

Agenda Report

TO: City Council
Attn: Finance Committee

FROM: City Manager

DATE: August 14, 2000

RE: Quarterly Investment Report – Quarter ending 06/30/00

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 second quarter of 2000 turned out to be rather a transitional quarter. The quarter began with anticipation that the Fed would continue to raise rates for many months to come, but by the end of June, anticipations were significantly different.

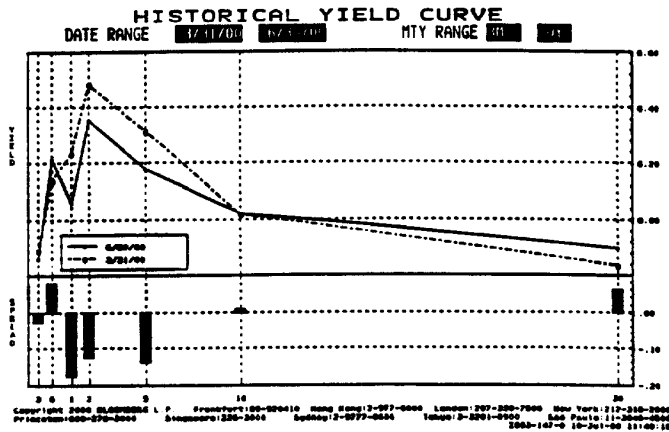
During April the financial markets continued to face concerns over inflationary pressures in the economy. Throughout April the treasury markets watched closely April's economic indicators for some clues as to the FOMC's decision at the May 16th meeting. The reports however gave little encouragement that further increases in rates could be avoided. Unemployment rate in April was unchanged at 4.1% but April's change in non-farm payroll recorded its largest increase since February 1996 and PPI came in higher than analysts' expectations. Consumer spending and Employment Cost Index posted sharp increases marking record numbers in the last 17 years.

The unemployment report released in May showed a drop in the unemployment rate from 4.1% to 3.9%, the lowest rate since 1970, along with the hourly wage increase of 0.4% versus expectations of 0.3%. The question for investors was not if the FOMC would raise rates, but whether they would increase it by 25 or 50 basis points. At its meeting on May 16th, the Fed increased the Fed Funds rate and the discount rate by 50 basis points. There was little change in the bond market following the Fed's announcement as the market had already priced in the yield curve an interest rate increase of 50 basis points.

The economic reports in June began to offer some relief to the fixed income markets. The attitudes on Wall Street changed more drastically than the actual numbers indicated. The primary reason was the sudden turnaround of the economic indicators. By the end of June, the whole tone of the economy appeared to have gone from robust to a soft landing scenario. The employment report indicated that the unemployment rate had risen to 4.1% and the Average Hourly Earnings came below analysts' expectations at 0.1%. Both these reports helped ease concerns about wage pressures and tight labor markets. Advanced Retail Sales fell in June by 0.3% versus a status quo expectation, and PPI and CPI recorded below analysts' expectations offering more relief from worries on upward price pressures. The Fed kept the Fed Funds Rate unchanged at its meeting on June 28th but warned that it may increase rates in August if inflationary pressures persist and the economy does not show some significant signs of slowing growth to a sustainable level.

The short end of the yield curve did rise over the second quarter with Fed Funds and other short term rates increasing by 50 basis points, but the longer end of the Treasury market, the 10 and 30 year issues remained virtually unchanged in yield.

The following represents the yield curve as of June 30, 2000 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.

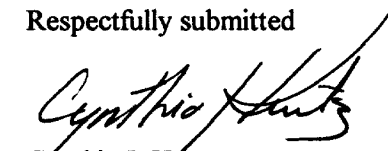
Total Funds under management as of 06/30/00 (market values):

Pooled Investment Portfolio	127,722,841
Capital Endowment Portfolio	12,301,717
Stranded Investment Reserve Portfolio	112,239,450
Special Funds	25,781,696
Investments held with Fiscal Agents	<u>36,376,044</u>
Total Funds under management	<u>314,421,748</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 June 30, 2000. 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 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



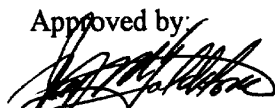
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City Manager

Prepared by:



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Approved by:



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