



Legislation Text

File #: 08-0153, **Version:** 1

Recommendation to receive and file the Investment Report for Quarter Ending December 31, 2007.
(Citywide)

The Department of Financial Management, City Treasurer's Office, invests City funds in compliance with the California Government Code, Section 53600 et seq., and the City's Investment Policy. As of December 31, 2007, these funds had a market value of approximately \$1.74 billion, with approximately \$655.7 million, or approximately 37 percent of funds, maturing within six months, ensuring that sufficient funds are available to meet the City's budgeted expenditure requirements during this time period.

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 Auditor, Assistant City Attorney, Director of Financial Management, City Treasurer, Acting City Controller, and the Financial Officers of the Harbor, Water and Community Development Departments, meets quarterly, or as needed, to review investment policies, strategies and performance.

Rating Section

As of the date of this report, we are pleased to report the City's investment holdings carry the highest credit rating of AAA and the lowest volatility rating of S1 by the Standard & Poor's rating agency.

Investment Performance

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 4.85 percent. Book yield represents the actual earnings received on the total Investment Portfolio.

At December 31, 2007, the City's investment pool market yield was 4.44 percent compared to 4.71 percent at September 30, 2007. The following table summarizes Investment Pool market yield

performance for the quarter ending December 31,2007:

(Portfolio Funds chart appears here in staff report. Unable to reproduce. Please see the "Attachement" document.)

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 December 31, 2007:

(SHORT-TERM PORTFOLIO chart appears here in staff report. Unable to reproduce. Please see the "Attachement" document.)

The following table summarizes the purchase yield of the City's new investments vs. the weighted average Benchmark Yield in the long-term portfolio by month for the quarter ending December 31,2007:

(LONG-TERM PORTFOLIO chart appears here in staff report. Unable to reproduce. Please see the "Attachement" document.)

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

The City's investment pool consists of all City funds except Subsidence, certain bond proceeds, and special assessment district proceeds. The non-pooled investments are invested separately in accordance with bond indenture provisions or other legal requirements.

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 continue to satisfy the City's cash needs.

Long-Term Investment Strategy

The City will continue to weigh new instruments at the 14-month to 24-month part of the yield curve in order to meet or exceed the benchmark yield and duration.

Treasury Bureau staff continues to monitor market conditions and market spreads daily in order to take advantage of opportunities to enhance earnings, while at the same time maintaining safety of principal and adequate liquidity.

Cash Management Goals

The City's cash management goals are to maintain and preserve the safety of funds in custody and provide 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 February 5,2008.

This item is not time critical.

There is no fiscal impact associated with this action. However, recent rate cuts by the Federal Open Market Committee (FOMC) will impact the City's budgeted revenue estimate for portfolio interest earnings. The Treasurer's Office will continue to monitor market conditions accordingly.

Approve recommendation.

Lori Ann Farrell
Director of Financial Management/CFO

NAME
TITLE

APPROVED:

PATRICK H. WEST
CITY MANAGER