

Agenda Report

TO: CITY COUNCIL

DATE: November 24, 2008

THROUGH: FINANCE COMMITTEE

FROM: CITY MANAGER

SUBJECT: QUARTERLY INVESTMENT REPORT
QUARTER ENDING SEPTEMBER 30, 2008

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 economic growth contracted in the third quarter of 2008 by -0.3% as the effect of the summer's stimulus package wore off and the credit crisis in the financial market intensified. The weakening of the labor markets and the deteriorating financial conditions led most economists to conclude that the economy is already in a recession that could be prolonged. Job losses accelerated during the quarter as the economy lost 760,000 non-farm jobs since the beginning of the year and manufacturing had its twenty-seventh consecutive month of job decline since 2006. Consequently, the unemployment rate rose to 6.1%, the highest since June 2003 and is expected to increase as the economy sheds more jobs. The housing market remained under pressure as inventories reached as high as 12 months supply and foreclosures accelerated. The US housing market continued its sharp decline with prices falling in many areas, notably California. Although existing home sales and new home sales figures rebounded in September as housing affordability has improved indicating some stabilization in the housing market, tighter lending standards, weaker consumer balance sheets, and increasing rate of foreclosures make a recovery much more difficult. Headline inflation as measured by the Consumer Price Index measured at 4.9% while core inflation remained at 2.5% rate, higher than the Fed's tolerance rate. Personal consumption and spending dropped and Consumer confidence reached a historic record low since the government began tracking the index. The Federal Open Market Committee met twice during the quarter and left the Fed Funds target rate unchanged at 2.0%.

Treasury yields fell across the yield curve as investors fled to safety of US Treasuries during the uncertainty in the financial markets. After Lehman's bankruptcy, liquidity disappeared from the market and investors were only interested in short term Treasury Bills driving the yield on the 30 day Treasury Bill as low as 0.04%. Credit markets experienced their worst quarter as spreads widened and the Lehman Aggregate Index declined 0.49%.

Total funds under management as of 09/30/2008 (market values):

Pooled Investment Portfolio	277,624,877
Capital Endowment Portfolio	8,217,454
Stranded Investment Reserve Portfolio	138,343,251
Special Funds	83,291,796
Investments held with Fiscal Agents	<u>100,080,968</u>
Total Funds under management	<u>607,558,346</u>

The City pools all internal funds to get the economies of scale and simplify the investment function. There are over 100 funds in the Pooled Investment Portfolio. As of September 30, 2008, the General Fund had \$52,145,968 invested in the Pooled Investment Portfolio representing 18.78% of the total portfolio value. Investments in the Capital Endowment Fund, the Stranded Investment Reserve Fund, the Special Funds and Funds held with fiscal agents are restricted funds or bond proceeds reserved in accordance to the City Charter, Ordinances and the bond indentures.

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, 2008. 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 2008 Investment Policy, which was adopted by the City Council on November 19, 2007 and Section 53600 of the State Government Code. The City Treasurer currently maintains an average of over \$45 million short-term liquid investments (one to 90 day maturities) which represents 1/12th of the City's aggregate 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

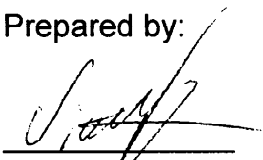
This item is for information only. There is no fiscal impact.

Respectfully submitted;



Michael J. Beck
City Manager

Prepared by:



Vic Erganian
Acting Deputy Director of Finance

Approved by:



Steve Mermell
Acting Director of Finance