

Agenda Report

TO: CITY COUNCIL **DATE:** June 15, 2009
THROUGH: FINANCE COMMITTEE
FROM: CITY MANAGER
SUBJECT: QUARTERLY INVESTMENT REPORT
QUARTER ENDING MARCH 31, 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 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 Quarter in Review

The first quarter of 2009 annualized Gross Domestic Product ("GDP") growth rate declined by 6.1% following the worst decline in the post-war era in the fourth quarter of 2008 by 6.3%. The national unemployment rate increased to 8.5% as the economy shed 2.12 million non-farm jobs during the first three months of 2009. The risks of double digit unemployment rates became real and will contribute to an anemic economic recovery in consumer spending. The year over year Consumer Price Index ("CPI") measured at -0.4% as of March 31, 2009 and the significant labor slack should keep inflation contained. Despite aggressive fiscal and monetary stimulus, deflation still poses a much greater near to intermediate-term risk than inflation. Housing continued to struggle and remained under pressure as foreclosures continued. Most analysts expect additional downside to housing before the market stabilizes.

The Fed maintained the target Fed Funds rate at 0.25% during the quarter with growth being the main policy concern. The current Fed's forecast for 2009 year over year GDP is -1.65% and 2.5% for 2010. High unemployment, low inflation, and extraordinary levels of economic slack suggest that the Fed will remain on hold for some time and at least for most of 2009. The consensus is that the economic contraction should end in mid 2009 as we get less bad news, but recovery will likely be very slow and sluggish.

Yields on US Treasury securities slightly increased across the board and the yield on the three-month T-Bill went from zero or negative return at the end of December to 0.20% by the quarter end. The curve steepened as the increased supply and the fear of inflation in the long term weighted on the market.

Total funds under management as of 03/31/2009 (market values):

Pooled Investment Portfolio	286,216,589
Capital Endowment	7,555,266
Stranded Investment Reserve Portfolio	60,233,594
Special Funds	69,788,494
Investments held with Fiscal Agents	<u>70,514,597</u>
Total Funds under management	<u>494,308,540</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 March 31, 2008, the General Fund had \$40.7 million invested in the Pooled Investment Portfolio representing 14.2% 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 March 31, 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 24, 2008 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.

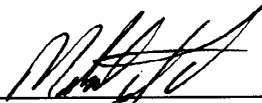
The book yield on the City's portfolios continue to gradually decline as rates remain relatively very low and all maturing investments are reinvested at lower yielding securities. The effective yield to date on the pooled portfolio was at 3.42% as of end of March 2009, 28 basis points or 0.28% lower than the effective yield as of last quarter end. Also, the investment balances in the Capital Endowment portfolio, the Stranded investment Reserve portfolio, the Special Funds and the investments held with fiscal agents were reduced by a total of \$110 million due to scheduled withdrawals made from these accounts. \$785,000 was withdrawn in March 2009 from the Capital Endowment portfolio to cover budgeted capital expenditures from the fund, \$80 million was withdrawn from the Power Reserve portfolio in January to

debase the Intermountain Power Project debt, and \$14.5 and \$14.9 million of bond proceeds were withdrawn respectively from the Special Funds and investment held with fiscal agents to cover the cost of various capital projects.

FISCAL IMPACT:

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

Respectfully submitted;



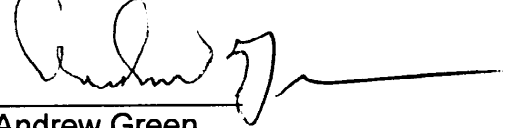
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