



August 31, 2015

TO: Honorable Mayor and City Council
THROUGH: Finance Committee
FROM: Department of Finance
SUBJECT: Quarterly Investment Report
Quarter Ending June 30, 2015

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.

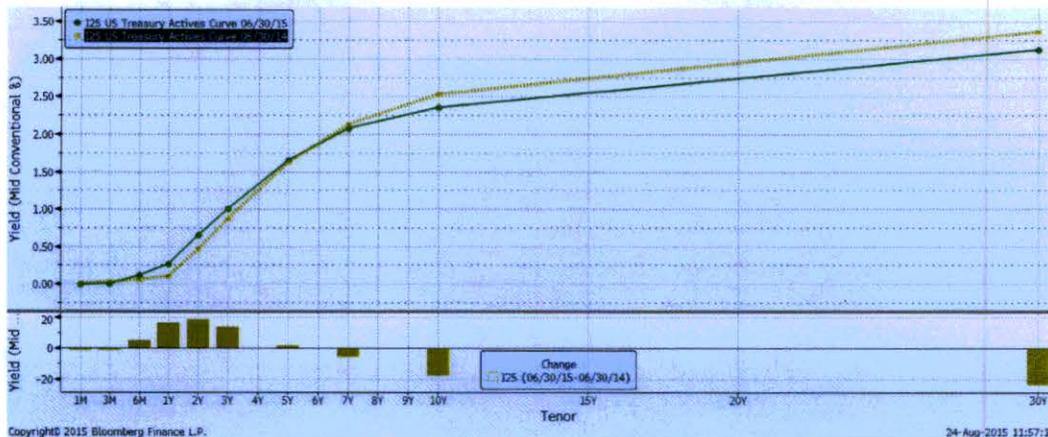
Economic Summary

Revisions made to the nation's latest Gross Domestic Product (GDP) results show that the economy posted a modest growth of 0.6% during the first quarter of 2015 instead of a mild reduction of 0.2%. Similarly the growth rate during the second quarter improved to 2.3% rate, slightly below consensus expectations of 2.5%. Despite the latest financial crisis in Europe, and the uncertainty created by Greece, the US economy showed signs of improvement in the second quarter. The labor market added on average 221,000 jobs per month during the quarter and the unemployment rate dropped to 5.3% in June, compared to 5.5% last quarter end. The unemployment rate maintained its continuous decline after hitting 10% rate in October 2009. More people are working and filings for U.S. unemployment benefits are now hovering near the lowest levels in four decades. Inflation as measured by the year over year Consumer Price Index (CPI) was 0.1% as of June 2015 compared to negative 0.1% last quarter end. This was due as a result of rising gasoline and energy prices. The year over year Core inflation, which excludes volatile items such as food and energy, measured 1.8%, still below the Fed's annual target level of 2%. The housing market started to take off in the second quarter. Existing home sales jumped over 5%, new home sales increased and housing prices continued to increase.

Investors' expectation for a better GDP growth rate in the second quarter and a Fed increase of short term rates in the second half of 2015 caused treasury yields to increase across the treasury curve. The two-year treasury yield increased 9 basis points or 0.09%, the five year yield increased 28 basis points or 0.28%, the ten year jumped 43 basis points or 0.43% and the yield on the long bond was up 59 basis points or 0.59%. As a result, US Treasuries posted their first loss since 2013 as fear among investors of a Federal Reserve rate hike outweighed demand for safe-haven securities as Greece got closer to defaulting its debt payment. The Fed already prepped the market for an increase in the Fed Funds rate in 2015 and the treasury yield has already priced in at least a 0.25% increase in the Fed Funds rate.

After hitting a historic high level of 18,300 in mid-May, the Dow Jones Industrial Average reversed course and ended the quarter at a negative 0.29% return. Similarly, the S&P 500 Index hit a new high in mid-May and ended the quarter with a 0.27% return.

The following represents the yield curve on June 30, 2015 compared to June 30, 2014:



Total Funds Under Management

The following table represents the total City funds under management based on their market values as of June 30, 2015:

| | 06/30/2015 | 03/31/2015 | \$ Change |
|---------------------------------------|--------------------|--------------------|-------------------|
| Pooled Investment Portfolio | 382,657,204 | 371,999,865 | 10,657,339 |
| Capital Endowment | 1,897,229 | 1,900,550 | -3,321 |
| Stranded Investment Reserve Portfolio | 68,347,090 | 68,320,196 | 26,894 |
| Special Funds | 42,384,145 | 50,360,438 | -7,976,293 |
| Investments Held with Fiscal Agents | 59,601,927 | 67,094,502 | -7,492,575 |
| Total Funds Under Management | 554,887,595 | 559,675,551 | -4,787,956 |

The Pooled Investment Portfolio value increased by a net \$10.65 million mainly due to the receipt of \$36.75 million in property tax revenues during the quarter and \$5.96 million in sales tax revenues offset by \$17.96 million in debt service payments, \$7.2 million payment for the GT5 project, \$1.34 million additional payment for employee vacation payouts, \$4.9 million increase in vendor payments during June and \$0.655 million adjustment for a change in investment market values. The City targets a duration of average 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 31, 2015 the portfolio’s duration was 1.85 years.

The Capital Endowment Fund decreased by a net \$3,321, adjusted by investment earnings, due to a drawdown on the fund.

The Stranded Investment Reserve portfolio increased by \$26,894 representing the net investment earnings for the period adjusted by the unrealized gains and losses.

Special Funds decreased by \$7.97 million as a result of withdrawals made from the 2013A Electric Revenue Bond proceeds to cover budgeted and anticipated capital expenditures related to the GT5 repowering project incurred during the period.

Investments held with fiscal agents decreased by \$7.49 million. This was mainly the result of debt service payments made by the Trustee on the 2004 and 1999 Pension Obligation Bonds concurrent with the refunding of these bonds.

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 May 31, 2015, the General Fund had \$56.7 million invested in the Pooled Investment Portfolio which represents 14.7 percent of the May Pooled Portfolio value. The General Fund's cash balance fluctuates daily based on the timing of revenues receipts and payment of expenditures. Because June 30, 2015 is year end and the fiscal year accounting records have not been closed yet, staff estimates that General Fund's cash balance will be approximately \$45 million at the end of June. 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, 2015. 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 2015 Investment Policy, which was adopted by the City Council on August 11, 2014, and Section 53600 of the State Government Code. The City Treasurer currently maintains over \$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 six 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 1.14 percent for the Pooled Portfolio as of June 2015, compared to the State Treasurer's Local Agency Investment Fund (LAIF) of 0.26 percent, the Los Angeles County Treasurer's Pooled portfolio yield of 0.68 percent, and

the average yield on the two-year U.S Treasury of 0.55 percent. The fiscal year to date effective yield for the Power Reserve portfolio was 1.48 percent.

COUNCIL POLICY CONSIDERATION:

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

FISCAL IMPACT:

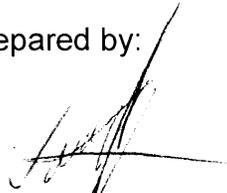
This report is for information only. There is no fiscal impact as a result of this action nor will it have any indirect or support cost requirements. There is no anticipated impact to other operational programs or capital projects as a result of this action.

Respectfully submitted,



JULIE A. GUTIERREZ
Interim 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 03/31/2015)