

Agenda Report

June 10, 2013

TO: Honorable Mayor and City Council
THROUGH: Finance Committee
FROM: Department of Finance
SUBJECT: Quarterly Investment Report
Quarter Ending March 31, 2013

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;

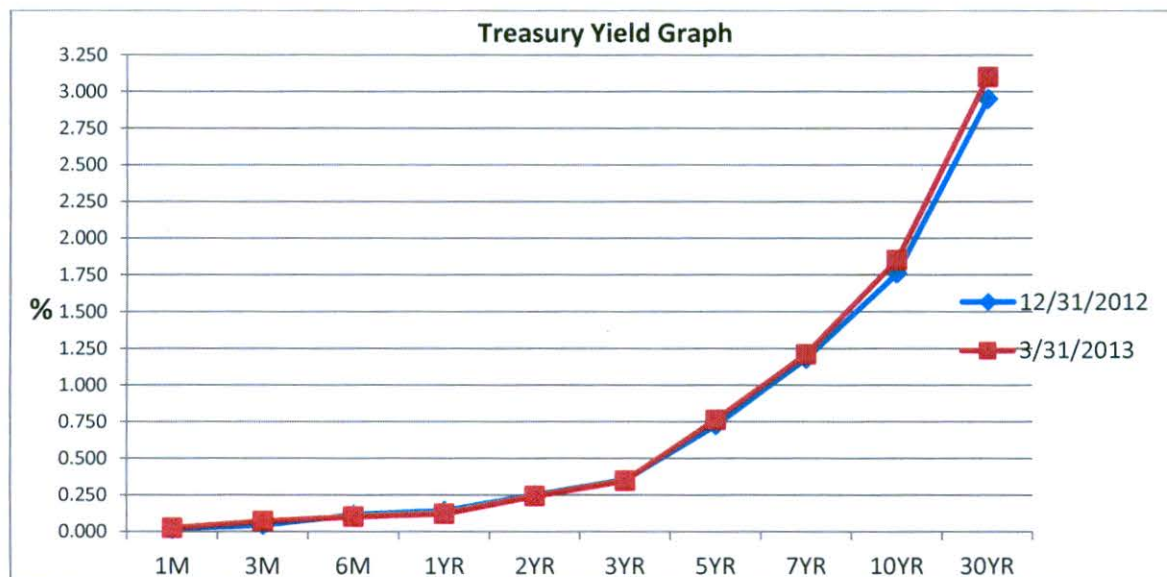
- 3) Any funds, investments, or programs, including loans, that are under the management of contracted parties;
- 4) The market value as of the date of the report, and the source of this valuation for any security within the treasury;
- 5) A description of the compliance with the Statement of Investment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

ECONOMIC SUMMARY:

Economic growth in 2013 has been moderately better than 2012 but the recovery since the Great Recession has been agonizingly slow. First quarter 2013 Gross Domestic Product (GDP) rate measured 2.5% compared to 0.4% the previous quarter and 1.7% for calendar 2012. The Federal Reserve has been very accommodative and proactive in keeping interest rate artificially low buy purchasing assets at a pace of \$85 Billion per month. The Fed indicated that it will continue its economic stimulus as long as unemployment rate is above the Fed's targeted rate of 6.5% rate. During the first quarter, the economy added on average 206,000 new jobs per month, the same pace of payroll growth as the previous quarter. Unemployment rate, although relatively high, has been gradually declining and measured 7.6% at the end of March. Inflation remained tame. The year-over-year Consumer Price Index (CPI) was 1.5% as of March 31, 2013 and the core CPI measured 1.9%. The housing market continued to improve. Home prices have been increasing and incomes grew at a better than expected pace improving consumer wealth and helping consumer spending. Although there are still several risks such as the economic crisis in Europe, Federal budget cuts, the U.S. debt ceiling, a growing U.S. debt, and the global economic slowdown which is not over yet, but overall, there seems to be a new air of optimism for a better economic growth as economic conditions are turning out better than many economists expected.

The domestic stock market's performance was very strong in the first quarter of 2013. The Dow Jones Industrial Average (DJIA) returned 11.9%, the S&P 500 Index rose 10.6% while NASDAQ Composite Index was up 8.5%. As the economy continued to pick up momentum, a broader range of investors entered the market driving both the DJIA and S&P 500 to new record highs. Treasury yields initially increased during the quarter and then fell back after a flight to quality and a capital flow into U.S. Treasury securities as a result of the banking crisis in Cyprus and the Fed's support for a continued buying of assets through much of this year. Short term rates remained close to 0% rate, the two year Treasury yield closed at 0.24% yield, the yield on the five year Treasury was 0.76% and the ten year yield ended at 1.84% as of March 31, 2013.

The following graph represents the Treasury yield curve as of March 31, 2013:



TOTAL FUNDS UNDER MANAGEMENT:

The following represents the total City funds under management based on their market values as of March 31, 2013.

	03/31/2013	12/31/2012	\$ Change
Pooled Investment Portfolio	337,398,062	331,047,380	6,350,682
Capital Endowment	3,613,765	3,610,337	3,428
Stranded Investment Reserve Portfolio	66,647,547	66,418,037	229,510
Special Funds	33,459,001	34,742,864	-1,283,863
Investments Held with Fiscal Agents	89,425,155	85,068,471	4,356,684
Total Funds Under Management	530,543,530	520,887,089	9,656,441

The Pooled Investment Portfolio increased by a net \$6.7 million mainly due to the receipt of \$17.87 million in property tax revenues and \$14 million reimbursement from the 2013 Rose Bowl bonds offset by 16.7 million in debt service payments and \$7.5 million withdrawals for capital projects.

The \$3,428 increase in the Capital Endowment Fund and the \$229,510 increase in the Stranded Investment Reserve Portfolio represent investment earnings for the period.

The Special Funds decreased by a net \$1,283,863 mainly due to drawdowns made from the 2010A Water Revenue bond proceeds and from the proceeds of the 2012 Pension Obligation Bonds Cost of Issuance Account.

The investments held with Fiscal Agents category increased by \$4,358,000. This was the net result of the receipt of \$30 million proceeds from the 2013 Rose Bowl Bonds plus approximately \$1 million in investment earnings offset by total withdrawals of \$22.5 million of those proceeds, a \$3 million withdrawal representing the release of the 2006 Rose Bowl reserve requirement and a \$1 million withdrawal to pay debt service on the 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 March 31, 2013, the General Fund had \$34.2 million invested in the Pooled Investment Portfolio, which represents 10.1 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 March 31, 2013. 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 four 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 year-to-date effective yield which represents the portfolio investment earnings rate adjusted by the realized trading gains and losses was 1.27% on the

Pooled Portfolio as of March 31, 2013, compared to the State Treasurer's Local Agency Investment Fund (LAIF) return of 0.28 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 Portfolio was 2.03 percent.

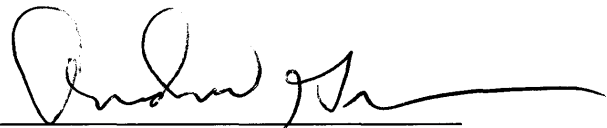
COUNCIL POLICY CONSIDERATION:

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,



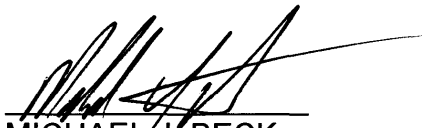
ANDREW GREEN
Director of Finance

Prepared by:



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Deputy Director of Finance/City Treasurer

Approved by:



MICHAEL J. BECK
City Manager

Attachments:

Attachment A – Quarterly Investment Report (Quarter Ending 03/31/2013)