

Agenda Report

TO: City Council
Attn: Finance Committee

FROM: City Manager

DATE: 04/23/98

SUBJECT: Investment Report for the quarter ending March 31, 1998.

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.

4) The market value as of the date of the report, and the source of this valuation for any security within the treasury.

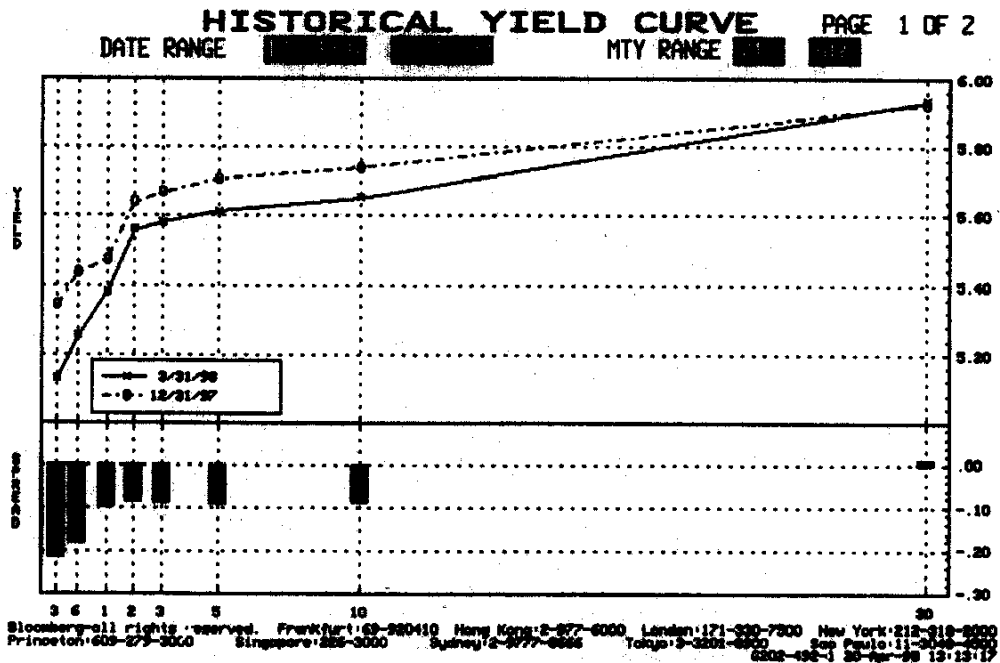
5) A description of the compliance with the statement of investment policy.

ECONOMIC SUMMARY:

The new year began with a nice rally in the fixed income markets after Greenspan indicated that the US economy could slow down as a result of the weaknesses in Asian markets. The Fed Chair also indicated that inflation could go lower due to declining prices paid for Asian imports. Actual economic releases in January indicated that the US economy was growing at a healthy rate while inflation was subdued. The Fed maintained a neutral policy in January.

Interest rates rose and bond prices fell in February after Greenspan's remarks at the semi-annual testimony to Congress. Mr. Greenspan indicated that the US economy might only "potentially" slow as a result of the Asian crisis. Unemployment rate was at 4.7% at its 18 year low and inflation was subdued with the 12 month change in PPI deflating by 1.9%.

The Federal Reserve left the policy unchanged at its March 31, 1998 meeting. Economic data released in March indicated that the economy was continuing its growth at a moderate pace with specific strengths in the employment and housing sectors. Unemployment rate was down to 4.6% and the 12 month change in CPI was 1.4% while PPI deflated by 1.7%. Bond prices slightly fell in March as compared to February. The Thirty year Bond closed at a yield of 5.932% and the yield on the five year treasury closed at 5.6152%. The following represents the yield curve as of March 31, 1998 as compared to last quarter end:



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 would be 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.

Total Funds under management as of 03/31/98 (market values):

Pooled Investment Fund	111,698,825
Capital Endowment Fund	14,546,674
Stranded Investment Reserve Fund	42,863,831
Special Funds	22,896,490
Funds held with Fiscal Agents	<u>37,346,556</u>
Total Funds under management	<u>229,352,376</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 March 31, 1998. 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 1997-98 Investment Policy adopted by the City Council on September 29, 1997, 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,



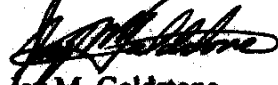
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Acting City Manager

Prepared by:



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City Treasurer

Approved by:



M. Goldstone
Director of Finance