



City of Sacramento City Council

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915 I Street, Sacramento, CA, 95814
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Meeting Date: 11/8/2012

Report Type: Staff/Discussion

Title: Office of the City Treasurer Activity in Fiscal Year 2011-12

Report ID: 2012-00875

Location: Citywide

Recommendation: Receive and file

Contact: Russell Fehr, City Treasurer, (916) 808-5832, Office of the City Treasurer

Presenter: Russell Fehr, City Treasurer, (916) 808-5832, Office of the City Treasurer

Department: City Treasurer

Division: City Treasurer

Dept ID: 05001011

Attachments:

- 1-Description/Analysis
- 2-Activity in FY 2011-12 Report
- 3-Presentation Slides

City Attorney Review

Approved as to Form
Grace Arupo
10/30/2012 2:23:56 PM

City Treasurer Review

Reviewed for Impact on Cash and Debt
Russell Fehr
10/29/2012 4:25:07 PM

Approvals/Acknowledgements

Department Director or Designee: Russell Fehr - 10/30/2012 11:29:48 AM



Description/Analysis

Issue: Office of the City Treasurer Activity in Fiscal Year 2011-12

Policy Considerations: The City Treasurer provides periodic reports to advise the City Council of fiscal activities relating to the Office of the City Treasurer. A brief annual summary is appropriate.

Economic Impacts: None

Environmental Considerations: Under the California Environmental Quality Act (CEQA) guidelines, continuing administrative activities do not constitute a project and are therefore exempt from review.

Sustainability: There are no sustainability considerations applicable to this action.

Commission/Committee Action: None

Rationale for Recommendation: The City Treasurer is responsible for the management of city funds and related activities and has a duty to inform the City Council.

Financial Considerations: None

Emerging Small Business Development (ESBD): None



OFFICE OF THE
CITY TREASURER'S
ACTIVITY IN
FISCAL YEAR
2011 – 2012

Russell Fehr, City Treasurer

OFFICE OF THE CITY TREASURER'S ACTIVITY IN FISCAL YEAR 2011 – 2012

Introduction

Under the City Charter, the City Treasurer is responsible for the deposit and investment of all City funds. The Charter further provides that the Treasurer shall keep the City Council fully advised regarding the status of the investments and cash. The City Treasurer is also responsible for the management of outstanding City debt and the issuance to new debt.

The purpose of the report is to provide the Mayor and City Council with a summary of the financial performance and other activities of the Office of the City Treasurer in Fiscal Year 2011-12. The Office places detailed reports on investment transactions on the City Council Agenda on a monthly basis in the interest of full transparency and disclosure and to follow state law. A summary report of annual activity is appropriate.

Summary of Results

Investment Returns

Treasury Pool A (City Funds)	2.47 %
SCERS Retirement Funds	5.50 %

Comparison Returns

Municipal Investment Pools	0.35 % -- 1.50 %
Statewide Retirement Plans	1.0 % -- 1.60 %

The Office of the City Treasurer is comprised of three main divisions: (1) Investments and Cash Management, (2) Debt Management, and (3) Administration (Treasurer/Support/Projects).

Investments and Cash Management

Treasury Pool Investments

Pursuant to the City Charter, the core function of the Treasurer's Office is the management and investment of the City's cash. The investment of the City's cash is governed by the City Investment Policy that is grounded in state law. The City Investment Policy is placed on the City Council Agenda for approval on an annual basis. Under both the policy and state law there three guiding principles, in priority order, for the investment of City funds:

1. Protection of the principal value of the funds;
2. Maintain liquidity so that cash is available when needed; and

3. Generation of investment yield.

State law and policy place other limits on the investment of City cash, most notably:

1. Investments are generally limited to maturities of five years or less;
2. Funds must be invested in fixed income investments; and
3. Risk management policy dictates hard percentage constraints on investment types including a limitation of 30 percent in corporate bonds.

Within this framework, Treasury Pool A, containing the City's funds, earned 2.47 % in Fiscal Year 2011-12. This return was far above industry accepted benchmarks and the returns of other local governments in California. The average cash balance in Treasury Pool A during the fiscal year was \$620 million. The 2.47 % return generated approximately \$15.3 million in additional interest income for City Fund. The excess performance above benchmarks and other local government treasury pools in California ranges from just under 1% to over 2%. The additional interest income from the City's outperformance in its pools is substantial, between \$6 million and \$10 million.

The size of the City's cash holdings deserves comment. While the overall cash holdings are substantial, all cash is linked to the appropriate budgetary accounts. General Fund cash is limited (see below). The cash attributable to the Proposition 218 restricted utility funds, the various assessment districts, and special revenue funds allow for investment flexibility and generation of yield but are restricted in budgetary application.

This performance did not come from the Treasurer's Office taking any inappropriate risk with City funds; all investment activity is consistent with the approved Investment Policy. There are several reasons for the notable performance. The investment officers have a basic practice of active, rather than passive, management of the City's cash. While protecting principal and maintaining liquidity, prudent opportunities to gain additional yield are constantly sought. Other important reasons for the notable performance:

1. The specific investments are diversified and include high quality municipal and corporate bonds, that carry higher coupons than sovereign and government agency bonds;
2. The City's cash holdings in restricted funds allow some investments up to the five year limit in law and policy;
3. Market values of bonds fluctuate before maturity. Some bonds are sold when their market value exceeds costs with the gains increasing stated earnings.

SCERS Retirement Investments

The investments of the SCERS Retirement Fund earned 5.5 percent in the past fiscal year. This compares to the 1 percent earnings of CalPERS and the 1.8 percent earnings of the State Teachers Retirement Plan. The earnings assumption for SCERS is 6.5 percent, so the investment return did come up below the assumed rate of return.

This strong investment performance, coupled with the above assumption returns of the past two years and other actuarial adjustments has resulted in a reduction in the both long-term liability and the City contribution to SCERS in the 2013-14 Fiscal Year.

Cash Flow Borrowing

The extensive budgetary use of reserves and other one-time financing between 2006 and 2010 depleted General Fund cash holdings and has resulted in the need for borrowing for General Fund cash needs beginning in Fiscal Year 2008-09. Property taxes are allocated to the General Fund in the second half of the fiscal year while expenditures are fairly level throughout the year. Cash balances in the first half of the year are no longer sufficient to cover expenditures, leading to the need to borrow.

The Fiscal Year 2011-12 cash flow borrowing was very successful. Short term notes for \$33 million were issued with the City paying a net interest rate of 0.26 percent. The General Fund requires the cash support from the borrowing for only three months during the fiscal year. For the rest of the year this cash is invested along with the other cash holdings of the City. The specific investment of this cash was not tracked, and it is not realistic to assume the investments earned the Pool average of 2.5 percent; the yields, on the borrowed cash when not being used, however, exceeded the interest expense and all other costs of the cash flow borrowing.

Debt Management

Redevelopment Transition

With the state-mandated abolition of redevelopment agencies, and the City's decision to become successor agency for the remaining redevelopment activities in the project areas within the City of Sacramento, the Treasurer's Office became responsible for the management of the outstanding redevelopment debt and cash flow management. All debt obligations have been paid in full and on time.

The overall transition of redevelopment activities to the City is the joint responsibility of and has been closely coordinated with the Office of the City Attorney, the Department of Finance,

and the Economic Development Department. The transition has been a success, and the problems seen in other counties have been avoided in Sacramento.

The Treasurer's Office assumed this additional workload with no additional staff or other spending requests.

Utilities Financing

The Treasurer's Office has collaborated with the Department of Utilities on the overall financing plan in preparation to issue debt for capital projects. The City will issue revenue bonds for these capital projects, with water and wastewater revenues being the credit rather than issuing General Fund backed lease revenue bonds as has been the case in the past.

Arena Project and Parking Monetization

The Office of the City Treasurer provided significant staff resources to support the arena financing and parking monetization efforts.

Administration

The Administration division of the Treasurer's Office supports the two operating working groups of the office, conducts and participates in Special Projects, and provides citywide IT support.

Bank on Sacramento

At Mayor Johnson's direction, Bank on Sacramento transitioned from the Governor's Office to the City Treasurer's Office in 2011. The effort to get the unbanked in the City of Sacramento grew during the year. Additional community partners have been added, financial education classes were provided to hundreds of participants and approximately 9,300 citizens joined the financial mainstream. The Bank on Sacramento mission was expanded in January 2012 to include Sacramento County and the primary leadership role transitioned to the United Way California Capital Region. Administrative support to the Bank on Sacramento coalition continues to be provided by the Treasurer's Office.

Records and IT Support

Administration staff also completed the department revision of the Records Retention schedule as approved by City Council in October 2011. Costs savings were realized by eliminating all off-site records storage and digitizing all documents.

The Treasurer's Office uses specialized computer systems to conduct daily work, and these systems must function during business hours. The Office has a dedicated IT position for this

reason. In actual practice, significantly more time is allocated to citywide support than to direct support of the Treasurer's Office. In the past year, Treasurer's office staff contributed significant staff time to support of eCAPs, CCM and other citywide systems and projects.

Budget

The Treasurer's Office operated within the Approved Budget for the year. The General Fund revenues generated through costs recoveries from financings and financing district administration and investment pool management fees exceed expenditures for the Office by approximately \$1.1 million. The following table gives budgeted and actual expenditures and revenues for the Treasurer's Office:

**Fiscal Year 2011-12 Budget and Actuals
Office of the City Treasurer**

	Budget	Actual	Difference
Expenditures	\$1,881,672	\$1,820,312	\$61,360
Revenues	\$2,923,500	\$2,939,838	\$16,338
Net Costs	(\$1,041,828)	(\$1,119,203)	(\$77,698)

Actual results represent a net improvement of \$77,698.

As background, the following table gives the staffing levels for the Office at various points over the past 30 years:

**Office of City Treasurer
Historical Staffing Level**

Fiscal Year	Positions
1982-83	8
1989-90	14
2001-02	20
2007-08	18
2008-09	15
current	12

In the past six years, the Office has reduced its staff by six positions while maintaining a very high level of performance.

Conclusion

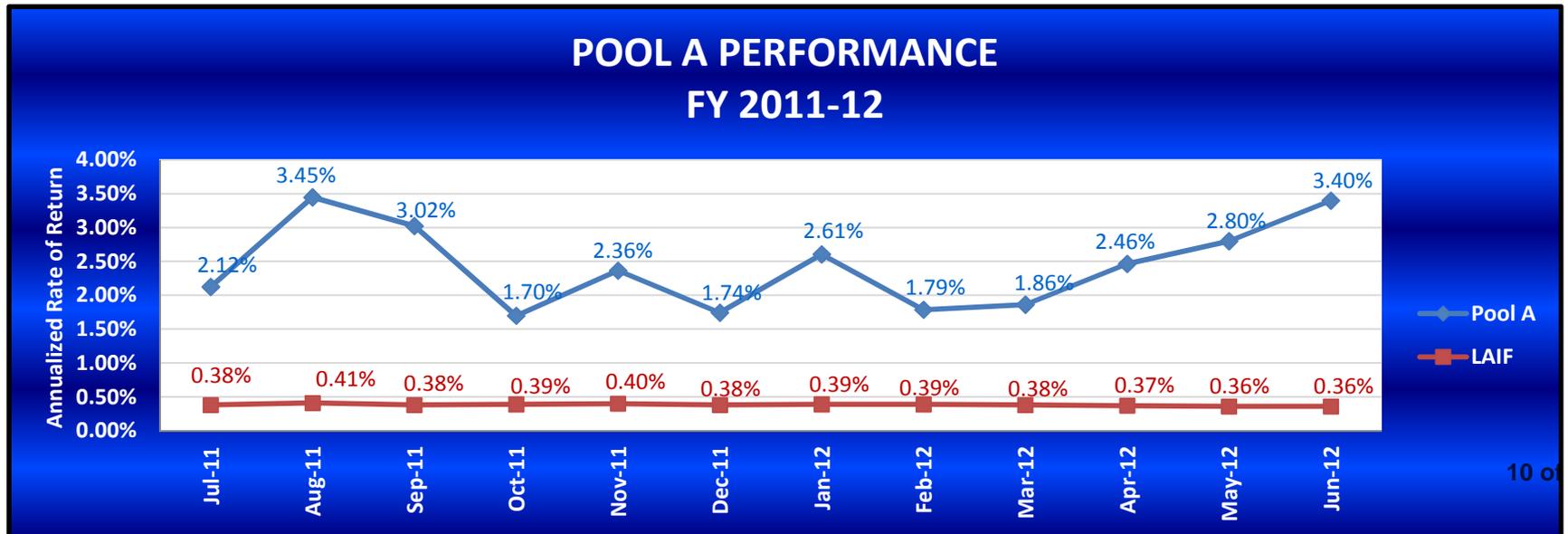
The staff of the Treasurer's Office deserves the credit for the strong performance during Fiscal Year 2011-12. The superior results are due to the skill and hard work of dedicated professionals.



Investment Results



Fiscal Month	Rate of Return	
	Pool A	Benchmarks LAIF
Jul-11	2.12%	0.38%
Aug-11	3.45%	0.41%
Sep-11	3.02%	0.38%
Oct-11	1.70%	0.39%
Nov-11	2.36%	0.40%
Dec-11	1.74%	0.38%
Jan-12	2.61%	0.39%
Feb-12	1.79%	0.39%
Mar-12	1.86%	0.38%
Apr-12	2.46%	0.37%
May-12	2.80%	0.36%
Jun-12	3.40%	0.36%





SCERS

- 5.5 % Investment Income
- Significantly higher than benchmarks & other public pension plans
- Reduction in unfunded liability
- Increase in funding ratio
- Reduction in City contribution



Major Projects

- Cash Flow Financing (TRANS)
- Redevelopment Transition
- Utilities Financing- Water and Wastewater
- Arena Project and Parking Monetization
- Bank on Sacramento
- CCM Conversion Project