

**City of Yuba City
Administrative Services Department
Staff Report**

Date: November 7, 2006
To: Honorable Mayor & Members of the City Council
From: Steven C. Kroeger, Assistant City Manager/City Treasurer



Summary

Subject: Presentation of Treasurer's Report – Quarter Ended September 30, 2006 and Investment Policy Amendment

Recommendation: 1) Note & File Quarterly Treasurer's Report
2) Amend Section X of the City of Yuba City Investment Policy to provide for quarterly reporting

Alternative: N/A

Fiscal Impact: Informational item only

Details

Background: In accordance with the City's adopted Investment Policies, staff has prepared the attached investment report for City Council review. This is the first of the new format for presentation to the City Council for the previous quarter (July, August, & September).

In 1996, State legislation made quarterly investment reporting to local agency governing boards mandatory. However, the 2003-04 Budget Act suspended the State mandated reimbursement, and subsequently the approval of AB 2853 made quarterly investment reporting optional. The City's Investment Policy states that an investment report will be submitted monthly to the City Council (Section X). Staff would prefer to compile a more comprehensive quarterly report for review by Council and change the language in the Investment Policy to reflect this change.

Analysis: As of September 30, 2006, the City's overall investment portfolio (estimated market value) totaled \$121,042,834. This represents a net increase of \$8,089,143 from the previous quarter ended June 30, 2006 balance of \$112,953,691. Besides the regular normal activity and timing of the City's revenue's and expenditures, notable transactions during this quarter include the receipt of Gauche Park COP funds in August and bi-annual debt service payments in September.

The City's "paper gain" of \$10,101 as of September 30th represents the amount of money that the City would gain if it were to liquidate its entire portfolio at the end of the reporting period. However, such gains might not be realized if the investments are held until maturity (which is the City's historical investment strategy). With regard to cash flow demands, the City's needs are easily met by the roughly \$40.4 million as of September 30th (approximately 47.4% of the "City Held Investments" portfolio value) that is currently invested in LAIF, CAMP and in the City's Wells Fargo account, which are wholly liquid.

The following table provides a comparison of the portfolio for the quarter ended September 30, 2006, and the previous quarters ended June 30, 2006, March 30, 2006 and December 2005.

City of Yuba City of Yuba City Portfolio Comparison				
	9/30/06	6/30/06	03/31/06	12/31/05
Cost Basis	\$121,094,736	\$113,025,037	\$116,136,924	\$110,878,810
Estimated Market Value	121,104,837	112,953,691	115,988,618	110,734,648
Unrealized Gains/(Losses)	10,101	(71,345)	(148,306)	(144,161)
Weighted Average Yield to Maturity at Market	4.558%	n/a	n/a	n/a
Weighted Average Years: Maturity of Total Funds	.804 years	n/a	n/a	n/a
Liquidity	47.3%	49.8%	47.2%	45.0%
CPI (Inflation)	2.10%	4.10%	3.40%	3.40%
LAIF Interest Rate	5.023%	4.849%	4.142%	3.808%
CAMP Interest Rate	5.210%	5.160%	4.460%	4.170%

At its meeting last week, the Federal Reserve left interest rates unchanged. The overnight federal funds rate has been at 5.25 percent since June 29, when the Fed ended its string of 17 consecutive increases that started in 2004 to keep inflation in check. Based on current economic data (i.e., the economy is cooling and expectations of economic growth in 2007 are moderate at best), it is anticipated that the Fed may begin to cut rates by mid-2007. In light of this data, staff is beginning to evaluate opportunities in extending the maturity of investments.

Conclusion:

The City's overall portfolio returns are consistent with current market conditions. The portfolio's earnings are within the expectations contained in the adopted budget. Each investment continues to be in compliance with State law and the City's formal Investment Policies

Attachment A

- A schedule for receiving statements and portfolio listings
- Whether reserves, retained earnings, etc. are utilized by the pool/fund
- A fee schedule, and when and how fees are assessed
- Whether the pool/fund is eligible for bond proceeds and/or will it accept such proceeds

Legislative Changes. Any State of California legislative action that further restricts allowable maturities, investment types or percentage allocations will be incorporated into this investment policy and supersede any and all previous applicable language. If the City is holding an investment that is subsequently prohibited by a legislative change, the City may hold that investment until the maturity date to avoid an unnecessary loss.

VIII. INVESTMENT PARAMETERS

Diversification. The City shall diversify the investments within the portfolio to avoid incurring unreasonable risks inherent in over investing in specific instruments, individual financial institutions or maturities. The asset allocation in the portfolio should, however, be flexible depending upon the outlook for the economy, the securities markets, and the City's anticipated cash flow needs.

Maximum Maturities. To the extent possible, the City shall attempt to match its investments with anticipated cash flow requirements and known future liabilities. With the exception of Special Assessment District obligations, the City will not invest in securities maturing more than five (5) years from the date of purchase, unless the City Council has by resolution granted authority to make such an investment at least three months prior to the date of investment.

IX. EVALUATION OF INVESTMENT PERFORMANCE

The investment portfolio shall be designed to attain a market rate of return throughout budgetary and economic cycles, taking into account prevailing market conditions, risk constraints for eligible securities, and cash flow requirements. The performance of the City's investments shall be compared to the average yield on the U.S. Treasury security that most closely corresponds to the portfolio's weighted average effective maturity. When comparing the performance of the City's portfolio, its rate of return will be computed net of all fees and expenses.

X. REPORTING

The Assistant City Manager/Treasurer shall prepare and submit a ~~monthly~~ **quarterly** investment report to the City Council. This report will include the following elements relative to the investments held at ~~month-end~~ **the end of the quarter**.

- Type of Investment
- Issuer of Investment
- Maturity date
- Coupon rate



City of Yuba City

Treasurer's Quarterly
Investment Report

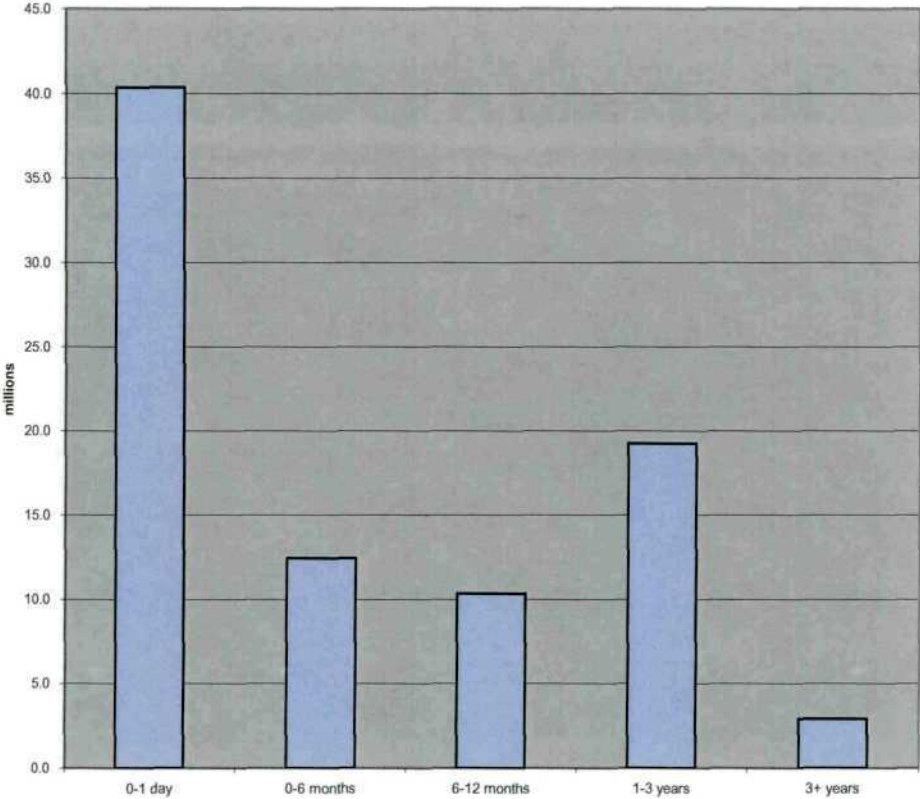
September 30, 2006

**City of Yuba City
Treasurer's Report
Summary of Account Activity
For Quarter Ended September 30, 2006**

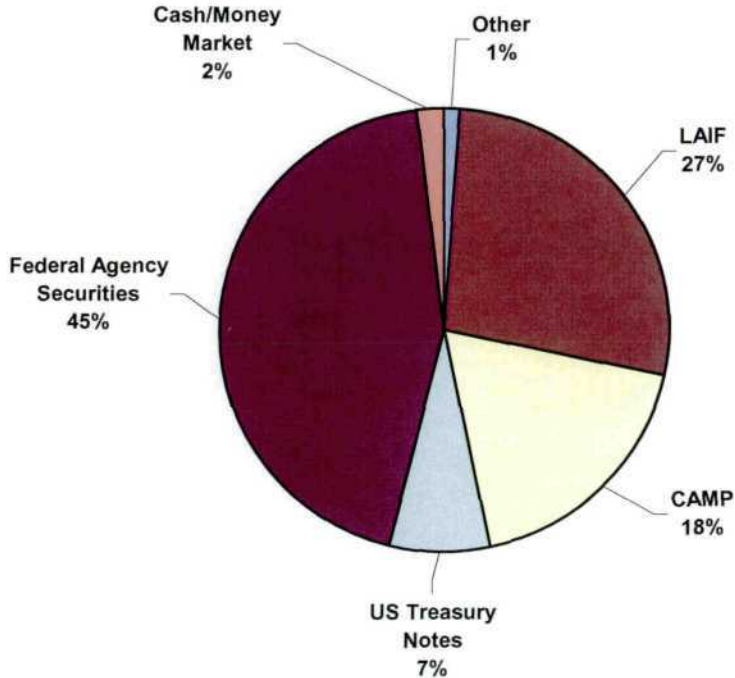
Account Types	Balance 9/30/2006
City Held Investments	
L.A.I.F. \$	23,160,299
C.A.M.P.	15,580,469
Cash/Money Market	1,620,373
Cash & Cash Equivalent	\$ 40,361,141
Federal Agency Securities	37,650,822
US Treasuries	6,198,703
Other	1,070,597
Total City Held Investments	\$ 85,281,263
Trustee Held Investments	
Wastewater Revenue Certificates - 2000	\$ 924,892
Buttes Vista AD - 2000	92,478
Water Revenue Certificates - 2001	377,622
Wastewater Revenue Certificates - 2002	1,007,592
Buttes Vista AD - 2002	82,752
Tierra Buena AD - 2003	232,253
RDA Tax Allocation Series A - 2004	7,358,722
Housing Set Aside Series B - 2004	2,750,968
Sunsweet Blvd CFD - 2004	1,698,942
Water Revenue Certificates - 2005	9,270,696
Gauche Park COP - 2006	12,026,662
Total Trustee Held Investments	\$ 35,823,579
Total	\$ 121,104,842

**City of Yuba City
Treasurer's Report
For Quarter Ended September 30, 2006**

Maturity Distribution of City Held Investment Portfolio



City Held Investment Portfolio



City of Yuba City
Detail Investment Statement
As September 2006
City Held Investments
(Listed in Order of Maturity Date)

No.	Description of Security	Issuing Institution	Maturity Date	Coupon Rate	Yield to Maturity	Cost Basis	Estimated Market Value	Unrealized Gain/(Loss)
1	Local Agency Investment Fund (LAIF)	State Treasurer	Daily	5.023%	5.023%	\$ 23,160,299	\$ 23,160,299	\$ -
2	Calif. Asset Management Program (CAMP)	CAMP	Daily	5.340%	5.210%	15,580,469	15,580,469	-
3	Wells Fargo Money Market & Checking Accts.	Wells Fargo	Daily (Sweep)	4.321%	4.321%	840,024	840,024	-
4	Highmark Money Market	Union Bank	Daily	4.840%	4.840%	780,349	780,349	-
5	Fed Home Ln Bank Bonds	Sec America	10/27/06	2.550%	2.550%	1,000,000	998,130	(1,870)
6	US Treasury Notes	Lehman Brothers	10/31/06	2.500%	2.510%	982,031	998,050	16,019
7	Federal Home Ln Bks	CSFB	11/15/06	4.125%	4.130%	1,492,257	1,497,660	5,403
8	Fed Home Ln Bank Bonds	Banc of America	11/15/06	4.875%	4.880%	1,004,620	999,380	(5,240)
9	Fed Home Ln Bank Bonds	CitiGroup	12/21/06	3.250%	3.270%	1,000,000	995,310	(4,690)
10	Fed Home Ln Bank Bonds	Sec America	01/29/07	2.750%	2.770%	1,000,000	991,880	(8,120)
11	Fed Home Ln Bank Bonds	Sec America	02/13/07	2.500%	2.530%	1,000,000	990,000	(10,000)
12	Fed Home Ln Bank Bonds	CitiGroup	02/14/07	2.665%	2.690%	1,000,000	990,310	(9,690)
13	Fed Home Ln Bank Bonds	CitiGroup	02/15/07	3.570%	3.590%	1,000,000	993,750	(6,250)
14	Fed Home Ln Bank Bonds	Sec America	02/23/07	3.000%	3.030%	1,000,000	991,250	(8,750)
15	Fed Home Ln Mtg Corp Notes	Banc of America	02/28/07	4.250%	4.270%	996,730	995,700	(1,030)
16	Federal Natl Mtg Assn	Banc of America	02/28/07	4.000%	4.020%	992,948	994,690	1,742
17	Fed Home Ln Mtg Corp Notes	Banc of America	04/05/07	4.250%	4.270%	994,260	994,770	510
18	Federal Home Ln Bks	CitiGroup	04/19/07	2.875%	2.910%	976,821	987,190	10,369
19	PG&E SGIP Escrow Account	Union Bank	05/10/07	3.230%	3.230%	479,183	473,279	(5,904)
20	Fed Home Ln Bank Bonds	Banc of America	05/15/07	3.500%	3.540%	983,990	989,380	5,390
21	Fed Home Ln Bank Bonds	Banc of America	06/08/07	4.625%	4.650%	1,448,966	1,443,664	(5,303)
22	Fed Home Ln Bank Bonds	Sec America	06/22/07	3.550%	3.590%	1,000,000	988,130	(11,870)
23	Federal Home Ln Bks	JPMChase	08/08/07	4.625%	4.650%	993,964	995,310	1,346
24	Fed Home Ln Bank Bonds	CitiGroup	08/10/07	3.320%	3.370%	1,000,000	984,690	(15,310)
25	FHLMC Reference Notes	JPMChase	08/17/07	4.000%	4.050%	494,116	495,000	885
26	Fed Home Ln Bank Bonds	CitiGroup	08/24/07	3.270%	3.330%	1,000,000	983,440	(16,560)
27	Jan Court Assessment District	City of Yuba City	09/02/07	7.600%	7.600%	3,500	3,500	-
28	Rickey Drive Assessment District	City of Yuba City	09/02/07	7.600%	7.600%	4,000	4,000	-
29	Fed Home Ln Bank Bonds	Sec America	09/28/07	4.100%	4.150%	1,000,000	989,060	(10,940)
30	Fed Home Ln Bank Bonds	CitiGroup	10/04/07	4.125%	4.170%	1,000,000	990,310	(9,690)
31	US Treasury Notes	Morgan Stanley	10/31/07	4.250%	4.280%	997,031	993,090	(3,941)
32	US Treasury Notes	CitiGroup	01/31/08	4.375%	4.400%	992,422	994,060	1,638
33	Federal Home Ln Mtge Corp Nts	Banc of America	02/21/08	4.625%	4.650%	992,429	994,690	2,261
34	Federal Home Ln Mtge Corp	Banc of America	04/18/08	5.125%	5.120%	500,106	500,940	835
35	US Treasury Notes	Merrill Lynch	04/30/08	4.875%	4.870%	748,477	751,088	2,611
36	Federal Natl Mtg Assn	UBS Financial Svs	05/19/08	2.875%	2.970%	477,575	483,280	5,705

City of Yuba City
Detail Investment Statement
As September 2006
City Held Investments
(Listed in Order of Maturity Date)

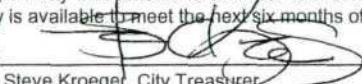
No.	Description of Security	Issuing Institution	Maturity Date	Coupon Rate	Yield to Maturity	Cost Basis	Estimated Market Value	Unrealized Gain/(Loss)
37	Federal Home Ln Mtge Corp Nts	Bear Sterns Com	06/03/08	2.850%	2.950%	953,470	966,040	12,570
38	Federal Farm Cr Bks	Merrill Lynch	07/15/08	3.375%	3.470%	959,880	972,500	12,620
39	Fed Home Ln Bank Bonds	Sec America	09/02/08	4.000%	4.080%	1,000,000	981,880	(18,120)
40	US Treasury Notes	Banc of America	09/15/08	3.125%	3.220%	959,922	971,090	11,168
41	US Treasury Notes	Merrill Lynch	09/15/08	3.125%	3.220%	479,531	485,545	6,014
42	Fed Home Ln Mtg Corp Notes	Merrill Lynch	11/03/08	5.010%	4.920%	996,870	995,330	(1,540)
43	Federal Natl Mtg Assn	Goldman Sachs	02/27/09	5.280%	5.280%	697,739	699,566	1,827
44	Federal Natl Mtg Assn	Banc of America	03/16/09	3.125%	3.260%	472,510	479,375	6,865
45	Federal Home Ln Bks Bonds	Banc of America	04/15/09	4.875%	4.880%	990,470	998,750	8,280
46	Fed Home Ln Mtg Corp Notes	Deutsche Securities	04/24/09	5.500%	5.500%	997,610	1,000,250	2,640
47	US Treasury Notes	Bear Sterns Com	05/15/09	4.875%	4.860%	996,953	1,005,780	8,827
48	Federal Natl Mtg Assn	JPMChase	05/15/09	4.250%	4.320%	975,457	984,060	8,603
49	Federal Natl Mtg Assn	Banc of America	06/15/09	6.375%	6.150%	772,765	777,188	4,423
50	Federal Farm Cr Bks	UBS Financial Svs	07/17/09	4.125%	4.220%	969,030	978,440	9,410
51	West Hillcrest Assessment District	City of Yuba City	09/02/09	7.000%	7.000%	152,174	152,174	-
52	Federal Natl Mtg Assn	Morgan Stanley	09/15/09	6.625%	6.330%	1,039,180	1,046,560	7,380
53	Federal Natl Mtg Assn	Merrill Lynch	08/11/10	4.875%	4.880%	495,825	499,530	3,705
54	Federal Natl Mtg Assn	Morgan Stanley	11/08/10	5.200%	5.220%	499,615	497,970	(1,645)
55	Fed Home Ln Mtg Corp Notes	UBS Financial Svs	04/18/11	5.125%	5.080%	1,010,390	1,008,750	(1,640)
56	Federal Natl Mtg Assn	Merrill Lynch	05/19/11	5.625%	5.550%	497,560	506,720	9,160
57	Marcia Avenue Assessments District	City of Yuba City	09/02/12	6.100%	6.100%	30,252	30,252	-
58	East Hillcrest Assessment District	City of Yuba City	09/02/16	6.000%	6.000%	49,022	49,022	-
59	Darrough Drive Assessment District	City of Yuba City	09/02/24	6.000%	6.000%	140,547	140,547	-
60	Staple/Ashley/Dennis Assessment District	City of Yuba City	03/02/30	6.000%	6.000%	155,820	155,820	-
	U.S. Consumer Price Index (Inflation)		September		2.100%			
Total City Held Investments						\$ 85,209,157	\$ 85,219,258	\$ 10,101

City of Yuba City
Detail Investment Statement
As September 2006
Investments Held by Other Fiscal Agents (1)

No.	Description of Debt Issuance	Account Type	Description of Security	Maturity Date	Coupon Rate	Yield to Maturity	Cost Basis	Estimated Market Value	Unrealized Gain/(Loss)
61	Wastewater Revenue Certificates - 2000	Reserve	Ambac Capital	06/01/25	6.520%	6.520%	\$ 914,738	\$ 914,738	\$ -
62		Installment	Blackrock T-Fund	Daily	4.950%	4.950%	460	460	-
63		Arbitrage	Blackrock T-Fund	Daily	4.950%	4.950%	9,694	9,694	-
64	Buttes Vista AD - 2000	Reserve	LAIF	Daily	5.023%	5.023%	92,477	92,477	-
65	Water Revenue Certificates - 2001	Reserve	LAIF	Daily	5.023%	5.023%	377,234	377,234	-
66		Reserve	Blackrock T-Fund	Daily	4.950%	4.950%	194	194	-
67		Installment	Blackrock T-Fund	Daily	4.950%	4.950%	194	194	-
68	Wastewater Revenue Certificates - 2002	Reserve	MBIA Investment	06/01/32	5.400%	5.400%	1,007,355	1,007,355	-
69		Installment	Blackrock T-Fund	Daily	4.950%	4.950%	237	237	-
70	Buttes Vista AD - 2002	Reserve	LAIF	Daily	5.023%	5.023%	82,751	82,751	-
71	Tierra Buena AD - 2003	Reserve	Blackrock T-Fund	Daily	4.950%	4.950%	232,103	232,103	-
72		Prepayment	Blackrock T-Fund	Daily	4.950%	4.950%	150	150	-
73	RDA Tax Allocation Series A - 2004	Reserve	LAIF	Daily	5.023%	5.023%	1,099,000	1,099,000	-
74		Reserve	Blackrock T-Fund	Daily	4.950%	4.950%	250	250	-
75		Interest	Blackrock T-Fund	Daily	4.950%	4.950%	475	475	-
76		Principal	Blackrock T-Fund	Daily	4.950%	4.950%	177	177	-
77		Project	Blackrock T-Fund	Daily	4.950%	4.950%	7,278	7,278	-
78		Project	CDC Funding	02/15/07	2.610%	2.610%	6,251,542	6,251,542	-
79	Housing Set-Aside Series B - 2004	Reserve	LAIF	Daily	5.023%	5.023%	305,000	305,000	-
80		Reserve	Blackrock T-Fund	Daily	4.950%	4.950%	966	966	-
81		Interest	Blackrock T-Fund	Daily	4.950%	4.950%	135	135	-
82		Principal	Blackrock T-Fund	Daily	4.950%	4.950%	51	51	-
83		Project	CDC Funding	02/15/07	2.610%	2.610%	2,442,683	2,442,683	-
84		Project	Blackrock T-Fund	Daily	4.950%	4.950%	2,133	2,133	-
85	Sunsweet Blvd CFD - 2004	Reserve	Blackrock T-Fund	Daily	4.950%	4.950%	218,960	218,960	-
86		Installment	Blackrock T-Fund	Daily	4.950%	4.950%	258	258	-
87		Project	Blackrock T-Fund	Daily	4.950%	4.950%	1,479,724	1,479,724	-
88	Water Revenue Certificates - 2005	Reserve	CAMP	Daily	5.340%	5.210%	1,480,810	1,480,810	-
89		Installment	Blackrock T-Fund	Daily	4.950%	4.950%	1,554	1,554	-
90		Project	CAMP	Daily	5.340%	5.340%	4,562,309	4,562,309	-
91		Project	Commercial Paper	6/19/06-7/7/06	5.295%	5.295%	3,226,023	3,226,023	-
92	Gauche Park COP - 2006	Reserve	CAMP	Daily	5.320%	5.200%	773,537	773,537	-
93		Project	CAMP	Daily	5.320%	5.200%	11,246,274	11,246,274	-
94		COI	Blackrock T-Fund	Daily	4.950%	4.950%	6,851	6,851	-
	U.S. Consumer Price Index (Inflation)			September		2.100%			
Total Non-City Investments							\$ 35,823,576	\$ 35,823,576	\$ -
TOTAL CITY & NON-CITY INVESTMENTS							\$ 121,032,732	\$ 121,042,834	\$ 10,101

(1) Union Bank of California services as fiscal agent for all debt issuances

I certify to the best of my knowledge: (i) That this statement reflecting all City investments is accurate and complete; (ii) That each investment conforms with the City's investment policies, as well as California's Government Code; and (iii) That sufficient cash flow liquidity is available to meet the next six months of estimated disbursements.

Signed:  Steve Kroeger, City Treasurer

Date: 11/1/06