VISTANCIA COMMUNITY FACILITIES DISTRICT
PEORIA, ARIZONA
DISTRICT COMMUNICATION

DC: 3C
Amend No. ______

Date Prepared: August 4, 2009 **District Meeting Date:** August 25, 2009

TO: Carl Swenson, District Manager

THROUGH: Susan Thorpe, Deputy City Manager ST

FROM: Brent D. Mattingly, Chief Financial Officer BM

PREPARED BY: Deborah Card, Treasury Manager DC

SUBJECT: Investment Report for the Year Ended June 30, 2009

RECOMMENDATION:

That the District Board review and accept the Annual Investment Report for the Year Ended June 30, 2009.

SUMMARY:

The Finance Department has prepared an annual report to summarize the investment activity for the period from July 1, 2008 to June 30, 2009. The District's investment portfolio earned an average yield of 0.91% for the 4th Quarter of FY 2009 and 1.01% for the fiscal year. This represents investment income of $51,754 for the quarter and $264,759 for the fiscal year. The average cash balance for the District's portfolio during the quarter was $23,064,821 and the ending balance for the total investment portfolio was $22,793,097 which represents all securities and money market funds.

The quarterly report also provides comparative investment yields, portfolio composition, average maturity lengths, comparisons of market value and book value, and a brief summary of the economy. An Inventory Holdings Report, which itemizes each security in the District's investment portfolio by security type and cusip number has also been included as Attachment B.

ATTACHMENTS:

1. Quarterly Investment Report for the Year Ended June 30, 2009
2. Inventory Holdings Report for the Year Ended June 30, 2009

DISTRICT CLERK USE ONLY:

Γ Consent Agenda
Γ Carry Over to Date:____________
Γ Approved
Γ Unfinished Business (Date heard previous:______)
Γ New Business

ORD. #________ RES. #
LCON#________ LIC. #
Action Date:

REV. 10/99

VISTANCIA COMMUNITY FACILITIES DISTRICT
PEORIA, ARIZONA

INVESTMENT PERFORMANCE REPORT

Annual Report

Period Ended

June 30, 2009

Brent D. Mattingly
District Chief Financial Officer

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I. INTRODUCTION

This report reflects investment activity for the period of July 1, 2008 to June 30, 2009 for the District's investment management program. The District's funds are invested in accordance with the City's Investment and Portfolio Policies, approved and adopted in January 1992 by the City Council, with revisions approved in June 2005. The policy requires that the investment program meet the following criteria, listed in order of importance:

Safety	-	*Investments shall be undertaken in a manner that seeks to insure the preservation of capital in the overall portfolio.*
Liquidity	-	*The investment portfolio will remain sufficiently liquid to enable the City to meet all operating requirements.*
Yield	-	*The investment portfolio shall be designed with the objective of obtaining a market rate of return throughout budgetary and economic cycles, while taking into account the City's strict risk constraints.*

In keeping with these principles, staff continued to invest the District's funds only in allowable, safe securities and to structure the maturity of the investment portfolio to assure liquidity. Short-term needs (6 months or less) are being met by investments in overnight repurchase agreements, commercial paper, and money market funds. Funds not required to meet specific short-term needs are invested primarily in Treasury Notes and U.S. Government Agency Securities.

Only after the safety and liquidity requirements are met does staff attempt to maximize earnings. For the Quarter and Year Ended June 30, 2009, the weighted average annualized yield on investments was as follows:

Table 1

AVERAGE ANNUALIZED INVESTMENT YIELD					
	FY 09 Q1	**FY 09 Q2**	**FY 09 Q3**	**FY 09 Q4**	**YE 6/30/09**
CFD Bonds Series 2002 Debt Reserve Fund	2.14	0.85	0.65	1.56	1.22
CFD Bonds Series 2005	2.14	0.85	0.47	1.27	1.11
CFD Bonds Series 2006	2.14	0.85	0.40	0.79	0.97
Total Portfolio	2.14	0.85	0.43	0.91	1.01

The average annual yield of 1.01% represents a decrease of 2.81% from the total portfolio annualized yield of 3.82% for the Year Ended June 30, 2008.

The quarter's average yield of .91% for the total portfolio represents an increase of .48% from the total portfolio annualized yield of .43% experienced for the Quarter Ended March 31, 2009.

II. INVESTMENT POLICY COMPLIANCE

The City's Investment Policy, as approved by City Council, applies to all the financial assets and funds held by the City of Peoria, including Vistancia Community Facilities District funds. All investments follow the provisions established in that Policy.

III. INVESTMENT PERFORMANCE

A. Portfolio Composition. All investment proceeds are diversified by security type and institution to minimize market volatility risk and credit risk. The Policy stipulates maximum investment levels by market sector to insure diversification. Diversification is further accomplished through the laddering of maturities, which mirror anticipated cash flows for the various funds. If not matched to specific cash flows, the funds are invested with a priority of liquidity and safety until specific cash flow needs are identified.

The table below illustrates the diversification structured into the portfolio composition with dollar amounts and percentages by investment type (market sector). The table shows the overall conservative nature of the portfolio and its diversified structure. The fluctuation in percentages between fiscal quarters represents a shifting of value between market sectors from the varying economic conditions throughout the year. The concentration on Treasury Notes and Agency Securities illustrates the portfolio's safety priority.

Table 2

TOTAL PORTFOLIO COMPOSITION (In Millions of Dollars)								
Security Type	**FY 09 – Q1**		**FY 09 – Q2**		**FY 09 – Q3**		**FY 09 – Q4**	
	Amt	**%**	**Amt**	**%**	**Amt**	**%**	**Amt**	**%**
Money Market	**23.8**	**100.0**	**23.9**	**100.0**	**4.6**	**19.5**	**3.8**	**16.6**
Agency Securities	**0.0**	**0.0**	**0.0**	**0.0**	**19.1**	**80.5**	**19.0**	**83.4**
Treasury Bills	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Treasury Notes	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Commercial Paper	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Repurchase Agreements	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
TOTALS:	**23.8**	**100.0**	**23.9**	**100.0**	**23.7**	**100.0**	**22.8**	**100.0**

B. Average Invested Cash Balances. The average investment cash balance of the overall portfolio for the Year Ended June 30, 2009 was $23,679,613.

The average investment cash balance for the portfolio for the Quarter Ending June 30, 2009 was $23,064,821 as compared to $23,851,459 for the Quarter Ended March 31, 2009.

Fluctuations in the quarterly balances shown in the chart below represent normal cash flows throughout the fiscal year, the addition of new bond proceeds, investment of earned interest, and the spend down of existing bond proceeds for capital projects.

C. Investment Income. Total investment income for the Year Ended June 30, 2009 was $264,759 which represents a decrease of 78.8% from the $1,249,452 earned for the year Ended June 30, 2008.

Total investment income for the 4th Quarter of FY 09 was $51,754 which represents an increase of 64% from the $31,636 earned in the 3rd Quarter of FY 09.

D. Comparative Investment Yields. Since the Investment Policy restricts investment primarily to the U.S. fixed income and money markets, the portfolio performance is measured directly against these markets for comparison purposes. The maximum maturity of securities purchased for the portfolio is restricted to five (5) years. The weighted average maturity cannot exceed 365 days. The actual weighted average maturity for the 4th Quarter of FY 09 was 273 days, in keeping with the investment policy requirement for liquidity and safety. The average rates of comparable benchmarks are shown in the table below.

Table 3

COMPARATIVE ANNUALIZED INVESTMENT YIELDS				
	FY 09 Q1	**FY 09 Q2**	**FY 09 Q3**	**FY 09 Q4**
Total Portfolio	**2.14**	**0.85**	**0.43**	**0.91**
Money Market Fds	**1.95**	**0.85**	**0.40**	**0.01**
3 Month T-Bill	**0.67**	**0.27**	**0.20**	**0.16**
6 Month T- Bill	**1.520**	**0.70**	**0.38**	**0.32**
1 Year T-Bill	**1.73**	**0.96**	**0.55**	**0.50**
2 Year Treasury	**1.88**	**1.21**	**0.89**	**1.01**

E. Average Maturity of the Portfolio. For the Quarter ended June 30, 2009, the average maturity of the portfolio was 273 days as compared to 106 days on March 31, 2009. Matching maturities to known cash flows requires the maintenance of a somewhat short portfolio. Cash not needed to match immediate cash flow needs (within a nine month rolling horizon of liabilities) is normally extended somewhat to take advantage of higher yields. Longer maturities are used to capture yields at purchase and to capture capital gains during the period.

F. Comparison of Market Value and Book Value. The book value of the portfolio is captured on an amortized cost basis recognizing the position in the securities on a straight-line amortization of premiums and discounts. Book and market values do not include accrued interest on the securities. The market value reflects the *then current* market price at which these securities could be sold in the open market. A comparison of book and market reflects the changes in market rates as well as the performance of the portfolio against the market. Since the shortest portion of the portfolio is matched against anticipated cash flows, rate changes will more directly affect their relative gain/loss positions. A summary of market and book values for the total portfolio for the Quarter are shown below.

Beginning Book Value........................$23,710,970
Beginning Market Value.....................$23,724,665

Ending Book Value............................$22,793,097
Ending Market Value..........................$22,879,330

At quarter's end, the market value of the portfolio exceeded the book value of securities resulting in an overall unrealized gain in value of $86,233.

ECONOMIC REVIEW AS OF 06-30-09:

The pace of decline slowed from the first to the second quarter of 2009 as Gross Domestic Product (GDP) fell by an annualized 1% after declining by a revised 6.4% in the first quarter of 2009. The median Bloomberg forecast has been for a 1.5% decline to follow the previously reported 5.5% first quarter drop. Almost all of the improvement during the recently completed quarter came from a few components - an increase in net exports, a surge in government spending, some improvement in business investment and a slower pace of inventory reduction accounted for most of the improvement from the revised 6.4% drop in the first quarter GDP. The second quarter contraction marked the fourth consecutive period of negative GDP, the first time since the Great Depression that this has occurred. On the bright side, a majority of economists are predicting that GDP will turn slightly positive in the third quarter. The question will be whether consistent consumer spending will be able to *sustain* positive growth going forward.

The labor market continues to deteriorate with 18 straight months of declining company payrolls. In May, non-farm payrolls surprised market participants with a smaller than expected 322k(r) decline leading many to believe that the recession was ending . . . but the June payroll numbers were much worse than expected, as another 467k jobs were lost. Since January 2008, when payroll turned negative for the first time in 4½ years, 6.5 million workers have been laid-off. The unemployment rate has increased from 4.8% to 9.5% in just the past 16 months. The current rate of unemployment is the highest in 26 years, but many experts believe it will continue to rise at least another full percentage point before year's end.

New home sales rose by 11% in June for the biggest gain in eight years. Since January, new home sales are up 17%. Existing home sales have risen for three straight months and are now up 9% for the year. However, new and existing home sales are still down 72% and 33% from their peaks during the summer of 2005. Home prices, according to the S&P Case-Shiller index, seem to be stabilizing somewhat. In May, the index posted its first monthly gain in three years, but still dropped 17.1% on a year-over-year basis.

Retail sales have crept into positive territory with small increases in both May (+0.5%) and June (0.6%). The U.S. consumer, the essential ingredient to sustained economic recovery, continues to worry about deteriorated net worth and unfavorable job prospects. As a result, the savings rate has risen from 0.8% to 6.9% in only nine months. Many experts have speculated that the savings rate will climb another two or more percentage points in the next year.

U.S. auto sales have climbed from an annualized rate of 9.1 million units in February to 9.7 million units in June. Although the 6.6% increase is encouraging, only 18 months ago, cars and trucks were selling at a brisk 16.1 million unit pace. With the average age of U.S. vehicles on the road already at a record 9.4 years, there could be some pent-up demand to fuel future purchases.

- Scott McIntyre, First Southwest Asset Management

SUMMARY DATA

Table 4

PORTFOLIO COMPOSITION Vistancia CFD Bonds, Series 2002				
Security Type	**FY 09 – Q1 Ending 9/30/08**	**FY 09 – Q2 Ending 12/31/08**	**FY 09 – Q3 Ending 03/31/09**	**FY 09 – Q4 Ending 06/30/09**
Money Market	$2,056,775	$2,063,227	$15,940	$37,193
Agency Securities	$0	$0	$2,036,454	$2,028,830
Treasury Notes	$0	$0	$0	$0
Treasury Bills	$0	$0	$0	$0
Commercial Paper	$0	$0	$0	$0
Repurchase Agreements	$0	$0	$0	$0
Totals:	**$2,056,775**	**$2,063,227**	**$2,052,394**	**$2,066,024**
Avg Yield	2.14	0.85	0.65	1.56
Avg Maturity (Years)	0.01	0.01	0.01	1.37

Table 5

PORTFOLIO COMPOSITION Vistancia CFD Bonds, Series 2005				
Security Type	**FY 09 – Q1 Ending 9/30/08**	**FY 09 – Q2 Ending 12/31/08**	**FY 09 – Q3 Ending 03/31/09**	**FY 09 – Q4 Ending 06/30/09**
Money Market	$3,341,174	$3,340,172	$1,188,906	$233,831
Agency Securities	$0	$0	$2,140,100	$2,131,713
Treasury Notes	$0	$0	$0	$0
Treasury Bills	$0	$0	$0	$0
Commercial Paper	$0	$0	$0	$0
Repurchase Agreements	$0	$0	$0	$0
Totals:	**$3,341,174**	**$3,340,172**	**$3,329,006**	**$2,365,544**
Avg Yield	2.14	0.85	0.47	1.273
Avg Maturity (Years)	0.01	0.01	0.02	1.16

Table 6

PORTFOLIO COMPOSITION Vistancia CFD Bonds, Series 2006				
Security Type	**FY 09 – Q1 Ending 9/30/08**	**FY 09 – Q2 Ending 12/31/08**	**FY 09 – Q3 Ending 03/31/09**	**FY 09 – Q4 Ending 06/30/09**
Money Market	$18,448,273	$18,506,111	$3,408,663	$3,516,400
Agency Securities	$0	$0	$14,920,907	$14,845,130
Treasury Notes	$0	$0	$0	$0
Treasury Bills	$0	$0	$0	$0
Commercial Paper	$0	$0	$0	$0
Repurchase Agreements	$0	$0	$0	$0
Totals:	**$18,448,273**	**$18,506,111**	**$18,329,570**	**$18,361,530**
Avg Yield	2.14	0.85	0.40	0.79
Avg Maturity (Years)	0.01	0.01	0.76	0.63

City of Peoria
DETAIL OF SECURITY HOLDINGS
As of June 30, 2009

Security Description	Security CUSIP	Coupon	Settlement Date	Maturity Date	Next Call Date	Par Value	Purchase Price	Purchase Cost	Book Value	Market Price	Market Value	Accrued Interest	Days to Maturity	Days to Next Call
Vistancia Project 2002- Debt Service Reserve														
Wells Fargo Advantage Govt MM Fund-SVC	WF-AdvGovt	0.010				37,193.48	100.000	37,193.48	37,193.48	100.000	37,193.48	-	1	
FHLB	3133XBTH8	4.250	3/4/2009	6/11/2010		1,000,000.00	103.880	1,038,800.00	1,028,830.19	103.531	1,035,312.50	2,361.11	346	
FNMA	31398AVL3	2.000	3/4/2009	3/2/2011	3/2/2010	1,000,000.00	100.000	1,000,000.00	1,000,000.00	100.719	1,007,187.50	6,611.11	610	245
		3.085				**2,037,193.48**	**101.932**	**2,075,993.48**	**2,066,023.67**	**102.106**	**2,079,693.48**	**8,972.22**	**468**	
Vistancia Project 2005 - Reserve Fund														
Wells Fargo Advantage Govt MM Fund-SVC	WF-AdvGovt	0.010				233,830.79	100.000	233,830.79	233,830.79	100.000	233,830.79	-	1	
FHLB	3133XBTH8	4.250	3/4/2009	6/11/2010		1,100,000.00	103.880	1,142,680.00	1,131,713.21	103.531	1,138,843.75	2,597.22	346	
FNMA	31398AVL3	2.000	3/4/2009	3/2/2011	3/2/2010	1,000,000.00	100.000	1,000,000.00	1,000,000.00	100.719	1,007,187.50	6,611.11	610	245
		2.880				**2,333,830.79**	**101.856**	**2,376,510.79**	**2,365,544.00**	**101.993**	**2,379,862.04**	**9,208.33**	**423**	
Vistancia Project 2006 - Construction														
Wells Fargo Advantage Govt MM Fund-SVC	WF-AdvGovt	0.010				3,516,399.73	100.000	3,516,399.73	3,516,399.73	100.000	3,516,399.73	-	1	
FHLMC Disc Note	313397NH0	0.000	3/4/2009	10/23/2009		3,000,000.00	99.566	2,986,990.83	2,993,635.00	99.950	2,998,500.00	-	115	
FNMA	31398AJX1	3.875	3/4/2009	12/10/2009		3,000,000.00	102.310	3,069,300.00	3,039,952.31	101.625	3,048,750.00	6,781.25	163	
FHLB	3133XES83	4.875	3/4/2009	3/12/2010		2,000,000.00	103.845	2,076,900.00	2,052,356.31	103.094	2,061,875.00	29,520.83	255	
FFCB	31331YH94	2.750	3/4/2009	5/4/2010		3,600,000.00	101.917	3,669,012.00	3,649,726.45	101.906	3,668,625.00	15,675.00	308	
FHLB	3133XCKH1	4.550	3/4/2009	8/6/2010		3,000,000.00	104.734	3,142,020.00	3,109,459.51	104.187	3,125,625.00	54,979.17	402	
		2.506				**18,116,399.73**	**101.924**	**18,460,622.56**	**18,361,529.33**	**101.695**	**18,419,774.73**	**106,956.25**	**204**	
GRAND TOTAL		**2.597**				**22,487,424**	**101.918**	**22,913,127**	**22,793,097**	**101.763**	**22,879,330**	**125,137**	**250**	