

Agenda Report

TO: City Council
Attn: Finance Committee

FROM: City Manager

DATE: 11/23/1998

SUBJECT: Investment Report for the quarter ending September 30, 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:

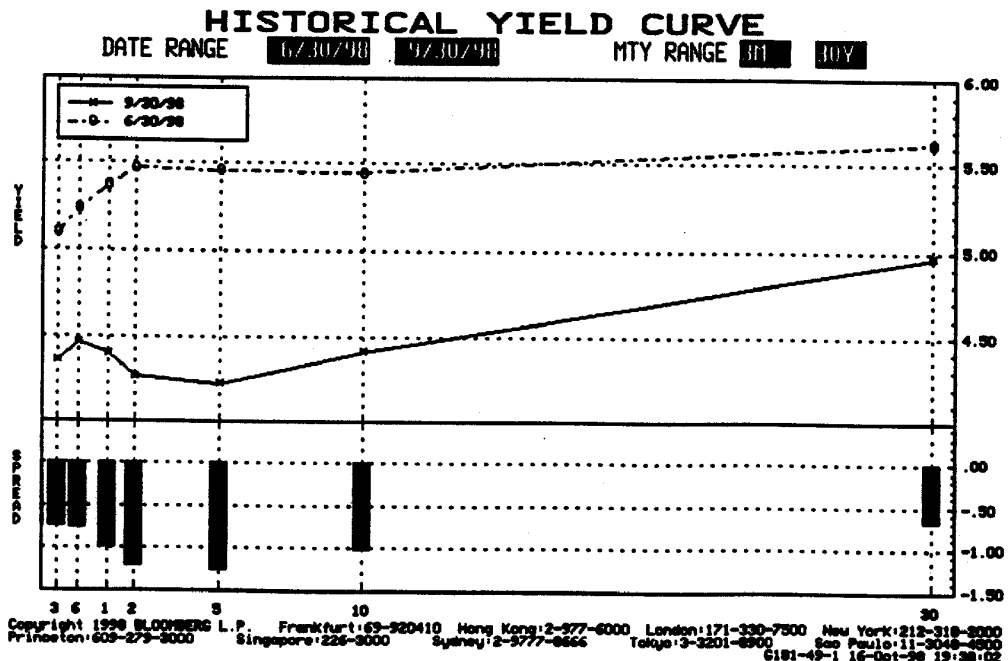
- 1) The type of investment, name of the issuer, date of maturity, par and dollar amount invested in each security, investment, and money within the treasury.
- 2) The weighted average maturity of the investments within the treasury.
- 3) Any funds, investments, or programs, including loans, that are 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:

Interest rates on bonds significantly declined across the curve in the third quarter of 1998. The thirty-year Treasury yield dropped by .66% closing at 4.965% as compared to 5.626% on June 30, 1998. The yield on the five-year Treasury dropped by 1.244% to 4.221%, and the yield on the two-year treasury dropped by 1.206% closing at 4.269%. The GDP rate, which indicates the growth of the economy, was revised upward to 1.6% from 1.4% for the second quarter of 1998 compared to the previous quarter's 5.5% indicating a slowdown in the U.S. economy. Most economists expect further cooling off of the economy for the remaining of 1998 and in 1999. The housing sector demonstrated a slowdown at the end of the third quarter and manufacturing manifested weaknesses for two consecutive months. Inflation was out of sight. The August twelve month change in CPI was 1.6%, while PPI declined by 0.9%. The Federal Reserve Open Market Committee lowered the Fed Funds rate at its September 29 meeting by .25% to 5.25%. This ease in the monetary policy was to prevent further slowdown in the U.S. economy as a result of foreign weaknesses especially in Russia, Asia and Latin America. Continued foreign economic turmoils are predicted by the markets to affect US consumer and business spending. Given the Fed's attention to world economic events and their impact on the U.S. economy, the financial markets have already priced in the yield curve further cuts in the Fed Funds rate.

The following represents the yield curve as of September 30, 1998 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. The City of Pasadena has already implemented GASB 31 accounting in fiscal year 1998.

Total Funds under management as of 09/30/98 (market values):

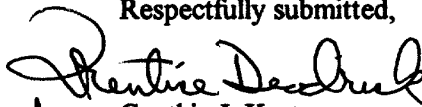
| | |
|---------------------------------------|--------------------|
| Pooled Investment Portfolio | 109,453,727 |
| Capital Endowment Portfolio | 13,492,263 |
| Stranded Investment Reserve Portfolio | 63,938,656 |
| Special Funds | 34,325,427 |
| Investments held with Fiscal Agents | <u>36,359,447</u> |
| Total Funds under management | <u>257,569,520</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 September 30, 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, which was 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.

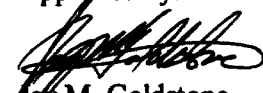
Respectfully submitted,


for Cynthia J. Kurtz
City Manager

Prepared by:


Vic Erganian
City Treasurer

Approved by:


Jay M. Goldstone
Director of Finance