



Annual Investment Committee Report

To the City Commission for the Fiscal Year Ending September 30, 2007

The purpose of this report is to inform the City Commission on how the City invested its idle funds and provide a brief synopsis as to what economic developments took place and how it influenced our decision to invest in certain securities.

As fiscal year 2006-07 began, emerging economies like China and India were gaining momentum and the global economy was powering ahead at its fastest pace in over thirty years. China's economy was expanding at an annual rate of 10.7%. China's rate of growth was unsustainable long-term but a major slowdown is not expected until after the 2008 Beijing Olympics. Concurrently the United States, the world's largest economy, advanced into its second year of steady interest-rate increases and the impact was beginning to affect America's consumer spending. Home values, which for so long fuelled America's consumer boom, were declining and making it more difficult for consumers to access their home equity to fund purchases of goods and services. Residential building fell by a fifth, dragging overall growth down by a full percentage point. With economic storm clouds gathering, interest rate hikes were expected to be temporarily suspended during the early stages of the year. However, upward pressure on interest rates, due to the reappearance of inflation, was expected to accelerate by mid-summer. Therefore, investments were limited to the short end of the market and additional liquidity was accumulated for mid-year investment opportunities in tandem with anticipated rate hikes.

By mid-year the deterioration of the housing market was more wide spread and accelerating but despite weak housing prices, consumers were still spending. Troubles in the housing market pointed directly to the sub-prime mortgage sector, loans made to those with poor credit records. During 2006 lenders relaxed standards and borrowers signed for loans they couldn't afford. As the introductory "teaser" rates on more loans expire and monthly payments outrun the means of more borrowers, hundreds of thousands of Americans were set to lose their homes. This left home prices way out of line with reality and an overhang of unsold property, one in eight of the new sub-prime borrowers were running behind on mortgage payments. The real impact of the sub-prime fallout won't even be felt until 2008. The development of the sub-prime crises put an abrupt stop to the Federal Reserve's rate hikes and could force the Fed to reduce rates going forward. Therefore longer-term (three to five year) Agency Securities with longer call protection were added to the portfolio as mid-year drew to a close.

By mid-summer housing prices were falling at a rate not seen since 1991, creating a chain reaction. Bundled mortgages sold to investors as interest-paying bonds were falling in value. Major credit rating firms warned that loan delinquencies may be much worse than anticipated because when homes become worth less than the loan, the owners cannot sell or refinance their way out of trouble. With more than \$1.8 trillion worth of securities backed by sub-prime

mortgages created since 2000, banks and investors were suffering losses that were exposed every week, affecting the overall confidence in the credit markets. The sub-prime crisis was a potential \$67 billion mess in a \$14 trillion economy. The housing boom was dependent on these relatively reckless loans that pushed home prices to levels far above what many current and would-be owners could afford. The risk of a further nationwide decline in home prices will inflict real hardship on millions of Americans and could negatively impact future economic growth. Although the Fed has been concerned with inflation, the torrent of bad news created a lot of fear in the credit market and therefore the Fed predictable cut rates at their next F.M.O.C. meeting held September 18, 2007. Given the potential severity of the sub-prime crises it would be prudent to extend maturities in a variety of agency securities, therefore, additional callable securities with longer call protection continued to be placed into the portfolio.

Heading into the final quarter of fiscal year 2006-07, it looked as though the global community was fast heading for a slowdown especially in America. The Euro zone, Britain and Japan also looked bleak. This year for the first time China alone will contribute more to global GDP growth than America. The big fear is that the slowdown in the rich economies will be passed on to emerging markets like China and India. The Federal Reserve's half-point rate cut in mid-September showed the central banks concern about the effects of the housing market on future growth. However, further rate cuts may not occur due-to hopes that emerging markets will continue to expand. With China's economy advancing at 9%, a global recession looked unlikely and therefore the Fed may choose to postpone further action leaving short rates at current levels of 4.75% through year end. Therefore, in addition to callable securities, U. S. Treasury Securities, A1P1 rated Commercial Paper and Certificates of Deposit will be placed into the portfolio and continue to be repeated over the next year and modified as market conditions dictate.

Interest Revenue vs Budgetary Expectation

General Operating Fund

	<u>12/31/06</u>	<u>03/31/07</u>	<u>06/30/07</u>	<u>09/30/07</u>
Interest Revenue	\$346,378	\$503,272	\$381,283	\$375,065
Budgetary Expectation	<u>320,000</u>	<u>320,000</u>	<u>320,000</u>	<u>320,000</u>
Excess (Shortfall)	<u>\$26,378</u>	<u>\$183,272</u>	<u>\$61,283</u>	<u>\$55,065</u>

Water & Sewer Operating Fund

	<u>12/31/06</u>	<u>03/31/07</u>	<u>06/30/07</u>	<u>09/30/07</u>
Interest Revenue	\$ 50,263	\$ 53,325	\$ 28,490	\$ 58,078
Budgetary Expectation	<u>37,500</u>	<u>37,500</u>	<u>37,500</u>	<u>37,500</u>
Excess (Shortfall)	<u>\$ 12,763</u>	<u>\$15,825</u>	<u>\$(9,010)</u>	<u>\$20,578</u>

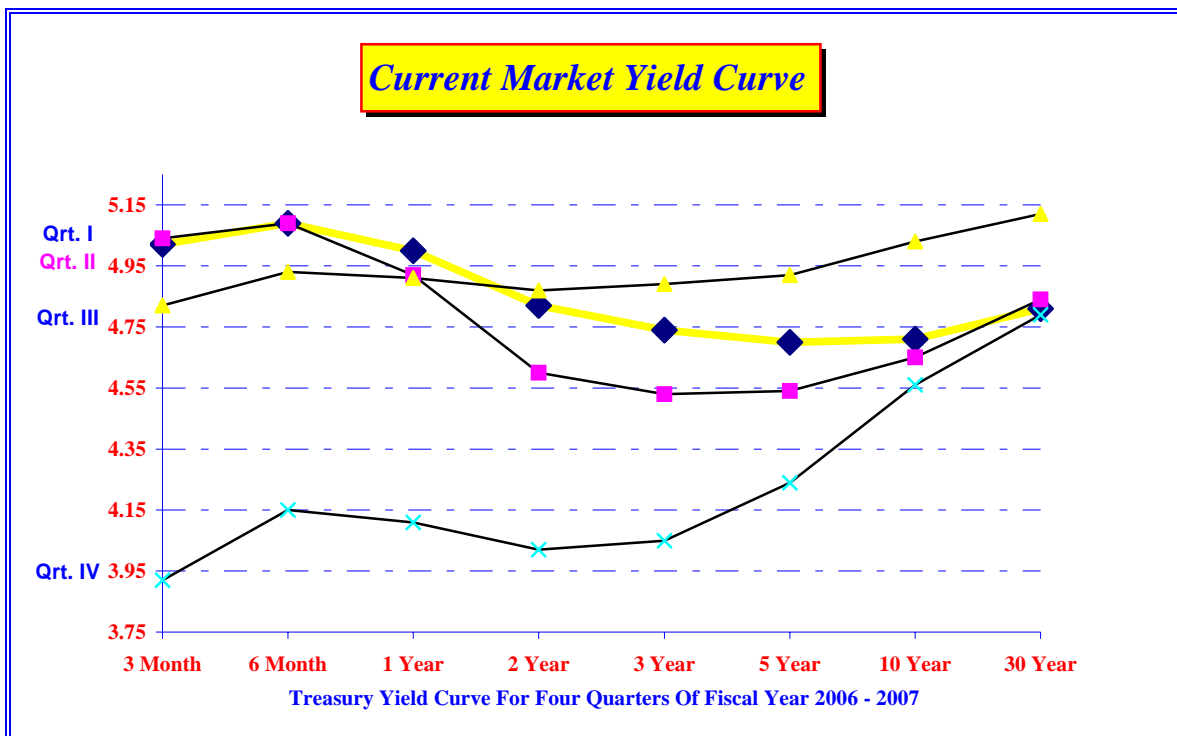
FOUR QUARTERS OF FISCAL YEAR 2006 - 2007

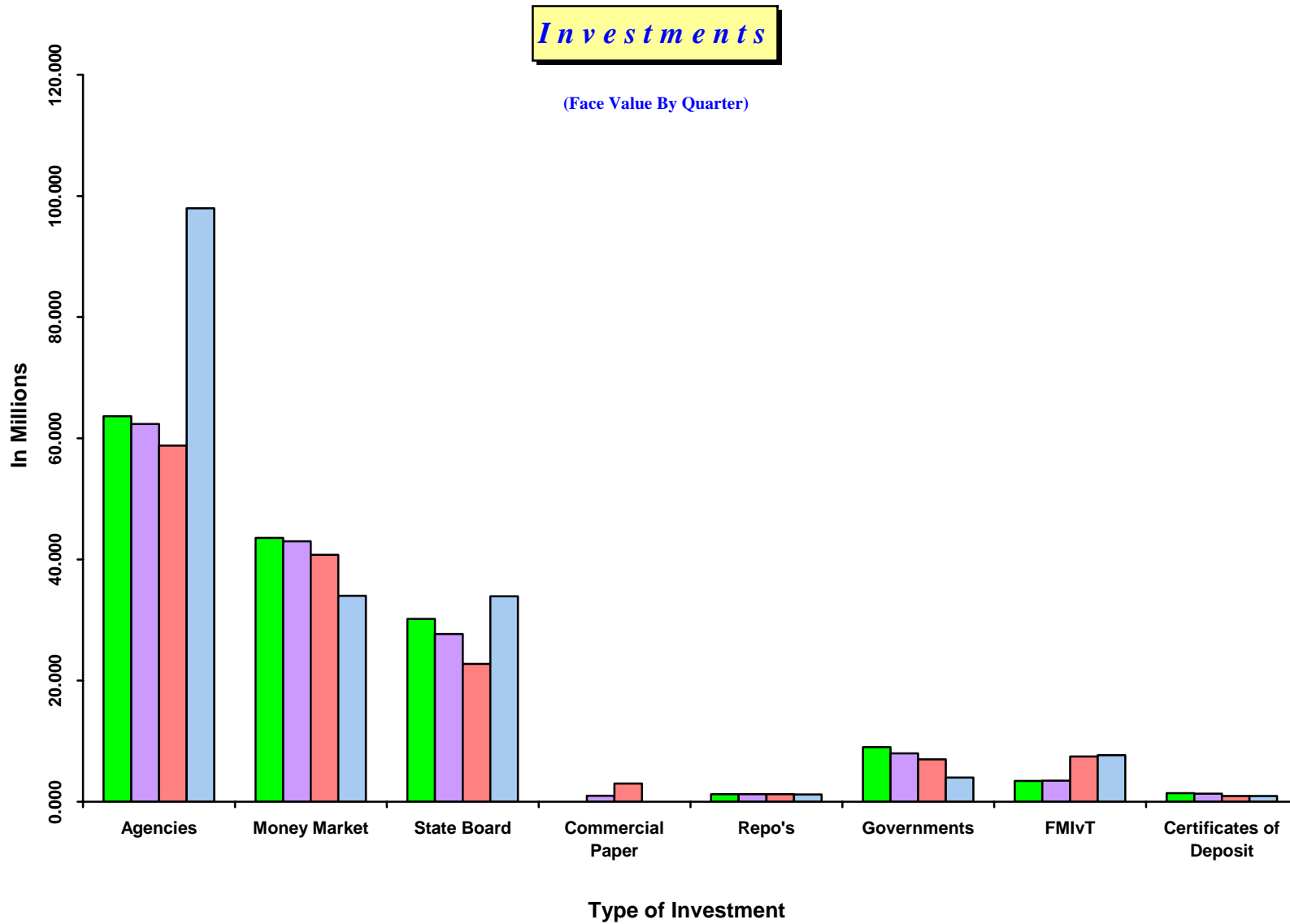
(Source: Wall St. Journal)

Treasury Yield Changes By Quarter For Fiscal Year 2006 - 2007

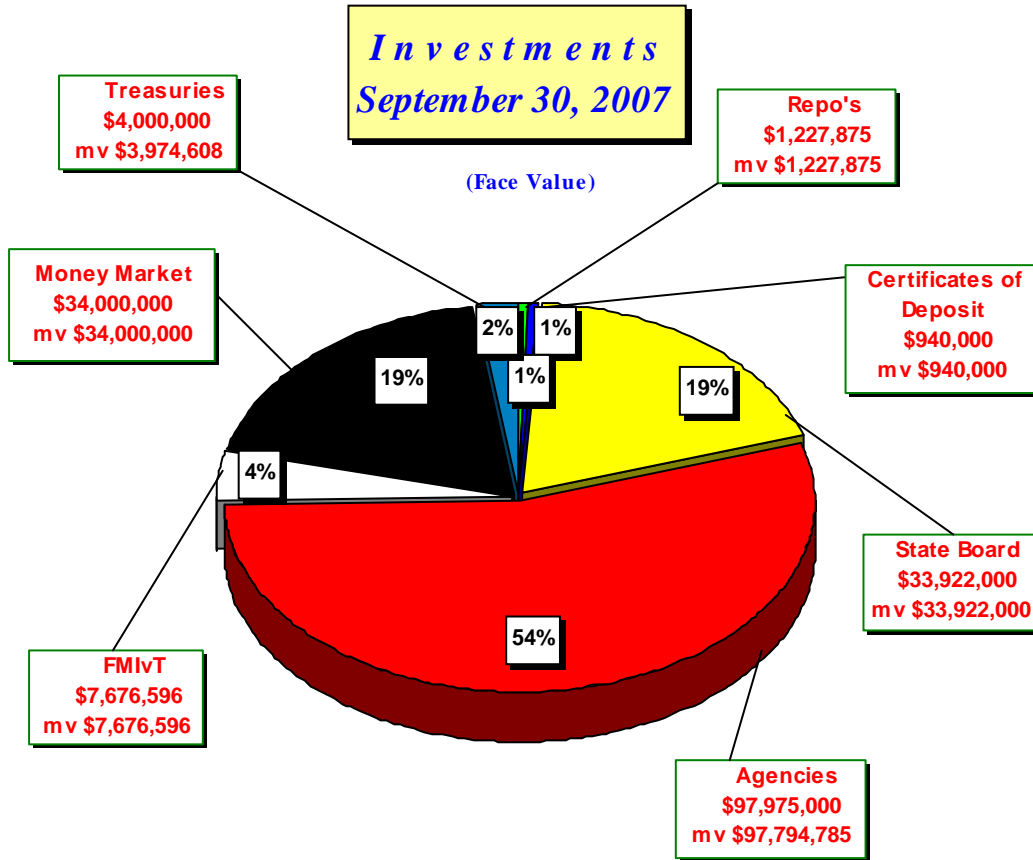
	12/31/2006	3/31/2007	6/30/2007	9/30/2007
3 Month	5.02%	5.04%	4.82%	3.92%
6 Month	5.09%	5.09%	4.93%	4.15%
1 Yr.	5.00%	4.92%	4.91%	4.11%
2 Yr.	4.82%	4.60%	4.87%	4.02%
3 Yr.	4.74%	4.53%	4.89%	4.05%
5 Yr.	4.70%	4.54%	4.92%	4.24%
10 Yr.	4.71%	4.65%	5.03%	4.56%
30 Yr.	4.81%	4.84%	5.12%	4.79%

FOUR QUARTERS OF FISCAL YEAR 2006 - 2007





	<u>1st. Qtr.</u>	<u>2nd. Qtr.</u>	<u>3rd. Qtr.</u>	<u>4th. Qtr.</u>
Total Portfolio Weighted Average Maturity	1.0 Yrs.	1.0 Yrs.	1.15 Yrs.	1.45 Yrs.
Weighted Average Maturity W/O SBA & MM	1.76 Yrs.	1.91 Yrs.	2.35 Yrs.	2.25Yrs.



Total Investment - \$179,741,471
 Market Value - \$179,535,864
 Total Portfolio Weighted Avg. Maturity - 1.45 Years
 CD'S & Agency Bond Weighted Avg. Maturity - 2.25 Years

INVESTMENT PORTFOLIO BY SECURITY TYPE

	<u>Par Value</u>	<u>Market Value</u>	<u>% of Portfolio</u>
Agency Securities	\$ 97,975,000	\$ 97,794,785	54.0%
State Board of Adm.	33,922,000	33,922,000	19.0%
Money Market Funds	34,000,000	34,000,000	19.0%
Certificates of Deposit	940,000	940,000	1.0%
Florida Municipal Inv. Pool	7,676,596	7,676,596	4.0%
U.S. Treasury Securities	4,000,000	3,974,608	2.0%
Commercial Paper	000	000	0.0%
Repurchase Agreements	1,227,875	1,227,875	1.0%
Totals	\$ 179,741,471	\$ 179,535,864	100.0%

Investment Policy

The City Commission adopted resolution NO. 01R-1397 on September 4, 2001, authorizing the Finance Director to invest surplus funds, as delegated by the City Manager. Quarterly reports are submitted to the investment committee, which consists of the City Manager, Finance Director, Cash and Investment Manager and the City Auditor and Clerk.

Performance Measurements

- 1) 4.09% Target rate based on U.S. Treasury Market Securities for the fiscal year ending 09/30/2007.
- 2) 4.50% rate of return based on portfolio Investment for the year ending 09/30/2007.
- 3) 4.37% rate of return based on the Treasury, Agency and C.D. portion of the portfolio for the fiscal year ending 09/30/2007.
- 4) 4.95% Rate of return based on Lehman Brothers 1-3 Year Index for U.S. Governments Securities.

Authorized Investment Institution and Dealers

Bank –

- 1) Wachovia Bank, N.A.

Region Firms -

- 1) Sun Trust Robinson Humphrey, Inc.
- 2) Vining Sparks Securities
- 3) Shay Financial Services, Inc.
- 4) Mutual Securities Inc.
- 5) Sovereign Securities Corporation, LLC

Primary Dealers –

- 1) Morgan Stanley, Inc.
- 2) UBS Financial Services, Inc.
- 3) Citigroup Global Markets, Inc.
- 4) Prudential Securities, Inc.

Periodical publications used as source documents for articles appearing in September 2007 report.

1. The Wall Street Journal
2. The Economist Magazine
3. U. S News Magazine
4. The Wall Street Journal