and made a significant contribution during the fourth quarter to the economic growth. The global economy, on the other hand, was not as healthy as the domestic US economy. Weaknesses in Europe and Asia continued. The growth in the Eurozone was an anemic 0.6% and the European Central Bank was focused on reaccelerating inflation as deflationary pressures continued in the market and sovereign debt issues resurfaced in Greece. Foreign central banks became more accommodative during the quarter. China cut interest rates, Japan expanded its quantitative easing and the European Central Bank planned to do more to curb disinflationary trends.

The labor market continued to improve in the U.S. during the quarter. Recent data solidified the strength of the labor market as the economy added 973,000 jobs during the quarter and the unemployment rate dropped to 5.6%, the lowest level since 2008. Most analysts are anticipating a steady payroll gain in 2015 and predicting that unemployment rate will trend down to 5% rate. Housing remained on course and continued its uptrend as mortgage rates remained historically low and below the 4% rate. Both existing home sales and new home sales remained healthy and the inventory of existing homes for sale continues to be tight. Headline inflation, as measured by the Consumer Price Index (“CPI”) measured 0.8% and the core inflation which excludes food and energy, came in at 1.6% rate, well within Fed’s targeted range. The Fed is closely monitoring the developments in the labor market as it considers a shift in monetary policy. The Federal Open market Committee (FOMC) completed its asset purchase program in October and removed the language stating that interest rates would remain low for a “considerable time”: The FOMC replaced it with the text stating that it would be “patient” in determining the course for interest rates. Federal Reserve policymakers are expecting growth to pick up in 2015 as they weigh the timing of their first interest rate hike and are estimating GDP to measure between 2.6%-3% in 2015.

The shape of the yield curve continued to flatten with short term rates rising relative to the intermediate and long-term rates. Yields on the one to three year U.S. Treasury bonds increased by an average of 10 basis points or 0.10% while the yield on the ten year Treasury bond dropped by 0.32% and the yield on the thirty year Treasury bond dropped 0.445%. Most analysts are anticipating small and gradual increases in the Fed

Funds rate beginning sometime in 2015. However, Fed minutes reveal that there are downside risks to the U.S. outlook from international concerns, mainly risks from China, the Middle East, Ukraine and Greece as well as “persistent restraint” from the strong U.S. Dollar and “global disinflationary pressures”.

Total Funds Under Management

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

	12/31/2014	09/30/2014	\$ Change
Pooled Investment Portfolio	346,154,927	326,018,755	20,136,172
Capital Endowment	1,899,047	2,426,972	-527,925
Stranded Investment Reserve Portfolio	67,705,648	67,359,977	345,671
Special Funds	62,343,379	80,959,080	-18,615,701
Investments Held with Fiscal Agents	65,601,808	64,619,505	982,303
Total Funds Under Management	543,704,809	541,384,289	2,320,520

The Pooled Investment Portfolio value increased by \$20.14 million mainly due to the receipt of \$26.8 million in property and sales tax revenues, and an increase in check deposits offset by \$17.2 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 December 31, 2014 the portfolio’s duration was 2.2 years.

The Capital Endowment Fund decreased by \$527,925 due mainly to budgeted expenditures and drawdown of \$530,000 to cover the capital cost of the seismic retrofitting and rehabilitation of Fire Station No. 39.

The Stranded Reserve portfolio increased by \$345,671 representing the net investment earnings, for the period, adjusted by the unrealized gains.

Special Funds declined by a net \$18.16 million mainly due to withdrawal of \$18.57 million made from the 2013A Electric Revenue Bond Construction Fund to cover pre-planned expenditures related to the GT5 repowering project.

Investments held with the Fiscal Agents increased by \$982,303 million mainly as a result of a \$5.88 million transfer to the Trustee to prefund the debt service on the pension obligation bonds (POBs) and an unrealized investment gain of \$1.45 million offset by the payment of \$1.86 million on the 1999 POBs and a drawdown of \$4.48 million from the 2013 Rose Bowl bonds 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 December 31, 2014, the General Fund had \$32.6 million invested in the Pooled Investment Portfolio which represents 9.41 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, 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 six 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 1.12 percent for the Pooled Portfolio as of December 31, 2014, compared to the State Treasurer's Local Agency Investment Fund (LAIF) of 0.25 percent, the Los Angeles County Treasurer's Pooled portfolio yield of 0.75 percent, and the average yield on the two-year U.S Treasury of 0.52 percent. The fiscal year to date effective yield for the Power Reserve portfolio was 1.49 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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Department of Finance

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Approved by:


MICHAEL J. BECK
City Manager

Attachments: (1)

Attachment A – Quarterly Investment Report (Quarter Ending 12/31/2014)