

Agenda Report

TO: City Council
Through Finance Committee

FROM: City Manager

DATE: May 20, 2002

RE: Quarterly Investment Report – Quarter ending 3/31/02

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.

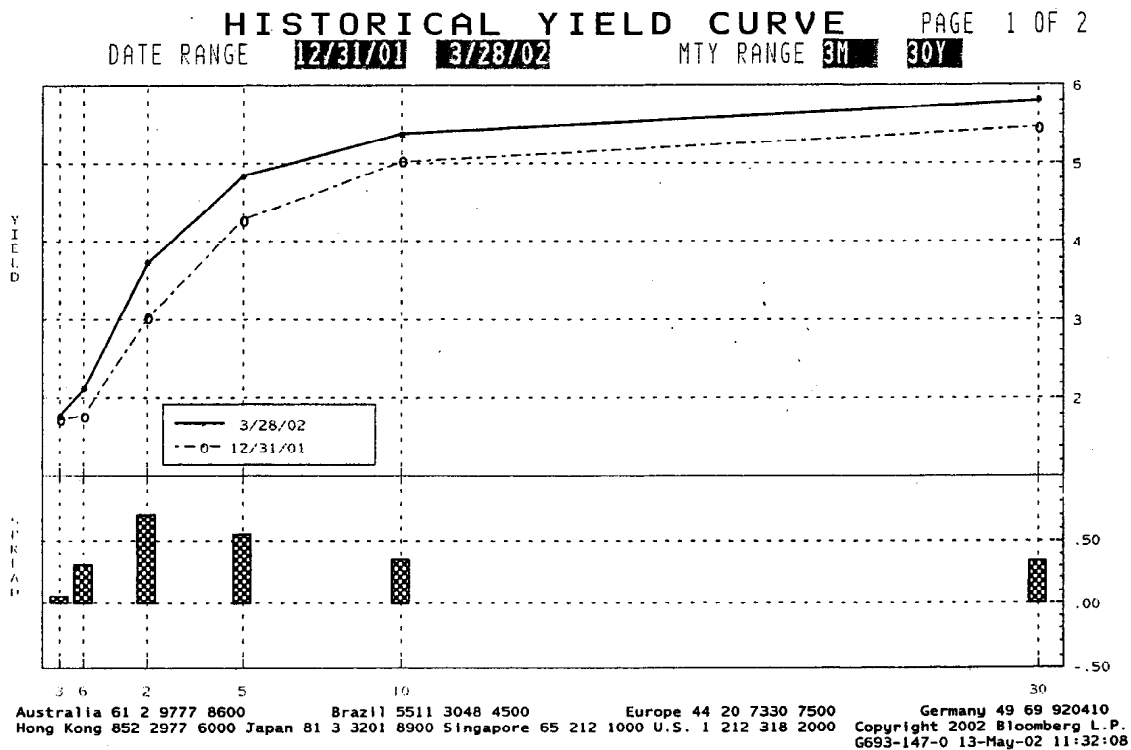
In addition to the report required by Section 16480.7, Section 16481.2 was added to the Government Code requiring the Treasurer to submit a quarterly report to the legislative body/oversight committee within 30 days following the end of the quarter containing the following:

- 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 economic data released during the first quarter of 2002 indicated an emerging yet fragile recovery in the U.S. economy. Employment data released in February showed a decrease in the unemployment rate from 5.8% to 5.6% and on February 28th, the U.S. Gross Domestic product was released for the fourth quarter of 2001 indicating an expansion of the U.S. economy at an annual rate of 1.4% as compared to analysts' expectation of 0.9%. On February 27th, the Federal Reserve Chairman stated that the U.S. economy was "close to a turning point". This remark made by Alan Greenspan fueled the expectation in the financial markets that the Fed has changed its bias to a tightening in Fed Funds rate in the near future. As a result, bond prices dropped and yields on Treasuries increased. In March, the February unemployment rate was released at 5.5%, the second consecutive month decline, further indicating an economy that was improving. This created optimism in the financial markets after two consecutive quarters of bad economic news, September 11 terrorist attacks, an economic recession, Enron, accounting irregularities in Corporate America, and devaluation of equity prices. The FOMC met twice during the quarter, on January 30th and March 19th and left the Fed Funds rate unchanged at each meeting. The Fed dropped their 15-moth-old view that weak growth is the biggest threat to the U.S. economy and changed their economic assessment from a position of weakness to neutral. The following represents the yield curve on March 31, 2002:



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 3/31/02 (market values incl. accrued interest)

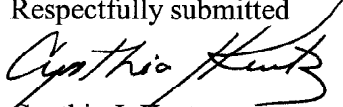
Pooled Investment Portfolio	206,354,051
Capital Endowment Portfolio	9,838,564
Stranded Investment Reserve Portfolio	156,313,414
Special Funds	23,917,615
Investments held with Fiscal Agents	<u>38,915,888</u>
Total Funds under management	<u>435,339,532</u>

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, 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.

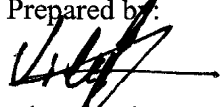
The types of securities held in the portfolio and their percentage allocation to the total are in compliance with the City’s 2001-02 Investment Policy, which was adopted by the City Council

on October 22, 2001 and Section 53600 of the State Government Code. The City Treasurer currently maintains an average of \$25 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.

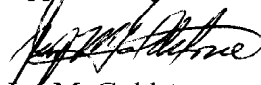
Respectfully submitted


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