

Agenda Report

December 3, 2012

TO: Honorable Mayor and City Council
THROUGH: Finance Committee
FROM: Department of Finance
SUBJECT: Quarterly Investment Report
Quarter Ending September 30, 2012

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) grew at a 2% annual rate during the third quarter of 2012, below potential and growing at a very slow pace after coming out of the great recession. The economy added on average 173,000 jobs per month, a number viewed by most economists to be low and barely enough to maintain unemployment around 8%. The recovery in the housing market began to build momentum and prices have been rising. The improvement in the housing market expanded the public confidence. Inflation remained tame at the end of the quarter. Both the year over year Consumer Price Index (CPI) and Ex-CPI, which exclude food and energy, measured at 2% rate. Much of the country was occupied with the presidential election and the financial markets were little impacted by the news on the recession in Europe, the Spanish and Greek economic crises, and the fiscal cliff in the U.S.

Equity markets had a positive quarter. The S&P 500 index gained 6.5% during the quarter and the Dow jumped by 5%. Yields on the short end of the curve slightly dropped. The two year treasury yield closed at 0.23% as compared to 0.30% the previous quarter, the yield on the five year Treasury dropped from 0.71% to 0.62% and the ten year yield remained relatively unchanged.

TOTAL FUNDS UNDER MANAGEMENT:

The following represents the total City funds under management based on their market values as of September 30, 2012.

	09/30/2012	06/30/2012	\$ Change
Pooled Investment Portfolio	337,830,970	335,314,524	2,516,446
Capital Endowment	3,606,805	3,603,048	3,757
Stranded Investment Reserve Portfolio	66,138,636	65,763,803	374,833
Special Funds	37,171,610	37,863,515	-691,905
Investments Held with Fiscal Agents	82,839,149	114,806,399	-31,967,250
Total Funds Under Management	527,587,170	557,351,289	-29,764,119

The Pooled Investment Portfolio increased by a net \$2.5 million due mainly to the receipt of property and sales tax revenues netted by debt service payments made during the quarter.

The \$374,833 increase in the Stranded Investment Reserve Portfolio represents investment earnings in the portfolio during the quarter.

The Special Funds decreased by a net \$691,905 due to an \$87,000 drawdown from the 2010A Water Revenue bond proceeds and a drawdown of \$592,000 from the proceeds of the equipment lease financing to purchase the ARTs buses.

The investments held with Fiscal Agents dropped by \$31.9 million as a result of drawdowns made from the 2010 Rose Bowl Bonds Construction Fund proceeds.

The City pools all internal funds to gain economies of scale and simplify the investment function. There are over 100 funds in the Pooled Investment Portfolio. As of September 30, 2012, the General Fund had an estimated \$39.5 million invested in the Pooled Investment Portfolio, which represents 11.68 percent of the Pooled Portfolio value. The General Fund's cash balance fluctuates daily based on the timing of receipt of revenues 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 to the City Charter, City ordinances, and the bond indentures.

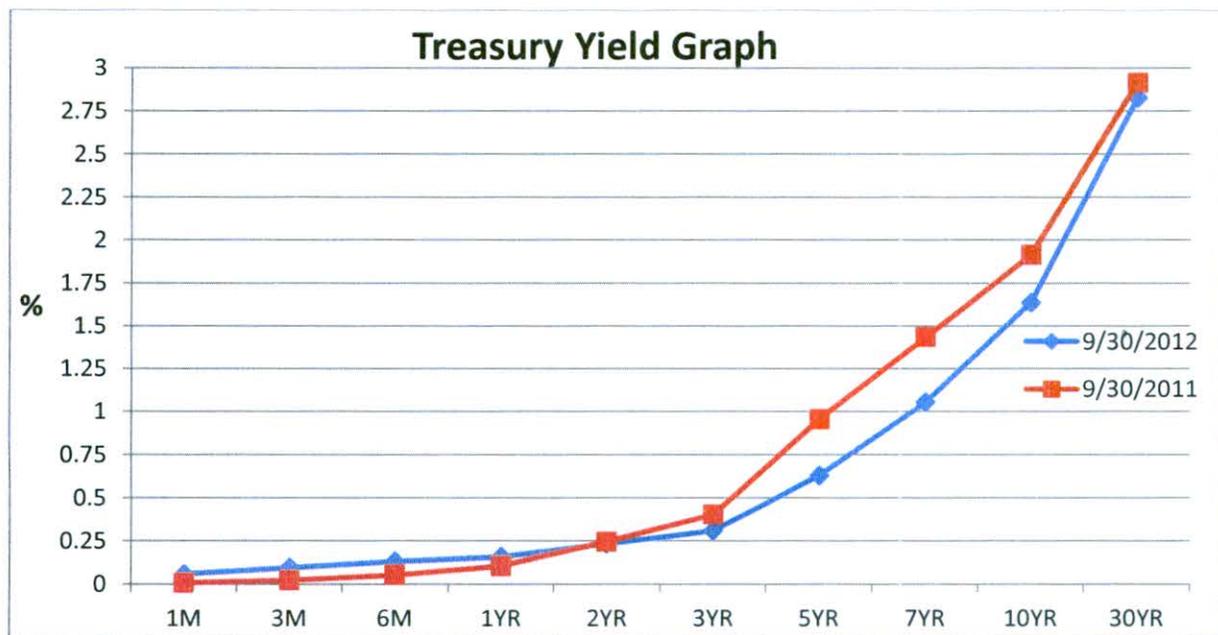
Per the government code requirements, attached are the reports by each fund, indicating the type of investments, date of maturity, par and dollar amount invested in each security, as well as investment and moneys within the treasury with market values as of September 30, 2012. The City Treasurer prices 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 2013 Investment Policy, which was adopted by the City Council on September 24, 2012, 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 yield on the City's Pooled Portfolio continued to gradually decline in the last three 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 represents the portfolio investment earnings rate adjusted by the realized trading gains and losses. The year-to-date effective yield on the Pooled Portfolio as of September 30, 2012 was 1.13 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 0.25 percent for the same period. The effective yield on the Power Reserve Fund was 2.88 percent.

The following graph represents the Treasury yield curve as of September 30, 2012:



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 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

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 09/30/2012)