

Agenda Report

TO: City Council
Attn: Finance Committee

FROM: City Manager

DATE: September 10, 2001

RE: Quarterly Investment Report – Quarter ending 06/30/01

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.

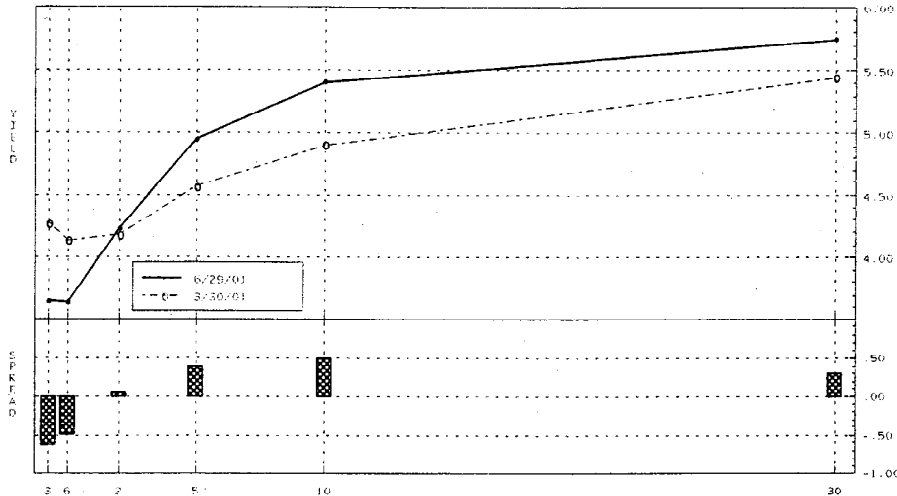
- 4) The market value as of the date of the report, and the source of this valuation for any security within the treasury.
- 5) A description of the compliance with the statement of investment policy.

ECONOMIC SUMMARY:

The second quarter of 2001 brought with it a lot of concerns about the US economy which continued to slow down going into April 2001. Over the course of the second quarter, the Treasury yield curve increased and considerably steepened. By the end of the quarter, the spread between the one year bond and the thirty year bond increased from 1.34% to 2.13%. The majority of this steepening of the curve was the result of a rally in the short end of the yield curve. The short yields, represented by the three month and one year CMTs declined by 0.65% and 0.48% respectively while the long yields, represented by the ten and thirty year CMTs increased by 0.49% and 0.29%.

Economic data continued to indicate a slowing economy in the second quarter of 2001. The economy barely moved forward growing by a mere 0.2% rate. This was the weakest GDP growth rate in eight years. As compared to the second quarter, the economy grew at a rate of 1.3% during the first three months of the year. Unemployment rate increased to 4.5% in April and June, its highest level since October 1998. Industrial Production, another measure of the manufacturing activity in the economy, continued to decline. The May decline in the Industrial Production was the eighth consecutive month of decline. Consumers remained the major force in keeping the country out of a recession. Consumer spending which accounts for two-thirds of the total GDP rose at an annual 2.5% rate during the second quarter. Inflation statistics decreased, reflecting the slack in the labor and product markets. June's twelve month change in the Consumer Price index (CPI) decreased to 3.2% from 3.6%, and PPI dropped from 3.8% to 2.5%. The Fed continued to comment that the weak economy has eased the pressure on labor and product market prices.

The continued weakness in the economy, particularly in the manufacturing sector, prompted the Fed to lower rates by a total of 1.25% during the quarter. Year-to-date, the FOMC has cut rates by a total of 2.75% rate in an effort to avoid going into an economic recession.



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 6/30/01 (market values):

Pooled Investment Portfolio	151,471,406
Capital Endowment Portfolio	13,358,506
Stranded Investment Reserve Portfolio	152,944,232
Special Funds	22,769,439
Investments held with Fiscal Agents	42,206,562
Total Funds under management	<u>382,750,145</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 June 30, 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.

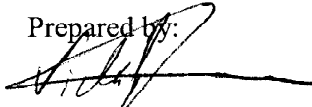
The types of securities held in the portfolio and their percentage allocation to the total are in compliance with the City's 2000-01 Investment Policy, which was adopted by the City Council on December 11, 2000, Section 53600 of the State Government Code and the investments authorized by the City Council 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



Cynthia J. Kurtz
City Manager

Prepared by:



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City Treasurer

Approved by:



Jay M. Goldstone
Director of Finance