

Agenda Report

TO: CITY COUNCIL
THROUGH: FINANCE COMMITTEE
FROM: CITY MANAGER
DATE: SEPTEMBER 16, 2002
RE: QUARTERLY INVESTMENT REPORT – QUARTER ENDING 6/30/02

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 the following: 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.

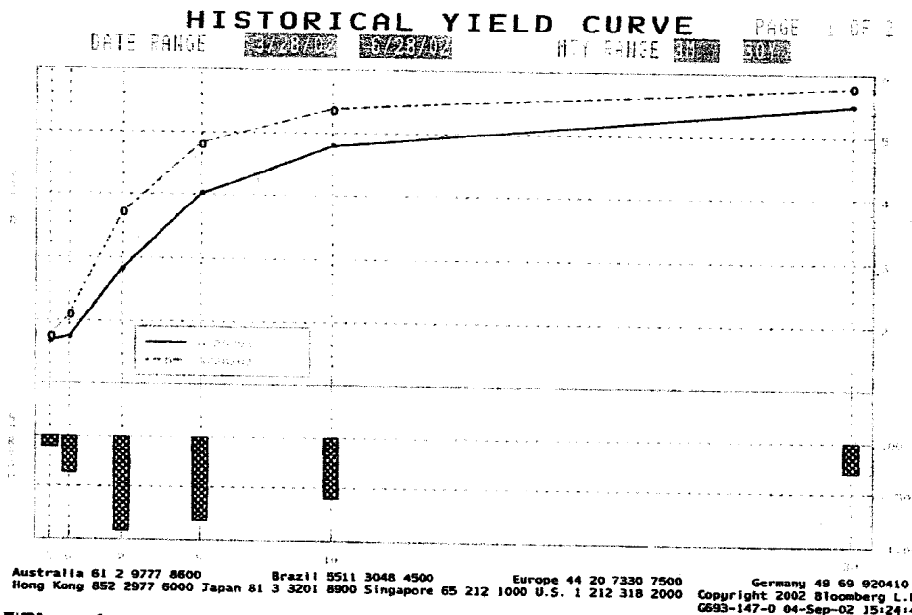
In addition to the report required by Section 16480.7, Section 16481.2 was added to the Government Code requiring the Treasurer to submit a quarterly report to the legislative body/oversight committee within 30 days following the end of the quarter containing the following:

- 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 bond market rallied during the second quarter of 2002 deriving most of its direction from the woes of the equity market, namely the lost of investor confidence and the mounting accounting scandals in corporate America. The 6.1% growth in the GDP in the first quarter of 2002 and the market's optimism for a meaningful recovery was shattered in the second quarter as the news of accounting irregularities in companies such as ENRON, Worldcom, TYCO, and Xerox hit the wire news and credit ratings downgrade have severely affected the financial markets. Any good economic news such as increases in durable goods orders, steady retail sales, strong housing market and signs of slow recovery in the economy were overshadowed by skepticism and lack of investor confidence. The GDP growth for the second quarter of 2002 is now estimated at 1.1% rate. The Fed Funds futures, which at the end of the first quarter had been pricing in a 100 basis points increase by September of this year, ended the second quarter only pricing a 25 basis points increase occurring in early 2003. The FOMC met twice during the quarter on May 7th and June 26th, leaving the rates unchanged at each meeting. The following represents the yield curve on June 30, 2002:



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.

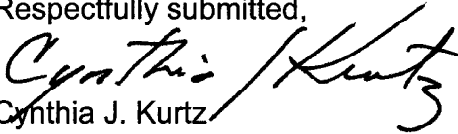
Total Funds under management as of 6/30/02 (market values incl. accrued interest)

Pooled Investment Portfolio	210,410,916
Capital Endowment Portfolio	9,411,419
Stranded Investment Reserve Portfolio	160,545,749
Special Funds	23,316,191
Investments held with Fiscal Agents	<u>35,744,251</u>
Total Funds under management	<u>439,428,526</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 June 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 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 a minimum 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.

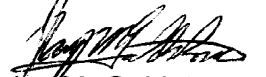
Respectfully submitted,


Cynthia J. Kurtz
City Manager

Prepared by:


Vic Erganian
City Treasurer

Approved by:


Jay M. Goldstone
Director of Finance