

**CITY OF CORVALLIS**

*Investment Council*

*Treasury Report*

December 2012

**CITY OF CORVALLIS, OREGON**  
**INVESTMENT COUNCIL**  
*Treasury Report - Table of Contents*

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## **INVESTMENT COUNCIL MEETING**

**February 15, 2013**  
**Madison Avenue Meeting Room (MAMR)**  
**Friday - 7:30 am**

### **\*\*\*AGENDA\*\*\***

- I. Approve Draft Minutes of Previous Meeting  
- November 8, 2012
- II. Fiscal Year 2012-2013 Second Quarter Review  
- Quarterly Portfolio Summary
- III. Approve latest broker/dealer list from Davidson Fixed Income Management
- IV. Open Discussion

**\*\*\*Next Meeting – May 9, 2013 - Thursday 7:30 am\*\*\***



## **DFIM APPROVED BROKER/DEALER LIST**

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**BARCLAYS CAPITAL, INC.**

**BANC OF AMERICA MERRILL LYNCH INC.**

**CITIGROUP GLOBAL MARKETS INC.**

**CREDIT SUISSE SECURITIES (USA) LLC**

**DAIWA CAPITAL MARKETS AMERICA**

**DEUTSCHE BANK SECURITIES, INC.**

**GOLDMAN, SACHS & CO.**

**GX CLARKE**

**HSBC SECURITIES (USA), INC.**

**J.P. MORGAN SECURITIES, INC.**

**MESIROW FINANCIAL**

**MIZUHO SECURITIES USA, INC.**

**MORGAN STANLEY & CO, INC.**

**NOMURA SECURITIES INTERNATIONAL**

**RAYMOND JAMES FINANCIAL**

**RBC CAPITAL MARKETS CORPORATION**

**SEATTLE-NORTHWEST SECURITIES CORPORATION**

**UBS SECURITIES, LLC**

**WELLS FARGO INSTITUTIONAL SECURITIES, LLC**

**DRAFT  
CITY OF CORVALLIS  
INVESTMENT COUNCIL MEETING  
NOVEMBER 8, 2012  
MINUTES**

The City of Corvallis Investment Council meeting was called to order at 7:30 a.m. on November 8, 2012, in the Madison Avenue Meeting Room, 500 SW Madison Avenue, Corvallis, Oregon.

**ROLL CALL**

Present: Jim Patterson, Nancy Brewer, Scott Fewel, Bill Mercer, Mark O'Brien, Janet Chenard, Staci Voight, and Jeanna Yeager; Minutes transcribed from recording by Teresa Nix

Absent: None

**SUMMARY OF DISCUSSION**

Agenda Item	Information Only	Held for Further Review	Recommendations
Approve Minutes of August 7, 2012			Approved as drafted.
Fiscal Year 2012-2013 First Quarter Review	X		
Local Banking Initiative	X		
Open Discussion	X		
Adjournment – 8:00 a.m.			

**CONTENT OF DISCUSSION**

**I. APPROVE MINUTES OF AUGUST 7, 2012**

City Manager Jim Patterson invited any corrections to the minutes from the August 7, 2012 meeting. There being none, the minutes were approved as drafted.

**II. FISCAL YEAR 2012-2013 FIRST QUARTER REVIEW**

Budget Analyst Staci Voight read the following statement regarding the economic outlook:

Following their September meeting, the Federal Open Market Committee released in their October 24<sup>th</sup> statement that economic activity has continued to increase at a moderate pace in recent months. Although employment has risen slowly, the unemployment rate is still high. Housing market conditions continued to improve slightly, but construction activity was still at a low level, reflecting tight credit standards for mortgage loans and a large inventory of foreclosed properties. Inflation has picked up somewhat, mainly reflecting higher energy prices, and longer-term inflation expectations have remained stable. To support continued progress toward maximum employment and price stability, the Committee expects to maintain a highly accommodative stance of monetary policy and plans to keep the federal funds rate exceptionally low through mid-2015, in the 0 to quarter percent range.

Ms. Voight presented the Quarterly Portfolio Summary for the quarter ending September 30, 2012 (Attachment A). For book yields rates remained flat compared to the end of the fiscal year. The Total Portfolio and Core Portfolio saw no change in book yields. The State's Local Government Investment Pool (LGIP) remained at 0.6%. The 2-Year Treasury, which is used as a benchmark, went down 2 basis points. Total Portfolio balances ended at just over \$31 million; this will be the lowest point for the year as property tax dollars come in during November. Per the Investment Council's recommendation, the Umpqua Money Market account was closed, and now has a zero balance, because the previously offered rate of 10 basis points above the LGIP is no longer available. Those funds have been moved into the LGIP for now. Core investments ended at a \$13 million balance. There was a call on August 8 and another on September 19, each with a \$2 million par value. Staff talked with the investment advisor and decided to roll over one of those investments into a new investment that has a continuous call. The goal is to get investments back to \$15 million but they are now at \$13 million. Budget and Financial Planning Manager Janet Chenard added that part of the strategy with holding off on the other \$2 million investment is to hopefully attain a marginally better rate than was available at the time of the call, but at a reasonable maturity which will continue the laddering structure that the financial advisor is promoting and that staff thinks is prudent.

### **III. LOCAL BANKING INITIATIVE**

Finance Director Nancy Brewer reviewed her memorandum dated November 1, 2012, regarding Local Banking (Attachment B). Because several requests have been filed with the City Council for a local banking initiative, staff has begun to research what other communities do as part of their local banking initiatives in both depository banking and investment activity. With regard to depository banks, communities doing significant work on local banking are considerably larger than Corvallis and include Boston, Philadelphia, Cleveland and Los Angeles. These communities have multiple bank accounts and multiple staff working on the local banking initiative. Corvallis has one depository account (with a payroll subaccount) at a single bank, and about .25 FTE dedicated to banking services. On the investment side, local governments are strictly governed by state law with preservation of principal holding the highest priority. It appears some cities invest locally in money markets, similar to what Corvallis has done with the Umpqua money market account. These investments must be earning at least close to what the LGIP is earning for short-term investments to be palatable in the face of the increased risk. Corvallis closed its money market account with Umpqua when they changed their practices and decreased the City's earnings rate to considerably less than the LGIP.

Ms. Brewer said that the OSU Federal Credit Union has expressed an interest in being the City's depository bank. Staff has shared information with them and has signed a letter of potential commitment which will help them in the process of being placed on the State's list of approved depositories for local governments. OSUFCU has indicated informally that they are a couple of years from being prepared to offer banking services to the City. Staff has issued an open invitation for their representatives to sit with staff to better understand the City's service needs and be prepared to respond the next time the City issues a request for proposal (RFP) for banking services. Staff has also talked with OSUFCU officials about potential investment activity. Any investment relationship with OSUFCU would require them to first get State approval and then would come to the Investment Council for consideration.

In response to inquiries, Ms. Brewer said that the banking services contract is a three-year term with an option to extend for two years and the City will generally exercise the option to extend. She noted that to unwind and change bank accounts is a complex and significant work effort and the City does not have the staff depth to do that work on a routine basis.

Scott Fewel said he would like to discuss what the groups making requests for a local banking initiative are trying to accomplish and why the City is in the position of trying to satisfy them. Ms. Brewer said the groups that are pushing for local investments are looking at local economic sustainability. There is a lot of dissatisfaction with the bank practices of some of the large banks, in particular the mortgage meltdown, and some people would prefer to not have City money go to those banks. The challenge for the City is with the book of business that the smaller local banks have. When the City banked with Citizens Bank, the staff/human service was phenomenal but they do not have the technology or tools at the level needed by the City to most efficiently manage its work. Local banks have to consider how much of an investment they are willing to make in order to be able to offer the services needed by the City. The bigger banks have corporate banking offices with government banking subgroups that know what governments need and, because they provide service to hundreds of governmental entities, it is worthwhile for them to invest in the higher end software needed.

Mr. Fewel further noted that he felt there were three aspects to consider in respect of potential banking involvement with the City: depository services, investments and debt issuance. The latter was an element that hadn't been touched on as part of the staff memo or in the meeting so far, but was then briefly discussed by Ms. Brewer and Ms. Chenard from both the possibility of:

- Underwriting City bond issues – in the most recent bond sale, with a significant number (11) bidders, there were no local entities among them; and
- Purchasing of City bonds that come to market as a “local investment” by local banks. The City has no knowledge as to whether local banks acquired any of the 2012 Series bonds on the secondary market, though they would at least theoretically have had the opportunity to do so.

Mr. Patterson said that the City must meet its fiduciary responsibility and work with partners who can help to do that. With all of the regulations and rules, it isn't easy for local banks to provide the services needed by the City. Yet, as a result of this issue being brought to the City's attention, staff is clearly trying to reach out to potential local partners and willing to consider changes as long as they can meet the City's financial objectives. Mr. Patterson suggested that we find ways to communicate to people that the City is open to banking local if it makes sense to do so, and that staff is working with a local credit union to help them figure out if it is feasible for them to offer banking services to the City. Brief discussion followed.

#### **IV. OPEN DISCUSSION**

There was no additional discussion.

#### **V. ADJOURNMENT**

The meeting was adjourned at 8:00 a.m.

**City of Corvallis  
Investment Council  
November 8, 2012**

**Quarterly Portfolio Summary for the Quarter Ending 9/30/2012:**

	Treasury Report Pg. 14 <u>June 2012</u>	Treasury Report Pg. 27 <u>September 2012</u>	<u>Change</u>
<b>Cash</b>			
Petty Cash	\$10,582	\$9,957	-\$625
Checking	\$858,266	\$1,841,829	\$983,563
Money Market	\$3,287,058	\$0	-\$3,287,058
State Pool (LGIP)*	\$18,931,461	\$16,894,555	-\$2,036,906
*ORS maximum \$44,474,164			
<b>Cash - Total</b>	<b>\$23,087,367</b>	<b>\$18,746,341</b>	<b>-\$4,341,026</b>
<b>Investments - Total</b>	<b>\$15,000,000</b>	<b>\$13,000,000</b>	<b>-\$2,000,000</b>
<b>Portfolio - Total</b>	<b>\$38,087,367</b>	<b>\$31,746,341</b>	<b>-\$6,341,026</b>

<b>Investment Activity</b>			
	<u>Description</u>	<u>Maturity/Call Date(s)</u>	<u>Par Value</u>
Call	FHLMC .625% 8/8/13	8/8/2012	-\$2,000,000
Call	FNMA .700% 9/19/14	9/19/2012	-\$2,000,000
Purchase	FFCB .680% 9/26/16	9/26/2016 Cont. Call	\$2,000,000
		<b>Net Change in Investments</b>	<b>-\$2,000,000</b>

	Treasury Report Pg. 25-26 <u>June 2012</u>	Treasury Report Pg. 37-38 <u>September 2012</u>	<u>Change</u>
<b>Book Yields</b>			
Total Portfolio <sup>1</sup>	0.63	0.63	0.00
Core Portfolio <sup>2</sup>	0.71	0.71	0.00
State Pool (LGIP)	0.60	0.60	0.00
2 Year Treasury	0.26	0.24	-0.02
<sup>1</sup> Total City Cash & Investments			
<sup>2</sup> Invested Portion of City Portfolio			

**Other Information:**

- Per Investment Council request, Umpqua Bank MMA was closed as of 8/13/2012.

## MEMORANDUM

November 1, 2012

TO: Investment Council  
FROM: Nancy Brewer, Finance Director  
SUBJECT: **Local Banking**

**I. Issue**

To update the Investment Council on alternatives associated with local banking initiatives.

**II. Discussion**

The Occupy Corvallis movement has filed several requests with the City Council for a local banking initiative. Though the Council has not asked staff to work on this issue, staff has begun to research what other communities do as part of their local banking initiatives to see how that might work in Corvallis and whether or not it would meet any sustainability objectives. In general, the local banking initiative follows two different areas of financial management:

- A. **Depository Bank** – this part of the initiative involves competition to be the City's depository bank for all daily banking activities. Banking services are a normal purchase that fall within the purview of the City Manager as purchasing agent. Staff follows a competitive process, issuing a formal, written Request for Proposal (RFP) document to all banks with an office in Corvallis. The contract for services is for a three year term with the option to extend two additional years; many of the banking services agreements have been extended the two extra years because of the extreme complexity in changing banks. As with other services, staff sets criteria for the relationship in the RFP and awards to the bank that best meets the level of services desired for the lowest cost. While the City asks for each bank's community reinvestment data, and uses that as partial decision criteria, the criteria weighted heaviest are more associated with the work staff does with the bank to manage the City's cash assets, including on-line capabilities, the ability to have dual on-line approvals for certain transactions, bank statement processing, etc.

Staff reviewed what some communities do with depository banks under a local banking initiative. Findings include:

- The communities doing significant work on local banking are considerably larger than Corvallis and include Boston, Philadelphia, Cleveland and Los Angeles with multi-billion dollar annual budgets. They have multiple staff working on the local banking initiative, and all have four to six banks (or more) that they use on a daily basis for depository services. Corvallis has about .25 FTE dedicated to banking services right now, and uses one depository account (with a payroll sub-account) at a single bank.
- The communities doing significant work on local banking have major, significant economic development and housing development/re-development agencies with community-based goals for building the local economy that let them tie bank performance to the accomplishment of those goals. Most have at least semi-annual reporting requirements from the banks on how each bank is achieving those goals, with some requiring monthly reporting. Again, with significant depth in staff, they have the ability to do the internal reviews of these reports and to work with banks on developing/modifying goals.

- Some of the communities that are doing significant work on local banking initiatives have some specific revenue streams that are committed to local banking. For example, they may have an urban renewal agency that banks locally with the bank required to meet some specific lending goals associated with the urban renewal district's objectives. In this case, they may be using only urban renewal money or some other dedicated resource such as a local business income tax or housing funds for the local banking initiative.

B. Investments – this part of an initiative seems a little fuzzier for what other entities do. In most cases, what local governments can do with investments is strictly governed by State law, with preservation of principal holding the highest priority. As a result, investing monies where there is much risk is generally not allowed. This is why most local governments are like Corvallis and seeing paltry investment earnings in this extended down market. It appears that some cities invest locally in money markets, similar to what Corvallis has done with the Umpqua money market in the past. However, even those investments must be earning at least close to what the Local Government Investment Pool (LGIP) is earning for short-term investments. As the Investment Council is aware, the City has closed its money market account with Umpqua when they changed their policies/practices and decreased the City's earnings rate to considerably less than the LGIP.

### **III. Action Requested**

At this time, staff does not anticipate doing anything different for the City's depository banking relationship or with investments and seeks no action on the part of the Investment Council unless the Council believes there should be a different direction taken.

The City has signed a letter of potential commitment with OSU Federal Credit Union, which, combined with other actions to be completed by OSUFUCU, would allow them to be placed on the State's list of approved depositories for local governments beginning in 2013. This would be the first step required for OSUFUCU to be able to bid on the City's depository banking business. The City has also shared with OSUFUCU the last RFP and several months of bank statements so that they can begin to understand what the City is looking for in a depository bank. Representatives of OSUFUCU have been invited to meet with staff and have more discussions about service needs, and staff anticipates this will occur well in advance of the next bid process.

Finance Department staff also shared the City's investment policy with OSUFUCU and will have a conversation with OSUFUCU about investment options, such as placing monies into a money market account or CD. IF OSUFUCU can offer a competitive rate that meets the Investment Policy, they would be included in the City's mix of investments.

No other local banks have indicated any desire to have a relationship with the City for either depository banking or investments.

DAVIDSON FIXED INCOME MANAGEMENT, INC.  
QUARTER ENDING DECEMBER 31, 2012**MARKET OVERVIEW**

Historically, pre-2008, we had been able to implement a somewhat predictable risk/return trade off in the bond market. When economic numbers or inflationary numbers came out, we would shorten or extend the duration of portfolios. In addition, the earnings rates were consistently above 2.5% to 3%, with little variance in investment strategy in 5 year and under investments. It wasn't necessarily easy, but your strategy was not as transparent.

Today, how you allocate your investments by maturity and asset allocation has a large effect on the performance of your investment portfolio. Keeping too much liquidity can end up being costly and adding higher risk securities creates a higher risk profile portfolio for a small amount of additional earnings. Holding the course and reinvesting into low yielding securities has paid off and has added earnings over overnight money for the last few years. Credit spreads are tight and we don't see a lot of value of increasing credit risk exposure, so DFIM remains focused on managing the duration of your portfolios and using the yield curve to maintain earnings as much as possible. We will look to move durations to a more neutral position over the first half of 2013.

*FED Speak for the Quarter:  
(Source: Action Economics)*

**FOMC announced QE4**

"Outright Treasury purchases at \$45 bln per month were confirmed to replace expiring Operation Twist on Dec-31. FOMC surprised in announcing threshold policy targets of 6.5% for the unemployment rate and 2.5% on inflation forecasts one to two years out, and as long term inflation expectations remain anchored (will also consider other indicators)."

**Fed On Labor**

"For the quarterly outlook, our Q4 GDP growth forecast will remain at 1.5%, following the 3.1% pace in Q3. We saw a 1.5% growth clip for the hours-worked index in Q4 that follows a 1.0% Q3 clip."

**On the Economy**

"The Fed made some clarifications, acknowledging the decline in the jobless rate, hurricane disruptions, demoting household spending back to 'continued to advance' from 'advanced a bit more quickly,' while switching emphasis on inflation to 'running somewhat below' target from 'picked up somewhat' previously."

**Fed Policy**

"The January 2 FOMC minutes threw a wrench in market perceptions about the duration of the QE program after a white hot debate between hawks and doves on whether to do so 'well before' the end of 2013 or 'closer to' the end of the year. That sent rising long yields back toward the highs of 2012 to kick off the New Year."

*Source: Action Economics*

<u>Indicator</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013 est</u>
Real GDP	0.40	-2.40	2.80	1.70	2.30	2.00
CPI (YOY)	3.85	-0.30	1.60	3.17	2.08	1.90
Unemployment	5.80	9.30	9.70	9.00	8.10	7.70

Source: Bloomberg Fed Forecasts

**Composite Economist's Rate Projections:** No change is projected for overnight rates through Q4 -2013. 10 year rates are expected to trend higher, but shorter rates are being held down by fed policy.

<u>Maturity</u>	<u>2010</u> <u>Ending</u>	<u>2011</u> <u>Ending</u>	<u>2012</u> <u>Ending</u>	<u>Q1</u> <u>2013 est</u>	<u>Q2</u> <u>2013 est</u>	<u>Q3</u> <u>2013 est</u>	<u>Q4</u> <u>2013 est</u>
Fed Bank Rate	0.25	0.25	0.25	0.25	0.25	0.25	0.25
2 Year	0.60	0.24	0.31	0.30	0.33	0.33	0.37
10 Year	3.33	1.92	1.76	1.84	1.96	2.10	2.27

Source: Bloomberg ECFC

**STRATEGY:**

- Continue to remain fully invested
- Hold durations at the benchmark targets
- Use the yield curve

**CHANGES IN THE TREASURY MARKET:**

	<u>12/31/10</u>	<u>12/31/11</u>	<u>12/31/12</u>
3-month bill	0.13	0.01	0.04
2-year note	0.59	0.25	0.25
5-year note	2.00	0.87	0.72
10-year note	3.30	1.95	1.76

Source: Bloomberg

## 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	\$33,690,464.04	60.00%	<b>72.0%</b>	11.99%
Investment Component (Core)	\$15,000,000.00	\$20,000,000.00	\$13,111,283.00	40.00%	<b>28.0%</b>	-11.99%
<b>Total</b>			<b>\$46,801,747.04</b>			

	Policy Requirement	Actual Portfolio	Within Limits
Under 30 Days	> 10%	72%	Yes
Under 1 Year	> 25%	81%	Yes
Under 5 Years	100%	100%	Yes
WAM	< 1.5 Years	0.74	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	\$46,801,747.04	Yes
Federal Agency and Agency Sponsored	100%	40%	28.01%	\$13,111,283.00	5 Years	\$33,690,464.04	Yes
CDs/ Bank Deposits/ Savings (OST Qualified Institutions)	25%	15%	0.90%	\$420,709.34		\$11,279,727.42	Yes
Bankers Acceptances	10%		0.00%	\$0.00		\$4,680,174.70	Yes
Commercial Paper (A-1/P-1)	10%	5%	0.00%	\$0.00	120 Days	\$4,680,174.70	Yes
State Obligations (OR, WA, AA or better)	10%	5%	0.00%	\$0.00	5 Years	\$4,680,174.70	Yes
State Pool	ORS Maximum or 100%		71.09%	\$33,269,754.70	N/A	\$11,204,409.30	Yes
<b>Total</b>			<b>100.00%</b>	<b>\$46,801,747.04</b>			

ORS Maximum \$44,474,164.00

Policy : August 2012

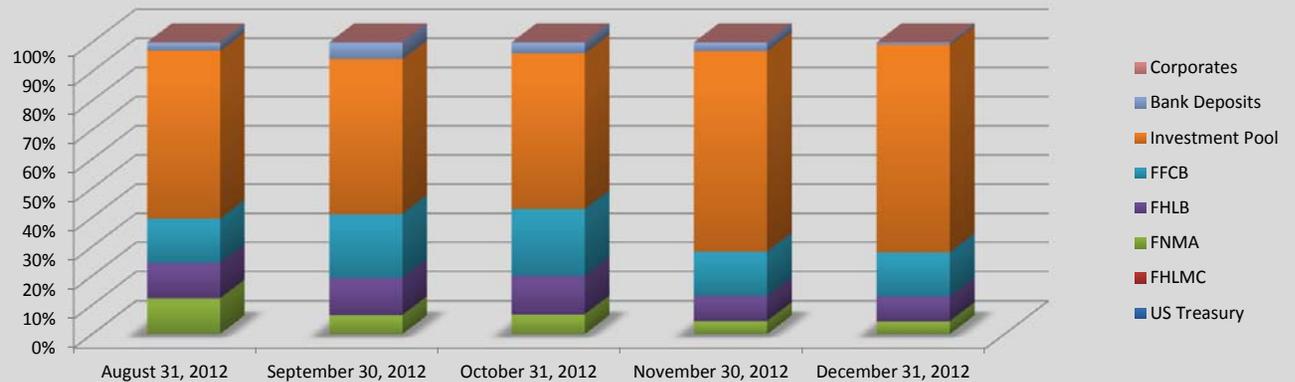
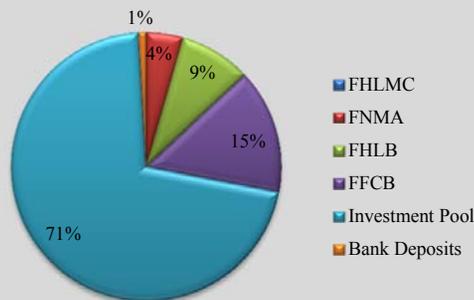
**Total Asset Allocation Strategy**  
(Market Values)

**Commentary**

There were no transactions in the month of December and the portfolio remains well positioned. \$2MM was moved from the core fund to the state pool on August 8, 2012 because investment alternatives in the fixed income market were not attractive at the time. Yields in the bond market are higher than they were on August 8 and we will look to add that \$2MM back to the core fund in early 2013.

Sector	Yield	August 31, 2012	September 30, 2012	October 31, 2012	November 30, 2012	December 31, 2012	Change From Last Month
US Treasury	0.00%	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
FHLMC	0.57%	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
FNMA	0.76%	\$4,081,246.00	\$2,073,114.00	\$2,069,740.00	\$2,070,960.00	\$2,069,022.00	(\$1,938.00)
FHLB	0.59%	\$4,038,475.00	\$4,036,091.00	\$4,032,486.00	\$4,029,916.00	\$4,028,721.00	(\$1,195.00)
FFCB	0.81%	\$5,016,113.00	\$7,017,618.00	\$7,013,969.00	\$7,019,088.00	\$7,013,540.00	(\$5,548.00)
Investment Pool	0.60%	\$19,090,136.01	\$16,894,555.41	\$16,356,290.44	\$31,837,437.23	\$33,269,754.70	\$1,432,317.47
Bank Deposits	0.53%	\$1,006,085.04	\$1,851,785.97	\$1,179,353.32	\$1,436,019.33	\$420,709.34	(\$1,015,309.99)
Corporates	0.00%	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
<b>Total</b>	<b>0.63%</b>	<b>\$33,232,055.05</b>	<b>\$31,873,164.38</b>	<b>\$30,651,838.76</b>	<b>\$46,393,420.56</b>	<b>\$46,801,747.04</b>	<b>\$408,326.48</b>

**Current Sector Allocation**





**DETAIL AMORTIZATION COST RETURN**  
**CITY OF CORVALLIS TOTAL**

From 11-30-12 to 12-31-12

<b>CURRENT HOLDINGS</b>	<b>Interest Earned</b>	<b>Accretion (Amortization)</b>	<b>Realized Gain/Loss</b>	<b>Total Income</b>
AGENCY BULLET	7,965.28	-3,151.76	0.00	4,813.52
AGENCY CALLABLE	2,591.94	144.81	0.00	2,736.75
CASH & EQUIVALENTS	325.75	0.00	0.00	325.75
OR STATE POOL	17,361.07	0.00	0.00	17,361.07
<b>TOTAL</b>	<b>28,244.04</b>	<b>-3,006.95</b>	<b>0.00</b>	<b>25,237.09</b>

**SUMMARY OF AMORTIZED COST BASIS**  
**RETURN FOR THE PERIOD**  
**CITY OF CORVALLIS TOTAL**

November 30, 2012 to December 31, 2012

	<b>Total Portfolio</b>
Interest Earned	28,244.04
Accretion/Amortization	-3,006.95
Realized Gain/Loss on Sales	0.00
Total Income on Portfolio	25,237.09
Average Daily Historical Cost	46,428,528.21
Return	0.05%
Annualized Return	0.64%
Annualized Return Net of Fees	0.64%
Weighted Duration to Maturity in Years	0.73
Weighted Days to Maturity	271

**CITY OF CORVALLIS TOTAL  
PORTFOLIO HOLDINGS**

December 31, 2012

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
<b>AGENCY BULLET</b>															
3133XXYX9	1,000,000	FEDERAL HOME LN BKS 1.875% Due 06-21-13		05-11-11	100.54	0.71	100.82	0.14	1,008,189.00	520.83	1,008,709.83	2,805.76	2.2	0.47	0.47
313371UC8	3,000,000	FEDERAL HOME LN BKS 0.875% Due 12-27-13		11-21-11	100.32	0.55	100.68	0.18	3,020,532.00	291.67	3,020,823.67	10,998.06	6.5	0.99	0.99
31398A4M1	2,000,000	FEDERAL NATL MTG ASSN 1.625% Due 10-26-15		01-13-12	102.26	0.81	103.45	0.39	2,069,022.00	5,868.06	2,074,890.06	23,803.37	4.4	2.76	2.76
3133EAUH9	2,000,000	FEDERAL FARM CR BKS CONS 0.750% Due 06-14-16		06-26-12	99.98	0.75	100.85	0.50	2,016,916.00	708.33	2,017,624.33	17,229.67	4.3	3.41	3.41
	8,000,000					0.69		0.31	8,114,659.00	7,388.89	8,122,047.89	54,836.86	17.3	1.98	1.98
<b>AGENCY CALLABLE</b>															
3133EC3F9	3,000,000	FEDERAL FARM CR BKS CONS 0.550% Due 08-26-16	02-26-13	11-15-12	99.87	0.59	99.95	0.56	2,998,416.00	1,604.17	3,000,020.17	2,359.48	6.4	3.61	0.16
3133EA2D9	2,000,000	FEDERAL FARM CR BKS CONS 0.680% Due 09-26-16		09-19-12	99.88	0.71	99.91	0.70	1,998,208.00	3,588.89	2,001,796.89	541.90	4.3	3.68	3.68
	5,000,000					0.64		0.62	4,996,624.00	5,193.06	5,001,817.06	2,901.38	10.7	3.64	1.56
<b>CASH &amp; EQUIVALENTS</b>															
CASH	10,257	CASH 0.100% Due 01-01-13		11-30-12	1.00	0.10	1.00	0.10	10,257.00	0.00	10,257.00	0.00	0.0	0.00	0.00
CBANK3	410,452	Corvallis Wells Fargo 0.250% Due 01-01-13		12-31-12	1.00	0.25	1.00	0.25	410,452.34	0.00	410,452.34	0.00	0.9	0.00	0.00
	420,709					0.25		0.25	420,709.34	0.00	420,709.34	0.00	0.9	0.00	0.00
<b>OR STATE POOL</b>															
ORPOOL	2,000,000	OREGON STATE POOL 0.600% Due 01-01-13		09-19-12	1.00	0.60	1.00	0.60	2,000,000.00	0.00	2,000,000.00	0.00	4.3	0.00	0.00
ORPOOL	31,269,755	OREGON STATE POOL 0.600% Due 01-01-13		12-31-12	1.00	0.60	1.00	0.60	31,269,754.70	0.00	31,269,754.70	0.00	66.8	0.00	0.00
	33,269,755					0.60		0.60	33,269,754.70	0.00	33,269,754.70	0.00	71.1	0.00	0.00
<b>TOTAL</b>	<b>46,690,464</b>					<b>0.62</b>		<b>0.55</b>	<b>46,801,747.04</b>	<b>12,581.94</b>	<b>46,814,328.98</b>	<b>57,738.24</b>	<b>100.0</b>	<b>0.73</b>	<b>0.51</b>

\*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 12-01-12 To 12-31-12

Trade Date	Settle Date	Cusip	Quantity	Security	Call Date	Amount	Broker
<b>Buy long</b>							
12-31-12	12-31-12	ORPOOL	31,269,755	OREGON STATE POOL 0.600% Due 01-01-13		31,269,754.70	
12-31-12	12-31-12	CBANK3	410,452	Corvallis Wells Fargo 0.250% Due 01-01-13		410,452.34	
						<hr/>	
						31,680,207.04	
<b>Deposit</b>							
12-31-12	12-31-12	manfee		Management Fee **		1,500.00	
<b>Interest</b>							
12-14-12	12-14-12	3133EAUH9		FEDERAL FARM CR BKS CONS 0.750% Due 06-14-16		7,500.00	
12-21-12	12-21-12	3133XXYX9		FEDERAL HOME LN BKS 1.875% Due 06-21-13		9,375.00	
12-27-12	12-27-12	313371UC8		FEDERAL HOME LN BKS 0.875% Due 12-27-13		13,125.00	
12-31-12	12-31-12	ORPOOL		OREGON STATE POOL 0.600% Due 01-01-13		986.30	
12-31-12	12-31-12	ORPOOL		OREGON STATE POOL 0.600% Due 01-01-13		16,374.77	
12-31-12	12-31-12	CBANK3		Corvallis Wells Fargo 0.250% Due 01-01-13		325.75	
						<hr/>	
						47,686.82	
<b>Deliver out long</b>							
12-14-12		cash		Cash Account		7,500.00	
12-21-12		cash		Cash Account		9,375.00	
12-27-12		cash		Cash Account		13,125.00	
						<hr/>	
						30,000.00	
<b>Sell long</b>							
12-31-12	12-31-12	ORPOOL	29,837,437	OREGON STATE POOL 0.600% Due 01-01-13		29,837,437.23	

\*\* Monthly allocation of the quarterly investment advisor fee from Davidson Fixed Income Management.

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



## CITY OF CORVALLIS TOTAL TRANSACTION SUMMARY

From 12-01-12 To 12-31-12

<u>Trade Date</u>	<u>Settle Date</u>	<u>Cusip</u>	<u>Quantity</u>	<u>Security</u>	<u>Call Date</u>	<u>Amount</u>	<u>Broker</u>
12-31-12	12-31-12	CBANK3	1,425,762	Corvallis Wells Fargo 0.250% Due 01-01-13		1,425,762.33	
						<hr/> 31,263,199.56	

**AMORTIZATION AND ACCRETION - SETTLED TRADES**  
**CITY OF CORVALLIS TOTAL**  
 December 31, 2012

Purchase Information					Amortization/Accretion Information				
Quantity	Lot	Purchase Date	Price	Total Cost	Month To Date	Year To Date	Total To Date	Balance	Adjusted Cost
<b>FNMA(Straight Line)</b>									
FEDERAL NATL MTG ASSN 1.625% Due 10-26-15 (31398A4M1)									
2,000,000	1	01-13-12	103.028	2,060,564.00	-1,359.16	-15,345.37	-15,345.37	-45,218.63	2,045,218.63
<b>FHLB(Straight Line)</b>									
FEDERAL HOME LN BKS 0.875% Due 12-27-13 (313371UC8)									
3,000,000	1	11-21-11	100.674	3,020,223.00	-820.20	-9,660.02	-10,689.06	-9,533.94	3,009,533.94
FEDERAL HOME LN BKS 1.875% Due 06-21-13 (3133XXYX9)									
1,000,000	1	05-11-11	102.429	1,024,290.00	-980.12	-11,560.20	-18,906.76	-5,383.24	1,005,383.24
Total				4,044,513.00	-1,800.32	-21,220.22	-29,595.82	-14,917.18	4,014,917.18
<b>FFCB(Straight Line)</b>									
FEDERAL FARM CR BKS CONS 0.750% Due 06-14-16 (3133EAUH9)									
2,000,000	1	06-26-12	99.982	1,999,640.00	7.72	46.33	46.33	313.67	1,999,686.33
<b>FFCB CALLABLE(Straight Line)</b>									
FEDERAL FARM CR BKS CONS 0.680% Due 09-26-16 (3133EA2D9)									
2,000,000	1	09-19-12	99.875	1,997,500.00	53.08	166.10	166.10	2,333.90	1,997,666.10
FEDERAL FARM CR BKS CONS 0.550% Due 08-26-16 (3133EC3F9)									
3,000,000	1	11-15-12	99.865	2,995,950.00	91.73	106.52	106.52	3,943.48	2,996,056.52
Total				4,993,450.00	144.81	272.62	272.62	6,277.38	4,993,722.62
<b>CASH(Straight Line)</b>									
CASH 0.100% Due 01-01-13 (CASH)									
10,257	6	11-30-12	1.000	10,257.00	0.00	0.00	0.00	0.00	10,257.00
Corvallis Wells Fargo 0.250% Due 01-01-13 (CBANK3)									
410,452	6	12-31-12	1.000	410,452.34	0.00	0.00	0.00	0.00	410,452.34
Total				420,709.34	0.00	0.00	0.00	0.00	420,709.34

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

Special Note: If a security matures or is sold between prior month end and this report it will not be included on this table. Please make adjustments as needed.



**AMORTIZATION AND ACCRETION - SETTLED TRADES**  
**CITY OF CORVALLIS TOTAL**  
 December 31, 2012

Purchase Information					Amortization/Accretion Information				
Quantity	Lot	Purchase Date	Price	Total Cost	Month To Date	Year To Date	Total To Date	Balance	Adjusted Cost
<b>POOL(Straight Line)</b>									
OREGON STATE POOL 0.600% Due 01-01-13 (ORPOOL)									
2,000,000	3	09-19-12	1.000	2,000,000.00	0.00	0.00	0.00	0.00	2,000,000.00
31,269,755	8	12-31-12	1.000	31,269,754.70	0.00	0.00	0.00	0.00	31,269,754.70
33,269,755				33,269,754.70	0.00	0.00	0.00	0.00	33,269,754.70
<b>GRAND TOTAL</b>				<b>46,788,631.04</b>	<b>-3,006.95</b>	<b>-36,246.64</b>	<b>-44,622.24</b>	<b>-53,544.76</b>	<b>46,744,008.80</b>

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

Special Note: If a security matures or is sold between prior month end and this report it will not be included on this table. Please make adjustments as needed.

**INTEREST ACCRUALS**  
**CITY OF CORVALLIS TOTAL**  
From 11-30-12 To 12-31-12

Security Symbol	Description	Beginning Accrued Interest	Purchased Interest	Sold Interest	Interest Received	Earned Interest	Ending Accrued Interest
<b>AGENCY</b>							
AGENCY BULLET							
FHLB							
3133XXYX9	FEDERAL HOME LN BKS 1.875% Due 06-21-13	8,281.25	0.00	0.00	-9,375.00	1,614.58	520.83
313371UC8	FEDERAL HOME LN BKS 0.875% Due 12-27-13	11,156.25	0.00	0.00	-13,125.00	2,260.42	291.67
		<u>19,437.50</u>	<u>0.00</u>	<u>0.00</u>	<u>-22,500.00</u>	<u>3,875.00</u>	<u>812.50</u>
FNMA							
31398A4M1	FEDERAL NATL MTG ASSN 1.625% Due 10-26-15	3,069.44	0.00	0.00	0.00	2,798.61	5,868.06
		<u>3,069.44</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>2,798.61</u>	<u>5,868.06</u>
FFCB							
3133EAUH9	FEDERAL FARM CR BKS CONS 0.750% Due 06-14-16	6,916.67	0.00	0.00	-7,500.00	1,291.67	708.33
		<u>6,916.67</u>	<u>0.00</u>	<u>0.00</u>	<u>-7,500.00</u>	<u>1,291.67</u>	<u>708.33</u>
	AGENCY BULLET Total	<u>29,423.61</u>	<u>0.00</u>	<u>0.00</u>	<u>-30,000.00</u>	<u>7,965.28</u>	<u>7,388.89</u>
AGENCY CALLABLE							
FFCB							
3133EC3F9	FEDERAL FARM CR BKS CONS 0.550% Due 08-26-16	183.33	0.00	0.00	0.00	1,420.83	1,604.17
3133EA2D9	FEDERAL FARM CR BKS CONS 0.680% Due 09-26-16	2,417.78	0.00	0.00	0.00	1,171.11	3,588.89
		<u>2,601.11</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>2,591.94</u>	<u>5,193.06</u>
	AGENCY CALLABLE Total	<u>2,601.11</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>2,591.94</u>	<u>5,193.06</u>
	AGENCY Total	<u>32,024.72</u>	<u>0.00</u>	<u>0.00</u>	<u>-30,000.00</u>	<u>10,557.22</u>	<u>12,581.94</u>



**INTEREST ACCRUALS**  
**CITY OF CORVALLIS TOTAL**  
 From 11-30-12 To 12-31-12

Security Symbol	Description	Beginning Accrued Interest	Purchased Interest	Sold Interest	Interest Received	Earned Interest	Ending Accrued Interest
<b>CASH</b>							
CASH & EQUIVALENTS							
CASH							
CASH	CASH 0.100% Due 01-01-13	0.00	0.00	0.00	0.00	0.00	0.00
CBANK3	Corvallis Wells Fargo 0.250% Due 01-01-13	0.00	0.00	0.00	-325.75	325.75	0.00
		0.00	0.00	0.00	-325.75	325.75	0.00
	CASH & EQUIVALENTS Total	0.00	0.00	0.00	-325.75	325.75	0.00
OR STATE POOL							
STATE INVESTMENT POOL							
ORPOOL	OREGON STATE POOL 0.600% Due 01-01-13	0.00	0.00	0.00	-17,361.07	17,361.07	0.00
		0.00	0.00	0.00	-17,361.07	17,361.07	0.00
	OR STATE POOL Total	0.00	0.00	0.00	-17,361.07	17,361.07	0.00
	CASH Total	0.00	0.00	0.00	-17,686.82	17,686.82	0.00
<b>TOTAL PORTFOLIO</b>		<b>32,024.72</b>	<b>0.00</b>	<b>0.00</b>	<b>-47,686.82</b>	<b>28,244.04</b>	<b>12,581.94</b>

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

<b>Investment/Issuer Types</b>				<b>Other</b>	
BA	Banker's Acceptance	FHLB	Federal Home Loan Bank	CPI	Consumer Price Index
CASH	Petty Cash	FHLMC	Federal Home Loan Mortgage Corporation	FOMC	Federal Open Market Committee
CBANK3	Wells Fargo Bank Checking	FNMA	Federal National Mortgage Association	GDP	Gross Domestic Product
CD	Certificates of Deposit	ORPOOL	Local Government Investment Pool	OSTFB	Oregon Short Term Fund Board
CP	Commercial Paper			QE	Quantitative Easing
FFCB	Federal Farm Credit Bureau			YTM	Yield to Maturity
FFCR	Federal Farm Credit Bank			TIPS	Treasury Inflation Protected Securities

\* 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  
DECEMBER 2012**

	Receipts (1)	Disbursements (2)	Net
Actual Activity	9,248,474	7,652,544	1,595,930
Projected Activity	9,120,663	7,661,986	1,458,677
<b>Difference</b>	<b>127,811</b>	<b>(9,442)</b>	<b>137,253</b>

(1) Receipts include deposits and interest received.

The receipt of two BETC payments helped offset lower than anticipated property tax revenue in December. Total taxes are expected to be down for the year, so future months' receipts may continue to be lower than budgeted. Grant revenues are low as a percentage of budget due to grant projects not yet started and/or completed that are reimbursable in nature.

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

Disbursements were on target for the month, with savings in salaries, wages, and benefits helping offset spending in general services. The transfer of the debt service payments related to the November refunding will continue to show as negative projected cash flow for the remainder of the year.

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 December 2012**

<b>Fund</b>	<b>Fund Name</b>	<b>* Month's Avg Cash Balance</b>	<b>Interest Distributed</b>	<b>Fund</b>	<b>Fund Name</b>	<b>* Month's Avg Cash Balance</b>	<b>Interest Distributed</b>
101	General	5,016,815.75	2,597.89	460	Davidson Library	5,966.91	3.97
201	Street	427,158.33	310.58	501	Water	1,632,655.59	1,239.31
208	Street SDC	2,358,605.71	1,572.41	502	Water Timber	307,281.68	207.87
210	Parks & Recreation	2,711,381.17	1,457.88	508	Water SDC	4,684,482.98	72.84
211	Parks & Recreation - Aquatics	379,438.76	171.08	509	Water Construction	162,518.99	3,119.37
212	Open Space	94,626.94	63.20	520	Wastewater	1,641,976.62	1,296.54
218	Parks SDC	1,980,875.25	1,361.66	528	Wastewater SDC	8,829,996.23	5,856.59
220	911	520,634.68	375.58	529	Wastewater Construction	82,181.86	17.85
230	Development Services	1,320,378.04	872.07	540	Storm Water	1,275,495.88	929.35
240	Fire & Rescue	4,688,824.52	2,241.00	548	Storm Water SDC	74,038.10	49.31
250	Comm Dev Revolving	(13,805.70)	(7.14)	549	Storm Water Construction	64,374.78	(8.77)
260	Parking	1,060,878.88	708.31	560	Airport	592,333.56	390.02
270	Transit	725,492.06	408.35	569	Airport Construction	-	-
290	Library	2,197,345.86	929.20	610	Fleet Maintenance	58,372.73	40.47
291	Library 2010	424,146.92	286.48	615	Facility Maintenance	211,695.02	139.26
301	Capital Improvement	1,167,027.92	781.96	620	Technology & Communications	611,672.65	407.76
401	General Obligation Debt Service	785,589.73	433.77	625	Administrative Services	373,381.43	245.33
				630	Risk Management	858,180.54	574.75
				<b>Total</b>		<b>47,312,020.38</b>	<b>29,146.10</b>

\* Most investments earn interest over a 3 or 6 month period, so even if the most recent monthly average is positive, if prior months' cash balances in a given fund were negative, this could result in net negative earnings for that fund in the month interest is paid.

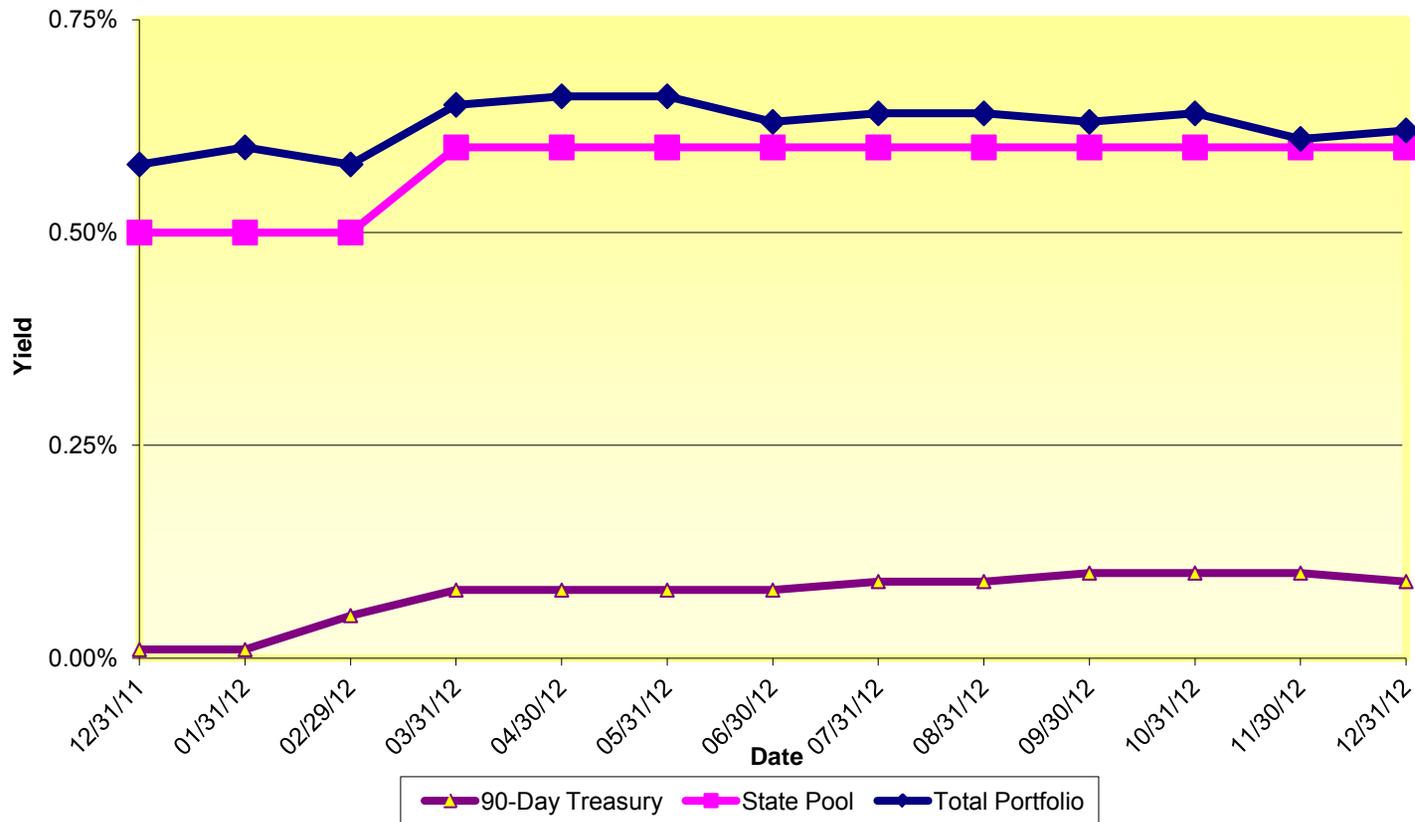
The accrual method of accounting is used for investments. The interest distributed will equal the monthly interest income accrual, net any amortization or accretion on a premium/discount paid on an investment; this is also net of the previous fiscal year's GASB 31 Fair Value Adjustment reversal.

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

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



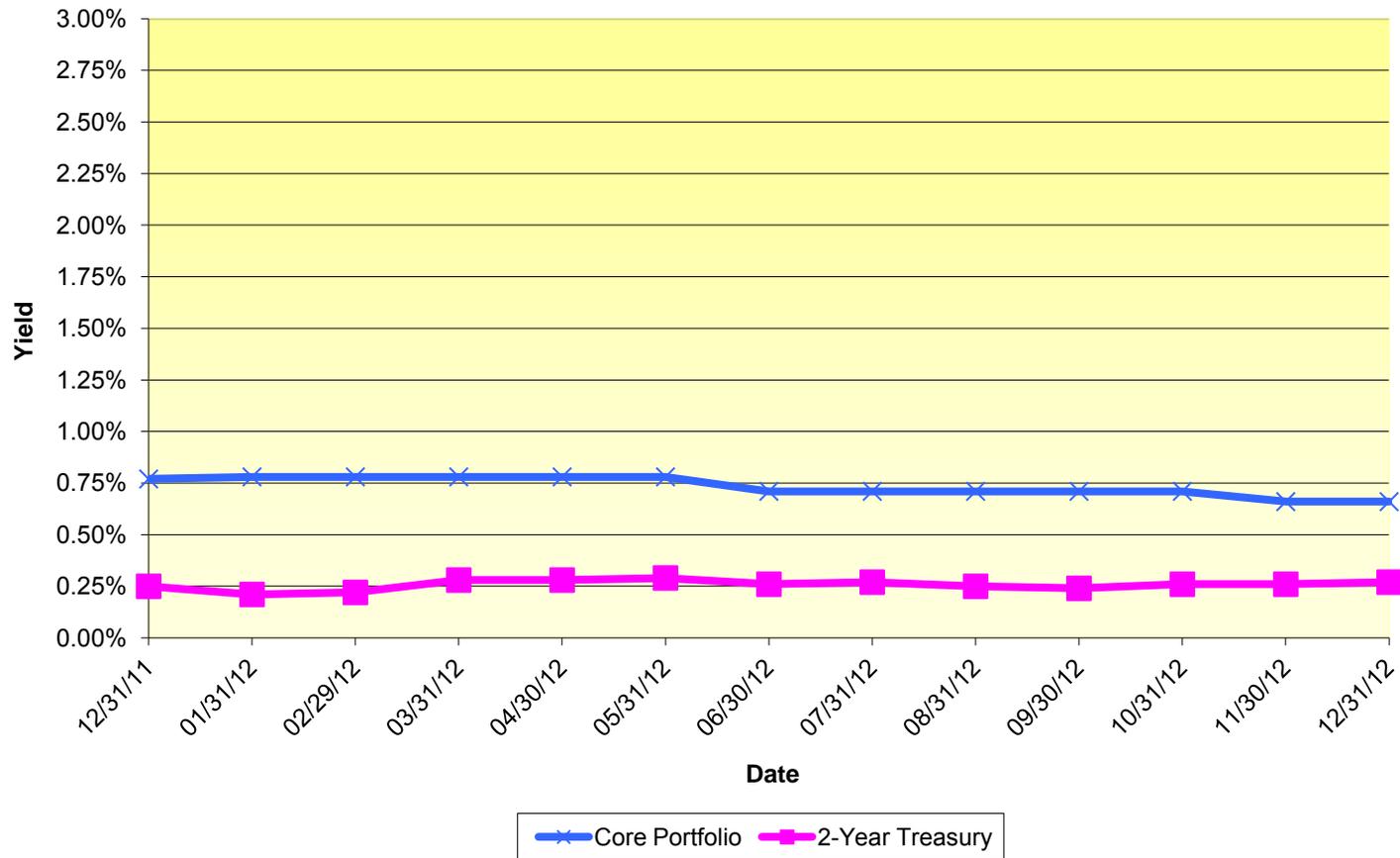
## City of Corvallis Total Portfolio vs. Benchmark December 2011 - December 2012





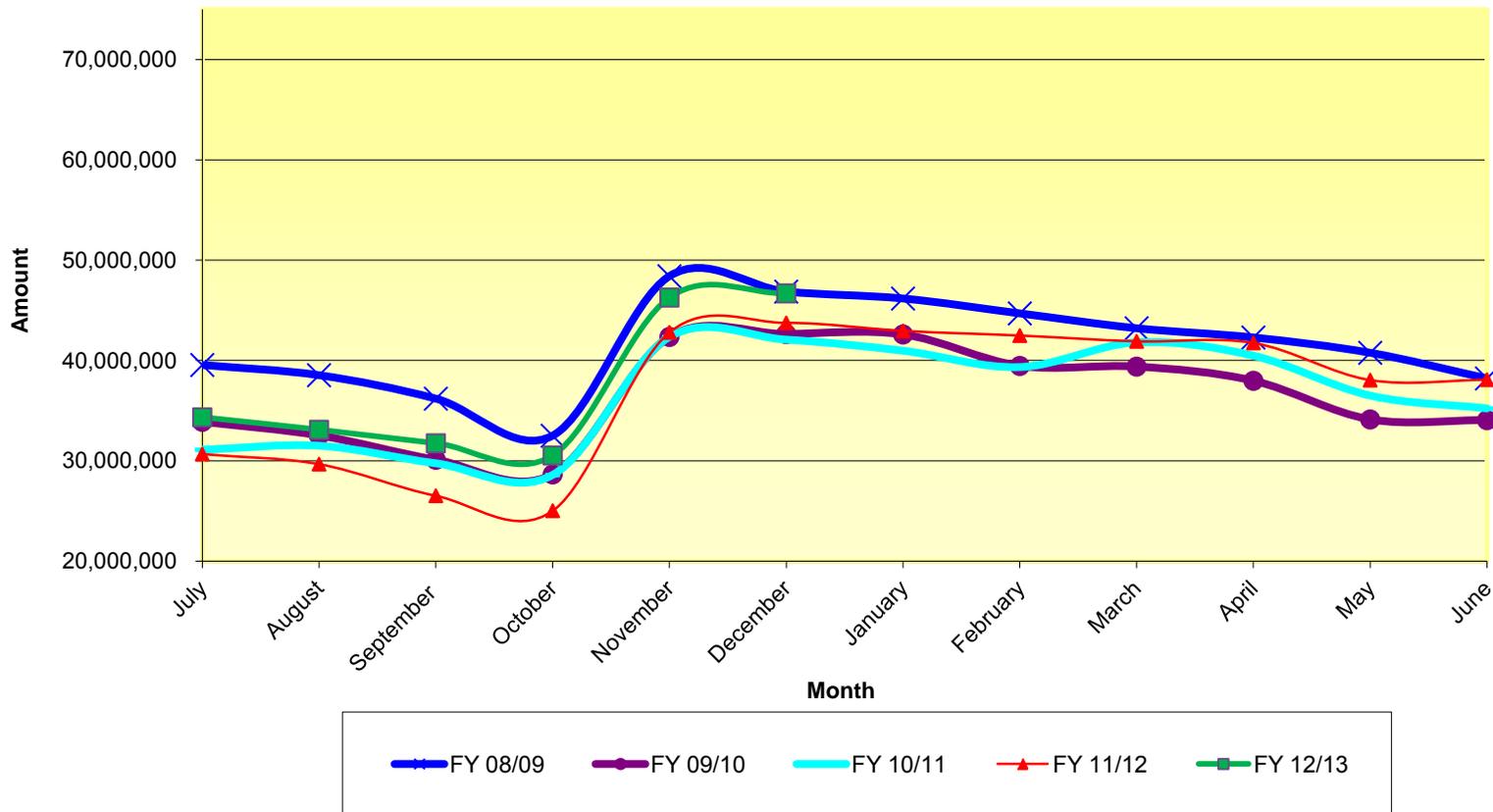
# City of Corvallis

## Core Portfolio vs. Benchmark December 2011- December 2012





# City of Corvallis Cash & Investments





## City of Corvallis Cash and Investments By Quarter

