

Agenda Report

December 14, 2009

TO: Honorable Mayor and City Council
THROUGH: Finance Committee
FROM: Department of Finance
SUBJECT: Quarterly Investment Report
Quarter Ending September 30, 2009

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 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 Quarter in Review

The U.S. economy expanded at a 2.8% annual rate in the third quarter, less than the government's initial estimate, reflecting a smaller gain in consumer spending and a larger trade deficit. Smaller increases in consumer spending indicate that the U.S. was dependent on government stimulus programs to help dig the world's largest economy out of its worst recession in the last sixty years. With unemployment at historic highs, it is anticipated that the consumer sector alone will be unable to boost the economy. The expectation of a slow growth in the Gross Domestic Product ("GDP") will depend more on corporate spending and continued strong government policy support for some period of time. Much of the boost in the third quarter was provided by the administration's auto-incentive program known as "cash for clunkers". More recent economic indicators point to a slow recovery which will continue through 2010.

During the quarter, the Federal Reserve Board (the "Fed") kept short-term interest rates at record low range of 0% to 0.25% and stated that it continues to anticipate that economic conditions are likely to warrant exceptionally low levels of low fed funds rate for an extended period. After rising during then previous two quarters, U.S. Treasury yields moved lower during the third quarter of 2009. The yield on the two-year Treasury dropped from 1.11% to 0.95% and the yield on the 10-year Treasury note moved from 3.53% to 3.30%. The yield curve flattened as long term yields fell more than their short-term counterparts. The overall U.S. bond market had a strong positive return. The spread sectors (non-Treasuries) outperformed Treasuries as risk aversion abated. The U.S. equity market, as measured by the S&P 500 index generated outstanding results mainly driven by more normal conditions in the financial markets and expectations for positive growth later in the year.

Total funds under management as of 09/30/2009 (market values):

Pooled Investment Portfolio	307,756,091
Capital Endowment	7,709,446
Stranded Investment Reserve Portfolio	61,956,665
Special Funds	46,025,028
Investments held with Fiscal Agents	<u>62,153,332</u>
Total Funds under management	<u>485,600,562</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, 2009, the General Fund had \$34.9 million invested in the Pooled Investment Portfolio representing 12.39% of the Pooled Investment 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, 2009. 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 2010 Investment Policy, which was adopted by the City Council on September 14, 2009 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.

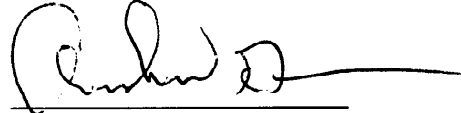
On September 30, 2009, the market value of the total investments under management dropped by approximately \$19 million primarily due to withdrawals made from bond proceeds to pay for capital project costs. The book yield on the City's portfolios also continued to gradually decline as short term rates remain relatively very low and all maturing investments are reinvested at lower yielding securities as compared to their original rate. In general, the City's investments had an outstanding performance during the quarter. The effective yield on the Pooled Portfolio, which accounts for realized gains and losses, was 3.20% compared to the State Treasurer's Local Agency Investment Fund ("LAIF") of 0.90% and the average

yield on the two year U.S. Treasury of 0.95%. Similarly, the effective yield on the Power Reserve portfolio measured at 5.07% compared to LAIF's 0.90% rate.

FISCAL IMPACT:

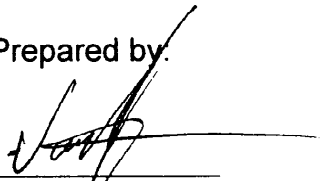
This item is for information only. There is no fiscal impact.

Respectfully submitted;



ANDREW GREEN
Director of Finance

Prepared by:



Vic Erganian
Deputy Director of Finance/City Treasurer

Approved by:



MICHAEL J. BECK
City Manager