



# CITY OF SANTA BARBARA

## COUNCIL AGENDA REPORT

**AGENDA DATE:** October 25, 2011

**TO:** Mayor and Councilmembers

**FROM:** Treasury Division, Finance Department

**SUBJECT:** September 30, 2011, Investment Report And September 30, 2011, Fiscal Agent Report

**RECOMMENDATION:** That Council:

- A. Accept the September 30, 2011, Investment Report; and
- B. Accept the September 30, 2011, Fiscal Agent Report.

### DISCUSSION:

On a quarterly basis, staff submits a comprehensive report on the City's portfolio and related activity pursuant to the City's Annual Statement of Investment Policy. The current report covers the investment activity for July through September 2011.

Financial markets experienced a number of shocks during the third quarter, resulting in investor sell-off and the worst market performance since the first quarter of 2009. The Dow Jones Industrial Average (DJIA) index, which measures stocks from 30 industrial "blue-chip" companies, declined 11.49 percent from the previous quarter; the S&P 500, composed of 500 "large-cap" companies across various sectors, was down 13.87 percent; and NASDAQ, which largely measures technology stocks, was lower by 12.91 percent.

Early in the quarter, investor confidence was shaken due to economic data indicating a slowing of the domestic economy and concerns over the U.S. debt ceiling limit and the federal budget deficit. As the quarter progressed, investor concerns shifted overseas as the European debt crisis worsened potentially to include Italy and Spain, and a Greek default on debt payments seemed imminent. Investors sold stock holdings and sought less risky investments as concerns of a double-dip recession rose once again.

At its September meeting, the Federal Reserve Bank's Open Market Committee (FOMC) acknowledged the soft economic recovery, continuing high unemployment levels, and "significant downside risks to the economic outlook, including strains in

global financial markets”. It also noted that inflation has moderated from earlier in the year as energy and some commodity prices have declined from their peaks and is expected to remain at or below the Fed target rate of 2 percent.

In light of the soft economic conditions and stable inflation forecasts, and reiterating its statutory mandate to foster maximum employment and price stability, the Committee announced it would continue economic stimulus efforts by manipulating investment yields, rather than using monetary policy as it had in its previous quantitative easing programs. Dubbed “Operation Twist”, the Committee announced that it would extend the average maturity of \$400 billion in securities holdings to lower longer term Treasury yields, encouraging investors to take on riskier assets, lower the cost of borrowing, and stimulate consumer spending.

Again this quarter, the committee maintained the current federal funds rate at a target range of 0-1/4 percent and stated that the exceptionally low levels would likely continue at least through mid-2013.

Treasury note yields were lower by the end of the quarter. As shown in the table to the right, the change in Treasury yields ranged from a decrease of 8 basis points on the 1-year Treasury note to a decrease of 81 basis points on the 5-year Treasury

| U.S. Treasury Market |           |           |           |           |                   |
|----------------------|-----------|-----------|-----------|-----------|-------------------|
|                      | 6/30/2011 | 7/31/2011 | 8/31/2011 | 9/30/2011 | Cumulative Change |
| 3 Month              | 0.01%     | 0.09%     | 0.02%     | 0.01%     | 0.00%             |
| 6 Month              | 0.10%     | 0.16%     | 0.04%     | 0.05%     | -0.05%            |
| 1 Year               | 0.18%     | 0.20%     | 0.10%     | 0.10%     | -0.08%            |
| 2 Year               | 0.46%     | 0.36%     | 0.20%     | 0.24%     | -0.22%            |
| 3 Year               | 0.80%     | 0.54%     | 0.32%     | 0.40%     | -0.40%            |
| 4 Year               | 1.28%     | 0.95%     | 0.64%     | 0.68%     | -0.60%            |
| 5 Year               | 1.76%     | 1.36%     | 0.96%     | 0.95%     | -0.81%            |
| 10 Year              | 3.16%     | 2.80%     | 2.22%     | 1.92%     | -1.24%            |
| 30 Year              | 4.39%     | 4.12%     | 3.60%     | 2.91%     | -1.48%            |
| LAIIF                | 0.48%     | 0.38%     | 0.38%     | 0.38%     | -0.10%            |

note. With the slow recovery and implementation of “Operation Twist”, investors continued to demand the safety of Treasury investments, keeping prices high and driving yields lower.

### Investment Activity

As shown in the table on the next page, the City invested \$18.5 million during the quarter. The purchases consisted of:

- \$10 million in “AAA” rated Federal Agency callable securities;
- \$2.5 million in “AAA” rated Federal Agency bullets, which are non-callable securities that will be held to final maturity;
- \$2 million in a “AAA” rated corporate note (Harvard College); and,
- \$4 million in “AA-” rated corporate notes (Proctor & Gamble and Toyota Motor Credit).

Council Agenda Report

September 30, 2011, Investment Report And September 30, 2011, Fiscal Agent Report

October 25, 2011

Page 3

During the quarter, \$21.495 million of Federal Agency securities were called and there were no maturities.

The “AAA” rating for the purchases cited above is shown as the overall composite rating for the purchased federal agency debt. Note that in early August, Standard & Poor’s lowered the credit rating of long-term U.S. debt to “AA+” (one step below the highest “AAA” rating), citing concerns about the bi-partisan divide in Washington over the debt ceiling limit and the federal budget deficit. This is the first time that the credit rating of U.S. debt dipped below the highest “AAA” rating. Despite the political controversy, Moody’s and Fitch maintained their “AAA” rating of U.S. debt, although Moody’s changed its outlook of U.S. debt to “negative”. Regardless, the federal agency debt purchased into the City’s investment portfolio during the quarter remains well within the allowable investing parameters under state law and the city’s own Investment Policy guidelines of “A” or better.

| Issuer                                       | Face Amount | Purchase Date | Final Maturity | Call Date | Yield To Call | Yield To Maturity |
|--|-------------|---------------|----------------|-----------|---------------|-------------------|
| <i>Purchases:</i>                            |             |               |                |           |               |                   |
| Federal National Mortgage Association (FNMA) | 2,000,000   | 07/05/11      | 07/05/16       | 01/05/12  | 2.200%        | 2.200%            |
| Pres & Fellows of Harvard College (HARVRD)   | 2,000,000   | 07/12/11      | 01/15/14       | -         | -             | 1.000%            |
| Federal National Mortgage Association (FNMA) | 1,000,000   | 07/19/11      | 07/19/16       | 01/19/12  | 1.900%        | 2.106%            |
| Proctor & Gamble (PGAMBL)                    | 2,000,000   | 09/20/11      | 11/15/15       | -         | -             | 1.085%            |
| Toyota Motor Credit (TOYOTA)                 | 2,000,000   | 09/26/11      | 09/15/16       | -         | -             | 1.800%            |
| Federal Home Loan Bank (FHLB)                | 1,500,000   | 09/26/11      | 10/30/13       | -         | -             | 0.400%            |
| Federal Home Loan Bank (FHLB)                | 1,000,000   | 09/26/11      | 08/28/13       | -         | -             | 0.381%            |
| Federal Home Loan Mortgage Corp (FHLMC)      | 2,000,000   | 09/27/11      | 09/27/16       | 12/27/11  | 1.550%        | 1.550%            |
| Federal Home Loan Mortgage Corp (FHLMC)      | 2,000,000   | 09/28/11      | 09/28/16       | 09/28/12  | 1.400%        | 1.400%            |
| Federal National Mortgage Association (FNMA) | 2,000,000   | 09/28/11      | 09/28/16       | 03/28/12  | 1.300%        | 1.475%            |
| Federal National Mortgage Association (FNMA) | 1,000,000   | 09/28/11      | 09/28/16       | 09/28/12  | 1.050%        | 1.401%            |
|  | 18,500,000  |               |                |           |               |                   |
| <i>Calls:</i>                                |             |               |                |           |               |                   |
| Federal National Mortgage Association (FNMA) | 2,000,000   | 07/07/10      | 07/07/15       | 07/07/11  | 2.350%        | 2.350%            |
| Federal Home Loan Bank (FHLB)                | 2,000,000   | 07/14/10      | 07/14/15       | 07/14/11  | 2.000%        | 2.336%            |
| Federal Home Loan Bank (FHLB)                | 2,000,000   | 12/28/10      | 07/28/14       | 07/28/11  | 0.650%        | 1.816%            |
| Federal National Mortgage Association (FNMA) | 2,000,000   | 08/05/10      | 08/05/15       | 08/05/11  | 2.125%        | 2.125%            |
| Federal Home Loan Bank (FHLB)                | 1,995,000   | 06/15/11      | 06/15/16       | 08/15/11  | 2.500%        | 2.500%            |
| Federal Home Loan Mortgage Corp (FHLMC)      | 1,500,000   | 02/22/11      | 08/22/14       | 08/22/11  | 1.700%        | 1.700%            |
| Federal Home Loan Bank (FHLB)                | 2,000,000   | 05/25/11      | 11/25/15       | 08/25/11  | 1.000%        | 2.555%            |
| Federal Home Loan Bank (FHLB)                | 2,000,000   | 05/26/11      | 05/26/16       | 08/26/11  | 1.250%        | 2.421%            |
| Federal National Mortgage Association (FNMA) | 2,000,000   | 09/09/10      | 09/09/15       | 09/09/11  | 1.951%        | 1.871%            |
| Federal Home Loan Bank (FHLB)                | 2,000,000   | 06/30/11      | 06/30/16       | 09/30/11  | 2.110%        | 2.110%            |
| Federal Home Loan Bank (FHLB)                | 2,000,000   | 06/30/11      | 06/30/16       | 09/30/11  | 2.200%        | 2.200%            |
|  | 21,495,000  |               |                |           |               |                   |
| <i>Maturities:</i>                           |             |               |                |           |               |                   |
|  | 0           |               |                |           |               |                   |
|  | 0           |               |                |           |               |                   |

The weighted average yield to maturity measures the average yield for securities in the portfolio that have varying interest rates. This helps provide a measure of the future rate of return on the investment portfolio. The weighted average yield to maturity on the quarter's purchases totaled 1.379 percent, or 81.2 basis points lower than the 2.191 percent on the quarter's called/matured investments. Over the past two years, the weighted average yield spread between the purchases and called/matured investments averaged 147.2 basis points lower each quarter, compared to 81.2 basis points lower this quarter. Like last quarter, this narrowing of the spread indicates that the older, higher yielding securities previously held in the portfolio, i.e. purchased before the recession, have either been called or matured and are no longer in the portfolio. Also, since market yields have remained relatively stable at exceptionally low levels, we are only able to replace the current called investments with investments of similar or slightly lower investment yields.

The average rate at which the City earned interest at the Local Agency Investment Fund (LAIF), the State's managed investment pool, was 0.38 percent for the quarter ended September 30, 2011. Staff expects to reinvest a portion of the City's LAIF balances in short-term or callable securities during the next quarter.

### Summary of Cash and Investments

The book rate of return, or portfolio yield, measures the percent return of actual interest earnings generated from the portfolio. During the quarter, the City's book rate of return decreased by 2.3 basis points from 1.773 percent at June 30, 2011 to 1.750 percent at September 30, 2011. The book rate of return continues to decline through the attrition of overall higher-yielding securities and reinvestment at lower market rates as discussed previously. The portfolio's average days to maturity decreased by 1 day from 1,047 to 1,046 days, which includes the long-term Airport promissory note authorized by Council in July 2009. The portfolio's average days to maturity excluding the Airport note is 838 days, reflecting reinvestment of maturities and calls during the quarter in the one to five year range in accordance with the City's Annual Statement of Investment Policy.

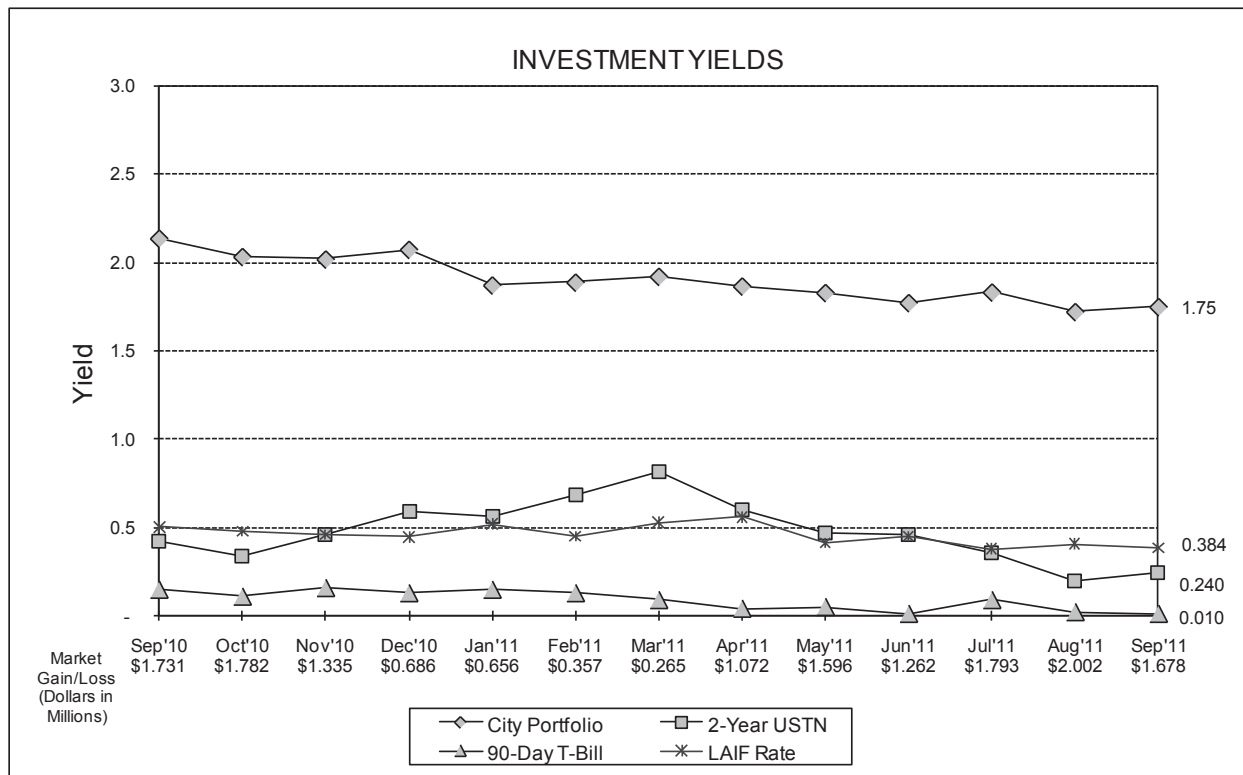
| Mo. Ended | Yield  | Days to Maturity |
|-----------|--------|------------------|
| 6/30/2011 | 1.773% | 1,047            |
| 7/31/2011 | 1.833% | 1,098            |
| 8/31/2011 | 1.722% | 979              |
| 9/30/2011 | 1.750% | 1,046            |

### Credit Quality on Corporate Notes

Over the quarter ended September 30, 2011, there were no credit quality changes to the five corporate issuers of the medium-term notes held in the portfolio (i.e., Berkshire Hathaway Financial, General Electric Capital Corp, Harvard College, Proctor & Gamble, and Toyota Motor Credit). The ratings of all corporate notes remain within the City's Investment Policy guidelines of "A" or better.

### Portfolio Market Gains/Losses

As shown on the Investment Yields table below, the City's portfolio continues to significantly outperform the three benchmark measures (the 90-day T-Bill, 2-year T-Note and LAIF). The portfolio also reflects unrealized market gains during the quarter due to lower market yields compared to the yields on securities held in the portfolio. At September 30, 2011, the overall portfolio had an unrealized market gain of \$1.678 million.



On a quarterly basis, staff reports the five securities with the largest percentage of unrealized losses when comparing book value to market value at the end of the quarter. Note, however, since securities in the portfolio are held to maturity, no market losses will be realized.

| Issuer                        | Face Amount | Maturity | \$ Mkt Change | % Mkt Change |
|-------------------------------|-------------|----------|---------------|--------------|
| TOYOTA MOTOR CREDIT           | \$2,000,000 | 09/15/16 | -\$28,027     | -1.39%       |
| GENERAL ELECTRIC CAPITAL CORP | \$2,000,000 | 11/09/15 | -\$23,060     | -1.15%       |
| FEDERAL NATL MORTGAGE ASSN    | \$1,000,000 | 09/28/16 | -\$8,044      | -0.80%       |
| FEDERAL HOME LOAN MTG CORP    | \$2,000,000 | 09/28/16 | -\$9,420      | -0.47%       |
| FEDERAL HOME LOAN MTG CORP    | \$2,000,000 | 09/27/16 | -\$8,140      | -0.41%       |

On a quarterly basis, staff also reports all securities with monthly market declines of greater than 1 percent compared to the prior month. There were two securities with a market decline of greater than 1 percent compared to the prior month.

| Issuer                        | Face Amount | Maturity | Aug-Sep Mkt Change (\$) | Aug-Sep Mkt Change (%) | % Mkt Gain/(Loss) at 09.30.11 |
|-------------------------------|-------------|----------|-------------------------|------------------------|-------------------------------|
| GENERAL ELECTRIC CAPITAL CORP | \$2,000,000 | 11/09/15 | -\$34,720               | -1.73%                 | -1.15%                        |
| FEDERAL NATL MORTGAGE ASSN    | \$2,000,000 | 09/21/15 | -\$23,960               | -1.14%                 | 3.49%                         |

The following confirmations are made pursuant to California Code Sections 53600 et seq.: (1) the City's portfolio as of September 30, 2011 is in compliance with the City's Statement of Investment Policy; and (2) there are sufficient funds available to meet the City's expenditure requirements for the next six months.

**Fiscal Agent Investments**

In addition to reporting requirements for public agency portfolios, a description of any of the agency's investments under the management of contracted parties is also required on a quarterly basis. Attachment 2 includes bond funds and the police and fire service retirement fund as of September 30, 2011.

- ATTACHMENTS:**
1. September 30, 2011, Investment Report
  2. September 30, 2011, Fiscal Agent Report

**PREPARED BY:** Jill Taura, Treasury Manager

**SUBMITTED BY:** Robert Samario, Finance Director

**APPROVED BY:** City Administrator's Office

**CITY OF SANTA BARBARA**  
**Activity and Interest Report**  
September 30, 2011

**INVESTMENT ACTIVITY**

---

**PURCHASES OR DEPOSITS**

|   |              |
|---|--------------|
| 9/1 LAIF Deposit - City                           | \$ 2,000,000 |
| 9/7 LAIF Deposit - City                           | 1,000,000    |
| 9/20 Proctor & Gamble (PGAMBL)                    | 2,000,000    |
| 9/26 Toyota Motor Credit (TOYOTA)                 | 2,000,000    |
| 9/26 Federal Home Loan Bank (FHLB)                | 1,500,000    |
| 9/26 Federal Home Loan Bank (FHLB)                | 1,000,000    |
| 9/27 Federal Home Loan Mortgage Corp (FHLMC)      | 2,000,000    |
| 9/28 Federal Home Loan Mortgage Corp (FHLMC)      | 2,000,000    |
| 9/28 Federal National Mortgage Association (FNMA) | 2,000,000    |
| 9/28 Federal National Mortgage Association (FNMA) | 1,000,000    |

**Total** \$ 16,500,000

**SALES, MATURITIES, CALLS OR WITHDRAWALS**

|   |                |
|---|----------------|
| 9/9 Federal National Mortgage Association (FNMA) - Call | \$ (2,000,000) |
| 9/21 LAIF Withdrawal - City                             | (2,000,000)    |
| 9/23 LAIF Withdrawal - City                             | (4,500,000)    |
| 9/26 LAIF Withdrawal - City                             | (2,000,000)    |
| 9/27 LAIF Withdrawal - City                             | (4,500,000)    |
| 9/29 LAIF Withdrawal - City                             | (500,000)      |
| 9/30 Federal Home Loan Bank (FHLB) - Call               | (2,000,000)    |
| 9/30 Federal Home Loan Bank (FHLB) - Call               | (2,000,000)    |

**Total** \$ (19,500,000)

**ACTIVITY TOTAL**

\$ (3,000,000)

**INTEREST REVENUE**

---

**POOLED INVESTMENTS**

|                                |                          |
|--------------------------------|--------------------------|
| Interest Earned on Investments | \$ 248,205               |
| Amortization                   | (16,664)                 |
| Interest on SBB&T Accounts     | 210                      |
| <b>Total</b>                   | <u><u>\$ 231,751</u></u> |

**TOTAL INTEREST EARNED**

\$ 231,751

**CITY OF SANTA BARBARA**  
**Summary of Cash and Investments**  
**September 30, 2011**

**ENDING BALANCE AS OF AUGUST 31, 2011**

| Description                       | Book Value                   | Yield to Maturity (365 days) | Percent of Portfolio | Average Days to Maturity |
|-----------------------------------|------------------------------|------------------------------|----------------------|--------------------------|
| State of California LAIF          | \$ 47,000,000                | 0.408%                       | 28.55%               | 1                        |
| Certificates of Deposit           | 2,000,000                    | 1.750%                       | 1.21%                | 78                       |
| Federal Agency Issues - Coupon    | 101,467,556                  | 2.001%                       | 61.64%               | 1,107                    |
| Corporate/Medium Term Notes       | 8,180,520                    | 1.947%                       | 4.97%                | 1,197                    |
|                                   | <u>158,648,075</u>           | <u>1.523%</u>                | <u>96.37%</u>        | <u>771</u>               |
| SB Airport Promissory Note        | 5,962,504                    | 7.000%                       | 3.62%                | 6,512                    |
| Totals and Averages               | <u>\$ 164,610,579</u>        | <u>1.722%</u>                | <u>100.00%</u>       | <u>979</u>               |
| SBB&T Money Market Account        | 4,103,972                    |                              |                      |                          |
| <b>Total Cash and Investments</b> | <b><u>\$ 168,714,551</u></b> |                              |                      |                          |

**NET CASH AND INVESTMENT ACTIVITY FOR SEPTEMBER 2011**      \$      (1,235,682)

**ENDING BALANCE AS OF SEPTEMBER 30, 2011**

| Description                       | Book Value                   | Yield to Maturity (365 days) | Percent of Portfolio | Average Days to Maturity |
|-----------------------------------|------------------------------|------------------------------|----------------------|--------------------------|
| State of California LAIF          | \$ 36,500,000                | 0.384%                       | 22.57%               | 1 (1)                    |
| Certificates of Deposit           | 2,000,000                    | 1.750%                       | 1.24%                | 48                       |
| Federal Agency Issues - Coupon    | 105,019,173                  | 1.923%                       | 64.93%               | 1,086                    |
| Corporate/Medium Term Notes       | 12,250,419                   | 1.779%                       | 7.57%                | 1,331                    |
|                                   | <u>155,769,591</u>           | <u>1.549%</u>                | <u>96.31%</u>        | <u>838</u>               |
| SB Airport Promissory Note        | 5,962,504                    | 7.000%                       | 3.69%                | 6,482                    |
| Totals and Averages               | <u>\$ 161,732,095</u>        | <u>1.750%</u>                | <u>100.00%</u>       | <u>1,046</u>             |
| SBB&T Money Market Account        | 5,746,774                    |                              |                      |                          |
| <b>Total Cash and Investments</b> | <b><u>\$ 167,478,869</u></b> |                              |                      |                          |

Note:

(1) The average life of the LAIF portfolio as of September 30, 2011 is 236 days.



**CITY OF SANTA BARBARA**  
**Investment Portfolio**  
**September 30, 2011**

| DESCRIPTION                              | PURCHASE DATE | MATURITY DATE | QUALITY RATING |       | STATED RATE | YIELD AT 365 | FACE VALUE           | BOOK VALUE           | MARKET VALUE         | BOOK GAIN/(LOSS) | COMMENTS                            |
|--|---------------|---------------|----------------|-------|-------------|--------------|----------------------|----------------------|----------------------|------------------|-------------------------------------|
|  |               |               | MOODY'S        | S & P |             |              |                      |                      |                      |                  |                                     |
| <b>LOCAL AGENCY INVESTMENT FUNDS</b>     |               |               |                |       |             |              |                      |                      |                      |                  |                                     |
| LOCAL AGENCY INVESTMENT FUND             | -             | -             | -              | -     | 0.384       | 0.384        | 36,500,000.00        | 36,500,000.00        | 36,500,000.00        | 0.00             |                                     |
| LOCAL AGENCY INV FUND/RDA                | -             | -             | -              | -     | 0.384       | 0.384        | 0.00                 | 0.00                 | 0.00                 | 0.00             |                                     |
| <b>Subtotal, LAIF</b>                    |               |               |                |       |             |              | <b>36,500,000.00</b> | <b>36,500,000.00</b> | <b>36,500,000.00</b> | <b>0.00</b>      |                                     |
| <b>CERTIFICATES OF DEPOSIT</b>           |               |               |                |       |             |              |                      |                      |                      |                  |                                     |
| MONTECITO BANK & TRUST                   | 11/18/09      | 11/18/11      | -              | -     | 1.750       | 1.750        | 2,000,000.00         | 2,000,000.00         | 2,000,000.00         | 0.00             |                                     |
| <b>Subtotal, Certificates of deposit</b> |               |               |                |       |             |              | <b>2,000,000.00</b>  | <b>2,000,000.00</b>  | <b>2,000,000.00</b>  | <b>0.00</b>      |                                     |
| <b>FEDERAL AGENCY ISSUES - COUPON</b>    |               |               |                |       |             |              |                      |                      |                      |                  |                                     |
| FEDERAL FARM CREDIT BANK                 | 03/06/09      | 04/24/12      | Aaa            | AA+   | 2.250       | 2.120        | 2,000,000.00         | 2,001,414.52         | 2,022,240.00         | 20,825.48        |                                     |
| FEDERAL FARM CREDIT BANK                 | 10/28/10      | 10/28/15      | Aaa            | AA+   | 1.540       | 1.540        | 2,000,000.00         | 2,000,000.00         | 2,002,120.00         | 2,120.00         | Callable 10/28/11, then cont.       |
| FEDERAL FARM CREDIT BANK                 | 12/10/10      | 12/08/14      | Aaa            | AA+   | 1.500       | 1.662        | 2,000,000.00         | 1,997,660.61         | 2,003,220.00         | 5,559.39         | Callable 12/08/11, then cont.       |
| FEDERAL FARM CREDIT BANK                 | 02/02/11      | 02/02/15      | Aaa            | AA+   | 2.000       | 2.000        | 1,500,000.00         | 1,500,000.00         | 1,506,450.00         | 6,450.00         | Callable 02/02/12, then cont.       |
| FEDERAL FARM CREDIT BANK                 | 02/10/11      | 02/10/14      | Aaa            | AA+   | 1.375       | 1.375        | 2,000,000.00         | 2,000,000.00         | 2,040,760.00         | 40,760.00        |                                     |
| FEDERAL FARM CREDIT BANK                 | 03/09/11      | 03/09/16      | Aaa            | AA+   | 2.600       | 2.621        | 2,000,000.00         | 1,999,122.22         | 2,020,580.00         | 21,457.78        | Callable 03/09/12, then cont.       |
| FEDERAL FARM CREDIT BANK                 | 12/15/10      | 12/15/15      | Aaa            | AA+   | 2.480       | 2.480        | 2,000,000.00         | 2,000,000.00         | 2,008,440.00         | 8,440.00         | Callable 12/15/11, then cont.       |
| FEDERAL FARM CREDIT BANK                 | 03/04/09      | 01/17/12      | Aaa            | AA+   | 2.000       | 2.002        | 2,000,000.00         | 2,000,000.00         | 2,011,060.00         | 11,060.00        |                                     |
| FEDERAL FARM CREDIT BANK                 | 03/05/09      | 03/04/13      | Aaa            | AA+   | 2.600       | 2.600        | 2,000,000.00         | 2,000,000.00         | 2,063,160.00         | 63,160.00        |                                     |
| FEDERAL FARM CREDIT BANK                 | 05/08/09      | 04/08/13      | Aaa            | AA+   | 2.200       | 2.200        | 2,000,000.00         | 2,000,000.00         | 2,054,700.00         | 54,700.00        |                                     |
| FEDERAL FARM CREDIT BANK                 | 06/19/09      | 06/18/12      | Aaa            | AA+   | 2.125       | 2.125        | 2,000,000.00         | 2,000,000.00         | 2,026,300.00         | 26,300.00        |                                     |
| FEDERAL FARM CREDIT BANK                 | 09/30/09      | 10/03/11      | Aaa            | AA+   | 1.125       | 1.125        | 2,000,000.00         | 2,000,000.00         | 2,000,000.00         | 0.00             |                                     |
| FEDERAL FARM CREDIT BANK                 | 04/30/10      | 04/09/15      | Aaa            | AA+   | 2.900       | 2.916        | 2,000,000.00         | 1,999,591.19         | 2,019,700.00         | 20,108.81        | Callable 04/09/12, once             |
| FEDERAL FARM CREDIT BANK                 | 11/23/10      | 11/23/15      | Aaa            | AA+   | 2.000       | 2.000        | 2,000,000.00         | 2,000,000.00         | 2,019,640.00         | 19,640.00        | Callable 05/23/12, then cont.       |
| FEDERAL FARM CREDIT BANK                 | 02/16/11      | 02/16/16      | Aaa            | AA+   | 2.570       | 2.570        | 2,000,000.00         | 2,000,000.00         | 2,122,560.00         | 122,560.00       |                                     |
| FEDERAL HOME LOAN BANK                   | 06/30/11      | 06/30/16      | Aaa            | AA+   | 1.300       | 2.297        | 2,000,000.00         | 2,000,000.00         | 2,003,860.00         | 3,860.00         | SU 3% Callable 12/30/11, then qtrly |
| FEDERAL HOME LOAN BANK                   | 03/04/09      | 06/08/12      | Aaa            | AA+   | 4.375       | 2.110        | 1,700,000.00         | 1,725,390.72         | 1,747,719.00         | 22,328.28        |                                     |
| FEDERAL HOME LOAN BANK                   | 04/15/10      | 10/15/13      | Aaa            | AA+   | 2.000       | 2.000        | 2,000,000.00         | 2,000,000.00         | 2,064,080.00         | 64,080.00        |                                     |
| FEDERAL HOME LOAN BANK                   | 08/05/10      | 09/12/14      | Aaa            | AA+   | 1.375       | 1.375        | 2,000,000.00         | 2,000,000.00         | 2,043,100.00         | 43,100.00        |                                     |
| FEDERAL HOME LOAN BANK                   | 09/17/09      | 12/13/13      | Aaa            | AA+   | 3.125       | 2.440        | 2,000,000.00         | 2,028,444.66         | 2,116,340.00         | 87,895.34        |                                     |
| FEDERAL HOME LOAN BANK                   | 01/15/10      | 10/30/12      | Aaa            | AA+   | 1.700       | 1.700        | 2,000,000.00         | 2,000,000.00         | 2,030,540.00         | 30,540.00        |                                     |
| FEDERAL HOME LOAN BANK                   | 04/05/10      | 11/29/13      | Aaa            | AA+   | 2.000       | 2.000        | 2,000,000.00         | 2,000,000.00         | 2,066,520.00         | 66,520.00        |                                     |
| FEDERAL HOME LOAN BANK                   | 06/29/10      | 10/29/12      | Aaa            | AA+   | 1.125       | 1.125        | 2,000,000.00         | 2,000,000.00         | 2,018,160.00         | 18,160.00        |                                     |
| FEDERAL HOME LOAN BANK                   | 05/28/10      | 05/28/15      | Aaa            | AA+   | 2.000       | 2.653        | 2,000,000.00         | 2,000,000.00         | 2,037,200.00         | 37,200.00        | SU 3.35%, Callable 11/28/12, once   |
| FEDERAL HOME LOAN BANK                   | 06/30/10      | 06/30/14      | Aaa            | AA+   | 1.125       | 2.277        | 2,000,000.00         | 2,000,000.00         | 2,001,880.00         | 1,880.00         | SU 3% Callable 12/30/11, once       |
| FEDERAL HOME LOAN BANK                   | 09/26/11      | 08/28/13      | Aaa            | AA+   | 1.000       | 0.381        | 1,000,000.00         | 1,011,764.38         | 1,011,470.00         | (294.38)         |                                     |
| FEDERAL HOME LOAN BANK                   | 09/17/09      | 09/13/13      | Aaa            | AA+   | 4.375       | 2.272        | 2,000,000.00         | 2,077,982.62         | 2,153,880.00         | 75,897.38        |                                     |
| FEDERAL HOME LOAN BANK                   | 02/22/10      | 12/13/13      | Aaa            | AA+   | 3.125       | 2.130        | 2,000,000.00         | 2,041,812.52         | 2,116,340.00         | 74,527.48        |                                     |
| FEDERAL HOME LOAN BANK                   | 03/26/10      | 06/08/12      | Aaa            | AA+   | 1.375       | 1.325        | 2,000,000.00         | 2,000,673.64         | 2,015,360.00         | 14,686.36        |                                     |
| FEDERAL HOME LOAN BANK                   | 02/09/11      | 01/29/15      | Aaa            | AA+   | 1.750       | 1.750        | 2,000,000.00         | 2,000,000.00         | 2,065,420.00         | 65,420.00        |                                     |
| FEDERAL HOME LOAN BANK                   | 04/15/11      | 05/27/15      | Aaa            | AA+   | 2.000       | 2.000        | 2,000,000.00         | 2,000,000.00         | 2,082,140.00         | 82,140.00        |                                     |
| FEDERAL HOME LOAN BANK                   | 09/26/11      | 10/30/13      | Aaa            | AA+   | 2.000       | 0.400        | 1,500,000.00         | 1,549,678.37         | 1,548,705.00         | (973.37)         |                                     |

**CITY OF SANTA BARBARA**

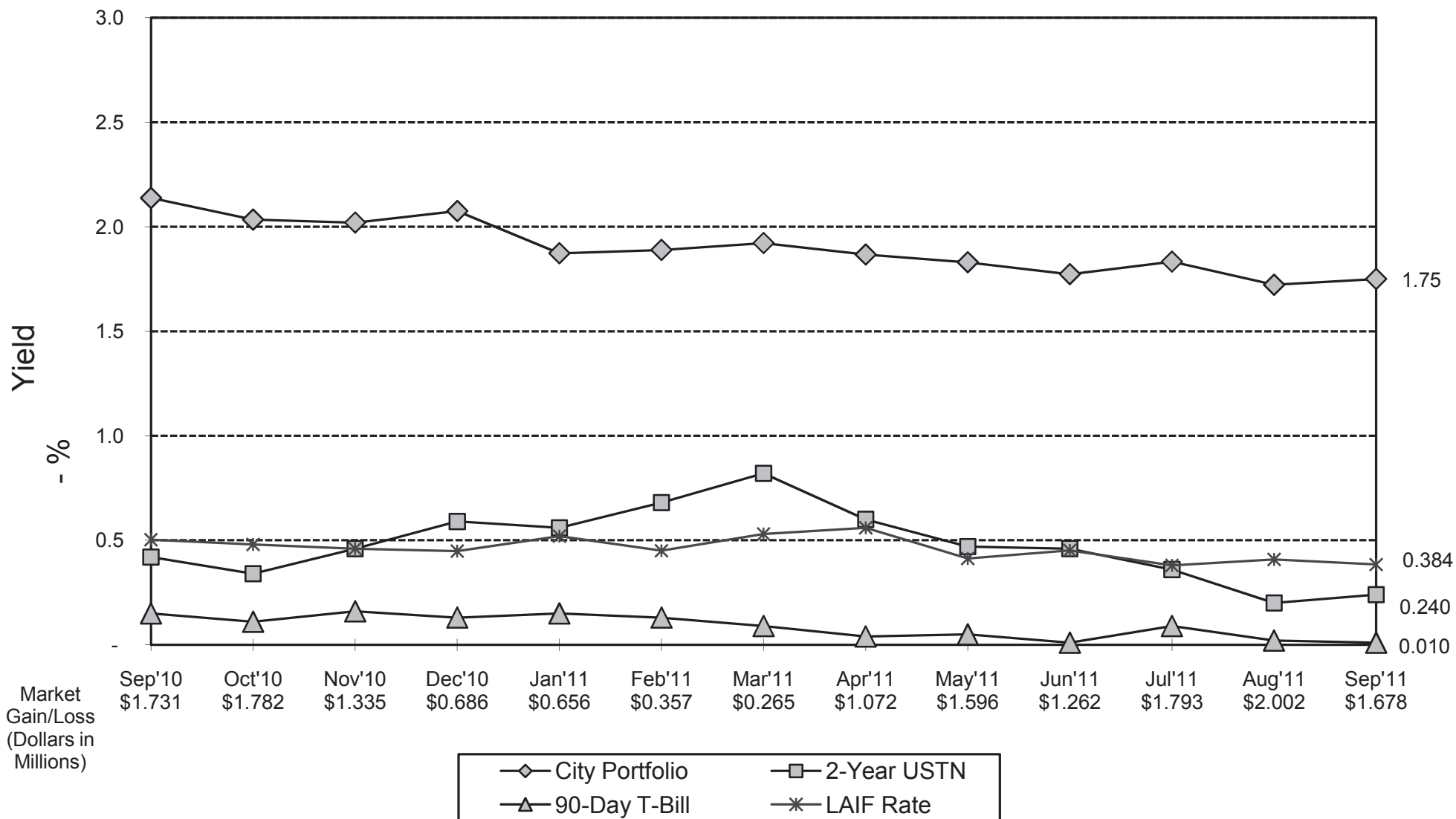
**Investment Portfolio**

**September 30, 2011**

| DESCRIPTION                            | PURCHASE DATE | MATURITY DATE | QUALITY RATING MOODY'S | QUALITY RATING S & P | STATED RATE | YIELD AT 365 | FACE VALUE            | BOOK VALUE            | MARKET VALUE          | BOOK GAIN/(LOSS)    | COMMENTS                                 |
|--|---------------|---------------|------------------------|----------------------|-------------|--------------|-----------------------|-----------------------|-----------------------|---------------------|--|
| FEDERAL HOME LOAN MTG CORP             | 09/03/09      | 09/21/12      | Aaa                    | AA+                  | 2.125       | 1.699        | 2,000,000.00          | 2,008,032.79          | 2,035,960.00          | 27,927.21           |  |
| FEDERAL HOME LOAN MTG CORP             | 11/23/10      | 11/23/15      | Aaa                    | AA+                  | 1.750       | 1.845        | 2,000,000.00          | 1,998,700.00          | 2,003,960.00          | 5,260.00            | Callable 11/23/11, once                  |
| FEDERAL HOME LOAN MTG CORP             | 01/06/11      | 02/25/14      | Aaa                    | AA+                  | 1.375       | 1.375        | 2,000,000.00          | 2,000,000.00          | 2,041,720.00          | 41,720.00           |  |
| FEDERAL HOME LOAN MTG CORP             | 09/27/11      | 09/27/16      | Aaa                    | AA+                  | 1.550       | 1.550        | 2,000,000.00          | 2,000,000.00          | 1,991,860.00          | (8,140.00)          | Callable 12/27/11, then qtrly            |
| FEDERAL HOME LOAN MTG CORP             | 09/28/11      | 09/28/16      | Aaa                    | AA+                  | 1.400       | 1.400        | 2,000,000.00          | 2,000,000.00          | 1,990,580.00          | (9,420.00)          | Callable 09/28/12, once                  |
| FEDERAL HOME LOAN MTG CORP             | 06/09/09      | 08/17/12      | Aaa                    | AA+                  | 1.000       | 2.420        | 2,000,000.00          | 1,976,140.35          | 2,010,620.00          | 34,479.65           |  |
| FEDERAL HOME LOAN MTG CORP             | 03/26/10      | 04/25/12      | Aaa                    | AA+                  | 1.125       | 1.197        | 1,000,000.00          | 999,596.90            | 1,004,890.00          | 5,293.10            |  |
| FEDERAL HOME LOAN MTG CORP             | 02/11/11      | 04/02/14      | Aaa                    | AA+                  | 4.500       | 1.615        | 2,000,000.00          | 2,140,208.66          | 2,191,420.00          | 51,211.34           |  |
| FEDERAL NATL MORTGAGE ASSN             | 09/28/11      | 09/28/16      | Aaa                    | AA+                  | 1.000       | 1.401        | 1,000,000.00          | 999,504.17            | 991,460.00            | (8,044.17)          | SU 1%-3%, Call 09/28/12, then qtrly      |
| FEDERAL NATL MORTGAGE ASSN             | 02/17/11      | 02/17/16      | Aaa                    | AA+                  | 2.500       | 2.500        | 2,000,000.00          | 2,000,000.00          | 2,017,900.00          | 17,900.00           | Callable 02/17/12, once                  |
| FEDERAL NATL MORTGAGE ASSN             | 06/07/11      | 03/07/16      | Aaa                    | AA+                  | 2.075       | 2.075        | 2,000,000.00          | 2,000,000.00          | 2,020,640.00          | 20,640.00           | Callable 06/07/12, once                  |
| FEDERAL NATL MORTGAGE ASSN             | 07/05/11      | 07/05/16      | Aaa                    | AA+                  | 2.200       | 2.200        | 2,000,000.00          | 2,000,000.00          | 2,008,300.00          | 8,300.00            | Callable 01/05/12, then qtrly            |
| FEDERAL NATL MORTGAGE ASSN             | 07/19/11      | 07/19/16      | Aaa                    | AA+                  | 1.900       | 2.106        | 1,000,000.00          | 1,000,000.00          | 1,004,540.00          | 4,540.00            | SU 2%-3.5%, Call 01/19/12, then qtrly    |
| FEDERAL NATL MORTGAGE ASSN             | 09/28/11      | 09/28/16      | Aaa                    | AA+                  | 1.300       | 1.475        | 2,000,000.00          | 2,000,000.00          | 1,998,680.00          | (1,320.00)          | SU 1.3%-2.25%, Call 03/28/12, then qtrly |
| FEDERAL NATL MORTGAGE ASSN             | 08/10/10      | 08/10/15      | Aaa                    | AA+                  | 2.000       | 2.055        | 2,000,000.00          | 1,997,768.33          | 2,029,040.00          | 31,271.67           | Callable 08/10/12, once                  |
| FEDERAL NATL MORTGAGE ASSN             | 11/17/10      | 11/17/14      | Aaa                    | AA+                  | 1.300       | 1.300        | 2,000,000.00          | 2,000,000.00          | 2,037,040.00          | 37,040.00           |  |
| FEDERAL NATL MORTGAGE ASSN             | 12/28/10      | 12/28/15      | Aaa                    | AA+                  | 2.000       | 2.011        | 2,000,000.00          | 1,999,758.33          | 2,007,040.00          | 7,281.67            | Callable 12/28/11, once                  |
| FEDERAL NATL MORTGAGE ASSN             | 04/11/11      | 04/11/16      | Aaa                    | AA+                  | 2.500       | 2.500        | 2,000,000.00          | 2,000,000.00          | 2,022,060.00          | 22,060.00           | Callable 04/11/12, once                  |
| FEDERAL NATL MORTGAGE ASSN             | 06/27/11      | 06/27/16      | Aaa                    | AA+                  | 2.000       | 2.000        | 2,000,000.00          | 2,000,000.00          | 2,027,960.00          | 27,960.00           | Callable 06/27/13, once                  |
| FEDERAL NATL MORTGAGE ASSN             | 09/21/10      | 09/21/15      | Aaa                    | AA+                  | 2.000       | 2.000        | 2,000,000.00          | 2,000,000.00          | 2,069,820.00          | 69,820.00           |  |
| FEDERAL NATL MORTGAGE ASSN             | 12/10/10      | 10/26/15      | Aaa                    | AA+                  | 1.625       | 2.067        | 2,000,000.00          | 1,965,927.90          | 2,053,000.00          | 87,072.10           |  |
| FEDERAL NATL MORTGAGE ASSN             | 04/18/11      | 04/18/16      | Aaa                    | AA+                  | 2.500       | 2.500        | 2,000,000.00          | 2,000,000.00          | 2,057,080.00          | 57,080.00           | Callable 04/18/13, once                  |
| FEDERAL NATL MORTGAGE ASSN             | 06/29/11      | 12/29/14      | Aaa                    | AA+                  | 1.300       | 1.300        | <u>2,000,000.00</u>   | <u>2,000,000.00</u>   | <u>2,008,440.00</u>   | <u>8,440.00</u>     | Callable 03/29/12, once                  |
| <b>Subtotal, Federal Agencies</b>      |               |               |                        |                      |             |              | <u>104,700,000.00</u> | <u>105,019,172.88</u> | <u>106,667,654.00</u> | <u>1,648,481.12</u> |  |
| <b>CORPORATE/MEDIUM TERM NOTES</b>     |               |               |                        |                      |             |              |                       |                       |                       |                     |  |
| BERKSHIRE HATHAWAY FIN                 | 12/15/10      | 12/15/15      | Aa2                    | AA+                  | 2.450       | 2.530        | 2,000,000.00          | 1,993,691.67          | 2,049,160.00          | 55,468.33           |  |
| GENERAL ELECTRIC CAPITAL CORP          | 11/10/10      | 11/09/15      | Aa2                    | AA+                  | 2.250       | 2.250        | 2,000,000.00          | 2,000,000.00          | 1,976,940.00          | (23,060.00)         |  |
| GENERAL ELECTRIC CAPITAL CORP          | 01/07/11      | 01/07/14      | Aa2                    | AA+                  | 2.100       | 2.100        | 2,000,000.00          | 2,000,000.00          | 2,011,940.00          | 11,940.00           |  |
| PRES & FELLOWS OF HARVARD COLL         | 07/12/11      | 01/15/14      | Aaa                    | AAA                  | 5.000       | 1.000        | 2,000,000.00          | 2,180,385.74          | 2,198,760.00          | 18,374.26           |  |
| PROCTOR & GAMBLE                       | 09/20/11      | 11/15/15      | Aa3                    | AA-                  | 1.800       | 1.085        | 2,000,000.00          | 2,057,473.98          | 2,052,200.00          | (5,273.98)          |  |
| TOYOTA MOTOR CREDIT                    | 09/26/11      | 09/15/16      | Aa3                    | AA-                  | 2.000       | 1.800        | <u>2,000,000.00</u>   | <u>2,018,867.12</u>   | <u>1,990,840.00</u>   | <u>(28,027.12)</u>  |  |
| <b>Subtotal, Corporate Securities</b>  |               |               |                        |                      |             |              | <u>12,000,000.00</u>  | <u>12,250,418.51</u>  | <u>12,279,840.00</u>  | <u>29,421.49</u>    |  |
| <b>SB AIRPORT PROMISSORY NOTE (LT)</b> |               |               |                        |                      |             |              |                       |                       |                       |                     |  |
| SANTA BARBARA AIRPORT                  | 07/14/09      | 06/30/29      | -                      | -                    | 7.000       | 7.000        | <u>5,962,504.03</u>   | <u>5,962,504.03</u>   | <u>5,962,504.03</u>   | <u>0.00</u>         |  |
| <b>Subtotal, SBA Note</b>              |               |               |                        |                      |             |              | <u>5,962,504.03</u>   | <u>5,962,504.03</u>   | <u>5,962,504.03</u>   | <u>0.00</u>         |  |
| <b>TOTALS</b>                          |               |               |                        |                      |             |              | <u>161,162,504.03</u> | <u>161,732,095.42</u> | <u>163,409,998.03</u> | <u>1,677,902.61</u> |  |

Market values have been obtained from the City's safekeeping agent, Santa Barbara Bank and Trust (SBB&T). SBB&T uses Interactive Data Pricing Service, Bloomberg and DTC.

## INVESTMENT YIELDS



**CITY OF SANTA BARBARA  
Fiscal Agent Investments  
September 30, 2011**

|  | CASH & CASH<br>EQUIVALENTS<br>Book & Market | Guaranteed<br>Investment<br>Contracts (GIC)<br>Book & Market | STOCKS            |                   | BONDS             |                   | US GOVT & AGENCIES  |                     | TOTALS               |                      |
|--|---|--|-------------------|-------------------|-------------------|-------------------|---------------------|---------------------|----------------------|----------------------|
|  |   |  | Book              | Market            | Book              | Market            | Book                | Market              | Book                 | Market               |
| <b>BOND FUNDS</b>                              |   |  |                   |                   |                   |                   |                     |                     |                      |                      |
| <i>RESERVE FUNDS</i>                           |   |  |                   |                   |                   |                   |                     |                     |                      |                      |
| 2004 RDA -<br>Housing Bonds                    | -   | -  | -                 | -                 | -                 | -                 | -                   | -                   | -                    | -                    |
| 2002 Municipal Improvement -<br>Refunding COPs | 6,709.27                                    | 547,530.00   | -                 | -                 | -                 | -                 | -                   | -                   | 554,239.27           | 554,239.27           |
| 2002 Water -<br>Refunding COPs                 | 8,833.82                                    | 1,088,268.76   | -                 | -                 | -                 | -                 | -                   | -                   | 1,097,102.58         | 1,097,102.58         |
| 1994 Water -<br>Revenue Bonds                  | 19,914.61                                   | 757,680.00   | -                 | -                 | -                 | -                 | -                   | -                   | 777,594.61           | 777,594.61           |
| 2002 Waterfront -<br>Reference COPs            | 928,723.43                                  | 1,393,262.50   | -                 | -                 | -                 | -                 | -                   | -                   | 2,321,985.93         | 2,321,985.93         |
| 1992 Seismic -<br>Safety Bonds                 | 87,465.19                                   | -  | -                 | -                 | -                 | -                 | -                   | -                   | 87,465.19            | 87,465.19            |
| Subtotal, Reserve Funds                        | 1,051,646.32                                | 3,786,741.26   | -                 | -                 | -                 | -                 | -                   | -                   | 4,838,387.58         | 4,838,387.58         |
| <i>PROJECT FUNDS</i>                           |   |  |                   |                   |                   |                   |                     |                     |                      |                      |
| 2001 RDA Bonds                                 | 2,365,740.93                                | -  | -                 | -                 | -                 | -                 | -                   | -                   | 2,365,740.93         | 2,365,740.93         |
| 2003 RDA Bonds                                 | 10,686,412.10                               | -  | -                 | -                 | -                 | -                 | -                   | -                   | 10,686,412.10        | 10,686,412.10        |
| 2004 Sewer<br>Revenue Bonds                    | 2,175,435.89                                | 1,357,140.00   | -                 | -                 | -                 | -                 | -                   | -                   | 3,532,575.89         | 3,532,575.89         |
| 2009 Airport Bonds                             | 4,046,797.25                                | -  | -                 | -                 | -                 | -                 | 3,100,000.00        | 3,161,101.00        | 7,146,797.25         | 7,207,898.25         |
| Subtotal, Project Funds                        | 19,274,386.17                               | 1,357,140.00   | -                 | -                 | -                 | -                 | 3,100,000.00        | 3,161,101.00        | 23,731,526.17        | 23,792,627.17        |
| Subtotal Bond Funds                            | 20,326,032.49                               | 5,143,881.26   | -                 | -                 | -                 | -                 | 3,100,000.00        | 3,161,101.00        | 28,569,913.75        | 28,631,014.75        |
| <b>POLICE/FIRE -<br/>SVC RETIREMENT FUND</b>   |   |  |                   |                   |                   |                   |                     |                     |                      |                      |
| Police/Fire Funds                              | 66,047.38                                   | -  | 234,708.75        | 253,440.96        | 309,937.05        | 308,410.95        | -                   | -                   | 610,693.18           | 627,899.29           |
|  | 66,047.38                                   | -  | 234,708.75        | 253,440.96        | 309,937.05        | 308,410.95        | -                   | -                   | 610,693.18           | 627,899.29           |
| <b>TOTAL FISCAL AGENT<br/>INVESTMENTS</b>      | <b>20,392,079.87</b>                        | <b>5,143,881.26</b>  | <b>234,708.75</b> | <b>253,440.96</b> | <b>309,937.05</b> | <b>308,410.95</b> | <b>3,100,000.00</b> | <b>3,161,101.00</b> | <b>29,180,606.93</b> | <b>29,258,914.04</b> |

Notes:

- (1) Cash & cash equivalents include money market funds.
- (2) Market values have been obtained from the following trustees: US Bank, Bank of New York and Santa Barbara Bank & Trust