

M E M O R A N D U M

TO: Mayor Prussing
Members, Urbana City Council

FROM: Ronald Eldridge, City Comptroller *Ran E.*

RE: Quarterly Investment Report for Quarter Ended June 30, 2012

DATE: August 31, 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 June 30, 2012.

The total amount invested increased \$1.7 million to a total of \$39,256,753 from the balance last quarter. This increase is due to the receipt of property tax payments in June. This increase is normal for this quarter. Over the coming months, the City will spend down this increase.

The average yield is 3.8% 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 2.5 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 \$40,000. Total amount invested in CD's purchase through these dealers is \$7,744,772.
- The investment in the Illinois Metropolitan Investment Fund (\$260,098) is not FDIC insured but backed 100% by US Government securities. The investment in the Illinois Funds Money Market and EPay accounts

(\$2,221) 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 \$2,280,505. 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 (averages return of 6.2%). 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.
- \$15,380,433 is invested in U.S. Government Direct and Secondary investments which carry the government's promise to pay.
- The balance of \$13,549,294 is invested at Busey Bank either thru CD's (\$5,725,001) or in the City's money market or savings account (\$7,824,293). 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 recently was upgraded by Bauer Financial services to a 5 star rating (highest rating possible) 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. I estimate that purchasing these CD's through Busey Bank earned an additional \$50,000 in interest last year over purchasing CD's through brokered accounts.

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 55% to 60% of their assets invested in the stock market. All 3 of the City's pension funds had excellent stock market returns for the fiscal years 2010 and 2011 (average of 30% return on stock portion of their investments). Some of these gains were given up in fiscal year 2012 as these funds averaged a 2-3% decline due to the stock market. Overall, the last 3 years of returns have helped reduce pension funding requirements, thus freeing up this money to alleviate the general fund financing problem.

The City's investment portfolio at June 30, 2012 complies and is in accordance with State laws and the City's investment policies.

CITY OF URBANA, QUARTERLY INVESTMENT REPORT

AS OF

06/30/12

<u>Institution</u>	<u>Type of Investment</u>	<u>Maturity Date</u>	<u>Date Purchased</u>	<u>Yield</u>	<u>06/30/12 \$ Market</u>	<u>% Portfolio</u>	<u>03/31/12 \$ Market</u>	<u>% Increase (Decrease)</u>	<u>Reason for Change</u>
CIBM Bank	CD	08/06/13	08/06/11	0.850%	\$ 243,581		\$ 243,073	0.21%	Accrued Interest
Regions Bank	CD	03/05/13	09/05/09	3.200%	\$ 110,674		\$ 109,787	0.81%	Accrued Interest
PNC Bank	CD	02/11/13	01/11/12	0.399%	\$ 102,764		\$ 102,764	0.00%	Accrued Interest
Centrue Bank	CD	05/31/13	05/31/11	1.300%	\$ 100,800		\$ 99,500	1.31%	Accrued Interest
Chase Bank	CD	11/24/13	11/24/08	4.490%	\$ 99,953		\$ 99,953	0.00%	Accrued Interest
First Federal	CD	05/30/13	11/29/11	0.500%	\$ 102,000		\$ 101,749	0.25%	Accrued Interest
Busey Bank	CD	04/11/12	07/11/11	0.300%	\$ -		\$ 250,000	-100.00%	Maturity
Busey Bank	CD	04/16/12	02/16/11	0.550%	\$ -		\$ 199,443	-100.00%	Maturity
Busey Bank	CD	05/16/12	03/16/11	0.550%	\$ -		\$ 224,034	-100.00%	Maturity
Busey Bank	CD	06/16/12	03/16/11	0.550%	\$ -		\$ 224,034	-100.00%	Maturity
Busey Bank	CD	05/15/12	04/19/11	0.550%	\$ -		\$ 440,240	-100.00%	Maturity
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		\$ 250,000	0.00%	
Busey Bank	CD	02/16/14	02/16/12	0.500%	\$ 250,000		\$ 250,000	0.00%	
Busey Bank	CD	06/17/14	02/16/12	0.500%	\$ 250,000		\$ 250,000	0.00%	
Busey Bank	CD	05/17/14	02/16/12	0.500%	\$ 250,000		\$ 250,000	0.00%	
Busey Bank	CD	04/17/14	02/16/12	0.500%	\$ 250,000		\$ 250,000	0.00%	
Busey Bank	CD	03/17/14	02/16/12	0.500%	\$ 250,000		\$ 250,000	0.00%	
Busey Bank	CD	07/16/14	03/16/12	0.500%	\$ 250,000		\$ 250,000	0.00%	
Busey Bank	CD	07/21/14	03/21/12	0.500%	\$ 250,000		\$ 250,000	-0.00%	
Busey Bank	CD	08/21/14	03/21/12	0.500%	\$ 250,000		\$ 250,000	0.00%	
Busey Bank	CD	09/21/14	03/21/12	0.500%	\$ 250,000		\$ 250,000	0.00%	
Busey Bank	CD	10/21/14	03/21/12	0.800%	\$ 250,000		\$ 250,000	0.00%	
Busey Bank	CD	11/21/14	03/21/12	0.800%	\$ 250,000		\$ 250,000	0.00%	
Busey Bank	CD	12/21/14	03/21/12	0.800%	\$ 250,000		\$ 250,000	0.00%	
Busey Bank	CD	01/12/16	04/12/12	1.000%	\$ 250,000		\$ -	100.00%	Purchase
Busey Bank	CD	01/16/15	04/16/12	0.800%	\$ 250,000		\$ -	100.00%	Purchase
Busey Bank	CD	02/16/15	05/16/12	0.800%	\$ 250,000		\$ -	100.00%	Purchase
Busey Bank	CD	03/17/15	05/17/12	0.800%	\$ 250,000		\$ -	100.00%	Purchase
Busey Bank	CD	04/17/15	05/17/12	0.800%	\$ 250,000		\$ -	100.00%	Purchase
Busey Bank	CD	05/18/15	06/18/12	0.650%	\$ 225,000		\$ -	100.00%	Purchase
Morgan Stanley 357	CD	04/16/12	04/14/09	3.000%	\$ -		\$ 96,000	-100.00%	Maturity
Morgan Stanley 357	CD	12/05/14	12/05/07	5.000%	\$ 96,000		\$ 96,000	0.00%	
Morgan Stanley 357	CD	09/03/13	09/03/10	1.500%	\$ 150,000		\$ 150,000	0.00%	
Morgan Stanley 357	CD	09/02/14	09/01/10	1.300%	\$ 244,000		\$ 244,000	0.00%	
Morgan Stanley 357	CD	06/17/14	06/17/11	1.400%	\$ 245,000		\$ 245,000	0.00%	
Morgan Stanley 357	CD	05/03/13	11/03/11	0.750%	\$ 245,000		\$ 245,000	0.00%	
Morgan Stanley 357	CD	05/03/13	11/03/11	0.700%	\$ 245,000		\$ 245,000	0.00%	
Morgan Stanley 357	CD	02/16/16	02/13/12	0.900%	\$ 206,000		\$ 206,000	0.00%	
Morgan Stanley 357	CD	09/19/13	03/19/12	0.400%	\$ 245,000		\$ 245,000	0.00%	
Morgan Stanley 357	CD	06/08/15	06/08/12	1.150%	\$ 200,000		\$ -	100.00%	Purchase
Morgan Stanley 357	CD	06/15/15	06/15/12	1.100%	\$ 245,000		\$ -	100.00%	Purchase
Morgan Stanley 057	CD	09/04/12	09/02/09	2.500%	\$ 250,000		\$ 250,000	0.00%	
Morgan Stanley 057	CD	05/28/13	05/27/09	3.350%	\$ 245,000		\$ 245,000	0.00%	
Morgan Stanley 057	CD	12/10/13	12/10/08	4.750%	\$ 98,000		\$ 98,000	0.00%	

CITY OF URBANA, QUARTERLY INVESTMENT REPORT

AS OF

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Institution	Type of Investment	Maturity Date	Date Purchased	Yield	06/30/12 \$ Market	% Portfolio	03/31/12 \$ Market	% Increase (Decrease)	Reason for Change
Morgan Stanley 057	CD	12/12/13	12/12/08	4.850%	\$ 100,000		\$ 100,000	0.00%	
Morgan Stanley 057	CD	06/30/14	06/29/09	4.000%	\$ 95,000		\$ 95,000	0.00%	
Morgan Stanley 057	CD	12/29/15	12/28/11	1.600%	\$ 250,000		\$ 250,000	0.00%	
Morgan Stanley 057	CD	12/30/13	12/30/11	1.100%	\$ 250,000		\$ 250,000	0.00%	
Morgan Stanley 057	CD	01/30/17	01/30/12	S&P Index	\$ 100,000		\$ 100,000	0.00%	
US Bank/Edward Jones	CD	08/31/12	08/31/09	2.050%	\$ 249,000		\$ 249,000	0.00%	
US Bank/Edward Jones	CD	09/10/12	09/09/09	2.150%	\$ 249,000		\$ 249,000	0.00%	
US Bank/Edward Jones	CD	09/03/13	09/03/09	2.600%	\$ 246,000		\$ 246,000	0.00%	
Morgan Stanley 218	CD	01/13/14	01/11/12	1.100%	\$ 149,000		\$ 149,000	0.00%	
Morgan Stanley 218	CD	01/13/14	01/13/12	0.500%	\$ 120,000		\$ 120,000	0.00%	
Morgan Stanley 218	CD	02/10/16	02/10/12	0.900%	\$ 250,000		\$ 250,000	0.00%	
Morgan Stanley 218	CD	06/29/12	12/30/09	2.000%	\$ -		\$ 198,000	-100.00%	Maturity
Morgan Stanley 218	CD	07/16/12	01/15/10	1.900%	\$ 112,000		\$ 112,000	0.00%	
Morgan Stanley 218	CD	03/11/13	09/10/10	0.850%	\$ 188,000		\$ 188,000	0.00%	
Morgan Stanley 218	CD	01/14/13	01/12/11	0.750%	\$ 240,000		\$ 240,000	0.00%	
Morgan Stanley 218	CD	01/12/15	01/12/11	1.500%	\$ 235,000		\$ 235,000	0.00%	
Morgan Stanley 218	CD	09/04/12	11/03/11	0.250%	\$ 249,000		\$ 249,000	0.00%	
Morgan Stanley 218	CD	02/19/13	11/16/11	0.450%	\$ 248,000		\$ 248,000	0.00%	
Morgan Stanley 218	CD	05/08/13	11/09/11	0.450%	\$ 246,000		\$ 246,000	0.00%	
Morgan Stanley 218	CD	12/05/12	12/07/11	0.400%	\$ 249,000		\$ 249,000	0.00%	
Morgan Stanley 218	CD	12/17/12	11/16/11	0.500%	\$ 248,000		\$ 248,000	0.00%	
Morgan Stanley 218	CD	06/30/14	06/29/12	0.900%	\$ 198,000		\$ -	100.00%	Purchase
Subtotal, CD's					\$ 13,469,773	34.31%	\$ 12,980,578	3.77%	
Morgan Stanley 218	US Govt, Agency,Tstrip	11/15/16	11/18/08	4.220%	1,883,557		1,746,571	7.84%	Year End Market Va
Morgan Stanley 218	US Govt, Agency,FHLM	1/30/14	05/15/09	5.000%	590,288		608,773	-3.04%	Year End Market Va
Morgan Stanley 218	US Govt, Agency,FHLM	11/24/14	01/27/09	3.210%	587,724		567,440	3.57%	Year End Market Va
Morgan Stanley 218	US Govt, Agency,Tstrip	8/15/13	05/19/11	0.545%	702,772		696,942	0.84%	Year End Market Va
Morgan Stanley 357	US Govt, Agency, GNMA	10/20/23	11/26/93	6.500%	7,970		8,385	-4.95%	Principal Payments
Morgan Stanley 357	US Govt, Agency, GNMA	11/20/23	11/26/93	6.500%	606		628	-3.44%	Principal Payments
Morgan Stanley 357	US Govt, Agency, Tstrip	11/15/14	11/16/09	2.005%	1,039,622		1,011,918	2.74%	Year End Market Va
Morgan Stanley 357	US Govt, Agency,FICO	5/30/12	05/25/04	4.900%	-		745,268	-100.00%	Maturity
Morgan Stanley 357	US Govt, Agency,FHLM	3/15/13	05/24/04	5.750%	795,608		787,424	1.04%	Year End Market Va
Morgan Stanley 357	US Govt, Agency, Tstrip	11/15/13	08/26/10	0.481%	\$ 181,230		\$ 179,343	1.05%	Year End Market Va
Morgan Stanley 357	US Govt, Agency,FICO	09/07/18	10/31/11	2.240%	\$ 183,701		\$ 174,369	5.35%	Year End Market Va
Morgan Stanley 357	US Govt, Agency,FICO	10/05/18	10/31/11	2.300%	\$ 90,309		\$ 85,398	5.75%	Year End Market Va
Morgan Stanley 357	US Govt, Agency,FHLM	03/08/17	06/08/12	0.659%	\$ 404,175		\$ -	100.00%	Purchase
US Bank/Edward Jones	US Govt, Agency, Tstrip	11/15/12	11/23/10	0.421%	551,746		550,559	0.22%	Year End Market Va
US Bank/Edward Jones	US Govt, FFCB	11/24/25	11/24/10	4.000%	604,195		538,750	12.15%	Year End Market Va
US Bank/Edward Jones	US Govt, Agency, FHLB	8/18/14	05/18/11	1.320%	-		963,557	-100.00%	Called
US Bank/Edward Jones	US Govt, Agency,TVA	5/15/29	05/21/09	4.500%	1,014,360		991,030	2.35%	Year End Market Va
US Bank/Edward Jones	US Govt, FFCB	11/2/40	11/02/11	4.010%	837,150		750,005	11.62%	Year End Market Va
US Bank/Edward Jones	US Govt Agency, FNMA	12/28/16	06/29/12	0.625%	1,008,696			100.00%	Purchase
Morgan Stanley 057	US Govt, Agency,Tstrip	11/15/18	12/01/08	3.550%	392,797		343,228	14.44%	Year End Market Va
Morgan Stanley 057	US Govt, Agency,Tstrip	11/15/21	08/10/11	2.506%	383,571		348,512	10.06%	Year End Market Va
Morgan Stanley 057	US Govt, Agency,FICO	9/26/19	05/11/09		211,234		182,779	15.57%	Year End Market Va
Morgan Stanley 057	US Govt, Agency,FHLB	5/18/12	08/27/10	1.125%	-		528,733	-100.00%	Maturity

CITY OF URBANA, QUARTERLY INVESTMENT REPORT

AS OF

06/30/12

Institution	Type of Investment	Maturity Date	Date Purchased	Yield	06/30/12 \$ Market	% Portfolio	03/31/12 \$ Market	% Increase (Decrease)	Reason for Change
Morgan Stanley 057	Bond	2/15/13	08/31/10	0.819%	542,607		537,283	-0.99%	Year End Market Va
Morgan Stanley 057	US Govt, Agency,FICO	12/27/13	08/27/10	1.160%	543,988		535,293	1.62%	Year End Market Va
Morgan Stanley 057	S Govt, Agency,FHLMC Str	3/15/26	03/04/11	4.900%	148,660		111,791	32.98%	Year End Market Va
Morgan Stanley 057	Revenue Bonds	1/1/24	12/14/10	5.900%	453,744		418,768	8.35%	Year End Market Va
Morgan Stanley 057	Revenue Bonds	1/1/25	12/14/10	6.050%	453,997		419,488	8.23%	Year End Market Va
Morgan Stanley 057	Revenue Bonds	1/1/26	12/14/10	6.200%	454,524		420,204	8.17%	Year End Market Va
Morgan Stanley 057	Revenue Bonds	1/1/27	12/14/10	6.400%	456,592		422,524	8.06%	Year End Market Va
Morgan Stanley 057	Revenue Bonds	1/1/28	12/14/10	6.600%	458,648		424,828	7.96%	Year End Market Va
Morgan Stanley 057	US Govt, Agency,FHLB	11/25/26	11/25/11	2.250%	992,950		987,530	0.55%	Year End Market Va
Morgan Stanley 057	US Govt, Agency,FNMA	10/19/26	12/15/11	2.000%	800,440		800,155	0.04%	Year End Market Va
Morgan Stanley 057	US Govt, Agency,Tstrip	11/15/16	05/18/12		522,941		-	100.00%	Purchase
Morgan Stanley 057	US Govt, Agency,FNMA	11/23/26	12/15/11	2.000%	360,536		360,605	-0.02%	Year End Market Va
Subtotal, U.S. Govt.					\$ 17,660,938	44.99%	\$ 17,248,080	2.39%	
Morgan Stanley 218	MM	n/a	n/a	0.020%	\$ 316		\$ 17,613	-98.20%	Investment Interest, \$22,153 issued to City
US Bank/Edward Jones	MM	n/a	n/a	0.000%	\$ 875		\$ 58	1399.52%	1 sale, 1 purchase, interest on investments
Morgan Stanley 357	MM	n/a	n/a	0.020%	\$ 36,654		\$ 4,689	681.74%	2 maturities, 2 purchases, interest on investments
Morgan Stanley 8953	MM			0.020%	\$ 1,586		\$ 19,994	-92.07%	1 maturity, 1 purchase, interest on investments,
IL Metropolitan Investment Fund	US Govt Pool Fund			0.270%	\$ 260,098		\$ 259,851	0.09%	\$52,610 ck to City Interest
Illinois Funds-Money Market	Govt. Pool, IL Funds	n/a	n/a	0.096%	\$ 748		\$ 535,486	-99.86%	State Revenue Payments, \$4.17 M Tfr to Busey MM
Illinois Funds-E Pay Account	Govt. Pool, IL Funds	n/a	n/a	0.096%	\$ 1,473		\$ 79,061	-98.14%	Payments (Parking Tickets, Recycle), \$290,000 tfr to Busey MM
Busey Bank	Savings	n/a	n/a	0.090%	\$ 7,824,293		\$ 6,374,046	22.75%	Regular Bill Paying, Tfr from IL funds (above), Real Estate Tax Revenue
Subtotal, MM, IPTIP, & Savings					\$ 8,126,042	20.70%	\$ 7,290,798	11.46%	
TOTALS					\$ 39,256,753	100.00%	\$ 37,519,457	4.63%	