



CITY OF LONG BEACH

DEPARTMENT OF FINANCIAL MANAGEMENT

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March 7, 2006

HONORABLE MAYOR AND CITY COUNCIL
City of Long Beach
California

RECOMMENDATION:

Receive and file Investment Report for Quarter Ending December 31, 2005 (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 December 31, 2005, these funds had a market value of approximately \$1.361 billion, with approximately \$472.0 million, or 35 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 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, Chief 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 March 2005.

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 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 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. Both portfolios at December 31, 2005 were below their respective benchmarks primarily due to purchases made during 2004 and 2005 during a lower interest rate environment (see Table 1 below). Interest rate increases of 3.25 percent since June 2004 have been immediately reflected in the Benchmarks, while the investment portfolio, over time, assimilates those changes in interest rates as available funds are reinvested. Recent purchases made during the quarter have exceeded their respective benchmarks by 16 to 43 basis points, respectively (see Table 2 and 3 below). The City Treasurer's Office stresses the importance of safety and liquidity over yield and continually monitors market conditions and market spreads daily in order to take advantage of opportunities to enhance earnings.

TABLE 1 - TOTAL PORTFOLIO				
Portfolio Funds	Amount of Funds	Values as of Month Ending 12/31/05		
		Benchmark Return (Percent)	Weighted Avg. Maturity	Effective Return (Percent)
Short-Term Investment Pool	\$ 358,243,000	3.97	58 days	3.15
Long-Term Investment Pool	\$ 1,003,656,000	4.46	1.65 years	3.32
Total Investment Pool*	\$ 1,361,899,000	4.33	1.18 years	3.27

* The Benchmark; weighted average maturity and effective return data for the total Investment Pool are weighted based on portfolio size.

TABLE 2 - SHORT-TERM PORTFOLIO PURCHASES				
Month	Purchases	Benchmark Return* (Percent)	Purchase Yield (Percent)	Over/(Under) Benchmark (Percent)
October 2005	0	0	0	0
November 2005	0	0	0	0
December 2005	\$ 49,583,000	3.97	4.40	0.43
Total purchases	\$ 49,583,000	3.97	4.40	0.43

* 91-Day T-Bill monthly and average return for the period.

TABLE 3 – LONG-TERM PORTFOLIO PURCHASES				
Month	Purchases	Benchmark Return* (Percent)	Purchase Yield (Percent)	Over/(Under) Benchmark (Percent)
October 2005	\$ 24,617,000	4.35	4.52	0.17
November 2005	\$ 4,858,000	4.50	4.67	0.17
December 2005	\$ 21,871,000	4.51	4.71	0.20
Total purchases**	\$ 51,346,000	4.45	4.61	0.16

*Merrill Lynch One-to-Three Year Treasury/Agency Index monthly and average returns for the period.

**Benchmark and yields represent the weighted average of the purchases made throughout the quarter.

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

The Federal Open Market Committee (FOMC) continued their "measured" approach of raising the Federal Funds Target rate to 4.25 percent, up from 3.75 percent at the beginning of the quarter. The FOMC moved an additional 25 basis points at its January 31, 2006 meeting and the financial markets appear to generally expect another 25 basis points at the March 28, 2006 meeting. The impact of the cumulative rate changes, coupled with a housing slowdown and higher oil prices, may weigh on consumer spending throughout 2006 and could lead to an economic slowdown toward the end of the year.

Investment Strategy

Short-Term Investment Strategy: 1) Reduce the Short-Term Portfolio to 20 percent of total investments from the current 26 percent and re-invest into varying longer duration assets. 2) Continue the investment strategy for the short-term portfolio that maintains sufficient liquidity within a rolling 12-month period to meet expected cash flow needs.

Long-Term Investment Strategy: Continue to weight new instruments at the 18-month to 30-month maturity in order to meet or exceed the benchmark yield and duration targets.

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 report was reviewed by Assistant City Attorney Heather A. Mahood and Budget Management Officer David Wodynski on February 16, 2006.

TIMING CONSIDERATIONS

This item is not time critical.

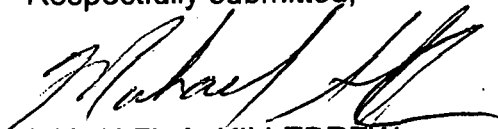
FISCAL IMPACT

There is no fiscal impact associated with this action.

SUGGESTED ACTION:

Approve recommendation.

Respectfully submitted,



MICHAEL A. KILLEBREW
DIRECTOR OF FINANCIAL MANAGEMENT

APPROVED:



GERALD R. MILLER
CITY MANAGER