



City Of Boulder
Finance Department

TO: The Mayor and Members of City Council
Jane S. Brautigam, City Manager

FROM: Bob Eichen, Chief Financial Officer

SUBJECT: Investment Performance as of December 31, 2013

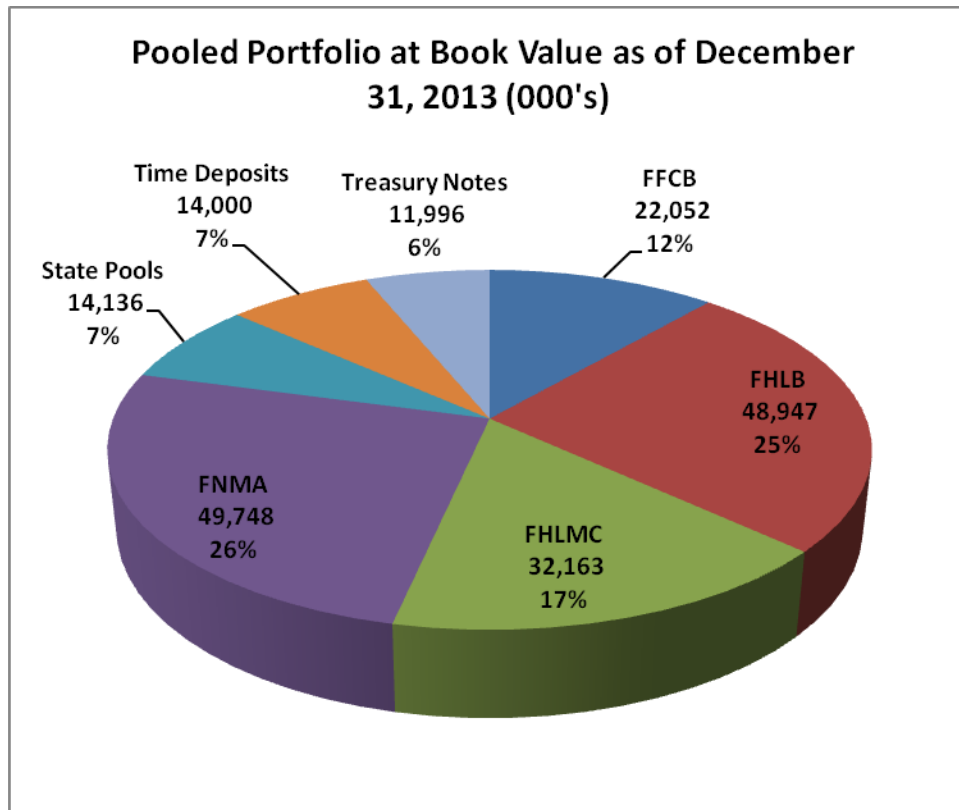
DATE: February 7, 2014

This report is for City Council information only and requires no action by City Council.

We have established a separate portfolio for the Capital Improvement Bond proceeds of over \$54 million, which were received on March 22, 2012. This will facilitate arbitrage calculations in the future. Performance results for the invested Capital Bond proceeds will be summarized in Section 2 of this report.

Section 1 – Regular Pooled Portfolio Results

- This report is submitted in compliance with the City's Investment Ordinance. (Chapter 2-10, Investment of City Funds, Boulder Revised Code 1981).
- Allowable investments for the city are noted under the City's Ordinance. All investments currently held met those requirements as of December 31, 2013.
- The weighted average return for the portfolio as of December 31, 2013 was 0.59%, exceeding the six month trailing average of the 2-year Treasury note by 0.24%.
- The portfolio's weighted average maturity remained short, at 1.24 years.
- As of December 31, 2013, the city's portfolio has no direct investments in the oil and gas industry.
- The portfolio's book value totaled \$193 million in overnight pools and investments (see following page):



Background Information: The investment of City funds is guided by the Boulder Revised Code 1981, Chapter 2-10, Investment of City Funds.

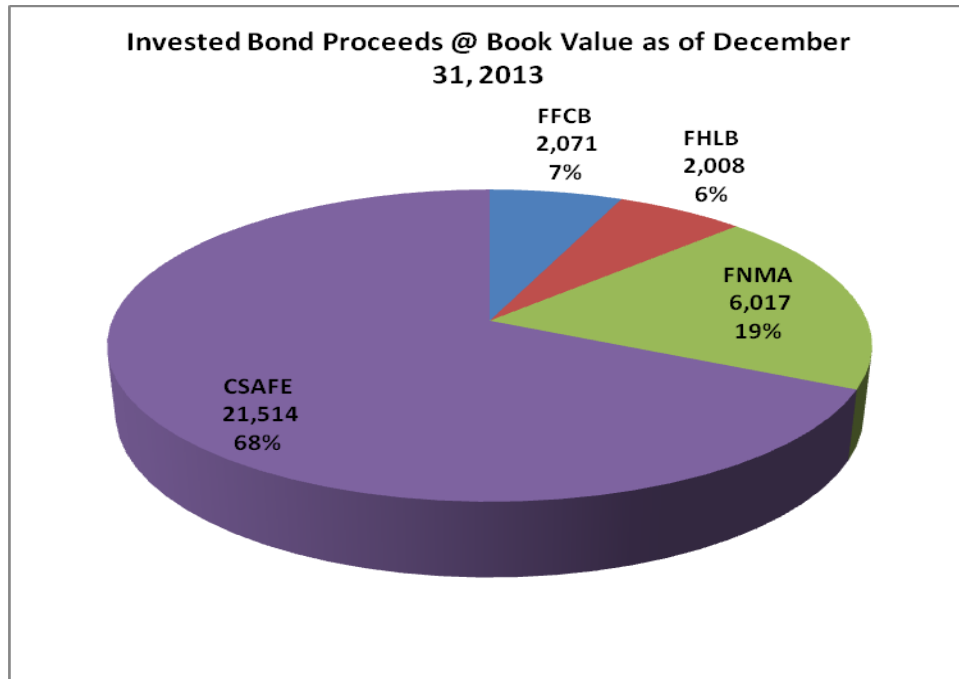
The investment objectives as specified in the Ordinance, are safety, liquidity and yield as further explained below.

- The primary objective is preservation and protection of capital. This objective reduces the risk to which the portfolio can be subjected. To comply with this objective, investments are diversified by type and maturity horizons. The current weighted maturity average of the city's portfolio is 1.24 years, while the ordinance allows up to a five year weighted maturity average.
- The second objective is to maintain adequate liquidity to meet the daily cash needs of the city. Our ordinance requires 5% of our portfolio mature within 30 days. As of December 31, 2013, 7% of the portfolio, or \$14 million remained in overnight accounts.
- Yield is the third objective. The City strives to maximize return, while minimizing the risks of the market. As of December 31, 2013, the return on the pooled investment portfolio was 0.59% Our current benchmark is the six month trailing average on the 2-year Treasury, which was 0.35%, as of December 31, 2013. The objective was exceeded by 0.24%.
- Interest rates remain historically low, in particular, the Fed Funds Rate. According to the latest press release issued by the FOMC on January 29th, that rate will continue to be 0 to 0.25%. The rationale behind this decision is from an excerpt of the last press release:

“The Committee also reaffirmed its expectation that the current exceptionally low target range for the federal funds rate of 0 to 1/4 percent will be appropriate at least as long as the unemployment rate remains above 6-1/2 percent, inflation between one and two years ahead is projected to be no more than a half percentage point above the Committee's 2 percent longer-run goal, and longer-term inflation expectations continue to be well anchored.”

Section 2 - Capital Improvement Bond Proceeds

Proceeds of over \$54 million were received on March 22, 2012. As of December 31, 2013 the remaining \$31.6 million was invested as shown in the graph below:



All proceeds have been invested in accordance with the **Boulder Revised Code 1981, Chapter 2-10, Investment of City Funds**.

As of December 31, 2013, all of the bond proceeds were invested to meet the projected cash needs through January 2015.

- To reduce the risk of market changes, the weighted average maturity of this portfolio is very short, at 84 days. All investments purchased are authorized by the city's ordinance.
- Liquidity is currently 68% or \$21.5 million.
- The investment committee decided that the yield benchmark for the invested bond proceeds received in March 2012 should be the one year Treasury note. This decision was made based upon the average maturity of 333 days as of the June 30, 2012 report. The invested bond proceeds returned 0.23% as of December 31st, while the yield on the one year Treasury note averaged 0.13% over the prior six months. The benchmark was exceeded by 0.10% at the end of the 4th quarter.

Section 3 – Banking Relationship with JPMorgan Chase

JPMorgan Chase provides depository, lockbox and disbursement services to the city. Due to the volume and complexity of our banking needs, and resources dedicated to flood recovery efforts and TBBI, we have decided to postpone our bid process for at least one more year.

The dollars of transactions which occurred in 2013 are summarized below:

Vendor checks	\$ 94 million
Payroll transactions	\$ 68 million
Electronic Payments	\$ 113 million
Investments purchased	\$ 51 million
Lockbox sales tax & utility billing	\$ 80 million
Investments matured	\$ 66 million
All other electronic/cash/coin	<u>\$ 138 million</u>
Total amount of transactions	<u>\$ 610 million</u>

The volume of banking transactions for 2013 includes:

Wholesale lockbox	6,026
Retail lockbox	109,066
Deposits	96,602
Checks Cleared	24,030
Wires (through the Fed Wire System)	154
Electronic debits from customer accounts	66,850
Direct Deposits payroll and vendors	58,150
Purchasing cards	<u>26,488</u>
Total transactions	<u>387,366</u>

In 2013, the city paid over \$100,000 in fees before receiving an earnings credit for compensating balances. The earnings credit reduced our net fees to \$44,883. In 2012, net banking fees were \$63,496.

Section 4 – Financial Advisory Service Contract

The financial advisor for the city's operating portfolio is Chandler Asset Management.