

# Agenda Report

**TO: CITY COUNCIL  
ATTN: FINANCE COMMITTEE**

**DATE: June 2, 2003**

**FROM: CITY MANAGER**

**SUBJECT: QUARTERLY INVESTMENT REPORT  
QUARTER ENDING MARCH 31, 2003**

**RECOMMENDATION:**

This item is for information purposes only.

**BACKGROUND:**

Government Code Section 53646 (b)(1) requires the Treasurer or Chief Fiscal Officer of a local agency to render a quarterly report to the legislative body of the local agency containing detailed information on all securities, investments, and moneys of the local agency, a statement of compliance of the portfolio with the statement of investment policy, and a statement of the local agency's ability to meet its pool's expenditure requirements for the next six months. By requiring these reports to be made, this bill imposes a state-mandated local program. The bill requires the Treasurer or Chief Fiscal Officer to report whatever additional information or data may be required by the legislative body of the local agency.

In addition to the report required by Section 16480.7, Section 16481.2 was added to the Government Code requiring the Treasurer to submit a quarterly report to the legislative body/oversight committee within 30 days following the end of the quarter containing 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.

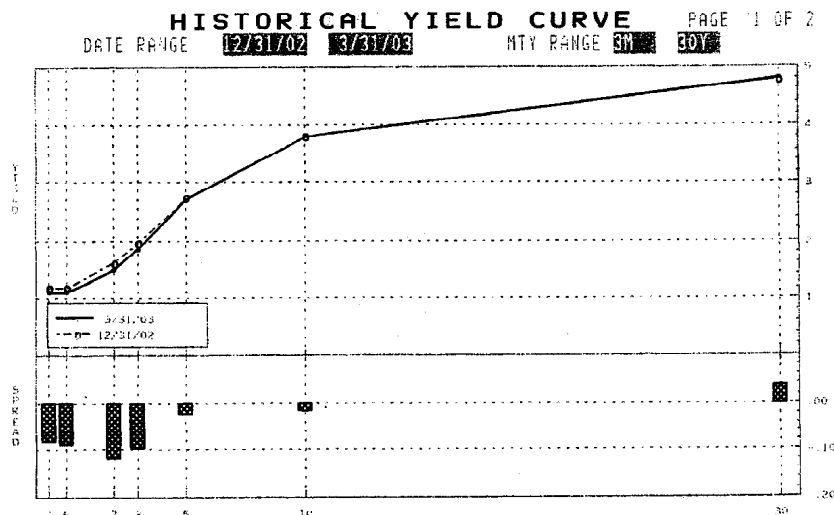
5) A description of the compliance with the statement of investment policy.

### **ECONOMIC SUMMARY:**

The economy remained weak during the first quarter of 2003 and the recovery was anemic. The GDP growth for the quarter measured at 1.6% compared to market's expected rate of 2.4%. The year began with war uncertainties, terrorism fears and a war machine already set in motion. Decision making came to a halt because autos were not being sold, houses were not being closed and investments were not being made as decision makers were observing what was happening with Iraq. Due to the degree of risk in the economy as seen from the reaction to the alert change from code yellow to code orange, Greenspan commented that we did not know underlying economic strength because of war uncertainties.

The employment report for February was unduly pessimistic with the greatest job loss of 308,000 jobs. The manufacturing sector remained weak as industrial production declined even before terrorism worries intensified and companies began laying off more employees. New home sales had their worst month in February as the outlook for the next three months was much more cloudy than for the next three years and the Federal Reserve showed no inclination to add more liquidity.

By the end of March, the war was largely out of the way, the economy once again began to be viewed on its own merits. None of the expected economic turnaround and a rally in equity markets occurred with the quick victory in the war. Consumer demand did not increase, business expansion did not materialize, state and local governments' budget deficit measured over \$100 Billion and the Federal Government deficit widened to an estimated \$400 Billion. The twelve month CPI increase measured at 3.0% ending as of March 31, 2003 and the PPI increased to 4.2%. The Federal Open Market Committee met twice on January 29th and March 18<sup>th</sup> and left the Fed Funds rate unchanged. The Treasury Yield curve ended the quarter virtually unchanged as compared to last quarter end.

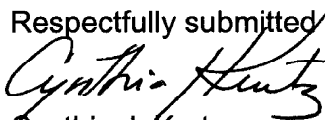


**Total Funds under management as of 03/31/03 (market values):**


Pooled Investment Portfolio	221,150,957
Capital Endowment Portfolio	8,628,555
Stranded Investment Reserve Portfolio	166,540,602
Special Funds	43,441,259
Investments held with Fiscal Agents	<u>113,217,440</u>
Total Funds under management	<u>552,978,813</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 along with the market values as of March 31, 2003. 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.

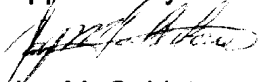
The types of securities held in the portfolio and their percentage allocation to the total are in compliance with the City's Investment Policy, which was adopted by the City Council on November 18, 2002 and Section 53600 of the State Government Code. The City Treasurer currently maintains an average of over \$30 million short-term liquid investments (one to 90 day maturities). 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.

Respectfully submitted  
  
Cynthia J. Kurtz  
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Prepared by:

  
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City Treasurer

Approved by:

  
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