



Lake Havasu City

Lake Havasu City
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Council Chambers
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Legislation Text

File #: ID 18-1739, Version: 1

COUNCIL COMMUNICATION

TO: Honorable Mayor and Council

FROM: Jill Olsen, Administrative Services Director
Sandy McCormack, Senior Accountant

SUBJECT:
Investment Report as of June 30, 2018 (*Jill Olsen*)

FUNDING SOURCE:
N/A

PURPOSE:
To present the June 30, 2018 Investment Report to Council.

BACKGROUND:
This investment report conforms to the City's adopted Investment Policy, which states that the Council will receive quarterly investment reports. The investment objectives of the City include safety, liquidity and yield - in that order. Standards of care, as described in the Investment Policy, have been used in making investment decisions for the City. Investments are purchased with the intention to hold to maturity, follow a five-year ladder plan, and are held by an independent third-party custodian.

As of June 30, 2018, the weighted average rate of return for the City's investment portfolio (excluding LGIP and JPMorgan Chase) was 1.78 percent with an average yield to maturity of 2.61 percent and the average years to maturity is 2.6 years. As a point of comparison, the current yield for the Arizona State Treasurer's Local Government Investment Pool (LGIP) 700, which invests in medium-term securities backed by the U.S. Government, was 1.88 percent for the quarter ending June 30, 2018. The LGIP's Pool 700 holdings are very similar to those of the City's investment portfolio and therefore, provide a reasonable benchmark for comparison.

The City's portfolio will likely continue to experience an increase in earnings when funds received during the quarter from matured investments and funds currently held in the LGIP Pool 5, are reinvested at higher rates. More recently purchased securities in the City's portfolio are yielding 3.05 to 3.25 percent earnings.

The economic growth forecast continues to reflect increased momentum. The Federal Open Market Committee

(FOMC) was quoted saying *“With a strong job market, inflation close to our objective, and the risks to the outlook roughly balanced, the FOMC believes that, for now, the best way forward is to keep gradually raising the federal funds rate.”*

The Feds raised rates in June and revised their projection to include two additional rate hikes in 2018, bringing the year’s total to four. The Fed’s latest projection raised its outlook for growth and inflation while lowering its expectations for the unemployment rate. The 10-Year Treasury shows a slight uptick at the end of the second quarter with small decreases forecasted in yield for the remainder of 2018. All of this indicates a flattening of interest rates and yields.

COMMUNITY IMPACT:

No direct impact. Indirect impact to the community is an increase or decrease in investment earnings based on the market environment which help fund government and enterprise activities.

FISCAL IMPACT:

N/A

ATTACHMENTS:

City Council Investment Report at June 30, 2018

SUGGESTED MOTION:

N/A