



## MEMORANDUM

June 1, 2015

**TO:** Honorable Mayor and City Council

**THROUGH:** Finance Committee

**FROM:** Department of Finance

**SUBJECT:** Quarterly Investment Report  
Quarter Ending March 31, 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**

The nation's Gross Domestic Product (GDP) increased by only 0.2% annualized rate during the first quarter of 2015 compared to the 2.4% GDP growth rate for the calendar year 2014. Severe winter weather was stated as the major reason for the slowdown. Tourism, construction, retail, food services and all consumer demand in seasonal items were severely impacted by the harsh weather. This resulted in poor economic reports released during the quarter. The labor market added 552,000 non-farm jobs during the quarter compared to 973,000 the previous quarter and the unemployment rate dropped to 5.5% in March, maintaining its continuous decline after hitting 10% rate in October 2009. Inflation as measured by the year over year Consumer Price Index (CPI) was a negative 0.1% as a result of the drop in oil prices and the strong Dollar against foreign currencies. The year over year Core inflation, which excludes volatile items such as food and energy, measured 1.8%, still below the Fed's target level. Declining growth expectations as well as speculation about the timing of the anticipated Federal Reserve increase in short term rates made investors very cautious. Most economists however remain optimistic and maintain a positive outlook for 2015. The strong labor market coupled with rising household income and strong consumer demand are seen as catalysts for a stronger GDP growth rate for the remaining of 2015. The average forecast for GDP growth rate for 2015 is now estimated at 2.8% according to a Bloomberg survey of 80 economists.

Despite the U.S. economic slowdown, geopolitical turmoil in the Middle East and Ukraine, implementation of quantitative easing in Europe and projected slowdown in the Chinese economy, equity markets in the U.S. ended the quarter with slight positive returns. The Dow Jones Industrial Average returned 0.32% and the quarterly return for the S&P 500 Index was 0.95%. Interest rates dropped during the same period. The yield on the two year treasury dropped 0.10% to 0.56% rate, the yield on the five year treasury was down 0.28%, the ten year treasury yield ended at 1.924%, down 0.25% and the thirty year bond closed at a yield of 2.537%, down 0.21%. The Fed continues to prepare the markets for an interest rate increase this year which will not be an easy ride for the markets and remains on a plan to gradually raise short-term interest rates over a multi-year period in such a manner that satisfies its dual mandate of maintaining full employment, stable prices, and moderate long-term interest rates.

### **Total Funds Under Management**

The following table represents the total City funds under management based on their market values as of March 31, 2015:

	<b>03/31/2015</b>	<b>12/31/2014</b>	<b>\$ Change</b>
Pooled Investment Portfolio	371,999,865	346,154,927	25,844,938
Capital Endowment	1,900,550	1,899,047	1,503
Stranded Investment Reserve Portfolio	68,320,196	67,705,648	614,548
Special Funds	50,360,438	62,343,379	-11,982,941
Investments Held with Fiscal Agents	67,094,502	65,601,808	1,492,694
<b>Total Funds Under Management</b>	<b>559,675,551</b>	<b>543,704,809</b>	<b>15,970,742</b>

The Pooled Investment Portfolio value increased by \$25.844 million mainly due to the receipt of \$42.5 million in property and sales tax revenues plus an increase in check deposits offset by \$18.1 million in debt service payments made during the period. 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 March 31, 2015 the portfolio's duration was 1.99 years.

The Capital Endowment Fund increased by \$1,503 representing investment earnings for the period.

The Stranded Investment Reserve portfolio increased by \$614,548 representing the net investment earnings for the period adjusted by the unrealized gains.

Special Funds decreased by \$11.98 million as a result of withdrawals made from the 2013A Electric Revenue Bond proceeds to cover cost of the GT5 repowering project incurred during the period.

Investments held with fiscal agents increased by a net \$1.49 million. This was the result of \$278,000 investment earnings for the period plus a \$2.2 million deposit by SCCAPA with the trustee adjusted by a drawdown of \$1 million to pay debt service on the 2004 Pension Obligation 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 March 31, 2015, the General Fund had \$49.8 million invested in the Pooled Investment Portfolio which represents 13.4 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 March 31, 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 1/12<sup>th</sup> 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 March 31, 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 0.59 percent. The fiscal year to date effective yield for the Power Reserve portfolio was 1.51 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.

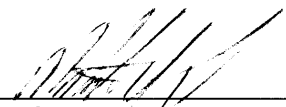
Respectfully submitted,

  
\_\_\_\_\_  
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)