

Agenda Report

DATE: October 5, 1998

TO: CITY COUNCIL/PASADENA COMMUNITY DEVELOPMENT
COMMISSION
ATTN: FINANCE COMMITTEE

FROM: CYNTHIA J. KURTZ
CITY MANAGER/CHIEF EXECUTIVE OFFICER

SUBJECT: JOINT ACTION: 1998-1999 INVESTMENT POLICY

RECOMMENDATION

It is recommended that the City Council and the Pasadena Community Development Commission adopt the City Treasurer's Statement of Investment Policy and Investment Strategy for Fiscal Year 1999.

BACKGROUND

In relation to a local government's investment policy, California Government Code Section 53646 requires: "the Treasurer or Chief Fiscal Officer shall annually render to the legislative body of the local agency a statement of investment policy." Attached for your review and approval is the City Treasurer's Statement of Investment Policy for Fiscal Year 1999. The City Council approves an investment policy each year.

The Investment Policy is intended to outline the policies for maximizing the efficiency of the City's cash management system and for prudent investment of the City's funds, and to provide guidelines for suitable investments. The primary goals of the investment policy are: compliance with the law, protection of principal, liquidity, and maximization of investment income to enhance the economic status of the City.

The City's cash management system is designed to accurately monitor and forecast expenditures and revenues, thus enabling the City Treasurer to invest funds to the fullest extent possible. The City Treasurer then attempts to obtain the highest yield, provided that all investments meet the criteria established for safety and liquidity.

The investment policies and practices of the City Treasurer for the City of Pasadena are based upon Federal, State, and local law and prudent money management. The primary goals of these policies are:

1. To assure compliance with all Federal, State and Local laws governing the investment of monies under the control of the City Treasurer,
2. To preserve the principal amount of monies entrusted to the City Treasurer's office.
3. Within the goal of preserving the principal amount of monies, generate the maximum amount of investment income within the parameters of the Statement of Investment Policy and the guidelines for suitable investments while providing the necessary liquidity.

The City Treasurer is authorized to invest the City's Funds in accordance with the California Government Code Section 53600 et seq. (the "State Code"), and the investment policy adopted by the Pasadena City Council. The City's investment policy may be modified, amended, or otherwise changed at any time at the sole discretion of the Pasadena City Council. This investment policy applies to all financial assets, and investment activities of the City of Pasadena, except for investment of bond proceeds which are authorized in the bond indentures, the employee's retirement funds and deferred compensation funds.

The City Treasurer manages all the City's funds in a pooled investment portfolio. The City Treasurer also holds monies in specific purpose funds invested separately to meet the specific investment objectives of those funds. These funds include construction funds for the City's and Commission's bond issues, Pasadena Community Development Commission Fund, The Stranded Cost Reserve Fund, and the Capital Endowment Fund. The interest for each is also maintained within the separate fund. The City Treasurer and staff will observe, review and react to changing conditions that affect the various portfolios.

Portfolio Risks

The City has no investments in derivative products such as interest rate swaps, futures, options, or reverse repurchase agreements. The City has no investments in inverse floaters, range notes, interest only strips that are derived from a pool of mortgages, or any security that could result in zero interest accrual if held to maturity. The City currently holds mortgage backed securities (Collateralized Mortgage Obligations "CMOs") issued by the Federal National Mortgage Association (FNMA) and the Government National Mortgage Association (GNMA) with stated maturities exceeding the 5 year limitation (GNMA Mortgage Backed Securities are bond issues that are secured by pool of mortgages and guaranteed by the Government National Mortgage Association and backed by the full faith and credit of the United States. FNMA issued CMO's are secured by the Federal National Mortgage Association and collateralized by the underlying mortgages). These securities were purchased during 1994 and in prior years and grandfathered into the portfolio with the authorization of the City Council in 1995.

It is important to note that CMOs held in the portfolio are very sensitive to interest rates, and therefore, have larger price fluctuations as interest rates shift.

GASB 31 - Mark to Market Accounting for Municipalities

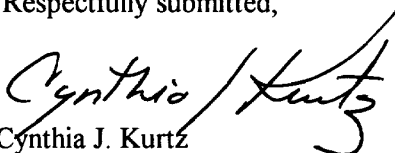
The Government Accounting Standards Board issued Statement No.31 which changed the accounting and financial reporting practices of investment securities for most public sector entities. The provisions of GASB 31 went into effect for financial statements beginning July 1, 1997. GASB 31 requires mark to market accounting for all investments except for investments with maturities of one year or less. 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 previous 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.

FISCAL IMPACT

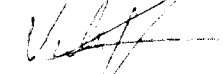
The adoption of the City Treasurer's Statement of Investment Policy and Strategy for Fiscal Year 1998-1999 evidences the City's commitment to ensuring that our investment portfolio complies with the law, maintains the highest degree of safety while maximizing profits.

Respectfully submitted,



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City Manager/Chief Executive Officer

PREPARED BY:



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City Treasurer

APPROVED BY:



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