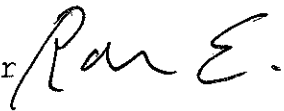


M E M O R A N D U M

TO: Mayor Prussing
Members, Urbana City Council

FROM: Ronald Eldridge, City Comptroller



RE: Quarterly Investment Report for Quarter Ended Sep. 30, 2012

DATE: October 30, 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 September 30, 2012.

The total amount invested increased \$3.2 million to a total of \$42,437,717 from the balance last quarter. This increase is due to the receipt of property tax payments in September. This increase is normal for this quarter. Over the coming months, the City will spend down this increase.

The average yield is 3.6% 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 2.9 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.) and purchased directly from local banks are purchased at separate banks and thus each have the \$250,000 FDIC insurance. Total amount invested in CD's purchase through these dealers and local banks is \$6,887,185 (16% of total investments).
- The money market amounts at the broker/dealers carry their own private insurance. However, most 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. The total amount invested in these money market accounts at 9/30 was \$1,768,672 (4% of total). Currently, amounts in these money market accounts are all below \$40,000.

- 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 (\$465,033) are secured by a promise from the State of Illinois and are also primarily secured by US Government Securities. The total amount invested in these accounts was \$725,501 (2% of total).
- I have purchased five Champaign School District bonds purchased thru Stifel Nicolas with a total of \$2,365,505 (6% of total). 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.
- \$14,745,748 (35% of total) is invested in U.S. Government Direct and Secondary investments which carry the government's promise to pay.
- The balance of \$15,981,110 (37% of total) is invested at Busey Bank either thru CD's or in the City's money market or 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 \$16,128,510 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. 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). For fiscal year 2012, there was basically no gain on market investments. 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 September 30, 2012 complies and is in accordance with State laws and the City's investment policies.

CITY OF URBANA, QUARTERLY INVESTMENT REPORT
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<u>Institution</u>	<u>Type of Investment</u>	<u>Maturity Date</u>	<u>Date Purchased</u>	<u>Yield</u>	<u>09/30/12 \$ Market</u>	<u>% Portfolio</u>	<u>06/30/12 \$ Market</u>	<u>% Increase (Decrease)</u>	<u>Reason for Change</u>
CIBM Bank	CD	08/06/13	08/06/11	0.850%	\$ 244,101		\$ 243,581	0.21%	Accrued Interest
Regions Bank	CD	03/05/13	09/05/09	3.200%	\$ 111,567		\$ 110,674	0.81%	Accrued Interest
PNC Bank	CD	02/11/13	01/11/12	0.399%	\$ 102,764		\$ 102,764	0.00%	
Centrue Bank	CD	05/31/13	05/31/11	1.300%	\$ 100,800		\$ 100,800	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%	\$ 102,000		\$ 102,000	0.00%	
Busey Bank	CD	07/16/12	05/18/11	0.450%	\$ -		\$ 250,001	-100.00%	Maturity
Busey Bank	CD	08/10/12	06/10/11	0.450%	\$ -		\$ 250,000	-100.00%	Maturity
Busey Bank	CD	09/10/12	07/12/11	0.450%	\$ -		\$ 250,000	-100.00%	Maturity
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		\$ 250,000	0.00%	
Busey Bank	CD	01/16/15	04/16/12	0.800%	\$ 250,000		\$ 250,000	0.00%	
Busey Bank	CD	02/16/15	05/16/12	0.800%	\$ 250,000		\$ 250,000	0.00%	
Busey Bank	CD	03/17/15	05/17/12	0.800%	\$ 250,000		\$ 250,000	0.00%	
Busey Bank	CD	04/17/15	05/17/12	0.800%	\$ 250,000		\$ 250,000	0.00%	
Busey Bank	CD	05/18/15	06/18/12	0.650%	\$ 225,000		\$ 225,000	0.00%	
Busey Bank	CD	06/16/15	07/16/12	0.650%	\$ 250,000		\$ -	100.00%	Purchase
Busey Bank	CD	08/10/15	08/10/12	0.650%	\$ 250,000		\$ -	100.00%	Purchase
Busey Bank	CD	09/10/13	09/10/12	0.250%	\$ 250,000		\$ -	100.00%	Purchase
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		\$ 200,000	0.00%	
Morgan Stanley 357	CD	06/15/15	06/15/12	1.100%	\$ 245,000		\$ 245,000	0.00%	

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<u>Institution</u>	<u>Type of Investment</u>	<u>Maturity Date</u>	<u>Date Purchased</u>	<u>Yield</u>	<u>09/30/12 \$ Market</u>	<u>% Portfolio</u>	<u>06/30/12 \$ Market</u>	<u>% Increase (Decrease)</u>	<u>Reason for Change</u>
Morgan Stanley 057	CD	09/04/12	09/02/09	2.500%	\$ -		\$ 250,000	-100.00%	Maturity
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%	
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	-100.00%	Maturity
US Bank/Edward Jones	CD	09/10/12	09/09/09	2.150%	\$ -		\$ 249,000	-100.00%	Maturity
Morgan Stanley 218	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	07/16/12	01/15/10	1.900%	\$ -		\$ 112,000	-100.00%	Maturity
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	-100.00%	Maturity
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		\$ 198,000	0.00%	
Subtotal, CD's					\$ 12,362,185	29.11%	\$ 13,469,773	-8.22%	
Morgan Stanley 218	US Govt, Agency,Tstrip	11/15/16	11/18/08	4.220%	1,883,557		1,883,557	0.00%	
Morgan Stanley 218	US Govt, Agency,FHLM	1/30/14	05/15/09	5.000%	590,288		590,288	0.00%	
Morgan Stanley 218	US Govt, Agency,FHLM	11/24/14	01/27/09	3.210%	587,724		587,724	0.00%	
Morgan Stanley 218	US Govt, Agency,Tstrip	8/15/13	05/19/11	0.545%	702,772		702,772	0.00%	
Morgan Stanley 357	US Govt, Agency, GNMA	10/20/23	11/26/93	6.500%	7,839		7,970	-1.65%	Principal Payments
Morgan Stanley 357	US Govt, Agency, GNMA	11/20/23	11/26/93	6.500%	535		606	-11.80%	Principal Payments
Morgan Stanley 357	US Govt, Agency, Tstrip	11/15/14	11/16/09	2.005%	1,039,622		1,039,622	0.00%	
Morgan Stanley 357	US Govt, Agency,FHLM	3/15/13	05/24/04	5.750%	795,608		795,608	0.00%	
Morgan Stanley 357	US Govt, Agency, Tstrip	11/15/13	08/26/10	0.481%	181,230		181,230	0.00%	
Morgan Stanley 357	US Govt, Agency,FICO	09/07/18	10/31/11	2.240%	183,701		183,701	0.00%	
Morgan Stanley 357	US Govt, Agency,FICO	10/05/18	10/31/11	2.300%	90,309		90,309	0.00%	
Morgan Stanley 357	US Govt, Agency,FHLM	03/08/17	06/08/12	0.659%	404,175		404,175	0.00%	
Morgan Stanley 057	US Govt, Agency, Tstrip	11/15/12	11/23/10	0.421%	551,746		551,746	0.00%	
Morgan Stanley 057	US Govt, FFCB	11/24/25	11/24/10	4.000%	604,195		604,195	0.00%	
Morgan Stanley 057	US Govt, Agency,TVA	5/15/29	05/21/09	4.500%	1,014,360		1,014,360	0.00%	

CITY OF URBANA, QUARTERLY INVESTMENT REPORT

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Morgan Stanley 057	US Govt, FFCB	11/2/40	11/02/11	4.010%	837,150		837,150	0.00%	
Morgan Stanley 057	US Govt Agency, FNMA	12/28/16	06/29/12	0.625%	1,008,696		1,008,696	0.00%	
Morgan Stanley 057	US Govt, Agency, Tstrip	11/15/18	12/01/08	3.550%	392,797		392,797	0.00%	
Morgan Stanley 057	US Govt, Agency, Tstrip	11/15/21	08/10/11	2.506%	383,571		383,571	0.00%	
Morgan Stanley 057	US Govt, Agency, FICO	9/26/19	05/11/09		211,234		211,234	0.00%	
Morgan Stanley 057	Bond	2/15/13	08/31/10	0.819%	542,607		542,607	0.00%	
Morgan Stanley 057	US Govt, Agency, FICO	12/27/13	08/27/10	1.160%	543,988		543,988	0.00%	
Morgan Stanley 057	S Govt, Agency, FHLMC Str	3/15/26	03/04/11	4.900%	148,660		148,660	0.00%	
Morgan Stanley 057	Revenue Bonds	1/1/24	12/14/10	5.900%	453,744		453,744	0.00%	
Morgan Stanley 057	Revenue Bonds	1/1/25	12/14/10	6.050%	453,997		453,997	0.00%	
Morgan Stanley 057	Revenue Bonds	1/1/26	12/14/10	6.200%	454,524		454,524	0.00%	
Morgan Stanley 057	Revenue Bonds	1/1/27	12/14/10	6.400%	456,592		456,592	0.00%	
Morgan Stanley 057	Revenue Bonds	1/1/28	12/14/10	6.600%	458,648		458,648	0.00%	
Morgan Stanley 057	US Govt, Agency, FHLB	11/25/26	11/25/11	2.250%	-		992,950	-100.00%	Called
Morgan Stanley 057	US Govt, Agency, FNMA	10/19/26	12/15/11	2.000%	800,440		800,440	0.00%	
Morgan Stanley 057	US Govt, Agency, Tstrip	11/15/16	05/18/12		522,941		522,941	0.00%	
Morgan Stanley 057	US Govt, Agency, FNMA	9/27/27	09/27/12	2.250%	804,000		-	100.00%	Purchase
Morgan Stanley 057	US Govt, Agency, FNMA	11/23/26	12/15/11	2.000%	-		360,536	-100.00%	Called
Subtotal, U.S. Govt.					\$ 17,111,249	40.29%	\$ 17,660,938	-3.11%	

<u>Institution</u>	<u>Type of Investment</u>	<u>Maturity Date</u>	<u>Date Purchased</u>	<u>Yield</u>	<u>09/30/12 \$ Market</u>	<u>% Portfolio</u>	<u>01/00/00 \$ Market</u>	<u>% Increase (Decrease)</u>	<u>Reason for Change</u>
Morgan Stanley 218	MM	n/a	n/a	0.010%	\$ 379,995		\$ 304	124824.51%	CD maturities
US Bank/Edward Jones	MM	n/a	n/a	0.000%	\$ 504,623		\$ 875	57592.98%	CD maturities
Morgan Stanley 357	MM	n/a	n/a	0.010%	\$ 11,183		\$ 4,587	143.79%	Investment Interest
Morgan Stanley 057	MM			0.010%	\$ 872,871		\$ 4,340	20010.84%	3 maturities
IL Metropolitan Investment Fund	US Govt Pool Fund			0.010%	\$ 260,468		\$ 260,098	0.14%	Interest
Illinois Funds-Money Market	Govt. Pool, IL Funds	n/a	n/a	0.125%	\$ 426,922		\$ 748	56978.13%	State Revenue Payments
Illinois Funds-E Pay Account	Govt. Pool, IL Funds	n/a	n/a	0.125%	\$ 38,111		\$ 1,473	2487.41%	credit card payments
Busey Bank	Savings	n/a	n/a	0.110%	\$ 10,506,110		\$ 7,824,293	34.28%	property tax
Subtotal, MM, IPTIP, & Savings					\$ 13,000,282	30.61%	\$ 8,096,718	60.56%	
TOTALS					\$ 42,473,717	100.00%	\$ 39,227,428	8.28%	