

Agenda Report

TO: CITY COUNCIL

DATE: November 19, 2007

THROUGH: FINANCE COMMITTEE

FROM: CITY MANAGER

SUBJECT: QUARTERLY INVESTMENT REPORT
QUARTER ENDING SEPTEMBER 30, 2007

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

Economic growth in the U.S. unexpectedly accelerated during the third quarter at an annualized 3.9% Gross Domestic Product (GDP) growth rate. Increases in consumer spending, exports and business investment made up for the drop in home construction. After holding the short-term rates steady for more than a year, the Federal Reserve Board lowered the fed funds target rate from 5.25% to 4.75% in mid September and stated that economic growth was moderate during the first half of the year and the tightening of credit conditions could potentially intensify the housing correction and generally restrain the economic growth. The quarter also included a period when mortgage and commercial borrowing costs jumped to new highs, prompting some economists to cut their growth forecasts and some of them even warn of recession.

After trading in a fairly narrow range early during the quarter, the troubles associated with the sub-prime mortgage market triggered a massive flight to quality and caused Treasury yields to fall across all maturities on the curve. The two-year Treasury yield fell from 4.87% to 3.97% and the ten year Treasury yield dropped from 5.03% to 4.59%. Despite the periods of extreme volatility, the U.S. bond market, as measured by the Lehman Brothers Aggregate Bond Index, returned 2.84%. After hitting record highs in mid July, the S&P 500 index fell more than 9% from its peak as a result of the sub-prime mortgage market and liquidity crisis. Stock prices began to rebound after the Fed reduced the discount rate followed by the 0.5% cut in the Fed Funds rate and the S&P Index ended the quarter with a 2.03% return. The NASDAQ Composite returned 3.77% and the Dow Jones Industrial Average returned 4.19% over the same period.

Most economists believe that growth risks still lie to the downside. The consensus is a slowdown in the economic growth in 2008 as a result of anticipated deceleration of U.S. consumption, higher energy costs, modest wages, higher financing costs and the continuing weakness in the housing sector.

Total funds under management as of 09/30/07 (market values):

Pooled Investment Portfolio	268,876,047
Capital Endowment Portfolio	11,330,492
Stranded Investment Reserve Portfolio	145,032,847
Special Funds	45,390,313
Investments held with Fiscal Agents	<u>162,626,216</u>
Total Funds under management	<u>633,255,915</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 September 30, 2007. 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 2007 Investment Policy, which was adopted by the City Council on November 20, 2006 and Section 53600 of the State Government Code. The City Treasurer maintains an average of \$40 million short-term liquid investments (one to 90 day maturities) which represents approximately 1/12th of the City's total annual operating budget. This balance, along with anticipated cash flows into the City's account, represent an adequate liquidity position to meet budgeted expenditures for the next six months.

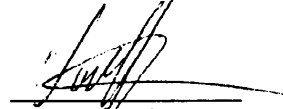
FISCAL IMPACT

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

Respectfully submitted;

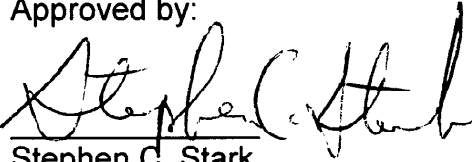

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Prepared by:



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