

Agenda Report

August 11, 2014

TO: Honorable Mayor and City Council

THROUGH: Finance Committee

FROM: Department of Finance

SUBJECT: Quarterly Investment Report
Quarter Ending June 30, 2014

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

After a dismal GDP (Gross Domestic Product) growth rate of -2.9% in the first quarter of 2014, the second quarter average GDP is currently estimated at a solid 3.4% rate. The median of 80 economists' forecast for U.S. GDP for the entire 2014 is now estimated at 1.7%. The labor market continued to improve during the quarter. Recent data solidified the strength of the labor market as the unemployment rate dropped to 6.1%, the lowest level since 2008. Consumer confidence remained high and the fundamentals remain sound with solid job growth, improved balance sheets, and modest wage increases. Housing continued to improve. The number of contracts to purchase previously owned homes jumped in May by the most in more than four years, a sign the residential real estate market is rebounding after a slow start in 2014. Consumer prices rose 2.1% in the twelve month ended June while core prices rose 1.9%. While the consumer price index has been slightly on the high side, Fed Chair Yellen stated that inflation is evolving in line with the committee's expectations. The central bank has been tapering its monthly bond purchases as the economy recovers and is on track to end them completely in October 2014.

The yield curve slightly flattened as of June 30th. The thirty year treasury yield dropped 20 basis points (0.20%) and the ten year yield was down 19 basis points (0.19%). The short end underperformed with the two year treasury yield posting a 3.4 basis points (0.034%) increase. Most fixed income spread products offered little upside as spreads remain near historic lows. Despite geopolitical tensions, equities rallied and the S&P 500 index reached new record highs and closed the quarter up 4.7%.

Total Funds Under Management

The following table represents the total City funds under management based on their market values as of June 30, 2014:

	06/30/2014	03/31/2014	\$ Change
Pooled Investment Portfolio	322,281,962	305,753,927	16,528,035
Capital Endowment	2,424,832	2,422,661	2,171
Stranded Investment Reserve Portfolio	67,193,320	66,655,604	537,716
Special Funds	87,378,869	100,639,293	-13,260,424
Investments Held with Fiscal Agents	67,334,377	81,068,702	-13,734,325
Total Funds Under Management	546,613,360	556,540,187	-9,926,827

The Pooled Investment Portfolio value increased by \$16.5 million mainly due to the receipt of \$31 million in property tax revenues, \$5.6 million in sales tax revenues offset by \$17.5 million in debt service payments during the period. The City targets a duration of 2 years in managing the pooled portfolio based on the portfolio's risk and return evaluation and industry best practice as it pertains to public funds management. As of June 30, 2014 the portfolio's duration was 2.18 years.

The Capital Endowment Fund increased by \$2,171 representing investment earnings during the quarter.

The Stranded Reserve portfolio increased by \$537,716 representing the net investment earnings for the period adjusted by the unrealized gains.

Special Funds declined by a net \$13.2 million due to withdrawals of \$5.5 million made from the 2010A Water Revenue Bond proceeds and \$7.9 million from the 2013A Electric Revenue Bond proceeds offset by \$0.255 million investment earnings. These are planned withdrawals to cover the cost of bond financed capital improvements.

Investments held with the Fiscal Agents declined by \$13.7 million as a result of \$4.75 million pre-planned withdrawal on the Rose Bowl bond proceeds, \$0.75 million liquidation and transfer of the Tax Allocation Bonds Series 2000 Reserve Funds, and the payment of \$9.5 million debt service on the City's Pension Obligation Bonds offset by investment gains of \$1.3 million.

The City pools all internal funds to gain economies of scale and to simplify the investment function. There are over 100 funds in the Pooled Investment Portfolio. As of June 30, 2014, the General Fund had an estimated unaudited \$39 million invested in the Pooled Investment Portfolio which represents 12.1 percent of the Pooled Portfolio value. The General Fund's cash balance fluctuates daily based on the timing of revenues receipts 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 with the City Charter, City ordinances, and the bond indentures.

Per 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, 2014. On a monthly basis, the City Treasurer prices the pooled portfolio and all other funds and investments under management. 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 2014 Investment Policy, which was adopted by the City Council on August 12, 2013, 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 began to gradually increase after it stabilized at around 1% due to declining interest rates in the last five years as short-term rates remained between 0.00 percent and 0.25 percent. The fiscal year to date effective yield which represents the portfolio investment earnings rate adjusted by the realized trading gains and losses was 1.09 percent for the Pooled Portfolio as of June 30, 2014, compared to the State Treasurer's Local Agency Investment Fund (LAIF) of 0.24 percent, the Los Angeles County Treasurer's Pooled portfolio yield of 0.66 percent as of May 2014, and the average yield on the two-year U.S Treasury of 0.36 percent. The fiscal year to date effective yield for the Power Reserve portfolio was 1.41 percent.

COUNCIL POLICY CONSIDERATION:

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

FISCAL IMPACT:

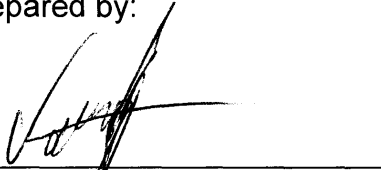
This report is for information only. There is no fiscal impact as a result of this action nor will it have any indirect or support cost requirements. There is no anticipated impact to other operational programs or capital projects as a result of this action.

Respectfully submitted,



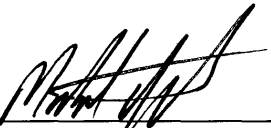
ANDREW GREEN
Director of Finance
Department of Finance

Prepared by:



Vic Erganian
Deputy Director of Finance/City Treasurer

Approved by:



MICHAEL J. BECK
City Manager

Attachments: (1)

Attachment A – Quarterly Investment Report (Quarter Ending 06/30/2014)