Annual Treasury And Investment Portfolio Update for 2013

Commission Briefing

Presented by Craig Kerr

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Treasury Management Update

Treasury Functions

- Compliance with Statute
- Cash Management
- Manage Banking Activities
- Execute Payments (ACH Credits, Wire Transfers as well as Fund Check Issuance)
  - Using appropriate approvals requiring a two step process
- Coordinates Processes and Controls with AFR and ICT

Current Treasury Initiatives

- New banking contract
- Internal Intern
- Succession planning and enhanced training
- Remote capability testing
- Implement SEC regulations

Treasury Staff

- "Deep Bench" for continuity and succession (Every banking day has one treasury staff and one back-up staff)

- Craig Kerr, Treasury Manager, CTP

- Diane Campbell, Financial Analyst III, CTP

- Scott Bertram, Supervisor, Financial Analysis, CPA

- Hanh Nguyen, Manager Aviation Finance & Budget- provides Airport redundancy

- Angie Rose, Accountant II, CPA-Internal Intern, AFR cross training

Investment Portfolio Update

Background

- Commission Resolution Approved Port Investment Policy

- 2.0 Target Duration Plus Or Minus 50 Basis Points

  Do Not Forecast Rates; Balance RETURN And RISK Over Cycles

  – This Strategy Outperforms The Market When Rates Are Falling And Underperforms When Rates Are Rising

- Benchmark – Bank of America Merrill Lynch Treasury/Agency 3 Year Index

Investment Policy Highlights

- Emphasis on preservation of principal
- Priority of Policy Objectives
    - 1) Safety
    - 2) Liquidity
    - 3) Yield
- Policy covers all capital and operating funds: excludes funds held separately in trust e.g. deferred compensation and pension funds

Investment Policy Highlights

- Establishes prudence, ethics, conflict of interest and disclosure requirements for investment officials

- Authorizes delegation of day-to-day investment program duties and responsibilities

- Provides for safekeeping and custody of Port securities
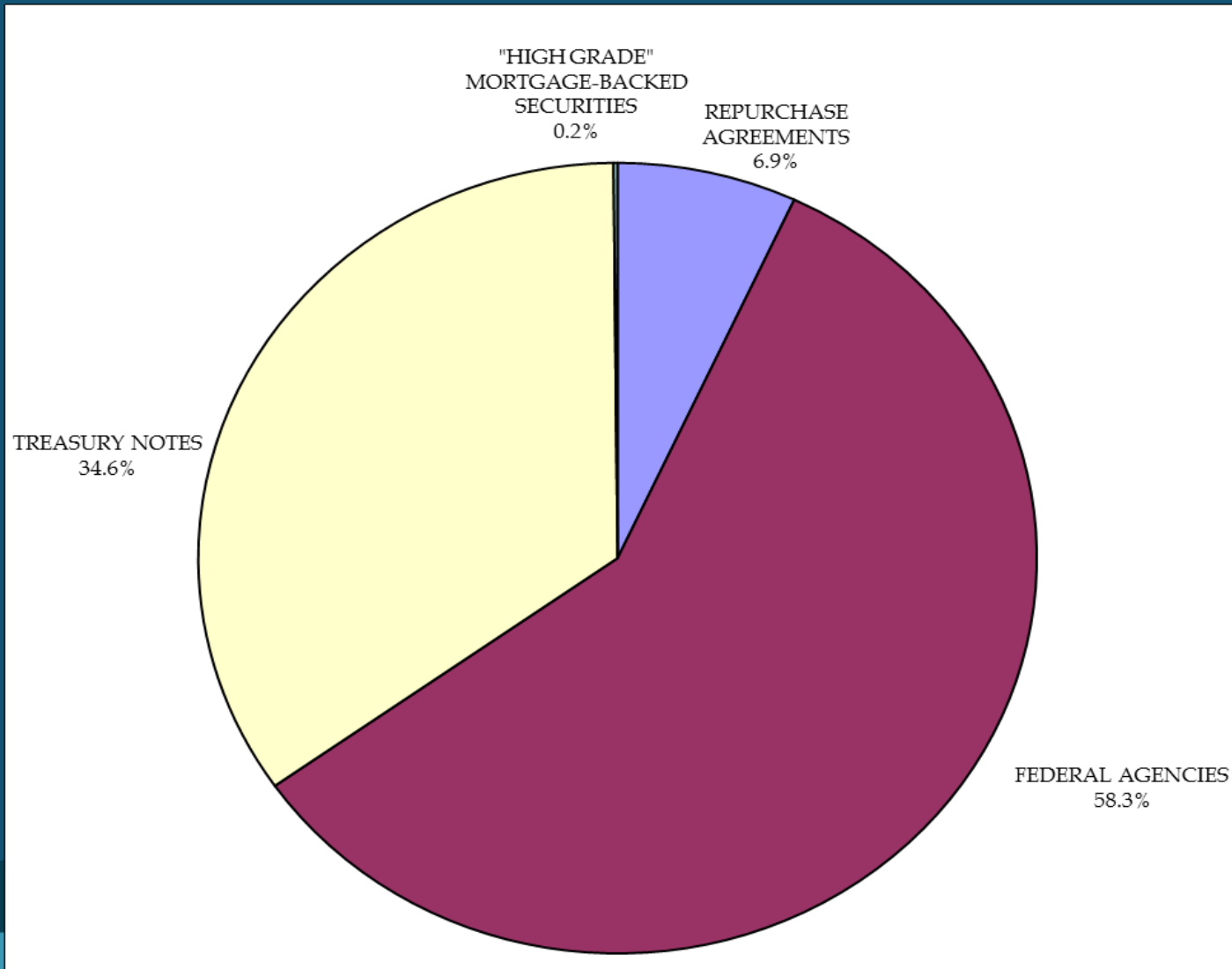
Investment Policy Highlights

- Establishes criteria for eligible depositories and broker/dealers

- Sets out allowed investment instruments; subject to State law

- Establishes Portfolio diversification parameters

- Establishes maturity restrictions

<u>Investment Policy Highlights</u>

- Sets portfolio performance standards
- Allows for independent review of the Investment program
  - State Auditor
  - External Auditors
  - Internal Auditor
- Establishes Reporting Standards
- Policy reviewed periodically and amended as appropriate to follow best practices
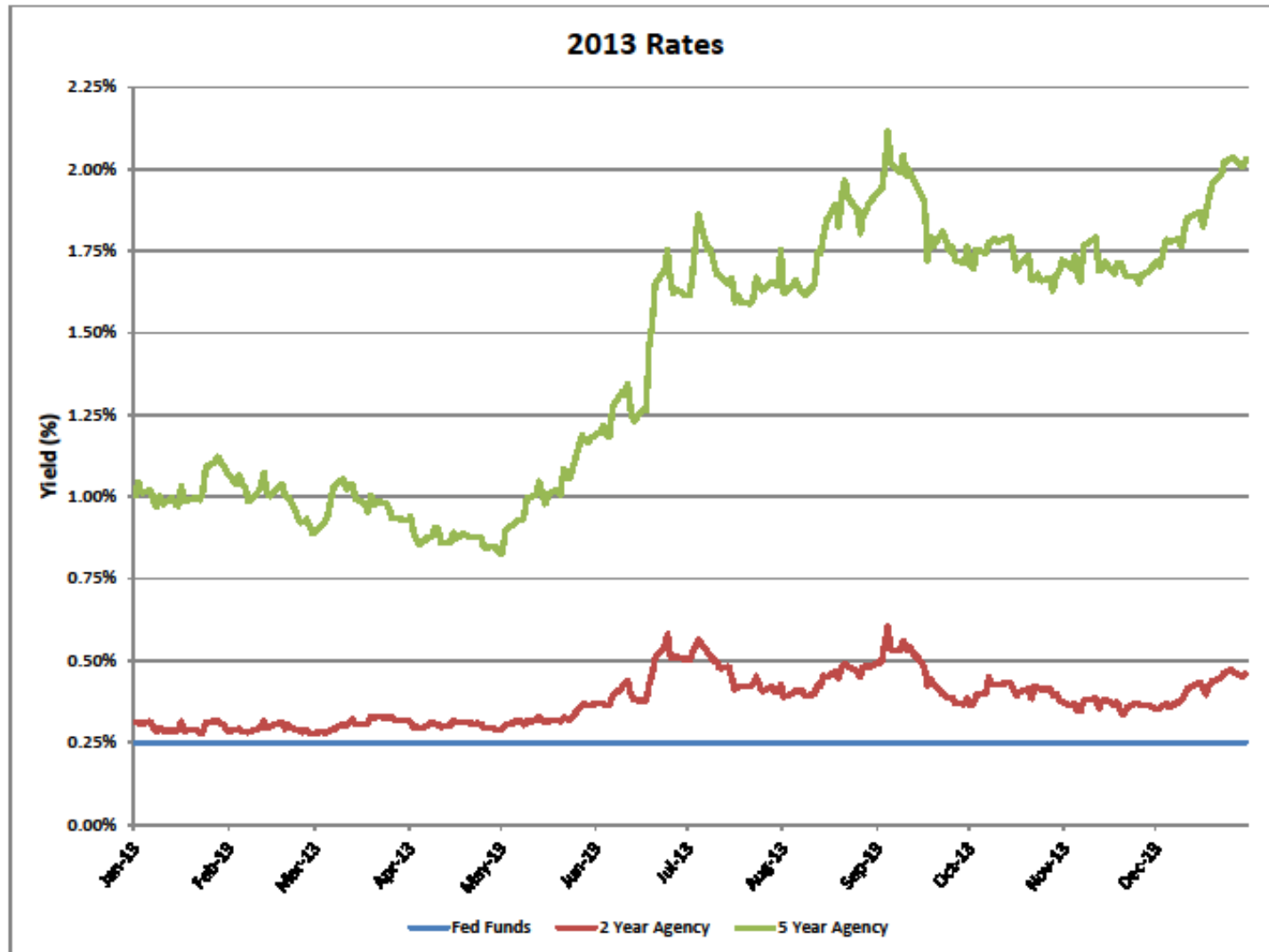
Portfolio Composition

12/31/2013

"HIGH GRADE" MORTGAGE-BACKED SECURITIES 0.2%

REPURCHASE AGREEMENTS 6.9%
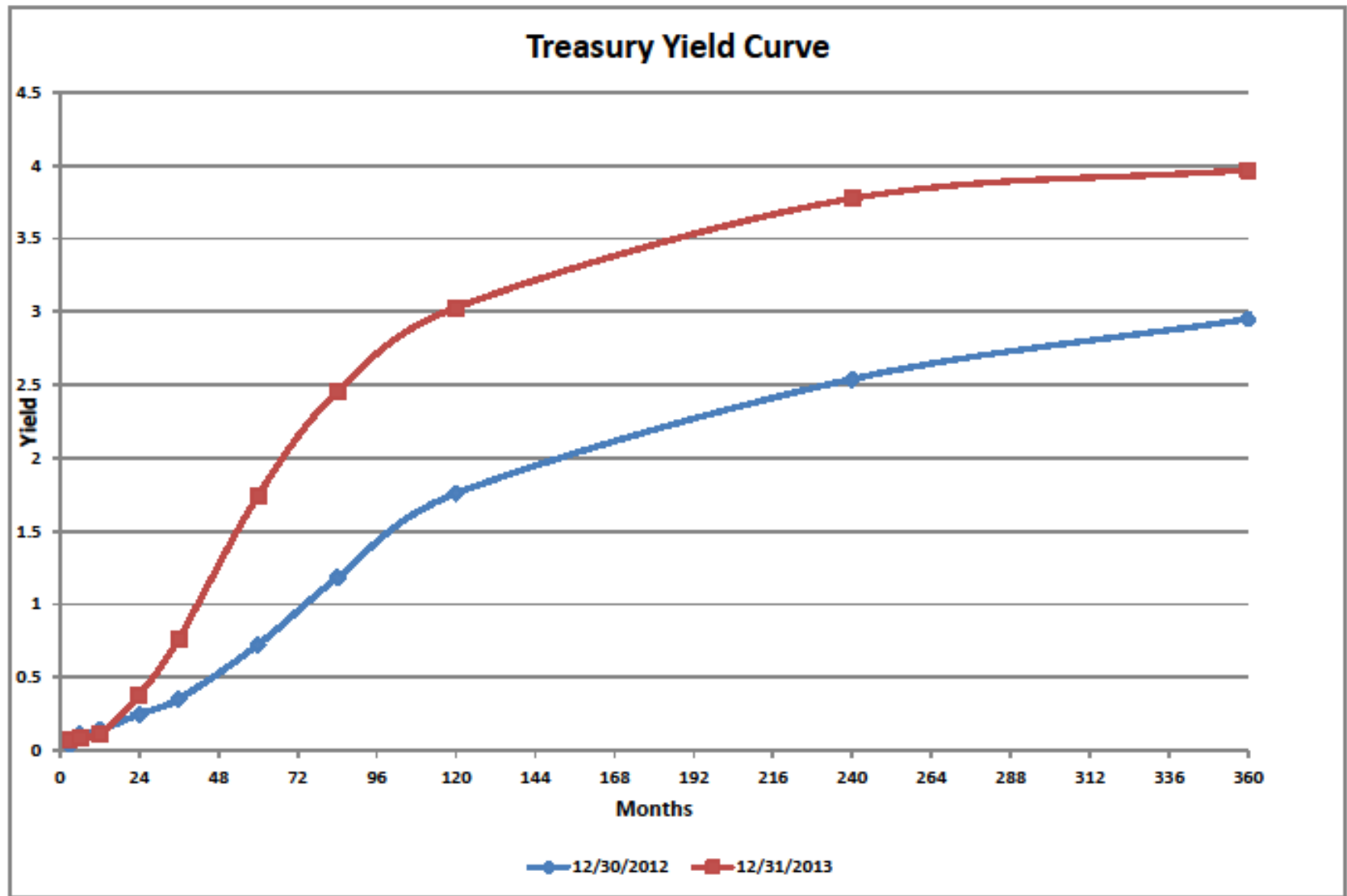
TREASURY NOTES 34.6%

FEDERAL AGENCIES 58.3%

Interest Rate Trends

- For 2013, Short And Medium Term Rates Rose Gradually into the Third Quarter Fell Slightly and Rose Again in the Fourth Quarter.

- The Federal Reserve Left Short Term Rates at 2010 Levels For 2011, 2012 and 2013 - 0.25%

- Staff Monitors Market Conditions; but, Does Not Time the Market.

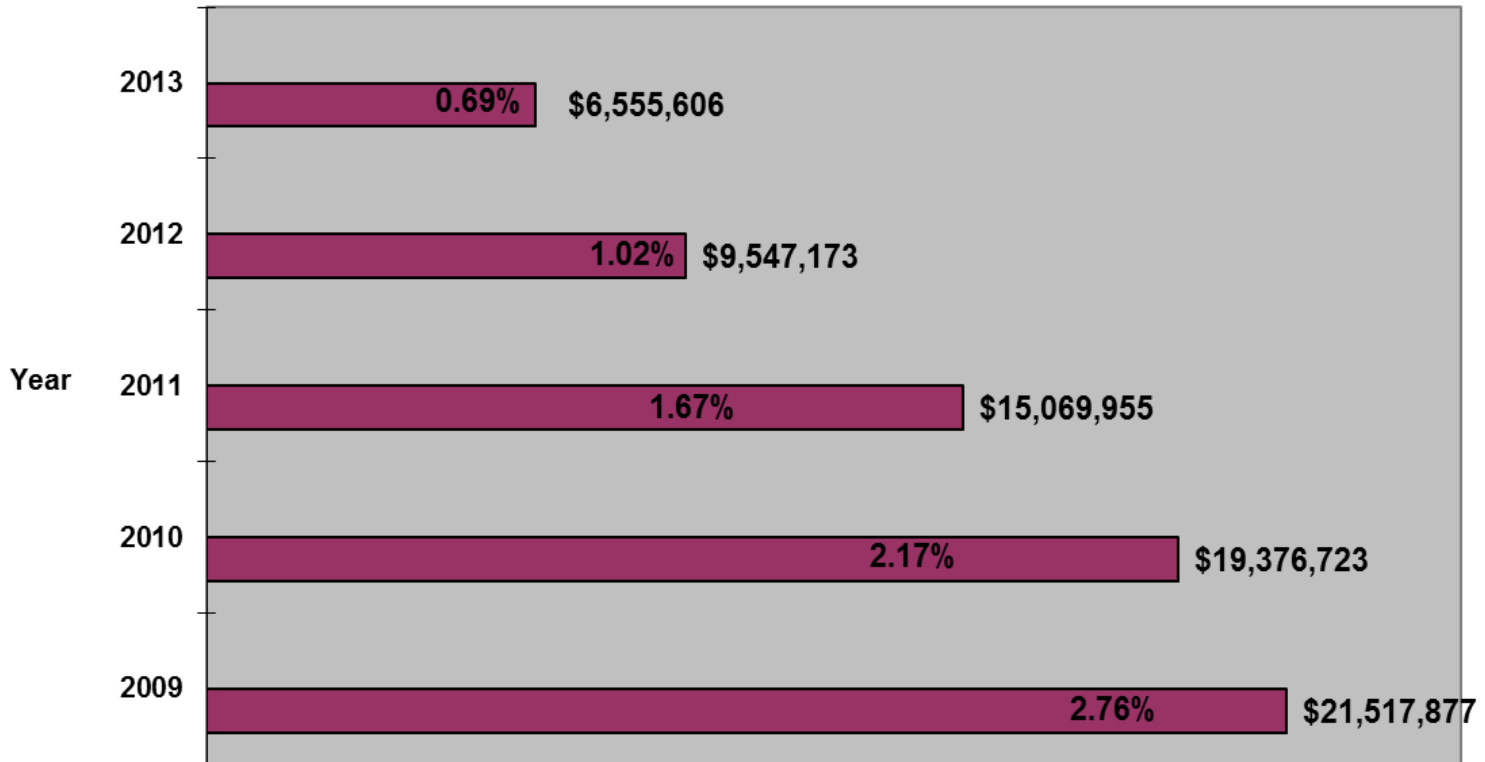- Short and Medium Term Rates Are Expected to Rise Slowly in 2014.

2013 Rates

Treasury Yield Curve

Treasury Yield Curve

2013 Yield Comparison

	Benchmark	Port's Pool
Q1-2013	0.26%	0.79%
Q2-2013	0.39%	0.60%
Q3-2013	0.35%	0.60%
Q4-2013	0.41%	0.76%
ANNUAL	0.35%	0.69%

PORTFOLIO EARNINGS 2009– 2013

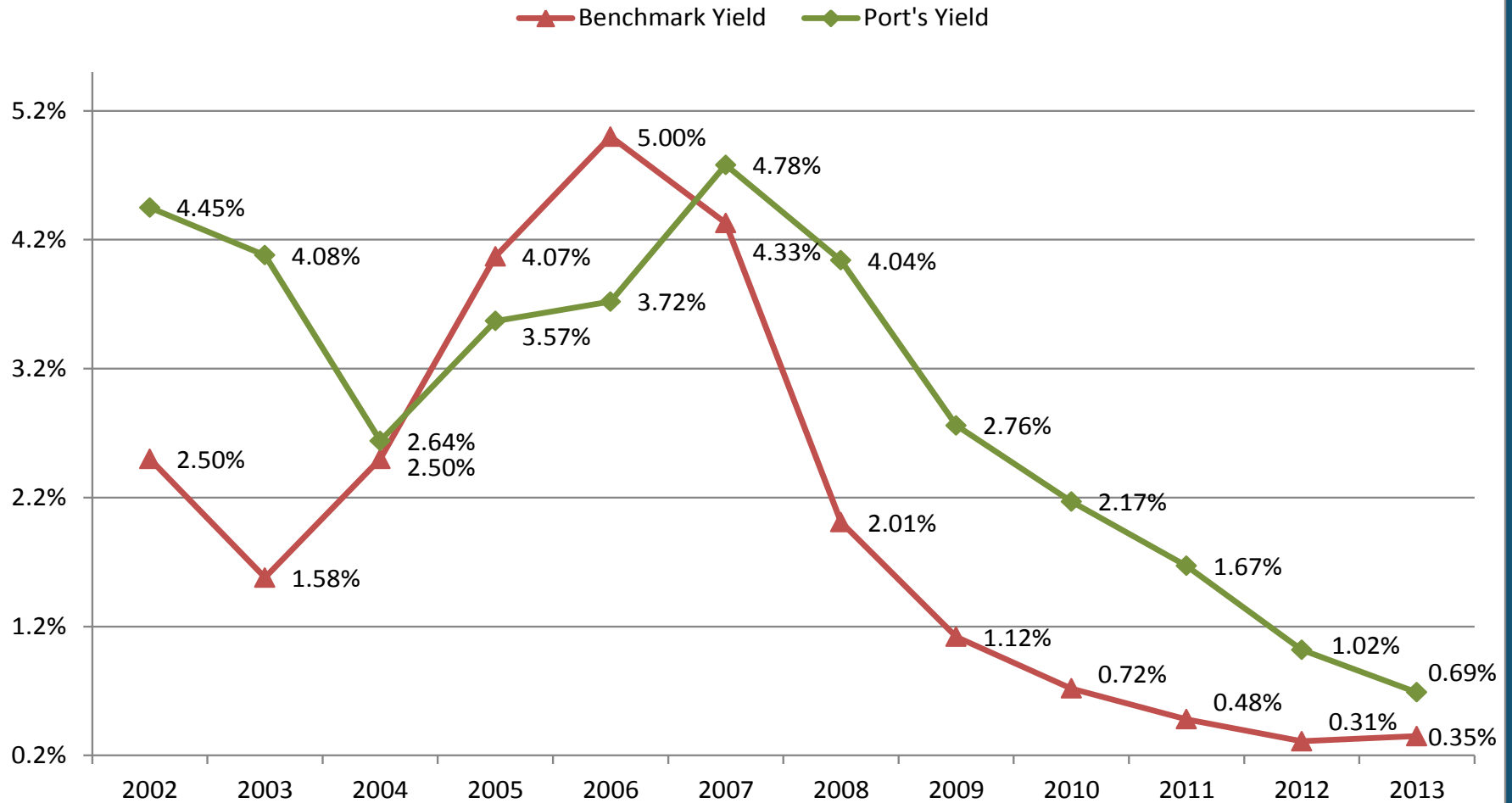# Yield History

- Year   Benchmark   Port's Pool
- 2002 - 2006   3.13%   3.69%
- 2007 - 2011   1.73%   3.08%
- 2012   0.31%   1.02%
- 2013   0.35%   0.69%
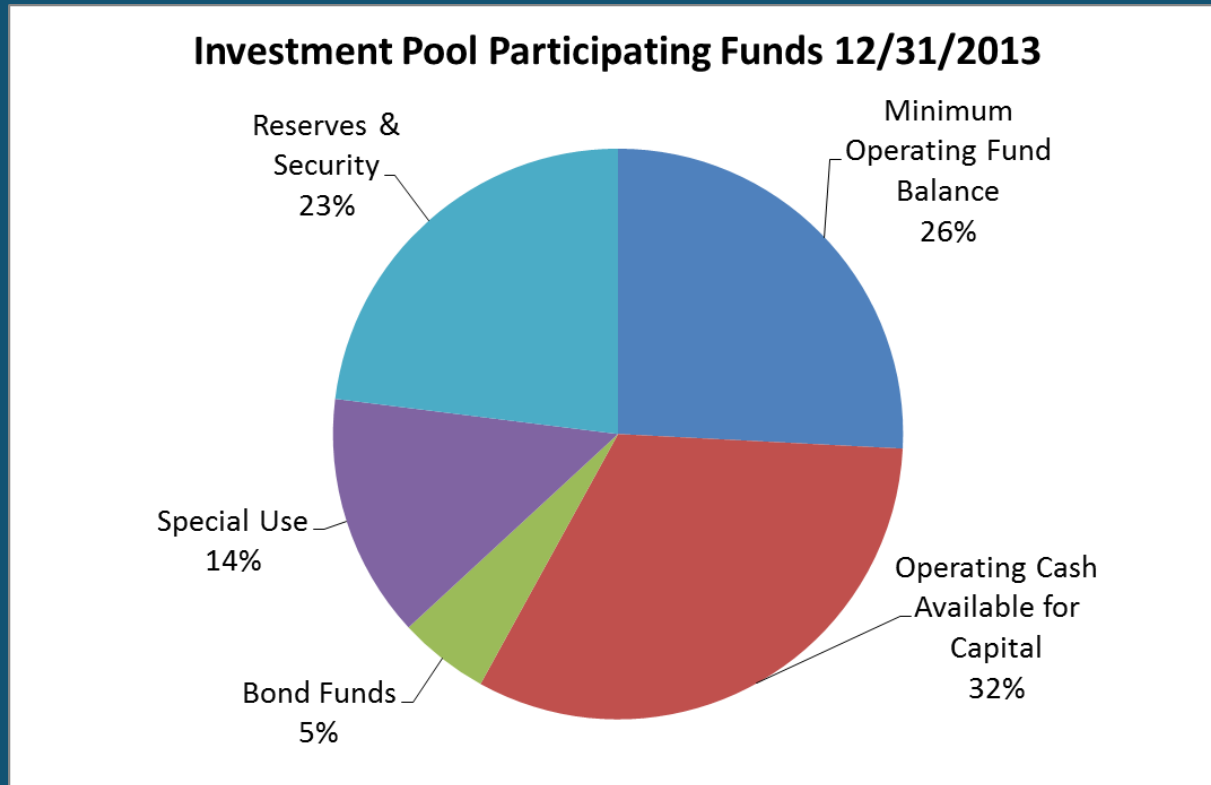
Twelve Years	2.24%	2.97%

YIELD HISTORY

Port's Investment Portfolio Size Fluctuates

- Port's Investment Portfolio 12/31/2013 Was $953 Million

- Over The Past 5 Years, The Size Has Ranged From $639 Million to $976 Million

- Size Fluctuations Are Mostly Tied To Capital Spending:
  - Capital Project Spending Reduces The Portfolio Size
  - Bond Issues To Fund Projects Increase The Portfolio

Investment Pool Participating Funds

Investment Pool Participating Funds 12/31/2013

- Minimum Operating Fund Balance — 26%
- Operating Cash Available for Capital — 32%
- Bond Funds — 5%
- Special Use — 14%
- Reserves & Security — 23%

Examples

- Minimum Operating Fund Balance: General & Airport Development = 9 months O&M expense
- Operating Funds Available for Capital: General, Airport, Tax Levy funds programmed to be spent over the next few years.
- Bond Funds: Capital projects
- Reserves & Security: Bond reserves, customer lease security
- Special Use (primarily for capital projects): Passenger & Customer Facility Charges, Transportation & Infrastructure