

Department of Finance

Interoffice Memorandum

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

FROM: Karen Feeney, Director of Finance

DATE: September 26, 2014

RE: Monthly Investment Report for the Period Ended August 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

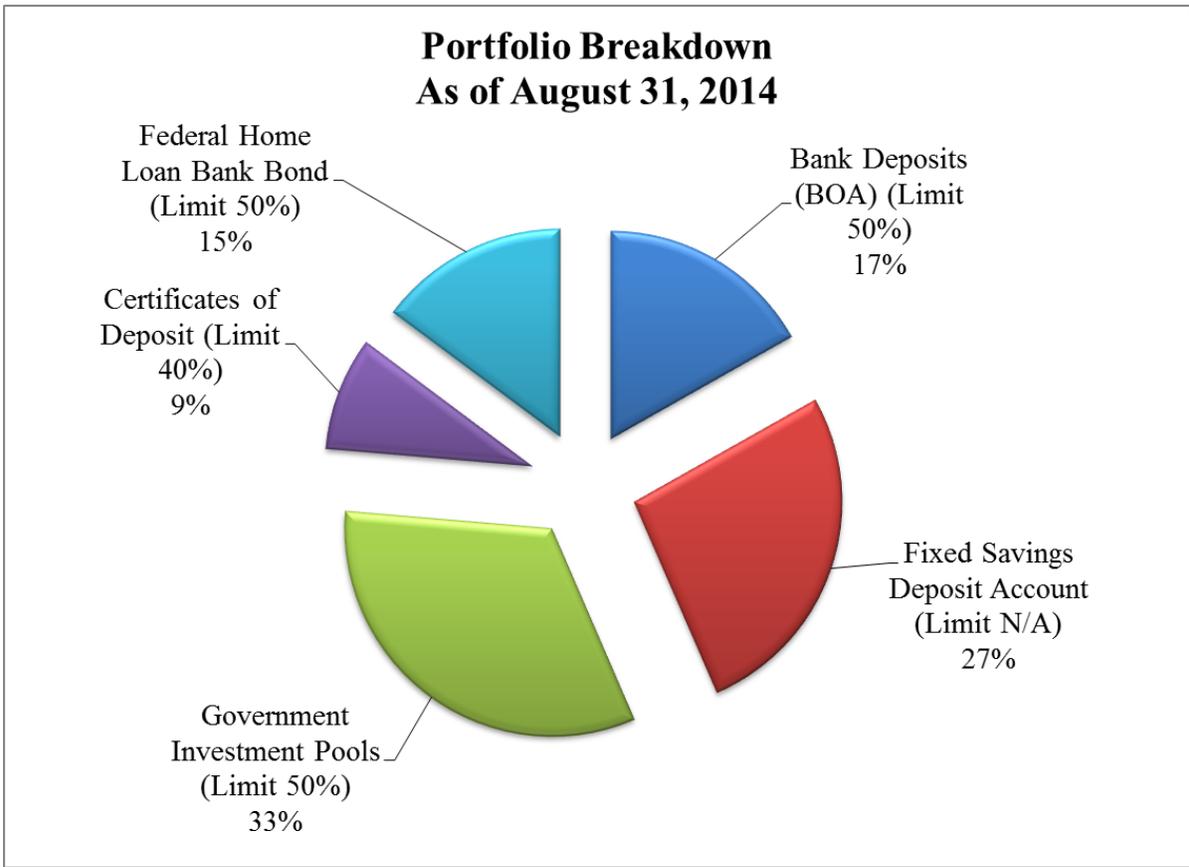
The City's portfolio is broken down in the graph below. In January, the City reduced its investment in the Florida Safe LGIP (Local Government Investment Pool) by \$9M and placed these funds in a QPD (Qualified Public Depository) fixed rate Money Market account with a one year yield to maturity, 31 basis 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 a \$3M CD matured in August of 2014. On July 29th, we 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.

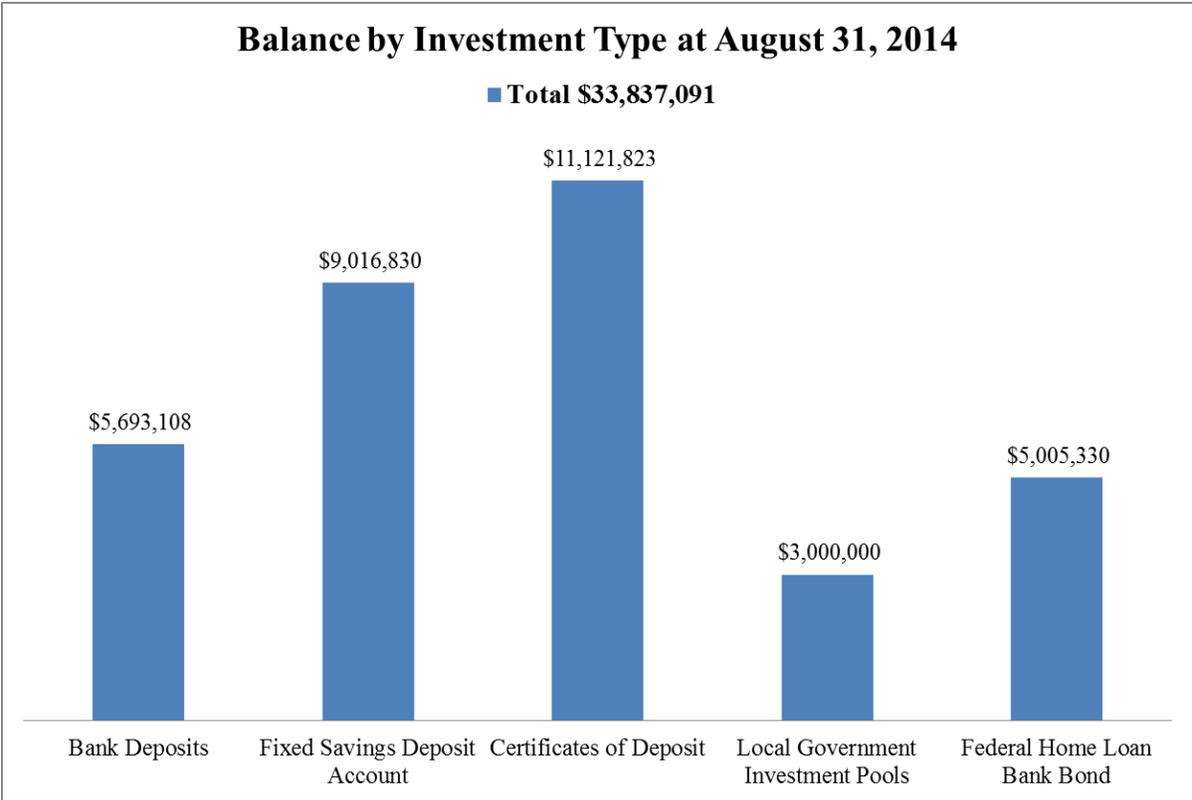
As you can see by looking at the Investment Tracker report, even if we hold these funds only to the first call date we will improve our interest earnings. The City's average Yield to Market is now .519%, vs. .225% at the end of June. In one year, based on \$33 million, this amounts to an increase of \$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 August 31, 2014

General Fund	\$	3,866,291
Impact Fees	\$	152,520
County Gas Tax Fund	\$	1,037,478
Parks & Rec Capital Projects	\$	99,481
Capital Improvement Fund	\$	298,730
One Cent Sales Tax	\$	2,085,380
Refuse Collection Fund	\$	318,364
Water/Sewer Utility Fund	\$	14,231,654
Marina Fund	\$	1,124,083
Stormwater Utility Fund	\$	1,395,948
Vehicle Maintenance Fund	\$	2,805,037
Facility Maintenance Fund	\$	1,169,695
Self-Insurance Fund	\$	3,838,641
CRA Fund	\$	565,424
All other Funds	\$	222,026

TOTAL as of August 31, 2014: \$ 33,210,755

The variance between the “books” balance of \$33,837.092 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 September 18, 2014, states that “The economy is continuing to make progress toward the Federal Open Market Committee’s (FOMC) objective of maximum sustainable employment. In the labor market, conditions have improved further in recent months. Although the pace of job growth has slowed some recently, job gains have averaged more than 200,000 per month over the past three months. The unemployment rate was 6.1 percent in August, two-tenths lower than the data available at the time of the June FOMC meeting. The Committee continues to see sufficient underlying strength in the economy to support ongoing improvement in the labor market. Although real Gross Domestic Product (GDP) rose at an annual rate of only about 1 percent in the first half of the year, that modest gain reflected in part transitory factors, including a dip in net exports. Indeed, private domestic final demand—that is, spending by domestic households and businesses—grew about twice as fast as GDP. The central tendency of the unemployment rate projections is slightly lower than in the June projections and now stands at 5.9 to 6.0 percent at the end of this year. Committee participants generally see the unemployment rate declining to its longer-run normal level over the course of 2016 and edging a bit below that level in 2017.

Consumer Confidence – The Conference Board Consumer Confidence Index®, which had increased in July, improved further in August. The Index now stands at 92.4 (1985=100), up from 90.3 in July.

Consumer Price Index (CPI) – The Consumer Price Index for All Urban Consumers (CPI-U) decreased 0.2 percent in August on a seasonally adjusted basis, the U.S. Bureau of Labor Statistics reported today. Over the last 12 months, the all items index increased 1.7 percent before seasonal adjustment. The seasonally adjusted decline in the all items index was the first since April 2013. The indexes for food and shelter rose, but the increases were more than offset by declines in energy indexes, especially gasoline. The energy index fell 2.6 percent, with the gasoline index declining 4.1 percent and the indexes for natural gas and fuel oil also decreasing.

Key Local Economic Indicators

Florida Unemployment - Florida’s seasonally adjusted unemployment rate was 6.3 percent in August 2014, up 0.1 percentage point from the July 2014 rate of 6.2 percent, while down 0.8 percentage point from 7.1 percent a year ago. There were 602,000 jobless Floridians out of a labor force of 9,610,000. The U.S. unemployment rate was 6.1 percent in August. Florida’s unemployment rate has been less than or equal to the national rate for 14 of the last 16 months.

Area Statistic	August 2014	July 2014	Change
Florida (Seasonally adjusted)	6.3%	6.2%	+0.1%
Pinellas County (Not seasonally adjusted)	6.3%	6.4%	-0.1%
Tampa-St. Petersburg-Clearwater (Not seasonally adjusted)	6.8%	6.8%	+0.0%

Florida Consumer Sentiment Index

- Consumer sentiment among Floridians remained flat at a post-recession high of 82 for the third straight month. “This is a consistent signal that the economy is running at a steady pace,” said Chris McCarty, the Survey Director. “It also suggests that the Florida economy is not growing rapidly. While it’s good news that the index is not volatile, we would like it to be about 10 points higher given that the recession ended more than five years ago. The interpretation of Florida consumer sentiment mirrors the debate occurring at the Federal Reserve where some see the economy to have largely recovered and others still see signs of weakness. While an overall reading of 82 is historically nowhere near a recessionary level it is also not a number associated with strong economic growth. On a more positive note, the mid-month reading from the University of Michigan for the U.S. as a whole declined from 81.8 last month to 79.2 mid-month. While U.S. consumers are somewhat more pessimistic, Florida consumers are holding steady.” McCarty also stated that “The debate among members of the Federal Open Market Committee, which among other things sets short term interest rates, is a reflection of discussions among economists about where the economy is headed. Members are split with some seeing us firmly on the road to recovery and advocating for increased interest rates to head off inflation. The other side, including Janet Yellen the Chairman, see signs of weakness and stagnation and advocate a delay in raising interest rates. These decisions will have a big effect on Florida, primarily through the housing market, but also for other kinds of borrowing. The next meeting will be in mid-September. While they will not raise interest rates at that meeting, they may signal whether rates will go up early in 2015 or later, such as the second half of the year.”

Florida housing indicators

- RealtyTrac® (www.realtytrac.com) released its U.S. Foreclosure Market Report for August 2014, which shows foreclosure filings — default notices, scheduled auctions and bank repossessions —

were reported on 116,913 U.S. properties in August, an increase of 7 percent from the previous month but still down 9 percent from a year ago — the smallest decrease in the last 47 consecutive months of year-over-year declines in U.S. foreclosure activity. According to Daren Blomquist, vice president at RealtyTrac, “The August foreclosure numbers demonstrate that although the foreclosure crisis is well behind us, the messy business of cleaning up the distress lingering from the housing bust continues in many markets. The annual increase in foreclosure auctions — the first since the robo-signing controversy rocked the foreclosure industry back in late 2010 — indicates mortgage servicers are finally adjusting to the new paradigms for proper foreclosure that have been implemented in many states, whether by legislature or litigation or both.”

- The median sale price for a home in Florida was \$180,000 in August 2014, up 2.9 percent from \$175,000 a year ago, according to the Monthly Market Summary (Single Family Homes) Report published by *FloridaRealtors.org*. There were 21,742 closed home sales in August, up 4.9% from 20,726 a year ago.

Florida sales and tax revenue

- Florida Sales and Use Tax collections were \$1.8B in July 2014. July 2013 collections were slightly under coming in at \$1.7B.
- Pinellas County Sales and Use Tax collections totaled \$74M in July 2014, compared to \$69M a year ago.
- Sales tax revenues, including State Revenue Sharing, ½ Cent Sales Tax, and the Communications Service Tax comprise 19% of total General Fund revenues, not including transfers in. As of the end of August, 2014, or 92% through the year, we have collected 94.2% of the budgeted amount. Additionally, we have collected about 104% of budgeted Penny revenues, as projected.

Sales Tax Revenues			
	<u>Budget</u>	<u>YTD FY14</u>	<u>%</u>
Penny	\$ 2,800,000	\$ 2,924,279	104.4%
State Rev. Sharing	\$ 1,094,400	\$ 1,063,390	97.2%
1/2 Sales Tax	\$ 1,962,000	\$ 1,862,328	94.9%
Comm. Svc. Tax	\$ 1,384,200	\$ 1,255,829	90.7%