

Department of Finance

Interoffice Memorandum

TO: Mayor and Commissioners,
Robert DiSpirito, City Manager
Board of Finance

FROM: Karen Feeney, Director of Finance

DATE: August 26, 2014

RE: Monthly Investment Report for the Period Ended July 31, 2014

This regular reporting fulfills the reporting requirements as outlined in the City's investment policy.

Background

The City's investment policy, adopted by Commission on November 7, 2002 (Resolution 02-39) and revised January 21, 2010 (Resolution 10-05), sets out the guidelines concerning the permitted types of investments, minimum ratings of the investments, maximum lengths of investment, and the diversification standards of the portfolio.

The primary objectives, in priority order, of the City's investment activities shall be: Safety, Liquidity, Transparency, and Return on Investment.

With these objectives in mind, the policy established aggregate limits of eligible securities, as set forth below:

U.S. Treasuries and Federal Agencies	95%
Government Sponsored Enterprises	50%
Local Government Investment Pools	50%
State Board of Administration (Pool A)	5%
State and Local Governments	10%
Money Market Mutual Funds	25%
Certificates of Deposit (Qualified Public Depositories)	40%
Corporate Debt Securities/Commercial Paper	10%
Repurchase Agreements	10%

The policy also further safeguards the portfolio by authorizing a maximum level of investment, in aggregate, by security type, by which no more than 25 percent of the City's investment portfolio will be invested in a single security. No more than 50 percent of the City's total investment portfolio will be invested with, or handled by, a single financial institution or broker/dealer.

Current Portfolio at a Glance

The City's portfolio is broken down in the graph below. In January, the City reduced its investment in the Florida Safe LGIP (Local Government Investment Pool) by \$9M and placed these funds in a QPD (Qualified Public Depository) fixed rate Money Market account with a one year yield to maturity, 31 basis points (.31 percent), compared to 10 basis points (.10 percent) in the LGIP. This investment is classified as a "Savings Deposit Account" with Florida Community Bank. However, due to limitations in our Tracker investment reporting software, the attached reports will show this item included with Certificates of Deposit. Since this investment is not actually a CD, it has been broken out separately in the graphic presentation below.

The City had a \$2M CD that matured on May 12th and we also have a \$3M CD maturing in August of 2014. We continue to review investment opportunities as these CDs mature. Please see the graphic of the Cash and Investment timeline. Note that "Other???" on the timeline includes several investment types, with varied maturities, as allowed by the Investment Policy. On July 29th, I purchased two callable securities, each at par of \$2.5 million, one at a discounted cost of 99.9. These were both FHLB Step-up notes wherein the coupon steps up at intervals (pays more), if not called. These securities pay considerably more than what we have been receiving for interest. I've outlined the rates below:

- 1) FHLB 1.50% 7/30/19 callable quarterly beginning 1/30/15, priced at 99.9

If Not Called, Coupon Steps as Follows:

To 1.75% on 1/30/17 = 1.541% YTC for 2.5 years

To 2.00% on 1/30/18 = 1.599% YTC for 3.5 years

To 3.00% on 7/30/18 = 1.648% YTC for 4 years

To 5.00% on 1/30/19 = 1.793% YTC for 4.5 years

- 2) FHLB 1.25% 7/30/19 callable Annually Beginning 7/30/15 priced at 100

If Not Called, Coupon Steps as Follows:

To 1.375% on 7/30/15 = 1.250% YTC for 1 year

To 1.750% on 7/30/16 = 1.312% YTC for 2 years

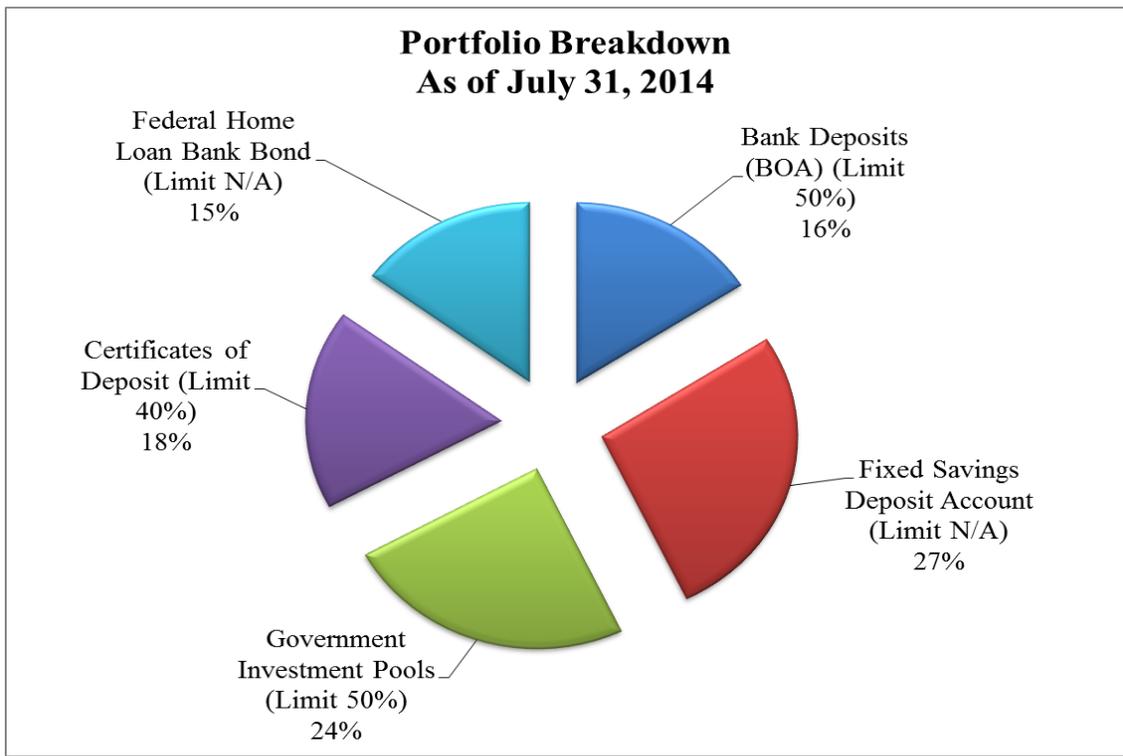
To 2.500% on 7/30/17 = 1.456% YTC for 3 years

To 3.250% on 7/30/18 = 1.710% YTC for 4 years

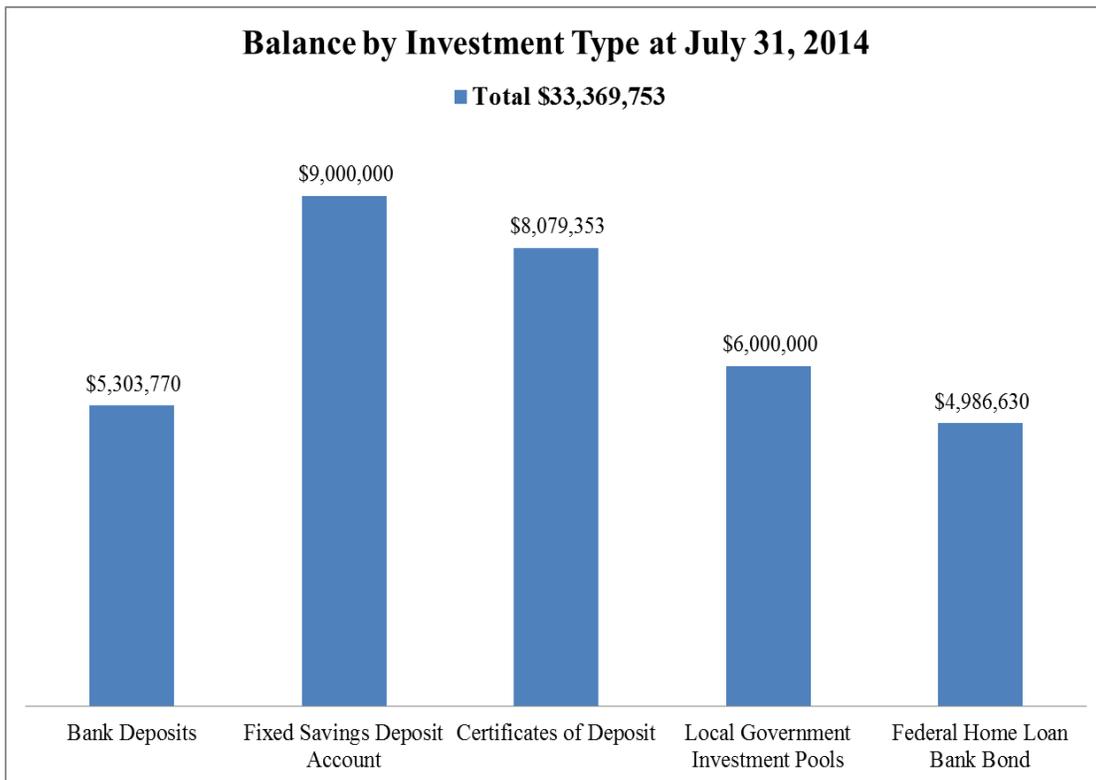
As you can see by looking at the Investment Tracker report, even if we hold these funds only to the first call date we will improve our interest earnings. The City's average Yield to Market is now .519%, vs. .225% at the end of June. In one year, based on \$33 million, this amounts to an increase of \$97,020.

We continue maintaining a relatively short position, even with the 4 and 4.5 year coupons on the FHLB investments. Our current local government investment pools (LGIP) yield the City between ten basis points (.10 percent) and 16 basis points (.16 percent), with a one-year Treasury note, as of July 31, 2014, nominal yield 10 basis points (.10 percent).¹ Certificates of Deposit and other bank deposits are yielding between 31 and 60 basis points (.31 and .60 percent), with the newly purchased FHLB callable step coupons at 2.005 and 2.098 percent to maturity.

¹ Additional rate information and updates available at www.federalreserve.gov/releases/H15/update/



The graph below breaks down our portfolio by type of investment, and shows amounts invested:



Equity in Pooled Cash

The table below lists the equity in pooled cash by fund.

Equity In Pooled Cash By Major Fund As of July 31, 2014

General Fund	\$	3,905,487
Impact Fees	\$	152,520
County Gas Tax Fund	\$	963,535
Parks & Rec Capital Projects	\$	103,210
Capital Improvement Fund	\$	298,730
One Cent Sales Tax	\$	1,531,708
Refuse Collection Fund	\$	206,040
Water/Sewer Utility Fund	\$	13,764,005
Marina Fund	\$	1,104,503
Stormwater Utility Fund	\$	1,512,347
Vehicle Maintenance Fund	\$	3,266,026
Facility Maintenance Fund	\$	1,310,521
Self-Insurance Fund	\$	4,070,941
CRA Fund	\$	616,905
All other Funds	\$	268,376

TOTAL as of July 31, 2014: \$ 33,074,853

The variance between the “books” balance of \$33,369,753 and the bank and investment statements is due to timing, i.e. deposits in transit and checks, etc., outstanding.

Key National Economic Indicators

Federal Funds Rate – A press release dated June 18, 2014, states that “Information received since the Federal Open Market Committee met in April indicates that growth in economic activity has rebounded in recent months. Labor market indicators generally showed further improvement. The unemployment rate, though lower, remains elevated. Household spending appears to be rising moderately and business fixed investment resumed its advance, while the recovery in the housing sector remained slow. Fiscal policy is restraining economic growth, although the extent of restraint is diminishing. Inflation has been running below the Committee’s longer-run objective, but longer-term inflation expectations have remained stable.” Also, “To support continued progress toward maximum employment and price stability, the Committee today reaffirmed its view that a highly accommodative stance of monetary policy remains appropriate. In determining how long to maintain the current 0 to 1/4 percent target range for the federal funds rate, the Committee will assess progress - both realized and expected - toward its objectives of maximum employment and 2 percent inflation.” It appears that absent large economic changes, no major changes to asset purchases or the fed funds rate are expected.

Consumer Confidence – The Conference Board Consumer Confidence Index, which had improved in June, increased in July. The Index now stands at 90.9 (1985=100), up from 86.4 in June.

Consumer Price Index (CPI) – The Consumer Price Index for All Urban Consumers (CPI-U) increased 0.1 percent in July on a seasonally adjusted basis, the U.S. Bureau of Labor Statistics reported in a news release dated August 19, 2014. Over the last 12 months, the all items index increased 2.0 percent before seasonal adjustment. The all items index posted its smallest seasonally adjusted increase since February; the indexes for shelter and food rose, but were partially offset by declines in the energy index and the index for airline fares. The food index rose 0.4 percent in July, with the food at home index also rising 0.4 percent after being unchanged in June. The decrease in the energy index was its first since March and featured declines in the indexes of all the major energy components.

Key Local Economic Indicators

Florida Unemployment - Florida’s seasonally adjusted unemployment rate was 6.2 percent in July 2014, unchanged from the June 2014 rate of 6.2 percent, and down 1.1 percentage points from 7.3 percent a year ago. There were 597,000 jobless Floridians out of a labor force of 9,611,000. The U.S. unemployment rate was also 6.2 percent in July. Florida’s unemployment rate has been less than or equal to the national rate for 14 of the last 15 months.

Area Statistic	July 2014	June 2014	Change
Florida (Seasonally adjusted)	6.2%	6.2%	+0.0%
Pinellas County (Not seasonally adjusted)	6.4%	6.0%	+0.4%
Tampa-St. Petersburg-Clearwater (Not seasonally adjusted)	6.8%	6.3%	+0.5%

Florida Consumer Sentiment Index

- Consumer sentiment among Floridians rose two points in July to 84, hitting another post-recession high. “We appear to be gaining some traction among consumers here in Florida,” said Chris McCarty, the Survey Director. “The last time Florida consumers were this confident was over seven years ago in April 2007, prior to the recession, when the housing market was beginning to unravel. Prior to that the index peaked at 98 in January 2004. Overall we are quite a bit behind where we would typically be this far out from the end of a recession, but we had a lot further to go in this recovery.” McCarty also stated that “Given the current trends here in Florida our expectation is that consumer sentiment will continue to rise slightly in the short run. While an index of 84 is not historically high, it does reflect a far more optimistic consumer than we have seen over the past year. Most of the potential effects of confidence are external to the state. These include the inevitable rise in short term interest rates that the Federal Reserve will implement as early as this fall, the effect on consumers from escalation of conflict in the Middle East and Ukraine, and a significant correction in the stock market which is a topic of discussion among economic pundits.”

Florida housing indicators

- RealtyTrac® (www.realtytrac.com) released its U.S. Foreclosure Market Report for July 2014, which shows foreclosure filings — default notices, scheduled auctions and bank repossessions — were reported on 109,434 U.S. properties in July, an increase of 2 percent from the previous month but still down 16 percent from a year ago. The report also shows one in every 1,203 U.S. housing units with a foreclosure filing during the month. According to Daren Blomquist, vice president at RealtyTrac, “July was the 46th consecutive month where U.S. foreclosure activity was down on a year-over-year basis. After nearly four years of falling foreclosures, we are starting to see evidence that foreclosure numbers are normalizing at the national level. The 16 percent decrease in July was exactly half the annual decrease we saw a year ago in July 2013, when U.S. foreclosure activity was down 32 percent on a year-over-year basis.

Florida foreclosure activity decreased 30 percent on a year-over-year basis in July — the 12th consecutive month with an annual decrease — but the state still posted the nation’s highest state foreclosure rate for the 10th consecutive month. One in every 469 Florida housing units had a foreclosure filing in July, more than two and a half times the national average. Florida accounted for the eight highest foreclosure rates among metropolitan statistical areas with a population of 200,000 or more in July, led by Ocala at No. 1, with one in every 296 housing units with a foreclosure filing — more than four times the national average.

- The median sale price for a home in Florida was \$185,000 in June 2014, up 5.2 percent from \$175,900 a year ago, according to the Monthly Market Summary (Single Family Homes) Report published by *FloridaRealtors.org*. There were 23,181 closed home sales in May, up 14.6% from 20,235 a year ago.

Florida sales and tax revenue

- Florida Sales and Use Tax collections were \$1.8B in May 2014. May 2013 collections were slightly under coming in at \$1.7B.
- Pinellas County Sales and Use Tax collections totaled \$76.6M in May 2014, compared to \$71.3M a year ago.
- Sales tax revenues comprise 14.3% of total General Fund revenues, and include ½ Cent Sales Tax and the Communications Services Taxes (similar to sales taxes @ 5.32%). As of the end of July, 2014, or 83% through the year, we have collected 82% of the budgeted amounts.