



**TO: Honorable Mayor, City Council Members and
Ed Lavalley, MPA, ICMA-CM**

FROM: Linda Senne, CPA, CGFM, Finance Director

DATE: April 18, 2017

SUBJECT: Quarterly Investment Report

The investment policy requires that the City's Finance Department provide the City Council with "periodic and annual" investment reports. The reports should include "securities in the portfolio by class or type, book value, income earned, and market value as of the report date." Attached is the investment report for the quarter ended March 31, 2017. This redesigned format was utilized last quarter for a slightly more informative presentation.

How to Read the Quarterly Investment Report (QIR)

What Investments are Included?

The QIR is a listing of all the City's pooled cash and investments held at the end of the quarter, and all the activity (purchases, sales/maturities, and realized/unrealized earnings) during the quarter. The QIR does not include the City's Police Officer and Firefighter Pension Trust investments. Nor does it include minor cash balances that are held outside the pool.

Color Coding

Investments held in our custodial account at TD Wealth, are in green.

Investments held at Florida SAFE are in brown.

Purchases during the period are in purple.

Sales or maturities during the period are in yellow.

Calculated performance measures or ratios are in blue boxes. These include the annualized weighted average earnings rates and the weighted average *remaining* maturity (WAM).

Totals are in orange.

Analysis

Portfolio Composition

The City's pooled cash and investments totaled \$86.5 million at March 31, 2017 compared with \$86.6 million at the beginning of the quarter. The first half of the fiscal year is when the balance of our portfolio is usually highest, due to the timing of property tax receipts. Six months into the fiscal year ended September 30, 2017, we have received \$11.4 million (95%) of our total property tax budget of \$12.1 million.

Of the \$86.5 million in the portfolio at quarter end, \$37.8 million is in fixed income investments, \$43.1 million in interest-bearing deposits, and \$5.6 million in non-interest bearing bank accounts (but offsetting bank transaction charges – the Earnings Credit Rate, or ECR). Of particular note, during the quarter we reactivated an old account at the State Board of Administration and transferred almost \$20 million there from SunTrust Bank. The SBA PRIME yields had been improving rapidly and were outpacing the ECR. A smaller balance was kept in SunTrust primarily for cash flow needs.

Our fixed income investments are all in highly rated, short- and mid-term securities. There are no derivatives. All agency securities are purchased at par and mature at par. All securities pay interest at least annually. The securities are purchased with stated maturities, but some of the agency securities may be called early (at par plus accrued interest).

The fixed income securities are held by investment custodians independent of the investment managers who execute the trades. Our two custodians are TD Wealth and Florida SAFE. TD Wealth holds most of our US government and agency securities, color coded in green. Florida SAFE holds one agency security, and our FIIP securities. In addition, we also invest in the Florida SAFE term series program.

Other interest-bearing deposits include money market accounts at area banks, and investments in local governmental investment pools, the Florida SAFE and the SBA. These funds are liquid and available for immediate withdrawal, if needed. During the quarter, we renegotiated all our money market rates to the “new” amounts shown on the QIR.

Portfolio Activity

No agency securities hit their scheduled maturity date during the quarter. Two agency securities were purchased during the quarter at a par amount of \$1 million each (in purple). One is a three-year FFCB Note paying 1.625% interest. The other is a four-year FNMA note paying 2.00% interest. The furthest maturity date on our agency securities is currently June 2021, four years and three months out. The agency portfolio remaining WAM is 2.28 years.

Our Florida SAFE term series fixed-income securities have two-year terms or less. During the quarter, one \$4 million investment matured and was rolled-over into two investments, one at 1.15% and the other at 1.30% interest rate.

The securities in our FIIP program have one-year terms. There were no purchases or sales during the quarter under the FIIP program.

Portfolio Valuation

Our agency securities are “marked to market” quarterly. At the beginning of the quarter, agency securities at a par amount of \$26 million, were valued at \$25,746,277. At the end of the quarter, agency securities at a par amount of \$28 million, were valued at \$27,779,471. Therefore, our agency securities started the quarter \$253,723 below market and ended the quarter \$220,529 below market, an improvement during the quarter of \$33,194. This current period improvement matches *a drop* in interest rates during the quarter after the big run-up in the month or so after the presidential election. During periods of declining interest rates, the value of our fixed income securities will improve.

At March 31, 2017, we are still \$220,529 “under water” on our agency securities. However, because *we hold our securities to maturity*, this reduction in principal value will never be *realized* (the “lost principal” will eventually be recovered when the securities mature or are called at par). The bad news is that we must hold these lower-yielding securities through to maturity and cannot take advantage of the higher yields in the market during that time. The good news is the portfolio WAM is low. Had we been invested in longer-term fixed-income securities, our unrealized losses would have been much greater.

The other good news is that these *fixed-interest* agency securities recovered some of the *unrealized loss* (\$33,194), *plus* also earned *realized* interest income of \$81,107 during the quarter.

Note: We have not valued the securities in the FIIP or Florida SAFE term series program because they have relatively short remaining maturities. The bank money market accounts do not change value in periods of changing interest rates because they are available for immediate withdrawal and reinvestment.

Investment Return

The City’s agency securities earned interest at a weighted average rate of 1.20% for the quarter (annualized). Our benchmark yield is the 3-yr U.S. Treasury index, which was 1.47% at the start of the quarter and 1.50% at the end. Our selection of agency securities is designed to beat the index, and we have had a good track record on this. However, in a rising interest rate environment, we will usually lag the benchmark. We manage this *interest rate risk* by controlling the portfolio’s WAM, and we are currently laddering our agency security purchases to hold the WAM around 2.5 years.

On the other interest-bearing portfolio, we earned interest at a weighted average rate of 0.63% for the quarter (annualized). Our benchmark yield is the Florida PRIME rate, which was .90% at the start of the quarter and 1.03% at the end. Total interest earned for the quarter (realized only) was \$152,797, an average rate of 0.87%.

Closing

Please do not hesitate to contact me with questions, concerns and/or recommendations.

City of Venice, Florida
Quarterly Investment Report
March 31, 2017

Investments:	CUSIP	Purchase Date	Purchase Price	Beginning Market Value	Purchase Price	Ending Market Value	Interest Rate (e)	Days Held Yr=360	Annual Interest (a x e)	Realized Interest	Unrealized MV Gain (Loss)	Maturity Date	Called Date	
			(Beg Portfolio) (a)	(c)	(End Portfolio) (a)	(d)				for Quarter	for Quarter (d - c)			
Agencies:														
Federal Farm Credit Bank	3133EC5A8	12/18/12	\$ 1,000,000	\$ 999,497	\$ 1,000,000	\$ 999,651	x 0.87%	90	8,700	2,175	154	27-Nov-17		
Federal Home Loan Bank Agency	3134G32Y5	12/28/12	2,000,000	1,998,580	2,000,000	1,998,460	x 0.90%	90	18,000	4,500	(120)	28-Dec-17		
Federal Home Loan Bank Agency	3134G33Y4	01/22/13	1,000,000	995,980	1,000,000	997,070	x 0.95%	90	9,500	2,375	1,090	22-Jan-18		
Federal National Mortgage Assn.	3136G1GU7	03/27/13	1,000,000	999,790	1,000,000	998,810	x 1.05%	90	10,500	2,625	(980)	27-Mar-18		
Federal Farm Credit Bank	3133EFJP3	10/05/15	1,000,000	996,280	1,000,000	996,920	x 1.10%	90	11,000	2,750	640	15-Oct-18		
Federal National Mortgage Assn.	3136G2R66	11/19/15	2,000,000	2,000,140	2,000,000	2,000,080	x 1.15%	90	23,000	5,750	(60)	19-Nov-18		
Federal Farm Credit Bank	3133EGNC5	07/25/16	1,000,000	989,220	1,000,000	990,920	x 1.08%	90	10,800	2,700	1,700	25-Apr-19	Quarterly	
Federal Farm Credit Bank	3133EFD20	02/23/16	2,000,000	1,985,340	2,000,000	1,988,020	x 1.25%	90	25,000	6,250	2,680	23-May-19		
Federal Home Loan Mortgage	3134G9F93	06/30/16	1,000,000	983,650	1,000,000	984,940	x 1.00%	90	10,000	2,500	1,290	28-Jun-19		
Federal National Mortgage Assn.	3136G3Q73	07/26/16	1,000,000	991,810	1,000,000	994,500	x 1.15%	90	11,500	2,875	2,690	26-Jul-19		
Federal Farm Credit Bank	3133EGSD8	08/23/16	2,000,000	1,984,480	2,000,000	1,981,000	x 1.13%	90	22,600	5,650	(3,480)	23-Aug-19		
Federal National Mortgage Assn.	3136G36X8	09/13/16	2,000,000	1,974,680	2,000,000	1,976,260	x 1.14%	90	22,800	5,700	1,580	13-Sep-19		
Federal Home Loan Bank Agency	3130A6NA1	10/15/15	2,000,000	1,973,120	2,000,000	1,986,140	x 1.40%	90	28,000	7,000	13,020	29-Oct-19		
Federal National Mortgage Assn.	3136G4JA2	11/30/16	1,000,000	995,930	1,000,000	996,210	x 1.50%	90	15,000	3,750	280	26-Nov-19		
Federal Home Loan Mortgage	3434G9WK9	06/30/16	2,000,000	1,962,960	2,000,000	1,976,560	x 1.25%	90	25,000	6,250	13,600	30-Dec-19		
Federal Farm Credit Bank	3133EG6T7	02/10/17	-	-	1,000,000	999,540	x 1.625%	50	16,250	2,257	(460)	10-Feb-20		
Federal Farm Credit Bank	3133EGC29	11/02/16	1,000,000	984,000	1,000,000	983,390	x 1.35%	90	13,500	3,375	(610)	2-Nov-20		
Federal National Mortgage Assn.	3136G3UT0	06/30/16	2,000,000	1,948,400	2,000,000	1,950,160	x 1.50%	90	30,000	7,500	1,760	30-Dec-20		
Federal National Mortgage Assn.	3136G4LL5	02/24/17	-	-	1,000,000	996,770	x 2.00%	36	20,000	2,000	(3,230)	24-Feb-21		
Federal Home Loan Mortgage	3134G9XD4	06/30/16	1,000,000	982,420	1,000,000	984,070	x 1.25%	90	12,500	3,125	1,650	30-Jun-21		
			26,000,000	25,746,277	28,000,000	27,779,471		1,706		81,107	33,194	Wtd Rate-->	1.20%	
				(Unrealized loss)----->		(253,723)						WAM----->	2.28	
						(220,529)								
FL Safe Term Series														
FLS Term Series-General Fund	20170929AA07	09/29/16	2,000,000	2,000,000	2,000,000	2,000,000	x 0.75%	90	15,000	3,750	-	29-Sep-17		
FLS Term Series-General Fund	234416-1	12/23/16	4,000,000	4,000,000	-	-	x 0.90%	23	36,000	2,300	-	25-Jan-17		
FLS Term Series-General Fund	235411-1	01/31/17	-	-	2,000,000	2,000,000	x 1.15%	60	23,000	3,833	-	30-Jul-18		
FLS Term Series-General Fund	235408-1	01/31/17	-	-	2,000,000	2,000,000	x 1.30%	60	26,000	4,333	-	31-Jan-19		
			6,000,000	6,000,000	6,000,000	6,000,000		233		14,217	-			
FIIP														
Florida Community Bank	232803-1	10/14/16	2,000,000	2,000,000	2,000,000	2,000,000	1.00%	90	20,000	5,000	-	16-Oct-17		
Florida Community Bank	232832-1	10/17/16	2,000,000	2,000,000	2,000,000	2,000,000	1.00%	90	20,000	5,000	-	17-Oct-17		
			4,000,000	4,000,000	4,000,000	4,000,000		180		10,000	-			
Total Fixed-income Securities			36,000,000	35,746,277	38,000,000	37,779,471		2,119		105,324	33,194			
Other Interest-Bearing Deposits:														
			Former			New								
Capital Bank			0.25%	2,011,372		2,012,639	0.90%	90	18,102	1,266	-	Liquid		
BB&T Bank			0.10%	1,792		1,792	0.10%	90	2	-	-	Liquid		
FLSAFE - Investment Pool			0.74%	4,052,205		4,060,964	0.84%	90	34,039	7,450	-	Liquid		
State Board of Administration			0.90%	-		19,629,123	1.03%	37	-	21,492	-	Liquid		
Bank United			0.35%	5,186,248		5,190,781	0.95%	90	49,269	4,534	-	Liquid		
FL Community Bank			0.40%	10,156,483		10,167,199	0.90%	90	91,408	10,717	-	Liquid		
Stonegate Bank			0.40%	2,014,297		2,016,313	0.90%	90	18,129	2,014	-	Liquid		
				23,422,397		43,078,811				47,473	-	Wtd Rate-->	0.63%	
Total Interest-Bearing				59,168,674		80,858,282				-	152,797	33,194	185,991	
										ANNUALIZED RETURNS-->	0.87%	0.19%	1.06%	
ECR Offset Account:														
SunTrust Bank			0.35%	27,438,230		5,594,270	0.50%				-	Liquid		
Totals				\$ 86,606,904		\$ 86,452,552				\$ 152,797	\$ 33,194	\$ 185,991		

City of Venice, Florida
Quarterly Polled Cash & Investments - By Fund
March 31, 2017

Unrestricted - Governmental Funds

General Fund	\$ 18,136,137
Motor Fuel Tax Fund	77,845
Contraband Forfeiture Fund	16,452
Police Training Fund	3,712
Boat Registration Fund	51,426
One Cent Sales Tax Fund	4,335,248
Second Occupational License Fund	27,570
Growth Management Training Fund	91,156
Parking Fines Handicapped Access Fund	96,211
Building Permit Fund	3,509,950
General Capital Projects	1,202,061
Drainage & Paving Capital Projects Fund	2,041,039
Buildings & Renovations	53,141
Beach Renourishment Capital Projects Fund	1,542,582
Centennial Community Fund	59,044
Historical Commission Fund	17,125
Total Governmental Pooled Cash & Investments	<u><u>31,260,699</u></u>

Unrestricted - Proprietary Fund Types

Airport Fund	3,825,259
Water & Sewer Utilities Fund	24,140,598
Solid Waste Fund	2,503,077
Stormwater Utilities Fund	1,961,789
Group Life & Health Insurance Fund	3,439,935
Workers Compensation Self Insurance Fund	770,108
Employee Flexible Spending Fund	(2,213)
Property Liability Insurance Fund	672,796
Fleet Services	2,355,841
Total Proprietary-Type Pooled Cash & Investments	<u><u>39,667,190</u></u>

Restricted - Proprietary Fund Types

2004 General Obligation Bonds Debt Service Fund	277,394
Utilities:	
Debt Service Reserve	2,261,225
Wastewater Capital Impr	2,759,299
Water Plant Capacity	910,977
Sewer Plant Capacity	1,071,185
Renewal & Replacement	1,000,000
Utility Revenue Bond15	3,924,510
Airport Capital	3,416,445
Solid Waste Fund 470-0000-220.00-00 customer deposits	124,157
Total Restricted Pooled Cash & Investments	<u><u>15,745,192</u></u>
Grand Total Pooled Cash & Cash Equivalents - at Cost	<u><u>\$ 86,673,081</u></u>
Market Value Adjustment	(220,529)
Grand Total Pooled Cash & Cash Equivalents - at Market	<u><u>\$ 86,452,552</u></u>