

Agenda Report

September 27, 2010

TO: Honorable Mayor and City Council

THROUGH: Finance Committee

FROM: Department of Finance

SUBJECT: **QUARTERLY INVESTMENT REPORT - QUARTER ENDING
JUNE 30, 2010**

RECOMMENDATION:

This report is for information 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 growth rate at June 30, 2010 for Gross Domestic Product (Advanced Release GDP) measured 2.4 percent as compared to 3.7 percent during the first quarter of 2010 and 5 percent during the fourth quarter of 2009. This declining trend and moderation in the GDP has sent signals to the financial markets that the economic recovery is slowing down. Analysts have stated the following reasons for the slowing economic recovery: 1) Federal stimulus programs are winding down; 2) state and local governments are in severe budget shortfalls and laying off employees; 3) the sovereign debt crisis in Europe is expected to cause downward revisions of near term growth expectations; and 4) the Bush administration tax cuts are due to expire at year end. The recent economic forecast for the average U.S. GDP growth rate for 2010 was 2.75 percent, a rate that is not enough to reduce the unemployment rate.

During the quarter, the Federal Reserve Board kept short-term interest rates at a record low of 0 percent to 0.25 percent and stated that economic conditions are likely to warrant exceptionally low levels of the Fed Funds Rate for an extended period. It is now expected that the Fed will keep the Fed Funds Rate unchanged in 2010 and most of 2011. The flight to quality continued during the quarter as demand for U.S. treasuries soared. As a result, U.S. treasury yields moved lower. Over the three month period, the yield on the two year treasury dropped from 1.02 percent to 0.61 percent and the ten year yield fell from 3.84 percent to 2.97 percent. Equity markets fell sharply during the quarter. The Dow Jones Industrial Average dropped 10 percent and the S&P 500 Index dropped by 11.8 percent. The correction in the equities market, a decline more than 10 percent, was the first such occurrence since November 2007.

Total Funds Under Management as of 06/30/2010 (Market Values):

Pooled Investment Portfolio	298,123,057
Capital Endowment	6,541,839
Stranded Investment Reserve Portfolio	63,037,036
Special Funds	22,829,724
Investments Held With Fiscal Agents	56,018,065
Total Funds Under Management	<u>446,549,721</u>

The City pools all internal funds to get economies of scale and to simplify the investment function. There are over 100 funds in the Pooled Investment Portfolio. As of June 30, 2010, the General Fund had an estimated \$34.9 million invested in the Pooled Investment Portfolio representing 12.27 percent of the 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, 2010. 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 Systems. 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 June 30, 2010, the market value of the total investments under management decreased by a net amount of \$22 million primarily due to the \$10.8 million ERAF payment made to the County of Los Angeles and \$6.4 million payment made as a deposit to the Los Angeles Superior Court for the acquisition of the YWCA. The book yield on the City's Pooled Portfolio continued to gradually decline in the last several quarters as short-term rates remained low and all maturing investments were reinvested at lower yielding securities as compared to their original rate. Overall, the City's investments had a good performance during the second quarter and fiscal 2010. The 2010 fiscal year end effective yield on the Pooled Portfolio which accounts for realized trading gains and losses was 2.35 percent compared to the State Treasurer's Local Agency Investment Fund ("LAIF") return of 0.65 percent and the average yield on the two year U.S. treasury of 0.91 percent for the same period. Similarly, the fiscal year to date effective yield on the Power Reserve Portfolio measured at 2.92 percent compared to LAIF's 0.65 percent rate.

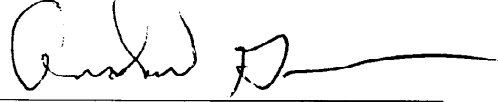
COUNCIL POLICY CONSIDERATION:

This action supports the City Council's strategic goal to maintain fiscal responsibility and stability.

FISCAL IMPACT:

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

Respectfully submitted,



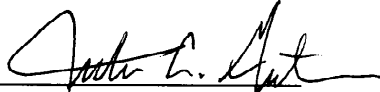
ANDREW GREEN
Director of Finance

Prepared by:



Vic Erganian
Deputy Director of Finance/City Treasurer

Approved by:



^{CM} MICHAEL J. BECK
City Manager

Attachments:

Attachment A – Quarterly Investment Report (June 30, 2010)