



# Agenda Report

**TO:** CITY COUNCIL

**DATE:** September 8, 2008

**THROUGH:** FINANCE COMMITTEE

**FROM:** CITY MANAGER

**SUBJECT:** QUARTERLY INVESTMENT REPORT  
QUARTER ENDING JUNE 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**

After expanding 0.9% in the first quarter of 2008, the second quarter gross domestic product (GDP) growth was 1.9%. The problems with sub-prime mortgages and the resulting credit crunch had far reaching impact and affected companies such as Bear Stearns, Indy Mac Bank, Fannie Mae and Freddie Mac. Unemployment rate increased to 5.5% rate compared to 5.1% the previous quarter and consumer confidence dropped at its lowest level in the last sixteen years. The Federal Reserve Board (the Fed) which had cut short-term rates six times from September 2007 through the end of the first quarter of 2008, lowered the Fed Funds rate again in April to 2% and left it unchanged at its June 2008 meeting. The Fed indicated that the outlook for economic activity has weakened and the financial markets remain under considerable stress. The Fed also added that the deepening of the housing contraction and the tightening of credit conditions will likely weigh on the economic growth over the next few quarters.

The overall U.S. stock market, as measured by the S&P 500 Index, was weak and returned -3.22% and the Dow Jones Industrial average lost 7.44% for the quarter. After falling sharply during the first quarter, Treasury yields moved steadily higher as commodity prices soared and headline inflation figures jumped. The year over year Consumer Price Index (CPI) increased to 5% as of June 2008 compared to 4% the previous quarter, and the Producer Price Index (PPI) increased from 6.9% in March to 9.2% as of the second quarter end. The Core CPI, which excludes food and energy, remained at 2.4% and the Core PPI increased to 3.0%, still remaining above Fed's comfort zone. The overall U.S. bond market, as measured by the Lehman Brothers Aggregate Bond Index, returned -1.02% during the second quarter.

### **Total funds under management as of 06/30/2008 (market values):**

Pooled Investment Portfolio	288,562,041
Capital Endowment Portfolio	8,122,141
Stranded Investment Reserve Portfolio	137,525,756
Special Funds	95,722,299
Investments held with Fiscal Agents	116,836,587
Total Funds under management	<u>646,768,824</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 June 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 1/12<sup>th</sup> 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;

  
for Bernard K. Melekian  
City Manager

Prepared by:

  
Vic Erganian  
Deputy Director of Finance

Approved by:

  
Steve Mermell  
Director of Finance