VISTANCIA COMMUNITY FACILITIES DISTRICT **DC:** 3C
PEORIA, ARIZONA **Amend No.** ______
DISTRICT COMMUNICATION

Date Prepared: October 29, 2009 **District Meeting Date:** November 17, 2009

TO: Carl Swenson, District Manager

THROUGH: Susan Thorpe, Deputy City Manager SLT

FROM: Brent D. Mattingly, Chief Financial Officer BDM

PREPARED BY: Deborah Card, Treasury Manager DC

SUBJECT: Quarterly Investment Report for the Period Ended September 30, 2009

RECOMMENDATION:

That the District Board review and accept the Quarterly Investment Report for the period ended September 30, 2009.

SUMMARY:

The Finance Department has prepared a quarterly report to summarize the investment activity for the period from July 1, 2009 to September 30, 2009. The District's investment portfolio earned an average yield of 0.92% for the 1st Quarter of FY 2010. This represents investment income of $51,925 for the quarter. The average cash balance for the District's portfolio during the quarter was $22,708,565 and the ending balance for the total investment portfolio was $22,564,961 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 Period Ended September 30, 2009
2. Inventory Holdings Report for the Period Ended September 30, 2009

DISTRICT CLERK USE ONLY:

Γ **Consent Agenda** **ORD. #**________ **RES. #**
Γ **Carry Over to Date:**____________ **LCON#**________ **LIC. #**
Γ **Approved** **Action Date:**
Γ **Unfinished Business (Date heard previous:______)**
Γ **New Business**

REV. 10/99

VISTANCIA COMMUNITY FACILITIES DISTRICT
PEORIA, ARIZONA

INVESTMENT PERFORMANCE REPORT

Quarterly Report

Period Ended

September 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, 2009 to September 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 Ended September 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	FY10 Q1
CFD Bonds Series 2002 Debt Reserve Fund	2.14	0.85	0.65	1.56	1.55
CFD Bonds Series 2005	2.14	0.85	0.47	1.27	1.41
CFD Bonds Series 2006	2.14	0.85	0.40	0.79	0.79
Total Portfolio	2.14	0.85	0.43	0.91	0.92

The quarter's average yield of .92% for the total portfolio represents an increase of .01% from the total portfolio annualized yield of .91% experienced for the Quarter Ended June 30, 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 – Q2		FY 09 – Q3		FY 09 – Q4		FY 10 – Q1	
	Amt	%	Amt	%	Amt	%	Amt	%
Money Market	23.9	100.0	4.6	19.5	3.8	16.6	3.7	16.2
Agency Securities	0.0	0.0	19.1	80.5	19.0	83.4	18.9	83.8
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:	23.9	100.0	23.7	100.0	22.8	100.0	22.6	100.0

B. **Average Invested Cash Balances.** The average investment cash balance for the portfolio for the Quarter Ending September 30, 2009 was $22,708,565 as compared to $23,064,821 for the Quarter Ended June 30, 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 1st Quarter of FY 10 was $51,925 which represents an increase of 0.33% from the $51,754 earned in the 4th 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 1st Quarter of FY 10 was 199 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 Q2	**FY 09 Q3**	**FY 09 Q4**	**FY 10 Q1**
Total Portfolio	**0.85**	**0.43**	**0.91**	**0.92**
3 Month T-Bill	**0.27**	**0.20**	**0.16**	**0.15**
Money Market Fds	**0.85**	**0.40**	**0.01**	**0.01**
6 Month T- Bill	**0.70**	**0.38**	**0.32**	**0.25**
1 Year T-Bill	**0.96**	**0.55**	**0.50**	**0.43**
2 Year Treasury	**1.21**	**0.89**	**1.01**	**1.01**

E. **Average Maturity of the Portfolio.** For the Quarter ended September 30, 2009, the average maturity of the portfolio was 199 days as compared to 273 days on June 30, 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 $22,793,097
Beginning Market Value $22,879,330

Ending Book Value $22,564,962
Ending Market Value $22,629,304

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 $64,342.

ECONOMIC REVIEW AS OF 09-30-09:

As expected, economic growth finally turned positive in the third quarter. In fact, the annualized Gross Domestic Product (GDP) number was up 3.5%, exceeding median forecasts for a lesser 3.2% rise. The positive reading broke a string of four consecutive negative quarters in which GDP shrunk by 3.8%, the most severe drop in seven decades.

Unfortunately, few experts believe the U.S. economy is out of the woods. The lion's share of growth occurred as a result of massive government stimulus. Consumer spending contributed 1.5 percentage points to the GDP rise, but nearly all of the increase was attributed to 700,000 vehicles purchased under the hugely popular "cash-for-clunkers" program which ended in August and is not expected to be extended. New residential construction added half a percentage point, the first-time housing has been a positive GDP contributor in nearly four years, but much of the recent housing boom has been attributed to the $8,000 first-time homebuyer's credit. A slowing in the rate of business inventory reduction added another full percentage point to GDP and even though inventory accumulation is expected in the next couple of quarters, when shelves are eventually fully stocked, this component will become a non-factor.

The median Bloomberg forecast has called for slightly slower growth going forward with 2.3% expected for the final quarter of 2009 and 2.4% expected for the first quarter of 2010. The most critical component to sustained growth is consumer spending, and with unemployment fast approaching 10%, the consumer outlook is still extremely weak.

The labor market, although showing signs of relative improvement, has now logged 21 consecutive months of negative non-farm payroll growth. In September, payrolls fell by a larger-than-expected 263k, while downward revisions to prior months subtracted another 13k jobs. The unemployment rate has more than doubled from 4.8% to 9.8% in the past year and a half. The current rate of unemployment is the highest in 26 years, and a majority of experts expect the rate to move above 10% in the coming months and remain in double digits for much of 2010. The high rate of unemployment will be a severe drag on future economic growth.

New home sales actually fell by 3.6% in September after five straight months of increase, but were still up more than 18% from January 2009 lows. The median price of a new home rose 2.5% during the month to $204,800, but was still down from $225,200 a year earlier. New housing starts were less-than-expected in September, but were still 23% above April lows.

Retail sales fell by 1.5% in September, on the surface a terrible number, but given that the drop was directly tied to plunging vehicle sales, not so bad after all. In fact, if autos are excluded, the sales number rises by 0.5%, exceeded forecasts for a 0.2% increase. The reason why autos can be excluded is that car lots are depleted after the cash-for-clunkers sale that concluded in August. The *August* retail sales increase was a whopping 2.7%, the most in three years. Although "clunkers" made a huge contribution, the ex-auto number was up 1.1%, the biggest ex-auto increase in six months.

Consumer spending is an essential component to economic growth. Typically, consumers are able to spend if they have jobs and expect to hold on to their jobs for the foreseeable future. Consumer confidence has actually fallen in each of the past two months as job prospects dim despite a technical GDP recovery. Thus, the key to the economy going forward will be a turnaround in non-farm payrolls.

- Scott McIntyre, First Southwest Asset Management

SUMMARY DATA

Table 4

PORTFOLIO COMPOSITION Vistancia CFD Bonds, Series 2002				
Security Type	**FY 09 – Q2 Ending 12/31/08**	**FY 09 – Q3 Ending 03/31/09**	**FY 09 – Q4 Ending 06/30/09**	**FY 10 – Q1 Ending 09/30/09**
Money Market	$2,063,227	$15,940	$37,193	$24,585
Agency Securities	$0	$2,036,454	$2,028,830	$2,021,122
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:	**$2,063,227**	**$2,052,394**	**$2,066,024**	**$2,045,707**
Avg Yield	0.85	0.65	1.56	1.55
Avg Maturity (Years)	0.01	0.01	1.37	1.12

Table 5

PORTFOLIO COMPOSITION Vistancia CFD Bonds, Series 2005				
Security Type	**FY 09 – Q2 Ending 12/31/08**	**FY 09 – Q3 Ending 03/31/09**	**FY 09 – Q4 Ending 06/30/09**	**FY 10 – Q1 Ending 09/30/09**
Money Market	$3,340,172	$1,188,906	$233,831	$219,997
Agency Securities	$0	$2,140,100	$2,131,713	$2,123,235
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:	**$3,340,172**	**$3,329,006**	**$2,365,544**	**$2,343,232**
Avg Yield	0.85	0.47	1.27	1.41
Avg Maturity (Years)	0.01	0.02	1.16	1.01

Table 6

PORTFOLIO COMPOSITION Vistancia CFD Bonds, Series 2006				
Security Type	**FY 09 – Q2 Ending 12/31/08**	**FY 09 – Q3 Ending 03/31/09**	**FY 09 – Q4 Ending 06/30/09**	**FY 10 – Q1 Ending 09/30/09**
Money Market	$18,506,111	$3,408,663	$3,516,400	$3,407,503
Agency Securities	$0	$14,920,907	$14,845,130	$14,768,520
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:	**$18,506,111**	**$18,329,570**	**$18,361,530**	**$18,176,023**
Avg Yield	0.85	0.40	0.79	0.79
Avg Maturity (Years)	0.01	0.76	0.63	0.42

Vistancia Community Facilities District
DETAIL OF SECURITY HOLDINGS
As of September 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	Yield to Maturity
Vistancia Project 2002- Debt Service Reserve														
FHLB	3133XBTH8	4.250	3/4/2009	6/11/2010		1,000,000.00	103.880	1,038,800.00	1,021,122.44	102.656	1,026,562.50	12,986.11	254	1.161
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	100.406	1,004,062.50	1,611.11	518	2.000
Wells Fargo Advantage Govt MM Fund-SVC	WF-AdvGovt	0.010				24,585.00	100.000	24,585.00	24,585.00	100.000	24,585.00	-	1	0.010
Grand Total						**2,024,585.00**		**2,063,385.00**	**2,045,707.44**		**2,055,210.00**	**14,597.22**		
Vistancia Project 2005 - Reserve Fund														
FHLB	3133XBTH8	4.250	3/4/2009	6/11/2010		1,100,000.00	103.880	1,142,680.00	1,123,234.69	102.656	1,129,218.75	14,284.72	254	1.161
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	100.406	1,004,062.50	1,611.11	518	2.000
Wells Fargo Advantage Govt MM Fund-SVC	WF-AdvGovt	0.010				219,997.00	100.000	219,997.00	219,997.00	100.000	219,997.00	-	1	0.010
Grand Total						**2,319,997.00**		**2,362,677.00**	**2,343,231.69**		**2,353,278.25**	**15,895.83**		
Vistancia Project 2006 - Construction														
FHLMC Disc Note	313397NH0	0.000	3/4/2009	10/23/2009		3,000,000.00	99.566	2,986,990.83	2,998,771.67	100.000	3,000,000.00	-	23	0.682
FNMA	31398AJX1	3.875	3/4/2009	12/10/2009		3,000,000.00	102.310	3,069,300.00	3,017,263.35	100.687	3,020,625.00	35,843.75	71	0.845
FHLB	3133XES83	4.875	3/4/2009	3/12/2010		2,000,000.00	103.845	2,076,900.00	2,033,381.36	102.031	2,040,625.00	5,145.83	163	1.082
FFCB	31331YH94	2.750	3/4/2009	5/4/2010		3,600,000.00	101.917	3,669,012.00	3,634,816.62	101.437	3,651,750.00	40,425.00	216	1.091
FHLB	3133X0KH1	4.550	3/4/2009	8/6/2010		3,000,000.00	104.734	3,142,020.00	3,084,286.70	103.344	3,100,312.50	20,854.17	310	1.183
Wells Fargo Advantage Govt MM Fund-SVC	WF-AdvGovt	0.010				3,407,503.05	100.000	3,407,503.05	3,407,503.05	100.000	3,407,503.05	-	1	0.010
Grand Total						**18,007,503.05**		**18,351,725.88**	**18,176,022.75**		**18,220,815.55**	**102,268.75**		
Total for All Funds:						**22,352,085.05**		**22,777,787.88**	**22,564,961.88**		**22,629,303.80**			