

# Agenda Report

**TO: CITY COUNCIL  
ATTN: FINANCE COMMITTEE**

**DATE: NOVEMBER 18, 2002**

**FROM: CITY MANAGER**

**SUBJECT: QUARTERLY INVESTMENT REPORT  
QUARTER ENDING SEPTEMBER 30, 2002**

**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.

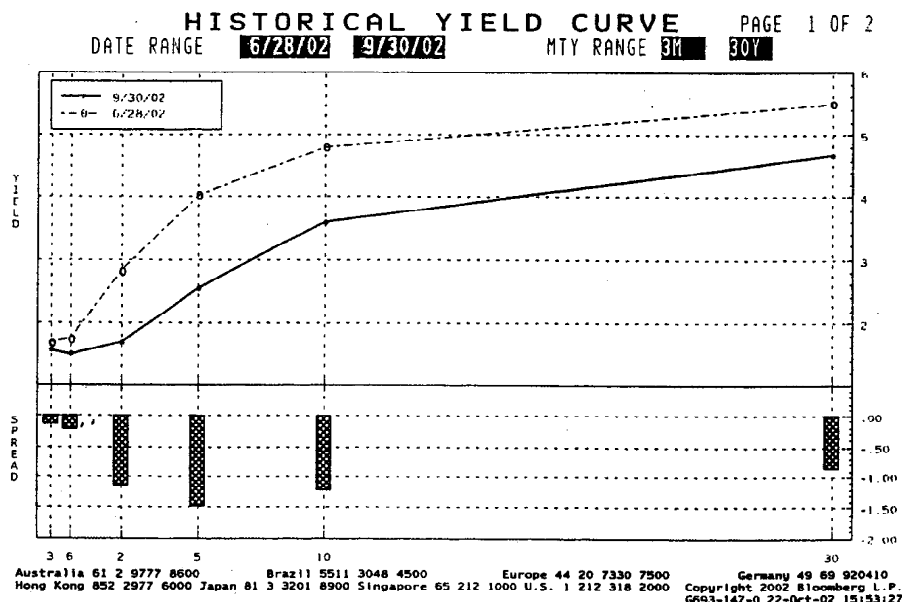
5) A description of the compliance with the statement of investment policy.

### ECONOMIC SUMMARY:

The third quarter of 2002 brought a slow and grinding halt to the perceived economic recovery. While only the housing market and auto sales had positive results, most other sectors of the economy exhibited a decline. Manufacturing slowed as evidenced by the ISM factory index, which registered below the benchmark of 50. This was the first decline in the index in eight months. Consumer confidence deteriorated as the stock market declined and the talk of war with Iraq continued to heat up. Inflation remained tame. The 12 month CPI change as of August was 1.8% while PPI fell to -1.6% indicating no inflationary pressures in the near future. Congress passed the corporate fraud legislation and the federal government began criminal and legal proceedings against players in Enron, Worldcom and Tyco. For the year ending September 30<sup>th</sup>, the federal government predicted the largest budget deficit in eight years.

Treasuries rallied over the course of the third quarter, pushing yields significantly lower along the curve. The largest shift in the curve occurred on the five year treasury where the yield dropped by 1.48% to 2.56%, the lowest level since inception in 1973. The yield on the two year Treasury dropped by 1.12% to 1.683% and the yield on the ten year Treasury dropped by 1.2% to 3.594%.

The FOMC met twice during the quarter and left the Fed Funds rate unchanged. The FOMC however did change its economic assessment to weakness. The minutes of the meeting stated: "the expansion recently had been less robust than expected and that for the foreseeable future the risks of a more extended period of subpar growth had increased".



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 09/30/02 (market values):**

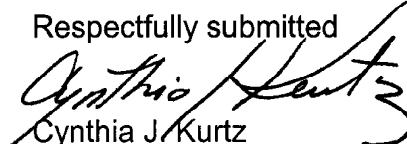
Pooled Investment Portfolio	212,201,297
Capital Endowment Portfolio	9,498,162
Stranded Investment Reserve Portfolio	163,085,616
Special Funds	71,310,585
Investments held with Fiscal Agents	<u>35,804,881</u>
Total Funds under management	<u>491,900,541</u>

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, as well as, investment and moneys within the treasury along with the market values as of September 30, 2002. 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 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 \$30 million short term liquid

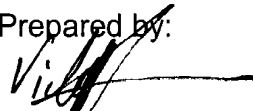
investments (one to 90 day maturities). This balance, along with anticipated cash flows into the City's account, represent a strong liquidity position to meet budgeted expenditures for the next six months.

Respectfully submitted




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