

# Agenda Report

**TO:** CITY COUNCIL

**DATE:** September 14, 2009

**THROUGH:** FINANCE COMMITTEE

**FROM:** CITY MANAGER

**SUBJECT:** QUARTERLY INVESTMENT REPORT  
QUARTER ENDING JUNE 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 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 Commerce Department reported that first quarter Gross Domestic Product (GDP) growth contracted 5.5% and the economy is expected to contract by 1.5% during the second quarter of 2009. The Federal Reserve's 12 regional banks detected a slower pace of economic decline in June, further signs that the worst U.S. economic downturn in at least five decades is closer to an end. This reports backs up comments made by Chairman Bernanke that the economy's contraction "appears to have slowed significantly". Other Fed policy makers recently made comments that they expect a slow recovery to start in the second half of 2009. The current economic consensus is that the economy will experience a slow "U" shape recovery versus a quick "V" shape recovery as the labor, housing, consumer and manufacturing sectors, the four pillars to the economic recovery, are still not strong.

During the quarter, the Federal Reserve Board kept short term interest rates unchanged at the targeted Fed Funds rate of 0.25%. Overall however, interest rates increased across the U.S. Treasury yield curve. The two year yield increased by 0.31%, the five year by 0.90% and the thirty year Treasury yield jumped 0.80%. After reaching a 12 year low in March 2009, the Standard and Poors 500 index had a sharp rally. The index rose in each of the three months during the quarter and ended with a 15.93% return. The market's optimism that the economy is reaching a bottom coupled with unprecedented federal budget deficit and massive increase in the money supply are spurring a lot of debate about future inflation.

**Total funds under management as of 06/30/2009 (market values):**

Pooled Investment Portfolio	313,211,051
Capital Endowment	7,681,049
Stranded Investment Reserve Portfolio	60,929,504
Special Funds	64,183,584
Investments held with Fiscal Agents	<u>58,031,216</u>
Total Funds under management	<u>504,036,404</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 June 30, 2009, the General Fund had \$48.2 million invested in the Pooled Investment Portfolio representing 15.3% 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 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 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 1/12<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.

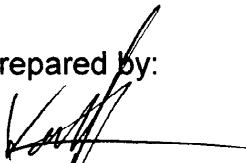
On June 30, 2009, the market value of the pooled portfolio had increased to \$313.2 million compared to \$286.2 on March 31<sup>st</sup>. This was largely due to receipt of property tax revenues in the months of April and May and some increase of unrealized gains in the portfolio. The book yield on the City's portfolios continue 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. The current book yield on the pooled portfolio is at 2.23%. However, the effective yield, which accounts for realized gains and losses, for fiscal year 2009 was 3.23% compared to the State Treasurer's Local Agency Investment Fund of 2.18% and the average yield on the two year U.S. Treasury of 1.16%.

**FISCAL IMPACT:**

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

Respectfully submitted;

  
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