

Agenda Report

TO: City Council
FROM: City Manager
DATE: August 16, 1999
RE: Quarterly Investment Report – Quarter ending 06/30/99

RECOMMENDATION:

This item is for information purposes only.

BACKGROUND:

Senate Bill 564 which went into effect on January 1, 1996, requires the Treasurer or Chief Financial 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.

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 06/30/99 (market values):

Pooled Investment Portfolio	114,318,437
Capital Endowment Portfolio	10,441,072
Stranded Investment Reserve Portfolio	85,859,171
Special Funds	32,143,318
Investments held with Fiscal Agents	<u>31,021,425</u>
Total Funds under management	<u>273,783,423</u>

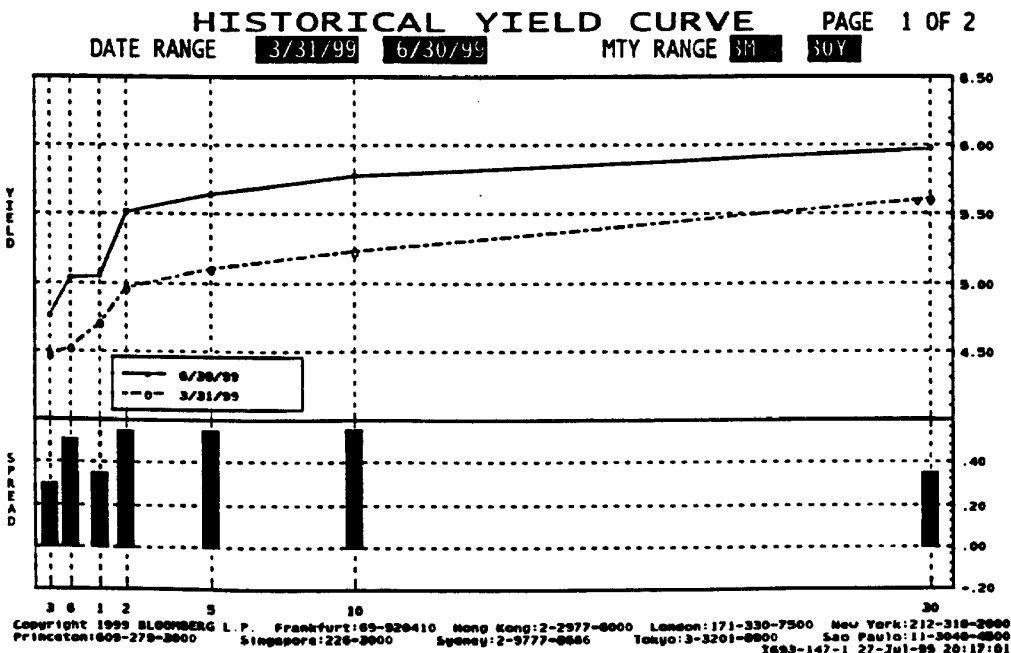
Per Senate Bill 564 requirements, attached are the reports by each fund, indicating the type of investments, date of maturity, par and dollar amount invested in each security, investment and moneys within the treasury along with the market values as of June 30, 1999. The City Treasurer prices the pooled 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.

- 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:

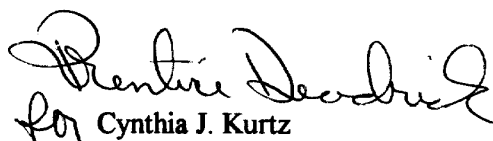
The bond market began in 1999 on a strong note as a result of the default in Russia, the recession in Japan and the currency crisis in Brazil. The Fixed Income markets benefited from the pouring of foreign funds into US Treasuries known as "flight to quality" and from the expectation of low inflation. Several months later, the intervention of the G-7 nations and the IMF with their financial stimulus packages eased investors' worries about a global recession. As the global economic outlook improved, the financial markets' expectations about the Fed policy changed. The market went from pricing Fed easings to pricing in several Fed tightenings. In the U.S., the GDP growth rate for 1st quarter of 1999 was revised at 4.3% and consensus for second quarter GDP released in July was 3.4% indicating a continued but slowing growth in the U.S. economy. Unemployment was still at its low 4.2% during the quarter, while consumer confidence was still high. The National Association of Purchasing Managers (NAPM) index jumped in June to 57.0 from May's level of 55.2, which is the highest reading since September 97. After an upward blip in May due to increased oil prices, inflation seems to have settled in June. The May 12 month change in CPI was 2.1% while PPI measured 1.4%. Rates all across the curve increased during the quarter in anticipation of a Fed tightening. On June 30, 1999, the Fed raised the short-term Fed Funds rate by 25 basis points to 5.0% citing a preemptive action against imbalances in the economy. The Fed's rate increase was a precautionary move against an overheating economy, although inflation appears to be in control. The market is preparing for the prospect that stronger national and global growth will cause inflation to turn higher.

The following represents the yield curve as of June 30, 1999 compared to last quarter end:

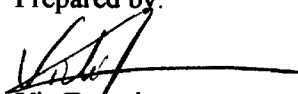


The types of securities held in the portfolio and their percentage allocation to the total are in compliance with the City's 1998-99 Investment Policy, which was adopted by the City Council on October 12, 1998, Section 53600 of the State Government Code and the investments authorized by the City Council on February 24, 1996. The City Treasurer currently maintains an average of \$15 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.

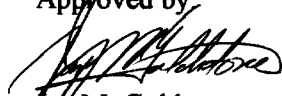
Respectfully submitted


for Cynthia J. Kurtz
City Manager

Prepared by:


Vic Erganian
City Treasurer

Approved by:


Jay M. Goldstone
Director of Finance