

Agenda Report

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

DATE: September 8, 2003

FROM: CITY MANAGER

**SUBJECT: QUARTERLY INVESTMENT REPORT
QUARTER ENDING JUNE 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.

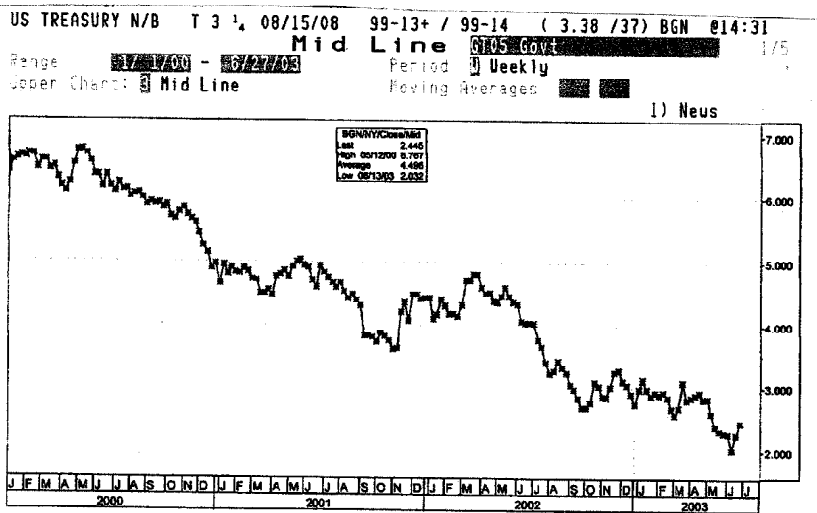
- 4) The market value as of the date of the report, and the source of this valuation for any security within the treasury.
- 5) A description of the compliance with the statement of investment policy.

ECONOMIC SUMMARY

During the second quarter of 2003, Fed officials announced their concern that sluggish demand, excess capacity and falling prices for many goods and services may conspire to increase deflationary expectations among businesses and consumers. The main story then moved from a potential deflation to a jobless recovery in the economy after the Fed announced that recent signs pointed to a firming in spending, markedly improved financial conditions and labor and product markets that were stabilizing. As a result of deflationary concerns, the yield on the two-year Treasury dropped to a low of 1.08% on June 13, 2003 and the yield on the five year Treasury declined to a low of 2.034%.

The GDP for the second quarter measured at 2.4% compared to 1.4% the previous quarter and 1.5% market expectations while productivity jumped to 5.7% from 1.9% the previous quarter. Unemployment, on the other hand, reached a nine-year high of 6.4% in June, and non-farm payroll lost over 100,000 jobs over the quarter. The Consumer Price Index rose at 2.1% annual rate and Producer Price Index rose at 2.5% annual rate. The Chicago Purchasing Manager showed an expansion in manufacturing for May and June, and housing starts remained very strong at over 1.7 million level for June. The consumer continued to support the economy evidenced by the increase in retail sales and consumer spending. At the end of the quarter, the economy began to show signs of improvement as deflationary fears subdued and manufacturing, supplied by consumer demand, grew.

The FOMC met twice during the quarter, on May 6th and June 25th. At the May meeting, the Fed announced a dual bias with the risk of deflation outweighing the risk of inflation. In a much anticipated move, the Fed reduced the Fed Funds Rate by 0.25% at its June meeting to 1.0%. The Treasury market proceeded with a sell off after the Fed cut. Bond prices declined and yields increased due to market participants expecting a larger .50% cut by the Fed.




Total Funds under management as of 06/30/03 (market values):

Pooled Investment Portfolio	248,285,344
Capital Endowment Portfolio	12,814,094
Stranded Investment Reserve Portfolio	150,847,632
Special Funds	41,642,095
Investments held with Fiscal Agents	<u>109,596,722</u>
Total Funds under management	<u>563,185,887</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 June 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,



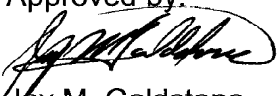
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City Manager

Prepared by:



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City Treasurer

Approved by:



Jay M. Goldstone
Director of Finance