



# CITY OF LONG BEACH

DEPARTMENT OF FINANCIAL MANAGEMENT

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December 7, 2004

HONORABLE MAYOR AND CITY COUNCIL  
City of Long Beach  
California

SUBJECT: Investment Report for Quarter Ending September 30, 2004 (Citywide)

## DISCUSSION

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 September 30, 2004, these funds had a market value of approximately \$1.21 billion, with approximately \$233 million, or 19.2 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, City Controller/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 re-affirmation 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 2004 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 U.S. 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 performance of the City's investment portfolios as of September 30, 2004:

Portfolio Funds	Amount of Funds	Values as of Month Ending 9/30/04		
		Benchmark Return	Wgt'd Avg Maturity	Effective Return
Short-Term Investment Pool	\$ 345,082,960	1.71 percent	230 days	2.09 percent
Long-Term Investment Pool	\$ 869,083,929	2.57 percent	1.67 years	3.02 percent
Total Investment Pool	\$ 1,219,354,872	2.33 percent	1.38 years	2.75 percent
<i>State of California L.A.I.F.*</i>	<i>For comparative purposes only</i>	<i>N/A</i>	<i>182 days</i>	<i>1.81 percent</i>

\* Local Agency Investment Fund

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 September 30, 2004, the Federal Funds Rate (Fed Rate) was raised to 1.75 percent. The One-year Treasury Bill rate was yielding 2.21 percent, and the Five-year Treasury Note was at 3.37 percent. Consensus among analysts is that the Federal Reserve will raise the Fed Rate a quarter point at each of its next six meetings, hitting 2.25 percent this month, and continuing to 3 percent by mid 2005. The Fed appears to be focused on energy costs and the recovering labor market. Inflation, as measured by CPI (year-over-year), has been a modest 2.5 percent.

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 12- to 24-month range to increase earnings while not overextending in a rising interest rate environment. Treasury staff monitor 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 liquidity needs.

For comparison, during the month of September 2003, the City's pooled investments earned 2.73 percent versus the September 2004 monthly yield of 2.75 percent indicated in the above table. The pooled investments yielding 2.72 percent for FY 04 exceeding the budgeted forecast yield of 2.50 percent.

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. As of September 30, 2004, the General Fund represents approximately \$32 million or 2.62 percent of the pooled funds. During the last quarter of this fiscal year (July through September), several major City revenues will be impacted by State of California budget initiatives, the result of which have lowered the City's General Fund Cash balances significantly.

This report was reviewed by Chief Assistant City Attorney Heather Mahood and Budget Management Officer David Wodynski on November 16, 2004.

TIMING CONSIDERATIONS

City Council action on this item is not time critical.

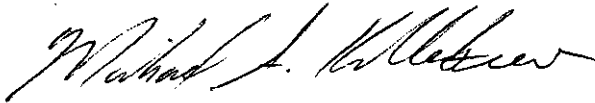
FISCAL IMPACT

There is no fiscal impact associated with this action.

IT IS RECOMMENDED THAT THE CITY COUNCIL:

Receive and file this report.

Respectfully submitted,



MICHAEL A. KILLEBREW  
ACTING DIRECTOR OF FINANCIAL MANAGEMENT

MK:dn  
Attachment

APPROVED:



GERALD R. MILLER  
CITY MANAGER