

M E M O R A N D U M

TO: Mayor Prussing
Members, Urbana City Council

FROM: Ronald Eldridge, City Comptroller

RE: Quarterly Investment Report for Quarter Ended March 31, 2012

DATE: April 19, 2012

The City's investment policy requires that a quarterly investment report be submitted to the City Council. Attached please find the city's investment report as of December 31, 2011.

The total amount invested decreased \$1.6 million to a total of \$37,157,605 from the balance last quarter. This decrease is mostly due to payment of regular bills and payroll and the fact that the next significant amount of property tax payments will not be received till spring. I believe this reduction is normal for this quarter. We will probably continue to reduce this amount for normal expenses over the next 2 months, until property taxes are received in June.

The average yield is 3.4% on fixed investments (CD's and U.S. Treasury) and 0.1% on short-term money market and savings investments. The average outstanding length of maturity time for the fixed investments is 2.6 years. I have purchased a few U.S. securities that mature in approximately 20 years, in order to obtain a higher yield. These securities can be sold if needed to. In reality, many of these higher yielding bonds are being called by the government and paid off early.

The Federal Reserve Bank has indicated that they intend to keep interest rates steady for the foreseeable future. Thus the plan of investing is to avoid investing in long term bonds that do not pay a reasonable rate of interest and to continue to invest in a shorter time frame. If I do buy longer term bonds, the rate will have to be large enough that I would feel comfortable. This means I will have to pay a premium for this higher rate. I will do this if the security has adequate call protections. I would like to fill in gaps in my laddering (thus extending the average length of maturity), but I do not believe this makes sense right now.

Following is a description of security for the various types of city investments:

- All CD's purchased thru one of the city's broker/dealers (ex. Smith Barney, Morgan Stanley, etc.) are purchased at separate banks and thus each have the \$250,000 FDIC insurance. The money market amounts at the broker/dealers carry their own private insurance. However, almost all of the time, there should only be small amounts (up to \$50,000) in these accounts. These amounts come from interest that is received or investments that are called and paid off early for a few days until I can reinvest. Currently, amounts in these money market accounts are all below \$19,000.
- The investment in the Illinois Metropolitan Investment Fund is not FDIC insured but backed 100% by US Government securities. The investment in the Illinois Funds Money Market and EPay accounts are

secured by a promise from the State of Illinois and are also primarily secured by US Government Securities.

- I have purchased five Champaign School District bonds purchased thru Stifel Nicolas with a total of \$2,105,812. These are not guaranteed but have the highest possible rating AAA. The School District would have to declare bankruptcy to avoid paying the full amount on these. I do not believe this will happen. I purchased these because the rate was better than other options. I will not purchase any municipal bonds from any agency outside of the State of Illinois and that I am not personally familiar with their financial situation.
- \$15,142,269 is invested in U.S. Government Direct and Secondary investments which carry the government's promise to pay.
- The balance of \$11,599,822 is invested at Busey Bank either thru CD's or in the City's money market (savings account). FDIC insurance is limited to \$250,000. So we ask Busey Bank to pledge to us US Government securities that they own in an amount that is equal to the uninsured amounts. Currently, they have placed securities in the amount of \$11,792,350 with an independent bank in our name. What this means is that in the event Busey began to have financial problems they cannot sell these securities without the written authorization of the City of Urbana, which we would not agree to. Also, I believe the current financial condition of Busey Bank is not a worry to the possibility that the FDIC would have to take over the bank. The bank has received a 4 Star rating from Bauer Financial services for each of the last 2 years. (5 Star is considered superior, 4 star excellent, 3 star adequate). Two ratios that are considered important for bank valuations are the Return on Average Assets Ratio (ROAA) and the Tier 1 Capital Ratio (bank equity compared to true assets). The ROAA for Busey was +0.99 for Calendar Year End 12/31/07, -0.89 for 12/08, -7.24 for 12/09, +0.64 for 12/10, and +0.86 for the year ended 12/31/11. The Tier 1 Capital Ratio for Busey was +9.62 at 12/31/07, +7.60 at 12/08, +10.63 at 12/09, +16.25 at 12/10, and +17.35 at 12/31/11. The years 08 and 09 reflected Busey's recognition of bad loans mainly in the Florida market. But the ratios for the last 2 years are again very positive as reflected in the Bauer ratings.

This portfolio of city investment's is not affected by fluctuations in the stock market since this portfolio has no investments in the stock market. However, the City's three employee pension funds have 45% to 60% of their assets invested in the stock market. All 3 of these pension funds had an excellent stock market return for the fiscal year ended June 30 (average of 30% return on stock portion of their investments). This was the second excellent year of stock market gains. These returns have helped reduce pension funding requirements greatly, thus freeing up this money to alleviate the general fund financing problem. The pension funds had an excellent 1st quarter of 2012, earning enough to increase their return for the 9 month fiscal year to approximately a 5% gain, up from the -6% at the end of December. If the market can maintain this 5% return or increase it more, this combined with the 2 previous years will definitely help reduce the amount that otherwise would be needed to fund pensions.

The City's investment portfolio at Dec. 31, 2011 complies and is in accordance with State laws and the City's investment policies that were approved on November 15, 1999.

Institution	Type of Investment	Maturity Date	Date Purchased	Yield	03/31/12 \$ Market	% Portfolio	12/31/11 \$ Market	% Increase (Decrease)	Reason for Change
CIBM Bank	CD	08/06/13	08/06/11	0.850%	243,073		242,554	0.21%	Accrued Interest
Regions Bank	CD	03/05/13	09/05/09	3.200%	109,787		108,916	0.80%	Accrued Interest
PNC Bank	CD	02/11/13	01/11/12	0.400%	102,764		102,103	0.65%	Accrued Interest
Centrue Bank	CD	05/31/13	05/31/11	1.300%	99,500		99,500	0.00%	
Chase Bank	CD	11/24/13	11/24/08	4.490%	99,953		99,953	0.00%	
First Federal	CD	05/30/13	11/29/11	0.500%	101,749		101,749	0.00%	
Busey Bank	CD	01/15/12	07/17/10	1.000%	-		250,000	-100.00%	Maturity
Busey Bank	CD	04/11/12	07/11/11	0.300%	250,000		250,000	0.00%	
Busey Bank	CD	02/16/12	01/16/11	0.550%	-		250,000	-100.00%	Maturity
Busey Bank	CD	03/16/12	02/16/11	0.550%	-		250,000	-100.00%	Maturity
Busey Bank	CD	04/16/12	02/16/11	0.550%	199,443		199,443	0.00%	
Busey Bank	CD	05/16/12	03/16/11	0.550%	224,034		224,034	0.00%	
Busey Bank	CD	06/16/12	03/16/11	0.550%	224,034		224,034	0.00%	
Busey Bank	CD	05/15/12	04/19/11	0.550%	440,240		440,240	0.00%	
Busey Bank	CD	07/16/12	05/18/11	0.450%	250,001		250,001	0.00%	
Busey Bank	CD	08/10/12	06/10/11	0.450%	250,000		250,000	0.00%	
Busey Bank	CD	09/10/12	07/12/11	0.450%	250,000		250,000	0.00%	
Busey Bank	CD	10/10/12	08/10/11	0.450%	250,000		250,000	0.00%	
Busey Bank	CD	01/17/13	01/17/12	0.300%	250,000		-	#DIV/0!	Purchase
Busey Bank	CD	02/16/14	02/16/12	0.500%	250,000		-	#DIV/0!	Purchase
Busey Bank	CD	06/17/14	02/16/12	0.500%	250,000		-	#DIV/0!	Purchase
Busey Bank	CD	05/17/14	02/16/12	0.500%	250,000		-	#DIV/0!	Purchase
Busey Bank	CD	04/17/14	02/16/12	0.500%	250,000		-	#DIV/0!	Purchase
Busey Bank	CD	03/17/14	02/16/12	0.500%	250,000		-	#DIV/0!	Purchase
Busey Bank	CD	07/16/14	02/16/12	0.500%	250,000		-	#DIV/0!	Purchase
Busey Bank	CD	07/21/14	03/21/12	0.500%	250,000		-	#DIV/0!	Purchase
Busey Bank	CD	08/21/14	03/21/12	0.500%	250,000		-	#DIV/0!	Purchase
Busey Bank	CD	09/21/14	03/21/12	0.500%	250,000		-	#DIV/0!	Purchase
Busey Bank	CD	10/21/14	03/21/12	0.800%	250,000		-	#DIV/0!	Purchase
Busey Bank	CD	11/21/14	03/21/12	0.800%	250,000		-	#DIV/0!	Purchase
Busey Bank	CD	12/21/14	03/21/12	0.800%	250,000		-	#DIV/0!	Purchase
Smith Barney	CD	02/06/12	02/06/09	3.000%	-		96,000	-100.00%	Maturity
Smith Barney	CD	04/16/12	04/14/09	3.000%	96,000		96,000	0.00%	
Smith Barney	CD	12/05/14	12/05/07	5.000%	96,000		96,000	0.00%	
Smith Barney	CD	09/03/13	09/03/10	1.500%	150,000		150,000	0.00%	
Smith Barney	CD	03/02/12	09/02/10	0.600%	-		245,000	-100.00%	Maturity
Smith Barney	CD	09/02/14	09/01/10	1.300%	244,000		244,000	0.00%	
Smith Barney	CD	06/17/14	06/17/11	1.400%	245,000		245,000	0.00%	
Smith Barney	CD	05/03/13	11/03/11	0.750%	245,000		245,000	0.00%	
Smith Barney	CD	05/03/13	11/03/11	0.700%	245,000		245,000	0.00%	
Smith Barney	CD	02/16/16	02/13/12	0.900%	206,000		-	#DIV/0!	Purchase
Smith Barney	CD	09/19/13	03/19/12	4.000%	245,000		-	#DIV/0!	Purchase
Stifel, Nicolaus	CD	09/04/12	09/02/09	2.500%	250,000		250,000	0.00%	
Stifel, Nicolaus	CD	05/28/13	05/27/09	3.350%	245,000		245,000	0.00%	
Stifel, Nicolaus	CD	12/10/13	12/10/08	4.750%	98,000		98,000	0.00%	
Stifel, Nicolaus	CD	12/12/13	12/12/08	4.850%	100,000		100,000	0.00%	
Stifel, Nicolaus	CD	06/30/14	06/29/09	4.000%	95,000		95,000	0.00%	
Stifel, Nicolaus	CD	12/29/15	12/28/11	1.600%	250,000		250,000	0.00%	
Stifel, Nicolaus	CD	12/30/13	12/30/11	1.100%	250,000		250,000	0.00%	
Stifel, Nicolaus	CD	01/30/17	01/30/12	Var.	100,000		-	#DIV/0!	Purchase
Edward Jones	CD	03/05/12	09/04/09	1.950%	-		249,000	-100.00%	Maturity
Edward Jones	CD	08/31/12	08/31/09	2.050%	249,000		249,000	0.00%	
Edward Jones	CD	09/10/12	09/09/09	2.150%	249,000		249,000	0.00%	
Edward Jones	CD	09/03/13	09/03/09	2.600%	246,000		246,000	0.00%	
Morgan Stanley	CD	02/06/12	11/06/09	2.000%	-		247,000	-100.00%	Maturity
Morgan Stanley	CD	06/29/12	12/30/09	2.000%	198,000		198,000	0.00%	
Morgan Stanley	CD	07/16/12	01/15/10	1.900%	112,000		112,000	0.00%	
Morgan Stanley	CD	03/11/13	09/10/10	0.850%	188,000		188,000	0.00%	
Morgan Stanley	CD	01/14/13	01/12/11	0.750%	240,000		240,000	0.00%	
Morgan Stanley	CD	01/12/15	01/12/11	1.500%	235,000		235,000	0.00%	
Morgan Stanley	CD	09/04/12	11/03/11	0.250%	249,000		249,000	0.00%	
Morgan Stanley	CD	02/19/13	11/16/11	0.450%	248,000		248,000	0.00%	
Morgan Stanley	CD	05/08/13	11/09/11	0.450%	246,000		246,000	0.00%	
Morgan Stanley	CD	12/05/12	12/07/11	0.400%	249,000		249,000	0.00%	
Morgan Stanley	CD	12/17/12	11/16/11	0.500%	248,000		248,000	0.00%	
Morgan Stanley	CD	01/13/14	01/11/12	1.100%	149,000		-	#DIV/0!	Purchase
Morgan Stanley	CD	01/13/14	01/13/12	0.500%	120,000		-	#DIV/0!	Purchase
Morgan Stanley	CD	02/10/16	02/10/12	0.900%	250,000		-	#DIV/0!	Purchase
Subtotal, CD's					\$ 12,980,578	34.93%	\$ 10,245,527	26.70%	

Institution	Type of Investment	Maturity Date	Date Purchased	Yield	03/31/12 \$ Market	% Portfolio	12/31/11 \$ Market	% Increase (Decrease)	Reason for Change
Morgan Stanley	US Govt, Agency,Tstrip	11/15/16	11/18/08	4.220%	1,746,571		1,746,571	0.00%	
Morgan Stanley	US Govt, Agency,FHLM	1/30/14	05/15/09	5.000%	608,773		608,773	0.00%	
Morgan Stanley	US Govt, Agency,FHLM	11/24/14	01/27/09	3.210%	567,440		567,440	0.00%	
Morgan Stanley	US Govt, Agency,Tstrip	8/15/13	05/19/11	0.545%	696,942		696,942	0.00%	
Smith Barney	US Govt, Agency, GNMA	10/20/23	11/26/93	6.500%	8,385		8,527	-1.66%	Principal Payments
Smith Barney	US Govt, Agency, GNMA	11/20/23	11/26/93	6.500%	628		641	-1.97%	Principal Payments
Smith Barney	US Govt, Agency, Tstrip	11/15/14	11/16/09	2.005%	1,011,918		1,011,918	0.00%	
Smith Barney	US Govt, Agency,FICO	5/30/12	05/25/04	4.900%	745,268		745,268	0.00%	
Smith Barney	US Govt, Agency,FHLM	3/15/13	05/24/04	5.750%	787,424		787,424	0.00%	
Smith Barney	US Govt, Agency, Tstrip	11/15/13	08/26/10	0.481%	179,343		179,343	0.00%	
Smith Barney	US Govt, Agency,FICO	09/07/18	10/31/11	9.650%	174,369		174,369	0.00%	
Smith Barney	US Govt, Agency,FICO	10/05/18	10/31/11	9.700%	85,398		85,398	0.00%	
Edward Jones	US Govt, Agency, Tstrip	11/15/12	11/23/10	0.421%	550,559		550,559	0.00%	
Edward Jones	US Govt, Agency,FFCB	11/24/25	11/24/10	4.000%	538,750		538,750	0.00%	
Edward Jones	US Govt, Agency, FHLB	8/18/14	05/18/11	1.320%	963,557		963,557	0.00%	
Edward Jones	US Govt, Agency,TVA	5/15/29	05/21/09	4.500%	991,030		991,030	0.00%	
Edward Jones	US Govt, Agency,FFCB	11/2/40	11/02/11	4.010%	750,005		750,005	0.00%	
Stifel, Nicolaus	US Govt, Agency,Tstrip	11/15/18	12/01/08	3.550%	343,228		343,228	0.00%	
Stifel, Nicolaus	US Govt, Agency,Tstrip	11/15/21	08/10/11	2.506%	348,512		348,512	0.00%	
Stifel, Nicolaus	US Govt, Agency,FICO	9/26/19	05/11/09	2.000%	182,779		182,779	0.00%	
Stifel, Nicolaus	US Govt, Agency,FHLB	5/18/12	08/27/10	1.125%	528,733		528,733	0.00%	
Stifel, Nicolaus	US Govt, Agency,IDRB	2/15/13	08/31/10	0.819%	537,283		537,283	0.00%	
Stifel, Nicolaus	US Govt, Agency,FICO	12/27/13	08/27/10	1.160%	535,293		535,293	0.00%	
Stifel, Nicolaus	US Govt, Agency,FHLMC	3/15/26	03/04/11	4.900%	111,791		111,791	0.00%	
Stifel, Nicolaus	Champ. School Bonds	1/1/24	12/14/10	5.900%	418,768		418,768	0.00%	
Stifel, Nicolaus	Champ. School Bonds	1/1/25	12/14/10	6.050%	419,488		419,488	0.00%	
Stifel, Nicolaus	Champ. School Bonds	1/1/26	12/14/10	6.200%	420,204		420,204	0.00%	
Stifel, Nicolaus	Champ. School Bonds	1/1/27	12/14/10	6.400%	422,524		422,524	0.00%	
Stifel, Nicolaus	Champ. School Bonds	1/1/28	12/14/10	6.600%	424,828		424,828	0.00%	
Stifel, Nicolaus	US Govt, Agency,FHLB	11/25/26	11/25/11	2.250%	987,530		987,530	0.00%	
Stifel, Nicolaus	US Govt, Agency, FNMA	10/19/26	12/15/11	2.000%	800,155		800,155	0.00%	
Stifel, Nicolaus	US Govt, Agency, FNMA	11/23/26	12/15/11	2.000%	360,605		360,605	0.00%	
Subtotal, U.S. Govt.					\$ 17,248,081	46.42%	\$ 17,248,235	0.00%	

Institution	Type of Investment	Maturity Date	Date Purchased	Yield	03/31/12 \$ Market	% Portfolio	12/31/11 \$ Market	% Increase (Decrease)	Reason for Change
Morgan Stanley	MM	n/a	n/a	0.020%	\$ 17,613		\$ 269,582	-93.47%	Purchase CD's
Edward Jones	MM	n/a	n/a	0.010%	\$ 58		\$ 1,331,650	-100.00%	Purchase CDs
Smith Barney	MM	n/a	n/a	0.010%	\$ 4,689		\$ 110,329	-95.75%	Purchase CDs
Stifel, Nicolaus	MM			0.010%	\$ 19,994		\$ 53,980	-62.96%	Purchase CDs
IL Metropolitan Investment Fund	US Govt Pool Fund			0.280%	\$ 259,974		\$ 260,970	-0.38%	Interest
Illinois Funds-Money Market	Govt. Pool, IL Funds	n/a	n/a	0.077%	\$ 535,486		\$ 1,237,273	-56.72%	Regular Bills/Payroll
Illinois Funds-E Pay Account	Govt. Pool, IL Funds	n/a	n/a	0.077%	\$ 79,061		\$ 68,925	14.71%	
Busey Bank	Savings	n/a	n/a	0.020%	\$ 6,012,071		\$ 7,980,038	-24.66%	Regular Bills/Payroll
Subtotal, MM, IPTIP, & Savings					\$ 6,928,946	18.65%	\$ 11,312,748	-38.75%	
TOTALS					\$ 37,157,605	100.00%	\$ 38,806,511	-4.25%	