

Agenda Report

February 25, 2013

TO: Honorable Mayor and City Council
THROUGH: Finance Committee
FROM: Department of Finance
SUBJECT: Quarterly Investment Report
Quarter Ending December 31, 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;

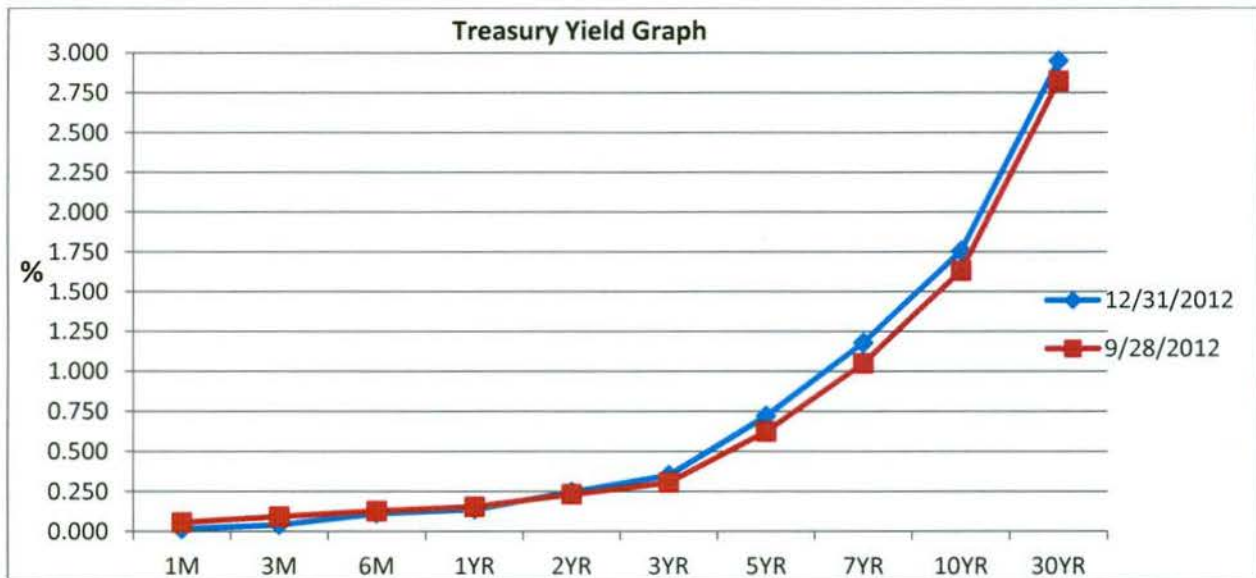
- 3) Any funds, investments, or programs, including loans, that are under the management of contracted parties;
- 4) The market value as of the date of the report, and the source of this valuation for any security within the treasury;
- 5) A description of the compliance with the Statement of Investment Policy.

ECONOMIC SUMMARY:

The fourth quarter of 2012 was full of policy decisions and a wild ride for investors. First was the presidential election followed by the fiscal cliff debate and recently the debate about the debt ceiling. During the quarter the Fed played an important role by announcing that it will embark into a new asset purchase program after the expiration of "Operation Twist" in order to continue to maintain long term rates low. Unemployment rate dropped during the quarter from 8.1% to 7.8%. The economy added an average of 151,000 non-farm jobs per month. Inflation remained tame. The annual Consumer Price Index (CPI) at year end was 1.7%. The core CPI which excludes the more volatile food and energy components measured 1.9% and investors showed no signs of concern about future inflation. The low mortgage interest rates and rising home prices brought buyers back to the market and home sales rebounded to the strongest level in five years in 2012. The U.S economy shrank however in the fourth quarter by -0.1% mainly due to a plunge in defense spending and smaller gain in stockpiles. This was the worst GDP performance since the second quarter of 2009. Most economists however maintain that the underlying economic conditions remain on track and estimate a 2% GDP growth rate in 2013 for the world's largest economy.

Equity markets as measured by the DOW Index declined in November then rebounded in December to end up with a negative 2.4% return for the quarter. Similarly, The S&P 500 index dropped in November then rebounded to end up the quarter with a negative 1% return. The annual returns for the DOW Index and the S&P 500 were 7.25% and 13.4% respectively based on simple price appreciation. Treasury yields ended up slightly higher on December 31, 2012 compared to the previous quarter end. The two year treasury yield was 0.249%, up by 0.01%. The five year yield increased by 0.10% to 0.72%, the ten year ended the year at 1.758%, up by 0.12% and the long bond closed at 2.95%, up by 0.13%.

The following graph represents the Treasury yield curve as of December 31, 2012:



TOTAL FUNDS UNDER MANAGEMENT:

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

	12/31/2012	09/30/2012	\$ Change
Pooled Investment Portfolio	331,047,380	337,830,970	-6,783,590
Capital Endowment	3,610,337	3,606,805	3,532
Stranded Investment Reserve Portfolio	66,418,037	66,138,636	279,401
Special Funds	34,742,864	37,171,610	-2,428,746
Investments Held with Fiscal Agents	85,068,471	82,839,149	2,229,322
Total Funds Under Management	520,887,089	527,587,170	-6,700,081

The Pooled Investment Portfolio decreased by a net \$6.7 million mainly due to \$24.7 million debt service payments made during the quarter which were offset by \$18 million property tax receipts during the same period.

The \$3,532 increase in the Capital Endowment Fund and the \$279,401 increase in the Stranded Investment Reserve Portfolio represent investment earnings for the period.

The Special Funds decreased by a net \$2,428,746 due to drawdowns made from the 2010A Water Revenue bond proceeds and from the proceeds of the equipment lease financing to purchase the ARTs buses.

The investments held with Fiscal Agents category increased by \$2,229,322. This was the net result of a total of \$11.47 draw made from the Rose Bowl bond proceeds and other financing proceeds and the receipt by the trustee of \$9.79 million debt service payment from the City which is due to bondholders on June 1, 2013 coupled with the receipt of \$3.578 million investment from SCPPA held with the trustee.

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 December 31, 2012, the General Fund had an estimated \$38.8 million invested in the Pooled Investment Portfolio, which represents 11.7 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. 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 December 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 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 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 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 December 31, 2012 was 1.36 percent, compared to the State Treasurer's Local Agency Investment Fund (LAIF) return of 0.32

percent and the average yield on the two-year U.S. Treasury of 0.26 percent for the same period. The effective yield on the Power Reserve Fund was 2.23 percent.

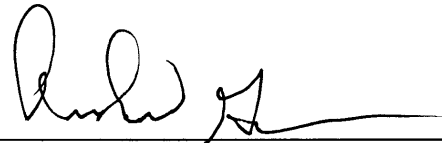
COUNCIL POLICY CONSIDERATION:

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 12/31/2012)