

Agenda Report

TO: CITY COUNCIL

DATE: February 27, 2006

THROUGH: FINANCE COMMITTEE

FROM: CITY MANAGER

SUBJECT: QUARTERLY INVESTMENT REPORT
QUARTER ENDING DECEMBER 31, 2005

RECOMMENDATION

This report is for information purposes only.

BACKGROUND

Government Code Section 53646 (2)(b)(1) states that in the case of a local agency, the Treasurer or Chief Fiscal Officer may 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 making these reports optional, this bill does not impose a state-mandated local program but encourages local agencies to continue to report. The bill also states that the Treasurer or Chief Fiscal Officer may report whatever additional information or data may be required by the legislative body of the local agency.

The quarterly report shall be so submitted within 30 days following the end of the quarter covered by the report and shall include 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- 2005 in review

The economic expansion continued in 2005 despite the steadily rising short term rates, record high oil prices, geopolitical issues and several devastating hurricanes. The economy remained resilient to several unexpected shocks thanks to the continued growth in consumer spending, low core inflation and strong corporate balance sheet and earnings. The Federal Open Market Committee raised the overnight Fed Funds rate eight times during the year raising it from 2.25% to 4.25% as the U.S. economy entered its fifth year of economic expansion. The Gross Domestic Product (GDP), the value of all final goods and services, dropped from 4.5% in 2004 to approximately 3.5% in 2005. With the economic cycle heading to a slowdown and the Fed approaching the end of its rate hike campaign, it is expected that the financial and economic dynamics in 2006 will be different than the ones experienced last year.

Inflation remained under control in 2005. The year over year Consumer Price Index (CPI) as of December 31, 2005 was 3.4% while the core CPI measured at 2.2%. The Producer Price Index for the same period was 5.4% with the core PPI at 1.7% rate. Unemployment ended the year at 4.9% rate and the housing market began to show signs of cooling off. During 2005 short term rates went up while the longer term rates remained the same or slightly declined. This shift in rates caused a flattening of the yield curve and even a slight inversion from the two to ten year maturities. Historically, the economy went into a recession after every time the yield curve has inverted. This time however, most analysts are contribution this phenomena to the increased demand of long term U.S. Treasury bonds by foreign investors. As of December 31, 2006, The yield on the three month T-Bill was at 4.074%, up by 1.86% from a year ago while the thirty year yield was down by 0.29% at 4.535%.

Total funds under management as of 12/31/2005 (market values):

Pooled Investment Portfolio	283,538,695
Capital Endowment Portfolio	12,066,896
Stranded Investment Reserve Portfolio	146,341,217
Special Funds	30,190,455
Investments held with Fiscal Agents	<u>81,158,635</u>
Total Funds under management	<u>553,295,898</u>

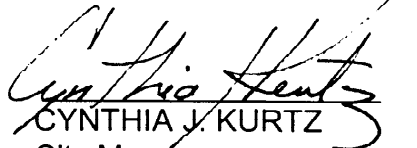
Per the Government Code requirements, attached are the reports by each fund, indicating the type of investments, date of maturity, par and dollar amount invested in each security, as well as investment and moneys within the treasury with market values as of December 31, 2005. The City Treasurer prices 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 2006 Investment Policy, which was adopted by the City Council on November 14, 2005 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;


CYNTHIA J. KURTZ
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