

- 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 statistics and the news media finally caught on to what the financial markets have been indicating for several months, that is a weak U.S. economy and a growing concern among economists for a potential recession in 2008. During last quarter the housing market continued its woes and foreclosure rates soared. The sub-prime mortgage debacle continued to get worse creating a wave of crisis that moved from the housing market to banks and financial institutions and then to the monoline insurance companies that have insured municipal bonds. This resulted in large write-offs and losses that amounted over \$162 billion and caused ratings downgrades and created a significant liquidity crisis in the financial markets. Unemployment rate increased to 5.0% by the end of the year as the economy slowed down. The price of food and energy remained high evidencing inflationary pressures in a downturn economy. The year over year Consumer Price Index (CPI) measured at 4.1% and the Core CPI, which excludes food and energy, was 2.4%, still above the Fed's comfort zone.

The Federal Reserve cut the Fed Funds rate twice during the quarter reducing it from 4.75% to 4.25%. The bond market rallied as global growth slowed down and the Fed reduced short term rates. Interest rates dropped across the Treasury yield curve. The six month Treasury yield dropped 0.75%, the two year yield dropped by 0.95% while the ten year yield was down by 0.52%. The consensus forecast for 2008 is for volatile financial markets and a slow growing economy subject to significant downside risks.

Total funds under management as of 12/31/07 (market values):

Pooled Investment Portfolio	274,116,229
Capital Endowment Portfolio	11,475,126
Stranded Investment Reserve Portfolio	147,820,232
Special Funds	44,114,102
Investments held with Fiscal Agents	<u>152,899,893</u>
Total Funds under management	<u>630,425,582</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 December 31, 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 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 maintains on average above \$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.

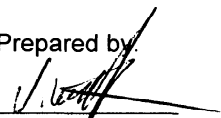
FISCAL IMPACT

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

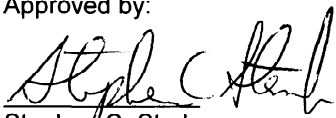
Respectfully submitted;


for Bernard K. Melekian
City Manager

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Stephen C. Stark
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