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

Date Prepared: May 8, 2008 **District Meeting Date:** May 20, 2008

TO: Terry Ellis, District Manager

FROM: Brent D. Mattingly, Chief Financial Officer

PREPARED BY: Deborah Card, Treasury Manager

SUBJECT: Investment Report for the Quarter Ended March 31, 2008

RECOMMENDATION:

That the District Board review and accept the Quarterly Investment Report for the Period Ended March 31, 2008.

SUMMARY:

Staff has prepared an investment report to summarize the investment activity for the period from January 1, 2008 to March 31, 2008. The District's investment portfolio earned an average yield of 3.31% for the 3rd Quarter of FY 2008. This represents investment income of $286,384 for the quarter. The average cash balance for the District's portfolio during the quarter was $32,238,888 and the ending balance for the total investment portfolio was $31,575,157 which represents all securities and money market funds.

The annual 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 March 31, 2008
2. Inventory Holdings Report for the Quarter Ended March 31, 2008

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

Quarterly Report

Period Ended

March 31, 2008

Brent D. Mattingly
District Chief Financial Officer

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I. INTRODUCTION

This report reflects investment activity for the period of January 1, 2008 to March 31, 2008 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.*

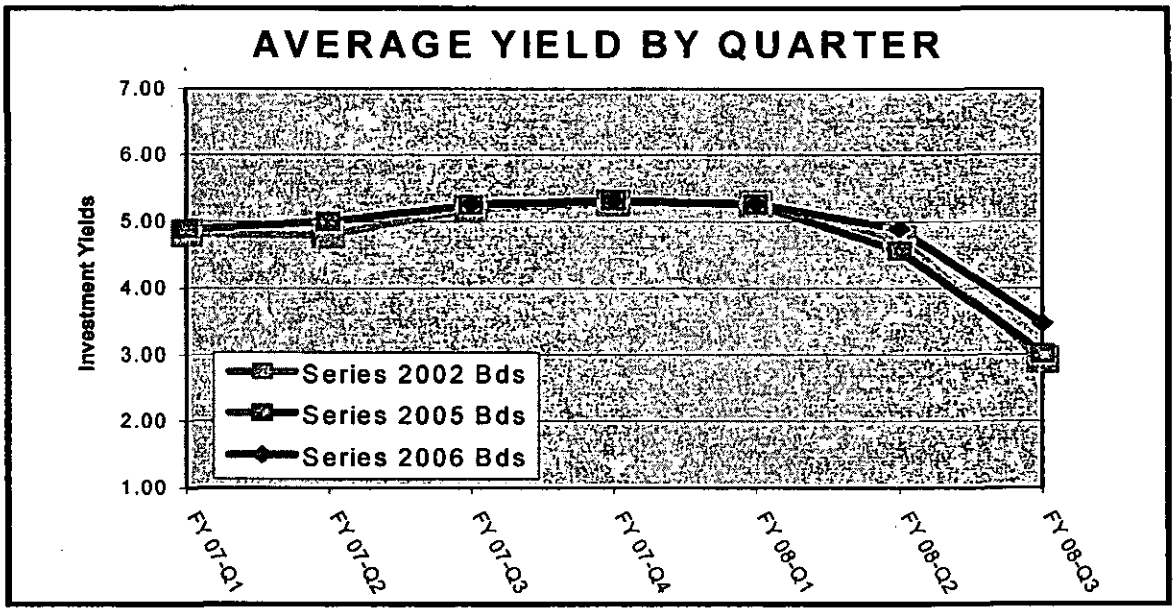
In keeping with these principles, staff continued to invest the District's funds only in allowable, safe securities and to structure the maturity of the investment portfolio to assure liquidity. Short-term needs (6 months or less) are being met by investments in overnight repurchase agreements, commercial 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 March 31, 2008, the average annualized yield on investment was as follows:

Table 1

AVERAGE ANNUALIZED INVESTMENT YIELD					
	FY 07 Q3	FY 07 Q4	FY 08 Q1	FY 08 Q2	FY 08 Q3
CFD Bonds Series 2002 Debt Reserve Fund	5.19	5.28	5.27	4.74	2.93
CFD Bonds Series 2005	5.25	5.31	5.27	4.56	3.02
CFD Bonds Series 2006	5.27	5.32	5.26	4.89	3.47
Total Portfolio	5.26	5.31	5.27	4.79	3.31

Chart 1



This quarter's average yield of 3.31% represents a decrease of 1.48% from the total portfolio annualized yield of 4.79% experienced for the Quarter Ended December 31, 2007.

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.

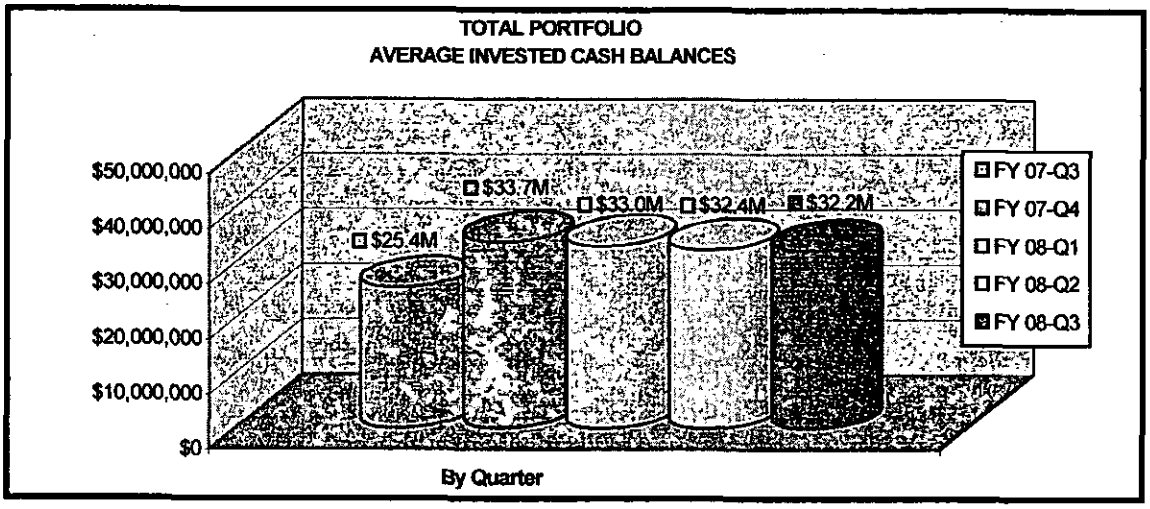
Table 2

TOTAL PORTFOLIO COMPOSITION (In Millions of Dollars)								
Security Type	FY 07 - Q4		FY 08 – Q1		FY 08 – Q2		FY 08 – Q3	
	Amt	%	Amt	%	Amt	%	Amt	%
Money Market	3.2	9.2	2.2	6.5	11.8	36.1	26.5	84.0
Agency Securities	31.3	90.8	30.8	93.5	20.8	63.9	5.0	16.0
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:	34.5	100.0	33.0	100.0	32.6	100.0	31.5	100.0

B. Average Invested Cash Balances. The average investment cash balance for the portfolio for the Quarter Ending March 31, 2008 was $32,238,888 as compared to $32,419,255 for the Quarter Ended December 31, 2007.

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.

Chart 2



C. Investment Income. Total investment income for the Quarter Ended March 31, 2008 was $286,384 which represents a decrease of 26.4% over the $389,280 earned in the 2nd Quarter of FY 08.

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 3rd Quarter of FY 08 was 33 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 07 Q3	FY 07 Q4	FY 08 Q1	FY 08 Q2
Total Portfolio	5.26	5.31	5.27	3.31
3 Month T-Bill	5.02	4.85	3.82	2.09
6 Month T- Bill	5.12	4.98	4.05	2.16
1 Year T-Bill	5.01	4.93	4.03	2.11
2 Year Treasury	4.76	4.80	3.97	2.04

E. Average Maturity of the Portfolio. For the Quarter Ended March 31, 2008, the average maturity of the portfolio was 33 days as compared to 28 days on December 31, 2007. 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 $32,683,785
Beginning Market Value $32,690,979

Ending Book Value $31,575,157
Ending Market Value $31,587,318

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 $12,161.

ECONOMIC REVIEW AS OF 3-31-08:

As we began 2008, news on the economy shifted from a slowing economy into much more severe territory where it is now accepted that the U.S. is in a recession and the only questions that remain are how deep we will fall and how long it will last.

With asset devaluation in the housing market worsening during the quarter, it led to a crisis in confidence over collateralization and damaged the ability of some financial institutions to meet their borrowing needs. This lack of confidence also caused skittish investors to withdraw their investments from some "leveraged" mutual funds which ultimately forced several of these funds to declare insolvency and culminated with the failure of the 4th largest investment firm in the United States, Bear Stearns & Co.

During this period of concern, investment dollars flooded the U.S. Treasury market pushing yields on the 3 month T-Bill to below .65%, a level not seen since 1958.

The Federal Reserve Bank, through its Open Market Committee, created several new financing mechanisms in an attempt to avoid any further "runs on the bank." Most recently, they have announced that Primary Dealers (of which Bear, Stearns was one) can have the same borrowing privileges at the Fed discount window as a bank, and any borrowings would be kept "anonymous" to avoid the perception of financial problems.

Yields on short term U.S. Treasuries have returned to more normalized levels as the expanded presence of the Federal Reserve Bank as a "lender of last resort" has removed some fears from investors. Also, by the end of March, market activity shows that bond investors now believe the end of the cycle of easing of monetary policy may be in sight. Whereas earlier in the quarter there was a case being made for a return to the 1.00% Fed Funds target rate we saw in 2001, the markets now point to the 1.50%-1.75% range as the stopping point. The shape of the yield curve, especially in the short end, has moved from a steep inversion to a flattening line and appears to be headed to a positive or normal slope over the next few months.

This is a good sign that current expectations are for a short and shallow recession in this country. We would not expect any tightening of monetary policy until well after the November elections unless there is a further surge in energy prices. The early stages of a recovery will be carefully watched for sustainability and then for the emergence of inflationary pressures, but this is not likely to be seen until sometime in 2009.

SUMMARY DATA

Table 4

PORTFOLIO COMPOSITION Vistancia CFD Bonds, Series 2002				
Security Type	**FY 07 – Q4 Ending 6/30/07**	**FY 08 – Q1 Ending 9/30/07**	**FY 08 – Q2 Ending 12/31/07**	**FY 08 – Q3 Ending 3/31/08**
Money Market	$1,755,966	$31,695	$3,033,790	$2,059,175
Agency Securities	$2,082,736	$2,110,313	$0	$0
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:	**$3,838,702**	**$2,142,008**	**$3,033,790**	**$2,059,175**
Avg Yield	5.28	5.27	4.74	2.93
Avg Maturity (Years)	0.21	0.13	0.01	0.01

Table 5

PORTFOLIO COMPOSITION Vistancia CFD Bonds, Series 2005				
Security Type	**FY 07 – Q4 Ending 6/30/07**	**FY 08 – Q1 Ending 9/30/07**	**FY 08 – Q2 Ending 12/31/07**	**FY 08 – Q3 Ending 3/31/08**
Money Market	$551,374	$2,030,789	$587,623	$8,468,791
Agency Securities	$8,500,644	$6,937,507	$7,977,952	$0
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:	**$9,052,018**	**$8,968,296**	**$8,565,575**	**$8,468,791**
Avg Yield	5.31	5.27	4.56	3.02
Avg Maturity (Years)	0.13	0.05	0.06	0.02

Table 6

PORTFOLIO COMPOSITION Vistancia CFD Bonds, Series 2006				
Security Type	**FY 07 – Q4 Ending 6/30/07**	**FY 08 – Q1 Ending 9/30/07**	**FY 08 – Q1 Ending 12/31/07**	**FY 08 – Q3 Ending 3/31/08**
Money Market	$848,721	$94,727	$8,173,966	$16,000,000
Agency Securities	$20,792,551	$21,836,906	$12,913,454	$5,047,192
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:	**$21,641,272**	**$21,931,633**	**$21,087,420**	**$21,047,192**
Avg Yield	5.32	5.26	4.89	3.47
Avg Maturity (Years)	0.10	0.15	0.09	0.14

Vistancia Community Facilities District
DETAIL OF SECURITY HOLDINGS
As of March 31, 2008

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	Yield to Maturity	Yield to Next Call
Vistancia Project 2002																
Wells Fargo Advantage Govt MM Fund	WF-AdvGovt	2.350				2,059,175.00	100.000	2,059,175.00	2,059,175.00	100.000	2,059,175.00	-	1		2.350	
						2,059,175.00		**2,059,175.00**	**2,059,175.00**		**2,059,175.00**	-	1		2.350	
Vistancia Project 2005-Construction																
Wells Fargo Advantage Govt MM Fund	WF-AdvGovt	2.350	3/31/2008	4/1/2008		6,111,390.77	100.000	6,111,390.77	6,111,390.77	100.000	6,111,390.77	1,667.24	1		2.350	
						6,111,390.77		**6,111,390.77**	**6,111,390.77**		**6,111,390.77**		1		2.350	
Vistancia Project 2005-Reserve																
Wells Fargo Advantage Govt MM Fund	WF-AdvGovt	2.350	3/31/2008	4/1/2008		2,357,400.00	100.000	2,357,400.01	2,357,400.01	100.000	2,357,400.00	1,306.10	1		2.350	
						2,357,400.00		**2,357,400.01**	**2,357,400.01**		**2,357,400.00**		1		2.350	
Vistancia Project 2006																
Wells Fargo Advantage Govt MM Fund	WF-AdvGovt	2.350	3/31/2008	4/1/2008		16,000,000.00	100.000	16,000,000.00	16,000,000.00	100.000	16,000,000.00	2,565.02	1		2.350	
FNDN	313588WT8	0.000	1/9/2008	5/12/2008		5,070,000.00	98.639	5,001,019.83	5,047,192.04	99.790	5,059,352.66	-	41		4.116	
						21,070,000.00		**21,001,019.83**	**21,047,192.04**		**21,059,352.66**	-	11		2.773	
GRAND TOTAL ALL FUNDS						**31,597,965.77**		**31,528,985.61**	**31,575,157.82**		**31,587,318.43**		7		2.632	