

Agenda Report

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

DATE: November 24, 2003

FROM: CITY MANAGER

**SUBJECT: QUARTERLY INVESTMENT REPORT
QUARTER ENDING SEPTEMBER 30, 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

During the third quarter of 2003, the economy expanded at a 7.2% rate, the fastest in almost two decades. Americans spent at the fastest pace in six years on discounted automobiles, equipments and other merchandise. The consumer was the biggest driver of this economic growth using a windfall from lower taxes and record wave of mortgage refinancing. However, with interest rates on the rise and a growing federal budget deficit, the effect of both these factors is likely estimated to dissolve in the next 12 months.

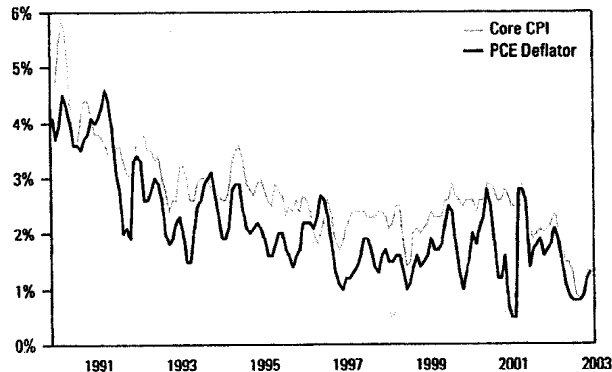
The deflationary concern which was the focus of most economists at the beginning of the quarter was put to some ease as inflation stabilized at 2.3% as measured by the Consumer Price Index, and PPI, the Producer Price Index, measured at a 3.5% year over year increase as of 09/30/03. Global competition continued to put pressure on prices of consumer goods as companies continued to cut costs and also cut jobs but at a slower rate. Analysts continue to discuss the possibility of a jobless recovery, a fact that could stall the US recovery as the drivers of the economy, notably the tax cuts and mortgage refinancing, may have largely run their course; On the other hand, others argue that the economic pick up is on the cusp of a self-sustaining revival with labor markets near a turning point.

The Federal Open Market Committee met twice during the quarter and kept Fed Funds rate unchanged at the target rate of 1%. The Fed further stated that “an accommodative stance of monetary policy, coupled with robust underlying growth in productivity, is providing important ongoing support to economic activity”. It also implied that short-term rates would remain low for a considerable period.

Bond yields were extremely volatile during the quarter and experienced dramatic swings. The yield on the five year Treasury increased by almost 1.6% from 2% to 3.6% and then dropped by 0.78% to close at 2.82% at the end of the quarter.

Exhibit 1 : A slight pickup in inflation may ease deflation concerns

US Core Consumer Price Index and Core Personal Consumption Expenditure Deflator
(3 Month Moving Average, Annualized)



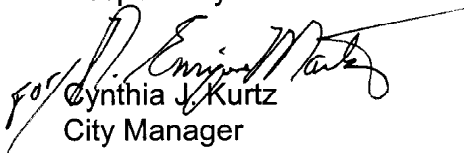
Total Funds under management as of 09/30/03 (market values):

Pooled Investment Portfolio	266,723,025
Capital Endowment Portfolio	12,860,498
Stranded Investment Reserve Portfolio	151,725,651
Special Funds	35,330,506
Investments held with Fiscal Agents	<u>109,603,786</u>
Total Funds under management	<u>576,243,466</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 September 30, 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.

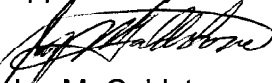
Respectfully submitted


Cynthia J. Kurtz
City Manager

Prepared by:


Vic Erganian
City Treasurer

Approved by:


Jay M. Goldstone
Director of Finance