



## Legislation Text

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**File #:** 08-1171, **Version:** 1

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Recommendation to receive and file Investment Report for Quarter Ending September 30, 2008.  
(Citywide)

The Department of Financial Management, City Treasurer's Office, invests the City's funds in compliance with the California Government Code, Section. 53600 et seq., and the City's Investment Policy. As of September 30, 2008, these funds had a market value of approximately \$1.70 billion, with approximately \$700 million, or 41 percent, maturing within six months, ensuring sufficient funds are available to meet the City's cash and liquidity needs.

### Statutory Compliance

All investment transactions have been executed in conformance with the City's Investment Policy and the California Government Code. According to the California Government Code, the maturity term of all investments is limited to a maximum of five years unless the local agency legislative body gives prior approval to exceed this limitation. The City's Investment Policy currently requires that all funds invested in the City's investment pool not exceed a weighted average maturity of three years. In addition, the Investment Advisory Committee, composed of the Assistant City Manager, Assistant City Auditor, Assistant City Attorney, Director of Financial Management, City Treasurer, City Controller, and the Financial Officers of the Harbor, Water and Development Services Departments, meets quarterly, or as needed, to review investment policies, strategies and performance. The City Auditor's Office conducts quarterly audits of the City's investment portfolio to ensure compliance with all applicable laws and policies.

### Investment Pool Rating

As previously reported, the City's investment portfolio carried the highest credit rating of AA Af and the lowest volatility rating of S1 by the Standard & Poor's rating agency on March 31, 2008. Given the current financial crisis, and the recent failure of Lehman Holdings, Inc., the Department of Financial Management contacted the Standard & Poor's rating agency to conduct an independent outside review of the City's investment portfolio holdings as of September 30, 2008. The City's investment portfolio has again received the highest credit rating of AA Af and best volatility rating of S1 meaning that the "Fund's portfolio holdings provide extremely strong protection against losses from credit defaults" and "low sensitivity to changing market conditions," respectively. This rating reflects the relative safety of the City's investment portfolio and qualifies the Investment Pool as an alternative investment for proceeds from bonds issued by the City.

### Investment Performance - Overall Portfolio

The City Treasurer's Office invests in a variety of fixed-income securities that vary in maturity from one day to five years (excluding the Health SAVRS loan) as authorized by the City's Investment Policy and the California Government Code. The City's adopted 2008 Investment Policy divides the

City's investment portfolio into a short-term and a long-term portfolio whose benchmarks are the 3-Month Treasury Bill and the Merrill Lynch One-to-Three Year Treasury/Agency Index, respectively. Both are market indices that change daily, therefore, actual returns can vary depending on book yields and security calls before the final maturity date. The weighted average book yield for the period was 3.39 percent. Book yield represents the actual earnings received on the total Investment Portfolio.

At September 30, 2008, the City's investment pool market yield was 3.19 percent compared to 3.38 percent at June 30, 2008. The following table summarizes the Investment Pool market yield performance for the quarter ending September 30, 2008:

Portfolio Funds	Amount of Funds	Quarter End Values		
		Benchmark Return	Weighted Avg Maturity*	Yield**
Short-Term Investment Pool	\$ 649,914,108	1.54 percent	0.83 years	2.81 percent
Long-Term Investment Pool	\$ 1,051,854,969	2.58 percent	1.96 years	3.42 percent
Total Investment Pool	\$ 1,701,769,077	2.18 percent	1.55 years	3.19 percent

\* Weighted Average Maturity assumes securities are not called or sold prior to the actual maturity date. \*\* Market Yield of Portfolio at quarter end.

The following table summarizes the purchase yield of the new investments vs. the average Benchmark Yield in the short-term portfolio by month for the quarter ending September 30, 2008.

**SHORT-TERM PORTFOLIO**

Month	Amount of Funds Invested	Benchmark vs. Purchase Yield Analysis		
		Benchmark Return*	Purchase Yield**	Over/(Under) Benchmark
July 2008	\$ 18,200,000	1.64 percent	2.39 percent	0.75 percentage points
August 2008	\$ 87,600,000	1.74 percent	2.23 percent	0.49 percentage points
September 2008	\$ 40,500,000	1.20 percent	2.65 percent	1.45 percentage points
<b>Total Invested Funds *</b>	<b>\$ 146,300,000</b>	<b>1.58 percent</b>	<b>2.37 percent</b>	<b>0.79 percentage points</b>

\* 91-Day T-Bill and other returns listed are weighted averages for the period. Excludes overnight and short-term investments under 30 days. \*\*Purchase Yields stated to maturity assume the securities are not called or sold prior to the maturity date.

The following table summarizes the purchase yield of the new investments vs. the average Benchmark Yield in the long-term portfolio by month for the quarter ending September 30, 2008. Due to unprecedented market volatility, City staff systematically shortened the maturities of the long-term portfolio (e.g. from average 18 - 24 month maturities to 6 month to one year maturities) resulting in lower yields.

**LONG-TERM PORTFOLIO**

Month	Amount of Funds Invested	Benchmark vs. Purchase Yield Analysis		
		Benchmark Return*	Purchase Yield**	Over/(Under) Benchmark
July 2008	\$ 100,000,000	2.73 percent	2.20 percent	(0.53) percentage points
August 2008	\$ 68,128,000	2.62 percent	2.75 percent	0.13 percentage points
September 2008	\$ 95,000,000	2.37 percent	2.17 percent	(0.20) percentage points
<b>Total Invested Funds *</b>	<b>\$ 263,128,000</b>	<b>2.57 percent</b>	<b>2.33 percent</b>	<b>(0.24) percentage points</b>

\* Merrill Lynch One-to-Three Year Treasury/Agency Index and other returns listed are weighted averages for the period. Excludes overnight and short-term investments under 30 days. \*\*Yields are stated to maturity and assume the securities are not called or sold prior to the maturity date.

The State Treasurer's Local Agency Investment Fund's (LAIF) weighted average quarterly yield was

2.78 percent, which is down from 3.11 percent at June 30, 2008. As of September 30, 2008, the City had approximately \$160 million invested in the LAIF pool. It may be possible for the City to increase its investment in LAIF by an additional \$40 million with the creation of an additional account. Staff will be further considering this option this month.

A complete listing of investment balances, portfolio distribution and performance values can be found in Attachment A.

#### Investment Performance - Lehman Holdings, Inc.

As widely reported in the news, the current global financial crisis has led to the failure, sale, or significant restructuring of Bear Stearns, Merrill Lynch, Morgan Stanley, Lehman Holdings, Inc., American International Group (AIG), Fannie Mae and Freddie Mac, Washington Mutual Savings Bank, IndyMac Bank and Wachovia Bank. The \$700 billion bailout plan approved by Congress represents one of numerous Federal attempts to stabilize the financial sector, and in turn, the nation's economy. The Federal Reserve Bank has developed and implemented a host of other programs to provide liquidity and stability to the entire national banking system. All totaled, these programs exceed \$1.0 trillion in Federal assistance.

While many financial institutions and mortgage lenders were offered significant monetary relief to stabilize their balance sheets, Lehman Holdings, Inc., on Monday, September 15, 2008, filed for Chapter 11 Bankruptcy, representing the largest corporate bankruptcy in United States history. As previously reported to the City Council, a \$19.9 million short-term investment in Lehman Holdings, Inc., Commercial Paper, representing approximately 1.14 percent of the City's investment portfolio, rated A1/P1 by Standard and Poor's and Moody's (the second highest rating), did not mature on September 30, 2008 as scheduled due to the Chapter 11 bankruptcy filing by Lehman Holdings, Inc.

City staff and the City Attorney's Office, along with outside bankruptcy counsel have implemented a two-pronged approach to recover this potential loss: seeking restitution through the \$700 billion Federal bailout legislation, and seeking recovery through the Federal bankruptcy court.

As such, the City of Long Beach has joined a coalition of 21 public entities including counties, cities and special districts with combined exposure to Lehman Holdings, Inc., and Washington Mutual exceeding \$250 million. We are pleased to report the working group has co-signed a letter to the United States Treasury Secretary, Henry M. Paulson Jr., seeking restitution of its potential losses through Section 3(9) of the Federal Emergency Economic Stabilization Act of 2008 (Attachment B). The language in the bill allowing public entities to potentially access the Troubled Assets Recovery Program was entered into law at the specific request of impacted cities and counties, including the County of San Mateo, which alone has an exposure to Lehman Holdings, Inc., of \$155 million. We would like to thank United States Senators Barbara Boxer and Dianne Feinstein for their support as evidenced in the attached letter dated October 24, 2008, urging Secretary Paulson to protect local governments and taxpayer funds currently at risk due to the current global financial crisis (Attachment C). In addition, Congresswoman Anna Eshoo, who was instrumental in including the local government protection language in the Federal bailout legislation, spearheaded an initiative to obtain the support of 20 California members of the United States House of Representatives to make California public entities impacted by the Lehman and Washington Mutual bankruptcies financially whole (Attachment D).

Short-Term Investment Strategy

The City has adopted an investment strategy for the short-term portfolio that maintains sufficient liquidity within a rolling 12-month period to satisfy the City's cash needs.

Long-Term Investment Strategy

Due to the uncertainty and the unprecedented volatility in the capital markets, shorter investment maturities are currently more favorable.

Cash Management Goals

The City's cash management goals are to maintain and preserve the safety of funds in custody and provide adequate liquidity for anticipated expenditure needs.

This matter was reviewed by Assistant City Attorney Heather A. Mahood, Budget Management Officer Victoria Bell and the City's Investment Advisory Committee on November 5, 2008.

This item is not time critical.

There is no fiscal impact associated with this action.

Approve recommendation.

Lori Ann Farrell  
Director of Financial Management/CFO

NAME  
TITLE

APPROVED:

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PATRICK H. WEST  
CITY MANAGER