

Agenda Report

December 12, 2011

TO: Honorable Mayor and City Council
THROUGH: Finance Committee
FROM: Department of Finance
SUBJECT: Quarterly Investment Report
Quarter ending September 30, 2011

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 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 Chief Fiscal Officer 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 Commerce Department announced a Gross Domestic Product growth rate of 2.0% for the third quarter of 2011 versus 1.3% expansion during the previous quarter and 0.4% the first quarter of the year. The 2.0% GDP growth rate was less than projected by economists and down from the prior estimate of 2.5% rate. Unemployment rate remained at 9% and the pace of recovery in the labor market continues to be weak holding back the recovery. The recent increase in the consumer price inflation damped any growth in the consumers' real disposable income. The housing market remained weak although seems to have stabilized. The year over year Consumer Price index (CPI) increased 3.9% and the Core-CPI increased by 2%.

During the quarter the Fed met twice and left the Fed Funds rate at a record low of 0% to 0.25% and announced its intention to keep the short term rate on hold until mid-2013. The Fed also announced in September "Operation Twist" which involves the issuance of \$400 Billion short term notes and the purchase of same amount of long term Treasuries, thus lowering the yield on the long treasury bonds.

During the quarter news of the European sovereign crisis created more uncertainties and fear among investors and contributed to the poor performance of the equity markets and a flight to quality into U.S. Treasuries. As a result, yields declined on all U.S. treasury maturities. The yield on the two year treasury dropped from 0.45% to 0.25% and the ten year yield decreased from 3.18% down to 1.92%. U.S. equities fell sharply during the quarter as a result of fears of a double dip recession, the downgrade of US treasuries and the escalating European debt crisis. The Dow Index dropped 11.49% during the quarter and the S&P 500 index returned -13.087%.

TOTAL FUNDS UNDER MANAGEMENT:

The following represents the total City funds under management based on their market values as of September 30, 2011.

	06/30/2011	09/30/2011	\$ Change
Pooled Investment Portfolio	306,851,206	314,552,589	7,701,383
Capital Endowment	3,576,487	3,591,372	14,885
Stranded Investment Reserve Portfolio	63,826,066	64,011,511	185,445
Special Funds	40,645,535	38,646,047	-1,999,488
Investments Held with Fiscal Agents	176,602,624	166,124,297	-10,478,327
Total Funds Under Management	591,501,918	586,925,816	-4,576,102

The Pooled Investment Portfolio increased by a net \$7.7 million due mainly to the receipt of sales tax and the return of the 2001 COP Reserve Fund balance. The Capital Endowment Fund increased by \$14,855 and the Stranded Investment Portfolio increased by \$185,445 due to investment earnings in those Funds.

The Special Funds decreased by \$1.99 million and investments held with fiscal agents dropped by \$10.47 million mainly due to withdrawals made from bond proceeds to cover the cost of capital projects.

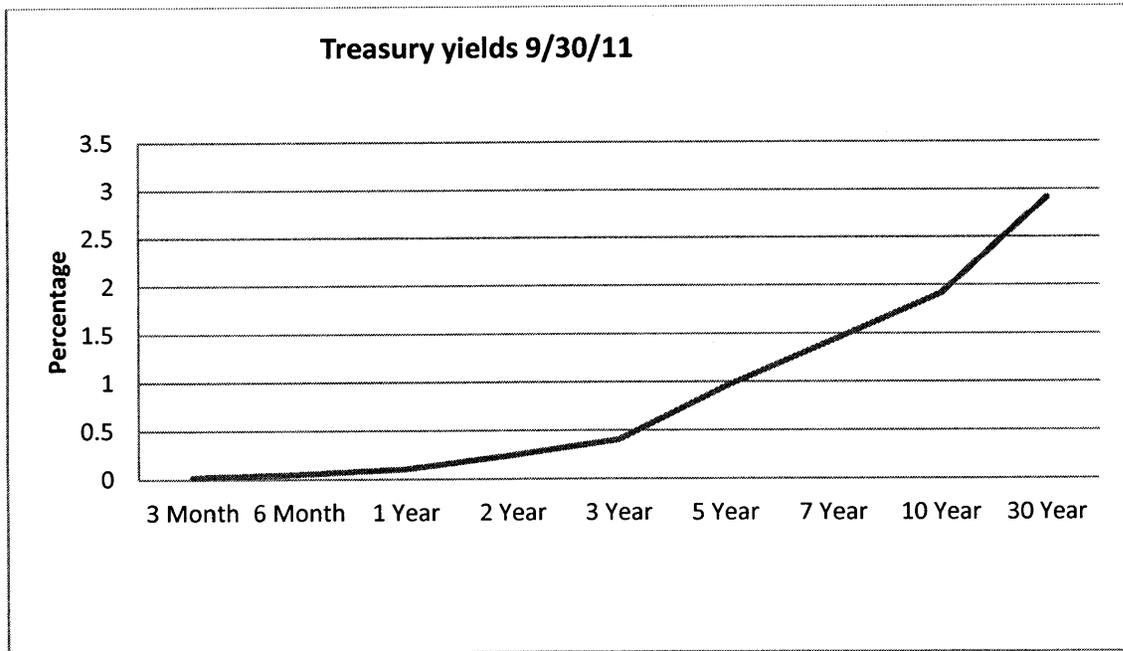
The City pools all internal funds to get the economies of scale and simplify the investment function. There are over 100 funds in the Pooled Investment Portfolio. As of September 30, 2011, the General Fund had \$21.3 million invested in the Pooled Investment Portfolio, which represents 6.77% percent of the Pooled Portfolio value. 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 to the City Charter, ordinances, and the bond indentures.

Per the 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 2011. The City Treasurer prices the pooled portfolio and all other funds and investments under management on a monthly basis. 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 2012 Investment Policy, which was adopted by the City Council on September 26, 2011 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 1/12th of the City's 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 book yield on the City's Pooled Portfolio continued to gradually decline in the last two 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 effective yield on the Pooled Portfolio accounts for realized trading gains and losses. The fiscal year-end effective yield was 1.24 percent, compared to the State Treasurer's Local Agency Investment Fund (LAIF) return of 0.38 percent and the average yield on the two-year U.S. Treasury of 0.27 percent for the same period.

Compared to other cities, Pasadena's annual effective yield for fiscal year 2011 was 1.72% compared to 1.60% in Burbank, 1.43% in Glendale and 1.19% in San Diego. The following graph represents the Treasury yield curve as of September 30, 2011:



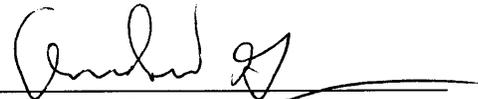
COUNCIL POLICY CONSIDERATION

This action supports the City Council Strategic Goal to maintain fiscal responsibility and stability.

FISCAL IMPACT:

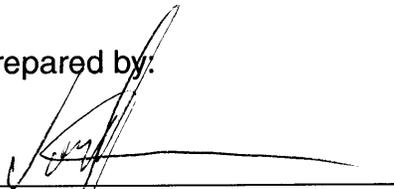
This item is for information only. There is no fiscal impact as a result of this action and will not have any indirect or support cost requirements. The anticipated impact to other operational programs or capital projects as a result of this action will be none.

Respectfully submitted,



ANDREW GREEN
Director of Finance

Prepared by:



Vic Erganian
Deputy Director of Finance/City Treasurer

Approved by:



MICHAEL J. BECK
City Manager

Attachments:

Attachment A – Quarterly Investment Report (Quarter Ending 09/30/2011)