Agenda Report

TO: CITY COUNCIL **DATE:** February 23, 2009

THROUGH: FINANCE COMMITTEE

FROM: CITY MANAGER

SUBJECT: QUARTERLY INVESTMENT REPORT
QUARTER ENDING DECEMBER 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: 2008 in Review

For much of the first half of 2008, the economy experienced a positive Gross Domestic Product "GDP" growth rate and investors did not panic from the U.S. centered economic slowdown and credit problems. Eventually, the economy buckled under the weight of the bursting housing bubble, the deepening credit crisis, surging unemployment, weaker consumer spending and fading consumer confidence in the U.S. and the global financial systems. The determining factor appears to have been the bankruptcy declaration of Lehman Brothers in September which caused fear and panic among investors and caused a massive decline in economic activity nationwide and around the world. The GDP growth rate in the United States declined 0.5% during the third quarter of 2008 and dropped 3.8% during the fourth quarter. This was not only limited to the U.S. Europe and Japan fell into a recession as well and the growth rate in China and India declined as the year progressed.

During September alone, the Treasury took over Fannie Mae and Freddie Mac, the Government seized control of AIG, Washington Mutual failed, and Wachovia was taken over by Wells Fargo Bank. As Lehman Bros filed for bankruptcy, Bank of America acquired Merrill Lynch and Goldman Sachs and Morgan Stanley changed their status to bank holding companies, Wall Street, as it was once known, was ended.

By the year end, the economy was shedding on average 575,000 jobs per month and unemployment rate was up to 7.2%. The housing market could not find a bottom and housing prices were still on a decline. Consumer confidence was at its lowest reading and consumer spending had slowed down. Headline inflation as measured by the Consumer Price Index ("CPI") had dropped to a year over year 1.8% rate raising some concerns of deflation.

The financial markets experienced periods of extreme volatility and little positive can be said about them in 2008. The Dow Jones Industrial Average had its worse year since 1931 and fell 31.9%. S&P 500 had its worse decline and dropped 37%. Nasdaq Composite suffered the worst year in its history and was down 40.5%. During the year, The Fed dropped the Fed Funds rate from 4.25% to a range of 0% to 0.25%, a historic low. The flight to quality drove short term Treasury yields to 0% as investors were willing to forgo any return to access the safety of government securities. As of December 31, 2008, the yield on the three month Treasury Bill was 0.04%, the yield on the two year Treasury note was 0.76% and the ten year yield was at 2.12%.

Total funds under management as of 12/31/2008 (market values):

Pooled Investment Portfolio	286,100,852
Capital Endowment Portfolio	8,329,039
Stranded Investment Reserve Portfolio	139,873,726
Special Funds	83,291,786
Investments held with Fiscal Agents	85,421,032
Total Funds under management	603,016,435

The City pools all internal funds to get the economies of scale and simplify the investment function. There are over 100 funds in the Pooled Investment Portfolio. As of December 31, 2008, the General Fund had $46.9 million invested in the Pooled Investment Portfolio representing 16.3% of the Pooled Investment Portfolio value. Investments in the Capital Endowment Fund, the Stranded Investment Reserve Fund, the Special Funds and Funds held with fiscal agents are restricted funds or bond proceeds reserved in accordance to the City Charter, Ordinances and the bond indentures.

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, 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 24, 2008 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 1/12th 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.

As interest rates plummeted during the fourth quarter of 2008, the yield on the City's portfolios declined as compared to the previous quarter. The yield to maturity on the Pooled portfolio declined to 3.12% on December 31, 2008 as compared to 4.0% on 9/30/08. Simultaneously, by the end of December, the portfolio liquidity was increased in both the Pooled portfolio and the Power Reserve portfolio in anticipation of the City buying its own Paseo Colorado bonds and implementing the Intermountain Power Project (IPP) bonds defeasance program. On January 21, 2009, $80 million was wired out of the Power Reserve portfolio to defease the IPP bonds and on January 29, 2009, $24.195 million of non-remarketed Paseo Colorado bonds were purchased in the Pooled portfolio.

FISCAL IMPACT

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

Respectfully submitted;

for Michael J. Beck
City Manager

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