



CITY OF SANTA BARBARA

COUNCIL AGENDA REPORT

AGENDA DATE: July 26, 2016

TO: Mayor and Councilmembers

FROM: Treasury Division, Finance Department

SUBJECT: June 30, 2016, Investment Report And June 30, 2016, Fiscal Agent Report

RECOMMENDATION: That Council:

- A. Accept the June 30, 2016, Investment Report; and
- B. Accept the June 30, 2016, Fiscal Agent Report.

DISCUSSION:

On a quarterly basis, staff submits a comprehensive report on the City's portfolio and related activity pursuant to the City's Annual Statement of Investment Policy. The current report covers the investment activity for the three-month period of April through June 2016.

Most Treasury yields were lower by the end of the quarter. As shown in the table to the right, the change in Treasury yields ranged from an increase of 5 basis points on the 3-month Treasury note to a decrease of 31 basis points on the 30-year Treasury note. Longer

U.S. Treasury Market					
	3/31/2016	4/30/2016	5/31/2016	6/30/2016	Cumulative Change
3 Month	0.21%	0.22%	0.34%	0.26%	0.05%
6 Month	0.39%	0.40%	0.49%	0.36%	-0.03%
1 Year	0.59%	0.56%	0.68%	0.45%	-0.14%
2 Year	0.73%	0.77%	0.87%	0.58%	-0.15%
3 Year	0.87%	0.92%	1.03%	0.71%	-0.16%
4 Year	1.04%	1.10%	1.20%	0.86%	-0.18%
5 Year	1.21%	1.28%	1.37%	1.01%	-0.20%
10 Year	1.78%	1.83%	1.84%	1.49%	-0.29%
30 Year	2.61%	2.66%	2.64%	2.30%	-0.31%
LAIF	0.46%	0.55%	0.55%	0.55%	0.09%

year maturities between 2 and 30 years saw the most significant decreases in Treasury yield, including the 5-Year note which showed a decrease of 20 basis points.

The City generally invests in securities of one to five years in duration. Within this duration, interest rates range from 0.45% to 1.01% for Treasury securities. In December 2015, the Federal Reserve increased the Federal Funds rate for the first time in seven years. However, since the rate increase, impacts from the global economy and slower than anticipated U.S. growth may be affecting both U.S. interest rates and the timing of

any additional Federal Funds rate increases. Even if interest rates increase and the Federal Reserve raises rates again in 2016, it will take several years before we realize a material increase in interest earnings as existing securities mature and are replaced with higher-yielding securities.

Investment Activity

As shown in the Investment Activity table below, the City invested \$6 million during the quarter. The purchases consisted of \$6 million in “AAA” rated Federal Agency callable securities. The purchases replaced a portion of \$12 million in Federal Agency securities that were called, and \$2 million in United States Treasury notes that matured over the quarter. In addition, the portfolio also received \$144,093 in a semi-annual principal payment on the Airport promissory note at the end of June. The outstanding balance on the Airport promissory note is \$4.775 million.

Issuer	Face Amount	Purchase Date	Final Maturity	Call Date	Yield To Call	Yield To Maturity
<i>Purchases:</i>						
Federal National Mortgage Association (FNMA)	\$ 2,000,000	05/26/16	11/26/19	05/26/17	1.300%	1.300%
Federal National Mortgage Association (FNMA)	2,000,000	05/26/16	05/26/20	05/26/17	1.375%	1.375%
Federal Home Loan Mortgage Corp (FHLMC)	2,000,000	06/30/16	06/30/21	09/30/16	1.875%	1.875%
	\$ 6,000,000					
<i>Calls:</i>						
Federal Home Loan Mortgage Corp (FHLMC)	\$ 2,000,000	01/29/16	01/29/21	04/29/16	1.500%	2.459%
Federal Home Loan Mortgage Corp (FHLMC)	2,000,000	11/25/15	05/25/18	05/25/16	1.050%	1.050%
Federal Home Loan Mortgage Corp (FHLMC)	2,000,000	12/28/15	12/28/20	06/28/16	1.500%	2.365%
Federal Home Loan Mortgage Corp (FHLMC)	2,000,000	12/29/15	06/29/18	06/29/16	1.200%	1.200%
Federal Home Loan Bank (FHLB)	2,000,000	06/29/15	06/29/18	06/29/16	1.170%	1.170%
Federal National Mortgage Association (FNMA)	2,000,000	06/30/15	06/30/20	06/30/16	2.000%	2.000%
	\$ 12,000,000					
<i>Sales/Maturities:</i>						
United States Treasury Note (USTN)	\$ 2,000,000	02/22/13	05/15/16	-	-	0.442%
Airport Promissory Note - Partial Redemption	144,093	07/14/09	06/30/29	-	-	4.195%
	\$ 2,144,093					

Summary of Cash and Investments

The book rate of return, or portfolio yield, measures the rate of return of actual earnings generated from the portfolio. As shown in the table to the right, during the quarter the City’s book rate of return decreased by 9 basis points from 1.185 percent at March 30, 2016 to 1.095 percent at June 30, 2016.

Mo. Ended	Yield	Days to Maturity
3/31/2016	1.185%	700
4/30/2016	1.133%	628
5/31/2016	1.108%	588
6/30/2016	1.095%	556

The portfolio’s average days to maturity, including the long-term Airport promissory note, decreased by 144 days from 700 to 556 days. Excluding the Airport note, the portfolio’s average days to maturity is 423 days, reflecting reinvestment of maturities and calls during the quarter in the one-to-five year range in accordance with the City’s Annual Statement of Investment Policy. The Annual Statement of Investment Policy requires that the average days to maturity on the portfolio not exceed 2.5 years, excluding any investments with a final maturity longer than 5 years that were separately authorized by Council, such as the Airport promissory note.

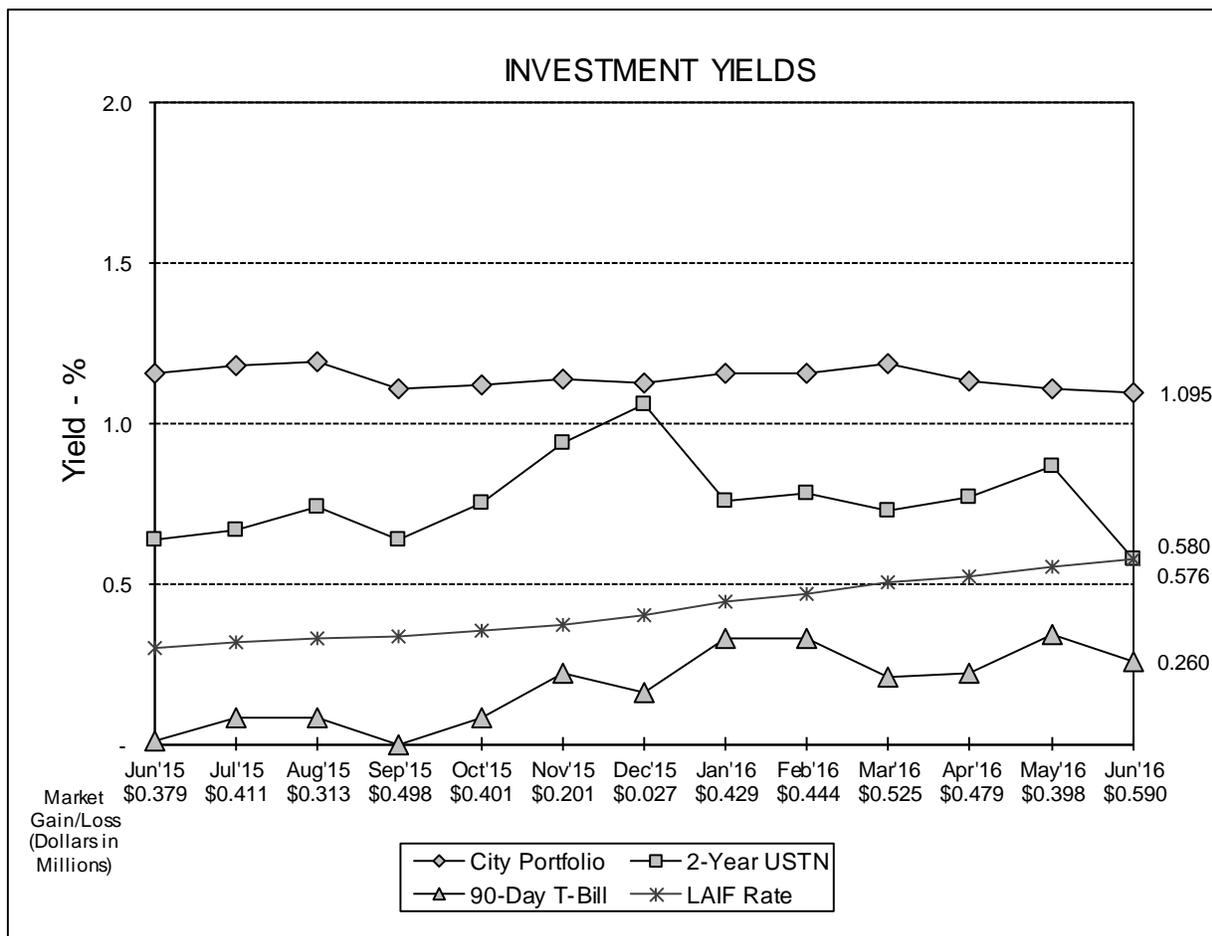
The average LAIF rate at which the City earned interest for funds invested was at 0.55 percent for the quarter ended June 30, 2016, which was up from last quarter by 9 basis points. The City's LAIF holdings at the end of the quarter were \$50 million. Staff expects to reinvest a portion of the LAIF balances in fixed-term or callable securities during the next quarter.

Credit Quality on Corporate Notes

There were no credit quality changes to the three corporate issuers of the medium-term notes held in the portfolio (i.e., Berkshire Hathaway, Inc., General Electric Capital Corp, and Toyota Motor Credit), and the ratings of all corporate notes remain within the City's Investment Policy guidelines of "A" or better.

Portfolio Market Gains/Losses

As shown in the Investment Yields chart below, the City's portfolio continues to be in line and above the three benchmark measures (the 90-day T-Bill, 2-year T-Note and LAIF). The benchmarks serve as indicators of the City's performance; and trends over



time that substantially deviate from these benchmarks would warrant further analysis and review. At June 30, 2016, the portfolio had an overall unrealized market gain of approximately \$590,000.

On a quarterly basis, staff reports the five securities with the largest percentage of unrealized losses. However, because securities in the City's portfolio are held to maturity, no market losses would be realized. There were no securities trading below purchase price at the end of the quarter.

On a quarterly basis, staff also reports all securities with monthly market declines of greater than 1 percent compared to the prior month. There were no securities in the portfolio with a market decline of greater than 1 percent compared to the prior month.

Additional Reporting Requirements

The following confirmations are made pursuant to California Code Sections 53600 et seq.: (1) the City's portfolio as of June 30, 2016, is in compliance with the City's Statement of Investment Policy; and (2) there are sufficient funds available to meet the City's expenditure requirements for the next six months.

Fiscal Agent Investments

In addition to reporting requirements for public agency portfolios, a description of any of the agency's investments under the management of contracted parties is also required on a quarterly basis. Attachment 2 includes bond funds and the police and fire service retirement fund as of June 30, 2016.

ATTACHMENTS: 1. June 30, 2016, Investment Report
2. June 30, 2016, Fiscal Agent Report

PREPARED BY: Julie Nemes, Treasury Manager

SUBMITTED BY: Robert Samario, Finance Director

APPROVED BY: City Administrator's Office

CITY OF SANTA BARBARA
Activity and Interest Report
June 30, 2016

INVESTMENT ACTIVITY

PURCHASES OR DEPOSITS

6/30 Federal Home Loan Mortgage Corp (FHLMC)	\$ 2,000,000
Total	\$ 2,000,000

SALES, MATURITIES, CALLS OR WITHDRAWALS

6/28 Federal Home Loan Mortgage Corp (FHLMC) - Call	\$ (2,000,000)
6/29 Federal Home Loan Mortgage Corp (FHLMC) - Call	(2,000,000)
6/29 Federal Home Loan Bank (FHLB) - Call	(2,000,000)
6/30 Federal National Mortgage Association (FNMA) - Call	(2,000,000)
6/30 Airport Promissory Note - Partial Redemption	(144,093)
Total	\$ (8,144,093)

ACTIVITY TOTAL

\$ (6,144,093)

INVESTMENT INCOME

POOLED INVESTMENTS

Interest Earned on Investments	\$ 142,152
Amortization	(1,963)
Total	\$ 140,189

INCOME TOTAL

\$ 140,189

CITY OF SANTA BARBARA

Investment Portfolio

June 30, 2016

DESCRIPTION	PURCHASE DATE	MATURITY DATE	QUALITY RATING MOODY'S	S & P	STATED RATE	YIELD AT 365	FACE VALUE	BOOK VALUE	MARKET VALUE	BOOK GAIN/(LOSS)	COMMENTS
LOCAL AGENCY INVESTMENT FUNDS											
LOCAL AGENCY INVESTMENT FUND	-	-	-	-	0.576	0.576	50,000,000.00	50,000,000.00	50,000,000.00	0.00	
Subtotal, LAIF							50,000,000.00	50,000,000.00	50,000,000.00	0.00	
CERTIFICATES OF DEPOSIT											
ALLY BANK	09/24/15	09/25/17	-	-	1.250	1.250	250,000.00	250,000.00	251,147.50	1,147.50	FDIC Certificate 57803
AMERICAN EXPRESS BANK FSB	10/23/14	10/23/19	-	-	2.200	2.200	250,000.00	250,000.00	257,055.00	7,055.00	FDIC Certificate 35328
AMERICAN EXPRESS CENTURION BK	09/30/15	09/30/20	-	-	2.250	2.250	250,000.00	250,000.00	258,702.50	8,702.50	FDIC Certificate 27471
BMO HARRIS BANK NA	09/30/15	09/29/17	-	-	1.100	1.100	250,000.00	250,000.00	251,120.00	1,120.00	FDIC Certificate 16571
BMW BK NORTH AMERICA	09/30/15	09/30/20	-	-	2.200	2.200	250,000.00	250,000.00	258,712.50	8,712.50	FDIC Certificate 35141
CAPITAL ONE BANK USA NA	10/29/14	10/29/19	-	-	1.900	1.900	250,000.00	250,000.00	257,102.50	7,102.50	FDIC Certificate 33954
CAPITAL ONE NA	09/30/15	09/30/20	-	-	2.250	2.250	250,000.00	250,000.00	258,702.50	8,702.50	FDIC Certificate 4297
DISCOVER BANK	09/30/15	09/30/20	-	-	2.300	2.300	250,000.00	250,000.00	259,740.00	9,740.00	FDIC Certificate 5649
EVERBANK	09/30/15	09/29/17	-	-	1.100	1.100	250,000.00	250,000.00	251,120.00	1,120.00	FDIC Certificate 34775
GE CAPITAL BANK	10/17/14	10/17/19	-	-	2.000	2.000	250,000.00	250,000.00	256,992.50	6,992.50	FDIC Certificate 33778
GOLDMAN SACHS BANK USA	10/29/14	10/29/19	-	-	2.150	2.150	250,000.00	250,000.00	257,070.00	7,070.00	FDIC Certificate 33124
KEY BANK NA	09/30/15	10/02/17	-	-	1.150	1.150	250,000.00	250,000.00	251,150.00	1,150.00	FDIC Certificate 17534
UNION BANK	08/31/12	08/31/17	-	-	1.490	1.511	4,000,000.00	4,000,000.00	4,000,000.00	0.00	
Subtotal, Certificates of deposit							7,000,000.00	7,000,000.00	7,068,615.00	68,615.00	
TREASURY SECURITIES - COUPON											
U S TREASURY NOTE	02/22/13	08/31/16	Aaa	AA+	1.000	0.502	2,000,000.00	2,001,645.36	2,002,320.00	674.64	
U S TREASURY NOTE	02/22/13	02/28/17	Aaa	AA+	0.875	0.607	2,000,000.00	2,003,505.45	2,005,160.00	1,654.55	
Subtotal, Treasury Securities							4,000,000.00	4,005,150.81	4,007,480.00	2,329.19	
FEDERAL AGENCY ISSUES - COUPON											
FED AGRICULTURAL MTG CORP	10/03/13	10/03/18	-	-	1.720	1.720	2,000,000.00	2,000,000.00	2,039,940.00	39,940.00	
FED AGRICULTURAL MTG CORP	12/12/13	12/12/18	-	-	1.705	1.705	2,000,000.00	2,000,000.00	2,044,140.00	44,140.00	
FEDERAL FARM CREDIT BANK	09/18/13	09/18/17	Aaa	AA+	1.550	1.550	2,000,000.00	2,000,000.00	2,022,340.00	22,340.00	
FEDERAL FARM CREDIT BANK	07/17/13	07/17/17	Aaa	AA+	1.300	1.300	2,000,000.00	2,000,000.00	2,013,760.00	13,760.00	
FEDERAL FARM CREDIT BANK	06/24/15	06/24/19	Aaa	AA+	1.520	1.520	2,000,000.00	2,000,000.00	2,039,760.00	39,760.00	
FEDERAL HOME LOAN BANK	09/13/13	09/14/18	Aaa	AA+	2.000	1.910	2,000,000.00	2,003,760.26	2,056,700.00	52,939.74	
FEDERAL HOME LOAN BANK	01/17/14	04/17/18	Aaa	AA+	1.480	1.480	2,000,000.00	2,000,000.00	2,027,660.00	27,660.00	
FEDERAL HOME LOAN BANK	01/26/16	04/26/19	Aaa	AA+	1.500	1.500	2,000,000.00	2,000,000.00	2,007,200.00	7,200.00	Callable 01/26/17, once
FEDERAL HOME LOAN BANK	12/16/13	12/14/18	Aaa	AA+	1.750	1.650	2,000,000.00	2,004,685.11	2,047,740.00	43,054.89	
FEDERAL HOME LOAN BANK	06/18/14	06/09/17	Aaa	AA+	1.000	1.003	2,000,000.00	1,999,936.88	2,007,820.00	7,883.12	
FEDERAL HOME LOAN BANK	10/22/14	11/18/16	Aaa	AA+	0.750	0.500	2,000,000.00	2,001,887.88	2,002,300.00	412.12	
FEDERAL HOME LOAN MTG CORP	01/29/16	01/29/21	Aaa	AA+	1.500	2.172	2,000,000.00	2,000,000.00	2,000,600.00	600.00	SU 1.5%-5.5% Call 07/29/16, then qtrly
FEDERAL HOME LOAN MTG CORP	08/24/15	08/24/20	Aaa	AA+	2.000	2.000	2,000,000.00	2,000,000.00	2,003,100.00	3,100.00	Callable 08/24/16, then qtrly
FEDERAL HOME LOAN MTG CORP	06/30/16	06/30/21	Aaa	AA+	1.875	1.875	2,000,000.00	2,000,000.00	2,001,660.00	1,660.00	Callable 09/30/16, then qtrly
FEDERAL HOME LOAN MTG CORP	11/20/13	09/29/17	Aaa	AA+	1.000	1.030	1,000,000.00	999,632.31	1,004,780.00	5,147.69	
FEDERAL HOME LOAN MTG CORP	01/29/16	07/29/19	Aaa	AA+	1.500	1.500	2,000,000.00	2,000,000.00	2,000,740.00	740.00	Callable 07/29/16, then qtrly

CITY OF SANTA BARBARA

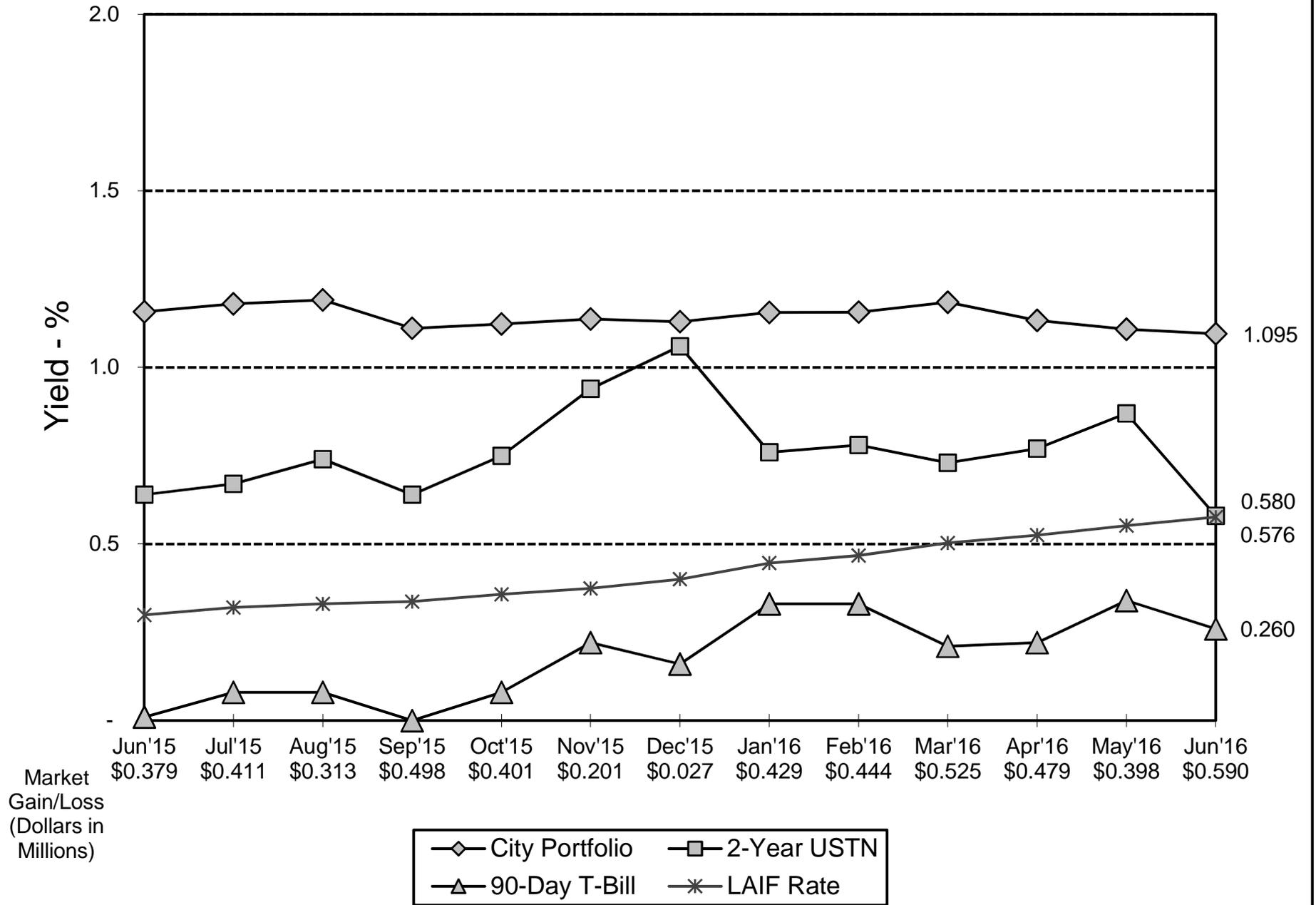
Investment Portfolio

June 30, 2016

DESCRIPTION	PURCHASE DATE	MATURITY DATE	QUALITY RATING MOODY'S	QUALITY RATING S & P	STATED RATE	YIELD AT 365	FACE VALUE	BOOK VALUE	MARKET VALUE	BOOK GAIN/(LOSS)	COMMENTS
FEDERAL NATL MORTGAGE ASSN	01/30/13	01/30/18	Aaa	AA+	1.030	1.030	3,000,000.00	3,000,000.00	3,000,210.00	210.00	Callable 07/30/16, then qtrly
FEDERAL NATL MORTGAGE ASSN	12/12/12	12/12/17	Aaa	AA+	1.000	1.000	2,000,000.00	2,000,000.00	2,002,000.00	2,000.00	Callable 09/12/16, then qtrly
FEDERAL NATL MORTGAGE ASSN	11/15/13	10/26/17	Aaa	AA+	0.875	1.062	2,000,000.00	1,995,179.80	2,006,960.00	11,780.20	
FEDERAL NATL MORTGAGE ASSN	12/11/13	11/27/18	Aaa	AA+	1.625	1.606	2,000,000.00	2,000,872.79	2,042,580.00	41,707.21	
FEDERAL NATL MORTGAGE ASSN	05/26/16	05/26/20	Aaa	AA+	1.375	1.375	2,000,000.00	2,000,000.00	2,005,300.00	5,300.00	Callable 05/26/17, once
FEDERAL NATL MORTGAGE ASSN	11/30/15	11/25/20	Aaa	AA+	1.000	2.015	2,000,000.00	2,000,000.00	2,000,520.00	520.00	SU 1%-2.2% Call 08/25/16, once
FEDERAL NATL MORTGAGE ASSN	12/26/12	12/26/17	Aaa	AA+	1.000	1.000	4,000,000.00	4,000,000.00	4,001,480.00	1,480.00	Callable 09/26/16, then qtrly
FEDERAL NATL MORTGAGE ASSN	10/29/15	10/29/20	Aaa	AA+	1.500	1.766	2,000,000.00	2,000,000.00	2,000,740.00	740.00	SU 1.5%-3% Call 07/29/16, then qtrly
FEDERAL NATL MORTGAGE ASSN	11/27/15	11/27/19	Aaa	AA+	1.125	1.678	2,000,000.00	2,000,000.00	2,016,460.00	16,460.00	SU 1.125%-2.250%, Call 11/27/17, once
FEDERAL NATL MORTGAGE ASSN	02/05/13	02/05/18	Aaa	AA+	1.000	1.000	2,000,000.00	2,000,000.00	2,000,300.00	300.00	Callable 08/05/16, then qtrly
FEDERAL NATL MORTGAGE ASSN	11/20/13	10/26/17	Aaa	AA+	0.875	1.070	2,000,000.00	1,994,968.22	2,006,960.00	11,991.78	
FEDERAL NATL MORTGAGE ASSN	11/27/15	11/28/18	Aaa	AA+	1.200	1.200	2,000,000.00	2,000,000.00	2,003,940.00	3,940.00	Callable 11/28/16, once
FEDERAL NATL MORTGAGE ASSN	05/26/16	11/26/19	Aaa	AA+	1.300	1.300	2,000,000.00	2,000,000.00	2,005,520.00	5,520.00	Callable 05/26/17, once
Subtotal, Federal Agencies							<u>60,000,000.00</u>	<u>60,000,923.25</u>	<u>60,413,210.00</u>	<u>412,286.75</u>	
CORPORATE/MEDIUM TERM NOTES											
BERKSHIRE HATHAWAY INC	11/29/13	02/09/18	Aa2	AA	1.550	1.550	2,000,000.00	2,000,000.00	2,023,220.00	23,220.00	
GENERAL ELECTRIC CAPITAL CORP	01/14/14	01/14/19	A1	AA+	2.300	2.250	2,000,000.00	2,002,383.94	2,067,900.00	65,516.06	
TOYOTA MOTOR CREDIT	09/26/11	09/15/16	Aa3	AA-	2.000	1.800	2,000,000.00	2,000,782.60	2,004,860.00	4,077.40	
TOYOTA MOTOR CREDIT	11/20/15	07/13/18	Aa3	AA-	1.550	1.408	2,000,000.00	2,005,637.86	2,019,220.00	13,582.14	
Subtotal, Corporate Securities							<u>8,000,000.00</u>	<u>8,008,804.40</u>	<u>8,115,200.00</u>	<u>106,395.60</u>	
SB AIRPORT PROMISSORY NOTE (LT)											
SANTA BARBARA AIRPORT	07/14/09	06/30/29	-	-	3.500	4.195	4,775,295.56	4,775,295.56	4,775,295.56	0.00	
Subtotal, SBA Note							<u>4,775,295.56</u>	<u>4,775,295.56</u>	<u>4,775,295.56</u>	<u>0.00</u>	
CHECKING ACCOUNT											
MUFG UNION BANK NA CHKNG ACCNT	-	-	-	-	0.400	0.400	21,715,061.95	21,715,061.95	21,715,061.95	0.00	
Subtotal, Checking Account							<u>21,715,061.95</u>	<u>21,715,061.95</u>	<u>21,715,061.95</u>	<u>0.00</u>	
TOTALS							155,490,357.51	155,505,235.97	156,094,862.51	589,626.54	

Market values have been obtained from the City's safekeeping agent, MUFG Union Bank NA - The Private Bank (UBTPB). UBTPB uses Interactive Data Pricing Service, Bloomberg and DTC.

INVESTMENT YIELDS



**CITY OF SANTA BARBARA
Fiscal Agent Investments
June 30, 2016**

	CASH & CASH EQUIVALENTS Book & Market	Guaranteed Investment Contracts (GIC) Book & Market	STOCKS		BONDS		US GOVT & AGENCIES		TOTALS	
			Book	Market	Book	Market	Book	Market	Book	Market
BOND FUNDS										
<i>RESERVE FUNDS</i>										
2004 RDA - Housing Bonds	607,983.84	-	-	-	-	-	-	-	607,983.84	607,983.84
2002 Municipal Improvement - Refunding COPS	28,120.22	547,530.00	-	-	-	-	-	-	575,650.22	575,650.22
2011 Water - Safe Drinking Water State Loan	826,514.97	-	-	-	-	-	-	-	826,514.97	826,514.97
2013 Water - Refunding COPS	16,428.60	428,069.44	-	-	-	-	636,099.18	647,462.40	1,080,597.22	1,091,960.44
2004 Sewer - Revenue Bonds	46,932.81	1,357,140.00	-	-	-	-	-	-	1,404,072.81	1,404,072.81
2009 Airport - Revenue Bonds	2,115,763.51	-	-	-	-	-	3,139,457.55	3,198,271.20	5,255,221.06	5,314,034.71
2014 Waterfront - Refunding Bonds	10,072.16	581,455.74	-	-	-	-	-	-	591,527.90	591,527.90
Subtotal, Reserve Funds	<u>3,651,816.11</u>	<u>2,914,195.18</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,775,556.73</u>	<u>3,845,733.60</u>	<u>10,341,568.02</u>	<u>10,411,744.89</u>
<i>PROJECT FUNDS</i>										
2001 RDA Bonds	2,368,300.74	-	-	-	-	-	-	-	2,368,300.74	2,368,300.74
2003 RDA Bonds	8,513,877.39	-	-	-	-	-	-	-	8,513,877.39	8,513,877.39
Subtotal, Project Funds	<u>10,882,178.13</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>10,882,178.13</u>	<u>10,882,178.13</u>
SUBTOTAL BOND FUNDS	<u>14,533,994.24</u>	<u>2,914,195.18</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,775,556.73</u>	<u>3,845,733.60</u>	<u>21,223,746.15</u>	<u>21,293,923.02</u>
POLICE/FIRE - SVC RETIREMENT FUND										
Police/Fire Funds	14,715.86	-	102,695.93	185,613.01	235,158.69	253,123.10	-	-	352,570.48	453,451.97
	<u>14,715.86</u>	<u>-</u>	<u>102,695.93</u>	<u>185,613.01</u>	<u>235,158.69</u>	<u>253,123.10</u>	<u>-</u>	<u>-</u>	<u>352,570.48</u>	<u>453,451.97</u>
TOTAL FISCAL AGENT INVESTMENTS	<u>14,548,710.10</u>	<u>2,914,195.18</u>	<u>102,695.93</u>	<u>185,613.01</u>	<u>235,158.69</u>	<u>253,123.10</u>	<u>3,775,556.73</u>	<u>3,845,733.60</u>	<u>21,576,316.63</u>	<u>21,747,374.99</u>

Notes:

(1) Cash & cash equivalents include money market funds.

(2) Market values have been obtained from the following trustees: US Bank and MUFG Union Bank, N.A. - The Private Bank