



FINANCE & AUDIT COMMITTEE

Special Meeting
Thursday, May 29, 2014 2:00 pm
Administrative Conference Room, Second Floor
701 Laurel Street, Menlo Park, CA 94025

CALL TO ORDER

ROLL CALL- Catherine Carlton, Anne Craib, Les Denend, Ray Mueller, and Laura J Phelps

CITY STAFF- Drew Corbett, Stephen Green, Starla Jerome-Robinson

A. PUBLIC COMMENT (Limited to 15 minutes)

Under "Public Comment", the public may address the Committee on any subject not listed on the agenda within the jurisdiction of the Committee. The public may also address the Committee regarding items listed on the agenda at this time or during the Committee's consideration of the agenda item. Each speaker may address the Committee once under Public Comment for a limit of three minutes unless modified by the Chair of the Committee. When addressing the Committee, please state your name and city or political jurisdiction in which you live for the record. Please present your comments clearly and concisely. The Committee cannot respond to non-agendized items other than to receive testimony and /or provide general information.

B. BUSINESS ITEMS

B1. Introduction of new Finance/Audit Committee Members

B2. Discussion of the Finance/Audit Committee roles and responsibilities ([Attachment](#))

B3. Discussion of the City's financial position ([Attachment](#))

B4. Selection of a Chair and Vice-Chair

B5. Discuss and approve future meetings for calendar year 2014 ([Attachment](#))

C. ADJOURNMENT

Agendas are posted in accordance with Government Code Section 54954.2(a) or Section 54956. Members of the public can view electronic agendas and staff reports by accessing the City website at <http://www.menlopark.org> and can receive e-mail notification of agenda and staff report postings by subscribing to the "Home Delivery" service on the City's homepage. Agendas and staff reports may also be obtained by contacting Stephen Green at 650-330-6646. (Posted: **5/28/2014**)

At every Regular Meeting of the Committee, in addition to the Public Comment period where the public shall have the right to address the Committee on any matters of public interest not listed on the agenda, members of the public have the right to directly address the Committee on any item listed on the agenda at a time designated by the Chair, either before or during the Committee's consideration of the item.

At every Special Meeting of the Committee, members of the public have the right to directly address the Committee on any item listed on the agenda at a time designated by the Chair, either before or during consideration of the item.

Any writing that is distributed to a majority of the Committee by any person in connection with an agenda item is a public record (subject to any exemption under the Public Records Act) and is available for inspection at the Finance Department 701 Laurel Street, Menlo Park, CA 94025 during regular business hours. Persons with disabilities, who require auxiliary aids or services in attending or participating in Commission meetings, may call the City Clerk's Office at (650) 330-6620.

Finance/Audit Committee Roles and Responsibilities:

The role of this committee is to facilitate public understanding of the city's financial reporting processes and to assist staff in the delivery of timely, clear, and reliable financial information to the public.

The committee reviews the external financial audit and the city's investment portfolio on an annual basis.

Finance / Audit Committee Meeting Thursday, May 29th at 2:00PM

Attachment A - Statement of Net Position/Net Activities/Change in Net Activities as of June 30, 2013 (*Equivalent to Income Statement*)

Attachment B – Balance Sheet as of June 30, 2013

Attachment C – Review of City's Investment Portfolio as of March 31, 2014 Staff Report May 13, 2014

Attachment D - Quarterly Financial Review of General Fund as of March 31, 2014 Staff Report May 13, 2014

Attachment E - Public Employee Retirement System and Unfunded Pension Liability information Study Session January 14, 2014.

Attachment F - New Pronouncements GASB 68 – Accounting and Financial Reporting for Pensions (*Unfunded Pension Liability will show up on the Balance Sheet as of June 30, 2015*)

Attachment G - Explanation of Joint Powers Insurance Authority

City of Menlo Park
Statement of Net Position
June 30, 2013

	Primary Government		
	Governmental	Business-Type	
	Activities	Activities	Total
ASSETS			
Current assets:			
Cash and investments	\$ 69,781,029	\$ 14,365,004	\$ 84,146,033
Receivables:			
Accounts	2,426,173	969,727	3,395,900
Interest	248,533	49,213	297,746
Due from other governments	888,616	-	888,616
Deposits and prepaid items	173,795	-	173,795
Total current assets	73,518,146	15,383,944	88,902,090
Noncurrent assets:			
Restricted cash and investments	-	-	-
Real estate held for resale	733,597	-	733,597
Notes receivable	11,304,402	-	11,304,402
Deferred charges	46,073	-	46,073
Capital assets			
Non-depreciable	234,693,418	3,377,442	238,070,860
Depreciable, net	133,373,727	6,702,240	140,075,967
Total capital asset	368,067,145	10,079,682	378,146,827
Total noncurrent assets	380,151,217	10,079,682	390,230,899
Total assets	453,669,363	25,463,626	479,132,989
DEFERRED OUTFLOWS OF RESOURCES			
Total deferred outflows of resources	-	-	-
LIABILITIES			
Current liabilities:			
Accounts payable	2,211,132	750,802	2,961,934
Accrued payroll	1,139,667	29,946	1,169,613
Interest payable	460,650	-	460,650
Deposits	1,263,146	12,354	1,275,500
Unearned revenue	1,323,457	-	1,323,457
Net OPEB liability	110,470	-	110,470
Claims payable due within one year	677,066	-	677,066
Compensated absences due within one year	744,618	21,537	766,155
Landfill postclosure care due within one year	202,147	-	202,147
Long-term debt due within one year	618,813	-	618,813
Total current liabilities	8,751,166	814,639	9,565,805
Noncurrent liabilities:			
Claims payable due in more than one year	2,377,646	-	2,377,646
Compensated absences due in more than one year	1,086,153	31,246	1,117,399
Landfill postclosure care due in more than one year	5,580,034	-	5,580,034
Long-term debt due in more than one year	20,397,966	-	20,397,966
Total noncurrent liabilities	29,441,799	31,246	29,473,045
Total liabilities	38,192,965	845,885	39,038,850
DEFERRED INFLOWS OF RESOURCES			
Total deferred inflows of resources	-	-	-
NET POSITION			
Net investment in capital assets	347,050,366	10,079,682	357,130,048
Restricted for:			
Capital projects	14,394,634	15,273,688	29,668,322
Debt service	1,943,354	-	1,943,354
Special projects	1,501,478	-	1,501,478
Unrestricted	50,586,566	(735,629)	49,850,937
Total net position	\$ 415,476,398	\$ 24,617,741	\$ 440,094,139

See accompanying Notes to Basic Financial Statements.

City of Menlo Park
Statement of Activities and Changes in Net Position
For the year ended June 30, 2013

Functions/Programs	Expenses	Program Revenues			Total
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary government:					
Governmental activities:					
General government	\$ 6,332,057	\$ 3,125,908	\$ 9,965	\$ -	\$ 3,135,873
Public safety	14,080,936	1,579,674	173,068	-	1,752,742
Public works	10,920,198	6,924,069	602,745	610,485	8,137,299
Culture and recreation	11,077,343	3,873,165	858,244	1,742,564	6,473,973
Community development	4,240,784	3,695,171	-	-	3,695,171
Interest on long-term debt	1,229,193	-	-	-	-
Total governmental activities	47,880,511	19,197,987	1,644,022	2,353,049	23,195,058
Business-type activities:					
Water	6,299,614	6,633,147	-	-	6,633,147
Total business-type activities	6,299,614	6,633,147	-	-	6,633,147
Total primary government	\$ 54,180,125	\$ 25,831,134	\$ 1,644,022	\$ 2,353,049	\$ 29,828,205

General Revenues:

Taxes:

Property taxes

Sales taxes

Motor vehicle fee taxes

Transient occupancy taxes

Franchise taxes

Other taxes

Total taxes

Investment earnings

Gain on the sale of capital assets

Miscellaneous

Transfers

Total general revenues and transfers

Change in net position

Net position - beginning of year, as previously reported

Prior period adjustment (Note 23)

Net position - end of year

See accompanying Notes to Basic Financial Statements.

Net (Expense) Revenue and Changes in Net Position		
Governmental Activities	Business-Type Activities	Total
\$ (3,196,184)	\$ -	\$ (3,196,184)
(12,328,194)	-	(12,328,194)
(2,782,899)	-	(2,782,899)
(4,603,370)	-	(4,603,370)
(545,613)	-	(545,613)
(1,229,193)	-	(1,229,193)
(24,685,453)	-	(24,685,453)
-	333,533	333,533
-	333,533	333,533
(24,685,453)	333,533	(24,351,920)
15,731,889	-	15,731,889
6,043,870	-	6,043,870
16,667	-	16,667
3,468,256	-	3,468,256
1,848,480	-	1,848,480
2,691,224	-	2,691,224
29,800,386	-	29,800,386
647,963	(8,799)	639,164
524,774	-	524,774
130,627	-	130,627
181,525	(181,525)	-
31,285,275	(190,324)	31,094,951
6,599,822	143,209	6,743,031
409,083,063	24,474,532	433,557,595
(206,487)	-	(206,487)
\$ 415,476,398	\$ 24,617,741	\$ 440,094,139

City of Menlo Park
Balance Sheet
Governmental Funds
June 30, 2013

	Major Funds					
	General Fund	Below Market Rate Housing Special Revenue Fund	Housing Special Revenue Fund	General Capital Improvement Project Fund	Non-Major Governmental Funds	Total Governmental Funds
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES						
Cash and investments	\$ 23,296,114	\$ 5,949,007	\$ 91,265	\$ 14,337,130	\$ 22,451,567	\$ 66,125,083
Restricted cash and investments	-	-	-	-	-	-
Receivables:						
Accounts	1,882,005	-	-	47,484	458,695	2,388,184
Interest	147,854	20,304	-	-	67,894	236,052
Notes	990,000	3,941,609	5,450,791	-	922,002	11,304,402
Due from other governments	608,579	-	-	-	280,037	888,616
Deposits and prepaid items	15,376	-	-	-	2,396	17,772
Due from other funds	110,673	-	-	-	-	110,673
Real estate held for resale	-	733,597	-	-	-	733,597
Total assets	27,050,601	10,644,517	5,542,056	14,384,614	24,182,591	81,804,379
Deferred outflows of resources	-	-	-	-	-	-
Total assets and deferred outflows of resources	\$ 27,050,601	\$ 10,644,517	\$ 5,542,056	\$ 14,384,614	\$ 24,182,591	\$ 81,804,379
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES						
Liabilities:						
Accounts payable	\$ 1,151,137	\$ 14,613	\$ 62	\$ 384,250	\$ 599,329	\$ 2,149,391
Accrued payroll and related liabilities	1,035,214	-	696	22,212	78,153	1,136,275
Due to other funds	-	-	-	-	2,224	2,224
Deposits	1,178,144	-	-	-	85,000	1,263,144
Deferred revenue	1,308,458	-	5,220,951	-	937,002	7,466,411
Total liabilities	4,672,953	14,613	5,221,709	406,462	1,701,708	12,017,445
Deferred inflows of resources	-	-	-	-	-	-
Fund Balances:						
Nonspendable	1,005,376	4,675,206	229,840	-	2,396	5,912,818
Restricted:						
Special programs	-	5,954,698	90,507	-	18,033,341	24,078,546
Capital improvement	-	-	-	13,978,152	2,501,792	16,479,944
Debt service	-	-	-	-	1,943,354	1,943,354
Committed	14,000,000	-	-	-	-	14,000,000
Assigned, reported in:						
General fund	2,728,033	-	-	-	-	2,728,033
Capital project funds	-	-	-	-	-	-
Unassigned, reported in:						
General fund	4,644,239	-	-	-	-	4,644,239
Special revenue funds	-	-	-	-	-	-
Total fund balances	22,377,648	10,629,904	320,347	13,978,152	22,480,883	69,786,934
Total liabilities, deferred inflows of resources, and fund balances	\$ 27,050,601	\$ 10,644,517	\$ 5,542,056	\$ 14,384,614	\$ 24,182,591	\$ 81,804,379

See accompanying Notes to Basic Financial Statements.



ADMINISTRATIVE SERVICES DEPARTMENT

Council Meeting Date: May 13, 2014
Staff Report #: 14-079

Agenda Item #: I-2

INFORMATIONAL ITEM: Review of the City's Investment Portfolio as of March 31, 2014

RECOMMENDATION

This is an informational item and does not require Council action.

BACKGROUND

The City's investment policy requires a quarterly investment report to the Council, which includes all financial investments of the City and provides information on the investment type, value, and yield for all securities. The report also provides Council an update on the cash balances of the City's various funds.

ANALYSIS

Investment Portfolio as of March 31, 2014

Various reports are prepared monthly by Cutwater Asset Management, the City's investment advisory firm, and are attached to this staff report. The "Recap Of Securities Held" confirms that the historical (book) value of the total portfolio at the end of March was over \$93.7 million. The portfolio includes the General Fund, Water Fund, Special Revenue Funds, Successor Agency Funds, Capital Projects Fund, and funds for debt service obligations. Funds are invested in accordance with the City Council policy on investments using safety, yield and liquidity as selection criteria. Approximately \$40 million (42.7 percent) is invested in the State investment pool, the Local Agency Investment Fund (LAIF). LAIF is considered a safe investment and it provides the liquidity of a money market fund. Of the remaining \$53.7 million, \$21.2 million (22.6 percent) is invested in short-term Federal agency issues (U.S. Instrumentality), \$2 million (2.1 percent) is in U.S. Treasury securities, \$25.5 million (27.2 percent) is in medium-term corporate notes, and almost \$5 million (5.4 percent) is in commercial paper. All the mentioned securities are prudent short-term investments, since they generally bear a higher interest rate than LAIF, provide investment diversification, and remain secure investment instruments.

At the end of March, the fair value (market value) of the City's securities was over \$86,659 less than the amortized historical cost, which is referred to as an unrealized loss. This is an improvement from the end of the previous quarter's unrealized loss of \$156,210. Fair value fluctuates from one period to another depending on the supply and demand for bonds and securities at a particular point in time. Therefore, there is often a difference between the historical cost (the value at the time of purchase) and the fair value (the value of the same security at a specific date), creating an unrealized gain or loss. Since the City's portfolio is fairly short-term in nature and the City generally holds the securities to maturity in order to avoid market risk, the information on the unrealized gains or losses is reported in the Comprehensive Annual Financial Report but does not represent an actual cash loss to the City.

Current Market Conditions

The U.S. economy saw improvement during the fourth quarter of 2013, but slowed in January and February 2014. The slowdown during this time period was primarily due to harsh winter conditions but, fortunately, the economy rallied in March, with the inflation outlook remaining below 2.5 percent and the unemployment rate remaining at 6.7 percent. The Federal Open Market Committee (FOMC) met in January and March to discuss monetary policy. Undeterred by the slight slowdown in the beginning of 2014, the FOMC has reduced its pace of asset purchases from \$65 billion per month to \$55 billion per month, and if it continues to taper at the current rate, the asset purchases would end later this year. However, during its meeting in March, the FOMC decided that despite the progress the economy has been making towards recovery, the previously stated 6.5 percent unemployment threshold to raise interest rates should be replaced with a new set of qualitative standards to inform the Fed on when higher rates may be appropriate. The committee members agreed that the 6.5 percent employment threshold is outdated. Therefore, the federal funds rate will remain at the current near-zero level for some time, even after the economy gets back to normal and the unemployment rate drops below 6.5 percent. It is anticipated that these actions will continue to put downward pressure on longer-term interest rates, support mortgage markets, and help improve other financial conditions. However, these actions will also result in very few attractive investment opportunities for the City. The FOMC continues to monitor the market and has discussed appropriate policy actions based on these conditions.

Investment Yield

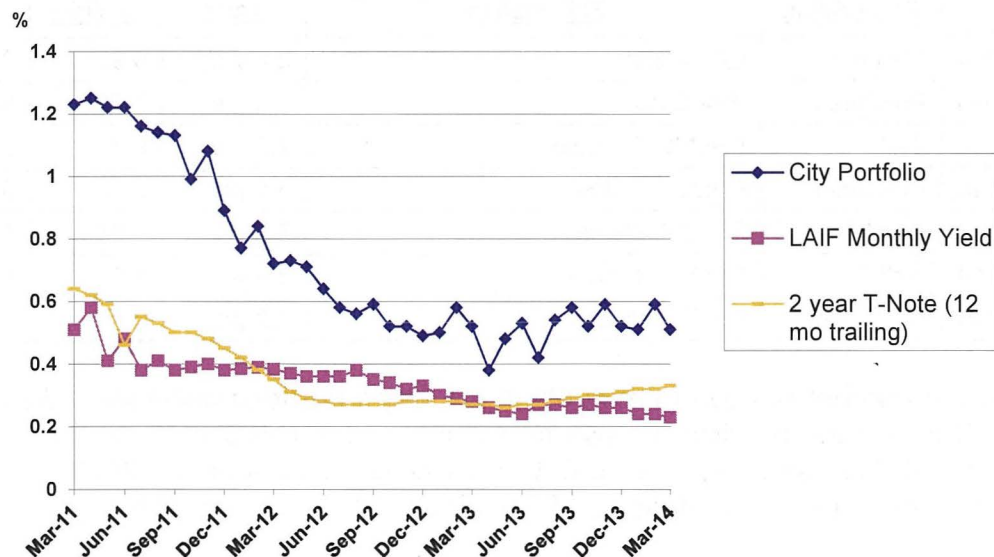
The annualized rate of return for the City's portfolio shown on the performance summary as of March 31, 2014, prepared by Cutwater, is 0.51 percent, net of fees. This rate of return is higher than the rate of the 2-year Treasury-Note (12-month trailing) of 0.33 percent and the rate of return earned through LAIF over the past quarter of 0.23 percent.

Over the first quarter of 2014, investment yields decreased for most short-term and long-term bonds. However, over the past year, interest rates increased for long-term securities while short-term securities experienced modest decreases.

Treasury Yields			
Term	March 31, 2013	December 31, 2013	March 31, 2014
3-month	0.07	0.07	0.06
6-month	0.10	0.09	0.05
2-year	0.24	0.38	0.41
5-year	0.76	1.74	1.74
10-year	1.85	3.03	2.73
30-year	3.10	3.97	3.55

As previously stated, almost 42.7 percent of the portfolio resides in the City's LAIF account, yielding 0.23 percent for the quarter ending March 31, 2014. Since the City does not need all of its funds to be liquid, investments in U.S. Treasury, agency, corporate notes, and commercial paper are made in an effort to enhance yields. The difference between the yields earned in the City's portfolio and those earned from LAIF have been more constant over the last year. The City's ability to earn a higher yield than LAIF is due to the priorities of the investment portfolios. Since 2009, LAIF's highest priority has been liquidity while the City's priorities have been safety (protection of the principal) and yield. More liquid securities tend to have lower rates of return.

Comparative Rates of Return



Fees paid to Cutwater (totaling \$10,717 for the quarter ended March 31, 2014) are deducted from investment earnings before calculating the City's net rate of return. Staff continues to work with the City's investment advisors to meet the City's investment objectives and rearrange the portfolio for maximum yield while providing safety for the principal amount.

Investment Transactions in the First Quarter

Staff, with the assistance of Cutwater, continues to evaluate the purchase of new investments as others are called or matured, if the City does not require the liquidity. During the first quarter, staff re-invested funds from a corporate bond that matured and two agency bonds that were called. These funds were reinvested in another corporate bond and three more callable agency bonds. Staff has been purchasing certain callable securities because they offering higher yields than normal securities due to the possibility of being called. In addition, some of the callable securities that were purchased have a step-up feature. If the bond is not called after one year, the rate increases to one that is higher than what is currently available on the market. Therefore the bonds are likely to be called and will provide the City with a short-term investment at a slightly higher yield during the callable period. With interest rates expected to remain at their current low level for quite some time, purchasing short-term securities is a prudent investment to position the City to capitalize when interest rates do begin to rise. With that said, once rates start increasing, they are expected to do so only incrementally over a period of time. Therefore, if the bonds are not called, the portfolio will still contain securities that are earning a higher rate of interest, thereby reducing interest rate risk.

Investments that matured, were called, or purchased during the period of January 1, 2014 through March 31, 2014 are shown in the schedule below:

<u>Date</u>	<u>Transaction</u>	<u>Description</u>	<u>Term</u>	<u>% Yield</u>	<u>Principal</u>
01/07/2014	Maturity	GE Capital	2.0 yrs	0.99	\$1,500,000
01/07/2014	Purchase	IBM Corp	3.0 yrs	1.03	\$1,500,000
02/24/2014	Call	FHLMC Callable	2.0 yrs	0.74	\$2,000,000
02/24/2014	Purchase	FHLB Callable	3.0 yrs	0.50	\$1,000,000
03/03/2014	Purchase	FHLB Callable	3.0 yrs	0.63	\$1,000,000
03/05/2014	Call	FNMA Callable	2.0 yrs	1.04	\$2,000,000
03/06/2014	Purchase	FHLB Callable	4.0 yrs	0.50	\$2,000,000

The average number of days to maturity in the City's portfolio decreased during the first quarter. The average number of days to maturity of the City's portfolio as of March 31, 2014 was 414 days as compared to 430 days as of December 31, 2013. The average life of securities in LAIF's portfolio as of December 31, 2013 was 185 days.

Cash and Investments by Fund

Overall, the City's investment portfolio increased by over \$3.1 million in the first quarter of 2014. The schedule below lists the change in cash balance by fund type.

Fund/Fund Type	Cash Balance as of 03/31/14	Cash Balance as of 12/31/13	Difference	% Change
General Fund	25,252,609	22,427,383	2,825,226	12.60%
Bayfront Park Maintenance Fund	637,054	651,828	(14,774)	-2.27%
Recreation -in-Lieu Fund	1,374,728	1,318,624	56,104	4.25%
Other Expendable Trust Funds	1,287,334	1,363,420	(76,086)	-5.58%
Transportation Impact Fee Fund	4,013,489	4,047,994	(34,505)	-0.85%
Garbage Service Fund	1,023,312	942,209	81,103	8.61%
Parking Permit Fund	3,266,499	3,233,353	33,146	1.03%
BMR Housing Fund	8,001,193	7,396,120	605,073	8.18%
Measure A Funds	866,685	957,490	(90,805)	-9.48%
Storm Water Management Fund	244,480	278,369	(33,889)	-12.17%
Successor Agency Funds	3,195,773	2,418,251	777,522	32.15%
Measure T Funds	289,841	288,976	865	0.30%
Other Special Revenue Funds	11,206,723	11,457,938	(251,215)	-2.19%
Capital Project Fund- General	13,265,673	13,231,334	34,339	0.26%
Water Operating & Capital	14,775,907	15,469,931	(694,024)	-4.49%
Debt Service Fund	1,166,041	1,454,303	(288,262)	-19.82%
Internal Service Fund	3,843,096	3,615,871	227,225	6.28%
Total Portfolio of all Funds	93,710,435	90,553,394	3,157,041	3.49%

Cash and investment holdings in the General Fund increased by over \$2.8 million. This was the result of receiving \$1.6 million for Excess ERAF funds in January and over \$1.2 million during the quarter for business license taxes. In January 2014, the BMR unit on Sage Street was sold and in February 2014, the unit on Hollyburne also sold. These sales resulted in an increase in cash in the BMR Housing Fund. The Successor Agency Fund increased by the second semi-annual payment for the 2013-14 fiscal year to cover the former Community Development agencies obligations. This payment was offset by the semi-annual deposit to BNY Mellon for debt service obligations for the former Community Development Agency's Series 2006 Bonds. In Other Special Revenue Funds, the Landfill Post Closure Fund decreased by over \$215,000 for payments related to the Gas Flare at Bedwell Park capital improvement project.

The City's Municipal Water Funds decreased due to payments in January to SFPUC for water service during the previous quarter. Water costs continue to be higher due to the dry months during the fourth quarter of 2013, which required more water usage for landscaping needs. The City's Debt Service Funds decreased semi-annual debt service payment on interest for the City's general obligation bonds that was due on January 31, 2014. The next debt service payment is due July 31, 2014. The increase in the Internal Service Funds is due to collection of internal services charges from departments, offset by normal operating costs.

IMPACT ON CITY RESOURCES

Due to the liquidity of LAIF accounts, the City has more than sufficient funds available to meet its expenditure requirements for the next six months.

POLICY ISSUES

The City and the Successor Agency funds are invested in full compliance with the City's Investment Policy and State Law, which emphasize the following criteria, in the order of importance: safety, liquidity, and yield.

ENVIRONMENTAL REVIEW

This report is not subject to the California Environmental Quality Act (CEQA).

PUBLIC NOTICE

Public Notification was achieved by posting the agenda, with this agenda item being listed, at least 72 hours prior to the meeting.

ATTACHMENTS

- A. Cutwater Investment Reports for the period of March 1, 2014 – March 31, 2014

Report prepared by:
Geoffrey Buchheim
Financial Services Manager



ATTACHMENT A

Cutwater Asset Management
1900 Sixteenth Street, Suite 200
Denver, CO 80202
Tel: 303 860 1100
Fax: 303 860 0016

CITY OF MENLO PARK

Report for the period March 1, 2014 - March 31, 2014

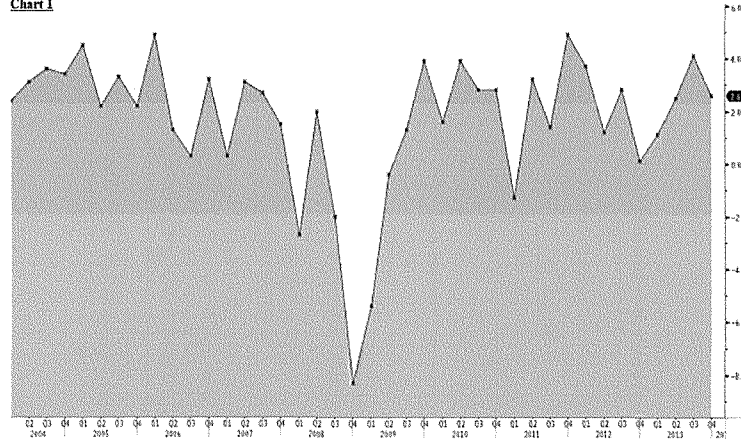
Please contact Accounting by calling the number above or email camreports@cutwater.com with questions concerning this report.

(This report was prepared on April 8, 2014)

Fixed Income Market Review March 31, 2014

U.S. Gross Domestic Product
01/01/04 - 12/31/13

Chart 1



Economic Indicators & Monetary Policy – The final release of the fourth quarter Gross Domestic Product (GDP) was revised to 2.6 percent in March from the second reading of 2.4 percent. The improvement in GDP reflected signs of strength in the U.S. economy at the end of last year. Consumer spending advanced at a 3.3 percent pace in the fourth quarter, which was the most since the fourth quarter of 2010.¹ (See Chart 1)

Consumer confidence improved in March, as the Conference Board Consumer Confidence index reached its highest level in more than six years. The Conference Board's index increased to 82.3, which greatly exceeded analyst estimates of 78.5 and surpassed the February reading of 78.3.

Although the extreme weather conditions this year forced a number of economic indicators to decline in January and February, many indicators recovered in March. Non-farm payrolls increased by 175,000, a gain of more than 60,000 from the previous month, and retail sales increased by 0.3 percent, following a 0.6 percent drop the month before. The labor force participation rate, however, remained very low at 63percent.

The Federal Open Market Committee (FOMC) continued tapering the asset purchase program at the March 19 meeting, reducing the monthly asset purchases by the expected amount of \$10 billion. The FOMC currently purchases \$55 billion per month of U.S. Treasury and mortgage-backed securities and if it continues to taper at the current rate, the asset purchases would end later this year.

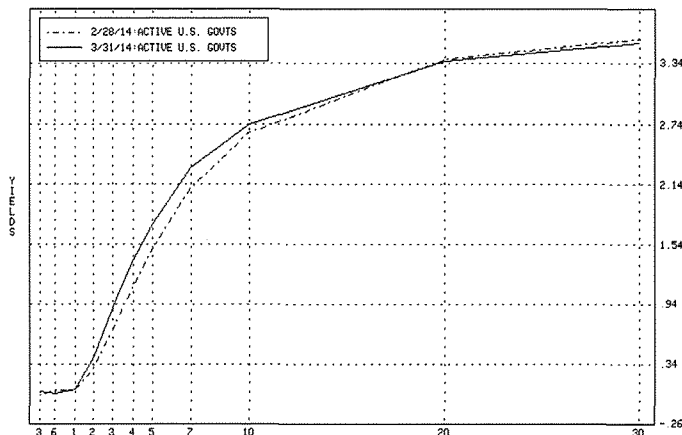
The FOMC also stated that an unemployment rate of 6.5 percent will no longer be used as an indicator for the timing regarding tightening monetary policy. According to the statement from the March meeting, the FOMC continues to "seek maximum employment and price stability".² Following Janet Yellen's first press conference as Chair of the FOMC, the theme of the markets was volatility as investors began to speculate on the timing of the end of the quantitative easing program.

Yield Curve & Spreads – After a relatively flat month of February, the treasury yield curve steepened in March.

At the end of February, the 3-month Treasury bill yielded 0.06 percent, 6-month Treasury bill yielded 0.05 percent, 2-year Treasury note yielded 0.41 percent, 5-year Treasury note yielded 1.74 percent, 10-year Treasury note yielded 2.73 percent, and the 30-year Treasury yielded 3.55 percent. (See Chart 2)

Treasury Yield Curves
02/28/14 - 03/31/14

Chart 2



Additional Information

March 31, 2014

The opinions expressed above are those of Cutwater Asset Management and are subject to change without notice. All statistics represent month-end figures unless otherwise noted.

A current version of the investment adviser brochure for Cutwater Investor Services Corp., in the form of the Firm's ADV Part 2A, is available for your review. Please contact our Client Service Desk at 1-800-395-5505 or mail your request to:

Cutwater Investor Services Corp.
Attention: Client Services
113 King Street
Armonk, NY 10504

A copy of the brochure will be sent to you either by mail or electronically at your option.

In addition, a copy of the most recent version of the Firm's complete Form ADV can be downloaded from the SEC website at www.adviserinfo.sec.gov/.

¹ "Fewer Firings a Sign U.S. to Regain Growth Momentum." Bloomberg Finance LP. March 27, 2014

² Press Release, Federal Open Market Committee Minutes from March 19.

City of Menlo Park
Activity and Performance Summary
for the period March 1, 2014 - March 31, 2014

Amortized Cost Basis Activity Summary

Beginning Amortized Cost Value	93,475,798.50
Additions	
Contributions	0.00
Interest Received	126,586.92
Accrued Interest Sold	5,000.00
Gain on Sales	2,028.23
Total Additions	133,615.15
Deductions	
Withdrawals	572,635.79
Fees Paid	3,569.19
Accrued Interest Purchased	0.00
Loss on Sales	0.00
Total Deductions	(576,204.98)
Accretion (Amortization) for the Period	(42,904.10)
Ending Amortized Cost Value	92,990,304.57
Ending Fair Value	92,903,645.81
Unrealized Gain (Loss)	(86,658.76)

Detail of Amortized Cost Basis Return

	Interest Earned	Accretion (Amortization)	Realized Gain (Loss)	Total Income
Current Holdings				
Cash and Equivalents	8,089.83	0.00	0.00	8,089.83
Commercial Paper	0.00	1,550.00	0.00	1,550.00
U.S. Treasury	1,712.71	(482.10)	0.00	1,230.61
U.S. Instrumentality	21,158.97	(5,893.57)	0.00	15,265.40
Corporate	53,882.19	(36,000.21)	0.00	17,881.98
Sales and Maturities				
U.S. Instrumentality	222.22	(2,078.22)	2,028.23	172.23
Total	85,065.92	(42,904.10)	2,028.23	44,190.05

Annualized Comparative Rates of Return

	Twelve Month Trailing	Six Month Trailing	For the Month
Fed Funds	0.09 %	0.08 %	0.08 %
Overnight Repo	0.06 %	0.06 %	0.08 %
3 Month T-Bill	0.04 %	0.04 %	0.04 %
6 Month T-Bill	0.06 %	0.06 %	0.06 %
1 Year T-Note	0.12 %	0.12 %	0.13 %
2 Year T-Note	0.33 %	0.35 %	0.40 %
5 Year T-Note	1.37 %	1.52 %	1.64 %

Summary of Amortized Cost Basis Return for the Period

	Total Portfolio	Excl. Cash Eq.
Interest Earned	85,065.92	76,976.09
Accretion (Amortization)	(42,904.10)	(42,904.10)
Realized Gain (Loss) on Sales	<u>2,028.23</u>	<u>2,028.23</u>
Total Income on Portfolio	44,190.05	36,100.22
Average Daily Historical Cost	93,990,822.57	53,537,832.77
Annualized Return	0.55%	0.79%
Annualized Return Net of Fees	0.51%	0.72%
Annualized Return Year to Date Net of Fees	0.53%	0.76%
Weighted Average Effective Maturity in Days	414	722

City of Menlo Park
Activity and Performance Summary
for the period March 1, 2014 - March 31, 2014

Fair Value Basis Activity Summary

Beginning Fair Value	93,496,598.54
Additions	
Contributions	0.00
Interest Received	126,586.92
Accrued Interest Sold	5,000.00
Total Additions	131,586.92
Deductions	
Withdrawals	572,635.79
Fees Paid	3,569.19
Accrued Interest Purchased	0.00
Total Deductions	(576,204.98)
Change in Fair Value for the Period	(148,334.67)
Ending Fair Value	92,903,645.81

Detail of Fair Value Basis Return

	Interest Earned	Change in Fair Value	Total Income
Current Holdings			
Cash and Equivalents	8,089.83	0.00	8,089.83
Commercial Paper	0.00	1,700.00	1,700.00
U.S. Treasury	1,712.71	(3,711.00)	(1,998.29)
U.S. Instrumentality	21,158.97	(62,135.65)	(40,976.68)
Corporate	53,882.19	(81,795.48)	(27,913.29)
Sales and Maturities			
U.S. Instrumentality	222.22	(2,392.54)	(2,170.32)
Total	85,065.92	(148,334.67)	(63,268.75)

Annualized Comparative Rates of Return

	Twelve Month Trailing	Six Month Trailing	For the Month
Fed Funds	0.09 %	0.08 %	0.08 %
Overnight Repo	0.06 %	0.06 %	0.08 %
3 Month T-Bill	0.10 %	0.10 %	0.12 %
6 Month T-Bill	0.16 %	0.13 %	0.18 %
1 Year T-Note	0.28 %	0.25 %	0.44 %
2 Year T-Note	0.39 %	0.51 %	-1.00 %
5 Year T-Note	-1.90 %	-0.33 %	-9.69 %

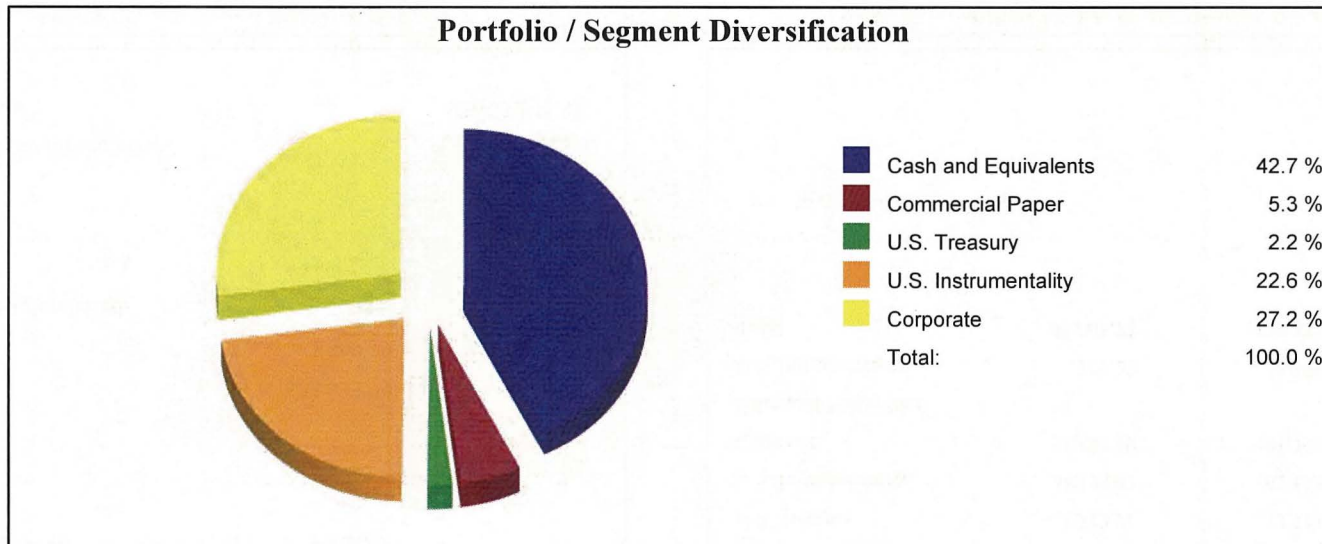
Summary of Fair Value Basis Return for the Period

	Total Portfolio	Excl. Cash Eq.
Interest Earned	85,065.92	76,976.09
Change in Fair Value	(148,334.67)	(148,334.67)
Total Income on Portfolio	(63,268.75)	(71,358.58)
Average Daily Historical Cost	93,990,822.57	53,537,832.77
Annualized Return	(0.79%)	(1.57%)
Annualized Return Net of Fees	(0.84%)	(1.65%)
Annualized Return Year to Date Net of Fees	0.83%	1.28%
Weighted Average Effective Maturity in Days	414	722

**City of Menlo Park
Recap of Securities Held
March 31, 2014**

	Historical Cost	Amortized Cost	Fair Value	Unrealized Gain (Loss)	Weighted Average Final Maturity (Days)	Weighted Average Effective Maturity (Days)	% Portfolio/ Segment	Weighted Average Yield *	Weighted Average Market Duration (Years)
Cash and Equivalents	40,043,312.38	40,043,312.38	40,043,312.38	0.00	1	1	42.73	0.24	0.00
Commercial Paper	4,989,076.39	4,994,176.39	4,995,780.00	1,603.61	116	116	5.32	0.37	0.00
U.S. Treasury	2,026,015.63	2,011,241.37	2,022,852.00	11,610.63	499	499	2.16	0.71	1.35
U.S. Instrumentality	21,200,878.33	21,063,626.13	20,965,453.08	(98,173.05)	1,058	1,024	22.62	0.83	2.67
Corporate	25,451,151.85	24,877,948.30	24,876,248.35	(1,699.95)	606	606	27.16	0.89	1.62
Total	93,710,434.58	92,990,304.57	92,903,645.81	(86,658.76)	422	414	100.00	0.56	1.07

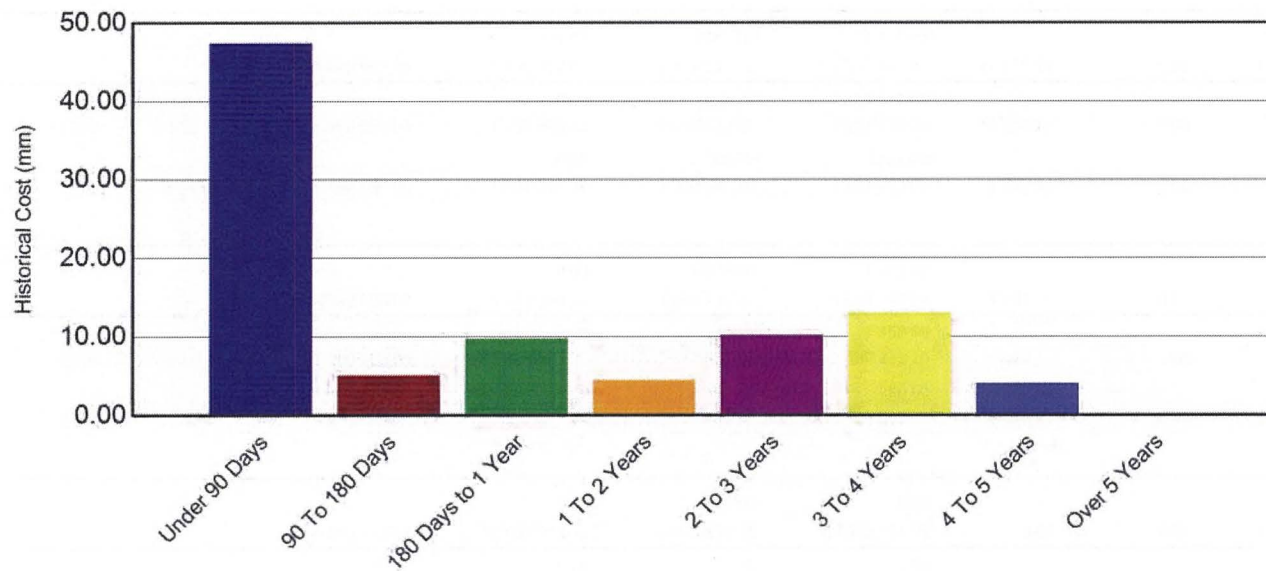
* Weighted Average Yield is calculated on a "yield to worst" basis.



City of Menlo Park
Maturity Distribution of Securities Held
March 31, 2014

Maturity	Historical Cost	Percent
Under 90 Days	47,378,316.27	50.56 %
90 To 180 Days	5,031,674.38	5.37 %
180 Days to 1 Year	9,685,860.00	10.34 %
1 To 2 Years	4,366,851.85	4.66 %
2 To 3 Years	10,191,883.75	10.88 %
3 To 4 Years	13,031,668.33	13.91 %
4 To 5 Years	4,024,180.00	4.29 %
Over 5 Years	0.00	0.00 %
	93,710,434.58	100.00 %

Maturity Distribution



**City of Menlo Park
Securities Held
March 31, 2014**

CUSIP/ Description	Purchase Date	Rate/ Coupon	Maturity/ Call Date	Par Value/ Shares	Historical Cost/ Accrued Interest Purchased	Amortized Cost/ Accretion (Amortization)	Fair Value/ Change In Fair Value	Unrealized Gain (Loss)	Interest Received	Interest Earned	Total Accrued Interest	% Port Cost	Yield
Cash and Equivalents													
LAIF - City 98-19-22	03/31/14	0.236V		40,043,312.38	40,043,312.38 0.00	40,043,312.38 0.00	40,043,312.38 0.00	0.00	0.00	8,089.83	24,977.15	42.73	0.24
TOTAL (Cash and Equivalents)				40,043,312.38	40,043,312.38 0.00	40,043,312.38 0.00	40,043,312.38 0.00	0.00	0.00	8,089.83	24,977.15	42.73	
Commercial Paper													
83365SF24 Societe Generale NA	12/20/13	0.000	06/02/14	2,500,000.00	2,496,013.89 0.00	2,498,493.06 753.48	2,499,242.50 580.00	749.44	0.00	0.00	0.00	2.66	0.36
06737JJG1 Barclays US Funding	12/20/13	0.000	09/16/14	2,500,000.00	2,493,062.50 0.00	2,495,683.33 796.52	2,496,537.50 1,120.00	854.17	0.00	0.00	0.00	2.66	0.38
TOTAL (Commercial Paper)				5,000,000.00	4,989,076.39 0.00	4,994,176.39 1,550.00	4,995,780.00 1,700.00	1,603.61	0.00	0.00	0.00	5.32	
U.S. Treasury													
912828RB8 T-Note	08/25/11	0.500	08/15/14	1,000,000.00	1,003,046.88 0.00	1,000,381.56 (86.97)	1,001,602.00 (273.00)	1,220.44	0.00	428.18	621.55	1.07	0.40
912828QX1 T-Note	08/25/11	1.500	07/31/16	1,000,000.00	1,022,968.75 0.00	1,010,859.81 (395.13)	1,021,250.00 (3,438.00)	10,390.19	0.00	1,284.53	2,486.19	1.09	1.02
TOTAL (U.S. Treasury)				2,000,000.00	2,026,015.63 0.00	2,011,241.37 (482.10)	2,022,852.00 (3,711.00)	11,610.63	0.00	1,712.71	3,107.74	2.16	
U.S. Instrumentality													
31398A3G5 FNMA	09/28/11	1.500	09/08/14	1,500,000.00	1,535,565.00 0.00	1,505,288.48 (1,024.64)	1,509,289.50 (1,425.00)	4,001.02	11,250.00	1,875.00	1,437.50	1.64	0.69
3136G0KG5 FNMA	Call 06/05/12	0.625	06/04/15 06/04/14	2,000,000.00	2,001,400.00 0.00	2,000,122.91 (59.53)	2,001,456.00 (400.00)	1,333.09	0.00	1,041.67	4,062.50	2.14	0.59
3133XWNB1 FHLB	09/28/11	2.875	06/12/15	1,500,000.00	1,606,845.00 0.00	1,534,509.43 (2,448.04)	1,547,667.00 (2,679.00)	13,157.57	0.00	3,593.75	13,057.29	1.71	0.92
3130A0RF9 FHLB	Call 02/27/14	0.500V	02/13/17 05/13/14	1,000,000.00	1,000,000.00 194.44	1,000,000.00 0.00	998,390.00 (879.00)	(1,610.00)	0.00	416.67	666.67	1.07	0.50
3130A13Q9 FHLB	Call 03/03/14	0.625V	03/03/17 06/03/14	1,000,000.00	1,000,000.00 0.00	1,000,000.00 0.00	995,834.00 (4,166.00)	(4,166.00)	0.00	486.11	486.11	1.07	0.63
3135G0VM2 FNMA	04/03/13	0.750	03/14/17	1,000,000.00	1,000,700.00 0.00	1,000,000.00 (26.38)	993,383.00 (4,540.00)	(6,617.00)	3,750.00	625.00	354.17	1.07	0.75
3128MBFA0 FHLMC	01/23/13	6.000	04/01/17	985,265.55	1,047,768.33 0.00	1,030,068.07 (1,267.22)	1,035,815.58 (692.65)	5,747.51	4,926.33	4,926.33	4,926.33	1.12	2.31

**City of Menlo Park
Securities Held
March 31, 2014**

CUSIP/ Description		Purchase Date	Rate/ Coupon	Maturity/ Call Date	Par Value/ Shares	Historical Cost/ Accrued Interest Purchased	Amortized Cost/ Accretion (Amortization)	Fair Value/ Change In Fair Value	Unrealized Gain (Loss)	Interest Received	Interest Earned	Total Accrued Interest	% Port Cost	Yield
3130A0GF1 FHLB	Call	12/19/13	0.500V	06/19/17 09/19/14	2,000,000.00	1,999,000.00 0.00	1,999,080.59 24.25	1,994,132.00 (6,300.00)	(4,948.59)	2,500.00	833.33	333.33	2.13	0.98
3135G0PP2 FNMA		04/18/13	1.000	09/20/17	2,000,000.00	2,005,000.00 0.00	2,000,000.00 0.00	1,987,270.00 (7,812.00)	(12,730.00)	10,000.00	1,666.67	611.11	2.14	1.00
3137EADN6 FHLMC		01/22/13	0.750	01/12/18	2,000,000.00	1,984,380.00 0.00	1,988,112.97 266.64	1,954,662.00 (10,356.00)	(33,450.97)	0.00	1,250.00	3,291.67	2.12	0.91
3137EADN6 FHLMC		02/15/13	0.750	01/12/18	2,000,000.00	1,980,960.00 0.00	1,985,316.25 329.37	1,954,662.00 (10,356.00)	(30,654.25)	0.00	1,250.00	3,291.67	2.11	0.95
3130A0XL9 FHLB	Call	03/06/14	0.500V	03/06/18 06/06/14	2,000,000.00	2,000,000.00 0.00	2,000,000.00 0.00	1,995,886.00 (4,114.00)	(4,114.00)	0.00	694.44	694.44	2.13	0.50
3136G1KN8 FNMA	Call	05/03/13	1.500	04/24/18 04/24/15	2,000,000.00	2,039,260.00 0.00	2,021,127.43 (1,688.02)	1,997,006.00 (8,416.00)	(24,121.43)	0.00	2,500.00	13,083.33	2.18	0.50
TOTAL (U.S. Instrumentality)					20,985,265.55	21,200,878.33 194.44	21,063,626.13 (5,893.57)	20,965,453.08 (62,135.65)	(98,173.05)	32,426.33	21,158.97	46,296.12	22.62	

Corporate

931142DA8 Wal-Mart		07/26/11	1.625	04/15/14	1,000,000.00	1,020,000.00 0.00	1,000,281.69 (623.74)	1,000,442.00 (1,172.00)	160.31	0.00	1,354.17	7,493.06	1.09	0.88
478160AX2 Johnson & Johnson		05/20/11	1.200	05/15/14	1,000,000.00	998,830.00 0.00	999,952.81 33.24	1,000,959.00 (785.00)	1,006.19	0.00	1,000.00	4,533.33	1.07	1.24
36962GX41 GE Capital		12/14/11	5.650	06/09/14	750,000.00	818,760.00 0.00	755,225.15 (2,347.54)	757,279.50 (3,339.75)	2,054.35	0.00	3,531.25	13,183.33	0.87	1.86
94974BET3 Wells Fargo		10/22/12	3.750	10/01/14	2,000,000.00	2,122,880.00 0.00	2,031,716.56 (5,372.75)	2,034,138.00 (6,998.00)	2,421.44	0.00	6,250.00	37,500.00	2.27	0.56
084664AT8 Berkshire Hathaway		10/23/12	4.850	01/15/15	3,000,000.00	3,284,850.00 0.00	3,101,132.25 (10,848.09)	3,105,999.00 (11,982.00)	4,866.75	0.00	12,125.00	30,716.67	3.51	0.56
713448BX5 PEPSICO Inc		09/21/12	0.750	03/05/15	1,000,000.00	1,005,430.00 0.00	1,002,050.66 (188.08)	1,003,162.00 (1,015.00)	1,111.34	3,750.00	625.00	541.67	1.07	0.53
717081DA8 Pfizer Inc		04/22/13	5.350	03/15/15	3,000,000.00	3,272,700.00 0.00	3,137,138.15 (12,216.33)	3,134,811.00 (15,390.00)	(2,327.15)	80,250.00	13,375.00	7,133.33	3.49	0.53
36962GSZ3 GE Capital		10/02/12	1.625	07/02/15	1,013,000.00	1,032,236.87 0.00	1,021,764.95 (594.56)	1,026,817.32 (2,546.68)	5,052.37	0.00	1,371.77	4,069.59	1.10	0.92
36962G4P6 GE Capital		09/21/12	1.000V	09/23/15	725,000.00	724,369.98 0.00	724,689.87 17.80	729,748.03 (216.05)	5,058.16	1,812.50	604.17	161.11	0.77	1.03
594918AG9 Microsoft		07/26/11	1.625	09/25/15	1,000,000.00	1,003,400.00 0.00	1,001,210.78 (69.25)	1,017,642.00 (2,414.00)	16,431.22	8,125.00	1,354.16	270.83	1.07	1.54
38259PAC6 Google		10/16/12	2.125	05/19/16	1,000,000.00	1,053,370.00 0.00	1,031,712.61 (1,261.99)	1,032,706.00 (2,190.00)	993.39	0.00	1,770.84	7,791.67	1.12	0.62

**City of Menlo Park
Securities Held
March 31, 2014**

CUSIP/ Description	Purchase Date	Rate/ Coupon	Maturity/ Call Date	Par Value/ Shares	Historical Cost/ Accrued Interest Purchased	Amortized Cost/ Accretion (Amortization)	Fair Value/ Change In Fair Value	Unrealized Gain (Loss)	Interest Received	Interest Earned	Total Accrued Interest	% Port Cost	Yield
459200GX3 IBM Corp	11/09/12	1.950	07/22/16	2,000,000.00	2,076,820.00 0.00	2,047,934.32 (1,762.70)	2,058,110.00 (3,624.00)	10,175.68	0.00	3,250.00	7,475.00	2.22	0.89
084670BD9 Berkshire Hathaway	02/02/12	1.900	01/31/17	1,500,000.00	1,528,050.00 0.00	1,515,923.18 (476.46)	1,535,242.50 (7,819.50)	19,319.32	0.00	2,375.00	4,829.17	1.63	1.51
459200HC8 IBM Corp	01/07/14	1.250	02/06/17	1,500,000.00	1,509,975.00 0.00	1,509,230.86 (274.62)	1,507,806.00 (5,299.50)	(1,424.86)	0.00	1,562.50	2,864.58	1.61	1.03
88579YAE1 3M Company	12/19/12	1.000	06/26/17	2,000,000.00	2,014,560.00 0.00	2,010,430.25 (273.56)	1,992,180.00 (3,548.00)	(18,250.25)	0.00	1,666.67	5,277.78	2.15	0.84
037833AJ9 Apple Inc	05/20/13	1.000	05/03/18	2,000,000.00	1,984,920.00 0.00	1,987,554.21 258.42	1,939,206.00 (13,456.00)	(48,348.21)	0.00	1,666.66	8,222.22	2.12	1.16
TOTAL (Corporate)				24,488,000.00	25,451,151.85 0.00	24,877,948.30 (36,000.21)	24,876,248.35 (81,795.48)	(1,699.95)	93,937.50	53,882.19	142,063.34	27.16	

GRAND TOTAL				92,516,577.93	93,710,434.58	92,990,304.57	92,903,645.81	(86,658.76)	126,363.83	84,843.70	216,444.35	100.00	
					194.44	(40,825.88)	(145,942.13)						

V = variable rate, current rate shown, average rate for Cash & Equivalents

City of Menlo Park
GASB 40 - Deposit and Investment Risk Disclosure
March 31, 2014

CUSIP	Type	Coupon	Maturity Date	Call Date	S&P Rating	Moody Rating	Par Value / Shares	Historical Cost	% Portfolio Hist Cost	Market Value	% Portfolio Mkt Value	Weighted Avg Mkt Dur (Yrs)
<u>LAIF</u>												
	Cash and Equivalents	0.236	01/30/3100				40,043,312.38	40,043,312.38	42.73	40,043,312.38	43.10	0.00
ISSUER TOTAL							40,043,312.38	40,043,312.38	42.73	40,043,312.38	43.10	0.00
<u>FNMA</u>												
3136G0KG5	U.S. Instrumentality	0.625	06/04/2015	06/04/2014	AA+	Aaa	2,000,000.00	2,001,400.00	2.14	2,001,456.00	2.15	0.17
31398A3G5	U.S. Instrumentality	1.500	09/08/2014		AA+	Aaa	1,500,000.00	1,535,565.00	1.64	1,509,289.50	1.62	0.44
3135G0VM2	U.S. Instrumentality	0.750	03/14/2017		AA+	Aaa	1,000,000.00	1,000,700.00	1.07	993,383.00	1.07	2.91
3135G0PP2	U.S. Instrumentality	1.000	09/20/2017		AA+	Aaa	2,000,000.00	2,005,000.00	2.14	1,987,270.00	2.14	3.40
3136G1KN8	U.S. Instrumentality	1.500	04/24/2018	04/24/2015	AA+	Aaa	2,000,000.00	2,039,260.00	2.18	1,997,006.00	2.15	3.90
ISSUER TOTAL							8,500,000.00	8,581,925.00	9.16	8,488,404.50	9.14	2.17
<u>FHLB</u>												
3133XWNB1	U.S. Instrumentality	2.875	06/12/2015		AA+	Aaa	1,500,000.00	1,606,845.00	1.71	1,547,667.00	1.67	1.18
3130A0RF9	U.S. Instrumentality	0.500	02/13/2017	05/13/2014	AA+	Aaa	1,000,000.00	1,000,000.00	1.07	998,390.00	1.07	2.82
3130A13Q9	U.S. Instrumentality	0.625	03/03/2017	06/03/2014	AA+	Aaa	1,000,000.00	1,000,000.00	1.07	995,834.00	1.07	2.88
3130A0GF1	U.S. Instrumentality	0.500	06/19/2017	09/19/2014	AA+	Aaa	2,000,000.00	1,999,000.00	2.13	1,994,132.00	2.15	3.16
3130A0XL9	U.S. Instrumentality	0.500	03/06/2018	06/06/2014	AA+	Aaa	2,000,000.00	2,000,000.00	2.13	1,995,886.00	2.15	3.81
ISSUER TOTAL							7,500,000.00	7,605,845.00	8.12	7,531,909.00	8.11	2.84
<u>FHLMC</u>												
3128MBFA0	U.S. Instrumentality	6.000	04/01/2017		AA+	Aaa	985,265.55	1,047,768.33	1.12	1,035,815.58	1.11	1.54
3137EADN6	U.S. Instrumentality	0.750	01/12/2018		AA+	Aaa	4,000,000.00	3,965,340.00	4.23	3,909,324.00	4.21	3.70
ISSUER TOTAL							4,985,265.55	5,013,108.33	5.35	4,945,139.58	5.32	3.25
<u>Berkshire Hathaway</u>												
084664AT8	Corporate	4.850	01/15/2015		AA	Aa2	3,000,000.00	3,284,850.00	3.51	3,105,999.00	3.34	0.78
084670BD9	Corporate	1.900	01/31/2017		AA	Aa2	1,500,000.00	1,528,050.00	1.63	1,535,242.50	1.65	2.75
ISSUER TOTAL							4,500,000.00	4,812,900.00	5.14	4,641,241.50	5.00	1.43
<u>IBM Corp</u>												
459200GX3	Corporate	1.950	07/22/2016		AA-	Aa3	2,000,000.00	2,076,820.00	2.22	2,058,110.00	2.22	2.25
459200HC8	Corporate	1.250	02/06/2017		AA-	Aa3	1,500,000.00	1,509,975.00	1.61	1,507,806.00	1.62	2.79
ISSUER TOTAL							3,500,000.00	3,586,795.00	3.83	3,565,916.00	3.84	2.48

City of Menlo Park
GASB 40 - Deposit and Investment Risk Disclosure
March 31, 2014

CUSIP	Type	Coupon	Maturity Date	Call Date	S&P Rating	Moody Rating	Par Value / Shares	Historical Cost	% Portfolio Hist Cost	Market Value	% Portfolio Mkt Value	Weighted Avg Mkt Dur (Yrs)
<u>Pfizer Inc</u>												
717081DA8	Corporate	5.350	03/15/2015		AA	A1	3,000,000.00	3,272,700.00	3.49	3,134,811.00	3.37	0.94
ISSUER TOTAL							3,000,000.00	3,272,700.00	3.49	3,134,811.00	3.37	0.94
<u>GE Capital</u>												
36962GX41	Corporate	5.650	06/09/2014		AA+	A1	750,000.00	818,760.00	0.87	757,279.50	0.82	0.19
36962G5Z3	Corporate	1.625	07/02/2015		AA+	A1	1,013,000.00	1,032,236.87	1.10	1,026,817.32	1.11	1.24
36962G4P6	Corporate	1.000	09/23/2015		AA+	A1	725,000.00	724,369.98	0.77	729,748.03	0.79	1.47
ISSUER TOTAL							2,488,000.00	2,575,366.85	2.75	2,513,844.85	2.71	0.99
<u>Societe Generale NA</u>												
83365SF24	Commercial Paper	0.000	06/02/2014		A-1	P-1	2,500,000.00	2,496,013.89	2.66	2,499,242.50	2.69	0.00
ISSUER TOTAL							2,500,000.00	2,496,013.89	2.66	2,499,242.50	2.69	0.00
<u>Barclays US Funding</u>												
06737JJG1	Commercial Paper	0.000	09/16/2014		A-1	P-1	2,500,000.00	2,493,062.50	2.66	2,496,537.50	2.69	0.00
ISSUER TOTAL							2,500,000.00	2,493,062.50	2.66	2,496,537.50	2.69	0.00
<u>Wells Fargo</u>												
94974BET3	Corporate	3.750	10/01/2014		A+	A2	2,000,000.00	2,122,880.00	2.27	2,034,138.00	2.19	0.49
ISSUER TOTAL							2,000,000.00	2,122,880.00	2.27	2,034,138.00	2.19	0.49
<u>T-Note</u>												
912828RB8	U.S. Treasury	0.500	08/15/2014		AA+	Aaa	1,000,000.00	1,003,046.88	1.07	1,001,602.00	1.08	0.38
912828QX1	U.S. Treasury	1.500	07/31/2016		AA+	Aaa	1,000,000.00	1,022,968.75	1.09	1,021,250.00	1.10	2.29
ISSUER TOTAL							2,000,000.00	2,026,015.63	2.16	2,022,852.00	2.18	1.35
<u>3M Company</u>												
88579YAE1	Corporate	1.000	06/26/2017		AA-	Aa2	2,000,000.00	2,014,560.00	2.15	1,992,180.00	2.14	3.17
ISSUER TOTAL							2,000,000.00	2,014,560.00	2.15	1,992,180.00	2.14	3.17
<u>Apple Inc</u>												
037833AJ9	Corporate	1.000	05/03/2018		AA+	Aa1	2,000,000.00	1,984,920.00	2.12	1,939,206.00	2.09	3.96
ISSUER TOTAL							2,000,000.00	1,984,920.00	2.12	1,939,206.00	2.09	3.96

City of Menlo Park
GASB 40 - Deposit and Investment Risk Disclosure
March 31, 2014

CUSIP	Type	Coupon	Maturity Date	Call Date	S&P Rating	Moody Rating	Par Value / Shares	Historical Cost	% Portfolio Hist Cost	Market Value	% Portfolio Mkt Value	Weighted Avg Mkt Dur (Yrs)
<u>Google</u>												
38259PAC6	Corporate	2.125	05/19/2016		AA	Aa2	1,000,000.00	1,053,370.00	1.12	1,032,706.00	1.11	2.08
ISSUER TOTAL							1,000,000.00	1,053,370.00	1.12	1,032,706.00	1.11	2.08
<u>Microsoft</u>												
594918AG9	Corporate	1.625	09/25/2015		AAA	Aaa	1,000,000.00	1,003,400.00	1.07	1,017,642.00	1.10	1.47
ISSUER TOTAL							1,000,000.00	1,003,400.00	1.07	1,017,642.00	1.10	1.47
<u>PEPSICO Inc</u>												
713448BX5	Corporate	0.750	03/05/2015		A-	A1	1,000,000.00	1,005,430.00	1.07	1,003,162.00	1.08	0.92
ISSUER TOTAL							1,000,000.00	1,005,430.00	1.07	1,003,162.00	1.08	0.92
<u>Johnson & Johnson</u>												
478160AX2	Corporate	1.200	05/15/2014		AAA	Aaa	1,000,000.00	998,830.00	1.07	1,000,959.00	1.08	0.12
ISSUER TOTAL							1,000,000.00	998,830.00	1.07	1,000,959.00	1.08	0.12
<u>Wal-Mart</u>												
931142DA8	Corporate	1.625	04/15/2014		AA	Aa2	1,000,000.00	1,020,000.00	1.09	1,000,442.00	1.08	0.04
ISSUER TOTAL							1,000,000.00	1,020,000.00	1.09	1,000,442.00	1.08	0.04

GRAND TOTAL

92,516,577.93 93,710,434.58 100.00 92,903,645.81 100.00 1.07

Highlighted totals are issuers representing 5.00% or more of the portfolio's market value

**City of Menlo Park
Securities Purchased
March 1, 2014 - March 31, 2014**

CUSIP/ Description		Purchase Date	Rate/Coupon	Maturity/ Call Date	Par Value/ Shares	Unit Cost	Principal Cost	Accrued Interest Purchased	Yield
<u>U.S. Instrumentality</u>									
3130A13Q9	Call	03/03/2014	0.625V	03/03/2017	1,000,000.00	100.000	1,000,000.00	0.00	0.63
FHLB				06/03/2014					
3130A0XL9	Call	03/06/2014	0.500V	03/06/2018	2,000,000.00	100.000	2,000,000.00	0.00	0.50
FHLB				06/06/2014					
TOTAL (U.S. Instrumentality)					3,000,000.00		3,000,000.00	0.00	
GRAND TOTAL					3,000,000.00		3,000,000.00	0.00	

V = variable rate, current rate shown, average rate for Cash & Equivalents

City of Menlo Park
Securities Sold and Matured
March 1, 2014 - March 31, 2014

CUSIP/ Description	Sale or Maturity Date	Rate/ Coupon	Maturity/ Call Date	Par Value/ Shares	Historical Cost	Amortized Cost at Sale or Maturity / Accr/ (Amort)	Sale/ Maturity Price	Fair Value at Sale or Maturity / Chg. In Fair Value	Realized Gain (Loss)	Accrued Interest Sold	Interest Received	Interest Earned	Yield
<u>Cash and Equivalents</u>													
LAIF - City 98-19- 228	03/03/2014	0.236V		500,000.00	500,000.00	500,000.00	100.00	500,000.00	0.00	0.00	0.00	0.00	0.24
						0.00		0.00					
LAIF - City 98-19- 228	03/14/2014	0.236V		900,000.00	900,000.00	900,000.00	100.00	900,000.00	0.00	0.00	0.00	0.00	0.24
						0.00		0.00					
TOTAL (Cash and Equivalents)				1,400,000.00	1,400,000.00	1,400,000.00		1,400,000.00	0.00	0.00	0.00	0.00	
						0.00		0.00					
<u>U.S. Instrumentality</u>													
3128MBFA0 FHLMC	03/01/2014	6.000	04/01/2017	44,618.06	47,448.52	44,618.06 (2,086.28)	100.00	44,618.06 (2,320.54)	0.00	0.00	223.09	0.00	2.31
3136FT3C1 FNMA	03/05/2014	1.000	12/05/2016	2,000,000.00	1,996,500.00	1,997,971.77 8.06	100.00	2,000,000.00 (72.00)	2,028.23	5,000.00	0.00	222.22	1.04
TOTAL (U.S. Instrumentality)				2,044,618.06	2,043,948.52	2,042,589.83 (2,078.22)		2,044,618.06 (2,392.54)	2,028.23	5,000.00	223.09	222.22	
GRAND TOTAL				3,444,618.06	3,443,948.52	3,442,589.83 (2,078.22)		3,444,618.06 (2,392.54)	2,028.23	5,000.00	223.09	222.22	

V = variable rate, current rate shown, average rate for Cash & Equivalents

**City of Menlo Park
Transaction Report
for the period March 1, 2014 - March 31, 2014**

Date	CUSIP	Transaction	Sec Type	Description	Maturity	PAR Value/Shares	Principal	Interest	Transaction Total	Balance
03/01/2014	3128MBFA0	Paydown	INS	FHLMC	04/01/2017	44,618.06	44,618.06	5,149.42	49,767.48	49,767.48
03/03/2014		Sold	CE	LAIF - City 98-19-22		500,000.00	500,000.00	0.00	500,000.00	549,767.48
03/03/2014	3130A13Q9	Bought	INS	FHLB	03/03/2017	1,000,000.00	1,000,000.00	0.00	(1,000,000.00)	(450,232.52)
03/05/2014	3136FT3C1	Call	INS	FNMA	12/05/2016	2,000,000.00	2,000,000.00	5,000.00	2,005,000.00	1,554,767.48
03/05/2014	713448BX5	Interest	COR	PEPSICO Inc	03/05/2015	1,000,000.00	0.00	3,750.00	3,750.00	1,558,517.48
03/06/2014	3130A0XL9	Bought	INS	FHLB	03/06/2018	2,000,000.00	2,000,000.00	0.00	(2,000,000.00)	(441,482.52)
03/08/2014	31398A3G5	Interest	INS	FNMA	09/08/2014	1,500,000.00	0.00	11,250.00	11,250.00	(430,232.52)
03/14/2014		Sold	CE	LAIF - City 98-19-22		900,000.00	900,000.00	0.00	900,000.00	469,767.48
03/14/2014	3135G0VM2	Interest	INS	FNMA	03/14/2017	1,000,000.00	0.00	3,750.00	3,750.00	473,517.48
03/15/2014	71708IDA8	Interest	COR	Pfizer Inc	03/15/2015	3,000,000.00	0.00	80,250.00	80,250.00	553,767.48
03/19/2014	3130A0GF1	Interest	INS	FHLB	06/19/2017	2,000,000.00	0.00	2,500.00	2,500.00	556,267.48
03/20/2014	3135G0PP2	Interest	INS	FNMA	09/20/2017	2,000,000.00	0.00	10,000.00	10,000.00	566,267.48
03/23/2014	36962G4P6	Interest	COR	GE Capital	09/23/2015	725,000.00	0.00	1,812.50	1,812.50	568,079.98
03/25/2014	594918AG9	Interest	COR	Microsoft	09/25/2015	1,000,000.00	0.00	8,125.00	8,125.00	576,204.98

Portfolio Activity Total 576,204.98

Net Contributions:	0.00
Net Withdrawals:	572,635.79

Fees Charged:	3,569.19
Fees Paid:	3,569.19

**City of Menlo Park
Securities Bid and Offer
for the period 3/1/2014 - 3/31/2014**

Trans	Settle	Description	Call Date	Broker	Par Value	Discount	Price	YTM/YTC	Competitive Bids
BUY	03/03/2014	FHLB .625 03/03/2017	06/03/14	RBC	1,000,000		100.000	.625%/1.25%	JPM - FHLMC 1.75% 9/2015 @ .22% MS - FNMA .50% 9/2015 @.22%
BUY	03/06/2014	FHLB .5 03/06/2018	06/06/14	RBC	2,000,000		100.000		MS - FNMA .375% 3/16/15 @ .14% WSF - FHLB .375% 3/13/15 @ .15%

**City of Menlo Park
Upcoming Cash Activity
for the next 45 days**

Date	Transaction	CUSIP	Description	Coupon	Maturity Date	Next Call Date	Par / Shares	Principal	Interest	Transaction Total
04/01/2014	Interest	94974BET3	Wells Fargo	3.750	10/01/2014		2,000,000.00	0.00	37,500.00	37,500.00
04/15/2014	Estimated Paydown	3128MBFA0	FHLMC	6.000	04/01/2017		985,265.55	35,851.83	4,926.33	40,778.16
04/15/2014	Maturity	931142DA8	Wal-Mart	1.625	04/15/2014		1,000,000.00	1,000,000.00	8,125.00	1,008,125.00
04/24/2014	Interest	3136G1KN8	FNMA	1.500	04/24/2018	04/24/2015	2,000,000.00	0.00	15,000.00	15,000.00
05/03/2014	Interest	037833AJ9	Apple Inc	1.000	05/03/2018		2,000,000.00	0.00	10,000.00	10,000.00
05/15/2014	Maturity	478160AX2	Johnson & Johnson	1.200	05/15/2014		1,000,000.00	1,000,000.00	6,000.00	1,006,000.00
05/15/2014	Estimated Paydown	3128MBFA0	FHLMC	6.000	04/01/2017		985,265.55	35,250.92	4,747.07	39,997.99

END OF REPORTS



New York Office
113 King Street
Armonk, NY 10504
Tel: 866 766 3030
Fax: 914 765 3030

Colorado Office
1900 Sixteenth Street, Suite 200
Denver, CO 80202
Tel: 303 860 1100
Fax: 303 860 0016

For any questions concerning this report please contact accounting either by phone or email to camreports@cutwater.com.

**ADMINISTRATIVE SERVICES DEPARTMENT**

Council Meeting Date: May 13, 2014
Staff Report #: 14-080

Agenda Item #: I-1

INFORMATIONAL ITEM: Quarterly Financial Review of General Fund Operations as of March 31, 2014

RECOMMENDATION

This is an informational item and does not require Council action.

BACKGROUND

In order to provide timely information to Council and the public, the City's Finance Department prepares a quarterly report on General Fund operations. The report provides a review of General Fund revenues and expenditures for the most recently completed quarter of the current fiscal year. These results are presented alongside results from the same time period for the previous year, with material differences being explained in the appropriate section of the staff report.

ANALYSIS**Overview**

The report itself, which is included as Attachment A, was developed to apprise Council of the year-to-date status of the General Fund. Information included in this staff report is intended to highlight some of the critical elements of Attachment A and supplement that information with explanations of significant differences between third quarter results from fiscal years 2013-14 and 2012-13.

Budget-to-actual comparisons shown reflect actual transactions through the third quarter of each year as compared to the adjusted budget as it stood on March 31st each year. Budget adjustments that were approved by Council on March 4th as part of the mid-year update have been incorporated into this report.

Revenues

The table on the following page shows a summary of third quarter budget-to-actual revenues for fiscal years 2013-14 and 2012-13:

	2013-14 Adopted Budget 3/31/2014	2013-14 Adjusted Budget 3/31/2014	Actual 3/31/2014	% of Budget	2012-13 Adjusted Budget 3/31/2013	Actual 3/31/2013	% of Budget
Property Tax	\$13,955,000	\$14,715,000	\$9,150,548	62.19%	\$13,853,000	\$9,016,668	65.09%
Sales Tax	6,331,400	6,136,400	4,375,767	71.31%	6,280,000	3,802,175	60.54%
Transient Occupancy Tax	3,743,000	4,100,000	2,063,727	50.33%	3,326,000	1,512,843	45.49%
Utility Users' Tax	1,184,620	1,135,000	753,706	66.41%	1,165,499	696,150	59.73%
Franchise Fees	1,812,300	1,812,300	743,917	41.05%	1,873,500	713,532	38.09%
Charges for Services	7,795,222	7,595,222	5,713,095	75.22%	7,080,246	5,437,055	76.79%
Licenses and Permits	4,459,465	6,559,465	4,971,881	75.80%	4,326,465	3,860,169	89.22%
Interest Income	410,000	260,000	570,996	219.61%	390,000	291,098	74.64%
Rental Income	367,712	367,712	72,590	19.74%	362,018	70,804	19.56%
Intergovernmental Revenue	741,704	841,717	629,312	74.77%	838,130	527,273	62.91%
Fines & Forfeitures	1,319,980	1,149,980	828,319	72.03%	991,400	752,611	75.91%
Operating Transfers In/ Other Revenue	429,444	1,201,266	1,096,448	91.27%	420,123	1,559,920	371.30%
Total Revenues:	\$42,549,847	\$45,874,062	\$30,970,306	67.51%	\$40,906,381	\$28,240,298	69.04%

Through the third quarter of fiscal year 2013-14, General Fund revenues are nearly \$31 million, which is a 9.7 percent increase over the same time period in 2012-13. This increase is driven by several major revenue sources, including sales tax, transient occupancy tax, and development permitting activity.

Property tax represents the largest source of General Fund revenue, and the budget was increased at mid-year to account for the City receiving a full share of Excess Educational Revenue Augmentation Fund (ERAF) revenue. Because of the uncertainty around this revenue source, only a 50% share was included in the adopted budget; however, the City learned in early 2014 that it would be receiving a full share. Based on remittances through March 31st, property tax revenues are expected to meet or exceed adjusted budget estimates.

Sales tax is tracking well above last fiscal year's amount through March 31st, as revenues are up over 15 percent. Shortly after the sales tax projection had been reduced at mid-year due to insufficient funds being available to pay the Triple Flip obligation owed the City, several one-time transactions increased remittances significantly. Based on this, sales tax revenues for fiscal year 2013-14 are expected to exceed adjusted budget estimates; however, this is not indicative of an expected increase in the sales tax baseline going forward.

The transient occupancy tax (TOT) projection was increased at mid-year based on revenues received through December 31, 2013. Since that adjustment, there is nothing new to report because the City receives its TOT remittances quarterly, with revenues for activity through March 31st not being due to the City until the end of April. Overall, TOT revenues are up 36 percent over the same period from last fiscal year. This is largely the result of the 20 percent increase in the TOT rate (10 percent to 12 percent effective January 1, 2013), as well as strong occupancy and room rates. Revenue in this area remains on track to meet adjusted budget estimates.

Charges for services are up 5 percent, or \$276,000, over the third quarter of fiscal year 2012-13 and are on track to meet adjusted estimates, which were revised downward slightly at mid-year. One notable area of increase includes reimbursable revenue, which is up \$148,000 due to additional events in the City requiring a police presence and a new standardized billing rate for service rendered.

License and permit revenues are up significantly due to development activity in the City. The estimate for this revenue source was increased \$2.1 million at mid-year, and based on results through March 31st, revenues in this area appear to be on track to meet adjusted estimates. It is important to note that revenues in this category, particularly permitting revenues, lead expenditures, which means that revenues collected now will be followed by corresponding expenditures. Due to the timing of permitting activity, many of these expenditures will be budgeted in fiscal year 2014-15.

While interest income appears to be up significantly in the third quarter, this is due to an adjustment to reverse the prior year's "unrealized loss" required for fiscal year-end reporting. As of March 31, 2013, the annualized rate of return for the City's portfolio is 0.51 percent, net of fees. This is a 0.01 percent decrease from same period last year. Additional information on the City's investment portfolio is included in staff report #14-079, which is also on the May 13, 2014 Council agenda.

The final item of note is in the Operating Transfers In/Other Revenue category. Revenues are up significantly in this area due to the City receiving its share of the sale proceeds (\$772,000) from the sale of the Hamilton Avenue property. Excluding that revenue, this category is tracking closely to the third quarter of the previous fiscal year.

Expenditures

As expected, through the third quarter General Fund operating expenditures are up \$826,000, or 3 percent, over the previous year. A year-over-year increase in total expenditures was budgeted, as the current year's operating budget as of the third quarter is nearly 9 percent above the previous year's operating budget. In fact, in comparison to last fiscal year, expenditures are tracking slightly lower to budget this year (68.2% vs. 64.4%) through the third quarter. It is important to note, however, that while total expenditures for the current year are only 64.4 percent of budget (through 75% of the fiscal year), due to the lag in when payroll expenditures get incorporated into the City's general ledger, third quarter results shown in the table below only include payroll through mid-March. This is the case for both fiscal years, so the year-over-year comparison is still applicable.

	2013-14 Adopted Budget 3/31/201	2013-14 Adjusted Budget 3/31/2014	Actual 3/31/2014	% of Budget	2012-13 Adjusted Budget 3/31/2013	Actual 3/31/2013	% of Budget
Police	14,860,547	15,065,189	10,504,322	69.73%	14,462,753	10,262,209	70.96%
Public Works	5,550,916	5,642,673	3,675,362	65.14%	5,528,334	3,626,925	65.61%
Community Services	7,309,436	7,376,748	5,115,144	69.34%	7,080,106	4,844,750	68.43%
Library	2,109,769	2,114,569	1,511,794	71.49%	2,042,465	1,455,527	71.26%
Community Development	3,369,769	4,614,041	2,101,040	45.54%	3,197,249	1,951,872	61.05%
Administrative Services	6,682,574	6,934,606	3,723,779	53.70%	5,898,280	3,731,209	63.26%
Operating Transfers Out	2,464,328	2,554,600	1,915,950	75.00%	2,464,328	1,848,246	75.00%
Total Expenditures:	\$42,347,339	\$44,302,426	\$28,547,391	64.44%	\$40,673,515	\$27,720,738	68.15%

As demonstrated in the table above, four departments (Police, Public Works, Community Development and Administrative Services) are tracking lower to budget in comparison to fiscal year 2012-13. Based on total expenditures through the third quarter, total General Fund operating expenditures are on track to be below budgeted amounts for the fiscal year. Final estimates for fiscal year 2013-14 General Fund operating expenditures will be incorporated into the soon-to-be released fiscal year 2014-15 recommended budget.

IMPACT ON CITY RESOURCES

There is no impact on City resources.

POLICY ISSUES

The quarterly budget-to-actual report is presented to facilitate better understanding of General Fund operations and the overall state of the City's current fiscal affairs by the public and the Council.

ENVIRONMENTAL REVIEW

This report is not subject to the California Environmental Quality Act (CEQA).

PUBLIC NOTICE

Public Notification was achieved by posting the agenda, with this agenda item being listed, at least 72 hours prior to the meeting.

ATTACHMENTS

- A. Comparative General Fund Budget-to-Actual Report as of March 31, 2014

Report prepared by:
Drew Corbett
Finance Director

City of Menlo Park - General Fund
Budget-to-Actual Report, FY 2013-14
As of March 31, 2014

ATTACHMENT A

A	B	C	D	E	(E-C)/C % of Budget 3/31/14 to Audited Actual 2012-13	G	H	(H-G)/G % Actual Change	G/C % of Actual 3/31/13 to Audited Actual 2012-13	G/D % Actual-to- Budget 3/31/2013	H/E % Actual-to- Budget 3/31/2014
	Adjusted Budget as of 6/30/2013	Audited Actual 2012-13	2012-13 Budget 3/31/2013	2013-14 Budget 3/31/2014		Actual 3/31/2013	Actual 3/31/2014				
Property Tax	\$13,853,000	\$15,731,889	\$13,853,000	\$14,715,000	-6.46%	\$9,016,668	\$9,150,548	1.48%	57.31%	65.09%	62.19%
Sales Tax	6,280,000	6,043,870	6,280,000	6,136,400	1.53%	3,802,175	4,375,767	15.09%	62.91%	60.54%	71.31%
Transient Occupancy Tax	3,326,000	3,468,256	3,326,000	4,100,000	18.22%	1,512,843	2,063,727	36.41%	43.62%	45.49%	50.33%
Utility Users' Tax	1,165,499	1,095,256	1,165,499	1,135,000	3.63%	696,150	753,706	8.27%	63.56%	59.73%	66.41%
Franchise Fees	1,873,500	1,765,216	1,873,500	1,812,300	2.67%	713,532	743,917	4.26%	40.42%	38.09%	41.05%
Charges for Services	7,080,246	7,088,160	7,080,246	7,595,222	7.15%	5,437,055	5,713,095	5.08%	76.71%	76.79%	75.22%
Licenses and Permits	4,326,465	4,447,630	4,326,465	6,559,465	47.48%	3,860,169	4,971,881	28.80%	86.79%	89.22%	75.80%
Interest Income	390,000	221,974	390,000	260,000	17.13%	291,098	570,996	96.15%	131.14%	-5.29%	219.61%
Rental Income	362,018	346,076	362,018	367,712	6.25%	70,804	72,590	2.52%	20.46%	19.56%	19.74%
Intergovernmental Revenue	838,130	866,288	838,130	841,717	-2.84%	527,273	629,312	19.35%	60.87%	62.91%	74.77%
Fines & Forfeitures	991,400	998,259	991,400	1,149,980	15.20%	752,611	828,319	10.06%	75.39%	75.91%	72.03%
Operating Transfers In/ Other Revenue	420,123	1,386,961	420,123	1,201,266	-13.39%	1,559,920	1,096,448	-29.71%	112.47%	371.30%	91.27%
Total Revenues:	\$40,906,381	\$43,459,835	\$40,906,381	\$45,874,062	5.56%	\$28,240,298	\$30,970,306	9.67%	64.98%	69.04%	67.51%
Police	14,462,753	13,809,282	14,462,753	15,065,189	9.09%	10,262,209	10,504,322	2.36%	74.31%	70.96%	69.73%
Public Works	5,535,335	5,100,811	5,528,334	5,642,673	10.62%	3,626,925	3,675,362	1.34%	71.10%	65.61%	65.14%
Community Services	7,079,105	6,810,375	7,080,106	7,376,748	8.32%	4,844,750	5,115,144	5.58%	71.14%	68.43%	69.34%
Library	2,042,465	2,011,143	2,042,465	2,114,569	5.14%	1,455,527	1,511,794	3.87%	72.37%	71.26%	71.49%
Community Development	3,197,249	2,774,032	3,197,249	4,614,041	66.33%	1,951,872	2,101,040	7.64%	70.36%	61.05%	45.54%
Administrative Services	5,898,280	5,315,022	5,898,280	6,934,606	30.47%	3,731,209	3,723,779	-0.20%	70.20%	63.26%	53.70%
Operating Transfers Out	6,252,894	6,545,230	2,464,328	2,554,600	-60.97%	1,848,246	1,915,950	3.66%	28.24%	75.00%	75.00%
Total Expenditures:	\$44,468,081	\$42,365,895	\$40,673,515	\$44,302,426	4.57%	\$27,720,738	\$28,547,391	2.98%	65.43%	68.15%	64.44%
Preliminary addition/draw on General Fund Reserves	(\$3,561,700)	\$1,093,940	\$232,866	\$1,571,636		\$519,560	\$2,422,915				
Carry-over encumbrances and Reappropriations from prior year subtracted from adjusted budget.	272,551		272,551	388,033							
Net addition to/draw on General Fund Reserves	(\$3,289,149)		\$505,417	\$1,959,669							
Net Operating Revenue	(\$3,289,149)		\$505,417	\$1,959,669							

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Pension Study Session

January 14, 2014

Agenda



- Pension basics
- Significant events over the past 15 years
- Impact on Menlo Park
- Recommendation and next steps



Pension Basics

What is our pension benefit?



- Defined benefit plan administered by CalPERS
 - Formula driven by salary, years of service, and plan multiplier
- Example: Miscellaneous 2.7% @ 55 formula
 - Upon retirement at age 55, employee receives 2.7% of salary multiplied by the number of years worked
 - 20 years of service = 54% of salary annually



Menlo Park Formulas

- Menlo Park has 6 different formulas

<u>Formula</u>	<u>Number of Current Employees on Formula</u>
Miscellaneous 2.7% @ 55	146
Miscellaneous 2.0% @ 60	17
Miscellaneous 2.0% @ 62	11
Safety 3% @ 50	43
Safety 3% @ 55	2
Safety 2.7% @ 57	1



Pension Funding

- Pensions are funded from three sources
 - CalPERS investment earnings
 - Contributions from employers
 - Variable based on a variety of factors
 - Contributions from employees
 - Fixed based on pension formula

Employer Contribution



- Made up of two components
 - Normal cost
 - Annual cost of future benefit for current employees
 - Expressed as a percentage of pay
 - Payment on unfunded liability
 - Required when plan liabilities exceed plan assets
 - Expressed as a percentage of pay but effectively is a total dollar amount that must be paid

Employer Contribution



- Normal cost: Number of employees and total payroll impacts total cost
 - Fewer employees equals lower total normal cost
- Payment on unfunded liability: Number of employees and total payroll does not impact total cost
 - Unfunded liability is a total dollar amount
 - Employer rates set to amortize unfunded liability over time
 - Fewer employees/lower payroll = higher contribution rates



Example - Normal Cost

- Total normal cost with 100 employees:
 - 100 employees X \$75,000 salary X 10%
 - 10% is the normal cost as a percent of pay
 - Total normal cost = \$750,000
- Total normal cost with 10% staff reduction:
 - 90 employees X \$75,000 salary X 10%
 - 10% is the normal cost as a percent of pay
 - Total normal cost = \$675,000

Example – Payment on Unfunded Liability



- Assume CalPERS calculates that year's payment on the unfunded liability at \$750,000
 - With 100 employees, employer rate for unfunded liability would be **10%**
 - 100 employees X \$75,000 X 10% = \$750,000
 - With 90 employees, employer rate for unfunded liability would be **11.1%**
 - 90 employees X \$75,000 X 11.1% = \$750,000

Employer Contribution



- Many factors cause the employer rate to change, including
 - CalPERS investment earnings
 - Benefit changes
 - Formula changes applied retroactively
 - Changes in actuarial assumptions
 - Economic, such as the rate of investment return
 - Demographic, such as mortality rates



Significant Events Over the Past 15 Years

Historical Context



- Late 1990s: Market returns create “excess assets”
 - Employer rate 0% for several years
- 1999: SB 400 creates enhanced pension formulas
- 2001-2003: Three consecutive years of lower than expected returns for CalPERS
 - Excess assets become unfunded liability



Historical Context

- 2005: Actuarial methods change to “smooth” impact of market losses
 - Rate relief, but at a significant long-term cost
- 2006: Council approves enhanced benefits formula for Safety (3% @ 50)
 - Implemented that year
- 2006: Council approves enhanced benefits formula for Miscellaneous (2.7% @ 55)
 - Implemented in 2009



Historical Context

- 2008-2009: Effective market losses of 45%
 - Significantly increases unfunded liabilities
- 2011: Bargaining units receive pension-related concessions
 - Lower pension formulas for new employees
 - Cost share of **employer** contribution
- 2011: City pays off Safety plan's side fund (\$7.2 million)

Historical Context



- 2012: Public Employees Pension Reform Act (PEPRA) signed by Governor Brown
- 2013: CalPERS modifies smoothing and amortization policies
 - 5-year recognition of gains and losses
 - 30-year fixed amortization



Impact on Menlo Park

Increased Employer Contribution Rates



<u>Fiscal Year</u>	<u>Miscellaneous</u>	<u>Safety</u>
2008-09	9.682%	36.489%
2009-10	14.597%	34.909%
2010-11	13.676%	33.125%
2011-12	16.070%	37.559%
2012-13	16.821%	24.706%*
2013-14	17.702%	26.149%**
2014-15	18.738%	27.849%**
2015-16 (projected)	19.900%	29.900%**

*Decrease due to side fund being paid of in FY 2011-12 (\$7.2M)

** Rate for Tier 1 employees (3% @ 50)

Increased Unfunded Liability



- Market value unfunded liability and funded status:

<u>Valuation Date</u>	<u>Miscellaneous</u>	<u>Safety (Pooled Plan)</u>
June 30, 2006	\$660K (98.8% funded)	88.9% funded
June 30, 2007	(\$1.7M) (102.6% funded)	99.0% funded
June 30, 2008	\$5.3M (92.2% funded)	87.3% funded
June 30, 2009	\$27.2M (63.6% funded)	60.2% funded
June 30, 2010	\$25.1M (68.4% funded)	65.4% funded
June 30, 2011	\$19.6M (77.1% funded)	\$13.3M (78.9% funded)
June 30, 2012	\$24.5M (72.9% funded)	\$17.5M (73.7% funded)

Menlo Park Costs



	<u>FY 2014-15</u>	<u>Percent of Pay</u>	<u>Cost</u>
Miscellaneous	Normal Cost	10.248%	\$1,483,863
Miscellaneous	Unfunded Liability	8.490%	\$1,229,313
Miscellaneous	Cost Share Offset	(1.444% - 2.0705%)	(\$262,658)
Miscellaneous	Total City Cost	16.668% - 17.294%	\$2,450,518
Safety	Normal Cost	18.421%	\$1,101,617
Safety	Unfunded Liability	9.428%	\$563,816
Safety	Cost Share Offset	(3.000%)	(\$170,437)
Safety	Total City Cost	24.849%	\$1,494,996
Total City Cost			\$3,945,514

Future Increases



- Actuarial methodology changes to smoothing and amortization will increase rates in the future
 - Miscellaneous: 1.2% of pay annually from FY 2015-16 through FY 2019-20
 - Safety: 2.1% of pay annually from FY 2015-16 through FY 2019-20
- Rates already in forecast

Changes on the Horizon



- CalPERS Board considering other changes:
 - Change in 7.5% investment rate of return assumption
 - Chief actuary not recommending at current time
 - Demographic assumptions related to mortality
 - Chief actuary recommending changes
 - Will significantly impact rates



Recommendations and Next Steps



Actions to Consider

- Create PERS Uncertainty Reserve to mitigate:
 - Rate volatility
 - Should help create more consistent costs for City
 - Unplanned rate increases
- Fund CalPERS more aggressively
 - Reduce unfunded liability/improve funded ratio

Recommendation



- Develop PERS Uncertainty Reserve
 - Reclassify \$1 million of “unassigned” reserve to “committed” reserve
 - No net impact to General Fund
 - Return with utilization policy and plan for additional funding
- Do not fund CalPERS more aggressively
 - Risk vs. reward not favorable
 - Investing discretionary funds in CalPERS
 - Funds better utilized to smooth internal rates

Next Steps



- Receive Council direction
- Have consulting actuary evaluate valuation reports
 - Develop forecasts for future rates
- Develop specific policies and funding plan based on Council direction
- Continue labor/management meetings on addressing pension issue



Addendum

Hypothetical Termination Liability



- CalPERS annual valuation reports now include “Hypothetical Termination Liability”
 - Estimate of the financial position of the plan if CalPERS contract terminated as of valuation date
 - Termination liability higher due to conservative investment policy for terminated funds
- Unfunded termination liability:
 - Miscellaneous - \$95 million
 - Safety \$76 million

Values based on October 2013 valuation reports, which are based on data from the fiscal year ended June 30, 2012. The termination liability fluctuates based on Treasury yields, and an agency's updated termination liability is calculated once a Resolution of Intent to Terminate is initiated.

City of Menlo Park
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2013

Attachment (F)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

M. New Pronouncements, Continued

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* ("GASB 68"). The primary objective of GASB 68 is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. GASB 68 replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of Statement No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements that meet certain criteria. Statement 68 requires the liability of employers and nonemployer contributing entities to employees for defined benefit pensions (net pension liability) to be measured as the portion of the present value of projected benefit payments to be provided through the pension plan to current active and inactive employees that is attributed to those employees' past periods of service (total pension liability), less the amount of the pension plan's fiduciary net position. This will result in requiring employers to recognize an unfunded pension obligation (i.e., the "net pension liability") as a balance sheet liability in their government-wide basic financial statements. Governments will also have to enhance note disclosures and schedules of required supplementary information. GASB 68 is effective for fiscal year June 30, 2015. The City is currently evaluating the impact of adopting this GASB Standard.

2. CASH AND INVESTMENTS

The City maintains a cash and investment pool for all funds. Certain restricted funds, which are held and invested by independent outside custodians through contractual agreements, are not pooled. These restricted funds are reported as cash with fiscal agents.

Investment income earned on pooled cash and investments (including realized and unrealized gains and losses) is allocated monthly to the various funds based on monthly cash balances. Investment income from cash and investments with fiscal agents is credited directly to the related funds.

The investments made by the City Treasurer are limited to those allowable under State statutes as incorporated into the City's Investment Policy, which is adopted annually and is more conservative than that allowed by State statute.

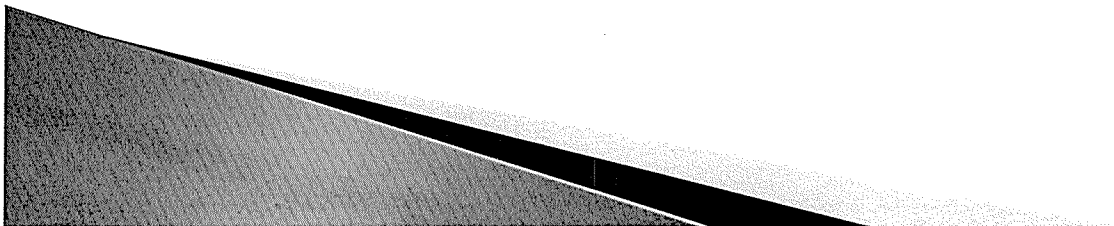
Under provisions of this policy, the City is authorized to invest in the following types of investments:

- Certificates of Deposit
- Bankers Acceptances
- Commercial Papers
- Repurchase Agreements
- Government Agency Securities
- Treasury Bills and Notes
- Medium Term Notes
- Money Market Funds
- State of California Local Agency Investment Fund

What is a JPIA?

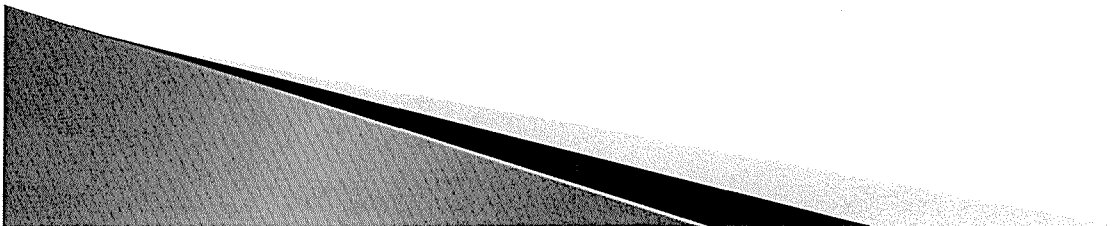
A JPIA (or JPA) is a public agency formed to provide insurance-type* coverages and risk management related services to its members. There are over 100 such JPA's in California, most having been formed in the 1980's.

**The language of "insurance" does not always apply to us.*



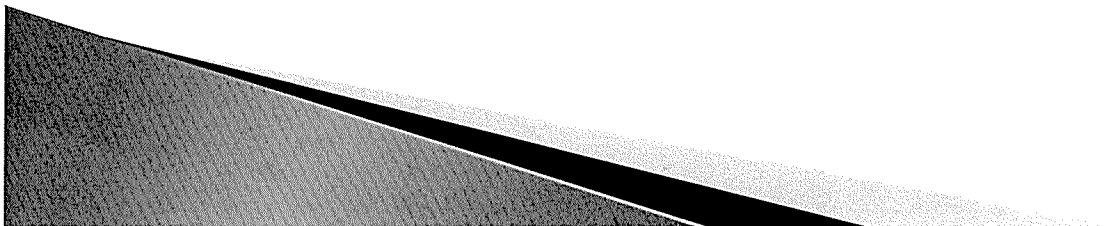
Program Advantages

- ▶ Share the cost of risk among similar entities
- ▶ Determine the scope of their own coverages
- ▶ Develop safety and risk control programs and claims management processes
- ▶ Identify and provide other specifically tailored services and training
- ▶ Maintain flexibility in stabilizing costs for the long-term



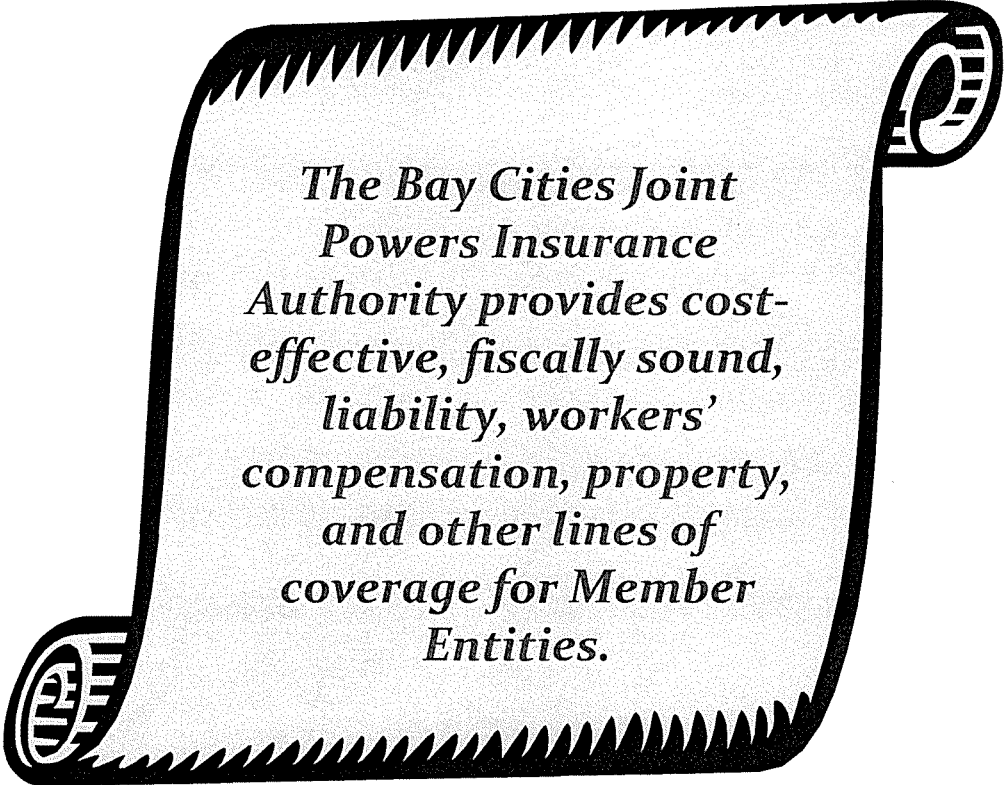
Financial Advantages

- ▶ Rates not profit-driven and based on the member's experience
- ▶ Flexibility of self-insured retention on coverage line
- ▶ Effective claims and litigation management
- ▶ Minimal overhead expenses as compared to an insurance company
- ▶ Dividend/retrospective plans and incentives
- ▶ Strong relationship with excess and specialty JPA's



BCJPIA was created in 1986 with the purpose of:

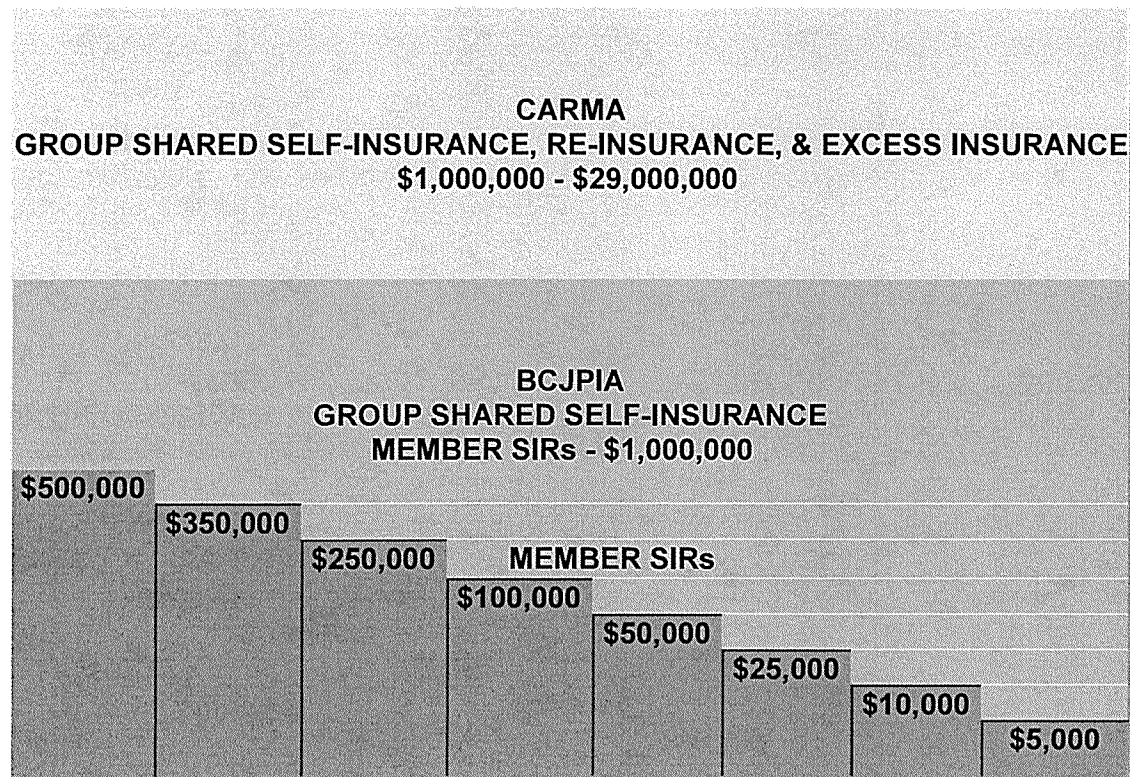
- ▶ Reducing the amount and frequency of losses
- ▶ Sharing the risk of self-insured losses
- ▶ Jointly purchasing and providing administrative and other services



The Bay Cities Joint Powers Insurance Authority provides cost-effective, fiscally sound, liability, workers' compensation, property, and other lines of coverage for Member Entities.

Liability Program Background

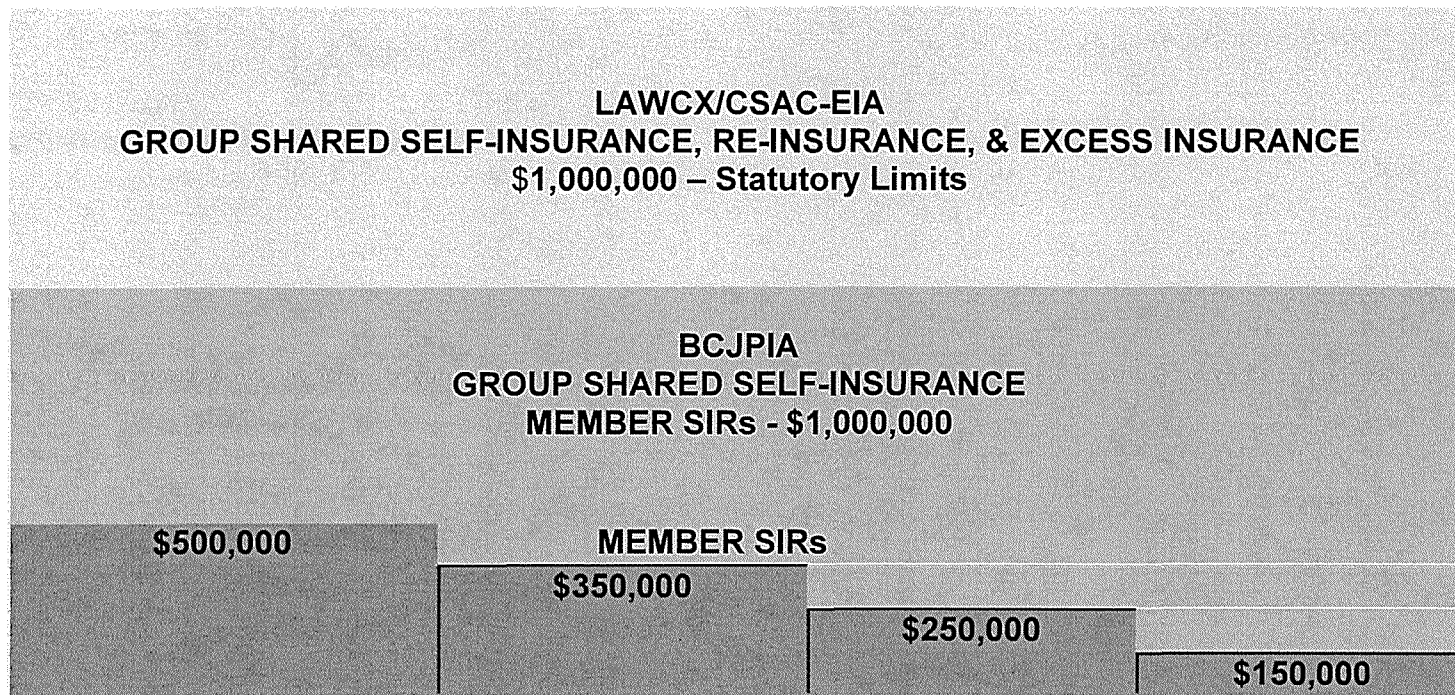
- ▶ Created in 1986/87
- ▶ 18 Members



^ Menlo Park's Deductable

Workers' Compensation Program Background

- ▶ Created in 2002/03
- ▶ 14 Members



^
Menlo Park's deductible

Finance and Audit Committee Meeting Schedule for 2014

In addition to discussing the Quarterly General Fund Budget-to-Actual Reports and Quarterly Investment Reports taken to Council during the period, the Committee should meet for the purposes shown in the pre-forma schedule below, as well as pursuit of Council-directed items:

January ____,

Review results of the fiscal year audit and financial report (CAFR) with external auditors

- Brief outline of mid-year report
- Provide Committee Satisfaction Survey

April_____,

- Review Audit Plan for with external auditors
- Brief key budget messages to communicate to the community

July_____,

- Investment Policy Review
- Discussion of Budget Mailer
- Reserve Policy

October_____,

- Review Un-audited General Fund results for fiscal year
- Schedule committee meetings dates for following year