

# Agenda Report

**TO:** CITY COUNCIL **DATE:** June 2, 2008  
**THROUGH:** FINANCE COMMITTEE  
**FROM:** CITY MANAGER  
**SUBJECT:** QUARTERLY INVESTMENT REPORT  
QUARTER ENDING MARCH 31, 2008

## **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 U.S. economy grew at 0.6% in the first quarter of 2008 after growing at a slow 0.6% in the fourth quarter of 2007. The problems with sub-prime mortgages and the resulting credit crunch intensified in the first quarter and dominated the financial headlines. Fear dominated most investors in the financial markets with the growing concern of the possibility of a broad U.S. economic recession coupled with a declining dollar and soaring commodity prices. The Federal Reserve grew more aggressive to avert a halt in the economic growth and address the liquidity crunch in the market and lowered the Federal Funds rate three times during the quarter. Since August 2007, the Federal Reserve dropped the Federal Funds rate by 325 basis points (3.25%) from 5.25% to 2.00% to support the ailing financial sector and reduced the capital constraints on Fannie Mae and Freddie Mac in order to help the mortgage industry.

The overall U.S. stock market, as measured by the S&P 500 Index, was very weak and returned -9.44% and the Dow Jones Industrial average lost 7% for the quarter, falling more than 1,00 points to 12,262. The increased investor risk aversion and a massive flight to quality caused short and long term Treasury yields to drop sharply. The yield on the six month T-bill dropped 1.90%, the two-year Treasury yield declined 1.46% and the yield on the ten year Treasury dropped 0.61%.

A period of economic weakness is under way and needs to run its course. Most analysts believe that it is going to take a little bit longer time to get out of this economic retrenchment than originally estimated. The housing sector remains in recession, the job market is slowly eroding as more companies are announcing employment cuts and businesses remain very cautious.

### **Total funds under management as of 03/31/2008 (market values):**

Pooled Investment Portfolio	260,285,173
Capital Endowment Portfolio	11,609,282
Stranded Investment Reserve Portfolio	136,860,948
Special Funds	105,682,176
Investments held with Fiscal Agents	<u>142,792,143</u>
Total Funds under management	<u>657,229,722</u>

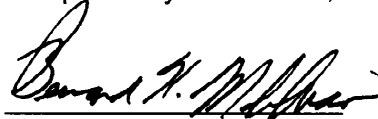
Per the Government Code requirements, attached are the reports by each fund, indicating the type of investments, date of maturity, par and dollar amount invested in each security, as well as investment and moneys within the treasury with market values as of March 31, 2008. The City Treasurer prices the 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 2008 Investment Policy, which was adopted by the City Council on November 19, 2007 and Section 53600 of the State Government Code. The City Treasurer currently maintains an average of over \$45 million short-term liquid investments (one to 90 day maturities) which represents 1/12<sup>th</sup> of the City's aggregate annual operating budget. 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;



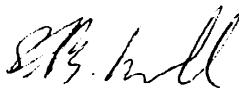
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