

Agenda Report

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

DATE: MARCH 10, 2003

FROM: CITY MANAGER

**SUBJECT: QUARTERLY INVESTMENT REPORT
QUARTER ENDING DECEMBER 31, 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.

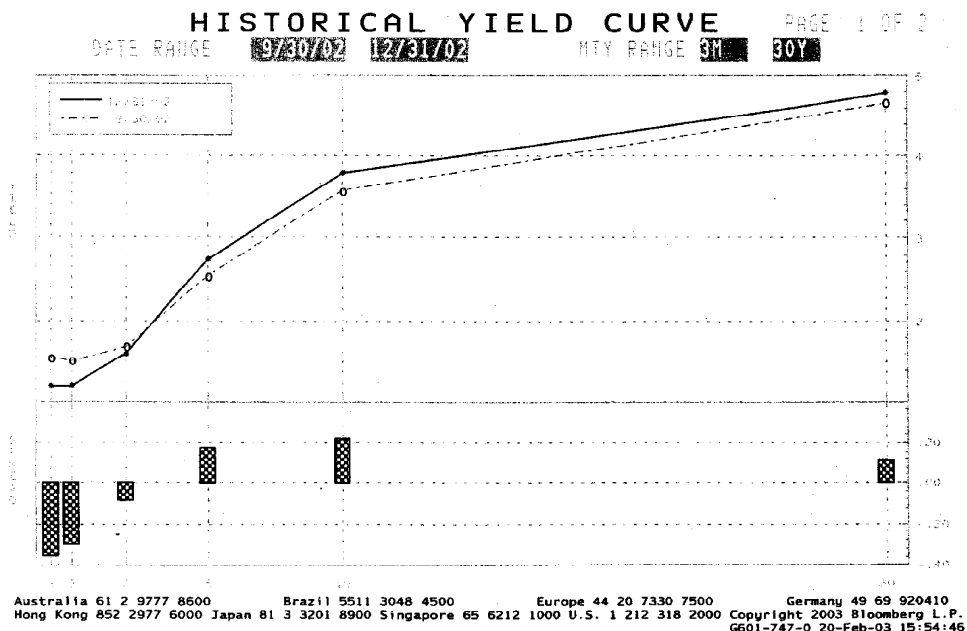
4) The market value as of the date of the report, and the source of this valuation for any security within the treasury.

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

ECONOMIC SUMMARY:

The US economic growth slowed down during the 4th quarter of 2002 and the GDP growth for the period measured at an anemic 0.9% rate. Approximately 200,000 jobs were lost during the quarter as corporations announced layoffs as a result of bankruptcies or as part of cost cutting measures to increase their earnings per share. The increased potential of war with Iraq drove oil prices above \$31 per barrel and gold prices above \$348 per ounce. Inflation remained tame at the retail level as the CPI rose only slightly above 2.0% (year-over-year). The GDP for the calendar year 2002 ended at 2.4% rate. Although this does not seem such a bad growth rate, if you have an economy that has a potential to grow at a 3.5% rate, then what an actual 2.4% rate performance accomplishes is a further build up of an economic slack. With all the fiscal and monetary stimulus that has been thrown at the economy in the past two years, the consensus sees a growth acceleration for 2003 as compared to 2002.

The Federal Open Market Committee met twice during the quarter, on November 6th and December 10th. On November 6th, the Fed cut the Fed Funds rate as well as the discount rate by 0.50%. The FOMC also changed its economic assessment back to neutral stating that "risks to the economy are now balanced between weakness and inflation". The Fed further commented that the greater uncertainty in the markets is partly attributable to heightened geopolitical risks, which are inhibiting spending, production and employment. The November cut in rates was the Fed's 12th cut since the beginning of 2001.



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 12/31/02 (market values):

Pooled Investment Portfolio	214,426,459
Capital Endowment Portfolio	9,623,310
Stranded Investment Reserve Portfolio	167,829,205
Special Funds	63,496,530
Investments held with Fiscal Agents	<u>42,798,406</u>
Total Funds under management	<u>498,173,910</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 December 31, 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 November 18, 2002 and Section 53600 of the State Government Code. The City Treasurer currently maintains an average of over \$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
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