

# Agenda Report

TO: City Council  
Attn: Finance Committee

FROM: City Manager

DATE: February 14, 2000

RE: Quarterly Investment Report – Quarter ending 12/31/99

**RECOMMENDATION:**

This item is for information purposes only.

**BACKGROUND:**

Senate Bill 564 which went into effect on January 1, 1996, requires the Treasurer or Chief Financial 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.

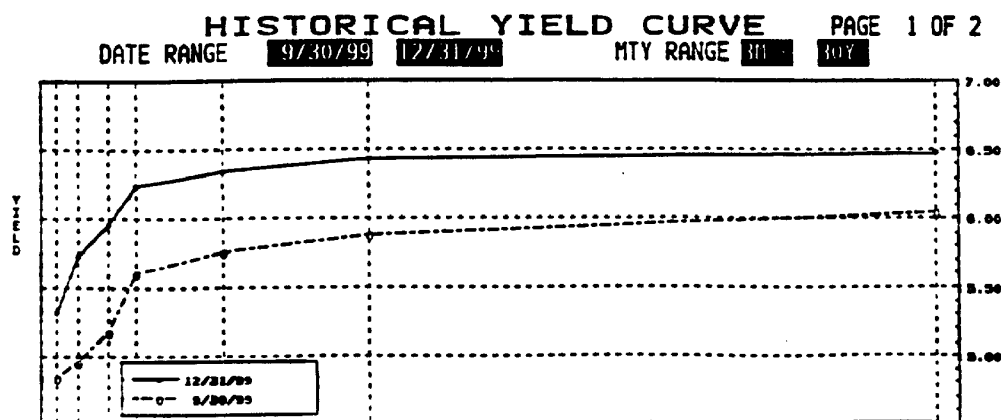
### **ECONOMIC SUMMARY:**

The fourth quarter was marked by emerging concerns about inflation and higher interest rates. The quarter was again a disappointing one for the financial markets. Strong GDP growth and domestic demand coupled with tight labor market pushed yields higher all across the curve. Coming into the fourth quarter, the market was unsure as to whether the Fed would raise rates in November or wait until February. Instead, we continued to see strength in all areas of the economy. At the end of October, the government reported that GDP grew at 4.8% in the third quarter (later revised to 5.7%) and domestic demand continued to be exceptionally strong. In attempt to cool things off, the Fed hiked rates 25 basis points (0.25%) at their November meeting.

In mid November, the market received a few surprises on the inflation front which sent rates higher in the bond market. The CPI released on November 17 for October was higher than market expectation and sent further inflationary fears in the market and drove bond yields higher. At the same time, the labor markets remained exceptionally tight with the unemployment rate at 4.1%, the lowest since early 1970's. The Fed addressed the labor market tightness in its FOMC meeting statement stating that "the pool of available workers willing to take jobs has been drawn down further, a trend that must eventually be contained if inflationary imbalances are to remain in check and economic expansion continue."

In a summary, upside surprises on some inflation reports, and statistical reports indicating no slow down in demand and consumption, combined with the Fed's 25 basis points increase in rates led to a rise in rates in the bond market. The two year Treasury rose by 63 basis points from 5.60% to 6.23% and the long bond closed at 6.48%, up by 43 basis points. Despite the rise in rates, financial conditions did not tighten enough to slow the pace of the economy. This was confirmed by last week's GDP report which showed that GDP grew at 5.8% during the fourth quarter of 1999.

The following represents the yield curve as of December 31, 1999 compared to last quarter end:



#### 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 12/31/99 (market values):

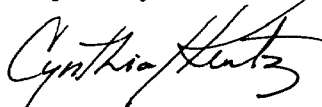
Pooled Investment Portfolio	122,400,764
Capital Endowment Portfolio	11,963,441
Stranded Investment Reserve Portfolio	95,308,141
Special Funds	31,949,518
Investments held with Fiscal Agents	<u>39,446,867</u>
Total Funds under management	<u>301,068,731</u>

Per Senate Bill 564 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, 1999. 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.

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The types of securities held in the portfolio and their percentage allocation to the total are in compliance with the City's 1999-00 Investment Policy, which was adopted by the City Council on October 25, 1999, Section 53600 of the State Government Code and the investments authorized by the City Council on February 24, 1996. The City Treasurer currently maintains an average of \$20 million short term liquid investments (one to seven 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



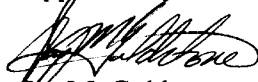
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Prepared by:



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Approved by:



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