



Legislation Text

File #: 06-0788, **Version:** 1

Recommendation to receive and file Investment Report for Quarter Ending June 30, 2006. (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 June 30, 2006, these funds had a market value of approximately \$1.4 billion, with approximately \$437 million, or 31 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 SI 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 2006 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.

On June 30, 2006, the City's investment pool market yield was 4.03 percent compared to 3.64 percent at March 31, 2006. The following table summarizes the Investment Pool yield performance for the quarter ending June 30, 2006:

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Long-Term Investment Pool

Total Investment Pool
State of California L.A.I.F.*
\$ 994,160,000 5.17 percent 1.30 years 3.79 percent
\$ 1,396,113,00 5.06 percent 1.03 years 4.03 percent
N/A 152 days 4.53 percent For comparison
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Benchmark
Return*
Invested Month
* Local Agency Investment Fund average for the period.
Purchase Over/(Under)
Yield** Benchmark

The following table summarizes the purchase yield of the City's new investments in the shortterm portfolio by month for the quarter ending June 30, 2006:

April 2006
May 2006
June 2006
Total Invested Funds *
SHORT-TERM PORTFOLIO
\$ 0 0 0 0
\$ 31,000,000 4.82 percent 5.94 percent 1 .12 percent
\$ 19,800,000 4.90 percent 5.35 percent 0.45 percent
\$ 50,800,000 4.85 percent 5.71 percent 0.86 percent
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Benchmar
Amount of
Funds Invested
Return* Yield** Benchmark
\$ 0 0 0 0

The following table summarizes the purchase yield of the City's new investments in the longterm portfolio by month for the quarter ending June 30; 2006:

May 2006
June 2006
Total Invested Funds *
LONG-TERM PORTFOLIO
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Month
\$ 29,900,000 5.10 percent 5.66 percent 0.56 percent
\$ 32,998,000 5.23 percent 5.75 percent 0.52 percent
\$ 62,898,000 5.17 percent 5.71 percent 0.54 percent

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) raised the Federal Funds Target Rate (Rate) twice more during the quarter, moving the Rate to 5.25 percent from 4.75 percent at March 31, 2006. One of the issues the new Chairman of the FOMC addressed this quarter is his vigilance as an inflation fighter. That was answered convincingly through him and other voting members whose comments and actions are reflected in higher yields at quarter-end. During the first quarter, the economy grew at a brisk rate of 5.6 percent, but 17 consecutive Rate increases are taking their toll on various sectors of the economy, resulting in the first Gross Domestic Product (GDP) report for the second quarter of 2.5 percent growth, below the expected 3 percent, with housing and rising energy costs having the biggest impact on consumers. Inflation levels are still above the FOMC comfort zone; however, with possible slower growth going forward, inflation levels may subside. In the meantime, according to the FOMC, any further increases in the Rate will be data-dependent.

Short-Term Investment Strategy

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.

Long-Term Investment Strategy

The City will continue to weigh new instruments at the 18-month to 30-month part of the yield curve in order to meet or exceed the benchmark yield and duration.

Treasury Bureau staff continues to monitor market conditions and market spreads daily in order to take advantage of opportunities to enhance earnings, while at the same time maintaining safety of principal and adequate liquidity.

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 July 27, 2006, and was presented to the City's Investment Advisory Committee on July 31, 2006.

This item is not time critical.

There is no fiscal impact associated with this action.

Approve recommendation.

MICHAEL A. KILLEBREW
DIRECTOR OF FINANCIAL MANAGEMENT

APPROVED:

GERALD R. MILLER
CITY MANAGER