

Department of Finance

Interoffice Memorandum

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

FROM: Karen Feeney, Director of Finance

DATE: July 2, 2014

RE: Monthly Investment Report for the Period Ended May 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:

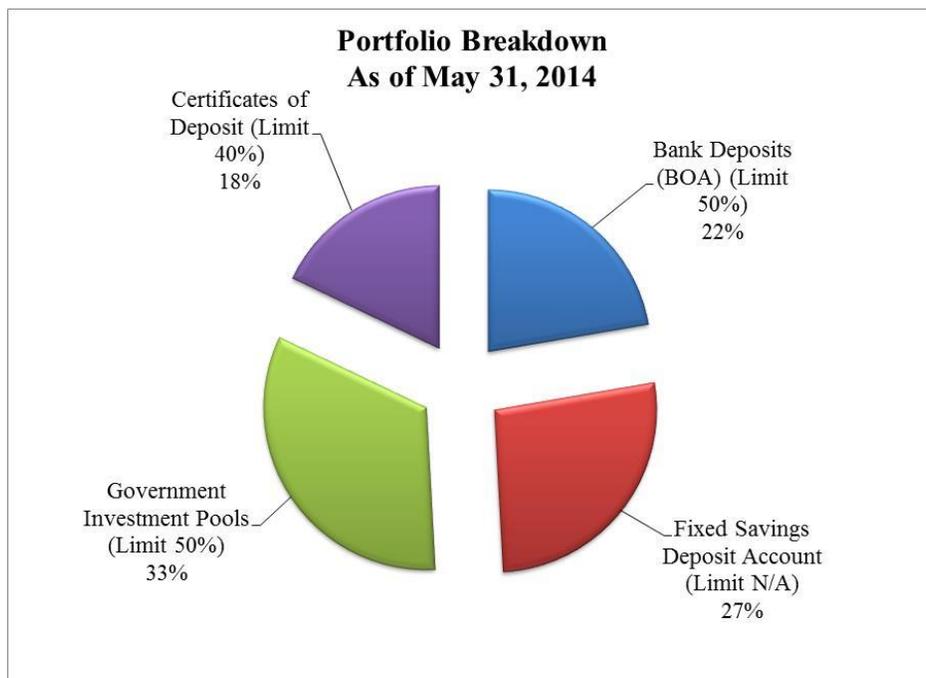
U.S. Treasuries and Federal Agencies	95%
Government Sponsored Enterprises	50%
Local Government Investment Pools	50%
State Board of Administration (Pool A)	5%
State and Local Governments	10%
Money Market Mutual Funds	25%
Certificates of Deposit (Qualified Public Depositories)	40%
Corporate Debt Securities/Commercial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

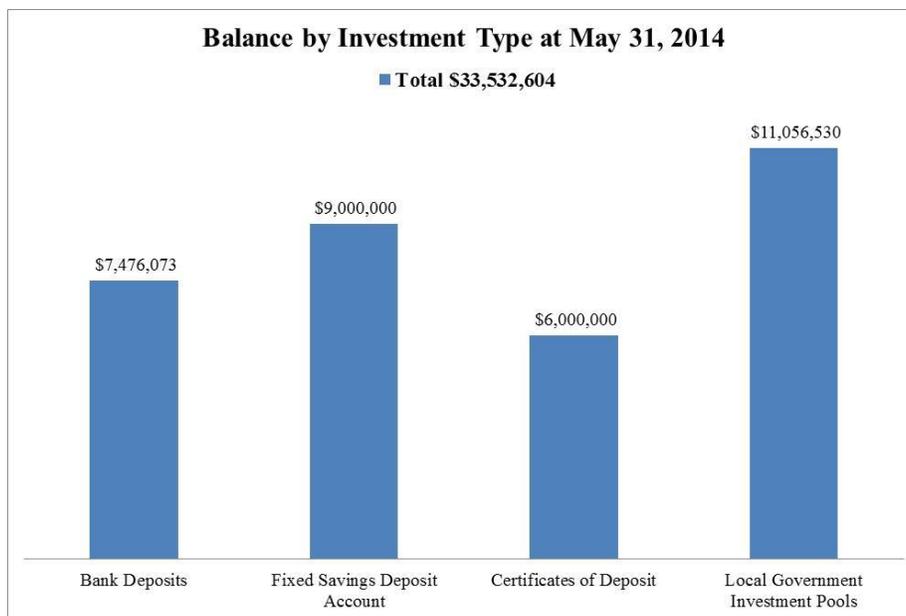
The City had a \$2M CD that matured on May 12th and we also have a \$3M CD maturing in August of 2014. We continue to review investment opportunities as these CDs mature. Please see the graphic of the Cash and Investment timeline. Note that “Other???” on the timeline includes several investment types, with varied maturities, as allowed by the Investment Policy. I plan to invest \$3 million in GSE’s with longer maturities in the near future.



Although the economy continues to improve slightly, economic indicators are mixed and interest rates remain low, so we will continue maintaining a relatively short position. At this point, locking into any long term investment would yield minimal, if any, incremental interest rate yield. For example, our current local government investment pools (LGIP) yield the City between ten basis points (.10 percent)

and 32 basis points (.32 percent), with a one-year Treasury note, as of May 31, 2014, nominal yield 10 basis points (.10 percent).¹

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.

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

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

General Fund	\$ 4,462,152
Impact Fees	\$ 161,076
County Gas Tax Fund	\$ 792,907
Parks & Rec Capital Projects	\$ 171,671
Capital Improvement Fund	\$ 222,540
One Cent Sales Tax	\$ 1,700,048
Refuse Collection Fund	\$ 527,288
Water/Sewer Utility Fund	\$ 13,416,736
Marina Fund	\$ 1,009,435
Stormwater Utility Fund	\$ 1,465,610
Vehicle Maintenance Fund	\$ 3,021,190
Facility Maintenance Fund	\$ 1,543,035
Self-Insurance Fund	\$ 4,031,807
CRA Fund	\$ 667,240
All other Funds	\$ 81,857

TOTAL as of May 31, 2014: \$ 33,274,591

The variance between the “books” balance of \$33,532,604 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 decreased in April, improved moderately in May. The index now stands at 83 (1985=100), up from 81.7 in April.

Consumer Price Index (CPI) – The Consumer Price Index for All Urban Consumers (CPI-U) increased 0.4 percent in May on a seasonally adjusted basis, the U.S. Bureau of Labor Statistics reported in a news

release dated June 17, 2014. Over the last 12 months, the all items index increased 2.1 percent before seasonal adjustment. The indexes for shelter, electricity, food airline fares, and gasoline were among those that contributed to the seasonally adjusted all items increase.

Key Local Economic Indicators

Florida Unemployment - Florida’s seasonally adjusted unemployment rate was 6.3 percent in May 2014, slightly up from the April 2014 rate of 6.2 percent, and down 1.2 percentage points from 7.5 percent a year ago. There were 606,000 jobless Floridians out of a labor force of 9,632,000. The U.S. unemployment rate was also 6.3 percent in May. Florida’s unemployment rate has been equal to or below the national rate for 13 consecutive months.²

Area Statistic	May 2014	April 2014	Change
Florida (Seasonally adjusted)	6.3%	6.2%	+0.1%
Pinellas County (Not seasonally adjusted)	5.9%	5.7%	+0.2%
Tampa-St. Petersburg-Clearwater (Not seasonally adjusted)	6.2%	5.9%	+0.3%

Florida Consumer Sentiment Index

- Consumer sentiment among Floridians fell in May by two points to 78. According to Chris McCarty, the Survey Director, “While the decline in consumer sentiment in Florida was significant, the overall index at 78 is well within the range we have been seeing for the past year. Since 2009 consumer sentiment in Florida has not exceeded 81, the level we hit in May and June of last year. Confidence among Floridians seems to be stuck within a five point range, with the exception of last October when the government shut down. This month, pessimism seems to be more concentrated among respondents under age 60 and those with slightly higher incomes. Respondents in those categories are particularly pessimistic about U.S. economic conditions in the short and long term.” McCarty also stated that “Here in Florida we are maintaining economic stability, but there are no signs of breaking out into a solid trajectory of growth compared to previous economic recoveries.”³

Florida housing indicators

- RealtyTrac® (www.realtytrac.com) released its U.S. Foreclosure Market Report for May 2014, which shows foreclosure filings — default notices, scheduled auctions and bank repossessions — were reported on 109,824 U.S. properties in May, a 5 percent decrease from April and a 26 percent decrease from May 2013 to the lowest monthly level since December 2006. Despite the decrease in overall foreclosure activity, 21 states posted monthly increases in overall foreclosure activity, and 11 states posted annual increases in foreclosure activity. According to Daren Blomquist, vice president at RealtyTrac, “It’s not surprising that some of the states with the longest foreclosure timelines are those with markets still dealing with increasing foreclosure activity even as the country as a whole continues to hit new lows. On the other hand, the increase in bank repossessions in some states with shorter foreclosure

² Florida Department of Economic Opportunity – Employment and Unemployment Press Release (Released June 20, 2014).

³ Florida Consumer Sentiment Index, Bureau of Economic and Business Research, May 27, 2014

timelines like California and Oregon demonstrates there is still some pent-up foreclosure activity in those states as well.”

Florida foreclosure activity decreased 30 percent on a year-over-year basis in May — the 10th consecutive month with an annual decrease — but the state still posted the nation’s highest state foreclosure rate for the eighth consecutive month. One in every 436 Florida housing units had a foreclosure filing in May, nearly three times the national average. Florida accounted for the eight highest foreclosure rates among metropolitan statistical areas with a population of 200,000 or more, led by Palm Bay-Melbourne-Titusville at No. 1, with one in every 303 housing units with a foreclosure filing — nearly four times the national average.

- The median sale price for a home in Florida was \$180,000 in May 2014, up 4.3 percent from \$172,500 a year ago, according to the Monthly Market Summary (Single Family Homes) Report published by *FloridaRealtors.org*. There were 23,013 closed home sales in May, up 3.6% from 22,222 a year ago.

Florida sales and tax revenue

- Florida Sales and Use Tax collections were \$2.0B in April 2014, 5.7 percent higher than April 2013 collections of \$1.9B.
- Pinellas County Sales and Use Tax collections totaled \$81.3M in April 2014, compared to \$78.0M a year ago, a 4.2 percent increase.
- 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 May 2014, or 67% through the year, we have collected 83% of the budgeted amounts.

The graph below shows current and future investments. We will be reducing the amount invested in CD’s and Term or Savings Accounts and increasing investments in GSE’s (Government Sponsored Enterprises). Total Cash and Investments are expected to decline negligibly during fiscal year 2014, decline by about \$4.1 million in FY2015 and increase by about \$1 million in FY2016. This mimics the changes in total fund balances during that time period. These numbers are only projections, and will depend on the timing of major projects and payments for those projects.

Cash & Investment Timeline

