

CITY OF LONG BEACH

DEPARTMENT OF FINANCIAL MANAGEMENT

333 West Ocean Boulevard 6th Floor • Long Beach, CA 90802 • (562) 570-6169 • Fax (562) 570-5836

November 15, 2005

HONORABLE MAYOR AND CITY COUNCIL
City of Long Beach
California

RECOMMENDATION:

Receive and file Investment Report for Quarter Ending September 30, 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 September 30, 2005, these funds had a market value of approximately \$1.327 billion, with approximately \$353 million, or 27 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 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.

The following table summarizes the relative market yield of the City's investment portfolios as of September 30, 2005:

Portfolio Funds	Amount of Funds	Values as of Month Ending 9/30/05		
		Benchmark Return	Weighted Avg Maturity	Effective Return
Short-Term Investment Pool	\$ 306,711,057	3.54 percent	120 days	3.35 percent
Long-Term Investment Pool	\$ 1,020,153,072	4.25 percent	1.66 years	3.20 percent
Total Investment Pool	\$ 1,326,864,129	4.09 percent	1.36 years	3.24 percent
<i>State of California L.A.I.F.*</i>	<i>For comparative purposes only</i>	<i>N/A</i>	<i>169 days</i>	<i>3.39 percent</i>

* Local Agency Investment Fund

The following table summarizes the purchase yield of the City's new investments by month for the quarter ending September 30, 2005:

Month	Amount of Funds Invested	Monthly Values for Quarter Ending 9/30/05		
		Benchmark Return*	Purchase Yield	Over/(Under) Benchmark
July 2005	\$ 15,145,000	4.07 percent	4.13 percent	0.06 percent
August 2005	\$ 46,015,000	3.89 percent	4.19 percent	0.30 percent
September 2005	\$ 75,000,000	4.25 percent	4.17 percent	(0.08) percent
Total Invested Funds	\$ 136,160,000	4.11 percent	4.17 percent	0.06 percent

* Merrill Lynch One-to-Three Year Treasury/Agency Index

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. On September 20, 2005, the Federal Funds Rate (Fed Rate) was raised to 3.75 percent. The One-Year Treasury Bill rate was yielding 3.86 percent, and the Five-year Treasury Note was at 4.03 percent. Consensus among analysts is that the Federal Reserve will continue to 4.00 percent by year-end and possibly to 4.25 percent.

On October 24, 2005, President Bush named the chairman of his Council of Economic Advisers Ben Bernanke as the next Federal Reserve Chairman to succeed Alan Greenspan whose term will end January 31, 2006. Bernanke is known for his tough stance on fighting inflation, namely that the central bank will move to nip pricing pressure in the bud with interest rate hikes when there is any sign of accelerating inflation. Many expect that Bernanke's view on interest rates should be similar to Greenspan's. At the announcement, Bernanke stressed that he would not differ too much from Greenspan. "If I am confirmed to this position, my first priority will be to maintain continuity with the policies and policy strategies established during the Greenspan years," he said. "I'll do everything in my power, in collaboration with my Fed colleagues, to help ensure the continued prosperity and stability of the American economy."

Based on current and expected 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 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 enhance earnings while maintaining safety of principal and adequate liquidity.

During the month of September 2005, the pooled investment interest income return was 3.24 percent. The pooled investment interest income return rate for FY 05 was 2.68 percent, slightly above the budget of 2.65 percent.

At September 30, 2005, the City's investment pool market yield was 3.24 percent compared to 2.75 percent at September 30, 2004, as indicated in the table on the previous page.

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, 2005, the General Fund represents approximately \$24.7 million or 2.04 percent of the pooled funds.

This report was reviewed by Assistant City Attorney Heather A. Mahood and Budget Management Officer David Wodynski on November 3, 2005.

TIMING CONSIDERATIONS

This item is not time critical.

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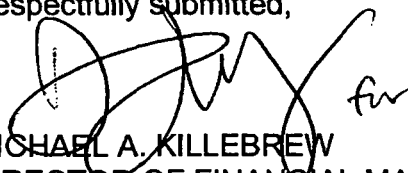
FISCAL IMPACT

There is no fiscal impact associated with this action.

SUGGESTED ACTION:

Approve recommendation.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Michael A. Killebrew", with a small "for" written to the right of the signature.

MICHAEL A. KILLEBREW
DIRECTOR OF FINANCIAL MANAGEMENT

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ATTACHMENTS

APPROVED:

A handwritten signature in black ink, appearing to read "Gerald R. Miller", written over a horizontal line.

GERALD R. MILLER
CITY MANAGER