



Information Item

Date: December 27, 2012

To: Mayor and City Council
From: Gigi Decavalles-Hughes, Director of Finance/City Treasurer
Subject: City Monthly Cash and Investment Report for August 2012

Introduction

In compliance with the City Charter, State law, and the City's Investment Policy, the attached monthly report provides information concerning City investments and cash held and/or managed by the Director of Finance/City Treasurer as of August 31, 2012.

Discussion

The August 2012 Cash and Investment Report provides an updated review of the City's investment portfolio and cash position. The value of cash and investments held in the pooled portfolio decreased by \$5.1 million in August to \$544.4 million. The pooled portfolio yield-to-maturity of 0.79% was one basis point less than in July and twenty-seven basis points less than one year earlier. Investment income for the month was \$0.5 million. Fiscal year-to-date earnings are down 32.5% from last year. Interest rates have remained near record lows resulting in many callable investments being called and reinvested in lower yielding investments. Additionally, most new investments are being made in securities with very short maturities pending final resolution of RDA dissolution.

In addition to the pooled portfolio, the City's total cash holdings as of August 31, 2012 included \$28.4 million in Charnock settlement-related funds held in an escrow account at Union Bank, \$88.9 million in debt proceeds held in trust with various fiscal agents, \$69.6 million in other funds held in trust, and \$54,422 in petty cash/change funds for a total balance of \$731.3 million.

In compliance with Governmental Accounting Standards, the Monthly Cash and Investment Report provides the fair market value of all investments held by the City, with certain exceptions, as of the last day of the month. The fair market value may be greater or less than the original purchase price (book/reported value) of the investments due to fluctuations in the market resulting in either an unrealized gain or loss for financial disclosure purposes only. Since it is the City's policy to hold most securities to maturity, these fluctuations in market value do not affect the redemption value of the securities or the overall yield to maturity of the portfolio. The book values of investments shown in this report are exclusive of amortization/accretion of premiums/discounts. As of August 31, 2012, the market value of the City's portfolio was approximately \$0.7 million greater than the book value.

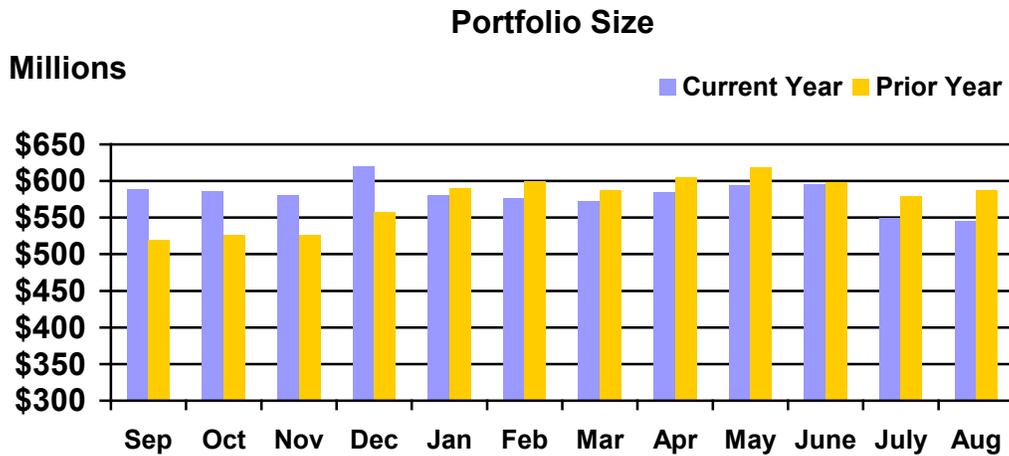
Attached is a summary of investment activity as well as a detailed report of public monies held by the City Treasurer for the month of August 31, 2012.

Prepared by: David Carr, Treasury Administrator

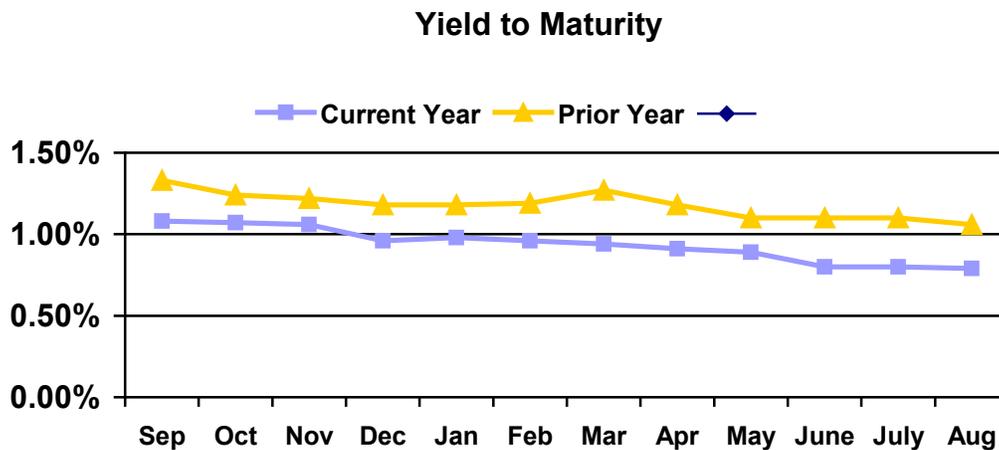
Attachments: 1 – Investment Highlights
2 – Investment Report

Investment Highlights

August 31, 2012

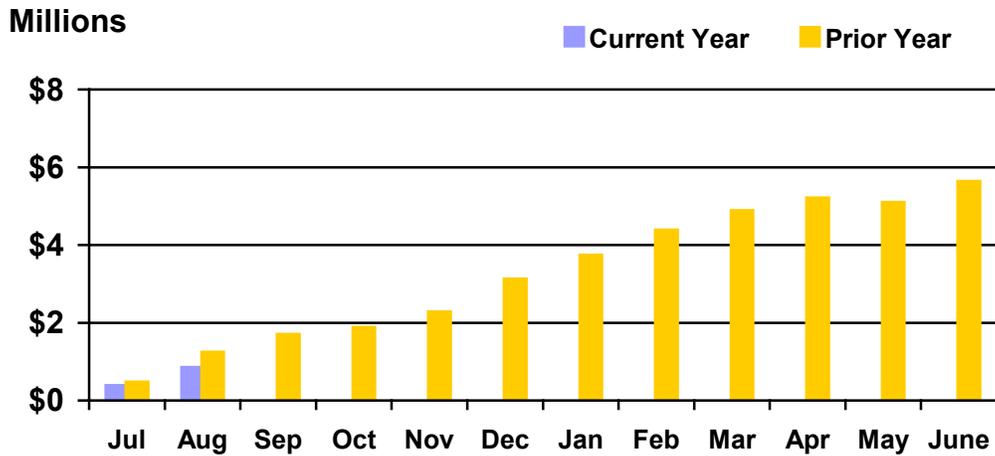


- As of August 31, the portfolio size is \$544.4 million, \$5.1 million less than in July and \$43.2 million less than in August 2011.
- Payments this year related to RDA dissolution lowered the overall portfolio value.



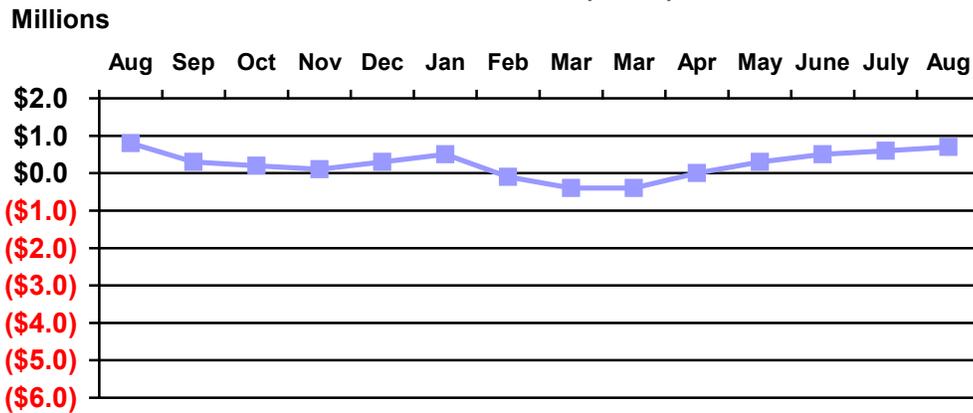
- As of August 31, yield to maturity is 0.79%.
- Down one basis point from July and twenty-seven basis points from one year earlier.

Fiscal Year-to-Date Interest Earnings (Cumulative by Month)



- Year-to-date earnings through August are down 32.5% from one year earlier.

Unrealized Gain/(Loss)



- As of August 31, 2012, the market value is about \$0.7 million more than the unamortized book value (purchase price).



Investment Report

August 2012

Prepared by:
Gigi Decavalles-Hughes, Director of Finance/City Treasurer
David R. Carr, Treasury Administrator

**City of Santa Monica
Report of Public Monies Held by the City Treasurer
As of August 31, 2012**

Petty Cash/Change Funds		\$54,222.00
Pooled Portfolio		
Bank of America (1)		
General Account	\$2,516,331.44 *	
Columbia Money Market Sweep Account	<u>\$32,492,178.87 *</u>	
Total Bank of America	\$35,008,510.31	
Bank of New York (BNY)		
Corporate Bonds - FDIC Insured	\$8,005,790.00	
Corporate Bonds	\$12,171,190.31	
Federal Agencies Securities	\$441,947,941.15	
Total Bank of New York	\$462,124,921.46	
State of California Local Agency Investment Fund - City	<u>\$47,263,083.51 *</u>	
Total Pooled Portfolio		\$544,396,515.28
Restricted Cash/Investments Held in Trust/Debt Proceeds		
Union Bank - Redevelopment Agency Term Loan	\$46,870,699.70 *	
Union Bank-Earthquake Recovery Redevelopment 2006		
Tax Allocation Refunding Bonds Series A & B	\$3.37 *	
Union Bank-Civic Center Parking Project 2004 Lease Revenue Bonds	\$2,826,958.33 *	
Union Bank-RDA 2011 Tax Allocation Bonds	\$2,262,469.23 *	
BNY-Library Improvement Project 2012 Refunding	\$40,017.79 *	
BNY-Ocean Park Redevelopment Project 2002 Refunding	\$1,797,000.00 *	
BNY-Parking Authority Lease Revenue Bonds 2002 Refunding	\$2.00 *	
BNY-Public Safety Facility Bonds 2009 Refunding	\$1,008,716.10 *	
BNY-2011 Series A & B Bonds	\$34,086,008.23 *	
U.S. Bank-Wastewater Enterprise Revenue Bonds-2012 Refunding	\$14,592.20 *	
U.S. Bank-Wastewater Enterprise Revenue Bonds-2005 Refunding	<u>\$2.00 *</u>	
Total Restricted Cash/Investments Held in Trust		\$88,906,468.95
Charnock Settlement Funds		
Union Bank (December 2006 Settlement)		
Money Market Funds	\$10,171,776.50	
Federal Agencies Securities	<u>\$18,227,640.00</u>	
Total Union Bank (December 2006 Settlement)	\$28,399,416.50 *	
Total Charnock Settlement Funds		\$28,399,416.50
Other Restricted Funds/Funds Held in Trust		
Cemetery Perpetual Care Fund (3)	\$8,441,866.00 *	
Mausoleum Perpetual Care Fund (3)	\$955,391.00 *	
Santa Monica Redevelopment Successor Agency RORF	\$13,263,631.50 *	
HUD Depository Account (4)	\$3,640,835.89 *	
U.S. Bank-W.E. O'Neil Retention Escrow Account	\$1,390,000.00 *	
First Republic Bank - Keysor Marston Escrow	\$1,300,000.00 *	
Wells Fargo Bank - High Place West Escrow	\$3,100,240.54 *	
Wells Fargo Bank - Expo 4th and Colorado	\$8,400,000.00 *	
Wells Fargo Bank - Expo 26th and 17th	\$1,570,000.00 *	
Union Bank - Santa Monica Redevelopment Successor Agency Account	\$4,886,006.24 *	
Union Bank - Housing Authority Custodial Account	\$19,751,607.14 *	
Union Bank - W.E. O'Neil Direct Owner Costs PGW Escrow	\$2,606,561.09 *	
Union Bank - W.E. O'Neil Direct Owner Costs Civic Escrow	\$171,120.69 *	
Public Agency Family Self Sufficiency Program (2)	<u>\$90,199.74 *</u>	
Total Other Funds Held in Trust		\$69,567,459.83
GRAND TOTAL		\$731,324,082.56

City of Santa Monica
Report of Public Monies Held by the City Treasurer
As of August 31, 2012

- (1) This is the actual bank account balance as of 8/31/12. It only reflects checks and warrants that have been presented for payment and deposits received by the bank. The balance on deposit per the City books would reflect reductions for all checks and warrants issued and an increase for all deposits transmitted. Redevelopment Agency, Housing Authority, and Parking Authority Funds included in totals.
- (2) The City of Santa Monica Housing Authority administers the Family Self Sufficiency Program. An escrow account is set up for each family in the program. The Housing Authority maintains and releases the escrow funds as required by HUD regulations.
- (3) The Cemetery Perpetual Care Funds and the Mausoleum Perpetual Care Funds are held in trust by Charles Schwab & Company, Inc. and administered by the investment firm RNC Genter Capital Management Company. Market value is shown since a large portion of the portfolio is in equities.
- (4) HUD Depository account is used to receive monthly housing assistance payments from HUD.

**City of Santa Monica
Cash Receipts, Disbursements and Cash Balances*
August 31, 2012**

Pursuant to Section 711d of the City Charter, I submit the following:

Cash and Investments - July 31, 2012	\$549,519,230.35
Receipts	44,260,905.96
Disbursements	(49,383,621.03)
Cash and Investments - August 31, 2012	\$544,396,515.28

* Pooled portfolio only. Excludes certain investments held in trust by third parties

Gigi Decavalles-Hughes
Director of Finance/City Treasurer

Overview

As of August 31, 2012, total City cash and investments were \$731.3 million, a \$2.3 million decrease from July. The pooled portfolio decreased of \$5.1 million was partially offset by an increase in Other Restricted Funds/Funds Held in Trust of \$2.8 million. Total cash and investments are categorized as follows:

Petty Cash	\$	54,422.00
Pooled Investment Portfolio	\$	544,396,515.28
Restricted Cash/Investment Held in Trust	\$	88,906,468.95
Charnock Settlement Funds	\$	28,399,416.50
Other Funds Held in Trust	\$	69,567,459.83
Total	\$	<u>731,324,282.56</u>

Definitions

- Basis Point – One hundredth of one percent (.01%)
- Book (Reported) Value – The price paid for the security at purchase.
- Bullets – A security with a fixed coupon or interest rate that cannot be redeemed by the issuer before the maturity date.
- Callable Securities – A security that can be redeemed by the issuer before the maturity date.
- Duration – A measure of the timing of the cash flows, such as the interest payments and the principal repayment, to be received from a security. The duration of a security is a useful indicator of its price volatility for given changes in interest rates.
- Market Value – The price at which a security is currently trading and could be presumably bought or sold.
- Par Value – The full face value of the security.
- Rebalancing – Strategy whereby low yielding securities are sold at a loss with the proceeds used to purchase higher yielding securities.
- TLGP (Temporary Loan Guarantee Program) – Federal program through which the Federal Deposit Insurance Corporation guarantees repayment of certain bonds issued by financial institutions.
- Unrealized Gain/Loss – Difference between the current market value and purchase price (book value) of a security.

- Yield to Maturity – The rate of return of a security held to maturity when both interest payments and the investor’s gain or loss (premium paid or discount taken) on the security is taken into account.

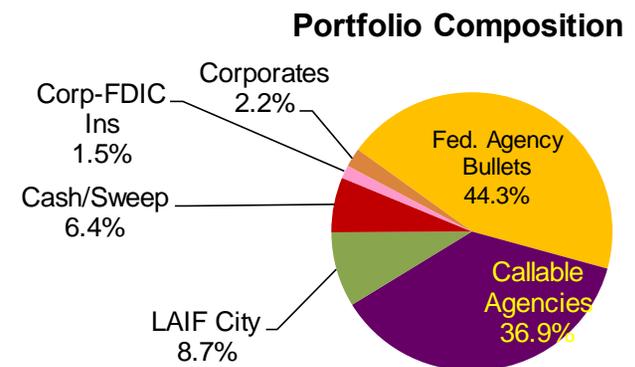
Pooled Investment Portfolio

As of August 31, 2012, the portfolio size (unamortized book value/purchase price) of City pooled cash and investments is \$544.4 million, a \$5.1 million decrease from July. Since the City holds most investments to maturity, variations in portfolio book value are typically due to receipt and expenditure patterns during the month rather than any realized gains or losses on securities. Additionally, the City does not amortize premiums or accrete discounts except for financial reporting purposes on the last day of each fiscal year. Four investments were made during the month (\$11.9 million), four investments matured (\$27.6 million) and two investments were called (\$5.5 million). No investments were sold. State Local Agency Investment Fund (LAIF) account balances were unchanged in August. The balance of the money market sweep account as of August month-end was \$32.5 million.

Details of the main portfolio follow.

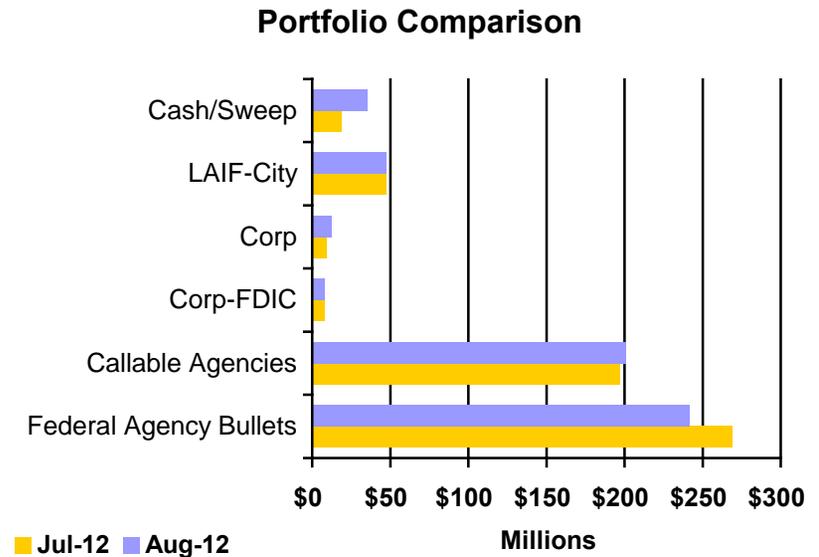
Portfolio Composition

The portfolio is appropriately diversified and is in compliance with the City’s Investment Policy and applicable provisions of the State Government Code. The largest sector of the portfolio is Federal Agency Securities (81.2%). The remaining 18.8% is invested in the State Local Agency Investment Fund (8.7%); FDIC insured (AAA rated) corporate bonds (1.5%), other corporate bonds (2.2%), and cash including the money market sweep account (6.4%). This portfolio mix allows the City to maintain its primary investment objectives of safety and liquidity while attaining a rate of return consistent with the City’s Investment Policy and Investment Plan.



Portfolio Comparison

The chart to the right shows the overall structure of the portfolio by type of investment compared to last month. There were no material changes in August. The City continues to hold a significant portion of the portfolio in short term funds as interest rates remain at historic lows, and LAIF is still a significant benefit over other types of investments with maturities two years and under. Additionally, the portfolio is being kept very liquid reflecting continuing uncertainty regarding the impact of RDA dissolution on cash flow needs. The bond market, financial and economic conditions, and portfolio structure are continuously evaluated when making investment decisions.

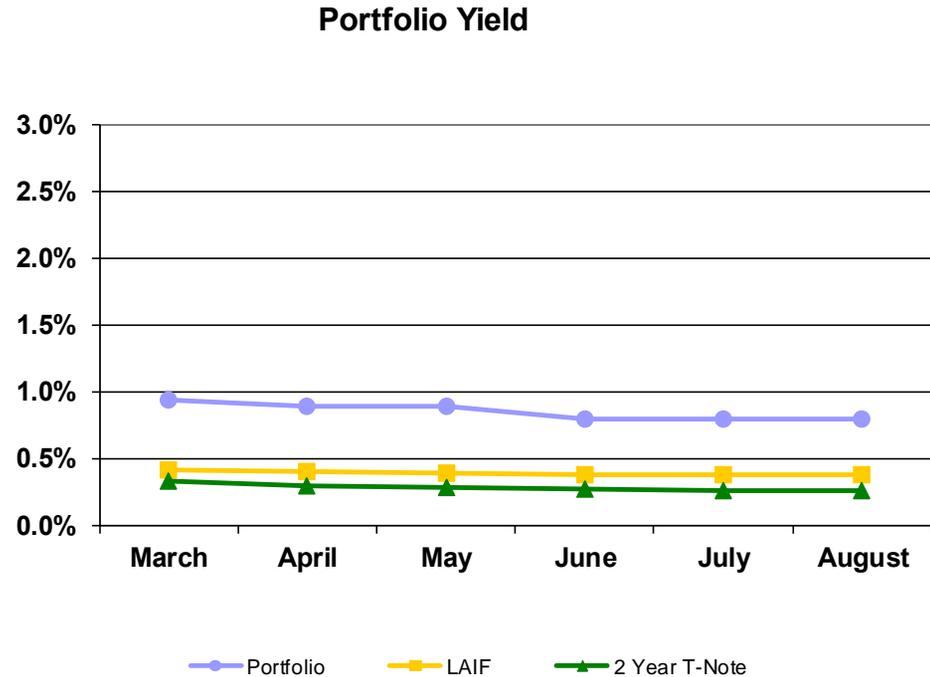


Rebalancing of Portfolio

No portfolio rebalancing occurred in August due to the low interest rate environment. As noted in previous reports, rebalancing opportunities will be evaluated when rates begin to show a consistent pattern of increase.

Portfolio Yield

The portfolio yield-to-maturity was 0.79% as of August 31, 2012, down one (1) basis point from July and twenty-seven (27) basis points from August 2011. The month-end yield hit a new low point for the time period for which records are available as the extended record low interest rate environment continues to hamper portfolio returns. This month's yield is four hundred thirty-one (431) basis points below the most recent high mark of 5.1% in September 2007. The chart compares the month-end portfolio yield to the twelve-month moving averages of the two-year Constant Maturing Treasury security yield (CMT) and State Local Agency Investment Fund (LAIF) yield.



Overall, interest rates in the two to five year maturity fell in August for the second consecutive month and remained near record low levels. The month-end two year CMT of 0.22% was one basis point lower than month-end July, and the twelve month moving average CMT remained unchanged at the record low level of 0.26%, four hundred forty-seven (447) basis points off its February 2007 high. Rates are now expected to remain relatively low into 2015. LAIF rates also remain at historic low points. The twelve month moving average LAIF yield was unchanged in August at 0.38% and has not shown a monthly increase since September 2007.

The Federal Open Market Committee (Fed) did not meet in August so the target Fed Funds rate remained unchanged at a range of 0% to 0.25%. In its previous meeting statement, the Fed noted that the economy is still sluggish, and recent comments by Fed Chairman Bernanke have indicated that rates are now expected to remain low into 2015. Second quarter GDP growth was an anemic 1.3%, less than original estimates, after disappointing growth of only 2% in the first quarter. Most recent economic projections predict modest growth of less than 2.5% for all of 2012 and 2013. The housing market, although

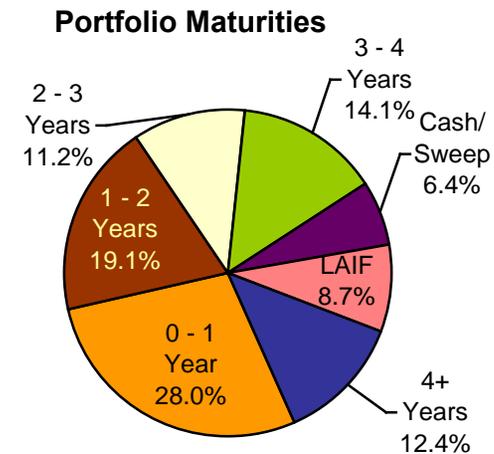
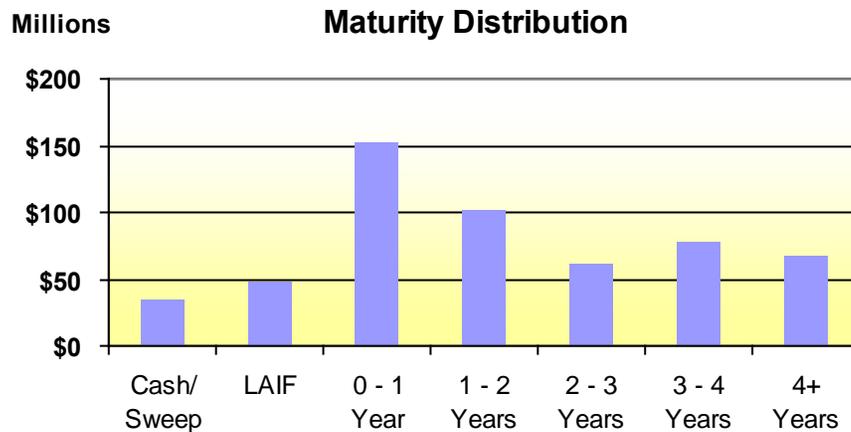
showing signs of mild recovery in some areas, continues to be weak overall. The labor market has shown some modest improvement as the unemployment rate fell to 8.1% in August. However, that was the forty-third consecutive month over 8%, and the creation of new jobs in the work force remains below levels necessary for a strong economic recovery. The stock market continued to improve as the Dow Jones Industrial Average rose 2.7% in August, the third consecutive monthly increase.

The City’s portfolio yield-to-maturity has decreased significantly over the last five years as interest rates have reached historic lows resulting in many investments being called and reinvested at lower rates. Overall, the yield will likely continue to fall some over the next few months unless some unanticipated uptick in rates occurs.

Portfolio investment income was \$0.5 million in August. Fiscal year-to-date earnings are down 32.5% from a year earlier.

Maturity Distribution

The weighted average days to maturity as of August 31, 2012 is 644 days (1.71 years), a decrease of one day from the prior month. The current volatile and low interest rate environment continues to result in bonds being called, and the portfolio’s average days to maturity may continue to vary over the next several months. Investments continue to be made primarily in maturities of three years or less as rates are now not expected to begin a period of significant increase until 2015. Additionally, the City is maintaining additional liquidity in the portfolio pending the final impact of RDA dissolution.



Unrealized Gains/Losses

The Governmental Accounting Standards Board Statement No. 31 (GASB 31) requires public agencies to report all investments, with certain exceptions, at current fair market value rather than at the original purchase price. Current fair market value is defined in GASB 31 as “the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation state.”

The current fair market value and unrealized gain/loss of a security do not affect its redemption value or yield if held to maturity. There is an inverse relationship between the price of the bond and the market interest rate. The City’s practice is to purchase most securities with the intent to hold them to maturity. Book value and market values are exclusive of interest realized to date on investments. Also, the book value shown is the purchase price and is exclusive of any amortization of premiums or accretion of discounts. As of August 31, 2012, the market value and the book value of the City’s pooled investments (excluding cash) are:

Market Value	\$	542,540,720.81
Book Value (purchase price)		541,880,183.84
Unrealized Gain/(Loss)	\$	660,536.97

Charnock Settlement

All remaining restricted settlement funds are now held in an escrow account with Union Bank and being used to pay for the operation of the water treatment facility at the Charnock Wells. These funds are invested under the same guidelines as the pooled portfolio with maturity dates to match the estimated cash flow needs of the Water Treatment Facility project. In accordance with the December 2006 settlement agreement, investment income earned in the escrow account is not restricted for use on the project. In August 2009, all investment income earned from date of account opening (December 2006) through July 2009 was transferred to the City (approximately \$9.7 million) and interest is now being transferred on a monthly basis. Funds remaining in the account (approximately \$28.4 million) should be sufficient to cover costs related to operations for the next several to four years. The plant has been operational since the beginning of 2011. As of August 31, 2012, the yield to maturity on these funds 0.23%, and the portfolio showed an unrealized loss of \$122,940. The weighted average days-to-maturity was 141 days (0.39 years). Most investments are being held in relatively short maturity/low yield investments.

Compliance

California State law and the City’s Investment Policy set certain legal standards for allowable investments that can be included in the City’s portfolio. Additionally, there are certain maximum limits for classes of investments, as well as minimum credit quality requirements. In testing for compliance, the City considers all funds under the direct control and invested directly by the City including the pooled portfolio and the Water Treatment Facility account. Bond and loan proceeds, as well as the Cemetery and Mausoleum Perpetual Care Funds are excluded.

The following tables summarize portfolio compliance as of August 31, 2012. All investments were in compliance with State law and the City’s Investment Policy at the time of purchase. State law requires that any investment subject to a credit downgrade subsequent to the time of purchase shall be reviewed for possible sale within a reasonable amount of time after the downgrade. As of the date of this report, the portfolio includes no bonds that have been downgraded since the time of purchase and all remaining corporate bonds are FDIC insured and rated AAA.

Further detail regarding City compliance with State law and City investment guidelines is presented as follows:

Credit Ratings - Corporate Medium Term Notes

	<u>Standard & Poors/ Fitch</u>	<u>Moody's</u>	<u>In Compliance (Yes/No)</u>
Best Quality	AAA	Aaa	Yes
	AA+	Aa1	Yes
High Quality	AA	Aa2	Yes
	AA-	Aa3	Yes
	A+	A1	Yes
Upper Medium Grade	A	A2	Yes
	A-	A3	Yes
	BBB+	Baa1	No
Medium Grade	BBB	Baa2	No
	BBB-	Baa3	No

Portfolio Allocation as of 8/31/12

	Pooled Portfolio	SM Water Treatment Facility Account (1)	Total Portfolio (2) (4)	% of Portfolio	Legal/Policy Limit	In Compliance (Yes/No)
Federal Agency Securities						
Federal Home Loan Bank	\$142,541,101.94	\$0.00	\$142,541,101.94	24.9%	50.0%	Yes
Federal National Mortgage Association	134,255,089.17	0.00	134,255,089.17	23.4%	50.0%	Yes
Federal Home Loan Mortgage Corporation	121,808,448.37	12,121,500.00	133,929,948.37	23.4%	50.0%	Yes
Federal Farm Credit Bank	43,343,301.67	6,106,140.00	49,449,441.67	8.6%	50.0%	Yes
Total Federal Agency Securities	\$441,947,941.15	\$18,227,640.00	\$460,175,581.15	80.3%	n/a	Yes
Corporate Bonds						
Corporate Bonds - TGLP (FDIC Insured)	\$8,005,790.00	\$0.00	8,005,790.00			
Corporate Bonds - Other	12,171,190.31		12,171,190.31			
Total Corporate Bonds	\$20,176,980.31	\$0.00	\$20,176,980.31	3.5%	30.0%	Yes
Money Market Mutual Funds						
Columbia Money Market Reserves Advisor Class	32,492,178.87		32,492,178.87	5.7%	10.0%	Yes
BlackrockT-Find Cash Management Sweep		10,171,776.50	10,171,776.50	1.8%	10.0%	Yes
Total-Money Market Mutual Funds	\$32,492,178.87	\$10,171,776.50	\$42,663,955.37	7.4%	20.0%	Yes
State Local Agency Investment Fund-City	\$47,263,083.51		\$47,263,083.51	8.3%	\$50 million	Yes
State Local Agency Investment Fund-Succ Agcy	\$0.00		\$0.00	0.0%	\$50 million	Yes
Cash (3)	2,516,331.44		2,516,331.44	0.4%	None	Yes
Total (Book Value)	\$544,396,515.28	\$28,399,416.50	\$572,795,931.78	100.00%		

Notes:

- (1) Held by Union Bank
- (2) Excludes bond proceeds, funds held in trust for others, petty cash accounts, and other funds which are not entirely under City ownership and control
- (3) City's general bank account held at Bank of America. Does not include balance of HUD depository account (\$3,640,835.89) or Successor Agency Account (\$13,263,631.50).
- (4) Value used to test compliance is reported value (book value plus unrealized purchased interest).

City Portfolio as of 8/31/12 (Book Value)

Security	Pooled Portfolio	MTBE Custodial Account	SM Water Treatment Facility Account	Total Portfolio	Credit Rating*	In Compliance (Yes/No)
Corporate - TLGP (FDIC Guaranteed)						
JP Morgan Chase 2.125% (TLGP) maturing 12/26/12	\$4,993,850.00			\$4,993,850.00	Aaa	Yes
Citigroup 1.875% (TLGP) maturing 10/22/12	\$3,011,940.00			\$3,011,940.00	Aaa	Yes
Corporate						
Yale University 2.9% maturing 10/14/14	\$2,591,977.50			\$2,591,977.50	Aaa	Yes
Google 1.25% maturing 5/19/14	\$1,264,999.89			\$1,264,999.89	Aa2	Yes
Microsoft 1.625% maturing 9/25/15	\$5,180,756.25			\$5,180,756.25	Aaa	Yes
Berkshire Hathaway 2.2% 8/15/16	\$3,133,456.67			\$3,133,456.67	Aa2	Yes

* Per Moody's

Certification

In compliance with California Government Code Section 53546 as amended January 1, 1996, I hereby certify that sufficient investment liquidity and anticipated revenues are available to meet the City's budgeted expenditure requirements for the next six months.

Gigi Decavalles-Hughes, Director of Finance/City Treasurer