

CITY OF CORVALLIS

Investment Council

Treasury Report

July 2011

CITY OF CORVALLIS, OREGON
INVESTMENT COUNCIL
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DRAFT
CITY OF CORVALLIS
INVESTMENT COUNCIL MEETING
AUGUST 3, 2011 MINUTES

The City of Corvallis Investment Council meeting was called to order at 7:30 a.m. on August 3, 2011 in the Madison Avenue Meeting Room, 500 SW Madison Avenue, Corvallis, Oregon.

ROLL CALL

Present: Ellen Volmert, Nancy Brewer, Scott Fewel, Staci Voight, Mark O'Brien, Janet Chenard, Teresa Nix (recorder)

Absent: Bill Mercer

SUMMARY OF DISCUSSION

Agenda Item	Information Only	Held Over for Further Review	Recommendations
I. Approval of Minutes from May 5, 2011			Approved
II. Fiscal Year 2010-2011 Fourth Quarter Review			Approved
III. Investment Policy Review			Approved
IV. Other Investment Advisor Topics	X		
V. Open Discussion	X		
VI. Adjournment – 8:10 a.m.			

CONTENT OF DISCUSSION

I. APPROVAL OF MINUTES

City Manager Pro Tem Ellen Volmert asked for any corrections to the minutes from the May 5, 2011 meeting. None being received, the minutes were approved as submitted.

II. FISCAL YEAR 2010-2011 FOURTH QUARTER REVIEW

Treasury Accountant Staci Voight presented the Fourth Quarter Portfolio Summary to the Investment Council (Attachment A), noting the ending cash balance for April 2011 through June 2011 was down by about \$9.9 million; investments were up by about \$3.3 million; total ending balance was down by about \$6.5 million.

The Short Term Portfolio had no change on return rate. The Long Term Portfolio went up 1.09 percentage points. The LGIP balance declined about \$9.6 million; the LGIP will probably continue to drop as the City builds an investment portfolio with Davidson Fixed Income Management, Inc. (DFIM).

On the Historical 12 Week Average, the Treasury's 2 Year was down 15 basis points; the 379 Day Agency was down 5 basis points.

Three purchases were made in the fourth quarter totaling \$4.5 million.

Mr. Fewel asked how the relationship with DFIM is working out. Ms. Chenard said the relationship is working well in the sense that DFIM's representative, Deanne Woodring, stays on top of the market and does the leg work. The City has not done as much as anticipated with DFIM because the market is not very good and the horizon is not rosy. Staff talks to Ms. Woodring regularly to see if there is anything worth doing.

MOTION: Mr. Fewel moved to accept the Report. Mr. O'Brien seconded the motion and it **passed** unanimously

II. INVESTMENT POLICY REVIEW

Ms. Chenard drew attention to the staff memorandum, distributed in meeting packets. She said that the Investment Policy, with revisions made by the Investment Council in May, was submitted to the Oregon Short Term Funding Board (OSTFB) which suggested changes in two sections.

The first change proposed in response to OSTFB suggestions was to state that safety, legality, and liquidity are the primary objectives for the City, with a secondary objective of return. This has always been the City's position. The specific language was suggested by DFIM and used in other OSTFB-approved investment policies. The second change had to do with collateralization. The City previously included a fair amount of specificity in this paragraph. DFIM suggested a simpler, condensed paragraph which addresses the concepts of collateralization; this language was recently approved for another jurisdiction by OSTFB.

Mr. Fewel asked if OSTFB reviews the Policy annually. Ms. Chenard said the policy is only submitted for review if it is changed substantially. Ms. Brewer added that OSTFB has stepped up its level of review on policies, getting more into what makes good policy versus simply good investments. This heightened evaluation process was evidenced by the relatively new practice of including municipal representatives via teleconference as the review is conducted to help ensure a thorough understanding by staff of best practice changes and any substantive concerns board members might have.

MOTION: Mr. Fewel moved to approve revisions to the Investment Policy. Ms. Brewer seconded the motion and it **passed** unanimously.

IV. OTHER INVESTMENT ADVISOR TOPICS

Investment Broker/Dealer List Approval

Ms. Chenard drew attention to the DFIM Approved Broker/Dealer List. She said the City has typically tried to stay local by using companies that had an Oregon presence. DFIM is proposing that the City use an expanded list. When this was brought to the last Investment Council meeting, the former city manager had asked for further discussion. The list is of those the City would transact through, but it would not have a financial stake in these companies. The risk, if any, is the one-day settlement of a given trade, which is negligible. The question is more related to whether there are companies on the list that the City would not want to do business with from a public perception standpoint.

Ms. Brewer said the City has historically used vendors that had a physical location in Oregon primarily to narrow the field and also because technology was not formerly as versatile for ensuring speedy, secure communications. DFIM is able to efficiently contact a larger number of vendors and buy through wholesale markets, which is part of the reason it is able to get better prices.

Mr. Fewel said he is not concerned about public perception and he thinks the list is fine. Ms. Volmert said that this is similar to other conversations the City has had about not being restricted to local business (banks, insurance, etc.) where there is enough of a benefit financially to the City. Ms. Chenard noted that the City has the right to remove any name from the list at any time, and that any future additions would have to be approved by Investment Council per policy. There was general agreement to approve the DFIM Approved Broker/Dealer List.

Amortization of Investment Earnings Update

Ms. Voight shared that the City will begin to implement amortization of investment earnings. The actual investment earnings will average out over the lifespan of the investment; and premiums or discounts paid up front will also be amortized over that period. Ms. Chenard said this is for information; she invited any questions.

In response to inquiries from Mr. Fewel, Ms. Brewer said this is not a federal requirement but it is a recommended best practice which many other municipalities already follow. The reports will show income as it is accrued rather than as it physically comes in.

Review Monthly Treasury Report Formats

Ms. Voight drew attention to the DFIM report formats, distributed in packets. Ms. Chenard said that if there is something in the old report that the Investment Council would like to continue to see City staff would need to do that separately. Ms. Brewer said that the reports will be posted on the website beginning next month.

Ms. Volmert said she likes the DFIM report; it is clean and packed with information. Ms. Brewer said she likes the DFIM reports; she is fine going with those reports. Mr. Fewel said he would be

interested in Bill Mercer's opinion; Ms. Chenard advised that she invited input from Mr. Mercer but none had been received to date.

Inclusion of OSTF Summary Report on Quarterly Basis

Ms. Voight asked if the Investment Council would like to receive the OSTF Summary Report on a quarterly basis. Ms. Volmert said she found the Summary Report to be interesting. Ms. Chenard noted that the report is available on the OSTF website. There was general agreement that it would be sufficient for staff to provide a link to the OSTF website.

V. OPEN DISCUSSION

Ms. Volmert asked how a downgrade at the federal level would impact state and local governments. Ms. Brewer said that staff is watching this issue. She does not expect it would change the City's rating; she thinks the City would be far down on the list to look at due to size and what it has in the market, and because the General Fund does not have much in the way of state and federal dollars.

VI. ADJOURNMENT

The meeting was adjourned at 8:10 a.m.

ATTACHMENTS:

- A. 4th Quarter Portfolio Summary
- B. Investment Policy Review Memo
- C. Broker Dealer List
- D. OSTF and Market Review

Investment Council - August 3, 2011

Quarterly Portfolio Summary

Balances:	March 2011 (page 3 of Treasury Report)	June 2011 (page 13 of Treasury Report)	Difference
Cash	\$37,553,466	\$27,604,361	-\$9,949,105
Investments	\$4,245,450	\$7,611,430	\$3,365,980
Total	\$41,798,916	\$35,215,791	-\$6,583,125

Returns:	March 2011 (page 3 of Treasury Report)	June 2011 (page 13 of Treasury Report)	Difference
Short Term Portfolio	0.54	0.54	0
Long Term Portfolio *	0	1.09	1.09
Total to Call Date	0	0	-
LGIP	0.50	0.50	0.00

* 18 months (540+ days)

LGIP:	March 2011 (page 4 of Treasury Report)	June 2011 (page 14 of Treasury Report)	Difference
Cap: \$42,523,082	32,206,184	22,554,346	-9,651,838

Historical 12 Week Average	March 2011 (page 3 of Treasury Report)	June 2011 (page 13 of Treasury Report)	Difference
Treasury's 2 Year	0.67	0.52	-0.15
379 Day Agency	0.30	0.25	-0.05

4th Quarter Purchases

Purchased:

5/13/2011	\$1M FHLB, Yielding 0.72, Maturing 6/21/13
5/25/2011	\$1.5M FHLB, Yielding 1.05, Maturing 11/25/13
6/30/2011	\$2M FHLMC, Yielding 1.25, Maturing 12/29/14

July 22, 2011

To: Investment Council
From: Janet Chenard, Budget & Financial Planning Manager
Subject: Investment Procedure/Policy – Review Approval



Issue

Annual re-adoption of the Administrative Policy on Investment Administrative Procedures (AP 95-5.03) is sought from the Investment Council with this memo.

Discussion

ORS 294.145(a) requires the annual re-adoption of a written investment policy, as noted in the current version of the City's AP 95-5.03.100. A review by staff was initiated in April 2011 per the one-year timeline, but the Investment Council concurred with staff's recommendation to delay the annual update in order to include changes related to the City's acquisition of an Investment Advisor. After incorporation of changes in this regard, further revisions were made by Investment Council in May, 2011. The revised policy was submitted for the Oregon Short Term Funding Board's next regular meeting which was held on July 14, 2011.

The Oregon Short Term Funding Board (OSTFB) suggested several changes which are redlined in the attached document, and are summarized below for consideration by Investment Council prior to final Adoption of the Policy:

- 1) **S.5.03.030** – The OSTFB suggested that it is best practice to state an order of priority for the Investment Objectives section, to ensure that an order is intended/understood. This may be an argument for re-ordering section a. and b. Legality is likely of higher importance even than Safety of funds. OSTFB members indicated that some entities do order with Safety first though based on underlying taxpayer funds, and that this is acceptable to the Board. Liquidity could however also be considered paramount in order to ensure legal compliance for debt service payments, etc. Staff recommends including the new introductory language in the policy that clarifies these three issues are of the highest importance and equal in priority. This language has been suggested by DFIM and used in other OSTFB-approved investment policies.
- 2) **S.5.03.051(c)** – four wording changes were initially suggested by OSTFB for this paragraph based on the wording provided by the City. Essentially, the OSTFB suggested more precision as to the ORS code reference on collateralization, plus two word corrections, as well as less specificity regarding the date when the annual updated list of financial institutions should be provided to the Oregon State Treasury. As such, DFIM suggested a simpler, condensed version of this paragraph, recently approved for another jurisdiction by OSTFB, that doesn't try to provide as detailed an interpretation of the ORS guidelines for collateralization, but just states an overview of the rules therein. The essence of the paragraph is unchanged from the draft previously approved by Investment Council and has been identified as administratively acceptable by the OSTF Investment Division specialist.

Recommendation

Staff recommends that the Investment Council re-adopt the Investment Administrative Procedures 5.03 as amended through the OSTFB review process in the attached document.

Concur:

 7/26/11
Finance Director Date



DFIM APPROVED BROKER/DEALER LIST

BARCLAYS CAPITAL, INC.

BANC OF AMERICA SECURITIES, LLC

CITIGROUP GLOBAL MARKETS INC.

CREDIT SUISSE SECURITIES (USA) LLC

DEUTSCHE BANK SECURITIES, INC.

GOLDMAN, SACHS & CO.

HSBC SECURITIES (USA), INC.

J.P. MORGAN SECURITIES, INC.

MIZUHO SECURITIES USA, INC.

MORGAN STANLEY & CO, INC.

RBC CAPITAL MARKETS CORPORATION

SEATTLE-NORTHWEST SECURITIES CORPORATION

UBS SECURITIES, LLC

WELLS FARGO INSTITUTIONAL SECURITIES, LLC

Oregon Short-Term Fund Board Meeting

July 14, 2011

Oregon Short-Term Fund Information

Outlook and Strategy

Uncertainties:

- U.S. Budget Deal/Debt Ceiling and Impact on U.S. Credit Quality/Ratings/Markets
- Peripheral Europe
- QE3
- Continued Mixed Economic Data

Staff continues to believe that the downside interest rate risks outweigh the upside risks and, to express this view, adjustable rate securities remain a core holding for the OSTF, i.e., we maintain a defensive bias. That said, with the Fed maintaining current monetary policy “for an extended period,” staff continues to seek opportunities for positive carry versus the very front-end of the yield curve, where yields range between 0.001% - 0.20% (1/10 bps - 20 bps).

The weighted average yield of the OSTF was 0.7964% as of June 30, 2011, and is currently 0.7785%. The weighted-average-maturity, or WAM, of the fund was 194 days at month-end, and is currently ~184 days.

At month-end, corporate exposure stood at 49.4% and is currently at 47.7%. Corporate fundamentals generally remain healthy and valuations remain narrow though more attractive compared to April levels.

The approved commercial paper list has been continuously revised over the past year to include additional high quality credits and to remove those credits that have been downgraded or that are perceived by staff to bear higher-than-desired risk or potential balance sheet pressure in the future. Staff continues to diligently review the approved credits as well as potential new programs that may add value and safety to the OSTF.

General Fund

In the fiscal year ended June 30, 2011, the General Fund had experienced negative cash balances. The current fiscal year may witness pressure on negative cash balances because of the length of time before the State will have sufficient revenue to cover the overdraft. The OSTF provides liquidity to those state agencies, including the General Fund, with short-term negative cash balances.

Presently for the General Fund, compensation for these overdrafts is calculated for every day of an overdraft occurrence at the rate of the current OSTF rate plus a spread of 110 bps and subject to the statutory lending rate floor of 200 bps. The spread is based on the three year average of the “BAML U.S. Corporate & Government, 1-3 year, AA Rated and Above Bond Index” and will be revised at the end of every fiscal year.

Oregon Short-Term Fund Board Meeting July 14, 2011

Staff has determined that, at the time of the overdraft, the prudent maximum available per state agency will be 1.5% of monies held in the OSTF, with the exception of the General Fund, which will be limited to 10.0% of monies held in the OSTF.

Securities Lending

Net OSTF securities lending income year-to-date through May 31, 2011 amounted to \$1.241 million versus \$1.458 million in the prior year YTD period, a decrease of about \$217,000.

Additional Items

In the future, staff will work with the OSTF Board and the OIC to further revise and enhance the portfolio investment rules and guidelines (4.02.03).

Oregon Short-Term Fund Board Meeting July 14, 2011

Select Portfolio Statistics & Compliance, as of June 30, 2011:

Compliance	Policy	Actual	Par Value	Select Data, as of 7/12/11	
Maturity Distribution					
Portfolio maturities less than 93 days	> 50%	58.08%	\$5,474,576,000		
Portfolio maturities between 94 days & 1 year		22.76%	2,144,653,000		
Portfolio maturities greater than 1 year	< 25%	19.16%	1,806,206,000		
Maturities greater than 3 years	0%	0.00%	0		
Total Maturity Distribution		100.00%	\$9,425,435,000	~ Yield, LT Fixed Rate	~ WAM
Diversification					
Treasury and/or Agency Securities	0-100%	38.71%	\$3,648,703,000	0.655%	241
TLGP/FDIC Securities	< 50%	10.68%	1,006,479,000	0.549%	321
<i>Commercial Paper (minimum A-1/P-1)</i>		2.71%	255,814,000	0.145%	8
<i>Corporate Bonds</i>		46.65%	4,396,989,000	1.587%	655
Total Corporate Indebtedness	< 50%	49.36%	4,652,803,000	Discount Notes: 0.036%	
Municipal Bonds		0.61%	57,250,000		
Time Certificate of Deposit's	< 20%	0.64%	60,200,000	0.223%	54
Total Diversification		100.00%	\$9,425,435,000		
Top Ten Holdings					
1. Federal Home Loan Bank	33%	12.10%	\$1,140,101,000		
2. TLGP/FDIC	50%	10.68%	1,006,448,000		
3. US Treasury	100%	10.49%	989,011,000		
4. Freddie Mac	33%	9.14%	861,768,000		
5. Fannie Mae	33%	5.90%	555,630,000		
6. General Electric Capital Corp.	5%	3.33%	313,396,000		
7. Goldman Sachs Group Inc.	5%	3.07%	289,079,000		
8. UBS AG Stamford CT	5%	3.02%	285,026,000		
9. Barclays Bank Plc	5%	2.92%	275,035,000		
10. Westpac Banking Corp.	5%	2.88%	270,982,000		
Total Top Ten Holdings		63.51%	\$5,986,471,000		
Total Average Credit Quality					
Moody's or Standard & Poor's	Minimum Aa2 or AA	Aa2/AA		Aa2/AA	
Interest Rate Exposure (adjusted for variable rate securities)					
WAM, exposure in days		194 days		184 days	
Fixed versus Variable Weights:				~ Yield, LT Fixed	~ WAM
Fixed Rate		62.13%	\$5,856,212,000	1.061%	440
Variable Rate		37.87%	\$3,569,223,000	0.928%	44

Total Return Performance, as of May 31, 2011:

	May	3 mos.	YTD	1 yr	2 yrs	3 yrs	4 yrs	5 yrs
OSTF	0.07	0.24	0.50	0.99	1.22	1.20	2.04	2.71
91 Day T-Bills	0.01	0.05	0.08	0.16	0.16	0.48	1.31	2.08
Value-Added	0.06	0.19	0.42	0.83	1.06	0.72	0.73	0.63

Source: State Street Investment Analytics



OSTF Daily Compliance
Short-term Portfolio Guidelines
As of June 30, 2011

Maturity Distribution	In Compliance	Objective	Percent of Par	Par Value
Portfolio to Mature Within 93 Days:				
A. 1 to 30 Days			25.952%	2,446,053,000.00
B. 31 to 60 Days			16.936%	1,596,293,000.00
C. 61 to 93 Days			15.195%	1,432,230,000.00
Subtotal - Portfolio to Mature Within 93 Days:	Yes	> 50%	58.083%	5,474,576,000.00
Portfolio to Mature Between 94 and 366 Days:				
D. 94 to 136 Days			3.444%	324,600,000.00
E. 137 to 182 Days			8.119%	765,248,000.00
F. 183 to 273 days			9.186%	865,797,000.00
G. 274 to 366 Days			2.005%	189,008,000.00
Subtotal - Portfolio to Mature Between 94 and 366 Days:			22.754%	2,144,653,000.00
Portfolio to Mature Beyond One Year:				
H. 367 to 550 Days			9.394%	885,434,000.00
I. 551 to 730 Days			1.822%	171,707,000.00
J. 731 to 912 Days			5.802%	546,858,000.00
K. 913 to 1096 Days			2.145%	202,207,000.00
Subtotal - Portfolio to Mature Beyond One Year:	Yes	< 25%	19.163%	1,806,206,000.00
Total (Does not include Lehman holdings)			100.000%	9,425,435,000.00
Weighted Average Maturity: (Days)				193.41
Called Securities				
FLSGEN 34074GCT9, par value \$57,250,000.00 called on 7/15/2011, original maturity on 10/15/2012				
Maturities > 3 years (1097+ days)		All securities held mature within 1,096 days		
Diversification of Portfolio				
US Treasury and Agency Securities		Any %	38.711 %	3,648,703,000.00
FDIC Guaranteed Corporates	Yes	<50%	10.678 %	1,006,479,000.00
Corporate Indebtedness				
Corporate Notes			45.434 %	4,282,339,000.00
Commercial Paper			2.714 %	255,814,000.00
Bank Notes			1.216 %	114,650,000.00
Total Corporate Indebtedness	Yes	< 50%	49.364 %	4,652,803,000.00
TCD	Yes	<20%	0.639 %	60,200,000.00
Municipal Bonds			0.607 %	57,250,000.00
Total (Does not include Lehman holdings)			100.000 %	9,425,435,000.00
Agency Securities, Largest Holdings by a single Issuer	Yes	< 33%		12.10 %
Corporate Indebtedness, Largest Holdings by a single Issuer (excludes TLGP corporate issues)	Yes	< 5%		3.33 %
Corporate exposure including Ltr of Credit (excludes TLGP corporate issues)	Yes	< 10%		3.33 %
Foreign Government and Foreign Corporate Debt	Yes	< 25%		18.60 %



OSTF Daily Compliance
Short-term Portfolio Guidelines
As of June 30, 2011

Credit Quality (Does not include Lehman holdings)				
Standard & Poor's Weighted Average Credit Quality	Yes	< 3.5	2.78	AA
Moody's Weighted Average Credit Quality	Yes	< 3.5	3.02	Aa2
Today's Trades Meet Compliance Quality Rules :	Yes			
Commercial Paper	Yes	At least 2 of 3, minimum A-1 (S & P), P-1 (Moody's), F1 (Fitch)		
Corporate Bonds	Yes	Minimum A- (S & P), A3 (Moody's) or A- (Fitch)		
Other				
Weighted Average Yield				<u>0.7964 %</u>
<i>Lehman rates set to -0- percent for this calculation.</i>				
Trade Commitments:				
No open trades greater than 14 business days, trade to settle				



OSTF Daily Compliance
Short-term Portfolio Guidelines
As of July 12, 2011

Maturity Distribution				
	<u>In Compliance</u>	<u>Objective</u>	<u>Percent of Par</u>	<u>Par Value</u>
Portfolio to Mature Within 93 Days:				
A. 1 to 30 Days			34.407%	3,309,007,000.00
B. 31 to 60 Days			10.352%	995,543,000.00
C. 61 to 93 Days			14.576%	1,401,780,000.00
Subtotal - Portfolio to Mature Within 93 Days:	Yes	> 50%	59.335%	5,706,330,000.00
Portfolio to Mature Between 94 and 366 Days:				
D. 94 to 136 Days			2.954%	284,100,000.00
E. 137 to 182 Days			8.378%	805,748,000.00
F. 183 to 273 days			9.504%	914,041,000.00
G. 274 to 366 Days			1.464%	140,764,000.00
Subtotal - Portfolio to Mature Between 94 and 366 Days:			22.300%	2,144,653,000.00
Portfolio to Mature Beyond One Year:				
H. 367 to 550 Days			8.864%	852,434,000.00
I. 551 to 730 Days			1.713%	164,707,000.00
J. 731 to 912 Days			5.686%	546,858,000.00
K. 913 to 1096 Days			2.103%	202,207,000.00
Subtotal - Portfolio to Mature Beyond One Year:	Yes	< 25%	18.365%	1,766,206,000.00
Total (Does not include Lehman holdings)			100.000%	9,617,189,000.00
Weighted Average Maturity: (Days)				183.47
Called Securities	There are no called securities			
Maturities > 3 years (1097+ days)	All securities held mature within 1,096 days			
Diversification of Portfolio				
US Treasury and Agency Securities		Any %	40.118 %	3,858,253,000.00
FDIC Guaranteed Corporates	Yes	<50%	10.820 %	1,040,583,000.00
Corporate Indebtedness				
Corporate Notes			44.528 %	4,282,339,000.00
Commercial Paper			1.963 %	188,814,000.00
Bank Notes			1.192 %	114,650,000.00
Total Corporate Indebtedness	Yes	< 50%	47.683 %	4,585,803,000.00
TCD	Yes	<20%	0.783 %	75,300,000.00
Municipal Bonds			0.595 %	57,250,000.00
Total (Does not include Lehman holdings)			100.000 %	9,617,189,000.00
Agency Securities, Largest Holdings by a single Issuer	Yes	< 33%		13.83 %
Corporate Indebtedness, Largest Holdings by a single Issuer (excludes TLGP corporate issues)	Yes	< 5%		3.26 %
Corporate exposure including Ltr of Credit (excludes TLGP corporate issues)	Yes	< 10%		3.26 %
Foreign Government and Foreign Corporate Debt	Yes	< 25%		17.97 %



OSTF Daily Compliance
Short-term Portfolio Guidelines
As of July 12, 2011

Credit Quality (Does not include Lehman holdings)				
Standard & Poor's Weighted Average Credit Quality	Yes	< 3.5	2.73	AA
Moody's Weighted Average Credit Quality	Yes	< 3.5	2.99	Aa2
Today's Trades Meet Compliance Quality Rules :	Yes			
Commercial Paper	Yes	At least 2 of 3, minimum A-1 (S & P), P-1 (Moody's), F1 (Fitch)		
Corporate Bonds	Yes	Minimum A- (S & P), A3 (Moody's) or A- (Fitch)		
Other				
Weighted Average Yield				<u>0.7785 %</u>
<i>Lehman rates set to -0- percent for this calculation.</i>				
Trade Commitments:				
No open trades greater than 14 business days, trade to settle				

MONTHLY MARKET COMMENTARY**JULY 2011**

All bonds longer than six months in maturity rallied in July as yields continued to move toward record lows. Factors causing the downward pressure on rates were 1) the European debt crisis, 2) fear of a failure to reach an agreement on the U.S. debt ceiling and 3) continued poor economic news. Longer-term Treasuries rallied with both the ten-year and thirty-year yields falling to the lowest levels of 2011 as investors believed Congress and the White House would break a deadlock over raising the nation's debt limit and avoid defaulting on outstanding debt. The two-year Treasury note moved from 0.46% at the beginning of the month to 0.36% to finish the month.

Sector Performance

Bonds and commodities, especially gold, were the biggest performers for July. Stocks performed poorly both domestically and abroad. U.S. stocks gave up 2.3% last month – the third straight month of loss and the deepest monthly reversal since August 2010. Bonds, on the other hand performed very well—especially TIPs (Treasury Inflation Protected Securities). The Barclays Treasury TIPs index rose 3.9% in July, one of the strongest months on record for broad measures of TIPs. The long treasury index slightly outperformed the TIPs index. Municipal bonds were mixed. Fear about possible negative outcomes from the debt reduction talks resulted in a less than active secondary market. In addition, Moody's placed 177 Aaa-rated public finance issuers on review for downgrade.

Debt Limit

Yields on bills maturing just after the August 2 debt-ceiling deadline rose for a seventh straight day on the last day of the month. Short-term rates rose with the yield on the three-month Treasury bill tripling from three basis points to nine basis points and the six month Treasury bill almost doubled to 15 basis points from eight basis points. This increase was the result of fear that the Federal Government would default. S&P placed the U.S. AAA rating on "CreditWatch", saying there's a 50% chance it would be cut within 90 days even if an agreement was reached by the deadline. S&P said it needs to see "a credible solution to the rising U.S. government debt burden." Along with the increase in Treasury bill rates, rates for borrowing and lending securities in the repo market also increased to the highest level in five months.

Key Economic Data

There was very little positive news in the June employment report as job gains were paltry, the unemployment rate rose from 9.1% to 9.2%, the workweek declined and average hourly earnings were unchanged. Nonfarm payrolls rose only 18,000 following downward revisions to the prior two months. An increase of 160,000 was expected. In addition to the poor employment picture, GDP has also slowed. GDP climbed at a 1.3% annual rate last quarter, following a .4% gain in the first quarter that was less than estimated. Retail sales rose .1% in June with ex-autos unchanged. The Reuters/University of Michigan preliminary consumer sentiment index fell to 63.8 in July vs. 71.5 the previous month. A gain to 76.2 was expected. This is the lowest level since March 2009 and is close to the average of previous recessions of 68.3.

CHANGES IN THE TREASURY MARKET OVER THE PAST QUARTER:

	<u>05/31/11</u>	<u>06/30/11</u>	<u>07/31/11</u>	<u>Chg July</u>
3-month bill	0.04	0.02	0.07	+.05
6-month bill	0.10	0.10	0.15	+.05
2-year note	0.47	0.46	0.36	-0.10
5-year note	1.70	1.76	1.35	-0.41
10-year note	3.06	3.16	2.80	-0.36

Policy Compliance Report

(Market Values)

Overall Portfolio Structure

	Investment Strategy Range		Market Value	Neutral Allocation	Actual Allocation	Position
	Low	High				
Liquid Component	\$5,000,000.00	\$20,000,000.00	\$23,178,278.95	60.00%	75.4%	15.44%
Investment Component (Core)	\$15,000,000.00	\$20,000,000.00	\$7,544,290.50	40.00%	24.6%	-15.44%
Total			\$30,722,569.45			

	Policy Requirement	Actual Portfolio	Within Limits
Under 18 Months	> 75%	85%	Yes
Over 18 Months	< 25%	15%	Yes

Asset Allocation Strategy

	Policy Maximum Allocation	Per Issuer Restriction	Current Portfolio Allocation	Market Value	Policy Maximum Maturity	Amount Available to Invest	Within Limits
US Treasuries	100%		0.00%	\$0.00	5 Years	\$30,722,569.45	Yes
Federal Agency and Agency Sponsored	75%		24.56%	\$7,544,290.50	5 Years	\$15,497,636.59	Yes
Certificates of Deposit (OST Qualified Institutions)	25%		0.00%	\$0.00		\$7,680,642.36	Yes
Bankers Acceptances (must have an Oregon branch)	25%	25%	0.00%	\$0.00		\$7,680,642.36	Yes
Repurchase Agreements	25%		0.00%	\$0.00	90 Days	\$7,680,642.36	Yes
Commercial Paper (A-1/P-1)	25%		0.00%	\$0.00	120 Days	\$7,680,642.36	Yes
Investment Sweep Account	15%		11.96%	\$3,673,937.50		\$934,447.92	Yes
State Obligations (OR,WA, AA or better)	25%		0.00%	\$0.00	5 Years	\$7,680,642.36	Yes
State Pool	ORS Maximum or 100%		63.49%	\$19,504,341.45	N/A	\$23,284,117.55	Yes
Total			100.00%	\$30,722,569.45			

ORS Maximum \$42,788,459.00

***Investment Policy Note: "The combination of CD's, BA's, Repurchase Agreements, And CP may not exceed 25%of the total portfolio with any one financial institution."**

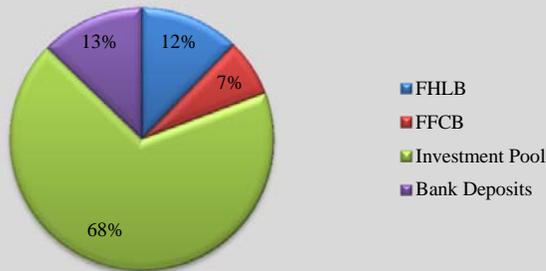
Total Asset Allocation Strategy
 (Market Values)

Commentary

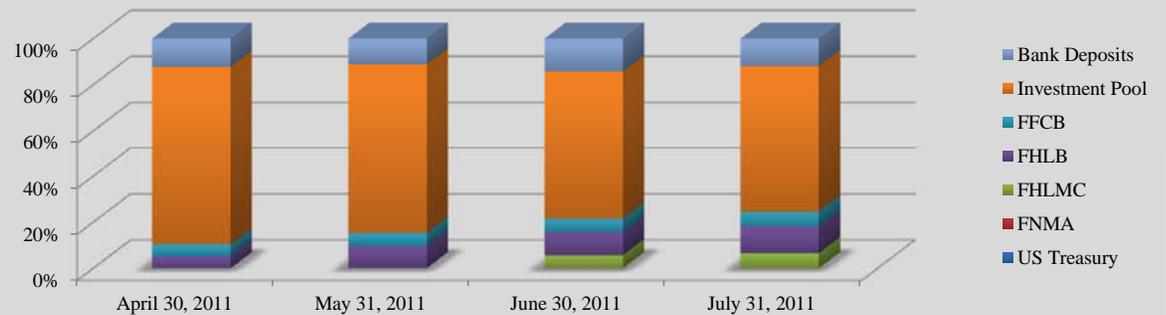
DFIM will focus on maintaining a diversified overall portfolio when recommending securities to purchase.

Sector	Yield	April 30, 2011	May 31, 2011	June 30, 2011	July 31, 2011	Change From Last Month
US Treasury	0.00%	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
FHLMC	1.31%	\$0.00	\$0.00	\$2,000,000.00	\$2,002,724.00	\$2,724.00
FNMA	0.00%	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
FHLB	0.86%	\$2,094,909.56	\$3,534,662.00	\$3,532,743.00	\$3,530,246.50	(\$2,496.50)
FFCB	0.83%	\$2,028,256.00	\$2,022,826.00	\$2,017,266.00	\$2,011,320.00	(\$5,946.00)
Investment Pool	0.50%	\$31,294,670.15	\$26,803,463.55	\$22,554,345.59	\$19,504,341.45	(\$3,050,004.14)
Bank Deposits	0.44%	\$4,931,226.39	\$4,077,500.44	\$5,050,015.46	\$3,673,937.50	(\$1,376,077.96)
Corporates	0.00%	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Total	0.61%	\$40,349,062.10	\$36,438,451.99	\$35,154,370.05	\$30,722,569.45	(\$4,431,800.60)

Current Sector Allocation



Changes in Sector Allocation





**SUMMARY OF AMORTIZED COST BASIS
 RETURN FOR THE PERIOD
 CITY OF CORVALLIS TOTAL
 June 30, 2011 to July 31, 2011**

	<u>Total Portfolio</u>
Interest Earned	34,852.78
Accretion/Amortization	-5,904.98
Realized Gain/Loss on Sales	0.00
Total Income on Portfolio	28,947.79
Average Daily Historical Cost	35,035,391.15
Return	0.08%
Annualized Return	0.98%
Annualized Return Net of Fees	0.98%
Weighted Duration to Maturity in Years	0.40
Weighted Days to Maturity	152

**DETAIL AMORTIZATION COST RETURN
 CITY OF CORVALLIS TOTAL
 From 06-30-11 to 07-31-11**

<u>CURRENT HOLDINGS</u>	<u>Interest Earned</u>	<u>Accretion (Amortization)</u>	<u>Realized Gain/Loss</u>	<u>Total Income</u>
AGENCY BULLET	8,826.39	-6,001.93	0.00	2,824.46
AGENCY CALLABLE	3,509.03	96.95	0.00	3,605.98
CASH & EQUIVALENTS	1,743.62	0.00	0.00	1,743.62
OR STATE POOL	20,773.74	0.00	0.00	20,773.74
TOTAL	34,852.78	-5,904.98	0.00	28,947.79

CITY OF CORVALLIS TOTAL PORTFOLIO HOLDINGS

July 31, 2011

Security Symbol	Quantity	Security	Call Date	Pur Date	Amort Price	Book Yield	Market Price	Market Yield	Market Value	Accrued Interest	Total Value	Unrealized Gain/Loss	Pct. Assets	Dur Mat	Dur Call
AGENCY BULLET															
3133XUJX2	1,000,000	FEDERAL HOME LN BKS 1.375% Due 08-05-11		12-09-09	100.01	0.72	100.01	0.15	1,000,132.00	6,722.22	1,006,854.22	60.80	3.3	0.01	0.01
31331Y3P3	2,000,000	FEDERAL FARM CR BKS CONS 3.500% Due 10-03-11		03-26-10	100.45	0.83	100.57	0.21	2,011,320.00	22,944.44	2,034,264.44	2,230.32	6.5	0.17	0.17
3133XXYX9	1,000,000	FEDERAL HOME LN BKS 1.875% Due 06-21-13		05-11-11	102.18	0.71	102.69	0.44	1,026,933.00	2,083.33	1,029,016.33	5,165.42	3.3	1.86	1.86
	4,000,000					0.77		0.25	4,038,385.00	31,750.00	4,070,135.00	7,456.54	13.1	0.56	0.56
AGENCY CALLABLE															
313373QW5	1,500,000	FEDERAL HOME LN BKS 1.050% Due 11-25-13	11-25-11	05-09-11	100.00	1.05	100.21	0.96	1,503,181.50	2,887.50	1,506,069.00	3,181.50	4.9	2.28	0.32
3134G2PM8	2,000,000	FEDERAL HOME LN MTG CORP 1.250% Due 12-29-14	06-29-12	06-28-11	99.81	1.31	100.14	1.21	2,002,724.00	2,222.22	2,004,946.22	6,623.92	6.5	3.33	0.91
	3,500,000					1.20		1.10	3,505,905.50	5,109.72	3,511,015.22	9,805.42	11.4	2.88	0.65
CASH & EQUIVALENTS															
CASH	9,932	CASH 0.220% Due 08-01-11		02-28-11	1.00	0.22	1.00	0.22	9,932.00	0.00	9,932.00	0.00	0.0	0.00	0.00
CBANK	395,999	Corvallis B of A 0.350% Due 08-01-11		06-30-11	1.00	0.35	1.00	0.35	395,999.23	0.00	395,999.23	0.00	1.3	0.00	0.00
CBANK2	3,268,006	Corvallis Umpqua Bank 0.600% Due 08-01-11		07-31-11	1.00	0.60	1.00	0.60	3,268,006.27	0.00	3,268,006.27	0.00	10.6	0.00	0.00
	3,673,938					0.57		0.57	3,673,937.50	0.00	3,673,937.50	0.00	12.0	0.00	0.00
OR STATE POOL															
ORPOOL	19,504,341	OREGON STATE POOL 0.500% Due 08-01-11		03-31-11	1.00	0.50	1.00	0.50	19,504,341.45	0.00	19,504,341.45	0.00	63.5	0.00	0.00
TOTAL	30,678,279					0.62		0.54	30,722,569.45	36,859.72	30,759,429.17	17,261.97	100.0	0.40	0.15

*This information herein has been obtained from sources which we believe to be reliable, but do not guarantee its accuracy.

Special note: At this time AXYS does not correctly calculate book or market yields for variable rate, floating rate, or mortgage backed securities.



**CITY OF CORVALLIS TOTAL
 TRANSACTION SUMMARY**

From 07-01-11 To 07-31-11

Trade Date	Settle Date	Cusip	Quantity	Security	Call Date	Amount	Broker
Buy long							
07-31-11	07-31-11	CBANK2	3,268,006	Corvallis Umpqua Bank 0.600% Due 08-01-11		3,268,006.27	
Deposit							
07-31-11	07-31-11	manfee		Management Fee (1)		1,500.00	
Interest							
07-31-11	07-31-11	CBANK		Corvallis B of A 0.350% Due 08-01-11		186.46	
07-31-11	07-31-11	CBANK2		Corvallis Umpqua Bank 0.600% Due 08-01-11		1,557.16	
07-31-11	07-31-11	ORPOOL		OREGON STATE POOL 0.500% Due 08-01-11		9,496.83	
						11,240.45	
Sell long							
07-31-11	07-31-11	CBANK	1,377,635	Corvallis B of A 0.350% Due 08-01-11		1,377,635.12	
07-31-11	07-31-11	CBANK2	3,266,449	Corvallis Umpqua Bank 0.600% Due 08-01-11		3,266,449.11	
07-31-11	07-31-11	ORPOOL	3,050,004	OREGON STATE POOL 0.500% Due 08-01-11		3,050,004.14	
						7,694,088.37	

(1) Monthly allocation of the quarterly investment advisor management fee from Davidson Fixed Income Management.

City of Corvallis
Glossary of Davidson Fixed Income Management, Inc. Acronyms and Terms

Investment/Issuer Types				Other	
BA	Banker's Acceptance	FFCB	Federal Farm Credit Bureau	CPI	Consumer Price Index
CASH	Petty Cash	FFCR	Federal Farm Credit Bank	FOMC	Federal Open Market Committee
CBANK	Bank of America Checking	FHLB	Federal Home Loan Bank	GDP	Gross Domestic Product
CBANK2	Umpqua Money Market	FHLMC	Federal Home Loan Mortgage Corporation	OSTFB	Oregon Short Term Fund Board
CD	Certificates of Deposit	FNMA	Federal National Mortgage Association	QE	Quantitative Easing
CP	Commercial Paper	ORPOOL	Local Government Investment Pool	YTM	Yield to Maturity

* All investments are held with US Bank, the City's third-party safekeeper.

Asset Allocation Strategy: a strategy that incorporates evaluating spread relationships between the investment alternatives. Treasury securities are the baseline yields to which all other issues are compared.

Benchmark: a benchmark is a target or market level comparator using a set of securities that appropriately matches the portfolio's risk and return characteristics through interest rate cycles.

Book Value: the cost of the principal at the time of the security purchase.

Buy long: reporting program terminology meaning a security has been placed in the portfolio.

Days to Maturity: (weighted average) number of days from the report date to the maturity date of a security (or group of securities).

Duration Strategy: a strategy that provides discipline for making investment decisions based on balancing risk and return. The duration of the portfolio will be adjusted relative to the benchmark as interest rates vary. The portfolio duration will be longer than the benchmark when rates are historically high and shorter when rates are historically low. The portfolio manager will typically manage the duration in a range of +/-25% to the benchmark duration.

Investment Component (Core): portion of the portfolio that is not expected to be needed for daily needs of participants. This portion is invested in maturities between 1 month and 3 years with an average maturity target of 9 months.

Liquidity Component: portion of the portfolio that is held in short maturity investments to meet immediate liquidity needs of the Funds. Investments designated to this component are LGIP Funds and Bank deposits.

Market Value: par value time the price at which the security could theoretically have been sold at month end per Interactive Data Corp. (IDC) an independent third-party security pricing firm.

Par Value: the face value of a security. This is the value to which the coupon rate is applied for interest payments.

Purchased Accrued Interest: number of days interest between last coupon date and purchase date that is paid for at time of investment purchase.

Return: the return of the total funds will be calculated on an accrual yield basis, which is the amount paid out to participants. This return will be compared to the OST Pool rate. Additionally, a total return calculation will be calculated and tracked internally to assist management in being accountable to the risk and return of the core investment portfolio on a market value basis.

Risk: the risks associated with investing are credit risk, mark to market risk and reinvestment rate risk.

Security Types: the portfolio's call exposure will be managed through balancing callable or variable rate exposure to fixed rate maturity securities.

Sell long: reporting program terminology meaning a security in the portfolio is available to sell; typically a liquid/cash account, since the City generally holds to maturity.

Term: (weighted average) number of days from the purchase date to the maturity date of a security (or group of securities).

Yield Curve Strategy: the portfolio will be generally laddered, but the manager will implement a yield curve strategy when value is present in particular maturity sectors.

**City of Corvallis
Cash Flow Summary
July 31, 2011**

	Receipts (1)	Disbursements (2)	Net
Actual Activity	4,076,449	7,938,274	(3,861,825)
Projected Activity	5,439,307	10,394,119	(4,954,812)
Difference	(1,362,858)	(2,455,845)	1,092,987

(1) Receipts include deposits and interest received.

Receipts are lower than budget in the areas of Public Works Revenue, Federal and State Grants, and State Shared Revenues, mainly due to timing of deferred underlying expenditures or other delays.

(2) Disbursements include vendor payments, payroll costs, and all other operating expenditures made by check and wire or electronic transfer.

Disbursements are lower than budgeted mostly in the area of contractual service payments not yet due/paid.

Intrafund and interfund transfers, and investment purchases and maturities are movements between cash in different accounting funds or investment securities. The net effect on cash is zero, therefore they are not included.

City of Corvallis
Monthly Revenue Allocations
Distributed in July 2011

Fund	Fund Name	Month's Avg Cash Balance	Interest Distributed	Fund	Fund Name	Month's Avg Cash Balance	Interest Distributed
101	General	(354,970.14)	(112.83)	460	Davidson Library	5,926.11	1.93
201	Street	480,377.52	156.96	501	Water	1,098,762.49	358.15
208	Street SDC	1,579,650.36	514.56	502	Water Timber	191,450.17	62.39
210	Parks & Recreation	1,020,499.29	333.43	508	Water SDC	4,925,115.93	1,604.47
211	Parks & Recreation - Aquatics	47,352.05	15.64	509	Water Construction	153,366.32	49.99
212	Open Space	93,973.73	30.61	520	Wastewater	3,487,548.43	1,136.50
218	Parks SDC	1,267,954.15	413.05	528	Wastewater SDC	8,402,388.62	2,737.25
220	911	698,621.96	227.58	529	Wastewater Construction	74,770.63	24.59
230	Development Services	1,458,462.27	475.36	540	Storm Water	1,596,551.29	520.12
240	Fire & Rescue	1,008,889.41	330.67	548	Storm Water SDC	22,484.46	7.32
250	Comm Dev Revolving	(183,204.04)	(59.48)	549	Storm Water Construction	57,353.99	18.75
260	Parking	945,007.62	307.87	560	Airport	587,555.84	190.83
270	Transit	(17,855.84)	(5.68)	569	Airport Construction	(15,865.02)	(5.01)
290	Library	535,966.20	175.51	610	Fleet Maintenance	159,850.16	52.23
291	Library 2010	432,708.44	140.95	615	Facility Maintenance	275,810.83	90.06
301	Capital Improvement	1,056,427.46	344.67	620	Technology & Communications	807,513.84	263.66
401	General Obligation Debt Service	83,379.88	27.15	625	Administrative Services	470,773.21	154.30
				630	Risk Management	1,438,180.72	470.44
Total						33,892,778.33	11,053.99

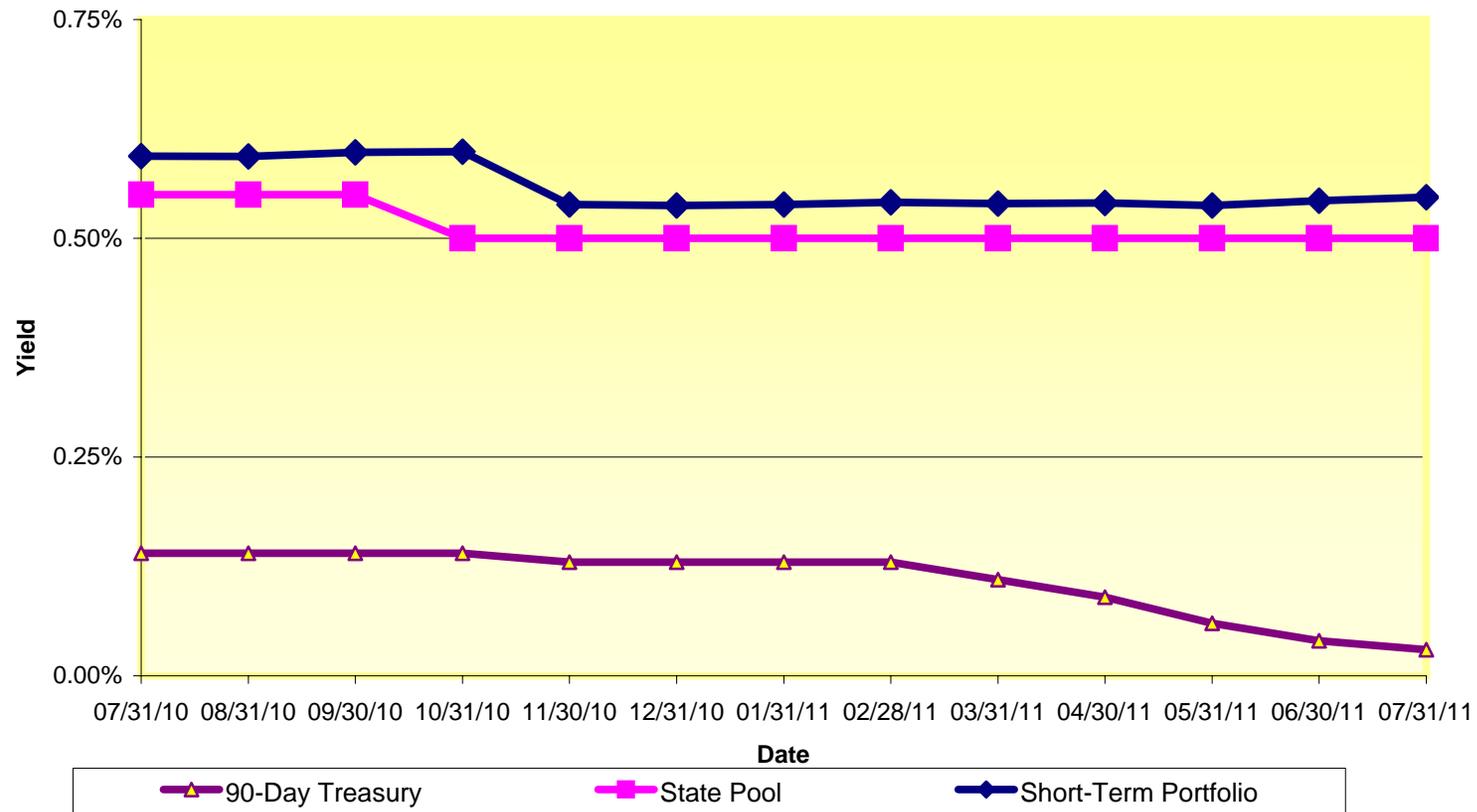
Accrual accounting on investments will be implemented in August 2011. The interest distributed will equal the monthly interest income accrual, net of any amortization or accretion on a premium/discount paid on an investment; this is also net of the previous fiscal year's GASB 31 Fair Value Adjustment reversal.

The distribution is based on the average cash balance for the period in which interest is earned.

The interest distributed to sub-funds 509, 529, 549, & 569 is distributed to the operations fund.

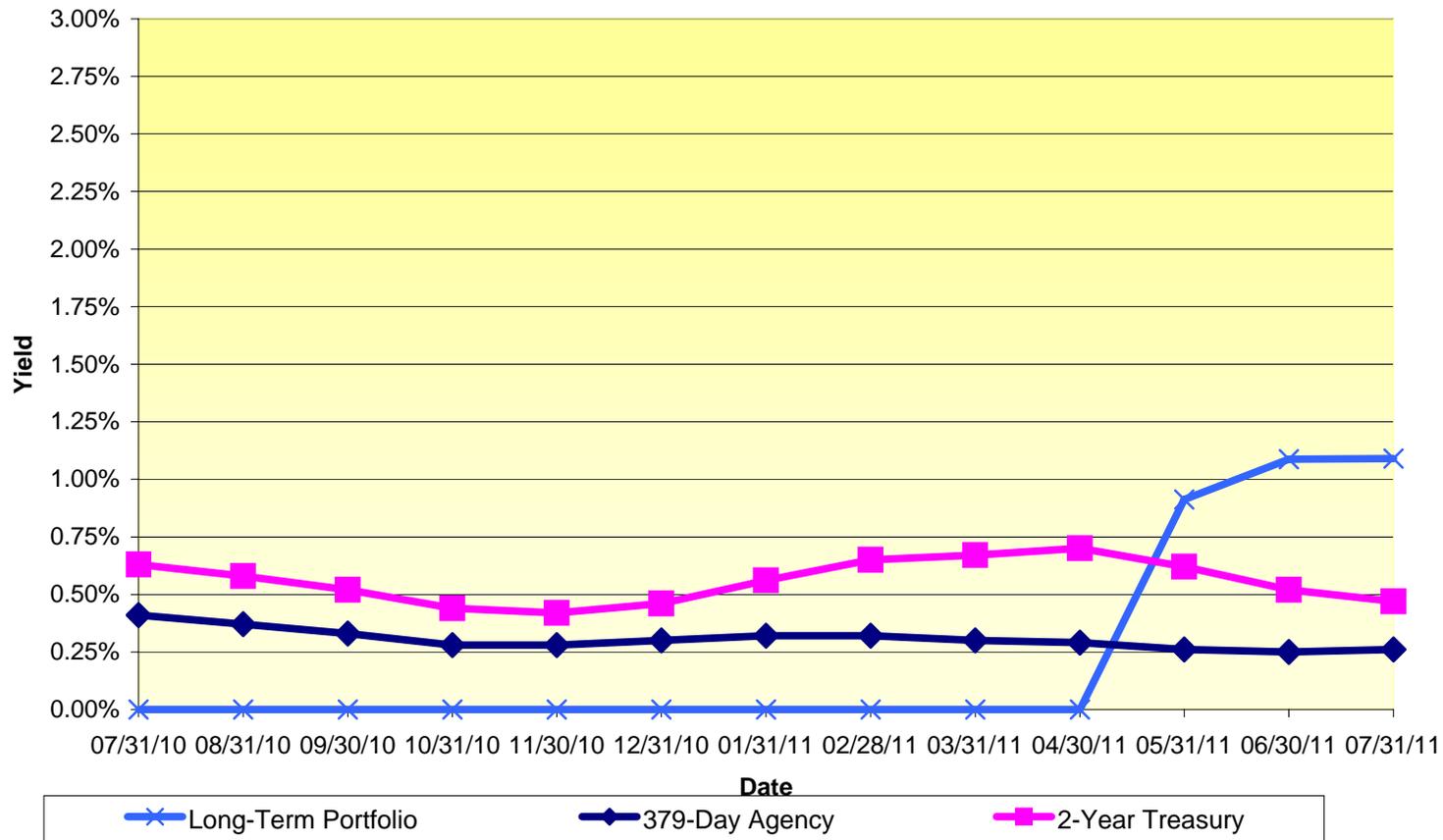


City of Corvallis Short-Term Yields July 2010 - July 2011





City of Corvallis Long-Term Yields July 2010 - July 2011





City of Corvallis Cash & Investments

