

**CITY OF KILLEEN  
INVESTMENT ACTIVITY REPORT  
FISCAL YEAR ENDED SEPTEMBER 30, 2008**

**INVESTMENT OUTLOOK**

The Federal Open Market Committee reviews economic and financial conditions, determines the appropriate stance of monetary policy, and assesses the risks to its goals of price stability and sustainable economic growth. In a statement released on October 29, 2008, the Committee decided to lower its target for the federal funds rate to 1 percent. Changes in this rate trigger a chain of events that affect other short-term interest rates, foreign exchange rates, long-term interest rates, the amount of money and credit, and ultimately, the economy.

Recent information indicates that overall economic activity has slowed, partly reflecting some firming in household spending. In light of the declines in the prices of energy and other commodities and the weaker prospects of economic activity, the Committee expects inflation to moderate later in coming quarters to levels consistent with price stability. Recent policy actions, rate reductions, coordinated interest rate cuts by central banks, extraordinary liquidity measures, and official steps to strengthen financial systems, should help to improve credit conditions and promote a return to moderate economic growth. Treasury Management analysts are predicting higher unemployment rates and that the decline in housing and stock market wealth will restrain consumer spending for some time. Some analysts predict that inflation will fall as oil prices decrease and the dollar strengthens. During the month of August, the national unemployment rate rose to 6.1 percent from 4.7 percent a year ago, while Killeen's unemployment rate saw an increase to 5.7 percent in August from 4.9 percent a year ago. Other local economic indicators point to stable growth in Killeen, with increases in both sales tax and hotel occupancy tax revenues surpassing last fiscal year's revenues by 5.0 and 37.3 percent respectively. Additionally, building permits construction value saw a 23.4 percent increase for the fiscal year over last year's numbers.

*Investment outlook provided courtesy of Federal Open Market Committee Statements and GFOA Treasury Management Analysts.*

**CASH BALANCES AT EXTRACO BANK**

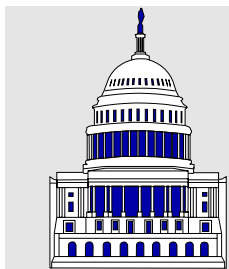


During the quarter, the average cash balance at the depository bank was \$2,536,370. Total interest earned for the quarter was \$7,660. Fees charged by the Bank total \$6,334 for the quarter. The gross yield for the quarter was 1.201%. The effective yield for the quarter was 0.209%. Gross interest earnings, less the bank fees equals the effective yield. If the effective yield is negative, it means that the bank fees have exceeded the interest earnings for the period. Following is a recap of cash balances

and investment activity:

<u>FY 07-08</u> <u>MONTH</u>	<u>AVERAGE</u> <u>BALANCE</u>	<u>INTEREST</u> <u>EARNED</u>	<u>GROSS</u> <u>YIELD</u>	<u>EFFECTIVE</u> <u>YIELD</u>
October	\$ 1,619,289	\$ 2,903	2.111%	0.547%
November	3,589,333	5,874	1.991%	1.410%
December	2,935,699	12,545	5.031%	4.232%
January	1,923,210	2,685	1.643%	0.380%
February	3,119,172	2,399	0.968%	0.158%
March	2,300,062	2,337	1.196%	0.210%
April	2,098,712	2,500	1.449%	0.188%
May	2,346,981	2,282	1.145%	0.144%
June	2,547,657	2,119	1.012%	0.141%
July	2,690,514	2,521	1.103%	0.128%
August	2,498,714	2,667	1.257%	0.287%
September	2,419,881	2,473	1.243%	0.213%
<b>Average</b>	<b>\$ 2,507,435</b>	<b>\$ 43,303</b>	<b>1.679%</b>	<b>0.670%</b>

## CASH BALANCES AT TEXPOOL, TEXSTAR & TEXASTERM



The average cash balance in TEXPOOL was \$117,340,072, the average balance in TEXSTAR was \$3,539,370, and the average balance in TEXASTERM was \$24,054,165 during the quarter. Total interest earned for the quarter was \$871,980. The yield as of September 30th was 2.410% for TEXPOOL, 2.299% for TEXSTAR, and 2.642% for TEXASTERM. This yield is net of the management fees charged for managing the funds. The following is a recap of the cash balances and investment activity in TEXPOOL, TEXSTAR and TEXASTERM for the fiscal year.

### TEXPOOL CASH BALANCES

<u>FY 07-08</u> <u>MONTH</u>	<u>AVERAGE</u> <u>BALANCE</u>	<u>INTEREST</u> <u>EARNED</u>	<u>EFFECTIVE</u> <u>YIELD</u>
October	\$ 81,764,173	\$ 342,176	4.927%
November	132,859,101	515,835	4.724%
December	150,100,410	636,013	4.989%
January	159,121,357	574,335	4.250%
February	136,470,013	376,356	3.471%
March	129,859,140	328,434	2.978%
April	127,136,161	255,740	2.447%
May	129,651,681	251,179	2.281%
June	129,735,008	241,339	2.263%
July	127,434,470	243,595	2.251%
August	115,000,847	223,567	2.289%
September	109,584,897	217,044	2.410%
<b>Average</b>	<b>\$ 127,393,105</b>	<b>\$4,205,613</b>	<b>3.273%</b>

*Note - the above totals include \$140,086 in interest earned for KEDC.*

### TEXSTAR CASH BALANCES

<u>FY 07-08</u> <u>MONTH</u>	<u>AVERAGE</u> <u>BALANCE</u>	<u>INTEREST</u> <u>EARNED</u>	<u>EFFECTIVE</u> <u>YIELD</u>
October	\$ 3,482,804	\$ 14,496	4.901%
November	3,497,300	13,503	4.697%
December	3,510,803	13,546	4.543%
January	3,524,349	12,582	4.203%
February	3,546,549	9,618	3.413%
March	3,209,043	8,978	3.294%
April	3,221,511	7,129	2.693%
May	3,234,136	6,716	2.445%
June	3,569,372	6,591	2.247%
July	3,575,963	6,643	2.187%
August	3,452,809	6,731	2.295%
September	3,589,337	6,781	2.299%
<b>Average</b>	<b>\$ 3,451,165</b>	<b>\$ 113,314</b>	<b>3.268%</b>

## TEXAS TERM CASH BALANCES

<u>FY 07-08 MONTH</u>	<u>AVERAGE BALANCE</u>	<u>INTEREST EARNED</u>	<u>EFFECTIVE YIELD</u>
October	\$ 5,030,822	\$ 21,233	4.969%
November	5,026,027	18,342	4.440%
December	13,041,934	46,698	4.216%
January	18,055,451	70,257	4.582%
February	29,302,970	82,260	3.533%
March	31,155,448	90,493	3.420%
April	31,245,940	87,574	3.410%
May	31,333,514	80,974	3.043%
June	26,384,466	66,291	3.057%
July	25,254,635	60,363	2.814%
August	25,314,998	60,363	2.808%
September	21,592,861	46,893	2.642%
<b>Average</b>	<b>\$ 21,894,922</b>	<b>\$ 731,741</b>	<b>3.578%</b>

## INVESTMENT SECURITIES



The investment policy of the City permits investments in U.S. Treasury securities maturing in less than two years, short-term obligations of U.S. Government Agencies, fully insured or collateralized certificates of deposit at commercial banks or savings and loans, and any other securities which may be added by the State of Texas as permissible investments for municipal government. A list of investment securities held by the City is included in this report. During the quarter, the weighted average balance of investment securities was \$19,841,698. The interest earned for the quarter was \$140,000. The effective yield on the average investment securities balance was 2.80% for the quarter. The weighted average maturity of the investment securities portfolio as of September 30, 2008 was 129 days.

<u>FY 07-08 MONTH</u>	<u>AVERAGE BALANCE</u>	<u>INTEREST EARNED</u>	<u>EFFECTIVE YIELD</u>
October	\$ 21,568,881	\$ 97,132	5.302%
November	22,288,412	91,457	4.992%
December	8,813,504	39,299	5.250%
January	8,813,502	39,299	5.250%
February	16,953,465	40,772	3.027%
March	20,277,781	48,222	2.800%
April	20,277,779	46,667	2.800%
May	19,623,657	46,667	2.800%
June	20,277,779	46,667	2.800%
July	19,623,657	46,667	2.800%
August	19,623,657	46,667	2.800%
September	20,277,779	46,667	2.800%
<b>Average</b>	<b>\$ 18,201,655</b>	<b>\$ 636,180</b>	<b>3.618%</b>

## PERFORMANCE MEASUREMENTS

### KEY RATES: Cash Market

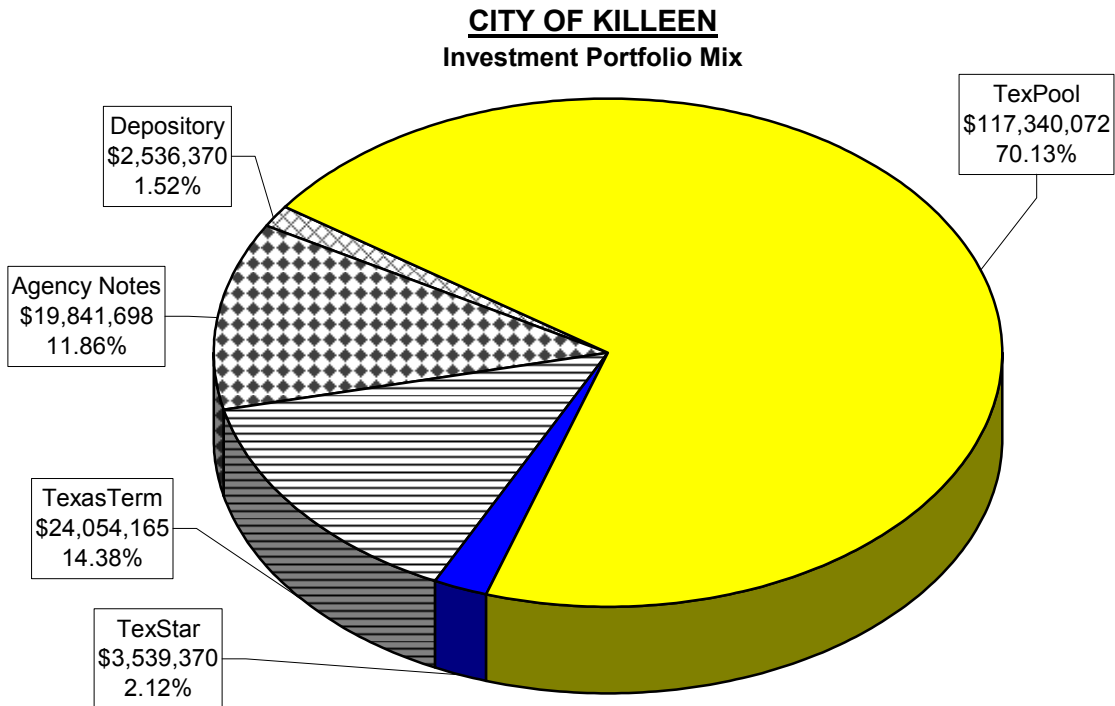
RATE	Sept 08	Year Ago
Fed Funds	1.21 %	5.05 %
CDs: Three Months	4.50	5.21
CDs: Six Months	4.50	5.15
T-Bill: 91-day Yield	1.42	3.82
T-Bill: 52-week Yield	1.97	4.03
Tax-Exempt Notes	2.19	3.42
City of Killeen (overall)	2.47	5.12

### INTEREST RATE FORECAST

RATE	DEC-08	FEB-09	MAY-09
Fed Funds	1.00 %	1.00 %	1.00 %
30-day Prime Bank CD	3.15	3.20	3.30
3-Month T-Bill Yield	0.78	0.83	0.87

\* Forecast provided by GFOA Treasury Management

## PORTFOLIO COMPOSITION



## MATURITY STRUCTURES

### TEXASTERM

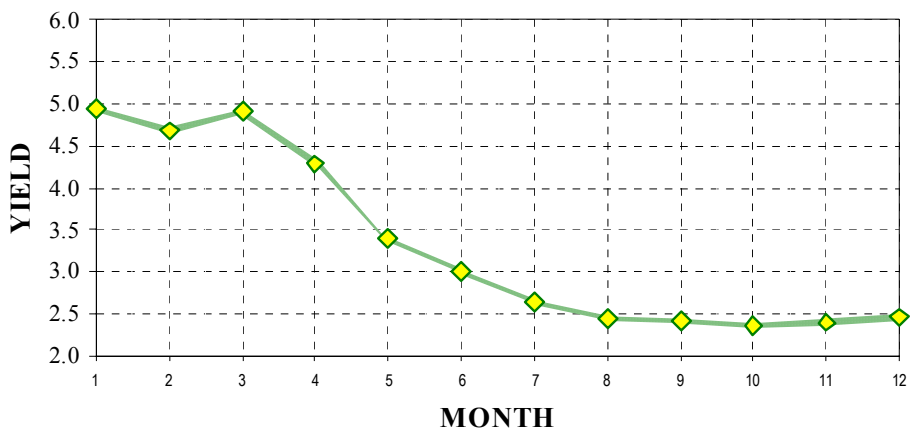
<u>MATURITY STRUCTURE</u>	<u>AMOUNT</u>	<u>PERCENTAGE</u>
0-30 Days	\$ -0-	0.00%
31-90 Days	7,000,000	28.00%
91-180 Days	18,000,000	72.00%
181-365 Days	-0-	0.00%
>365 Days	-0-	0.00%
<b>TOTALS</b>	<b>\$ 25,000,000</b>	<b>100.00%</b>

### INVESTMENT SECURITIES

<u>MATURITY STRUCTURE</u>	<u>AMOUNT</u>	<u>PERCENTAGE</u>
0-30 Days	\$ -0-	0.00%
31-90 Days	-0-	0.00%
91-180 Days	20,000,000	100.00%
181-365 Days	-0-	0.00%
>365 Days	-0-	0.00%
<b>TOTALS</b>	<b>\$ 20,000,000</b>	<b>100.00%</b>

### CITY OF KILLEEN

#### YIELD CURVE



## TOTAL PORTFOLIO PERFORMANCE SUMMARY

<u>FY 07-08</u> <u>MONTH</u>	<u>TOTAL</u> <u>AVERAGE</u> <u>BALANCE</u>	<u>TOTAL</u> <u>INTEREST</u> <u>EARNED</u>	<u>EFFECTIVE</u> <u>YIELD</u>
October	\$ 113,465,969	\$ 477,940	4.937%
November	167,260,174	645,010	4.679%
December	178,402,351	748,101	4.924%
January	191,437,869	699,156	4.287%
February	200,902,616	511,405	3.385%
March	186,801,474	478,464	3.004%
April	183,980,104	399,611	2.628%
May	186,189,970	387,817	2.440%
June	182,514,283	363,007	2.408%
July	178,579,240	359,789	2.357%
August	165,891,025	339,994	2.399%
September	157,464,755	319,858	2.456%
<b>Average</b>	<b>\$ 173,448,282</b>	<b>\$ 5,730,152</b>	<b>3.325%</b>

### CHANGES IN INVESTMENTS DURING THE PERIOD

	Beg. Balances July 1, 2008	Increases	Decreases	Ending Balances Sept. 30, 2008
TEXPOOL	\$ 128,976,579	\$ 9,001,771	(\$ 31,504,228)	\$106,474,122
TEXSTAR	3,575,963	20,155	-0-	3,596,118
TEXTERM	25,254,635	167,619	(162,796)	25,259,458
Investment Securities	20,000,000	-0-	-0-	20,000,000
<b>TOTALS</b>	<b>\$ 177,807,177</b>	<b>\$ 9,189,545</b>	<b>(\$ 31,667,024)</b>	<b>\$155,329,698</b>

### MARKET VALUE INFORMATION

	Book Value Sept. 30, 2008	Market Value Sept. 30, 2008	Net Change
TEXPOOL	\$106,474,122	\$106,425,144	(\$ 48,978)
TEXSTAR	3,596,118	3,593,464	(2,654)
TEXASTERM	25,259,458	25,158,420	(101,038)
Investment Securities	20,000,000	19,981,000	(19,000)
<b>TOTALS</b>	<b>\$ 155,329,698</b>	<b>\$ 155,158,028</b>	<b>(\$171,670)</b>

## SUMMARY



During the fourth quarter, the total average balance available for investment was \$167,311,673; total interest earned for the quarter was \$1,019,641. The overall yield on the portfolio for the quarter was 2.40%. These interest earnings figures include accrued interest earned on the investment securities of \$343,458. Total interest earned for the year of \$5,730,152 was down 15.94 % over the prior year's earnings of \$6,816,839. The staff will continue to monitor the financial markets and seek the best investments considering current market conditions. As of September 30, 2008, the total market value of the portfolio was less than the book value by \$171,670. All investment securities purchased pay full face value at maturity. The City's investment policy has received certification from the Government Treasurers' Organization of Texas. This report complies with the relevant provisions of the City's investment policy and the Public Funds Investment Act.

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BARBARA A. GONZALES  
DIRECTOR OF FINANCE  
INVESTMENT OFFICER