

# CITY OF ARVADA



## MID-YEAR 2011 FINANCIAL REPORT

**January – June, 2011**

**As of June 30, 2011 the City's economy was reflecting our national economy. We were seeing a recovery, albeit a tepid one. Immediately upon closing the books for June, the economy began to become much more difficult to interpret. As we all know, in retrospect, the discussions over the national debt, the global economic issues and the day-to-day swings in our own economy are creating uncertainty. Thus, while this report provides the numbers through the first six months of this year, we are rather certain the past tells us little about the future.**

## Introduction

The city has fundamentally five (5) types of revenues that tell us about our economy:

- Sales taxes comprise 53% of the General Fund revenues.
- Property taxes provide us a picture of valuation of our residential and commercial buildings.
- Building-related revenues, including tap fees, indicate the overall health of our future population and economic growth.
- Auto Use taxes provide information about the nation's optimism about purchasing large consumer items.
- Water Fees provide the base revenue for water utility operations.

These are the revenues we analyze each month. If these are showing concerns, we must quickly react to the spending side of our budget. This is exactly as one has to do in one's private life. If for some reason a family member loses a paycheck, then some spending pattern has to change.

At this time, we do not see major issues in our revenues. In the various sections, we will highlight these five areas. Having stated that, nonetheless, we have, as usual, some spending decreases. For example, the City evaluates all positions at every vacancy. Because we added three employees in the street division, we were able to evaluate other divisions. This analysis took some time at the beginning of the year, and we had three vacancies for over three months in this division. We are very assertive in hiring police officers. Nonetheless, over the first six months of the year, we had over 12 vacancies in the Police Department. With all the vacancies over the first part of the year, the City has saved over \$950,000 in salary costs. We expect this number to be larger as the year progresses.

This is good because, as we will discuss, we believe some of our revenue will be short of our original estimates. The reduction in spending will more than offset these revenues. **We estimate at this point of the year, we will end the year with a cash balance above our original estimate.** Again, this is primarily due to the conservative nature of our budgeting for expenditures. This is a practice we will discuss further in the budget presentation.

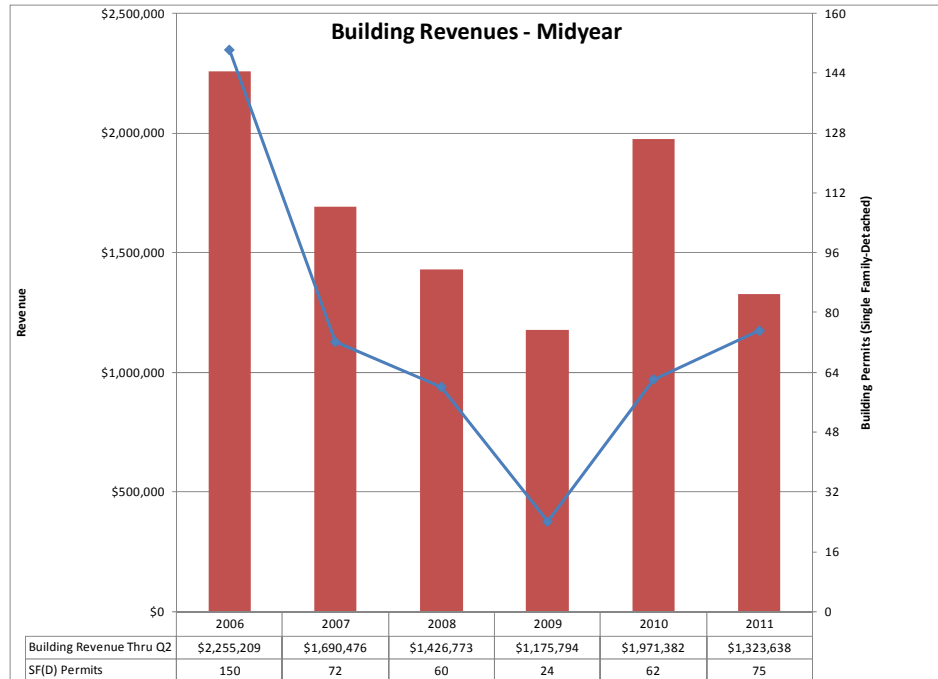
## General Fund

GENERAL FUND – Includes Debt Service Fund

|              | June 30, 2010 | 2010 ACTUAL  | June 30, 2011 | 2011 BUDGET  |
|--------------|---------------|--------------|---------------|--------------|
| Revenues     | \$29,008,544  | \$70,520,627 | \$27,785,184  | \$68,498,149 |
| Expenditures | \$28,445,808  | \$64,273,335 | \$25,660,955  | \$72,719,283 |

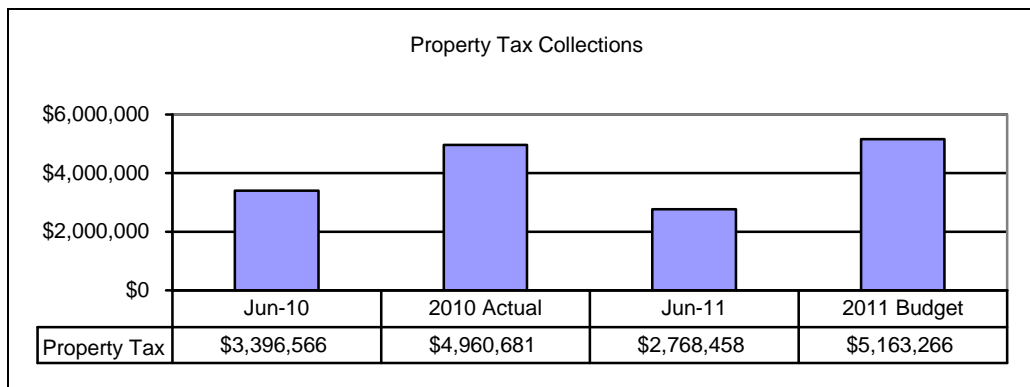
### Revenue Highlights

As illustrated, the revenues for 2011 are somewhat lower than the same period last year (\$29 million compared to \$27.785 million). This is primarily occurring in building activity revenue and property tax revenue. Last year we were still seeing an increase in building activity – and from retail hardware – in the area of roof replacements. This, of course, was a one-time phenomenon. The first half of this year

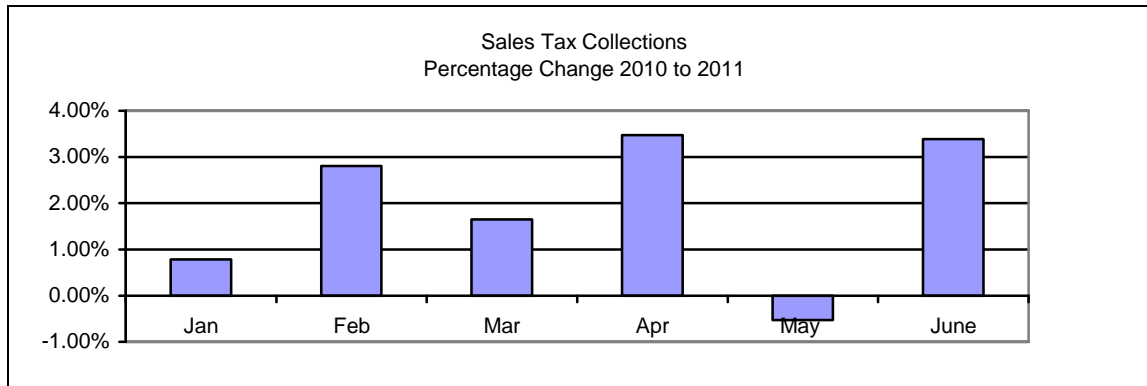


building activity has been concerning. However, in August building permits were issued for a large multi-family building, and we do expect to meet our budget expectations in building permit revenue.

Property tax is a concern for not only this year, but also for future years. We expect to now collect approximately \$150,000 less than our budget in 2011. We are decreasing that again in the 2012 budget.

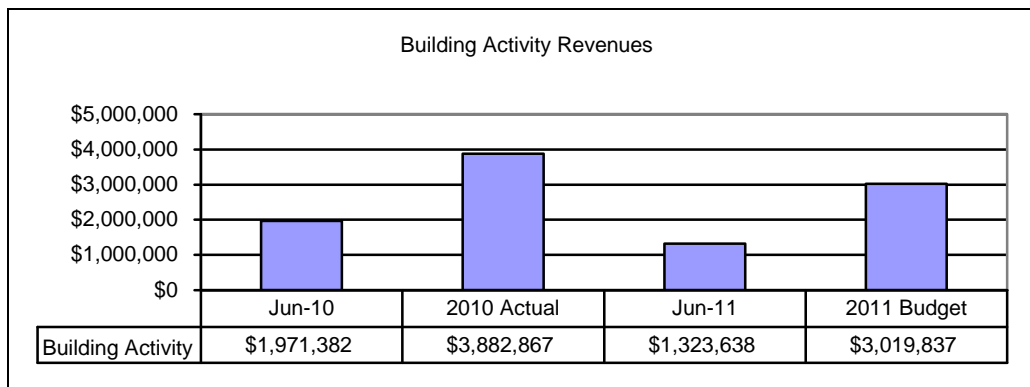


Sales tax revenue for six months of actual collections is now 1.93% higher than the same period last year. Since our last report to you, we had June sales provided to us in late July. We will be providing the usual monthly report later next week, but here is the pattern of collections.



At this point, we are assuming a two percent increase over our 2010 collections. Our original estimate was three percent. You can see from this chart, we have had three months of increases at or above three percent. However, the other three months are definitely having a negative impact on the overall growth. Thus, we now believe we will be \$300,000 short of our budgeted estimate. Of course, if the next few months are more positive, then we will end closer to our initial estimate. Given this economy, we simply cannot understand what the future will bring.

Building activity revenues are comprised of building use tax, building permits and various other building revenues.



As we stated in the overview, the first six months of this year have been considerably lower than last year. We were becoming a bit concerned until August when a large multi-family development paid for their building permits. We believe we will make budget this year.

Interest income is another area where all Funds will be short of our initial revenue estimates. As always, there is a section of the report that provides a detail of our investment holdings and earnings. Our current average Year-to-Date (YTD) return is 1.130 percent. This is actually 0.16 percent lower than the same period last year.

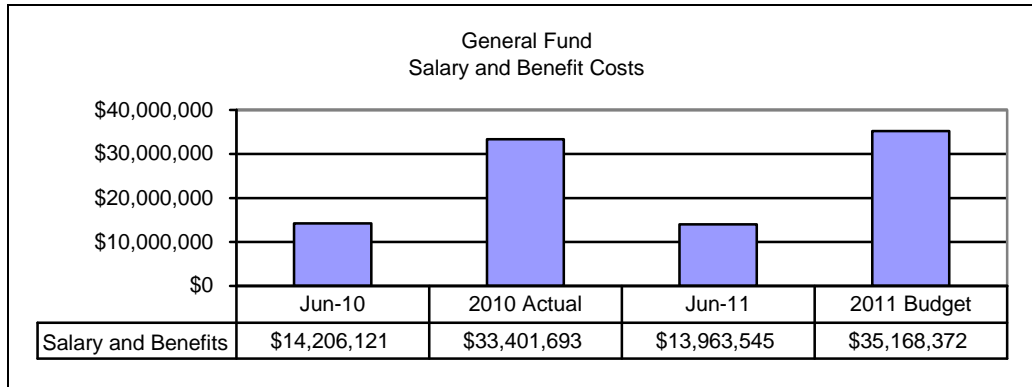
We did make a decision to make longer investments two months ago. Our investment policy allows us, but we were assuming interest rates would increase sometime in 2011/2012. We now do not believe we

will see higher rates until, at least, 2013. Nonetheless, we are still having difficulty finding safe investments in any category.

Overall, in our normal conservative nature, we expect our total revenues in the General Fund to be short of our estimates by approximately \$900,000.

**Expenditure Highlights**

As mentioned in the Introduction, we will have significant savings in our personnel costs. As will be discussed in the 2012 budget presentation, we will be discussing a new budgeting methodology on these costs. In 2011, we will have no less than \$1.2 million in General Fund salary savings.



Of course, there are always savings in various line items. While our revenue from electric and natural gas use is down due to a more moderate winter and spring, we also will have savings in our own utilities. Yes, we also expect to see an increase in both revenue and expenditures due to the July and August heat. At this point, we believe our savings will be \$200,000 in our utilities; this includes the lower amount we are having to pay for street light operations and maintenance.

We are beginning now to analyze all line items and discuss with departments their end-of-year estimates. As we stated, we believe our expenditures will be far less than our original budgeted amount. The fact we will spend less will far exceed the revenue shortfalls we now anticipate, leaving us, as usual, in a position where we will have to use less of our cash reserves to pay our bills than we originally assumed.

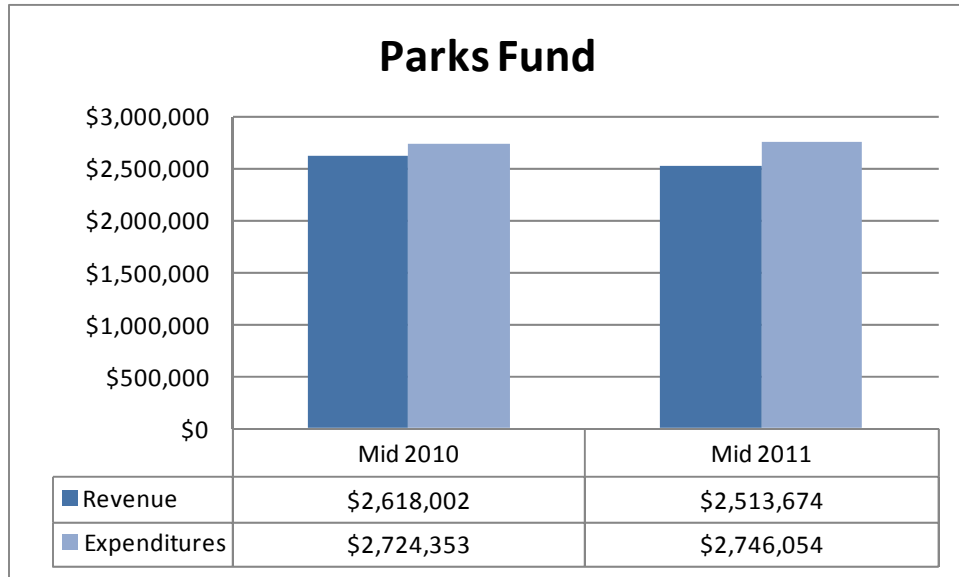
## Arvada Center

| ARVADA CENTER Ending June 2011 |                     |                     |                      |                             |                           |  |
|--------------------------------|---------------------|---------------------|----------------------|-----------------------------|---------------------------|--|
| <i>TOTAL SUMMARY</i>           |                     |                     |                      |                             |                           |  |
|                                | YTD<br>2010<br>JUNE | YTD<br>2011<br>JUNE | 2011 Budget          | YTD<br>Increase<br>Decrease | %<br>Increase<br>Decrease |  |
| Revenues                       |                     |                     |                      |                             |                           |  |
| Generated                      | \$ 1,760,527        | \$ 2,349,919        | \$ 6,306,833         | \$ 589,392                  | 33.48%                    |  |
| SCFD                           | \$ 247,668          | \$ 248,791          | \$ 818,835           | \$ 1,123                    | 0.45%                     |  |
| City Cash Transfer             | \$ 604,301          | \$ 591,321          | \$ 1,182,643         | \$ (12,979)                 | -2.15%                    |  |
| City Service Transfer          | \$ -                | \$ -                | \$ 1,967,270         |                             |                           |  |
| <b>Total Revenues</b>          | <b>\$ 2,612,495</b> | <b>\$ 3,190,031</b> | <b>\$ 10,275,581</b> | <b>\$ 577,536</b>           | <b>22.11%</b>             |  |
| Expenditures                   |                     |                     |                      |                             |                           |  |
| Payroll & Benefits             | \$ 1,638,888        | \$ 1,670,809        | \$ 4,146,204         | \$ 31,921                   | 1.95%                     |  |
| Ongoing                        | \$ 1,413,390        | \$ 1,579,878        | \$ 3,694,714         | \$ 166,488                  | 11.78%                    |  |
| Internal Services              | \$ 210,483          | \$ 233,986          | \$ 467,393           | \$ 23,504                   | 11.17%                    |  |
| City Service Transfer          |                     |                     | \$ 1,967,270         |                             |                           |  |
| <b>Total Expenditures</b>      | <b>\$ 3,262,761</b> | <b>\$ 3,484,674</b> | <b>\$ 10,275,581</b> | <b>\$ 221,913</b>           | <b>6.80%</b>              |  |
| Income/(Loss)                  | \$ (650,265)        | \$ (294,642)        | \$ -                 | \$ 355,623                  | -54.69%                   |  |



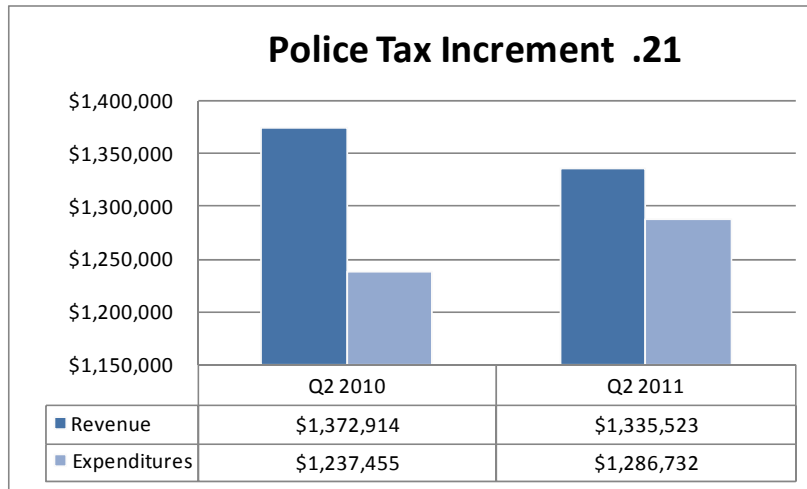
## Parks Fund

Figures for the first half of 2011 reflect a reduction in the transfer from the General Fund as a combined result of health care savings, no salary range adjustments and a decrease in the Risk Management and Vehicle Replacement contributions.



## Special Revenue Funds

### .21 Police Tax Increment Fund



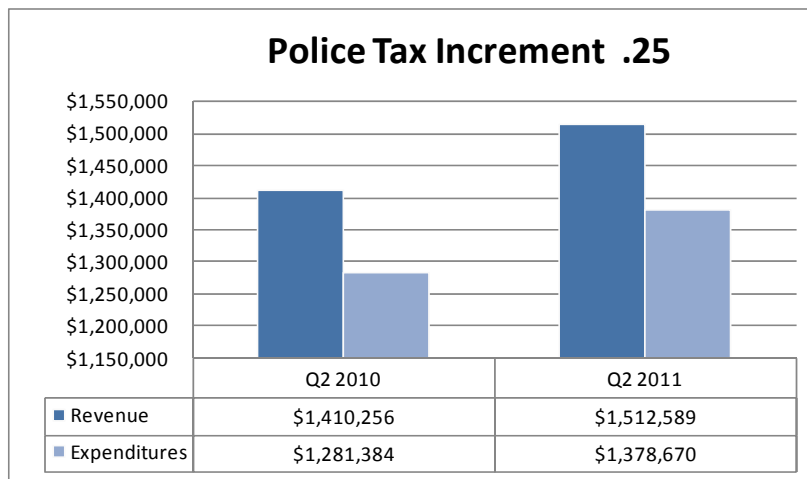
Sales Tax and Auto Use Tax revenue increased from second quarter 2010 by \$51,000. Recovered Costs (one time miscellaneous reimbursements from outside agencies) in 2010 of approximately \$186,000 compared to second quarter 2011 of approximately \$100,000, resulted in a revenue decline of \$86,000.

As a common practice when a position becomes vacant in Fund 21, a position is transferred from

the General Fund, whether a sworn or civilian position. Timing issues would arise due to either the lag time in filling that position or possible variations on steps between the two positions. This resulted in an increase of \$16,543 between 2010 and 2011 mid year.

In 2010 the Department received a CALEA accreditation award, and several employees attended the CALEA conference in April 2011. A 3-week Police Executive Research Forum training course was utilized by one of the Commanders. Both events created a \$36,891 increase from mid-year 2010.

### .25 Police Tax Increment Fund



Second quarter 2011 revenues have increased approximately \$90,000 from second quarter 2010 due to an increase in Sales Tax and Auto Use Tax revenue. Building Use revenue declined by \$15,894.

As a common practice when a position becomes vacant in Fund 22, a position is transferred from the General Fund, whether a sworn or civilian position.

Timing issues would arise due to either the lag time in filling that

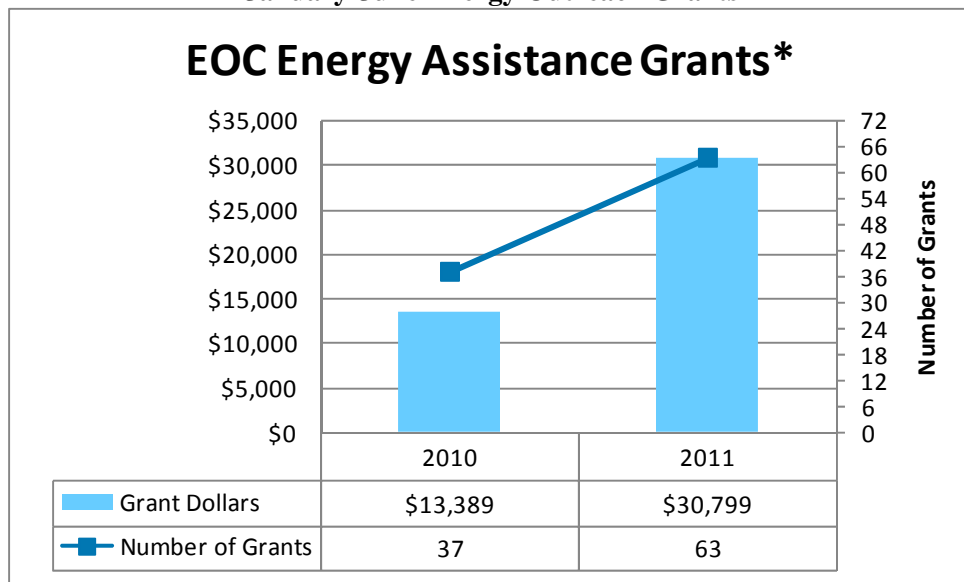
position or possible variations on steps between the two positions. This resulted in an increase of \$16,543 between 2010 and 2011 mid year.

In 2011 after a review of fleet alignment between Fund 22 and the General Fund, several cars were assigned to this Fund. As a result there was an increase in both fuel costs in the amount of \$16,777 and related insurance for those vehicles by Risk Management in the amount of \$7,014 from second quarter 2010.

## Community Development Fund and Housing Fund

| Community Development     | Mid 2010           | Mid 2011           | Difference        |
|---------------------------|--------------------|--------------------|-------------------|
| Revenues                  |                    |                    |                   |
| Community Development     | \$849,980          | \$134,832          | -\$715,149        |
| Arvada Housing Authority  | \$1,908,306        | \$1,892,744        | -\$15,563         |
| <b>Total Revenues</b>     | <b>\$2,758,287</b> | <b>\$2,027,576</b> | <b>-\$730,711</b> |
| Expenditures              |                    |                    |                   |
| Community Development     | \$1,205,800        | \$255,835          | -\$949,965        |
| Arvada Housing Authority  | \$2,083,299        | \$2,152,398        | \$69,099          |
| <b>Total Expenditures</b> | <b>\$3,289,099</b> | <b>\$2,408,233</b> | <b>-\$880,866</b> |

### January-June Energy Outreach Grants

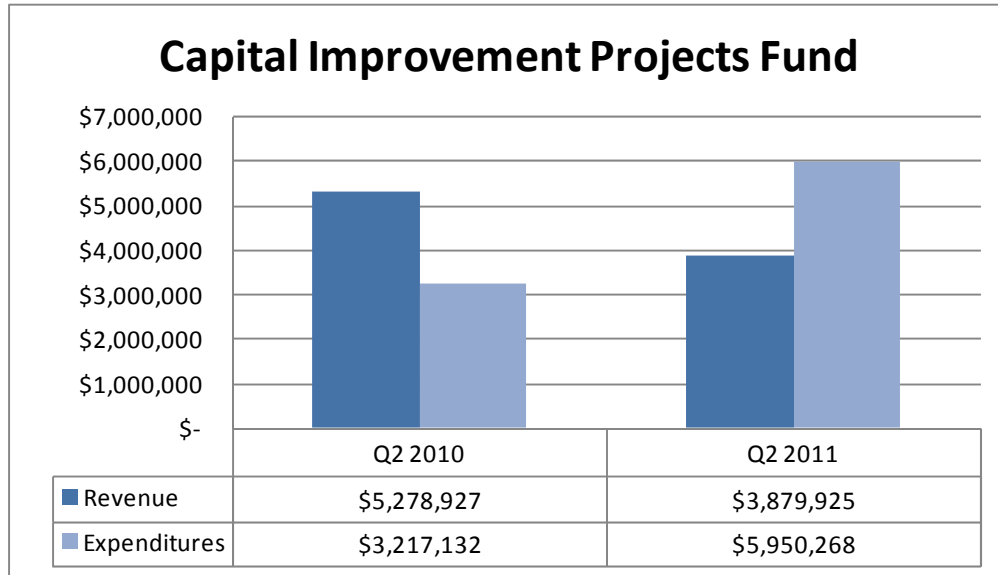


The City receives money directly from Energy Outreach Colorado (EOC), a nonprofit corporation, and distributes it to low income residents in Arvada as assistance with costs related to energy.



## Capital Improvement Fund

Revenues in the CIP Fund are down from 2010 primarily because there was a transfer of \$1,700,000 and \$2,000,000 from the Vehicle Replacement and Insurance Fund, respectively in 2010. Transfers from the Parks Fund (park development fees), Lands Dedicated Fund and Conservation Trust Fund are up in 2011 by about \$2,483,000 due to the various parks projects that are underway in 2011.



Through June 2011, the largest CIP expenditure is the payment to CDOT for \$3.8M for the Wadsworth Grandview Grade Separation project. Another \$1.3M of the CIP expenditures are related to the Park projects listed below. Capital improvement expenditures are expected to be much greater in 2011 than in 2010. The CIP fund balance at the end of 2010 was more than \$40M in anticipation of many CIP projects. Projects that will be started and/or completed in 2011 include the following:

### Park Projects

- O'Kane Skate Park
- Beeman Park
- Sunrise Ridge Phase II
- McIntyre Medians
- Danny Kendricks Park
- Fizmorris Irrigation project
- Arvada K-8
- Broad Lake
- Four Acre Lake

### Other Capital Projects

- Garrison Complex
- Arvada Center Monument Sign
- Arvada Center Wireless Microphone

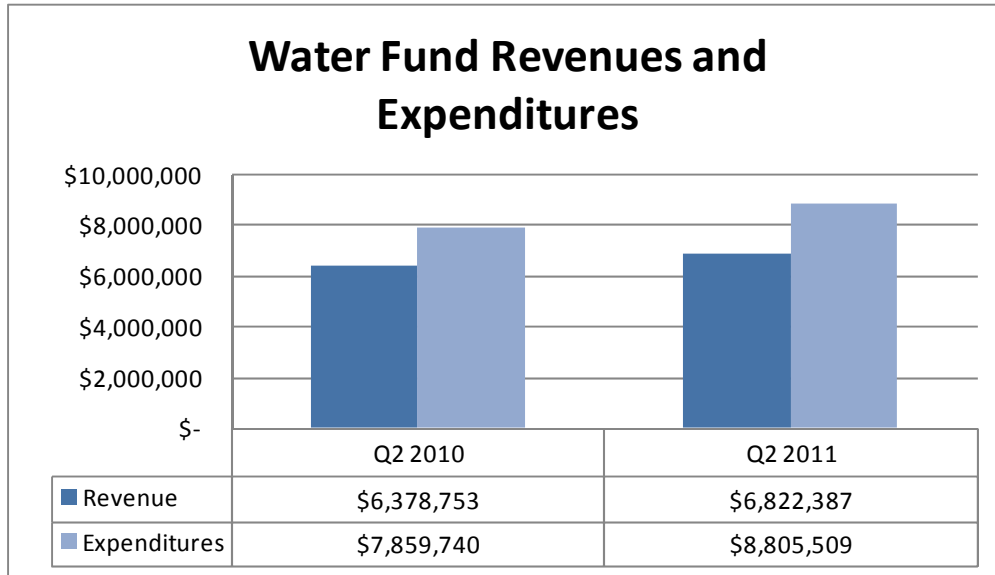
### Streets and Traffic

- Advanced Traffic Management System
- Olde Wadsworth Reconstruction
- Ralston/Garrison Hazard Elimination
- W. 72<sup>nd</sup> Ave. Bike Lane
- School Flashers



## Enterprise Funds – Water Fund

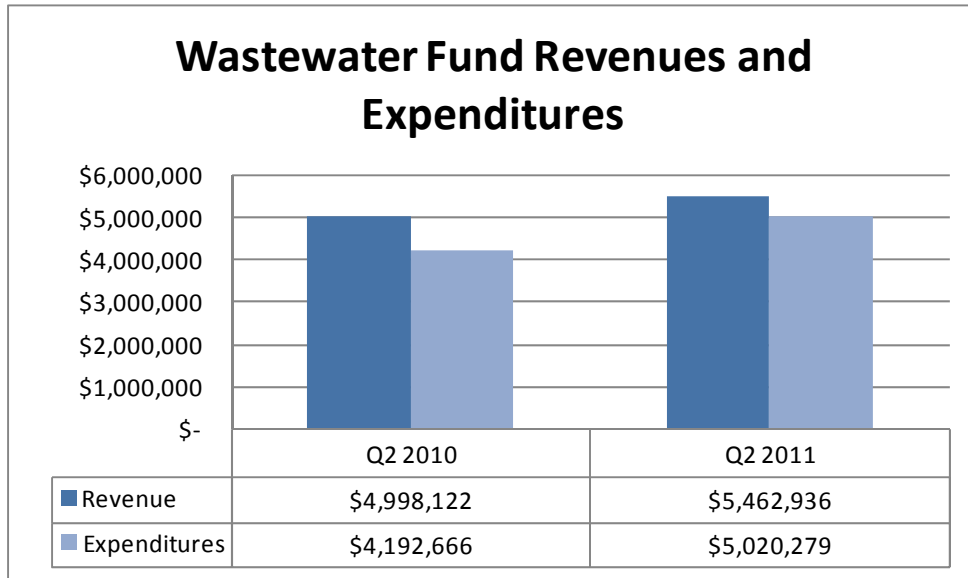
Water revenues for 2011 are ahead of 2010 revenues due to increased water rates and slightly more consumption (1,508,338 gallons in 2011 compared to 1,471,564 gallons in 2010). However, we are still waiting to see billed water consumption in August which will represent water consumed in July during the two weeks of rain.



Capital improvement expenditures in 2011 are about \$700,000 more than 2010 expenditures due to the water line extension to Ridge tank, Arvada Ridge site purchase and the equipment and storage building.

## Enterprise Funds – Wastewater Fund

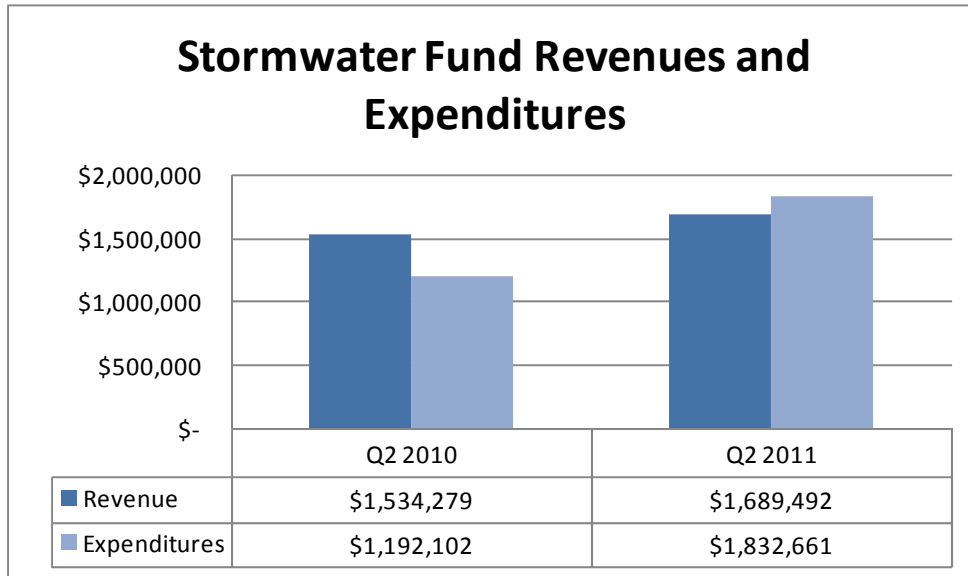
Wastewater revenues are about \$433,000 more in 2011 due to rate increases.



Expenditures in 2011 are about \$827,000 higher than in 2010. \$212,000 of this increase is due to payments to Metro Wastewater that are estimated to be about \$400,000 higher than in 2010. \$600,000 of the increase is due to the timing of the sewer main replacement program. Work on the replacement project started earlier in 2011 than in 2010. However, estimated project costs are about \$1.8 million in 2010 and 2011.

## Enterprise Funds – Stormwater Fund

Revenues for 2011 are comparable to 2010 revenues.



The increase in expenditures for the first quarter is due to capital expenditures for the Garrison street bridge project that will be constructed in 2011.

### Unit Drainage Fund

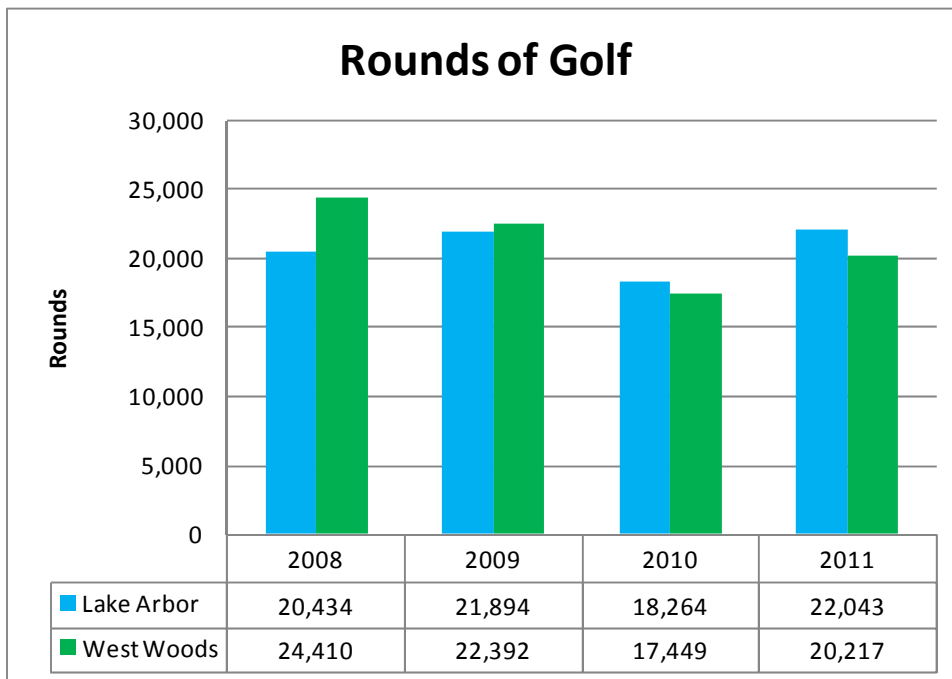
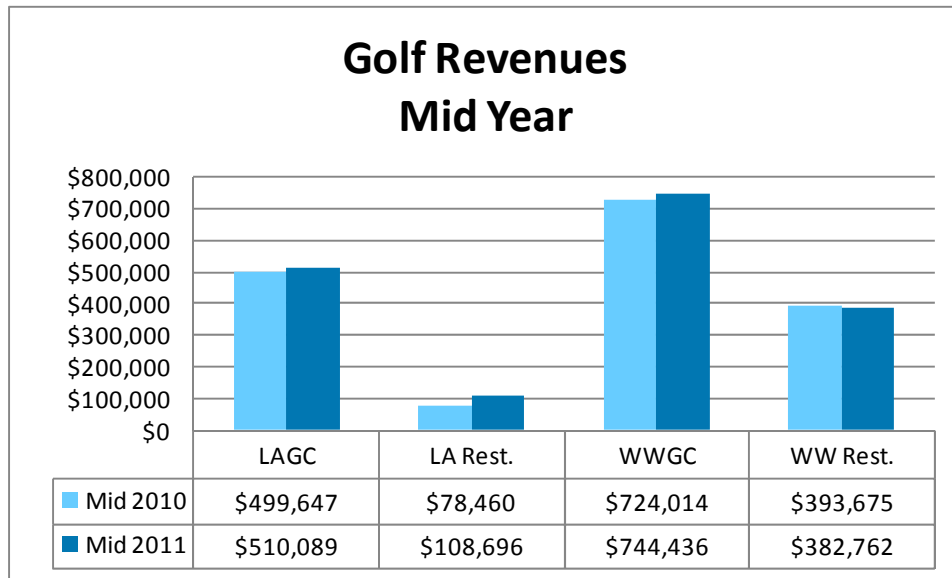
The Unit Drainage Fund represents funds collected from developers for particular basin projects before the stormwater fee was implemented. Reserved funds represent unit drainage fees that were collected for a specific area. The unreserved funds represent interest earnings on the fund balance for the past 10 years. In 2012, we will use \$1,000,000 of the fund balance for the City's share of the IGA with Wheat Ridge and Urban Drainage and Flood Control District to build the Ridge Road Tributary in anticipation of the Gold Line. \$759,637 of the fund balance will be transferred to the Stormwater Fund as reimbursement to the Stormwater Fund for drainage projects that are complete and have benefited specific basins where the unit drainage fee was collected. The remaining fund balance represents funds that are designated to be spent in future years for specific basin areas.

|                        | Reserved     | Unreserved   |              |
|------------------------|--------------|--------------|--------------|
| Description            | Fund Balance | Fund Balance | Total        |
| Drainage Fund Balance  | \$976,130    | \$980,811    | \$1,956,942  |
| Ridge Road Tributary   | -\$418,831   | -\$581,169   | -\$1,000,000 |
| Transfer to Stormwater | -\$359,995   | -\$399,642   | -\$759,637   |
| Remaining Fund Balance | \$197,305    | \$0          | \$197,305    |

## Golf Fund

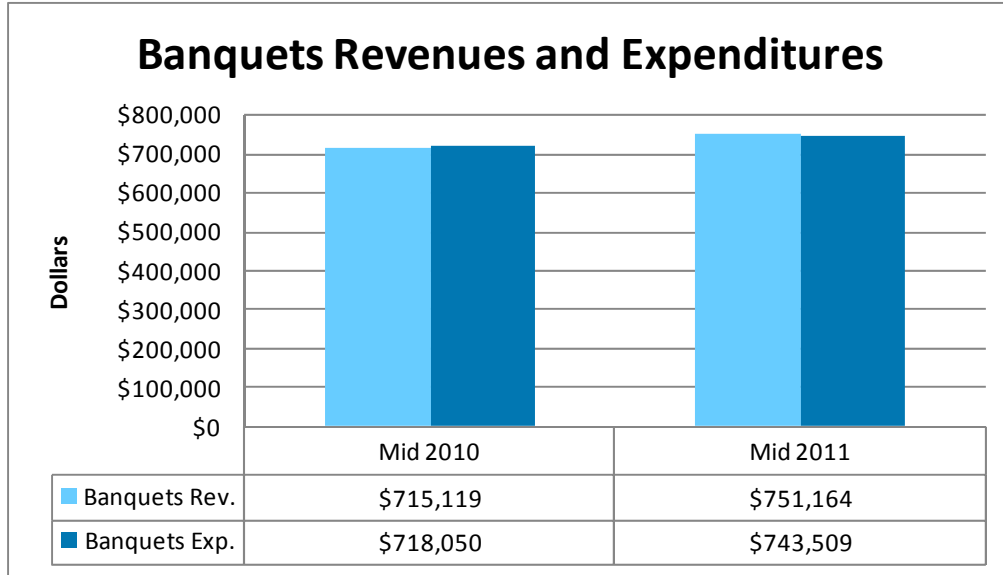
Both courses saw considerable year-over-year increases in rounds, with Lake Arbor up 20.7% and West Woods up 15.9%. It should be noted that the difference between the two courses in rounds played has continued to move in favor of Lake Arbor during the first halves of the past four years. West Woods held a lead of 3,976 rounds as of mid-2008, which has become a lead for Lake Arbor of 1,826 in mid-2011.

There was not nearly as much variance in temperature year-over-year for the second quarter than there was for the first, which saw both a notably warmer January and March.



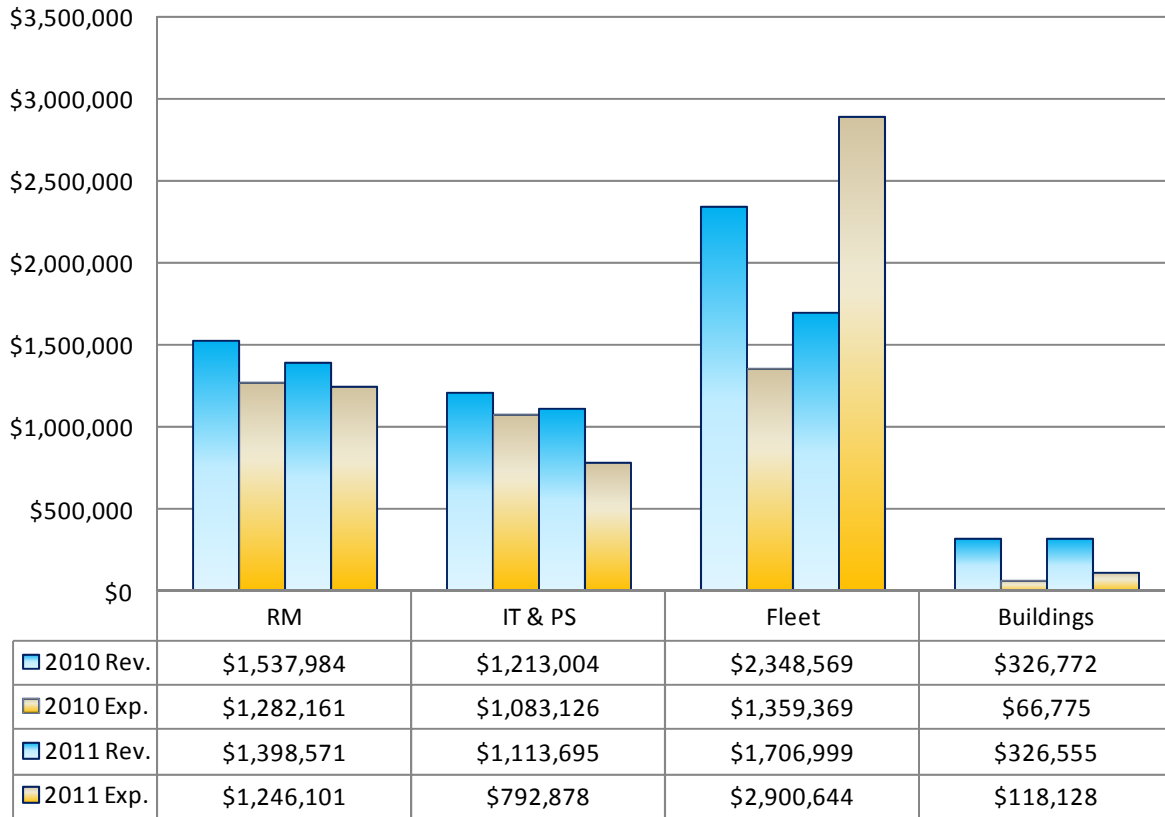
## Hospitality Fund

While the total number of guests served at Banquet events was down 3.6% mid-year 2011 over mid-year 2010, revenues slid only 1.1%. Arvada Center events, which accounted for 92% of revenue, saw an increase of 1.6%.



## Internal Service Funds

### Internal Service Funds January - June Comparisons



### Insurance Fund

| Insurance Fund  | Mid 2010           | Mid 2011           | Difference        |
|---|--------------------|--------------------|-------------------|
| Revenues  |                    |                    |                   |
| Transfers   | \$1,453,763        | \$1,337,024        | -\$116,739        |
| Other   | \$84,221           | \$61,547           | -\$22,674         |
| <b>Total Revenues</b>   | <b>\$1,537,984</b> | <b>\$1,398,571</b> | <b>-\$139,413</b> |
| Expenditures  |                    |                    |                   |
| RM Admin.*  | \$1,041,433        | \$1,011,264        | -\$30,169         |
| Risk Mgmt   | \$240,728          | \$234,837          | -\$5,891          |
| <b>Total Expenditures</b>   | <b>\$1,282,161</b> | <b>\$1,246,101</b> | <b>-\$36,060</b>  |
| *Excludes \$2,000,000 transfer to Capital Projects made in January 2010 |                    |                    |                   |
| **Total premiums for 2011 decreased by \$944 under 2010 premiums.       |                    |                    |                   |

**Technology – Computers and Print Shop**

| <b>Info Technology/<br/>Print Shop</b> | <b>Mid 2010</b>    | <b>Mid 2011</b>    | <b>Difference</b> |
|--|--------------------|--------------------|-------------------|
| Revenues                               |                    |                    |                   |
| Maintenance                            | \$511,138          | \$479,500          | -\$31,638         |
| Replacement                            | \$553,483          | \$480,489          | -\$72,995         |
| Print Shop                             | \$148,382          | \$153,706          | \$5,324           |
| <b>Total Revenues</b>                  | <b>\$1,213,004</b> | <b>\$1,113,695</b> | <b>-\$99,308</b>  |
| Expenditures                           |                    |                    |                   |
| Maintenance                            | \$412,705          | \$218,853          | -\$193,852        |
| Replacement                            | \$530,372          | \$452,355          | -\$78,018         |
| Print Shop                             | \$140,048          | \$121,670          | -\$18,378         |
| <b>Total Expenditures</b>              | <b>\$1,083,126</b> | <b>\$792,878</b>   | <b>-\$290,248</b> |

**Vehicles – Maintenance and Replacement**

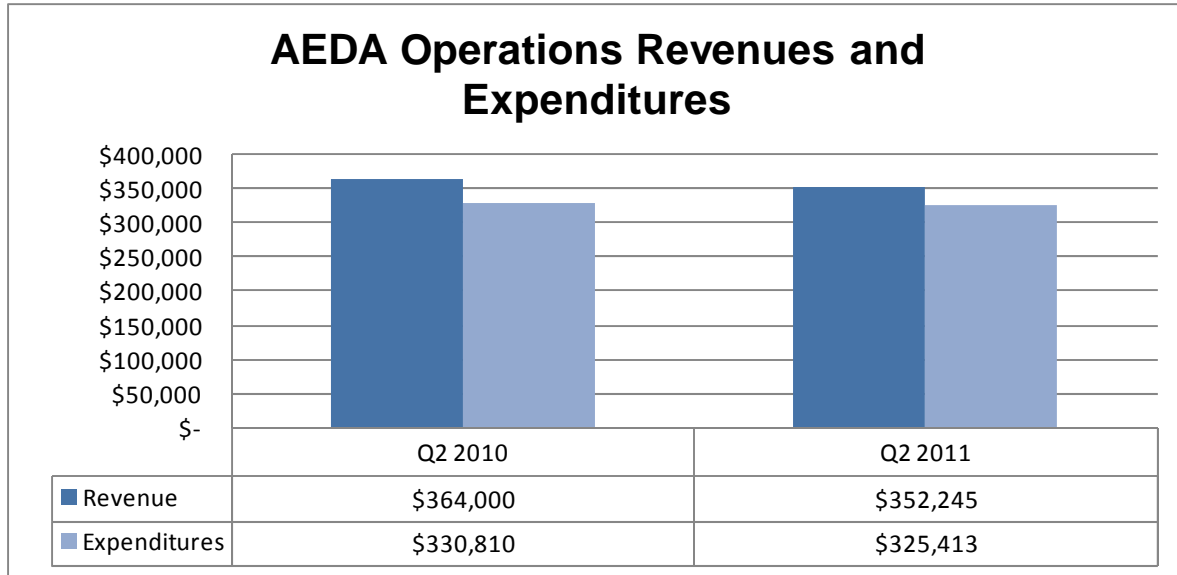
| <b>Vehicles</b>   | <b>Mid 2010</b>    | <b>Mid 2011</b>    | <b>Difference</b>  |
|---|--------------------|--------------------|--------------------|
| Revenues  |                    |                    |                    |
| Maintenance   | \$1,071,553        | \$1,078,370        | \$6,817            |
| Replacement   | \$1,277,016        | \$628,630          | -\$648,386         |
| <b>Total Revenues</b>   | <b>\$2,348,569</b> | <b>\$1,706,999</b> | <b>-\$641,569</b>  |
| Expenditures  |                    |                    |                    |
| Maintenance*  | \$970,738          | \$945,685          | -\$25,053          |
| Replacement**   | \$388,631          | \$1,954,959        | \$1,566,328        |
| <b>Total Expenditures</b>   | <b>\$1,359,369</b> | <b>\$2,900,644</b> | <b>\$1,541,276</b> |
| *Excludes \$1,700,000 transfer to Capital Projects made in March 2010   |                    |                    |                    |
| **Council approved \$1,325,359 in heavy vehicle purchases on January 3. |                    |                    |                    |

**Buildings**

| <b>Buildings</b>          | <b>Mid 2010</b>  | <b>Mid 2011</b>  | <b>Difference</b> |
|---------------------------|------------------|------------------|-------------------|
| Revenues                  |                  |                  |                   |
| Transfers                 | \$203,675        | \$203,675        | \$0               |
| Other                     | \$123,097        | \$122,880        | -\$217            |
| <b>Total Revenues</b>     | <b>\$326,772</b> | <b>\$326,555</b> | <b>-\$217</b>     |
| Expenditures              |                  |                  |                   |
| Maintenance               | \$13,159         | \$64,057         | \$50,898          |
| Capital Lease             | \$53,617         | \$54,072         | \$455             |
| <b>Total Expenditures</b> | <b>\$66,775</b>  | <b>\$118,128</b> | <b>\$51,353</b>   |

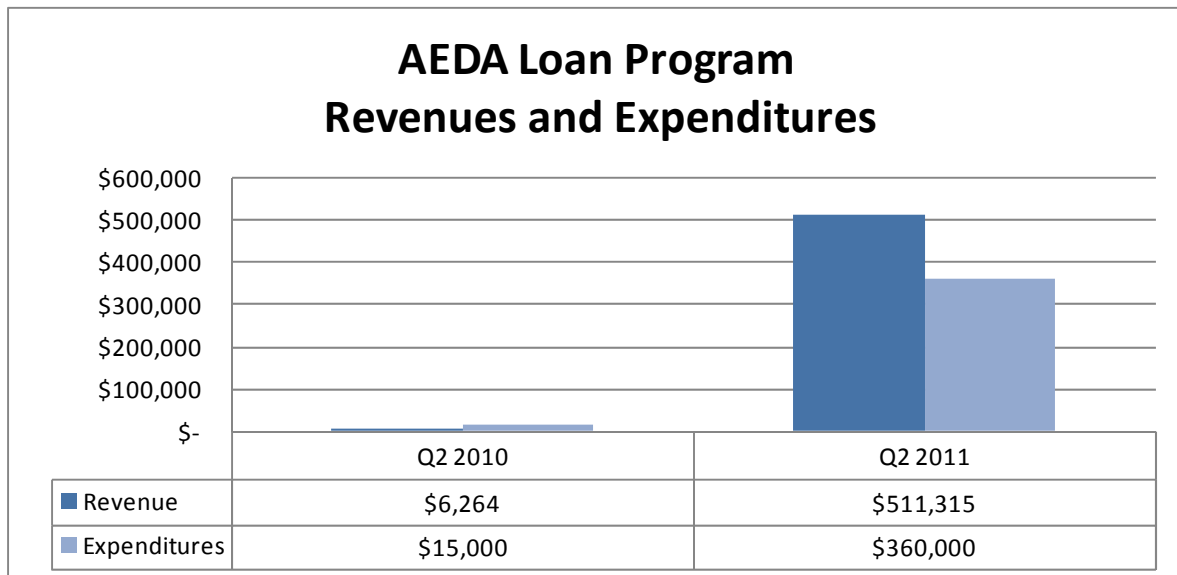
## AEDA Operations and Expenditures

Revenue in the AEDA Operations fund consists of a transfer from the general fund. Expenditures in 2011 are consistent with expenditures from 2010 and are about 46% of budgeted expenditures.



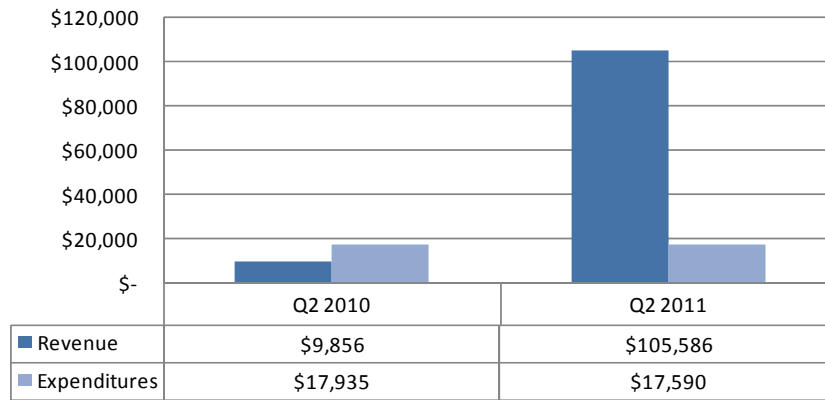
For the AEDA loan program, revenues in 2011 reflect \$500,000 of the \$1,500,000 transfer from the City of Arvada. The \$500,000 transfer in 2010 did not happen until July 2010.

Expenditures in 2011 reflect loans to A.L. Davis Building, Arbor Village Shopping Center and contributions to the Arvada Business Directory and the Colorado Enterprise Fund for the Arvada Micro Loan Program.



## Ancillary Funds

### Neighborhood Revitalization Revenues and Expenditures



Second quarter 2011 revenues are roughly \$95,000 ahead of second quarter 2010. This is solely due to the new annual commitment of funds from the General Fund to Neighborhood revitalization which started in 2011.

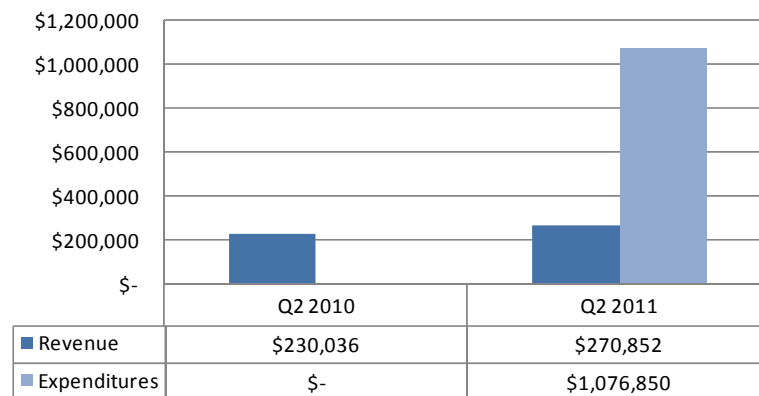
Expenditures are on the same trend line. It should be noted that 2011 is the first year of the new Neighborhood

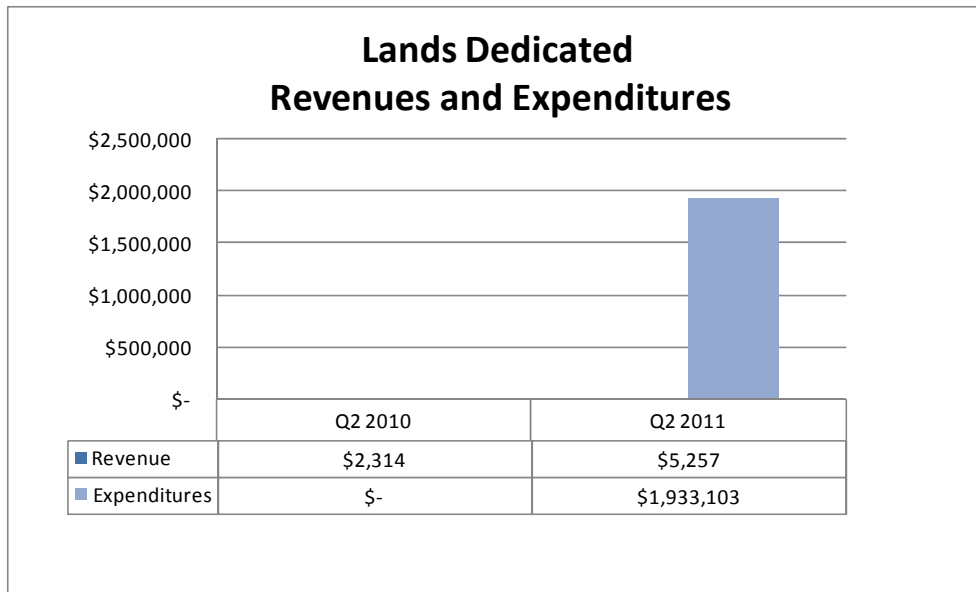
Revitalization program. Future years' expenditures are budgeted at \$200,000 per year.

Revenues are significantly ahead of last year, 17.75%, for the same time period. These are lottery funds and can be cyclical from year to year. This is the highest revenue total since 2008.

Expenditures for 2011 are higher at the half way point as a larger amount of Trust dollars was to be spent in 2011 versus 2010. These dollars are being used on O'Kane skate park and maintenance for various other Parks.

### Conservation Trust Revenues and Expenditures



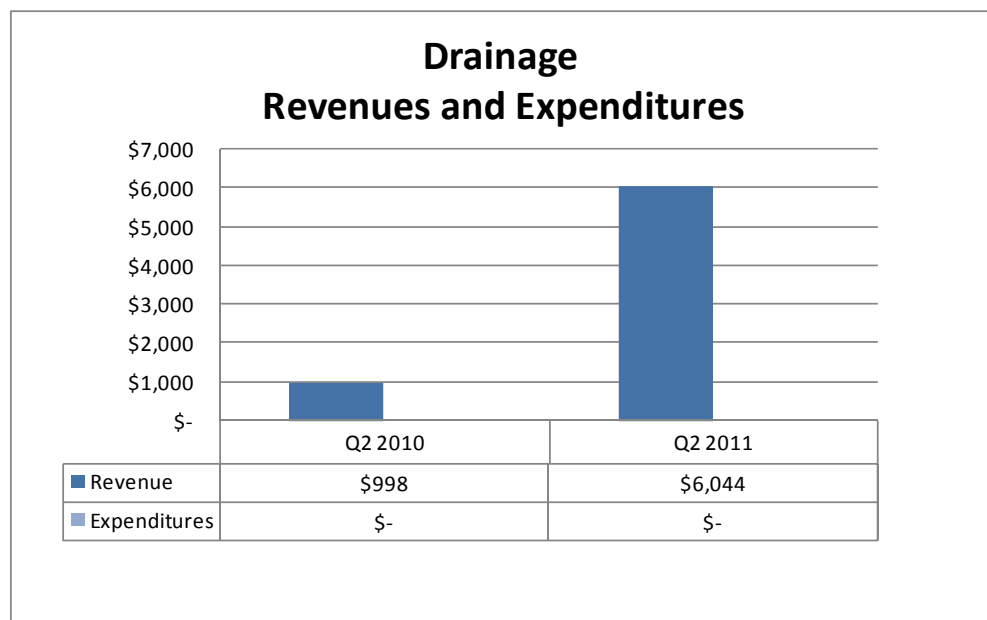


Revenues are trending the same in 2011 as 2010. Lands dedicated fees come in bunches during times of growth. Since the economy has slowed down, the City has less active developments. We are seeing some movement in the market so we should see some fees in the second half of 2011.

Expenditures are up in 2011 as we identified 11 Parks projects that will be active in 2011 that can use Lands Dedicated fees.

The Drainage fund has not had any revenues, other than interest, since 2003. Therefore, year over year the only real activity in the fund is transfers out to the Stormwater Fund for capital work in one of the basins.

So far in 2011, there has not been any activity. There are some projects in the queue for 2012 and a large % of the fund balance will be used.



## Investment Report

### City of Arvada Investment Report Second Quarter 2011

#### Investment Portfolio Performance

For the period of January through June, 2011, the portfolio provides a yield of 1.130% following annual yield of 1.146% for 2010. The benchmark yield for the City's portfolio, as established in the investment policy, is a weighted benchmark of allowable securities. For this period, the weighted benchmark return was .64%, constructed using the average of 2011 monthly returns. The table below shows a year-over-year comparison:

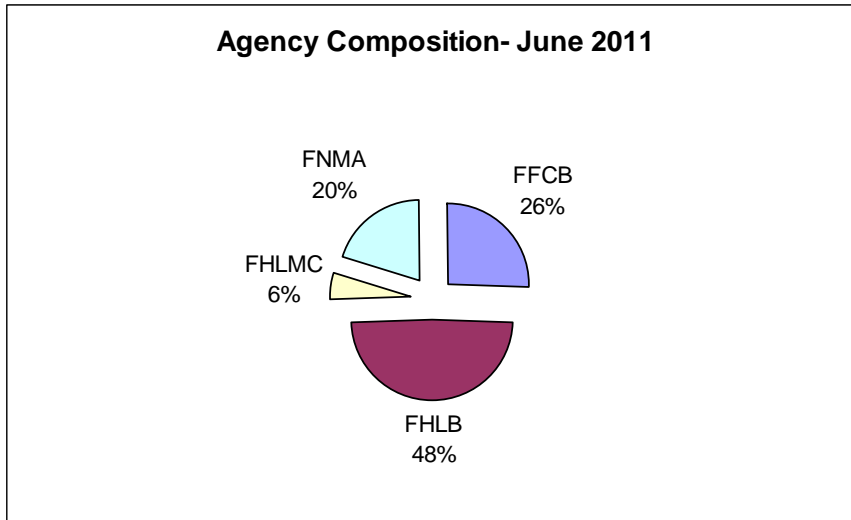
|                             | <b>JUNE<br/>2010</b> | <b>JUNE<br/>2011</b> | <b>DIFFERENCE</b>       |
|-----------------------------|----------------------|----------------------|-------------------------|
| <b>YTD Return</b>           | <b>1.146</b>         | <b>1.130</b>         | <b>-16 basis points</b> |
| <b>YTD Benchmark Return</b> | <b>.56</b>           | <b>.64</b>           | <b>+8 basis points</b>  |
| <b>Interest Booked YTD</b>  | <b>\$1,516,005</b>   | <b>\$1,184,011</b>   | <b>-\$311,994</b>       |

#### Portfolio Changes- 2011

The City's portfolio increased \$1.438 million from December, 2010 to May, 2011. Changes in the portfolio from December 2010 to May, 2011 are shown in the chart below:

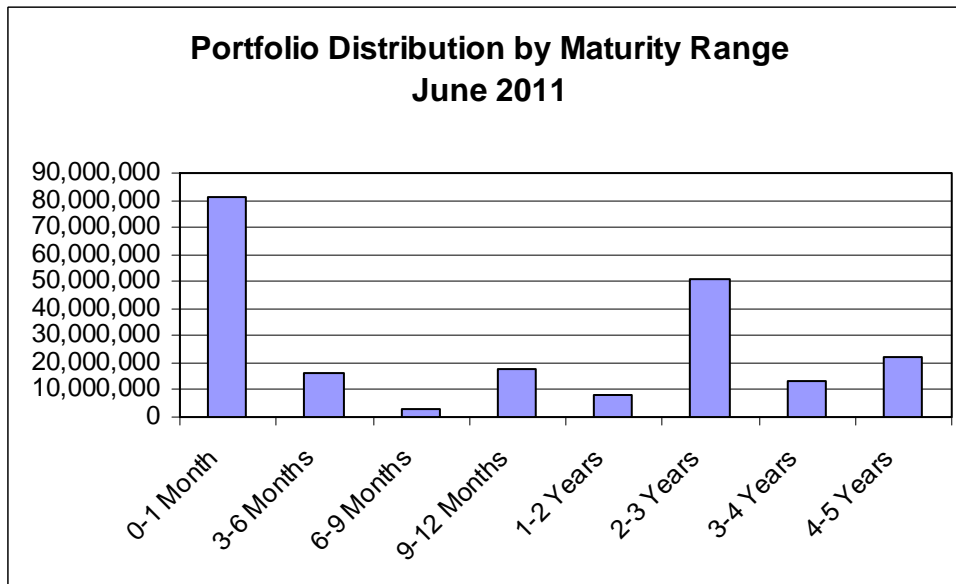
| <b>SECURITY<br/>SECTOR</b> | <b>DECEMBER<br/>31, 2010<br/>BALANCE</b> | <b>% OF<br/>PORTFOLIO</b> | <b>JUNE<br/>30, 2011<br/>BALANCE</b> | <b>% OF<br/>PORTFOLIO</b> | <b>% OF<br/>CHANGE</b> |
|----------------------------|--|---------------------------|--------------------------------------|---------------------------|------------------------|
| Cash                       | \$17,084,994.27                          | 8.13%                     | \$17,111,442.84                      | 8.08%                     | +.16%                  |
| Certificate<br>of Deposit  | 9,097,316.63                             | 4.33%                     | 14,130,371.89                        | 6.67%                     | +55.33%                |
| Corporate                  | 27,000,000.00                            | 12.84%                    | 21,000,000.00                        | 9.92%                     | -<br>22.23%            |
| LGIP                       | 62,042,876.51                            | 29.51%                    | 63,801,661.33                        | 30.14%                    | +2.84%                 |
| US Agency                  | 88,000,000.00                            | 41.86%                    | 88,650,000.00                        | 41.88%                    | +.74%                  |
| US Treasury                | 7,000,000.00                             | 3.33%                     | 7,000,000.00                         | 3.31%                     | 0.00%                  |
| <b>Total</b>               | <b>\$210,225,187.41</b>                  |                           | <b>\$211,693,476.66</b>              |                           |                        |

US Agencies currently comprise 41.88% of the portfolio, the agency composition as of June 30, 2011 is shown in the graph below:



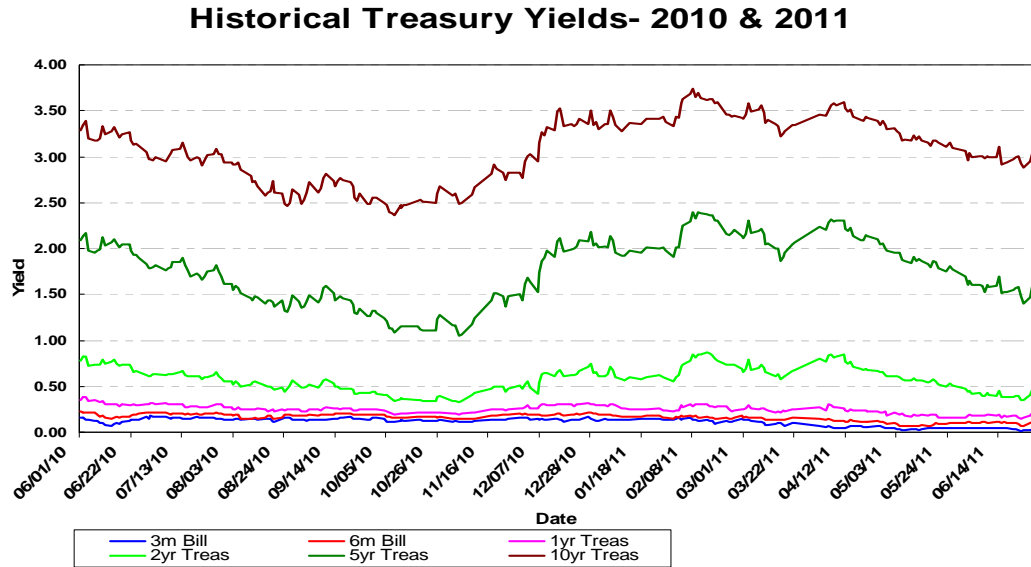
We are currently keeping Fannie Mae (FNMA) and Freddie Mac (FHLMC) at current levels in the portfolio due to Government subsidy of these agencies. Due to concentration in the portfolio, we are not currently investing in Federal Home Loan Bank (FHLB) and are looking to add Federal Farm Credit (FFCB) to the portfolio.

As of June 30, 2011, 55.77% of the City's portfolio has a maturity range of less than one year. The City has invested in the two to three year maturity range in anticipation of yields increasing in the next 12 to 18 months, currently 22.93% of the City's Portfolio is invested in this maturity range as shown in the graph below:



**Current Investment Environment**

Treasury yields have decreased between 13bps and 28bps from June, 2010 to June, 2011 as shown in the graph below:



We had been investing in the two to three year maturity range in anticipation of rates increasing in the next 12-18 months. We are currently investing in the four to five year maturity range, purchasing securities with a call lock out period in an attempt to enhance yield. We are currently exploring other optional investments as the LGIP funds are currently yielding 10bps, one area we are looking at is Certificates of Deposit to gain yield over the LGIP funds.

The City’s Investment Policy allows for the investment in corporate bonds with a credit rating of AA or better, we have looked to invest in these securities with AAA credit ratings allowing for credit rating down grade. In our current economic environment, it is difficult to find corporate bonds with an AAA credit rating. Currently, we are looking to invest in strong corporate companies with an AA or better credit rating, finding AA credit ratings can also be difficult in our current environment.