



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

FROM: Linda Senne, CPA, CGFM, Finance Director

DATE: February 8, 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 December 31, 2016. As you will notice, we have redesigned this format 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 \$86.6 million at December 31, 2016 compared with \$77.9 million at the beginning of the quarter. This is the quarter where the balance of our portfolio is usually highest, due to the timing of property tax receipts. Three months into the fiscal year ended September 30, 2017, we have received \$10.1 million (83%) of our total property tax budget of \$12.1 million.

Of the \$86.6 million in the portfolio at quarter end, \$35.7 million is in fixed income investments, \$23.4 million in interest-bearing deposits, and \$27.4 million in non-interest bearing bank accounts. The large amount in non-interest bearing accounts is to cover compensating balance requirements and 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, plus an investment in the Florida SAFE local governmental investment pool (LGIP). These funds are liquid and available for immediate withdrawal, if needed. Cash balances at SunTrust earn no interest, but serve as compensating balances to reduce bank fees.

Portfolio Activity

No agency securities hit their scheduled maturity date during the quarter. However, one agency security was called early at its par amount of \$1 million plus accrued interest (in yellow). Two agency securities were purchased during the quarter at a par amount of \$1 million each (in purple). One is a three-year FNMA note paying 1.50% interest. The other is a four-year FFCB Note paying 1.35% interest. The furthest maturity date on our agency securities is currently June 2021, four and a half years out. The agency portfolio remaining WAM is 2.45 years.

Our Florida SAFE term series fixed-income securities have one-year terms or less. During the quarter, we increased our investments in this program from \$4.0 million at 0.65% to 0.75% interest to \$6.0 million at 0.75% to 0.90%.

The securities in our FIIP program also have one-year terms. During the period, \$4.0 million of securities at 0.84% interest matured and were rolled over into \$4.0 million of securities at 1.00%.

Portfolio Valuation

Our agency securities are “marked to market” quarterly. At the beginning of the quarter, agency securities at a par amount of \$25 million, were valued at \$24,979,052. At the end of the quarter, agency securities at a par amount of \$26 million, were valued at \$25,746,277. Therefore, our agency securities dropped in value by \$232,755 during the quarter. This reduction in value occurred mostly during a short period immediately after the U.S. Presidential election, when U.S. interest rates rose dramatically. For example, the 3-yr U.S. Treasury yield rose from 1.12% on November 9, 2016 to a high of 1.61% on December 15, 2016. During periods of rising interest rates, the value of these fixed income securities will fall.

However, because we *hold our securities to maturity*, this reduction in principal value is *unrealized*. 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 loss would have been much greater.

The other good news is that these *fixed-interest* agency securities did also earn *realized* interest income of \$73,978 during the quarter, which helped to offset the *unrealized* loss of principal.

We have not valued the securities in the FIIP or Florida SAFE term series program because they all mature within a year. The interest-bearing bank accounts do not lose value during rising 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 1.17% for the quarter (annualized). Our benchmark yield is the 3-yr U.S. Treasury index, which was 1.07% at the start of the quarter and 1.47% 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 2.50.

On the other interest-bearing portfolio, we earned interest at a weighted average rate of 0.53% for the quarter (annualized). Our benchmark yield is the Florida PRIME rate, which was .078% at the start of the quarter and 0.90% at the end. This index has risen steeply during 2016; it was only 0.35% at December 31, 2015. We will monitor this index and consider rebalancing our portfolio in the coming quarter.

Closing

I hope you like the re-design of this report and find it more informative. Please do not hesitate to contact me with questions, concerns and/or recommendations.

City of Venice, Florida

Quarterly Investment Report

December 31, 2016

Matured in Pd
Pched in Pd

Investments:	CUSIP	Purchase Date	Purchase Price (Beg Portfolio)	Beginning Market Value (c)	Purchase Price (End Portfolio)	Ending Market Value (d)	Interest Rate (e)	Days Held Y=360	Annual Interest (a x e)	Realized Interest Earned for Quarter	Unrealized MV Gain (Loss) for Quarter (d - c)	Maturity Date	Called Date
Agencies:													
Federal Farm Credit Bank	3133EC5A8	12/18/12	\$ 1,000,000	\$ 998,922	\$ 1,000,000	\$ 999,497	x 0.87%	90	8,700	2,175	(425)	27-Nov-17	
Federal Home Loan Bank Agency	3134G32V5	12/28/12	2,000,000	2,000,100	2,000,000	1,998,590	x 0.90%	90	18,000	4,500	(1,520)	28-Dec-17	
Federal Home Loan Bank Agency	3134G33Y4	01/22/13	1,000,000	1,000,020	1,000,000	995,980	x 0.95%	90	9,500	2,375	(4,040)	22-Jan-18	
Federal National Mortgage Assn.	3136G1GU7	03/27/13	1,000,000	999,680	1,000,000	999,780	x 1.05%	90	10,500	2,825	110	27-Mar-18	
Federal Farm Credit Bank	3133EFJP3	10/05/15	1,000,000	998,230	1,000,000	998,280	x 1.10%	90	11,000	2,750	(2,950)	15-Oct-18	
Federal National Mortgage Assn.	3136G2R66	11/19/15	2,000,000	2,001,080	2,000,000	2,000,140	x 1.15%	90	23,000	5,750	(840)	19-Nov-18	
Federal Farm Credit Bank	3133EGNC5	07/25/16	1,000,000	998,260	1,000,000	998,220	x 1.08%	90	10,800	2,700	(9,040)	25-Apr-19	Quarterly
Federal Farm Credit Bank	3133EFD20	02/23/16	2,000,000	1,998,200	2,000,000	1,985,340	x 1.25%	90	25,000	6,250	(12,860)	23-May-19	
Federal Home Loan Mortgage	3134G9F93	08/30/16	1,000,000	997,900	1,000,000	993,650	x 1.00%	90	10,000	2,500	(14,250)	28-Jun-19	
Federal National Mortgage Assn.	3136G3Q73	07/26/16	1,000,000	1,000,130	1,000,000	991,810	x 1.15%	90	11,500	2,875	(8,320)	26-Jul-19	
Federal Farm Credit Bank	3133EGSD8	08/23/16	2,000,000	1,996,120	2,000,000	1,984,480	x 1.13%	90	22,800	5,650	(11,640)	23-Aug-19	
Federal National Mortgage Assn.	3136G36X8	09/13/16	2,000,000	1,998,500	2,000,000	1,974,680	x 1.14%	90	22,800	5,700	(23,820)	13-Sep-19	
Federal Farm Credit Bank	3133EFJ7	10/21/15	1,000,000	1,000,170	1,000,000	-	x 1.42%	21	14,200	828	(170)	21-Oct-19	27-Oct-16
Federal Home Loan Bank Agency	3130A6NA1	10/15/15	2,000,000	1,984,300	2,000,000	1,973,120	x 1.40%	90	28,000	7,000	(21,180)	29-Oct-19	
Federal National Mortgage Assn.	3136G4JA2	11/30/16	2,000,000	1,985,930	2,000,000	985,930	x 1.50%	30	15,000	1,250	(4,070)	26-Nov-19	
Federal Home Loan Mortgage	3434G8WK9	08/30/16	2,000,000	1,984,860	2,000,000	1,962,980	x 1.25%	90	25,000	6,250	(31,900)	30-Dec-19	
Federal Farm Credit Bank	3133EGC29	11/02/16	2,000,000	1,984,000	2,000,000	984,000	x 1.35%	58	13,500	2,175	(16,000)	2-Nov-20	
Federal National Mortgage Assn.	3136G3UT0	08/30/16	2,000,000	2,000,420	2,000,000	1,948,400	x 1.50%	90	30,000	7,500	(52,020)	30-Dec-20	
Federal Home Loan Mortgage	3134G8XD4	08/30/16	1,000,000	1,000,160	1,000,000	982,420	x 1.25%	90	12,500	3,125	(17,740)	30-Jun-21	
			25,000,000	24,979,052	26,000,000	25,746,277		1,549		73,978	(232,775)	Wild Rate-->	1.17%
												WAM-->	2.45
FL Safe Term Series													
FLS Term Series-General Fund	20170929AA07	08/29/16	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	20161221AA07	12/22/15	2,000,000	2,000,000	2,000,000	2,000,000	x 0.85%	82	13,000	2,961	-	21-Dec-16	
FLS Term Series-General Fund	234416-1	12/23/16	4,000,000	-	4,000,000	4,000,000	x 0.90%	7	36,000	700	-	25-Jan-17	
			4,000,000	4,000,000	6,000,000	6,000,000		179		7,411	-		
FIIP													
Florida Community Bank	217147	10/15/15	2,000,000	2,000,000	2,000,000	2,000,000	0.84%	15	16,800	700	-	14-Oct-16	
Florida Community Bank	217153	10/16/15	2,000,000	2,000,000	2,000,000	2,000,000	0.84%	16	16,800	747	-	17-Oct-16	
Florida Community Bank	232803-1	10/14/16	2,000,000	2,000,000	2,000,000	2,000,000	1.00%	76	20,000	4,222	-	18-Oct-17	
Florida Community Bank	232832-1	10/17/16	2,000,000	2,000,000	2,000,000	2,000,000	1.00%	73	20,000	4,058	-	17-Oct-17	
			4,000,000	4,000,000	4,000,000	4,000,000		180		9,724	-		
			33,000,000	32,979,052	36,000,000	35,746,277		1,908		91,114	(232,775)		
Total Fixed-Income Securities													
Other Interest-Bearing Deposits:													
Capital Bank			2,010,138	2,010,138	2,011,372	2,011,372	0.25%	90	5,025	1,256	-	Liquid	
BB&T Bank			1,791	1,791	1,792	1,792	0.10%	90	2	0	-	Liquid	
FLSAFE - Investment Pool		12/23/16	2,034,976	2,034,976	2,000,000	4,052,205	0.74%	90	15,059	2,002	-	Liquid	
Bank United			5,181,688	5,181,688	5,186,248	5,186,248	0.35%	90	18,136	4,534	-	Liquid	
FL Community Bank			10,146,250	10,146,250	10,156,483	10,156,483	0.40%	90	40,585	10,146	-	Liquid	
Stonegate Bank			2,012,288	2,012,288	2,014,297	2,014,297	0.40%	90	8,049	2,012	-	Liquid	
			21,387,111	21,387,111	23,422,397	23,422,397				19,951	-	Wild Rate-->	0.53%
			54,366,163	54,366,163	59,168,674	59,168,674				111,065	(232,775)	(121,710)	
Total Interest-Bearing													
Non-Interest Bearing:													
SunTrust Bank			23,511,232	23,511,232	27,438,230	27,438,230	0.00%			-	-	Liquid	
			\$ 77,877,395	\$ 77,877,395	\$ 86,606,904	\$ 86,606,904				\$ 111,065	(232,775)	\$ (121,710)	
Totals													
ANNUALIZED RETURNS-->													
0.78%													
-1.84%													
-0.86%													

City of Venice, Florida
Quarterly Polled Cash & Investments - By Fund
December 31, 2016

Unrestricted - Governmental Funds

General Fund	\$ 18,853,145
Motor Fuel Tax Fund	344,565
Contraband Forfeiture Fund	16,506
Police Training Fund	2,998
Boat Registration Fund	53,878
One Cent Sales Tax Fund	4,466,611
Second Occupational License Fund	27,052
Growth Management Training Fund	90,551
Parking Fines Handicapped Access Fund	97,457
Building Permit Fund	3,682,822
General Capital Projects	1,147,906
Drainage & Paving Capital Projects Fund	2,004,081
Buildings & Renovations	183,881
Beach Renourishment Capital Projects Fund	1,330,333
Centennial Community Fund	58,882
Historical Commission Fund	15,218
Total Governmental Pooled Cash & Investments	<u><u>32,375,886</u></u>

Unrestricted - Proprietary Fund Types

Airport Fund	3,847,488
Water & Sewer Utilities Fund	21,990,430
Solid Waste Fund	3,022,377
Stormwater Utilities Fund	1,922,873
Group Life & Health Insurance Fund	2,861,181
Workers Compensation Self Insurance Fund	609,505
Employee Flexible Spending Fund	3,074
Property Liability Insurance Fund	611,771
Fleet Services	2,666,048
Total Proprietary-Type Pooled Cash & Investments	<u><u>37,534,747</u></u>

Restricted - Proprietary Fund Types

2004 General Obligation Bonds Debt Service Fund	692,674
Utilities:	
Debt Service Reserve	2,261,225
Wastewater Capital Impr	2,704,733
Water Plant Capacity	899,312
Sewer Plant Capacity	1,066,908
Renewal & Replacement	1,000,000
Utility Revenue Bond15	4,786,226
Airport Capital	3,416,445
Solid Waste Fund 470-0000-220.00-00 customer deposits	122,471
Total Restricted Pooled Cash & Investments	<u><u>16,949,994</u></u>

Grand Total Pooled Cash & Cash Equivalents - at Cost	<u><u>\$ 86,860,627</u></u>
Market Value Adjustment	<u>(253,723)</u>
Grand Total Pooled Cash & Cash Equivalents - at Market	<u><u>\$ 86,606,904</u></u>