




Agenda Item #: _____

Staff Report

City of Manhattan Beach

TO: Members of the Finance Subcommittee

FROM: Bruce Moe, Finance Director
Eden Serina, Financial Analyst 

DATE: July 3, 2013

SUBJECT: Temporary Modification of Existing Investment Policy to Permit the Purchase of Medium-Term Notes with Maturities Up to Five Years

RECOMMENDATION:

Staff recommends that the Finance Subcommittee: a) approve the temporary modification of the Investment Policy to permit the purchase of Medium-Term Notes with maturities up to five years; and b) set a sunset date for the maturity extension of June 30, 2014.

FISCAL IMPLICATION:

Extending the potential term on the purchase of Medium-Term Notes from three to five years will provide the Treasurer and staff the capability to purchase investments with potentially higher yields and provide consistent maturities among all types of investments. This term extension is in compliance with state laws.

DISCUSSION:

In March 2012 the Finance Subcommittee approved the temporary modification of the Investment Policy to permit the purchase of Medium-Term notes with maturities up to five years. This temporary modification expired at the end of December 2012. Within that time period the following Medium-Term Notes investments were purchased:

Settlement Date	Investment	Rating	Maturity	Par Value	Yield to Maturity
6/13/2012	Commonwealth Bank of Australia	Aa2/AA-	3/16/2015	\$1,000,000	1.75%
7/20/2012	Wells Fargo Co	A2/A+	2/13/2015	1,000,000	1.12%
7/20/2012	Berkshire Hathaway	Aa2/AA+	1/31/2017	1,000,000	1.11%
10/24/2012	GE Cap Corp	A1/AA+	5/9/2016	2,000,000	1.35%
10/24/2012	National Australia Bank	Aa2/AA-	8/7/2015	500,000	0.88%
10/24/2012	Wells Fargo & Co	A2/A+	12/15/2016	500,000	1.26%
12/21/2012	Toyota Motor Credit	Aa3/AA-	10/5/2017	1,000,000	1.14%
12/21/2012	Union Bank	A2/A+	6/6/2016	1,000,000	1.24%
Total Medium-Term Notes				\$8,000,000	1.27%

The investment climate continues to be challenging with regards to investment yields. Current investment yields are at low levels, resulting in a drop in the total portfolio yield-to-maturity to 0.832% at the end of April 2013. The following table shows current potential investments:

Sample Investments at June 10, 2013	Maturity			
	2-Year	3-Year	4-Year	5-Year
Callable Federal Agency	0.396%	0.637%	1.019%	1.233%
Federal Agency Bullets	0.320%	0.620%	0.990%	1.300%
Certificates of Deposit	0.400%	0.700%	0.900%	1.350%
Medium-Term Notes (Aa3 or higher)	0.760%	1.380%	1.540%	1.860%

Sample investments taken were the highest yielding investments in the class maturing in June of the corresponding year.

Medium-Term Notes outperforms the other investments in each year, by at least 500 basis points (0.500%) in the fourth and fifth year. Actual yield will depend upon the credit quality of the issuer (also set by policy) which staff considers when investing.

The City's current policy for Medium-Term Notes is as follows:

- Term Maximum: 3 Years
- Portfolio Maximum: 20%; 10% per sector; 5% per issuer (including Commercial paper)
- Ratings Minimum: Aaa to Aa3 (Moody's) or AAA to A+ (Standard and Poor's)

Staff believes that expanding the maturity window for Medium-Term Notes will assist in the effort to safely improve yields. This modification is in-line with existing State law. Staff will continue to consider investment opportunities based on safety, liquidity and then yield, in that order. Modifying the policy will simply provide more investment options.

The modification of the term maximum for Medium-Term Notes from three years to five years will be included as one of the permanent changes to the Investment Policy for review and approval. The Finance Subcommittee will have an opportunity to address those changes prior to City Council approval.