

# Agenda Report

June 20, 2011

**TO:** Honorable Mayor and City Council  
**THROUGH:** Finance Committee  
**FROM:** Department of Finance  
**SUBJECT: QUARTERLY INVESTMENT REPORT - QUARTER ENDING MARCH 31, 2011**

**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 first quarter of 2011 marked the seventh consecutive quarter for positive GDP growth in the U.S. economy. The quarter ended with a Gross Domestic Product (GDP) growth rate of 1.8 percent compared to 3.1 percent in the previous quarter. The slowdown of economic activity is attributed to many economic factors including inflation, rise of food and energy prices, and a decrease in consumer spending. Discretionary consumer spending, which accounts for 70 percent of U.S. economic activity, was affected by a sharp rise in oil prices during the first quarter of 2011. With a 5.6 percent increase in March 2011, the rise of gas prices contributed to an increase of the Year-over-Year (YoY) Consumer Price Index (CPI), raising it to 2.7 percent.

While the economy experienced a slowdown, the overall labor market added 524,000 jobs in the first quarter. Though the addition of jobs was not in a significant amount, unemployment did come down from 2010's third quarter rate of 9.4 percent to 8.8 percent at the end of the first quarter of 2011. Considering the economy is in a fragile state of low recovery, the housing market continued to experience a decline in prices. The first quarter end experienced a market decline of -1.6% compared to the previous quarter end rate of -1.0%. New home production is also in decline as the housing market experiences a surplus inventory of existing homes. Until this excess supply is absorbed by the market, it is not likely that new development will occur. Fed Fund rates, remained at historic lows ranging from 0.0 percent to 0.25 percent. The Federal Reserve Board met twice during the first quarter and stated that the Federal Fund rates could remain low "for an extended period."

The two-year U.S. Treasury yields rose during the first quarter from 0.61 percent to 0.80 percent, while the ten-year Treasury rose from 3.30 percent to 3.47 percent in the same period. According to the S & P 500 Index, the overall U.S. stock market displayed strong performance with a return of 5.92 percent during the first quarter. These favorable results are correlated to improvements in economic conditions which increased confidence among investors. On average, non-treasury securities outperformed treasuries of comparable duration during the last quarter. During this period, Investors favored more low-interest, incremental yield investments. Even though the Barclays Capital U.S. Aggregate Bond Index returned at -0.20 percent during the first quarter, the overall U.S. bond market remained positive with a moderate return of 0.42 percent during the same period.

The current economic outlook is less optimistic than what was forecasted the beginning of the year. Most economists have already cut their forecast for second-quarter economic expansion and lowered their projection for the remaining second half of 2011.

**Total Funds Under Management as of 3/31/2011 (Market Values):**

Pooled Investment Portfolio	\$288,019,271
Capital Endowment	6,521,983
Stranded Investment Reserve Portfolio	62,972,456
Special Funds	55,072,555
Investments Held With Fiscal Agents	<u>195,714,490</u>
Total Funds Under Management	<u>\$608,300,755</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 March 31, 2011, the General Fund has \$21.0 million invested in the Pooled Investment Portfolio, which represents 7.54% 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 March 31, 2011. 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 2011 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 1/12<sup>th</sup> 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 March 31, 2011, the market value of the total investments under management decreased by \$19.58 million compared to the previous quarter end. The difference is due mainly to the \$13.91 million drawdown from the 2010 ABCD Rose Bowl Bonds for project construction cost, a \$2.56 million drawdown from the Capital Interest account by the Trustees to cover the first debt service interest payment for the 2010 ABCD Rose Bowl Bonds as well as a drawdown of \$2.25 million from the 2001 COP reserve account to make final payment on the bond.

The value of the Pooled Investment portfolio resulted in an increase of \$1.90 million. The City's receipt of general property and sales taxes was the largest contributing factor to the increase.

The book yield on the City's Pooled Portfolio continued to gradually decline in the last several quarters as short term rates remained at a rate ranging from 0.00 percent to 0.25 percent. All maturing investments were reinvested at lower yielding securities as compared to their original rate. The effective yield on the Pooled Portfolio accounts for realized trading gains and losses. The quarter end effective yield was 1.74 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 0.67 percent for the same period.

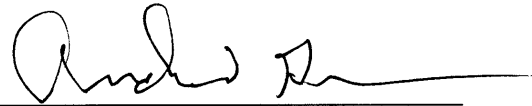
**COUNCIL POLICY CONSIDERATION:**

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

**FISCAL IMPACT:**

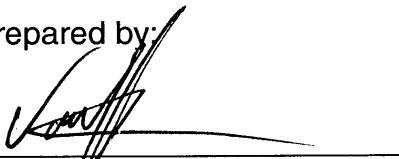
This item is for information only. There is no fiscal impact.

Respectfully submitted,



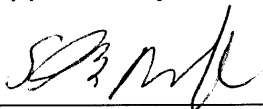
ANDREW GREEN  
Director of Finance

Prepared by:



Vic Erganian  
Deputy Director of Finance/City Treasurer

Approved by:



MICHAEL J. BECK  
City Manager

Attachments:

Attachment A – Quarterly Investment Report (03/31/2011)