



# Memorandum

**TO:** Making Government Work Better  
Committee

**FROM:** Scott P. Johnson

**SUBJECT: QUARTERLY SUMMARY -  
CITY'S INVESTMENT REPORT**

**DATE:** November 10, 2004

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Approved

Date

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## **RECOMMENDATION**

It is recommended that the Making Government Work Better Committee accept the City's Investment Report for the quarter ended September 30, 2004.

## **BACKGROUND**

As part of the Making Government Work Better (MGWB) Committee's workplan, the Finance Department will present a quarterly report on the City's investment activity. Under separate cover, the MGWB Committee and City Council has received a comprehensive quarterly report for the period ended September 30, 2004. This report includes a summary of investment activity for the quarter ended September 30, 2004.

## **ANALYSIS**

### **Summary of Investment Activity – Quarter Ending September 30, 2004**

The information presented on the following page highlights the investment activity for the quarter ending September 30, 2004. As a comparison, information for quarters ending June 30, 2004 (the immediately preceding quarter) and September 30, 2003 are also provided.

<b>For the quarter ended:</b>	<b><u>September 2004</u></b>	<b><u>June 2004</u></b>	<b><u>September 2003</u></b>
<b><i><u>Total Portfolio:</u></i></b>			
Portfolio value*			
as of end of the quarter	\$1,283,592,576.10	\$1,403,752,746.28	\$1,263,458,650.39
Earned interest yield	2.335%	2.427%	2.852%
Portfolio effective yield	2.381%	2.251%	2.845%
Dollar-weighted average days to maturity	441	462	329
<b><i><u>Portfolio Fund 1:</u></i></b>			
Portfolio value*			
as of end of quarter	\$1,018,563,015.59	\$1,114,544,315.53	\$1,102,455,169.28
Earned interest yield	2.519%	2.569%	3.021%
Portfolio effective yield	2.558%	2.466%	3.059%
Dollar-weighted average days to maturity	551	574	374
<b><i><u>Total Portfolio Income</u></i></b>			
<b><i><u>Recognized:</u></i></b>			
Net interest earnings	\$7,808,369.64	\$7,571,709.81	\$9,538,797.72
Fiscal year-to-date Interest earnings	\$7,808,369.64	\$34,746,011.26	\$9,538,797.72

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

The total investment portfolio as of September 30, 2004 was \$1.284 billion. This is a decrease of approximately \$120 million from June 30, 2004, primarily due to accounts payable and payroll related disbursements and transfers to trustees and escrow agents related to debt service and housing projects. The weighted average days to maturity as of September 30, 2004 was 441 days, representing a decrease of 21 days from 462 days as of June 30, 2004. For the quarter ended September 30, 2004, the earned interest yield was 2.335% which was a decrease of 0.092% from the quarter ended June 30, 2004. The decrease in both the weighted average days to maturity and the earned interest yield are attributed to investments placed primarily to cover short-term cash requirements and sale proceeds from a bond issuance invested in short-term

securities pending placement into guaranteed investment agreements. In addition, the decrease in the earned interest yield also reflects the investment portfolio composition which contains investments purchased in prior periods at lower market yields.

From the quarter ended September 2003 to the quarter ended September 2004, the investment portfolio earned interest yield declined 0.517%, reflecting the volatility of the bond market and interest rates during previous quarters of the past year due to uncertainty of global political conditions and overall inconsistency in the economic sectors. The Federal Open Market Committee (FOMC) has been removing its accommodative monetary policy at a measured pace, starting with raising the federal funds rate 25 basis points to 1.25% on June 30, 2004, followed by additional increases of 25 basis points on August 10, 2004 and September 21, 2004. The FOMC is scheduled to meet on November 10, 2004, at which time the FOMC is expected to raise the federal funds rate at least another 25 basis points to 2%.

Actual General Fund interest earnings were \$992,434 for the quarter ended September 2004 and for the fiscal year-to-date. Interest earnings were slightly greater than budgeted earnings estimates by \$2,008 for the quarter ended September 2004 and for the fiscal year-to-date.

The monthly comparison of cash balances as reported in the City’s Financial Management System reveals the cyclical changes in balances which over time are reflected in the investment portfolio balances. The monthly balances for the Airport, Capital Projects and Redevelopment Agency reflect the influx of bond sale proceeds and the subsequent expenditures reducing balances over time.

In March 2004, Council approved revisions to the City’s Investment Policy (Policy) which changed the reporting of investment activity from monthly to quarterly and the distribution of the reports to electronically and accessible to the public on the City’s website. In accordance with the Policy and the State of California Government Code, Finance staff will be submitting an annual Statement of Investment Policy for Council consideration and approval in December 2004. Staff is currently performing a detailed review of the Policy and plans to submit proposals to Council which are intended to enhance the Policy and also incorporate recent changes to the State Government Code. The proposed revisions include adding municipal bonds as an authorized investment and revising the criteria for purchasing commercial paper in order to expand the list of acceptable issuers of commercial paper.

## **PUBLIC OUTREACH**

N/A

## **COORDINATION**

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

**CEQA**

Not a project.

SCOTT P. JOHNSON  
Director, Department of Finance