

# Agenda Report

September 24, 2012

**TO:** Honorable Mayor and City Council  
**THROUGH:** Finance Committee  
**FROM:** Department of Finance  
**SUBJECT:** Quarterly Investment Report  
Quarter Ending June 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. economy slowed in the second quarter to 1.7 percent from a revised 2 percent growth rate in the first quarter of 2012. This growth rate has been below economists' expectation considering the fact that the Fed continued its monetary stimulus and injected trillions of dollars into the economy. Inflation remained tame. The year-over-year Consumer Price Index has been on a decline since September 2011 and measured 1.7 percent as of June 2012. Core inflation remained steady and came in at 2.2 percent rate. These levels of economic activity and inflation suggest that the Fed will maintain a zero interest rate policy for the foreseeable future. The Fed actually cut its expectation for Gross Domestic Product growth rate for 2012 from its initial estimate of 2.4 percent to 2.9 percent down to 1.9 percent to 2.4 percent and is estimating unemployment rate at 8 percent-8.2 percent for 2012.

Employment statistics released during the quarter were very disappointing. Non-farm payroll numbers averaged 73,000 per month, an insufficient number to reduce or maintain the unemployment at its current level. July's employment report showed that the economy added 163,000 jobs, a surprisingly positive number but still below the required job additions to significantly reduce the 8.3 percent unemployment rate. Chairman Bernanke announced that the inability of the economy to reduce the unemployment rate will necessitate the Central Bank to extend its accommodative stance.

The housing market remained under pressure but some recent housing statistics surprised the market giving indication to some analysts that the housing market has hit the bottom and will gradually begin to improve.

Yields across the treasury curve declined during the quarter. The Eurozone problems and investor fear of a much discussed fiscal cliff have led investors to the relative safety of the U.S. treasury market even at the current extremely low yields.

**TOTAL FUNDS UNDER MANAGEMENT:**

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

	<b>06/30/2012</b>	<b>03/31/2012</b>	<b>\$ Change</b>
Pooled Investment Portfolio	335,314,524	354,252,186	-18,937,662
Capital Endowment	3,603,048	3,599,480	3,568
Stranded Investment Reserve Portfolio	65,763,803	65,288,912	474,891
Special Funds	37,863,515	39,769,059	-1,905,544
Investments Held with Fiscal Agents	114,806,399	148,801,089	-33,994,690
<b>Total Funds Under Management</b>	<b>557,351,289</b>	<b>611,710,726</b>	<b>-54,359,437</b>

The Pooled Investment Portfolio decreased by a net \$18.9 million due mainly to debt service payments made in June and the transfer of pension obligation bond proceeds to the Fire and Police Retirement System during the quarter.

The \$474,891 increase in the Stranded Investment Reserve Portfolio represents investment earnings in the portfolio during the quarter.

The Special Funds decreased by a net \$1.9 million due to a \$1.23 million drawdown from the 2010A Water Revenue bond proceeds, a draw of 254,000 from the Pension Obligation Bonds Cost of Issuance account, and a decrease of 394,000 to cover debt service related to Tax Allocation Bonds.

The investments held with Fiscal Agents dropped by \$33.99 million as a result of a \$25.3 million drawdown made from the 2010 Rose Bowl Bonds Construction Fund proceeds, and \$8.7 million debt service payment made by the trustee on the 1999 Pension Obligation Bonds.

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 June 30, 2012, the General Fund had \$33.9 million invested in the Pooled Investment Portfolio, which represents 10.11 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.

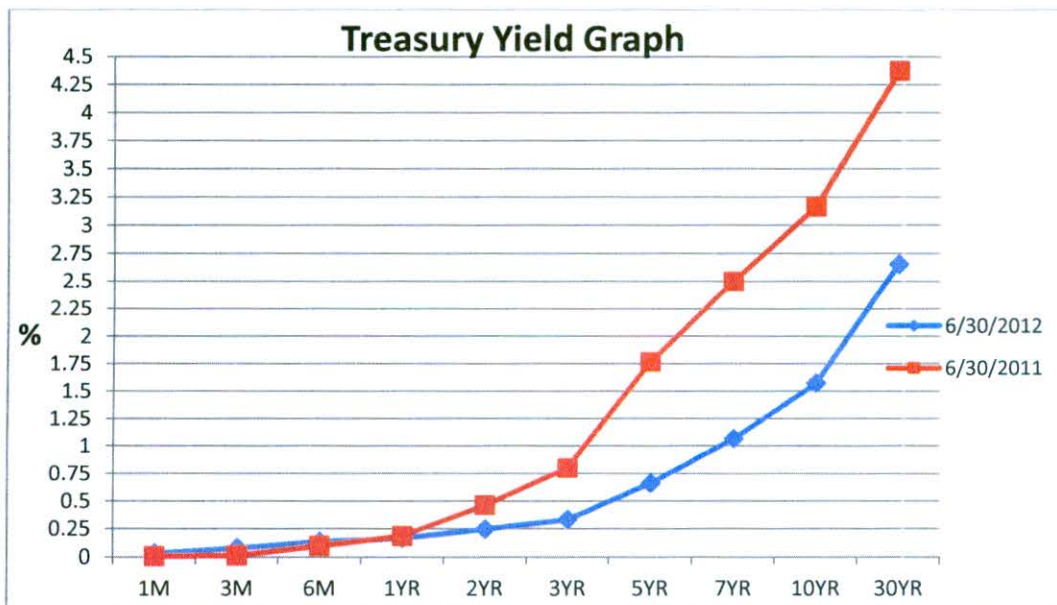
Per the government code requirements, attached are the reports by each fund, indicating the type of investments, date of maturity, par and dollar amount invested in each security, as well as investment and moneys within the treasury with market values as of June 30, 2012. The City Treasurer prices the 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 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 1/12<sup>th</sup> 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 June 30, 2012 was 1.37 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 0.28 percent for the same period. The effective yield on the Power Reserve Fund was 2.50 percent.

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



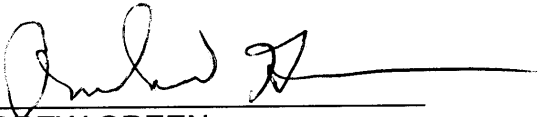
**COUNCIL POLICY CONSIDERATION:**

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

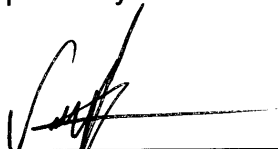
**FISCAL IMPACT:**

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 06/30/2012)