

Agenda Report

TO: CITY COUNCIL

DATE: November 20, 2006

THROUGH: FINANCE COMMITTEE

FROM: CITY MANAGER

SUBJECT: QUARTERLY INVESTMENT REPORT
QUARTER ENDING SEPTEMBER 30, 2006

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

The U.S. economy was not able to sustain the 5.6% robust growth experienced during the first quarter of 2006. The Gross Domestic Product (GDP) growth rate dropped to 2.6% the second quarter and further declined to 1.6% rate in the third quarter of 2006. This expected slowdown in the economic growth is mainly contributed to the rising interest rates and high oil prices, both of which contributed to the slowdown in consumer spending. Unemployment rate dropped to a five year low of 4.6% rate. The Fed paused from raising the Fed Funds rate for the first time in two years commenting that the moderation in the economic growth mainly caused by the cooling of the housing market and the Fed's expectations of contained inflation, even though inflation gauges are above Fed's tolerance levels, warrant the pause.

The increasing signs of a moderating economy, the weakening of the housing market and falling oil prices coupled with the Fed's pause in raising short term rates helped the bond market rally in the third quarter. The overall bond market as measured by the Lehman Aggregate Bond Index, returned 3.81%. Yields dropped across the curve during the quarter. The two-year Treasury yield dropped from 5.16% to 4.71% and the ten-year Treasury declined from 5.15% to 4.64%.

Total funds under management as of 09/30/2006 (market values):

Pooled Investment Portfolio	281,486,567
Capital Endowment Portfolio	11,546,895
Stranded Investment Reserve Portfolio	149,491,326
Special Funds	51,967,699
Investments held with Fiscal Agents	<u>196,952,587</u>
Total Funds under management	<u>691,445,074</u>

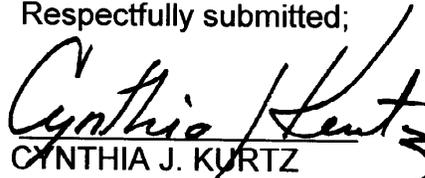
Per the Government Code requirements, attached are the reports by each fund, indicating the type of investments, date of maturity, par and dollar amount invested in each security, as well as investment and moneys within the treasury with market values as of September 30, 2006. The City Treasurer prices 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.

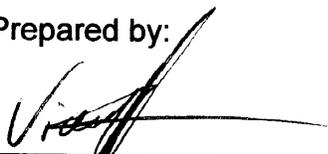
FISCAL IMPACT

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

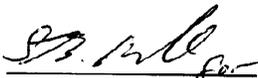
Respectfully submitted;


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City Manager

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