

Agenda Report

TO: City Council
Through Finance Committee

FROM: City Manager

DATE: February 25, 2001

RE: Quarterly Investment Report – Quarter ending 12/31/01

RECOMMENDATION:

This item is for information purposes only.

BACKGROUND:

Government Code Section 53646 (b)(1) requires the Treasurer or Chief Fiscal Officer of a local agency to render a quarterly report to the legislative body of the local agency containing detailed information on all securities, investments, and moneys of the local agency, a statement of compliance of the portfolio with the statement of investment policy, and a statement of the local agency's ability to meet its pool's expenditure requirements for the next six months. By requiring these reports to be made, this bill imposes a state-mandated local program. The bill requires the Treasurer or Chief Fiscal Officer to report whatever additional information or data may be required by the legislative body of the local agency.

In addition to the report required by Section 16480.7, Section 16481.2 was added to the Government Code requiring the Treasurer to submit a quarterly report to the legislative body/oversight committee within 30 days following the end of the quarter containing the following:

- 1) The type of investment, name of the issuer, date of maturity, par and dollar amount invested in each security, investment, and money within the treasury.
- 2) The weighted average maturity of the investments within the treasury.
- 3) Any funds, investments, or programs, including loans, that are under the management of contracted parties.

4) The market value as of the date of the report, and the source of this valuation for any security within the treasury.

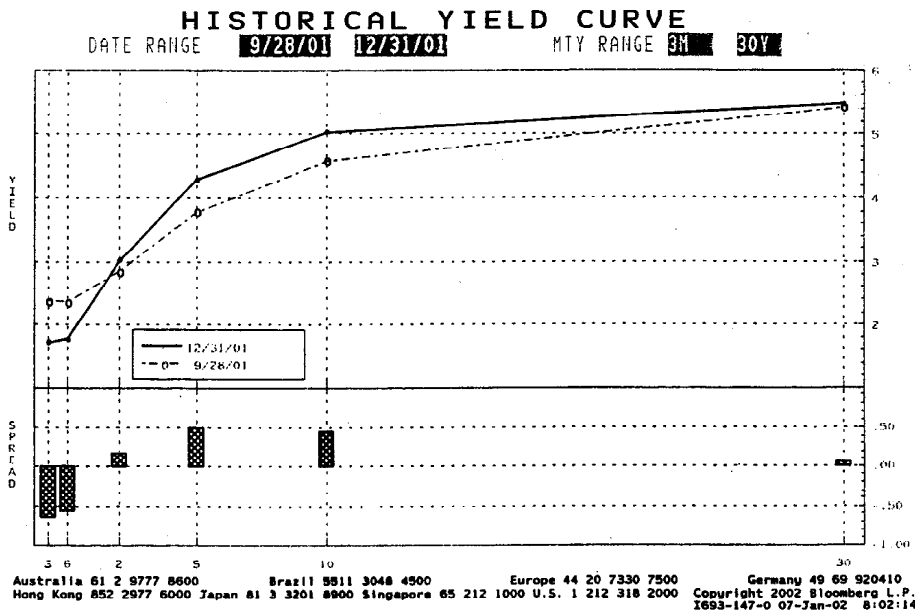
5) A description of the compliance with the statement of investment policy.

ECONOMIC SUMMARY:

Treasuries were mixed over the course of 4th quarter 2001. Short-term T-Bills rallied with the three month and six month yields dropping by 63 and 57 basis points, while the rest of the curve sold off. The 5-year and 10-year Treasury yields, representing the intermediate sector, experienced the highest increase in yields and jumped by 53 and 51 basis points respectively. The long term bond began to sell off after the release of some economic indicators hinting to a possible economic recovery.

Employment continued to increase during the quarter reaching to 5.8% rate, the highest it has been since April 1995. Although most employment data pointed to a weak economy, indicators such as Advanced Retail Sales, Durable Goods Order, and NAPM came higher than analysts' expectations during the second half of the quarter. The Advanced Retail Sales figure came in up by 7.1% as compared to an expected increase of 2.5%. This news led investors to sell off long term Treasuries in belief that this may be a sign of a recovering economy and a sentiment that the economy would recover during 2002.

The Fed met three times during the quarter, on October 2nd, November 6th, and December 11th. The Fed cut rates at all three FOMC meetings, 0.50% in October, 0.50% in November and 0.25% in December. At the same time, the Fed cut the Discount rate by a total of 1.25%, from 2.50% to 1.25%.



GASB - Mark to Market Accounting for Municipalities

On March 13, 1996, the Government Accounting Standards Board issued a proposal to change the accounting and financial reporting practices on investment securities for most public sector entities. This was finalized into GASB Statement No. 31 in March 1997. The provisions of GASB No. 31 were effective for financial statements beginning July 1, 1997. Statement No. 31 requires mark to market accounting for all investments except for investments with maturities of 1 year or less at the time of purchase. In essence, public entities will disclose all market value changes for securities, both positive and negative, in their financial statements. GASB 31 contains no exceptions for securities that management has the intent and ability to hold to maturity. This is radically different from the current accounting guidelines for public entities and unlike the standards (FASB 115) applicable to "for-profit institutions". Under FASB 115, those securities designated as "held to maturity" can be reported at amortized cost.

This change in investment accounting for public entities will have a significant impact on the overall financial operation of a public entity. The mark-to-market valuation of unrealized gains and losses in an investment portfolio can result in significant swings in an entity's operating statement and/or its unreserved fund balance. The City of Pasadena has already implemented GASB 31 accounting in fiscal year 1998.

Total Funds under management as of 12/31/01 (market values incl. accrued interest)

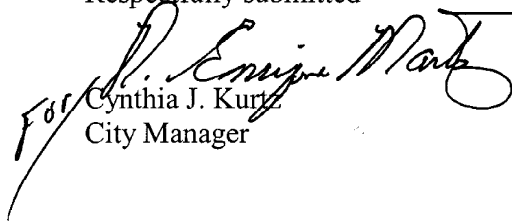
Pooled Investment Portfolio	194,175,287
Capital Endowment Portfolio	9,830,018
Stranded Investment Reserve Portfolio	156,194,798
Special Funds	23,828,289
Investments held with Fiscal Agents	<u>42,611,050</u>
Total Funds under management	<u>426,639,442</u>

Per the Government Code requirements, attached are the reports by each fund, indicating the type of investments, date of maturity, par and dollar amount invested in each security, investment and moneys within the treasury along with the market values as of December 31, 2001. The City Treasurer prices the pooled portfolio and all other funds and investments under management on a monthly basis. The market values are obtained from Interactive Data Corporation (IDC) and Bloomberg Financial System. IDC is an independent third party whose sole service is to provide market prices for all types of securities.

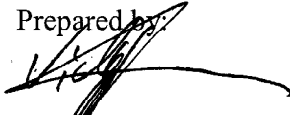
The types of securities held in the portfolio and their percentage allocation to the total are in compliance with the City's 2001-02 Investment Policy, which was adopted by the City Council on October 22, 2001 and Section 53600 of the State Government Code. The City Treasurer

currently maintains an average of \$25 million short-term liquid investments (one to 90 day maturities). This balance, along with anticipated cash flows into the City's account, represent a strong liquidity position to meet budgeted expenditures for the next six months.


Respectfully submitted


Cynthia J. Kurtz
City Manager

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