

Agenda Report

**TO: CITY COUNCIL
ATTN: FINANCE COMMITTEE**

DATE: March 8, 2004

FROM: CITY MANAGER

**SUBJECT: QUARTERLY INVESTMENT REPORT
QUARTER ENDING DECEMBER 31, 2003**

RECOMMENDATION:

This item is for information purposes only.

BACKGROUND:

Government Code Section 53646 (b)(1) requires the Treasurer or Chief Fiscal Officer of a local agency to render a quarterly report to the legislative body of the local agency containing detailed information on all securities, investments, and moneys of the local agency, a statement of compliance of the portfolio with the statement of investment policy, and a statement of the local agency's ability to meet its pool's expenditure requirements for the next six months. By requiring these reports to be made, this bill imposes a state-mandated local program. The bill requires the Treasurer or Chief Fiscal Officer to report whatever additional information or data may be required by the legislative body of the local agency.

In addition to the report required by Section 16480.7, Section 16481.2 was added to the Government Code requiring the Treasurer to submit a quarterly report to the legislative body/oversight committee within 30 days following the end of the quarter containing the following:

- 1) The type of investment, name of the issuer, date of maturity, par and dollar amount invested in each security, investment, and money within the treasury.
- 2) The weighted average maturity of the investments within the treasury.
- 3) Any funds, investments, or programs, including loans, that are under the management of contracted parties.

- 4) The market value as of the date of the report, and the source of this valuation for any security within the treasury.
- 5) A description of the compliance with the statement of investment policy.

ECONOMIC SUMMARY

The quarter began with great investor concerns about the slow economic expansion and the lack of job creation. These concerns were later curtailed by the announcement that Final Gross Domestic Product in the third quarter rose to 8.2% and the Manufacturing Index rose each month in the fourth quarter from 57.0 to 66.2 in December indicating three months of expansion in the manufacturing sector. Inflation remained tame at an annual CPI rate of 1.8% and the Producer Price Index rose by 3.4%. Job creation stabilized during the fourth quarter as the unemployment rate dropped from 6.1% beginning of the quarter to 5.7% in December and the initial jobless claims fell to 339,000, the lowest in nearly four years. However, the average monthly addition to Non-Farm payroll figures remained well below the norm in a period of an economic recovery, a fact that remains a major concern by the Fed and most economists.

The FOMC met twice during the quarter, on October 28th and December 9th. The Fed kept the Fed Funds Rate unchanged at the target rate of 1% at both meetings but dropped the deflation bias from its economic assessment in December.

After a three year bear market in stocks, 13 interest rate cuts by the Federal Reserve and the war in Iraq, market sentiments seemed to have changed toward an optimism in the economic recovery and a better outlook for 2004.

Total Funds under management as of 12/31/03 (market values):

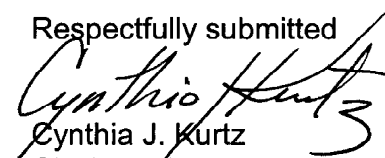
Pooled Investment Portfolio	289,224,597
Capital Endowment Portfolio	12,618,136
Stranded Investment Reserve Portfolio	152,198,670
Special Funds	20,880,731
Investments held with Fiscal Agents	<u>116,477,536</u>
Total Funds under management	<u>591,399,670</u>

Per the Government Code requirements, attached are the reports by each fund, indicating the type of investments, date of maturity, par and dollar amount invested in each security, as well as, investment and moneys within the treasury along with the market values as of December 31, 2003. The City Treasurer prices the pooled portfolio and all other funds and investments under management on a monthly basis. The market values are obtained from Interactive Data Corporation (IDC) and

Bloomberg Financial System. IDC is an independent third party whose sole service is to provide market prices for all types of securities.

The types of securities held in the portfolio and their percentage allocation to the total are in compliance with the City's Investment Policy, which was adopted by the City Council on November 24, 2003 and Section 53600 of the State Government Code. The City Treasurer currently maintains an average of over \$40 million short-term liquid investments (one to 90 day maturities). This balance, along with anticipated cash flows into the City's account, represent a strong liquidity position to meet budgeted expenditures for the next six months.

Respectfully submitted



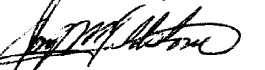
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City Manager

Prepared by:



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City Treasurer

Approved by:



Jay M. Goldstone
Director of Finance