

Agenda Report

TO: CITY COUNCIL

DATE: September 12, 2005

THROUGH: FINANCE COMMITTEE

FROM: CITY MANAGER

SUBJECT: QUARTERLY INVESTMENT REPORT
QUARTER ENDING JUNE 30, 2005

RECOMMENDATION

This report 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; 1) all securities, investments, and moneys of the local agency; 2) a statement of compliance of the portfolio with the statement of investment policy, and 3) 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 U.S. economy continued its solid growth during the quarter despite the rise in oil prices to a record \$60 per barrel and the increase of short term interest rates. Contrary to some fears that the economy may hit a "soft patch", the second quarter GDP measured at 3.4% growth rate, the ninth consecutive quarter that GDP surpassed 3.0% growth rate. New job growth continued to be uneven. 146,000 jobs were created in June, 104,000 in May and 292,000 in April. The unemployment rate declined to 5.0%, the lowest level in nearly four years and a level that most economists consider a fully employed economy.

The Federal Reserve persisted its steady increase in the overnight rate. The Federal Open Market Committee "FOMC" met twice during the quarter, on May 3rd and June 30th. At both meetings, the Fed increased the Fed Funds rate by 0.25% keeping in line with their self described "measured" pace of rate increases. Expectations in the financial markets are for the Federal Reserve to continue increasing the Fed Funds rate. The December Fed Funds futures contract was recently priced at 95.93 indicating the financial market's expectation of additional .50% increase in the Fed Funds rate to 4% rate by December 2005.

The global bond markets and longer duration portfolios produced strong results during the quarter. The Lehman Aggregate Bond Index returned 3.01% while the return on the S&P was 1.37% and the Dow Industrial Average was -1.62% for the same period.

Total Funds under management as of 06/30/2005 (market values):

Pooled Investment Portfolio	289,438,529
Capital Endowment Portfolio	12,197,419
Stranded Investment Reserve Portfolio	145,622,625
Special Funds	27,029,795
Investments held with Fiscal Agents	<u>99,270,467</u>
Total Funds under management	<u>573,558,835</u>

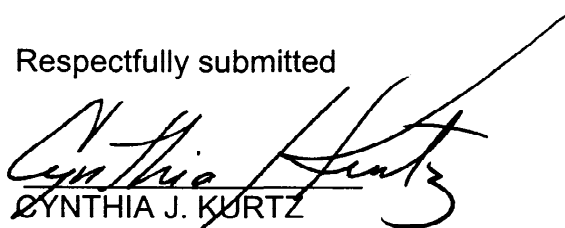
Per the Government Code requirements, attached are the reports by each fund, indicating the type of investments, date of maturity, par and dollar amount invested in each security, as well as investment and moneys within the treasury with market values as of June 30, 2005. The City Treasurer prices the 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 Fiscal Year 2005 Investment Policy, which was adopted by the City Council on October 25, 2004 and Section 53600 of the State Government Code. The City Treasurer currently maintains an average of over \$30 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.

FISCAL IMPACT

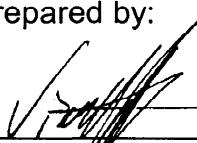
This item is for information only. There is no fiscal impact.

Respectfully submitted



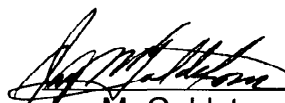
CYNTHIA J. KURTZ
City Manager

Prepared by:



Vic Ergonian
City Treasurer

Approved by:



Jay M. Goldstone
Director of Finance