

# Agenda Report

TO: City Council  
Attn: Finance Committee

FROM: City Manager

DATE: June 25, 2001

RE: Quarterly Investment Report – Quarter ending 03/31/01

**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.

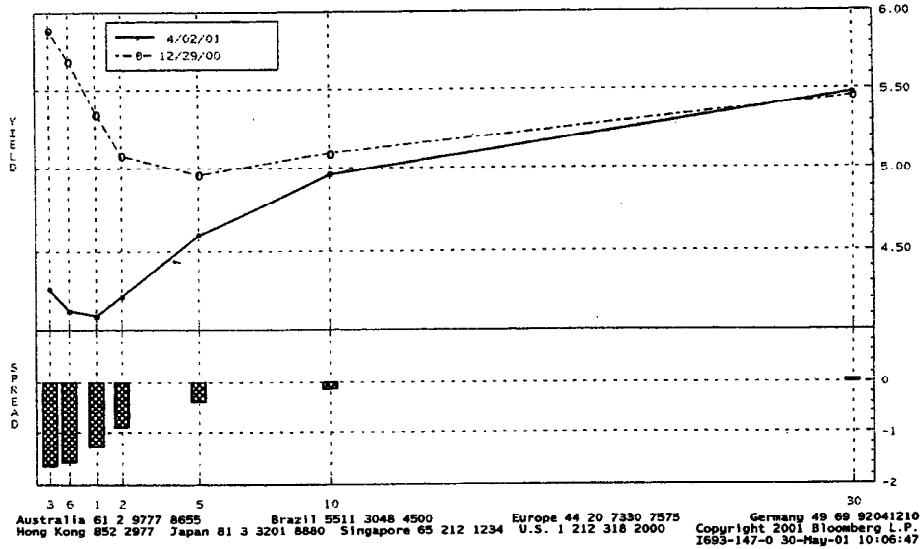
**ECONOMIC SUMMARY:**

The first quarter of 2001 began with a surprise interest rate cut by the Federal Open Market Committee. On January 3<sup>rd</sup>, the Fed cut the Fed Funds rate by 0.50% to 6% and cut the Discount rate by 0.50% to 5.75% followed by another reduction to 5.50% following the next day. The Fed cited several reasons for its action including weakening sales and production, dropping consumer confidence and increased energy prices. The growth rate of the GDP (4<sup>th</sup> quarter 2000) reported in January was 1.4%, lower than analysts' expectations of 2%. At its January 31<sup>st</sup> meeting, the FOMC cut the Fed Fund rate by another 0.50% bringing it to 5.50% and lowered the Discount rate to 5.00%.

The unemployment report released on February 2<sup>nd</sup> jumped to 4.2% from the 4% rate reported in January and the CPI rose 0.6% versus analysts' expectations of 0.3%. The PPI rose 1.1% above analysts' expectations of 0.3% gain and industrial production fell for two consecutive months. Greenspan's comments about the slowing economy and the Fed's actions taken to prevent a recession led the financial market to price into the yield curve several additional cuts in the Fed Funds rate.

March was full of uncertainties and concerns about inflation. Economic statistics indicated weak demand, a slowing GDP and a host of earnings warnings in the equities market. Most investors were expecting a Fed cut rate of 0.75% on March 20<sup>th</sup>. Unemployment in March remained at 4.2%, Non-Farm payrolls increased by 135,000 versus the forecasted 75,000, and PPI less food and energy declined by 0.3% versus analysts' expectations of an increase of 0.1%. On March 20<sup>th</sup>, the FOMC cut the Fed Funds rate by 0.50% to 5.00% and the Discount rate was lowered to 4.5%.

After three Fed cuts for a total of 1.5% in the first quarter of 2001, the yield curve shifted back to a normal shape at the end of March. The spread between the 1-year Treasury Note and the 30-year Bond was a negative 18 bps at the beginning of the quarter. By the end of March, the spread between the 1-year T-Note and the 30-year Bond was 134 bps. The following graph represents the yield curve on 12/31/00 versus 03/31/2001:



**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 3/31/01 (market values):**

Pooled Investment Portfolio	153,326,954
Capital Endowment Portfolio	13,179,142
Stranded Investment Reserve Portfolio	145,552,384
Special Funds	27,775,568
Investments held with Fiscal Agents	<u>57,088,249</u>
Total Funds under management	<u>396,922,297</u>

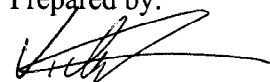
Per the Government Code requirements, attached are the reports by each fund, indicating the type of investments, date of maturity, par and dollar amount invested in each security, investment and moneys within the treasury along with the market values as of March 31, 2001. The City Treasurer prices the 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 2000-01 Investment Policy, which was adopted by the City Council on December 11, 2000, Section 53600 of the State Government Code and the investments authorized by the City Council on July 24, 2000. 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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