



REQUEST FOR CITY COUNCIL ACTION

MEETING DATE: JUNE 14, 2011

TITLE: TREASURER'S REPORT FOR THE QUARTER ENDED MARCH 31, 2011



Director of Administrative Services



City Manager

RECOMMENDED ACTION

Receive and file.

EXECUTIVE SUMMARY

This report provides a synopsis of investment activity for the City's three investment portfolios for the quarter ended March 31, 2011. These portfolios, which are managed by United American Capital Corporation (UACC) under the direction of the Treasurer, are categorized as the Irvine Pooled Investment Portfolio, Bond Proceeds Fund, and Special District Funds. The market value of all investments under the Treasurer's management totaled \$653 million as of March 31, 2011.

Total portfolio assets, asset allocations, average maturities, yields, and portfolio valuations are presented within this report. A discussion of market conditions is also provided to give perspective to these measurements.

COMMISSION/BOARD/COMMITTEE RECOMMENDATION

At a regular meeting of the Investment Advisory Committee on May 11, 2011, the committee members received and filed the Treasurer's report by a unanimous vote of 4-0 (Committee Member Gonzales absent). On May 23, 2011, at a regular meeting of the Finance Commission, the Commission received and filed the Treasurer's report by a unanimous vote of 5-0.

ANALYSIS

The Treasurer's office is charged with investing the City's three fixed income portfolios in conformance with the Annual Investment Policy adopted by City Council. The Investment Policy is updated annually in accordance with the California State Government Code. Quarterly and annual treasury reports that provide investment activity and performance information for the City's portfolios, in accordance with the adopted Investment Policy, are submitted to the Investment Advisory Committee,

Finance Commission, and City Council. The primary objectives of investing these public funds are the protection of principal (safety), provision of ample funds to meet cash requirements (liquidity), and to obtain a competitive market rate of return (yield), in that order.

Pooled Investment Portfolio

The Irvine Pooled Investment Portfolio contains funds invested for both the daily operational requirements of the City, as well as funds reserved for economic uncertainties, and future rehabilitation and maintenance needs. The Irvine Pooled Investment Portfolio is a combination of several operational funds, including the City's Asset Management Plan (AMP) and funds earmarked for the development of the Orange County Great Park.

As of March 31, 2011, the book value (purchase price of securities as recorded on the City's books) of the Irvine Pooled Investment Portfolio was \$378.1 million and the average weighted yield to maturity was 1.534%. Fiscal year-to-date investment income (interest payments and capital gains) generated by the Irvine Pooled Investment Portfolio as of the quarter ended March 31, 2011 was \$5.85 million. The following chart compares the Irvine Pooled Investment Portfolio statistics over a rolling 12-month period.

**Irvine Pooled Investment Portfolio
 Rolling 12-Month Quarterly Comparison**

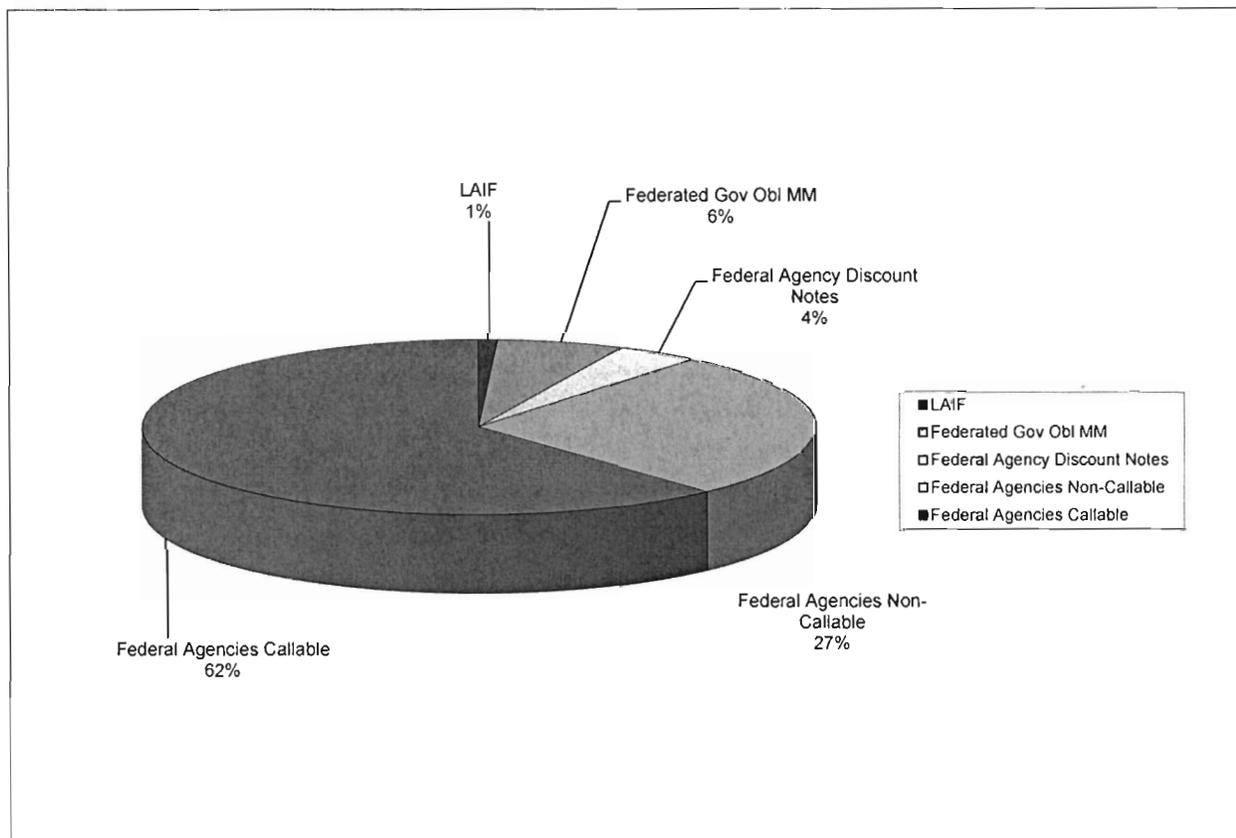
	Mar 31, 2011	Dec 31, 2010	Sept 30, 2010	June 30, 2010
Book Value	\$378,178,635	\$381,398,248	\$403,617,050	\$424,526,366
Market Value	\$378,532,425	\$383,270,170	\$407,235,061	\$428,797,225
Unrealized Gain/(Loss)	\$353,790	\$1,871,922	\$3,618,011	\$4,270,859
Unrealized Gain/(Loss) as % of Book Value	0.09%	0.49%	0.90%	1.01%
Average Yield To Maturity	1.53%	1.66%	1.85%	1.96%
Liquidity 0 – 6 months	16.56%	24.63%	19.36%	21.72%
Average Years To Maturity	2.12 years	2.03 years	2.04 years	1.76 years
Effective Duration	2.03 years	1.89 years	1.94 years	1.61 years

Although bond interest rates have been slowly increasing over the past two quarters, from historic low levels, the Portfolio average yield to maturity continues to decline. Higher yielding bonds that are maturing and being called are still being reinvested in a low interest rate environment. Until bond market rates increase significantly, the Portfolio yield will remain at these low levels. If interest rates continue to increase, there is sufficient liquidity in the Portfolio to take advantage in the shift in interest rates as well as ensure that immediate cash flow needs are met. Also affected by the increasing rise in interest rates is the level of unrealized gains and losses. As with any fixed income

portfolio, such as the City's Portfolio, when interest rates increase, the unrealized gains in the portfolio will diminish.

To ensure the safety of the Portfolio, investments that hold the highest credit quality are selected. The Irvine Pooled Investment Portfolio is comprised primarily of Federal Government sponsored entity debt, otherwise known as Federal Agencies. All of the Federal Agency securities are AAA rated, and fall just below United States Treasury securities as the safest investments. To manage liquidity, the Portfolio is also invested in Federal Agency discount notes, the State of California's Local Agency Investment Fund (LAIF), and the Federated Government Obligation money market fund. The following chart shows the asset allocation of the Irvine Pooled Investment Portfolio.

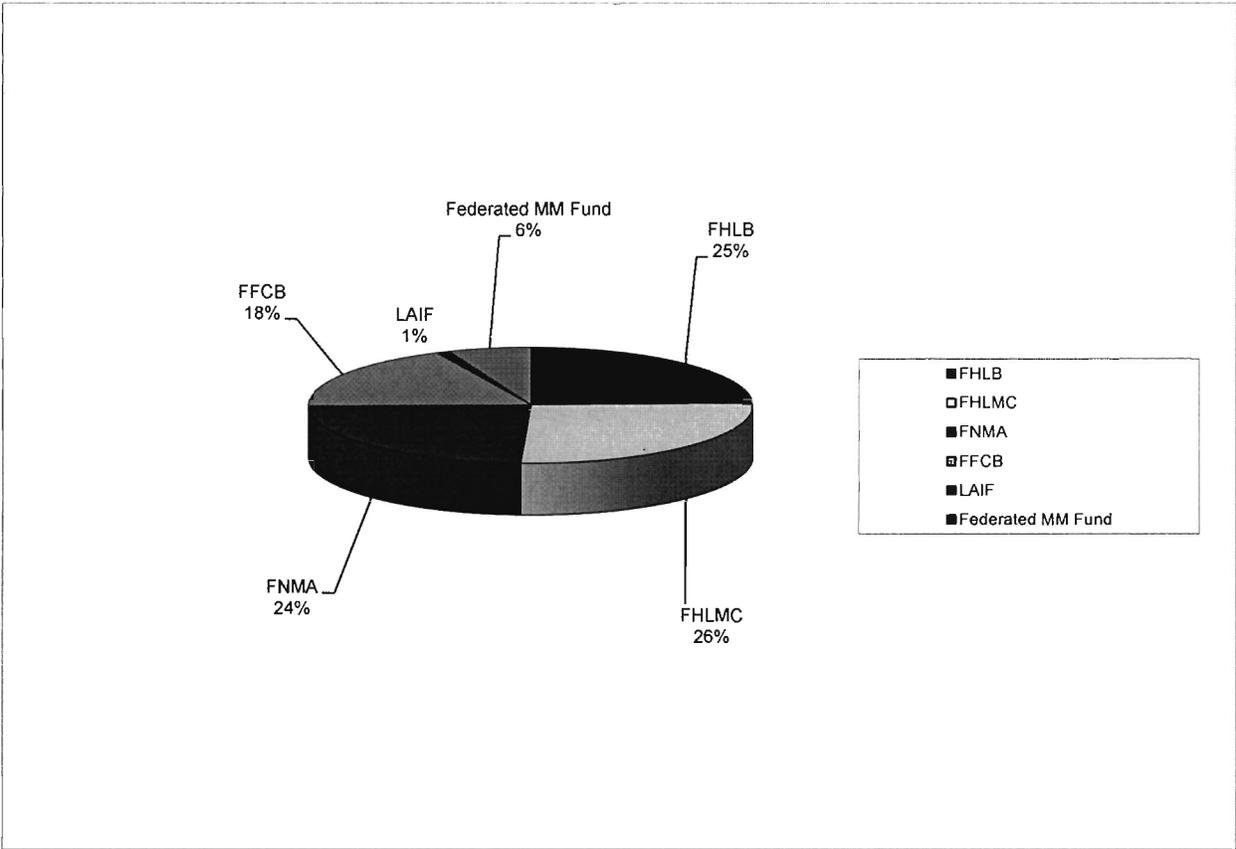
**Irvine Pooled Investment Portfolio
Asset Allocation
as of March 31, 2011**



Since over 90% of the Portfolio is invested in Federal Agency securities, the safety of the Portfolio is further protected by purchasing securities from several different Federal Agencies. The four Federal Government sponsored entities that the City purchases securities from are Federal Home Loan Bank (FHLB or Home Loan), Federal Home Loan Mortgage Corporation (FHLMC or Freddie Mac), Federal National Mortgage

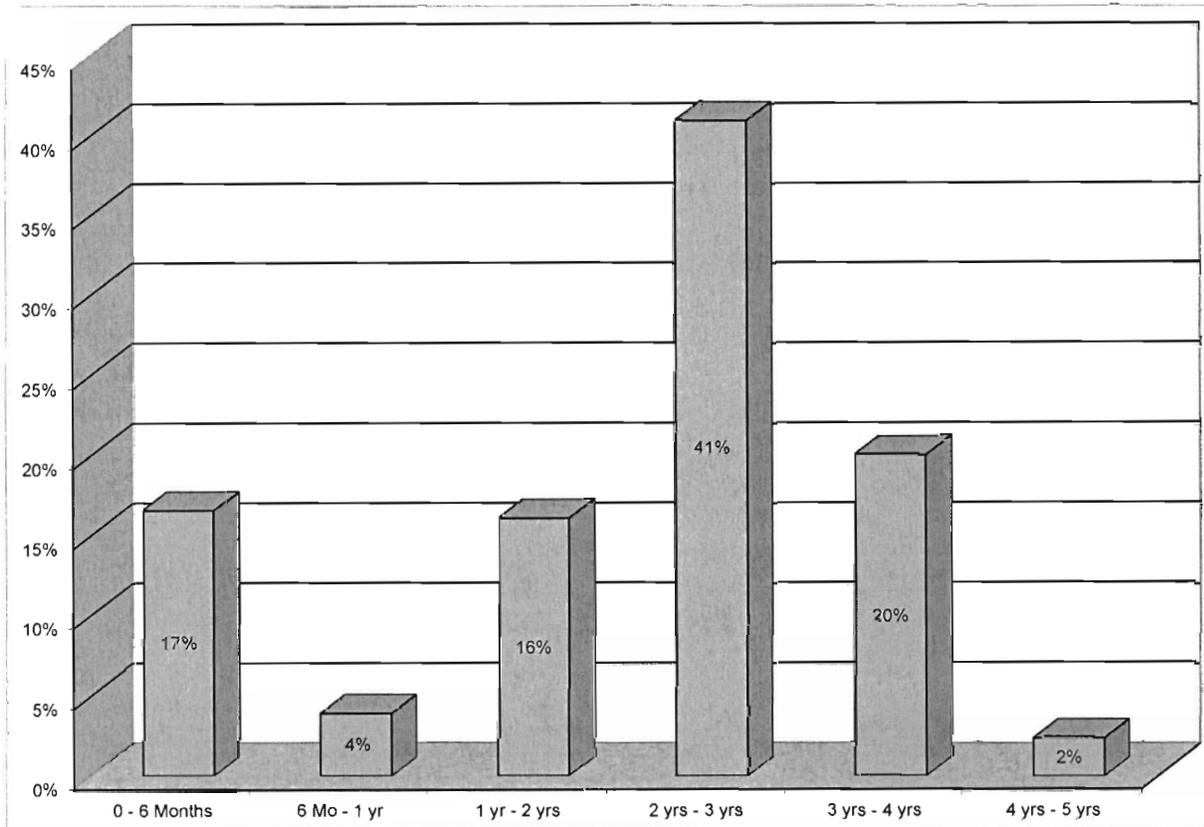
Association (FNMA or Fannie Mae), and Federal Farm Credit Bank (FFCB or Farm Credit). Because Fannie Mae and Freddie Mac are under conservatorship by the U.S. government, securities issued by these government sponsored entities carry an explicit guarantee by the Federal Government, while Home Loan and Farm Credit carry an implied guarantee of the Federal Government. The breakdown of the Portfolio holdings by issuer name is demonstrated on the following chart.

**Irvine Pooled Investment Portfolio
Breakdown by Issuer Name
as of March 31, 2011**



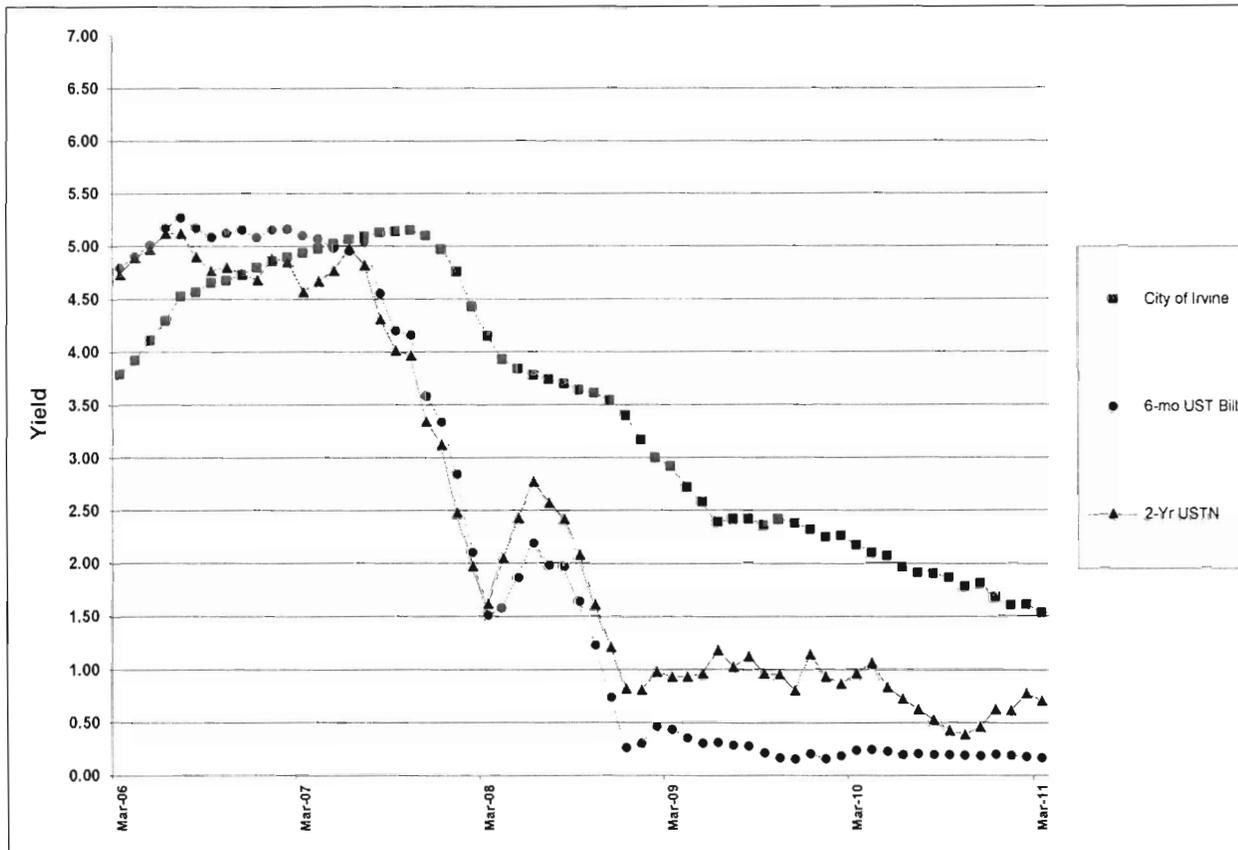
Another key component in Portfolio management is to ensure that the City has enough liquidity available to meet current expenses. By using cash flow forecasts, the portfolio manager is able to project short and long-term cash needs to help make informed and appropriate investment decisions. As of March 31, 2011, the 0 to 6-month liquidity level for the Irvine Pooled Investment Portfolio was at 16.56%, which provides adequate liquidity to meet anticipated expenses. The chart on the following page is an aging out to 5 years (the maximum maturity allowable by policy and state code) of the Irvine Pooled Investment Portfolio.

Irvine Pooled Investment Portfolio Aging of Maturing Investments as of March 31, 2011



To gauge performance of the Portfolio, the City compares the Irvine Pooled Investment Portfolio's yield to maturity against two benchmarks set in the City's Annual Investment Policy. The benchmarks are used as a measure of the Portfolio against market movement. The graph on the following page compares the average yield to maturity of the Irvine Pooled Investment Portfolio to the 6-month United States Treasury (UST) Bill Index and 2-year UST Note Index, the two benchmarks stated in the Annual Investment Policy. The graph shows the spread (difference between the index and the yield to maturity) over the past five years. The City is experiencing a positive spread against both the 6-month UST and the 2-year UST. The Portfolio's yield is higher than the 6-month UST by 1.37% and higher than the 2-year UST by 0.83%.

Irvine Pooled Investment Portfolio Yield to Maturity Compared to Assigned Benchmarks March 2006 through March 2011



The Irvine Pooled Investment Portfolio invests funds attributable to the Asset Management Plan (AMP) and the Great Park Corporation. Pertinent information related to the AMP and Great Park Corporation funds are explained in the following paragraphs.

Asset Management Plan (AMP) Funds

Interest earnings for the AMP funds are allocated based on the AMP fund average daily cash balance. The AMP earned interest of \$184,006 for the quarter ending March 31, 2011 based on an average cash balance of \$53.2 million. Additionally, the AMP has accrued interest through March 31, 2011 of approximately \$2.7 million. This accrual is the result of \$6.6 million in loans made in 2005 and 2006 by the AMP to the Irvine Redevelopment Agency to fund Agency activities prior to the receipt of tax increment funds. Principal and interest payments are scheduled to be repaid to the AMP from tax increment revenue starting in fiscal year 2015-16, however, interest is accruing at the City's earnings rate plus 3%.

Great Park Corporation Funds

The Great Park earned interest of \$5.8 million for the quarter ended March 31, 2011. Of the \$5.8 million of earned interest, \$5.5 million represents partial repayment of interest accrued under the Purchase and Sale and Financing Agreement between the Redevelopment Agency and City dated August 14, 2007. City Council authorized the receipt of payment from the Irvine Redevelopment Agency on March 8, 2011. The repayment amount was deposited in the Great Park Fund pursuant to Section 2.4 of the Agreement. The remaining interest earnings of \$319,072 are interest allocated based on the Great Park funds' average daily cash balance. The Great Park had an average daily cash balance of \$91.8 million for the quarter ended March 31, 2011.

Bond Proceeds Fund Portfolio

The Bond Proceeds Fund Portfolio contains special district construction and administration funds that are not held by a trustee. These include older bond issues, funds on hand to finance the City's assessment district inspection and administration, and property assessments received from the County prior to being sent to the trustee. Investment strategy differs in the Bond Proceeds Fund Portfolio from the Pooled Investment Fund Portfolio due to different cash needs between the two. The Bond Proceeds Fund Portfolio needs to be much more liquid to meet debt service payments.

The bullet points below provide a brief synopsis of the Bond Proceeds Portfolio for the quarter ended March 31, 2011.

- Book Value \$26,862,780
- Market Value \$26,907,565
- Unrealized Gains/(Losses) \$44,785
- Average Weighted Yield to Maturity 0.282%
- Fiscal Year to Date Investment Income \$84,466

Special District Funds Portfolio

The Special District Funds Portfolio contains project and reserve funds for 48 Special Assessment District bond issues and one Community Facilities District. Investments in this Portfolio are made in accordance with each bond's indenture and the strategy is set according to the cash flow needs of the individual district. The Special District Funds Portfolio must also remain very liquid to provide project funds, when requested, as well as meet debt service payment requirements.

The bullet points below provide a brief synopsis of the Special District Funds Portfolio for the quarter ended March 31, 2011.

- Book Value \$247,002,644
- Market Value \$247,134,771
- Unrealized Gains/(Losses) \$132,127
- Average Weighted Yield to Maturity 0.079%
- Fiscal Year to Date Investment Income \$112,970

Market Conditions

Bond interest rates posted an overall increase since the prior quarter end primarily due to the evidence of moderate growth seen in the economic data releases for the quarter. Although there has been slight improvement in the labor markets, the improvement has not been enough to support a meaningful stimulus to the economy. There was some volatility during the quarter due to investors shifting funds from the equity market into the safety of the bond market because of the unrest in the Middle East and North Africa, causing rates to retreat from highs posted mid-quarter. The Federal Reserve continued to leave the Fed Funds rate at a range of 0% to 0.25% during the January and March Federal Open Market Committee meetings. The Federal Reserve continued its program of purchasing Treasury securities to aid in stimulating the economy.

ALTERNATIVES CONSIDERED

None.

FINANCIAL IMPACT

Fiscal year-to-date investment income for the Irvine Pooled Investment Portfolio, Bond Proceeds, and Special Districts portfolios totaled \$6.8 million with investments structured for security and liquidity.

REPORT PREPARED BY Michele C. Lund, City Treasurer