

Agenda Report

TO: City Council
Attn: Finance Committee

FROM: City Manager

DATE: November 20, 2000

RE: Quarterly Investment Report – Quarter ending 09/30/00

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.

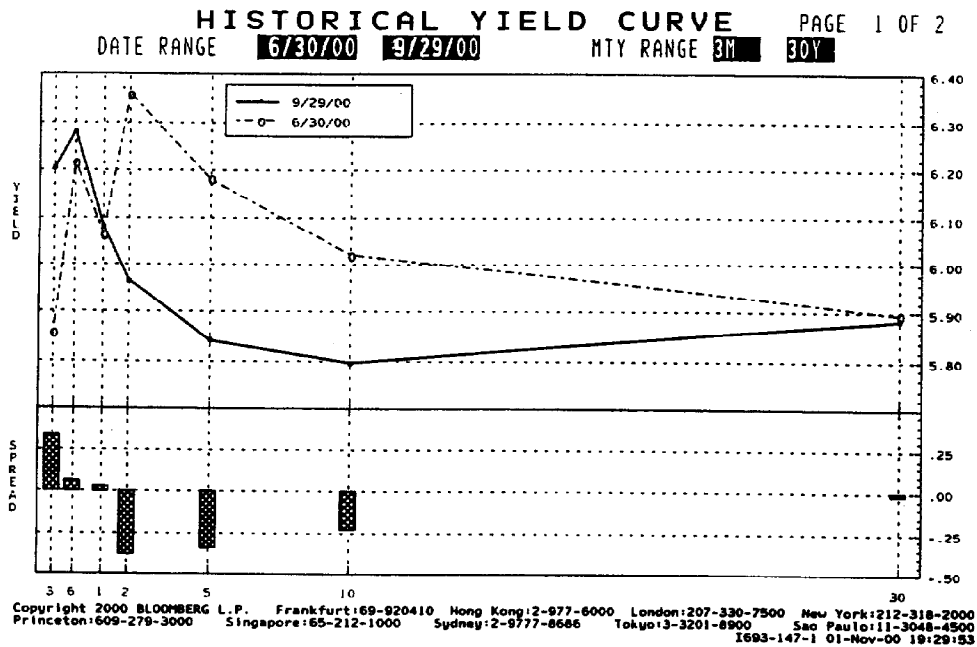
ECONOMIC SUMMARY:

The bond market showed solid gains in the third quarter of 2000. Yields declined mainly on the short and intermediate bonds. Much of this year's volatility in the fixed income market stems from the federal budget surplus. The US Treasury launched a Treasury debt buyback program which led a significant drop in rates particularly at longer maturities and caused the yield curve to invert. Now that the market realized that much of the projected surplus may go to tax cuts and spending increases, the yield curve began to gradually normalize.

The 3rd quarter began with a focus on July's economic reports for more evidence of diminishing inflationary pressures. Unemployment rate was 4%, in line with expectations. PPI and CPI came in line with expectations. Energy prices increased 5.6% renewing concerns over price pressures. The first estimate of GDP for the second quarter was released at 5.2%, much higher than the forecasted 3.8% rate.

The Treasury market spent much of August anticipating the FOMC's decision on interest rates. Economic reports released during August offered further evidence that the economy continues to hold back inflationary pressures. The FOMC met on August 22nd and elected to leave the federal funds rate unchanged at 6.5%.

The Employment report released in September along with the positive economic reports in August encouraged the market consensus that the Fed would keep the Fed Funds rate unchanged at its October 3rd meeting. Unemployment rate increased to 4.1% from 4% and non-farm payroll numbers declined by 105,000 versus an expected 23,000. The CPI declined by 0.1% versus expectations of 0.2%. The FOMC met on October 3rd and left the Fed policy unchanged. Current market consensus is for little change in Fed policy for the near future as long as oil prices do not significantly rise or the dollar does not weaken abruptly.



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 09/30/00 (market values):

Pooled Investment Portfolio	141,139,422
Capital Endowment Portfolio	12,592,683
Stranded Investment Reserve Portfolio	122,075,287
Special Funds	25,448,652
Investments held with Fiscal Agents	<u>66,584,820</u>
Total Funds under management	<u>367,840,864</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 September 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 July 24, 2000. The City Treasurer currently maintains an average of \$20 million short term liquid investments (one to seven day

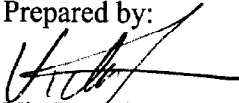
maturities). This balance, along with anticipated cash flows into the City's account, represent a strong liquidity position to meet budgeted expenditures for the next six months.

Respectfully submitted



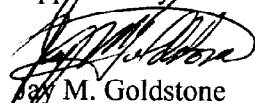
Cynthia J. Kurtz
City Manager

Prepared by:



Vic Erganian
City Treasurer

Approved by:



Jay M. Goldstone
Director of Finance