

Agenda Report

TO: CITY COUNCIL

DATE: June 4, 2007

THROUGH: FINANCE COMMITTEE

FROM: CITY MANAGER

SUBJECT: QUARTERLY INVESTMENT REPORT
QUARTER ENDING MARCH 31, 2007

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 economy slowed down during the first quarter of 2007 and the Gross Domestic Product (GDP) growth rate measured at an annualized rate of 1.3% compared to 2.5% the previous quarter and below analysts expectation of 1.8%. The slowdown was largely attributed to the weakness in the housing market and periods of high oil prices. Inflation remained under control but slightly higher than the Fed's desired levels. The year over year Consumer Price Index (CPI) was at 2.8% at the end of March while the Core CPI, which excludes food and energy, measured at 2.5% rate which remains above Fed's comfort zone of 1%-2% level. After raising the Fed Funds rate 17 consecutive times from June 2004 to June 2006, the Federal Reserve Board maintained the rates steady at 5.25% during the last six meetings. The Federal Open Market Committee stated that the adjustment in the housing market is ongoing but the Fed's policy concern remains the risk that inflation will fail to moderate as expected.

After a poor start in January, the U.S. bond market rallied and ended the quarter in a positive territory. Treasury yields fell across the curve causing bond prices in general to rise. The overall bond market as measured by the Lehman Brothers Aggregate Bond Index returned 1.5%. The overall U.S. stock market as measured by the S&P 500 Index returned 0.64% and the NASDAQ composite returned 0.26% in the first quarter.

Total funds under management as of 03/31/07 (market values):

Pooled Investment Portfolio	286,417,335
Capital Endowment Portfolio	11,968,286
Stranded Investment Reserve Portfolio	145,162,152
Special Funds	38,017,527
Investments held with Fiscal Agents	<u>192,213,340</u>
Total Funds under management	<u>673,778,640</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 March 31, 2007. The City Treasurer prices the pooled portfolio and all other funds and investments under management on a monthly basis. The market

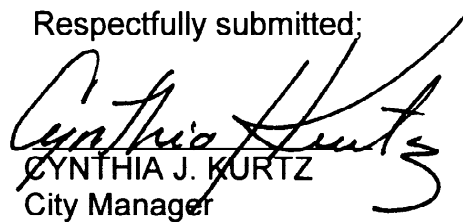
values are obtained from Interactive Data Corporation (IDC) and Bloomberg Financial System. IDC is an independent third party whose sole service is to provide market prices for all types of securities.

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;



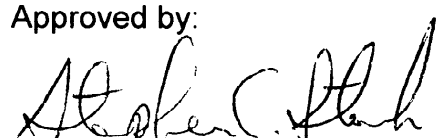
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