

Agenda Report

December 13, 2010

TO: Honorable Mayor and City Council
THROUGH: Finance Committee
FROM: Department of Finance
**SUBJECT: QUARTERLY INVESTMENT REPORT
QUARTER ENDING SEPTEMBER 30, 2010**

RECOMMENDATION:

This report is for information 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 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 third quarter Gross Domestic Product growth rate measured 2.5 percent as compared to 1.7 percent during the second quarter of 2010 and 3.7 percent during the first quarter of 2010. Economic data was disappointing during the quarter leading to increased concerns of a double-dip recession and deflation. This concern later was subdued after the Federal Reserve announced its intention to institute a second round of quantitative easing by purchasing large amounts of agency and treasury securities. During the quarter the Fed maintained the Fed Funds rate at a record low range of 0 to 0.25 percent and stated that short-term rates could stay low “for an extended period.”

The national unemployment rate remained at 9.6 percent during the quarter. Even though the private sector added new jobs to the economy, the non-farm payroll numbers were negative for July, August, and September 2010 indicating a continuing weak labor market. Inflation remained well under control. The year-over-year Consumer Price Index (CPI) measured at 1.1 percent as of September 30, 2010, and Core CPI, which excludes the more volatile food and energy sectors, came in at 1.6 percent, higher than the 1.1 percent rate at the end of the previous quarter. The housing sector remained weak with additional foreclosures coming to market and prices of existing homes slightly declining. The year-over-year sale of existing homes declined 24.9 percent by the end of September 2010 as the government subsidy for first-time home buyers has ended.

U.S. Treasury yields moved lower during the quarter. The yield curve flattened as short term yields dropped less than yields on longer term maturities. The yield on the two year treasury dropped 0.17 percent or 17 basis points to 0.42 percent rate, while the ten year treasury yield dropped 42 basis points, from 2.93 percent to 2.51 percent. After falling more than 11 percent during the second quarter of 2010, equities rallied from July to September pushing the Dow Index up by 10.37 percent and the S&P Index up by 10.72 percent.

Total Funds Under Management as of 09/30/2010 (Market Values):

Pooled Investment Portfolio	296,171,595
Capital Endowment	6,547,945
Stranded Investment Reserve Portfolio	63,274,985
Special Funds	21,500,083
Investments Held With Fiscal Agents	<u>53,171,385</u>
Total Funds Under Management	<u>440,665,993</u>

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 September 30, 2010, the General Fund had an estimated \$32 million invested in the Pooled Investment Portfolio representing 10.8 percent of the 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 September 30, 2010. 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 2010 Investment Policy, which was adopted by the City Council on September 27, 2010 and Section 53600 of the State Government Code. The city treasurer currently maintains an average of over \$45 million short-term liquid investments (1 to 90 day maturities) which represent 1/12th of the City's aggregate annual operating budget. This balance, along with anticipated cash flows into the City's account, represents a strong liquidity position to meet budgeted expenditures for the next six months.

On September 30, 2010, the market value of the total investments under management decreased by 1.6 percent or a net amount of \$6.5 million mainly due to draw downs made on bond proceeds in the 2009 Electric Revenue Project Fund and the Conference Center Bonds remaining balance. The book yield on the City's Pooled Portfolio continued to gradually decline in the last several quarters as short-term rates remained relatively low and all maturing investments were reinvested at lower yielding securities as compared to their original rate. The quarter end effective yield on the Pooled Portfolio, which accounts for realized trading gains and losses, was 1.82 percent compared to the State Treasurer's Local Agency Investment Fund ("LAIF") return of 0.51 percent and the average yield on the two year U.S. Treasury of 0.53 percent for the same period.

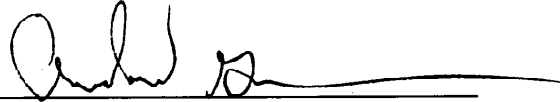
COUNCIL POLICY CONSIDERATION:

This action supports the City Council's strategic goal to maintain fiscal responsibility and stability.

FISCAL IMPACT:

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

Respectfully submitted,



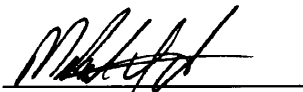
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Director of Finance
Department of Finance

Prepared by:



Vic Eganian
Deputy Director of Finance/City Treasurer

Approved by:



MICHAEL J. BECK
City Manager

Attachments:

Attachment A – Quarterly Investment Report (09/30/2010)