



# CITY OF LONG BEACH

DEPARTMENT OF FINANCIAL MANAGEMENT

**C-9**

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August 23, 2005

HONORABLE MAYOR AND CITY COUNCIL  
City of Long Beach  
California

## RECOMMENDATION:

Receive and file Investment Report for Quarter Ending June 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 June 30, 2005, these funds had a market value of approximately \$1.3 billion, with approximately \$335 million, or 26 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. On February 8, 2005, the City Council approved the refinancing of the Health Facilities Financing Authority Loan (Health SAVRS) and approved using the City's investment pool to invest in this refinancing (Attachment A) if it is mutually advantageous to the City's Department of Health and Human Services and to the investment pool. The Health SAVRS loan was added into the City's investment portfolio on May 19, 2005 and will pay the pool rate plus 15 basis points. The effective interest rate of June 30, 2005 was 3.26 percent, inclusive of the 15 basis point charge. This asset will mature on March 22, 2019.

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 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 average weighted maturity for the City's total portfolio cannot exceed three years although an individual security can range up to five years (unless authorized by City Council to exceed five years).

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

Portfolio Funds	Amount of Funds	Values as of Month Ending 6/30/05		
		Benchmark Return	Weighted Avg Maturity	Effective Return
Short-Term Investment Pool	\$ 328,700,033	3.02 percent	142 days	2.91 percent
Long-Term Investment Pool	\$ 976,067,050	3.69 percent	1.75 years	3.18 percent
Total Investment Pool	\$ 1,304,767,083	3.52 percent	1.40 years	3.11 percent
<i>State of California L.A.I.F.*</i>	<i>For comparative purposes only</i>	<i>N/A</i>	<i>151 days</i>	<i>3.04 percent</i>

\* Local Agency Investment Fund

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

Month	Amount of Funds Invested	Values for Quarter Ending 6/30/05		
		Benchmark Return*	Purchase Yield	Over/(Under) Benchmark
April 2005	\$ 25,000,000	3.66 percent	3.82 percent	0.16 percent
May 2005	\$ 75,000,000	3.63 percent	3.69 percent	0.06 percent
June 2005	\$ 75,000,000	3.69 percent	3.77 percent	0.08 percent
<b>Total Invested Funds</b>	<b>\$ 175,000,000</b>	<b>3.66 percent</b>	<b>3.75 percent</b>	<b>0.09 percent</b>

\* 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 B.

The City's investment pool consists of all City funds except non-pooled investments such as 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 August 9, 2005, the Federal Funds Rate (Fed Rate) was raised to 3.50 percent. The One-Year Treasury Bill rate was yielding 3.96 percent, and the Five-year Treasury Note was at 4.25 percent. Consensus among analysts is that the Federal Reserve will continue to 4.00 percent by year-end and possibly to 4.25 percent. The Federal Reserve appears to be focused on controlling inflation and aligning the Fed Rate to average historical levels at a measure pace without stifling economic growth.

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 June 2005, the pooled investment interest income return was 2.81 percent. The pooled investment interest income return to finish FY 05 is estimated to reach 2.67 percent, slightly above the budgeted forecast of 2.65 percent.

At June 30, 2005, the City's investment pool market yield was 3.11 percent compared to 2.75 percent at June 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 June 30, 2005, the General Fund represents approximately \$74.7 million or 5.57 percent of the pooled funds.

This report was reviewed by Chief Assistant City Attorney Heather Mahood on July 26, 2005 and Budget Management Officer David Wodynski on August 1, 2005.

### TIMING CONSIDERATIONS

This item is not time critical.

### FISCAL IMPACT


There is no fiscal impact associated with this action.

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August 23, 2005  
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SUGGESTED ACTION:

Approve recommendation.


Respectfully submitted,

  
MICHAEL A. KILLEBREW  
DIRECTOR OF FINANCIAL MANAGEMENT

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ATTACHMENTS

APPROVED:

  
GERALD R. MILLER  
CITY MANAGER