

Agenda Report

June 18, 2012

TO: Honorable Mayor and City Council
FROM: Department of Finance
SUBJECT: Quarterly Investment Report – Quarter Ending March 31, 2012

RECOMMENDATION:

This report is for information 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 overall economic trend continued to show a slow growing economy during the first quarter of 2012. The preliminary Gross Domestic Product report for the first quarter showed that the U.S. economy grew at a less than expected rate of 2.2%. The overall economic news releases were favorable during the quarter and indicated improving domestic economic data. The unemployment rate fell from 8.3% to 8.2% in March and consumer confidence continued to show strength. This, combined with the increase in oil prices, raised concern among investors of accelerating inflation and pushed bond yields higher. Corporate earnings remained a bright spot for the U.S. economy. Due to low interest rates, improvements in productivity and lack of upward pressure on labor costs, corporate earnings have been growing and sometimes exceeding expectations. The political and economic turmoil continued in Europe during the first quarter and continued to create volatility in the global financial markets although European leaders appeared to have made some progress in addressing the economic crisis in the Eurozone.

In March 2012, the Federal Reserve announced that it would maintain the Fed Funds rate at a range of 0% - 0.25% and provided an upbeat economic assessment. By the end of March, the Dow Jones Industrial Average was up by 8.8% and the S&P500 Index returned 12.55%.

The economic trend in the first quarter of 2012 reversed in April and May. More recent economic data indicates a slowing economy. Statistics on the labor market and the housing market came in weaker than expected reversing most investors' views on the U.S economic growth rate. Spain's scheme to recapitalize Bankia, Spain's fourth largest bank, using European central bank funding was rejected subjecting the Spanish financial and banking system to more risk. The European union (EU) continues to demand the new Greek Government to enforce the agreed upon austerity measures before providing any new bailout funds and suggests that the EU is prepared to let Greece leave the union and the euro if their demands are not met. China's economy is expected to continue slowing as a result of the economic downturn in Europe and the slowdown in the U.S. As a result, the equity markets lost most of their returns made during the first quarter of this year and bond yields hit historic lows.

Total Funds Under Management

The following table represents the total City funds under management based on their market values as of March 31, 2012.

	03/31/2012	12/31/2011	\$ Change
Pooled Investment Portfolio	354,252,186	315,412,480	38,839,706
Capital Endowment	3,599,480	3,596,052	3,428
Stranded Investment Reserve Portfolio	65,288,912	64,437,459	851,453
Special Funds	39,769,059	40,284,669	-515,610
Investments Held with Fiscal Agents	148,801,089	161,920,301	-13,119,212
Total Funds Under Management	611,710,726	585,650,961	26,059,765

The Pooled Investment Portfolio increased by a net \$38,839,706 million due mainly to the receipt of the bond proceeds of the 2012 Pension Obligation Bonds that closed on March 31, 2012.

The \$851,453 increase in the Stranded Investment Reserve Portfolio represents investment earnings in the portfolio during the quarter.

The Special Funds decreased by a net \$515,610 due to a drawdown from the 2010A Water Revenue Bond proceeds.

The investments held with Fiscal Agents dropped by \$13.119 million as a result of drawdowns made from the 2010 Rose Bowl Bonds Construction Fund proceeds.

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 March 31, 2012, the General Fund had \$16.6 million invested in the Pooled Investment Portfolio, which represents 4.7% 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. General Fund balances in March also reflected additional timing anomalies involving transactions related to the dissolution of PCDC. These anomalies were corrected in April and will be reflected in the next quarterly investment report. 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.

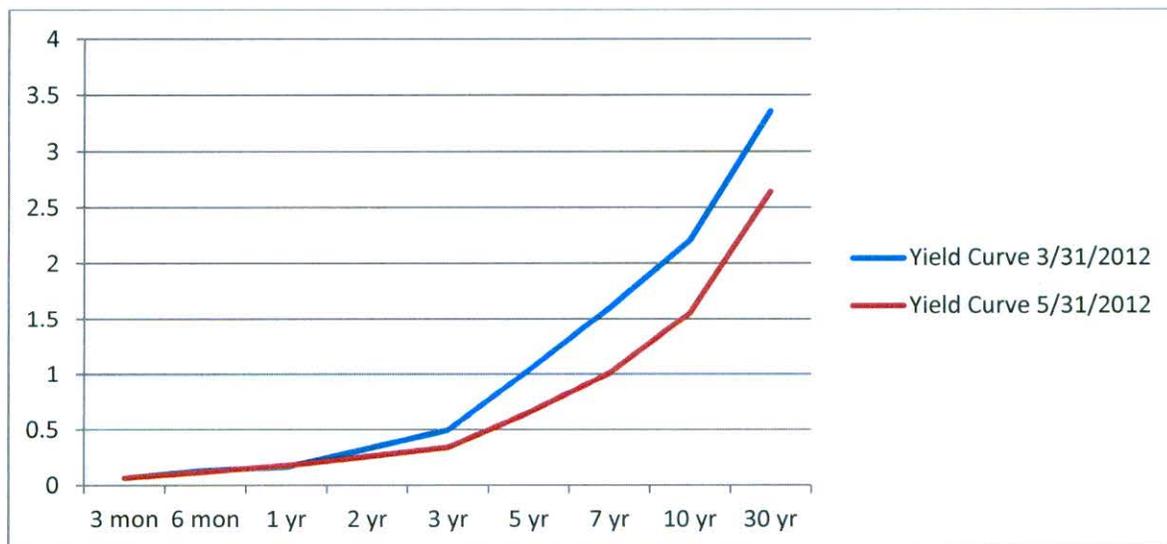
Per the Government Code requirements, attached are the reports by each investment fund, indicating the type of investments, date of maturity, par and dollar amount invested in each security, as well as investment and moneys within the treasury with market values as of March 31, 2012. The City Treasurer 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 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 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 is the actual yield that accounts for realized trading gains and losses. The year-to-date effective yield on the Pooled portfolio as of 03/31/2012 was 1.40% percent, compared to the State Treasurer's Local Agency Investment Fund (LAIF) return of 0.38% and the average yield on the two-year U.S. Treasury of 0.28% for the same period. The effective yield on the Power Reserve Fund was 2.36%.

The following graph represents the Treasury yield curve as of March 31, 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 and there will be no indirect or support cost requirements. There are no anticipated impacts to other operational programs or capital projects as a result of this action.

Respectfully submitted,



ANDREW GREEN
Director of Finance

Prepared by:



Vic Ergarlan
Deputy Director of Finance/City Treasurer

Approved by:



MICHAEL J. BECK
City Manager

Attachments:

Attachment A – Quarterly Investment Report (Quarter Ending 03/31/2012)