



## Legislation Text

---

**File #:** 05-2710, **Version:** 1

---

Recommendation to receive and file Investment Report for Quarter ending March 31, 2005.  
(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 March 31, 2005, these funds had a market value of approximately \$1.29 billion, with approximately \$302 million, or 24 percent of funds, maturing within six months, ensuring that sufficient funds are available to meet the City's budgeted expenditure requirements during this time.

### 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 an average weighted maturity of three years. In addition, the Investment Advisory Committee, composed of a representative from the City Manager's Office, Assistant City Auditor, Assistant City Attorney, Director of Financial Management, City Treasurer, Budget Manager 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

The City's investment holdings received a reaffirmation from Standard and Poor's of their highest credit rating of AAA and the lowest volatility rating of S1 in September 2004.

### 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 as authorized by the City's Investment Policy and the California Government Code. The City's adopted 2005 Investment Policy divides the City's investment portfolio into two segments: a short-term maturity and a long-term maturity. The short-term portfolio is benchmarked against the Three-month US. Treasury Bill, although the investments can range up to five years depending on the forecasted cash needs. The long-term portfolio is benchmarked against the Merrill Lynch one- to three-year Treasury/Agency index. The average weighted maturity for the City's total portfolio cannot exceed three years, although an individual security can range up to five years.

The following table summarizes the relative market yield of the City's investment portfolios as of March 31, 2005:

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.

#### Investment Environment

Interest rates are rising from historically low levels. By May 3, 2005, the Federal Funds Rate (Fed Rate) was raised to 3.00 percent. The One-year Treasury Bill rate was yielding 3.73 percent, and the Fiveyear Treasury Note was at 4.44 percent. Consensus among analysts is that the Federal Reserve will raise the Fed Rate a quarter point at each of its next two meetings to 3.50 percent by August 2005 and possibly to 4.00 percent by year-end. The Federal Reserve appears to be focused on keeping inflation stable if necessary by raising interest rates and to help sustain the economy's growth at a measured pace.

Based on current market conditions, 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.

The long-term portfolio will be primarily invested within a 24- to 36-month range to enhance earnings and to more closely align the portfolio with its benchmark index. Treasury staff monitors market conditions and interest rates on a daily basis to determine what changes, if any, are necessary to maximize earnings while maintaining safety of principal and adequate liquidity.

During the month of March 2005, the pooled investment interest income return was 2.59 percent. The pooled investment interest income return for FY 05 is estimated to reach 2.62 percent, slightly below the budgeted forecast of 2.65 percent.

On March 31, 2005, the City's investment pool market yield was 2.95 percent, as indicated in the table above, compared to 2.72 percent on March 31, 2004.

**Cash Manaaement 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. As of March 31, 2005, the General Fund represents approximately \$71.6 million or 5.53 percent of the pooled funds.

This report was reviewed by Chief Assistant City Attorney Heather Mahood on May 6, 2005 and Budget Management Officer David Wodynski on May 4, 2005.

City Council action on this item is not time critical.

There is no fiscal impact associated with this action.

Approve recommendation.

GERALD R. MILLER  
CITY MANAGER

MICHAEL A. KILLEBREW  
DIRECTOR OF FINANCIAL MANAGEMENT