

Agenda Report

March 8, 2010

TO: Honorable Mayor and City Council
THROUGH: Finance Committee
FROM: Department of Finance
SUBJECT: Quarterly Investment Report
Quarter ending December 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 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.
- 4) A description of the compliance with the statement of investment policy.

ECONOMIC SUMMARY: 2009 in Review

The economy continued to contract during the first half of 2009 extending the longest recession since 1933 into its sixth calendar quarter. As the year progressed, it appeared that the recession was over and the economy posted a 2.2% Gross Domestic Product (GDP) growth rate in the third quarter followed by a 5.7% GDP growth rate in the fourth quarter of 2009. There were meaningful improvements in the manufacturing sector and some encouraging news in the housing market. The labor market however remained weak. The U.S. unemployment rate held at 10% in December, while consumer credit dropped to a record low in November. The Fed stated that household spending is expanding at a moderate rate, but remained constrained by a weak labor market, modest income growth, lower housing wealth, and tight credit. Most market analysts are now predicting a slow economic growth in 2010 with the unemployment rate remaining unacceptably high in a range of 9-10%, what economists are calling it a jobless recovery. The Fed kept the federal funds rate unchanged in a range of 0% to 0.25% during the fourth quarter of 2009.

Investor confidence improved during the second half of 2009 and risk aversion was replaced with risk appetite. Yields on treasury securities increased while spreads on credit products narrowed. Over the quarter, long-term yields moved higher than their shorter-term counterparts given expectations for future inflation. The U.S. bond market as measured by the Barclays Capital Global Aggregate Bond Index returned 0.20% during the fourth quarter of 2009. Riskier fixed income securities generated higher returns than the overall U.S. bond market. The S&P Index posted a 6.04% return during the quarter and a 26.4% return for 2009.

Total Funds Under Management as of 12/31/2009 (Market Values):

Pooled Investment Portfolio	304,325,123
Capital Endowment	7,721,581
Stranded Investment Reserve Portfolio	62,193,454
Special Funds	43,583,024
Investments Held With Fiscal Agents	<u>72,513,140</u>
Total Funds Under Management	<u>490,336,322</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 December 31, 2009, the General Fund had \$32.86 million invested in the Pooled Investment Portfolio representing 10.19% 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 December 31, 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 (1 to 90 day maturities) which represent 1/12th of the City's aggregate annual operating budget. This balance, along with anticipated cash flows into the City's account, represents a strong liquidity position to meet budgeted expenditures for the next six months.

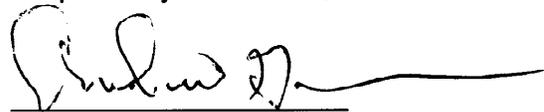
On December 31, 2009 the market value of the total investments under management increased by approximately \$5 million primarily due to property tax revenues received during the month. The book yield on the City's Pooled Portfolio continued to gradually decline in the last several quarters as short term rates remained relatively very low and all maturing investments were reinvested at lower yielding securities as compared to their original rate. Overall, the City's investments had an outstanding performance during the quarter. The fiscal year to date effective yield on the Pooled Portfolio, which accounts for realized trading gains and losses, was 2.75% compared

to the State Treasurer's Local Agency Investment Fund ("LAIF") of 0.75% and the average yield on the two year U.S. Treasury of 0.94%.for the same period. Similarly, the fiscal year to date effective yield on the Power Reserve portfolio measured at 3.96% compared to LAIF's 0.75% rate.

FISCAL IMPACT:

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

Respectfully submitted;



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Director of Finance

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for MICHAEL J. BECK
City Manager