



Request for City Council Committee Action from the Department of Finance

Date: July 6, 2007
To: Ways and Means/Budget Committee
Referral to: None

Subject: Liquidation of Long-term Mutual Fund equity investments in MCDA Account (Hilton Funds)

Recommendation: Receive and File Report on the Liquidation of Long-term Mutual Fund Equity Investments in MCDA Account (Hilton Funds)

Prepared by: LeaAnn M. Stagg, Director of Treasury, (612) 673-3008

Approved by: _____ Patrick Born, CFO

_____ Steven Bosacker, City Coordinator

Presenters in Committee: LeaAnn Stagg

Reviews

Permanent Review Committee (PRC): Approval ___ Date _____

Policy Review Group (PRG): Approval ___ Date _____

Financial Impact

- X No financial impact
- Action requires an appropriation increase to the ___ Capital Budget or ___ Operating Budget – n/a
- Action provides increased revenue for appropriation increase – n/a
- Action requires use of contingency or reserves – n/a
- Action is within the Business Plan – n/a
- Action requires a change to the Business Plan – n/a
- Other financial impact - none
- Request provided to the Finance Department when provided to the Committee Coordinator

Community Impact

Neighborhood Notification – n/a
City Goals
Comprehensive Plan
Zoning Code
Other

Supporting Information/Previous Directives: In 2000 the City received more than \$40 million from the sale of its interest in the Hilton Hotel property. The City decided to establish a fund to invest this money and use the investment earnings to support economic development purposes. The investment plan for this fund allocated approximately 80% to long term equity and 20% in intermediate term fixed income investments. Galliard was chosen as the investment advisor, and Galliard recommended three mutual funds to carry out this investment plan.

Soon after the City invested this money the equity markets sustained significant losses due to a slowdown in the U.S. economy and the effects of 9/11. The fund lost more than 30% of its initial value by the end of 2002.

In 2003 the City elected to use \$12 million of this fund to defease or retire a like amount of pension debt and directed the City Finance Officer to liquidate funds as necessary to carry out the direction to fund this pension debt. Late in September 2006, the City took advantage of a rally in the equity markets and liquidated approximately \$12 million in the fund's equity position. On November 1, 2006, this \$12 million was used to pay-down a portion of pension debt outstanding at the City per previous council directives.

Additionally, the City Finance Officer was directed to liquidate the remaining equity position and to preserve as much of the initial fund corpus (the initial investment) as possible. By the 2nd quarter of 2007, equity markets had risen to new, all-time highs. Given the significant recovery in equities that had occurred, the Finance Officer determined it would be in the City's best interest to liquidate the remaining long-term equity positions held within the fund and realign the fund's investments consistent with the current expectations for the remaining obligations of the fund for economic development purposes. During April 2007, the remaining equity investments were liquidated and moved into shorter-term fixed income obligations.

The result of these investment decisions is that the fund had a positive total return of 1.2% from the inception date in 2000 to the final liquidation date of April 26, 2007.