

Agenda Report

TO: CITY COUNCIL

DATE: November 14, 2005

THROUGH: FINANCE COMMITTEE

FROM: CITY MANAGER

SUBJECT: QUARTERLY INVESTMENT REPORT
QUARTER ENDING SEPTEMBER 30, 2005

RECOMMENDATION

This report 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; 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 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 U.S. economy continued to expand at a moderate pace even though oil prices surpassed \$70 per barrel and hurricanes Katrina and Rita devastated the gulf coast region and left an estimated 400,000 people unemployed and an estimated reconstruction cost as high as \$200 Billion. The third quarter Gross Domestic Product grew at an estimated 3.6% after growing at a rate of 3.3% during the second quarter of 2005. This will be the tenth consecutive quarter that GDP surpassed 3.0% rate. Non-farm jobs grew at a rate of 277,000 in July followed by 211,000 jobs in August and then dropped by 35,000 in September as a result of the two hurricanes. Unemployment inched up to 5.1% in September from August's 4.9% level. The Federal Reserve maintained its stance that inflation is the Fed's main focus and that it will continue to raise rates as long as the risk of inflation exists.

The Federal Open Market Committee met twice during the quarter, on August 9th and September 20th. At both meetings, the Fed increased the Fed Funds rate by 0.25%, keeping in line with their self described "measured pace" of rate increases. The Fed Funds futures contract for January is already priced at a 4.25% rate indicating market's expectation that the Fed will increase the Fed Funds rate by 0.25% rate at each of its meetings in November and December. Compared to last quarter end, rates were up by 0.53% on the two year Treasury yield. The yield on the five year Treasury increased by 0.49% and the ten year yield was up by 0.41% at 4.32% rate.

During the third quarter, the overall U.S. bond market, as measured by the Lehman Aggregate Bond index, returned -0.67%. The Dow index returned 3.43% for the same period while the NASD composite Index returned 4.78%.

Total funds under management as of 09/30/2005 (market values):

Pooled Investment Portfolio	273,179,965
Capital Endowment Portfolio	11,999,503
Stranded Investment Reserve Portfolio	145,588,348
Special Funds	27,261,398
Investments held with Fiscal Agents	<u>86,945,842</u>
Total Funds under management	<u>544,975,056</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 with market values as of September 30, 2005. 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 2005 Investment Policy, which was adopted by the City Council on October 25, 2004 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.

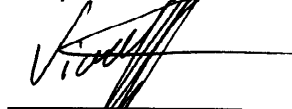
FISCAL IMPACT

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

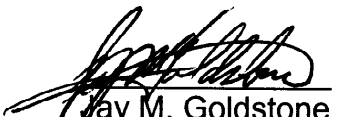
Respectfully submitted


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