

# Agenda Report

TO: City Council  
Attn: Finance Committee

FROM: City Manager

DATE: March 12, 2001

RE: Quarterly Investment Report – Quarter ending 12/31/00

**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:**

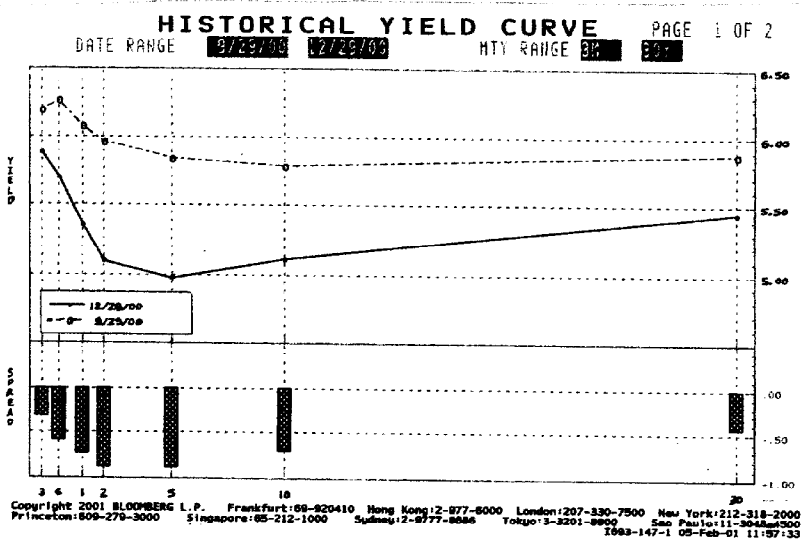
The U.S. economy expanded in the fourth quarter at the slowest pace in 5-1/2 years as consumer spending cooled and business investments fell for the first time since 1992. The fourth quarter GDP rose 1.4% annual rate, down from 2.2% in the prior three months. At the Senate Budget Committee testimony in January 2001, Mr. Greenspan stated: "We have a dramatic slowing down, and indeed we are probably very close to zero (growth rate) at this particular moment".

The quarter began with an FOMC meeting on October 3, 2000. As expected, the Fed left the federal funds target rate and the discount rate unchanged at 6.5% and 6% respectively warning that there were still some inflationary concerns in the form of higher energy cost and a very low unemployment rate. This warning came out despite signs of economic slowdown evidenced by the estimated growth rate for third quarter GDP at 2.7% versus the expected 3.6%. CPI and PPI came in higher than expectations while non-farm payroll increased more than expectation and advanced retail sales showed signs of robust sales.

With the presidential election on the 7<sup>th</sup>, an FOMC meeting on the 15<sup>th</sup> and numerous concerns over a slowing economy, the month of November was full of issues to consider. The yield curve rallied in November, much of the rally occurred after the Fed's meeting on November 15<sup>th</sup>. The Fed maintained the monetary policy unchanged and left the fed funds target rate and discount rate at 6.5% and 6% respectively. The Fed indicated a slowdown in the economy as consumer demand and projected business sales declined. Non-farm payroll numbers came in under the estimated numbers indicating a slowdown in the labor market. The second estimate for the third quarter GDP was reported at 2.4%, less than the first estimate of 2.7%.

Economic releases during December firmed the market consensus of an economic slowdown. The question in the market was not if, but when, the Fed would ease as mounting evidence showed weaknesses in the economy. Consumer confidence plummeted as U.S. companies announced earnings shortfalls and projected slowdown in sales and earnings forecasts. Unemployment rate increased to 4% from 3.9% and the increase in non-farm payroll came in far below expectation. CPI and PPI were in line with expectations. The final estimate for third quarter GDP was declared at 2.2%, below analysts' expectations of 2.4%.

Yields shifted downwards across the curve. The one year Treasury yield dropped 0.72% during the quarter. The two year the five year treasury yields dropped 0.88% and 0.87% respectively. The ten year dropped 0.69% while the yield on the long bond dropped 0.43%.



**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.

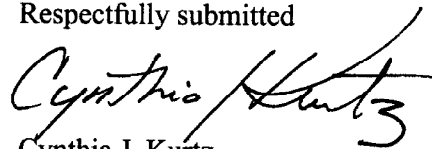
**Total Funds under management as of 12/31/00 (market values):**

Pooled Investment Portfolio	157,782,246
Capital Endowment Portfolio	12,910,553
Stranded Investment Reserve Portfolio	134,913,429
Special Funds	31,984,886
Investments held with Fiscal Agents	<u>68,999,089</u>
Total Funds under management	<u>406,590,203</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 December 31, 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 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



Cynthia J. Kurtz  
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