

# Agenda Report

**TO:** CITY COUNCIL

**DATE:** June 12, 2006

**THROUGH:** FINANCE COMMITTEE

**FROM:** CITY MANAGER

**SUBJECT:** QUARTERLY INVESTMENT REPORT  
QUARTER ENDING MARCH 31, 2006

## **RECOMMENDATION**

This report is for information purposes only.

## **BACKGROUND**

Government Code Section 53646 (2)(b)(1) states that in the case of a local agency, the Treasurer or Chief Fiscal Officer may 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 making these reports optional, this bill does not impose a state-mandated local program but encourages local agencies to continue to report. The bill also states that the Treasurer or Chief Fiscal Officer may report whatever additional information or data may be required by the legislative body of the local agency.

The quarterly report shall be so submitted within 30 days following the end of the quarter covered by the report and shall include 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 first quarter of 2006 experienced a sharp increase in the nation's economic growth. The Gross Domestic Product "GDP" measured an impressive 4.8% growth rate. More than 550,000 jobs were created during the quarter while unemployment rate dropped to 4.7% rate in March, the lowest since 2001. The Federal Reserve Board (The Fed) commented that even though the economic growth has rebounded strongly in the current quarter, it will likely moderate to a more sustainable pace. The Fed raised short-term rates by 0.25% at both its meetings in January and March, bringing the Fed Funds rate to 4.75%. Given the strength of the economy and the continued Fed rate hikes, treasury yields rose sharply across the yield curve causing the bond market to drop. The overall U.S. bond market as measured by the Lehman Aggregate Bond Index, returned -0.65%.

The yield curve remained inverted for most part of the quarter. This has historically occurred prior to economic recessions. However, many economists including the Fed Chairman felt that the inverted curve was more of a function of the high demand of foreign central banks of U.S. Treasuries. Most analysts are predicting a healthy economic growth for 2006, however there remain several risks that could slow down this pace including the Fed overshooting the "neutral level" of short term interest rates, a sharp downturn in housing, or continued increases in the price of oil.

### **Total funds under management as of 03/31/2006 (market values):**

Pooled Investment Portfolio	281,421,814
Capital Endowment Portfolio	12,133,780
Stranded Investment Reserve Portfolio	146,702,988
Special Funds	53,955,637
Investments held with Fiscal Agents	<u>69,508,252</u>
Total Funds under management	<u>563,722,471</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 March 31, 2006. The City Treasurer prices the pooled portfolio and all other funds and investments under management on a monthly basis. The market

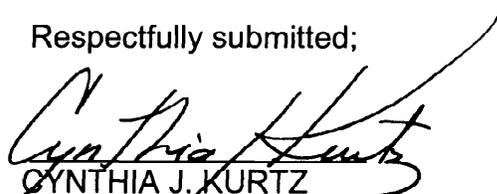
values are obtained from Interactive Data Corporation (IDC) and Bloomberg Financial System. IDC is an independent third party whose sole service is to provide market prices for all types of securities.

The types of securities held in the portfolio and their percentage allocation to the total are in compliance with the City's Fiscal Year 2006 Investment Policy, which was adopted by the City Council on November 14, 2005 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**

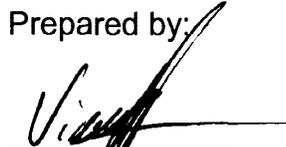
This item is for information only. There is no fiscal impact.

Respectfully submitted;



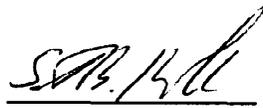
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