

# Agenda Report

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

**DATE: May 17, 2004**

**FROM: CITY MANAGER**

**SUBJECT: QUARTERLY INVESTMENT REPORT**  
**QUARTER ENDING MARCH 31, 2004**

**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 Gross Domestic Product (“GDP”) growth for the fourth quarter 2004 measured at 4.2%, in line with the 4.1% growth rate for Q4 2003 and perceived as a sustainable growth level. At the beginning of the quarter, the major focus was on the advancing economy’s ability to create jobs despite the increased level of productivity. The non-farm payroll numbers for January and February were discouraging and way below economists’ forecast. This, however, was reversed after the Bureau of Labor Statistics announced that 308,000 jobs were created during March. By the end of the quarter, most economic indicators were pointing to a sustained economic recovery. The historically low interest rates continued to support consumer spending while corporate spending in technology seemed to have started. Durable goods orders, industrial production, and a host of other manufacturing indicators continued to evidence a healthy growth in the manufacturing sector while core inflation remained under control despite a jump in oil and commodity prices.

At the beginning of the quarter, most economists’ forecasts centered on above average GDP growth without an increase in core inflation. However, the large budget and trade deficits, the increased commodity prices along with the rapid growth in the money supply created real inflationary concerns and clouded the economic horizon. The post quarter end positive non-farm jobs report shocked the bond market and drove the short term yields up by approximately 1% while Fed Fund futures priced in a least a couple rate hikes for the remaining of the year. The consensus now is not the direction of the Fed’s move, but rather the timing of the beginning of the next tightening cycle.

**Total Funds under management as of 03/31/2004 (market values):**

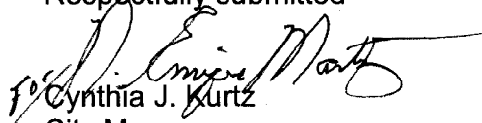
Pooled Investment Portfolio	275,509,197
Capital Endowment Portfolio	12,733,082
Stranded Investment Reserve Portfolio	154,456,962
Special Funds	20,430,499
Investments held with Fiscal Agents	<u>113,562,555</u>
Total Funds under management	<u>576,692,295</u>

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, 2004. 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 2004 Investment Policy, which was adopted by the City Council on November 24, 2003 and Section 53600 of the State Government Code. The City Treasurer currently maintains an average of over \$40 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 Arganian  
City Treasurer

Approved by:

  
Jay M. Goldstone  
Director of Finance