CITY OF TONKA BAY
ITEM NO. 9D

Memo

To: Honorable Mayor and City Council

From: Joe Kohlmann, City Administrator

Date: May 22, 2012

Re: Investments

Staff has prepared 'mock financial reports' to illustrate the direction Staff thinks the City could have went with the previous investment offerings. First, the 'actual report' from April shows where the dollars would have come from to invest. Next, the two 'mock reports' illustrate how the most current report would look if the investment offerings were acted upon (determined by Staff).

Staff is looking for direction on two things:

Background: When analyzing the City's finances and the previous investment offerings. Staff determined that G.O. and Revenue Bonds were providing the highest yield. Considering our Liquor Fund and General Fund interest offset our annual levy and there is no immediate need for this cash, I thought it would be appropriate to look for a higher yield with these investments. Those are noted on the investment report as invested in GO and Revenue Bonds. In addition, Staff believes the investments should be laddered and cash should be coming in every year. You will see 2014 has no cash maturing because in 2013 there is $271,000 maturing, more than enough to run through 2014 depending on management decision. Also, note that if $125,000 of the dock fund was invested, the second dock expansion could not occur until that matures (2015).

Also in the 'mock report' you will see that $250,000 from the 4M Fund could be invested. This would reduce the amount of cash on hand for the City. While the 'mock report' states the balance would be $495,592, by the time our tax settlement comes in July, Staff anticipates the 4M fund to $200,000 - $300,000. To compensate for this Staff would also propose moving the $60,814 and $7,156 in savings accounts to the 4M Fund to help ensure sufficient cash on hand.

Things to consider:

1) Stuart Bonniwell provided his opinion on investments at the previous meeting- noting G.O. and Revenue Bonds are generally safe investments.
2) In order to fill the short term gaps on the 'ladder' CDs would be invested in as well.
3) While I think the proposed cash flow situation is conservative, in order to invest 4M Fund dollars, City Staff (and future staff) will need to be much more active in the management cash flow needs for future capital purchases, expenditures, etc.
4) The 'mock report' shows investments laddered out six years instead of five, as previously practiced by the City.
5) Below is an analysis of the gain in the proposed GO Bonds vs. CDs:

GO Bond yield:	$130,000 x 3.22% = $4,186	
GO Bond yield:	$225,000 x 3.45% = $7,762	
Total GO yield:		$11,948
5-year CD yield:	$130,000 x 1.9% = $2,470	
5-year CD yield:	$225,000 x 1.9% = $4,275	
Total CD yield:		$6,745

Total Difference: **$5,203** annually. Since the CD is 5 years and the GO Bond is 6 years to maturity, you need to multiply this by five to get the true difference between the two: $5,203 x 5 years = **$26,015** over five years.

Attached is the most current financial report with noted modifications indicating dollars that would be invested.
Attached is a mock financial and investment report as if the offerings were acted upon two weeks ago.
Attached are the offering sheets supplied by UBS and Stifel.

Council Action Requested:
Discuss the information above and provide staff direction on two things:

1) Should staff examine and invest in GO Bonds when appropriate as an alternative to CDs?
2) Does the City wish to invest dollars from the 4M Fund as recommended by the Auditor with the understanding that Staff will need to monitor cash flow much more closely?

City of Tonka Bay

ACTUAL REPORT

FINANCIAL REPORT
April 30, 2012

		4M Fund		Managed Investments		Other	
	Current interest rate	0.02%	0.05%	0.01%		CD	
FUND #	FUND NAME	CHECKING	SAVINGS	SAVINGS	CD's	INVESTMENTS	FUND BALANCE
101	General Fund	(27,880.67)	42,589.52 (40,000)	91,280.97 (90,000)	196,000.00		301,989.82
301	Woodpecker Ridge Road Fund	0.00					0.00
406	Southshore Comm Ctr Fund	3,834.00					3,834.00
407	Park Fund	757.15	874.77				1,631.92
408	Manitou Seawall Fund	2,727.55					2,727.55
409	Capital Improvement Fund	24,410.57	41,860.23				66,270.80
411	Water/Sewer Reserve Fund	140,713.29 (100,000)	9,846.80	53,233.65 (50,000)	242,000.00		445,793.74
601	Water Operating Fund	89,213.18					89,213.18
602	Sewer Operating Fund	109,299.51	205,642.75 (200,000)				314,942.26
603	Garbage Fund	61,532.84 (25,000)					61,532.84
609	Liquor Store Fund	9,885.77		227,641.51 (225,000)	75,000.00		312,527.28
617	Municipal Dock Fund	192,271.44 (125,000)					192,271.44
651	Storm Water Drainage Fund	69,156.20					69,156.20
652	Recycling Fund	33,133.65					33,133.65
653	Antenna Fund	37,077.73					37,077.73
		746,132.21	**300,814.07**	**372,156.13**	**513,000.00**	**0.00**	**1,932,102.41**
		($250,000)	($240,000)	($365,000)	= $855,000		

Total to Invest

City of Tonka Bay

MOCK REPORT

FINANCIAL REPORT
April 30, 2012

		4M Fund		Managed Investments		Other	
	Current interest rate	0.02%	0.05%	0.01%		CD	FUND
FUND #	FUND NAME	CHECKING	SAVINGS	SAVINGS	CD's	INVESTMENTS	BALANCE
101	General Fund	(27,880.67)	***2,589.52***	***1,280.91***	***326,000.00***		301,989.76
301	Woodpecker Ridge Road Fund	0.00					0.00
406	Southshore Comm Ctr Fund	3,834.00					3,834.00
407	Park Fund	757.15	874.77				1,631.92
408	Manitou Seawall Fund	2,727.55					2,727.55
409	Capital Improvement Fund	24,410.57	41,860.23				66,270.80
411	Water/Sewer Reserve Fund	***40,713.29***	9,846.80	***3,233.65***	***392,000.00***		445,793.74
601	Water Operating Fund	89,213.18					89,213.18
602	Sewer Operating Fund	109,299.51	***5,642.75***		***200,000.00***		314,942.26
603	Garbage Fund	***36,532.84***			***25,000.00***		61,532.84
609	Liquor Store Fund	9,885.77		***2,641.51***	***300,000.00***		312,527.28
617	Municipal Dock Fund	***67,271.44***			***125,000.00***		192,271.44
651	Storm Water Drainage Fund	69,156.20					69,156.20
652	Recycling Fund	33,133.65					33,133.65
653	Antenna Fund	37,077.73					37,077.73
		496,132.21	**60,814.07**	**7,156.07**	**1,368,000.00**	**0.00**	**1,932,102.35**

MOCK REPORT

INVESTMENTS
April 30, 2012

DUE DATE	FUND	CUSIP	LOCATION	AMOUNT	INTEREST RATE
Jun 20, 2012	General Fund-101	939379FQ1	MSSB CD-Washington Mutual	96,000.00	5.35
Jun 20, 2012	Water/Sewer Reserve-411	518038VE1	MSSB CD-LaSalle Bank	96,000.00	5.25
Jun 20, 2012	Water/Sewer Reserve-411	25467RZH9	MSSB CD-Discover Bk	50,000.00	5.35
Apr 29,2013	Water/Sewer Reserve-411	795450JM8	MSSB CD-Sallie Mae	96,000.00	3.35
Apr 29,2013	Liquor Fund-609	140653W77	MSSB CD-Capmark	75,000.00	3.25
Oct 15,2013	Gen Fund-101 / Wtr Swr Resv -411	02004MW90	MSSB CD-Ally Bank Utah	100,000.00	1.35
6/15	***W/S RESERVE/Dock***	***CD***	***US Bank CD***	***175,000.00***	***1.15***
5/16	***W/S Reserve/Garbage***	***CD***	***US Bank CD***	***125,000.00***	***1.30***
5/17	***Sewer Operating***	***CD***	***US Bank CD***	***200,000.00***	***1.90***
1/18	***General Fund-101***	***MUNI***	***Jefferson County***	***130,000.00***	***3.22***
6/18	***Liquor Fund-609***	***MUNI***	***Ilinois St.***	***225,000.00***	***3.45***
	Timed Investments			***1,368,000.00***	
	General Fund-101		Money Market Acct-4MP	***2,589.52***	0.05
	Park Fund-407		Money Market Acct-4MP	874.77	0.05
	Capital Improvement-409		Money Market Acct-4MP	41,860.23	0.05
	Water/Sewer Reserve-411		Money Market Acct-4MP	9,846.80	0.05
	Sewer Operating-602		Money Market Acct-4MP	***5,642.75***	0.05
	General Fund-101		MSSB House Acct	***1,280.97***	0.01
	Water/Sewer Reserve-411		MSSB House Acct	***3,233.65***	0.01
	Liquor Fund-609		MSSB House Acct	***2,641.51***	0.01
	Cash available for Investments			67,970.20	
	Timed Investments & Cash Total			1,435,970.20	

STIFEL NICOLAUS

Offer Sheet

May 08, 2012

12:04:43PM EST

STIFEL MUNICIPALS

Qty (000)	Cusip	Rating / FDIC #	Issue	Coupon	Maturity	Price	Yield To Worst	Yield To Maturity	Accrued Interest	Principal	Net Amount
90	472653BP8	Aa3/AA-	JEFFERSON CNTY ALA LTD OB Callable 01/14@100 - Material Events - AGMC insured	5.250%	01/01/2018	$103.208	3.222% (c)	4.596%	$1,706.25	$92,887.20	$94,593.45
20	57563RJE0	-/AA	MASSACHUSETTS EDL FING AU OID - Extraordinary Calls - Student Lns Use - Subject to AMT - Material Events	4.000%	07/01/2018	$105.957	2.932%	2.932%	$288.89	$21,191.40	$21,480.29
80	452152BY6	Aa3/AA-	ILLINOIS ST Callable 01/20@100 - Material Events - AGMC, insured	5.000%	01/01/2021	$112.535	3.141% (c)	3.319%	$1,444.44	$90,028.00	$91,472.44
25	485106DN5	A1/AA-	KANSAS CITY, MISSOURI SPE Material Events	0.000%	02/01/2021	$74.880	3.344%	3.344%	$0.00	$18,720.00	$18,720.00

See Last Page for Additional Information

UBS
MUNICIPALS

Offer Sheet

Tuesday, May 8, 2012

Qty (000)	Cusip	Moody/S&P/Fitch	Issue	Sec Type	Coupon	Maturity	Price	Yield to Maturity	Yield to Worst	Modified Duration	TEY	Principal	Accrued Interest	Net Amount
115	485106GJ1	A1/AA-/A+	KANSAS CITY MO SPL OBLIG TAXABLE	Muni	1.760%	03/01/2015	$101.456	1.230%	1.230%	2.728	1.230%	$116,674.40	$236.13	$116,910.53
2630	452151LD3	A1/A+/-	ILLINOIS ST OID - TAXABLE - Material Events - Subject to - Sinking Fund 06/01/16@100	Muni	4.350%	06/01/2018	$104.878	3.450%	3.450%	5.220	3.450%	$2,758,291.40	$50,846.67	$2,809,138.07
215	13063A7G3	A1/A-/A-	CALIFORNIA ST Extraordinary Calls - Gen Purp/Pub Impt Use - TAXABLE - Material Events	Muni	6.200%	10/01/2019	$119.750	3.179%	3.179%	6.044	3.179%	$257,462.50	$1,481.11	$258,943.61
300	452152GR6	A2/A+/A	ILLINOIS ST OID - Extraordinary Calls - Gen Purp/Pub Impt Use - TAXABLE - (Build America Bond) - Material Events - Subject to - Sinking Fund 07/01/17@100	Muni	6.200%	07/01/2021	$113.750	4.359%	4.359%	6.968	4.359%	$341,250.00	$6,716.67	$347,966.67
185	573205HE4	Aa3/-/-	MARTIN CNTY KY SCH DIST F Callable 10/01/20@100 - OID - Extraordinary Calls - Prim/Secndry Ed Use - TAXABLE - (Build America Bond) - Material Events	Muni	4.300%	10/01/2025	$106.307	3.698%	3.428% (c)	7.025	3.428%	$196,667.95	$883.89	$197,551.84
825	452151LF8	A2/A+/-	ILLINOIS ST TAXABLE - Material Events - Subject to - Sinking Fund 06/01/24@100	Muni	5.100%	06/01/2033	$96.003	5.420%	5.420%	12.336	5.420%	$792,024.75	$18,700.00	$810,724.75
			Weighted Averages and Totals		**4.646%**	**9.47**	**$104.505**	**3.832%**	**3.820%**	**6.770**	**3.820%**	**$4,462,371.00**	**$78,864.47**	**$4,541,235.47**
					Avg Coupon	**Avg Yrs Maturity**	**Avg Price**	**Avg Yield to Maturity**	**Avg Yield to Worst**	**Avg Modified Duration**	**Avg TEY**	**Total Principal**	**Total Accrued Interest**	**Total Investment**

(n) Floating/Variable Rate - (c) Yield to Call - (p) Yield to Par Call - (w) Yield to Middle Call - (u) Yield to Put - (dis) Discount Yield - (r) Pre-Refund - (t) Mandatory Put - (f) Called in Full
(s) stripped yield for Perpetual Preferred Stocks

UBS 5-YEAR MUNICIPALS

Offer Sheet

Thursday, May 10, 2012

Qty (000)	Cusip	Moody/S&P/Fitch	Issue	Sec Type	Coupon	Maturity	Price	Yield to Maturity	Yield to Worst	Modified Duration	TEY	Principal	Accrued Interest	Net Amount
115	485106GJ1	A1/AA-/A+	KANSAS CITY MO SPL OBLIG TAXABLE	Muni	1.760%	03/01/2015	$101.950	1.050%	1.050%	2.720	1.050%	$117,242.50	$258.62	$117,501.12
125	517696W48	Aa2/AA/AA	LAS VEGAS NEV Extraordinary Calls - Other Rec Use - TAXABLE	Muni	2.000%	06/01/2015	$103.187	0.936%	0.936%	2.955	0.936%	$128,983.75	$97.22	$129,080.97
845	419791YH5	Aa2/AA/AA	HAWAII ST Extraordinary Calls - Gen Purp/Pub Impt Use - TAXABLE - (Build America Bond) - Material Events	Muni	3.380%	02/01/2016	$109.868	0.682%	0.682%	3.488	0.682%	$928,384.60	$8,250.96	$936,635.56
125	940093Q67	Aa2/AA/-	WASHINGTON ST UNIV REVS Extraordinary Calls - Public Higher Education Use - TAXABLE - Material Events - AMBAC, insured	Muni	5.800%	10/01/2016	$119.970	1.113%	1.113%	3.931	1.113%	$149,962.50	$886.11	$150,848.61
230	696089SA0	Aa1/-/-	PALATINE ILL OID - TAXABLE - Material Events - CIFG, insured	Muni	5.200%	12/01/2016	$117.614	1.205%	1.205%	4.040	1.205%	$270,512.20	$5,448.44	$275,960.64
			Weighted Averages and Totals		**3.632%**	**3.79**	**$110.770**	**0.854%**	**0.854%**	**3.507**	**0.854%**	**$1,595,085.55**	**$14,941.35**	**$1,610,026.90**
					Avg Coupon	**Avg Yrs Maturity**	**Avg Price**	**Avg Yield to Maturity**	**Avg Yield to Worst**	**Avg Modified Duration**	**Avg TEY**	**Total Principal**	**Total Accrued Interest**	**Total Investment**

(n) Floating/Variable Rate - (c) Yield to Call - (p) Yield to Par Call - (w) Yield to Middle Call - (u) Yield to Put - (dis) Discount Yield - (r) Pre-Refund - (t) Mandatory Put - (f) Called in Full
(s) stripped yield for Perpetual Preferred Stocks

UBS CD's

Offer Sheet

Thursday, May 10, 2012

Qty (000)	Cusip	FDIC #	Issue	Sec Type	Coupon	Maturity	Price	Yield to Maturity	Yield to Worst	Modified Duration	Principal	Accrued Interest	Net Amount
240	060624FM0	33681	BANK BARODA NEW YORK N Y PRIMARY Conditional Puts - Death of holder - Restricted States: HI,MT,OH,TX	Certificates of Deposit	0.400%	08/16/2012	$100.000	0.400%	0.400%	0.252	$240,000.00	$0.00	$240,000.00
90	060624FN8	33681	BANK BARODA NEW YORK N Y PRIMARY Conditional Puts - Death of holder - Restricted States: HI,MT,OH,TX	Certificates of Deposit	0.500%	11/16/2012	$100.000	0.500%	0.500%	0.503	$90,000.00	$0.00	$90,000.00
240	06425HT22	33653	BANK OF CHINA NEW YORK CITY NY PRIMARY Conditional Puts - Death of holder - Restricted States: OH,TX	Certificates of Deposit	0.450%	02/19/2013	$100.000	0.450%	0.450%	0.762	$240,000.00	$0.00	$240,000.00
240	06425HT48	33653	BANK OF CHINA NEW YORK CITY NY PRIMARY Conditional Puts - Death of holder - Restricted States: OH,TX	Certificates of Deposit	0.600%	05/16/2013	$100.000	0.600%	0.600%	0.994	$240,000.00	$0.00	$240,000.00
240	02005QE74	57803	ALLY BANK MIDVALE UTAH PRIMARY Conditional Puts - Death of holder	Certificates of Deposit	0.500%	11/18/2013	$100.000	0.500%	0.500%	1.502	$240,000.00	$0.00	$240,000.00
240	05568PW60	35141	BMW BANK OF NORTH AMERICA, SALT LAKE CITY UT PRIMARY Conditional Puts - Death of holder - Restricted States: OH	Certificates of Deposit	0.700%	05/16/2014	$100.000	0.700%	0.700%	1.987	$240,000.00	$0.00	$240,000.00
240	36160NKE8	27314	GE CAPITAL RETAIL BANK DRAPER UT PRIMARY Conditional Puts - Death of holder - Restricted States: TX	Certificates of Deposit	0.850%	11/18/2014	$100.000	0.850%	0.850%	2.473	$240,000.00	$0.00	$240,000.00
47	254671AZ3	5649	DISCOVER BK GREENWOOD DEL PRIMARY Conditional Puts - Death of holder	Certificates of Deposit	1.050%	05/18/2015	$100.000	1.050%	1.050%	2.955	$47,000.00	$0.00	$47,000.00
4027	38143ASJ5	33124	GOLDMAN SACHS BK USA NEW YORK PRIMARY Conditional Puts - Death of holder	Certificates of Deposit	1.300%	05/16/2016	$100.000	1.300%	1.300%	3.890	$4,027,000.00	$0.00	$4,027,000.00
3197	38143ASL0	33124	GOLDMAN SACHS BK USA NEW YORK PRIMARY Conditional Puts - Death of holder	Certificates of Deposit	1.800%	05/16/2017	$100.000	1.800%	1.800%	4.765	$3,197,000.00	$0.00	$3,197,000.00
			Weighted Averages and Totals		**1.355% Avg Coupon**	**3.90 Avg Yrs Maturity**	**$100.000 Avg Price**	**1.355% Avg Yield to Maturity**	**1.355% Avg Yield to Worst**	**3.749 Avg Modified Duration**	**$8,801,000.00 Total Principal**	**$0.00 Total Accrued Interest**	**$8,801,000.00 Total Investment**

(n) Floating/Variable Rate - (c) Yield to Call - (p) Yield to Par Call - (w) Yield to Middle Call - (u) Yield to Put - (dis) Discount Yield - (r) Pre-Refund - (t) Mandatory Put - (f) Called in Full
(s) stripped yield for Perpetual Preferred Stocks