

Agenda Report

TO: CITY COUNCIL

DATE: February 26, 2007

THROUGH: FINANCE COMMITTEE

FROM: CITY MANAGER

SUBJECT: QUARTERLY INVESTMENT REPORT
QUARTER ENDING DECEMBER 31, 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 US economy continued to show signs of slowing during the last quarter of 2006 mainly contributed from downward pressure from the housing sector. Consumer consumption however continued to be strong fueled by the strength in the equity markets and a resilient labor market. The Federal Open Market Committee (FOMC) met twice during the quarter and held the short-term rates steady at both its meetings in October and December. The Fed cited the need to balance a clear weakening in the housing sector with the persistence of inflationary pressures. Following a sharp rally during the third quarter, the US bond market, as measured by the Lehman Brothers Aggregate Bond Index, registered another positive return during the fourth quarter of 2006 and concluded the year with a 4.33% return. The Treasury yield curve remained inverted. The yield on money market rates was at 5.25% while the ten year Treasury yield was at 4.70%.

Financial market participants remain divided and in disagreement as to the future direction of interest rates. There are those who believe that the slowdown of the housing sector will further impact the rest of the economy and cause the Fed to drop short term rates. Others argue that despite a decline in headline inflation, core CPI inflation rate remains above Fed's comfort zone, core personal consumption expenditure remains high and labor markets remain tight. Those are factors that raise inflationary concerns and possible increases in the short term rates in the future.

Total funds under management as of 12/31/2006 (market values):

Pooled Investment Portfolio	279,403,614
Capital Endowment Portfolio	11,801,458
Stranded Investment Reserve Portfolio	152,750,008
Special Funds	45,721,590
Investments held with Fiscal Agents	199,929,248
Total Funds under management	<u>689,605,918</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, 2006. The City Treasurer prices the pooled portfolio and

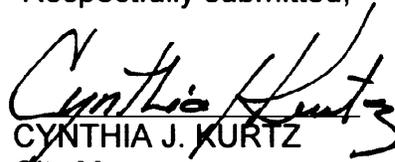
all other funds and investments under management on a monthly basis. The market values are obtained from Interactive Data Corporation (IDC) and Bloomberg Financial System. IDC is an independent third party whose sole service is to provide market prices for all types of securities.

The types of securities held in the portfolio and their percentage allocation to the total are in compliance with the City's Fiscal Year 2007 Investment Policy, which was adopted by the City Council on November 20, 2006 and Section 53600 of the State Government Code. The City Treasurer currently maintains an average of \$40 million short-term liquid investments (one to 90 day maturities) which represents 1/12th of the City's annual operating budget. 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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