



Memorandum

TO: Making Government Work Better
Committee

FROM: Scott P. Johnson

**SUBJECT: INVESTMENT REPORT
SUMMARY FOR THE
QUARTER ENDED MARCH 31, 2004**

DATE: May 5, 2004

Approved

Date

RECOMMENDATION

It is recommended that the Making Government Work Better Committee accept the City's Investment Report for the quarter ended March 31, 2004 and forward the report to the City Council for approval.

BACKGROUND

As part of its workplan for the six months beginning January 2004, the Making Government Work Better (MGWB) Committee has requested a quarterly report on the City's investment activity from the Finance Department. After receiving direction from the MGWB Committee during its last meeting and subsequent approval by the City Council, the Finance Department has placed the City's monthly investment report for the month ended February 2004 on the City's web site and electronically submitted it to the City Council. Additionally, Finance Treasury staff completed the City's first quarterly investment report in which the electronic report was posted to the City's web site and distributed to the Council electronically. This quarterly investment report for the quarter ended March 31, 2004 is also being transmitted in hard-copy format to the recipients of the MGWB Committee distribution list along with this summary. This summary report highlights the investment activity for the quarter ended March 31, 2004.

ANALYSIS

Summary of Investment Activity – Quarter Ending March 31, 2004

The information presented on the following page highlights the investment activity for the quarter ending March 31, 2004. As a comparison, information for quarters ending December 31, 2003 (the immediately preceding quarter) and March 31, 2003 are also provided.

For the quarter ended:	<u>March 2004</u>	<u>December 2003</u>	<u>March 2003</u>
<u>Total Portfolio:</u>			
Portfolio value*			
as of end of the quarter	\$1,277,756,847.15	\$1,349,105,290.37	\$1,377,346,908.22
Earned interest yield	2.616%	2.769%	3.386%
Portfolio effective yield	2.546%	2.694%	3.191%
Dollar-weighted average days to maturity	520	405	361
<u>Portfolio Fund 1:</u>			
Portfolio value*			
as of end of quarter	\$1,128,402,365.37	\$1,097,262,879.42	\$1,289,871,304.32
Earned interest yield	2.851%	2.971%	3.529%
Portfolio effective yield	2.692%	2.961%	3.275%
Dollar-weighted average days to maturity	585	491	362
<u>Total Portfolio Income</u>			
<u>Recognized:</u>			
Net interest earnings	\$8,825,667.73	\$8,809,835.90	\$11,690,211.53
Fiscal year-to-date Interest earnings	\$27,174,301.45	\$18,348,633.72	\$39,624,886.27

* Reflects book value (principal plus any purchased interest costs).

The City’s total investment portfolio as of March 31, 2004 was \$1.278 billion. This is a decrease of approximately \$71.3 million from December 31, 2003, primarily due to payments of debt service and transfers of 80% tax increment to City and Redevelopment Agency trustees. The weighted average days to maturity as of March 31, 2004 were 520 days, representing an increase of 105 days from the 405 reported as of December 31, 2003. This increase is due primarily to extending additional investments of U.S. Treasury and Federal Agency securities maturing in a 2-to 5-year range. For the quarter ended March 31, 2004, the earned interest yield was 2.616%,

representing a decrease of 0.153% from the quarter ending December 31, 2003, reflective of the continued volatility in the overall investment markets.

From quarters ending March 31, 2003 to March 31, 2004, the investment portfolio earned interest yield declined 0.770%, reflecting the volatility of the bond market and the overall trend of declining interest rates due to uncertainty of global political conditions and overall inconsistency in the economic sectors during the past year. In May 2004, the Federal Open Market Committee (FOMC) voted to leave the federal funds rate at 1%, the lowest level since 1958. In its May statement, however, the FOMC eliminated a longstanding reference to “monetary policy patience”, adopted in 2003, signaling the committee’s increased willingness to raise interest rates.

Actual General Fund interest earnings for the quarter ended March 2004 fell below budgeted earnings estimates, primarily due the continued overall decline in yields. However, actual interest earnings for the fiscal year to date are greater than the fiscal year to date annual budgeted earnings estimates. Assuming market trends continue, however, staff anticipates actual total interest earnings for the fiscal year will be slightly below budgeted estimates.

PUBLIC OUTREACH

The City’s quarterly investment report for the period ending March 31, 2004 has been placed on the City’s web site for ease of public access. A hard copy of the report is also available for review by the public in the City Clerk’s Office.

COORDINATION

This report has been coordinated with the City Manager’s Office.

CEQA

Not a project.

SCOTT P. JOHNSON
Director, Department of Finance