

**CITY OF KILLEEN
INVESTMENT ACTIVITY REPORT
FISCAL YEAR ENDED SEPTEMBER 30, 2006**

INVESTMENT OUTLOOK

Long thought of as one of the most accurate economic indicators, Public Investor Analysts are debating the impact of the yield curve spread on the U.S. economy. Some analysts are adamant that the inverted curve suggests that the economy is heading towards a recession; while others, believing that the inverted curve has lost its predictive power, look to other leading indicators such as the stock market, money supply, housing market, and the unemployment rates for signals of future economic growth. One consensus among economists is that the dramatic decrease in energy prices is very likely to have a positive impact on economic growth. The Federal Open Market Committee's (FOMC) recent actions at its October 24, 2006 meeting, supports the theory of a slowing economy brought on by a gradual cooling of the housing market and higher core inflation. At a national level, residential construction activity remained weak. In fact, single-family starts ticked up in September, but new permit issuance slid further to its lowest level in nearly five years. Still, the City of Killeen continues to defy national trends, showing 8.8 percent, 200 percent, and 250 percent increases in single family, duplex, and multifamily permits respectively. In addition, the Nations unemployment rate fell dramatically to a 4.4 percent low in October, compared to local unemployment rate of 5.8 percent during the same period. In an effort to boost economic growth, the committee again voted to keep its target for the federal funds rate at 5.25 percent, and will continue to monitor both growth and inflation rates to determine if additional firming is needed.

Investment outlook provided courtesy of the GFOA Public Investor Report.

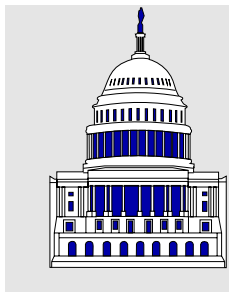
CASH BALANCES AT EXTRACO BANK



During the quarter, the average cash balance at the depository bank was \$1,613,797. Total interest earned for the quarter was \$8,474. Fees charged by the Bank total \$7,782 for the quarter. The gross yield for the quarter was 2.336%. The effective yield for the quarter was 0.327%. 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. A recap of cash balances and investment activity follows:

<u>FY 05-06</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	\$ 4,645,341	\$ 2,491	0.631%	0.038%
November	2,795,965	6,044	2.630%	1.592%
December	2,978,771	3,111	1.230%	0.254%
January	3,166,469	2,895	1.077%	0.086%
February	3,090,207	2,532	1.068%	0.127%
March	2,867,363	2,808	1.153%	0.137%
April	2,543,292	2,494	1.193%	0.156%
May	2,444,789	2,786	1.342%	0.205%
June	2,416,208	2,960	1.490%	0.188%
July	2,362,270	2,705	1.348%	0.212%
August	1,435,725	3,083	2.528%	0.296%
September	1,043,395	2,686	3.132%	0.474%
Totals	\$ 2,649,150	\$ 36,595	1.569%	0.314%

CASH BALANCES AT TEXPOOL, TEXSTAR & TEXASTERM



The average cash balance in TEXPOOL was \$93,006,396, the average balance in TEXSTAR was \$3,275,530, and the average balance in TEXASTERM was \$17,469,541 during the quarter. Total interest earned for the quarter was \$1,488,899. The yield as of September 30th was 5.266% for TEXPOOL, 5.274% for TEXSTAR, and 5.327% 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 05-06</u> <u>MONTH</u>	<u>AVERAGE</u> <u>BALANCE</u>	<u>INTEREST</u> <u>EARNED</u>	<u>EFFECTIVE</u> <u>YIELD</u>
October	\$ 65,323,274	\$ 210,164	3.788%
November	89,662,541	320,851	4.354%
December	102,961,424	364,802	4.172%
January	91,140,813	339,256	4.383%
February	93,661,114	323,451	4.502%
March	99,324,985	383,055	4.541%
April	95,840,241	373,337	4.739%
May	93,155,147	387,345	4.896%
June	101,239,139	417,317	5.015%
July	106,784,794	478,273	5.273%
August	88,430,315	394,862	5.257%
September	83,804,078	362,732	5.266%
Totals	\$ 92,610,655	\$4,355,445*	4.682%

**Note - the above totals include \$90,261 in interest earned for KEDC.*

TEXSTAR CASH BALANCES

<u>FY 05-06</u> <u>MONTH</u>	<u>AVERAGE</u> <u>BALANCE</u>	<u>INTEREST</u> <u>EARNED</u>	<u>EFFECTIVE</u> <u>YIELD</u>
October	\$ 3,154,928	\$ 9,940	3.710%
November	3,164,868	10,210	3.925%
December	3,175,077	11,281	4.184%
January	3,186,359	11,670	4.312%
February	3,198,028	11,015	4.490%
March	3,209,043	12,468	4.575%
April	3,221,511	12,625	4.748%
May	3,234,136	13,440	4.893%
June	3,247,575	13,363	5.006%
July	3,260,938	14,571	5.261%
August	3,275,509	14,633	5.260%
September	3,290,142	14,263	5.274%
Totals	\$ 3,218,176	\$ 149,477	4.638%

TEXASTERM CASH BALANCES

<u>FY 05-06</u> <u>MONTH</u>	<u>AVERAGE</u> <u>BALANCE</u>	<u>INTEREST</u> <u>EARNED</u>	<u>EFFECTIVE</u> <u>YIELD</u>
October	\$ 20,568,833	\$ 43,003	2.462%
November	15,568,700	40,284	3.148%
December	15,608,984	41,627	3.140%
January	19,408,041	77,330	4.691%
February	24,140,250	79,658	4.302%
March	24,219,908	87,775	4.267%
April	24,307,683	85,348	4.272%
May	24,393,031	92,927	4.485%
June	24,180,106	94,225	4.741%
July	24,274,331	84,056	4.077%
August	14,035,255	63,784	5.351%
September	14,099,038	61,726	5.327%
Totals	\$ 20,400,347	\$ 851,743	4.189%

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 \$20,826,515. The interest earned for the quarter was \$241,383. The effective yield on the average investment securities

balance was 4.313 % for the quarter. The weighted average maturity of the investment securities portfolio as of September 30, 2006 was 226 days.

<u>FY 05-06</u> <u>MONTH</u>	<u>AVERAGE</u> <u>BALANCE</u>	<u>INTEREST</u> <u>EARNED</u>	<u>YIELD</u>
October	\$ 20,190,771	\$ 37,985	2.215%
November	14,993,240	28,782	2.336%
December	9,574,158	19,176	2.358%
January	7,742,615	14,789	2.249%
February	8,000,705	8,384	2.250%
March	-0-	-0-	0.000%
April	-0-	-0-	0.000%
May	4,345,245	4,433	5.320%
June	6,083,333	26,600	5.320%
July	12,646,361	29,628	2.758%
August	23,472,071	101,406	5.087%
September	26,361,114	110,350	5.093%
Totals	\$ 11,117,468	\$ 381,533	2.916%

PERFORMANCE MEASUREMENTS

KEY RATES: Cash Market

<u>RATE</u>	<u>September 06</u>	<u>Year Ago</u>
Fed Funds	5.37 %	3.93 %
CDs: Three Months	4.10	2.22
CDs: Six Months	4.61	2.92
T-Bill: 91-day Yield	4.77	3.44
T-Bill: 52-week Yield	4.90	3.97
Tax-Exempt Notes	3.46	2.61
City of Killeen (overall)	5.22	3.16

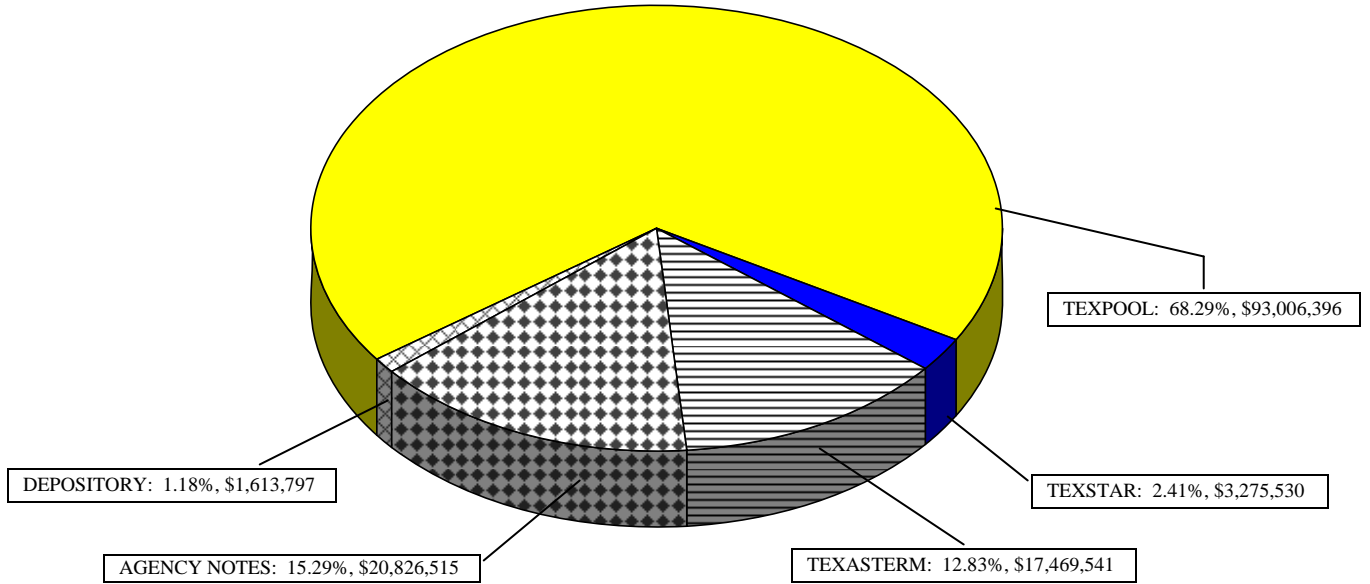
INTEREST RATE FORECAST

<u>RATE</u>	<u>Nov 06</u>	<u>Jan 07</u>	<u>Apr 07</u>
Fed Funds	5.30 %	5.40 %	5.30 %
30-day Prime Bank CD	5.30	5.40	5.30
3-Month T-Bill Yield	5.10	5.20	5.20

* Forecast provided by the Public Investors Panel.

PORTFOLIO COMPOSITION

CITY OF KILLEEN
Investment Portfolio Mix



MATURITY STRUCTURES

TEXASTERM

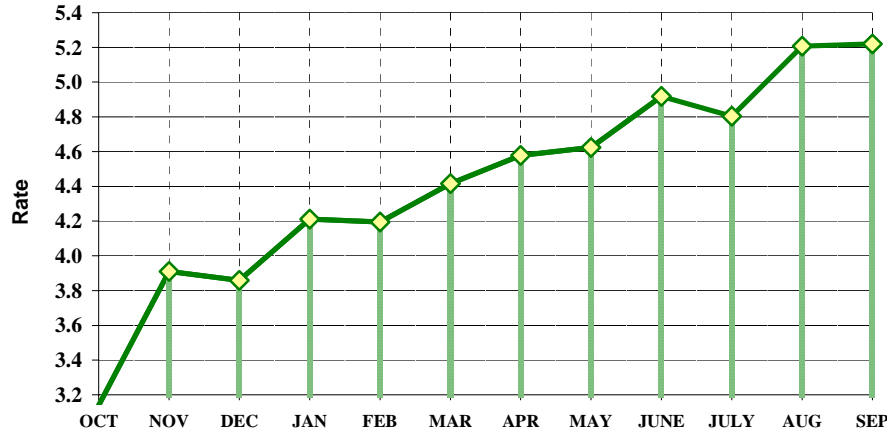
<u>MATURITY STRUCTURE</u>	<u>AMOUNT</u>	<u>PERCENTAGE</u>
0-30 Days	\$ 4,000,000	28.57%
31-90 Days	10,000,000	71.43%
91-180 Days	-0-	0.00%
181-365 Days	-0-	0.00%
>365 Days	-0-	0.00%
TOTALS	\$14,000,000	100.00%

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	10,000,000	41.67%
181-365 Days	6,000,000	25.00%

>365 Days	8,000,000	33.33%
TOTALS	\$24,000,000	100.00%

**CITY OF KILLEEN
YIELD CURVE**



TOTAL PORTFOLIO PERFORMANCE SUMMARY

<u>FY 05-06 MONTH</u>	<u>TOTAL AVERAGE BALANCE</u>	<u>TOTAL INTEREST EARNED</u>	<u>YIELD</u>
October	\$ 113,883,146	\$ 303,583	3.139%
November	126,185,314	406,171	3.916%
December	134,298,414	439,997	3.858%
January	124,644,297	445,940	4.212%
February	132,090,303	425,039	4.195%
March	129,621,299	486,107	4.416%
April	125,912,728	473,804	4.578%
May	127,572,348	500,931	4.623%
June	137,166,362	554,464	4.918%
July	149,328,694	609,233	4.804%
August	130,648,875	577,767	5.207%
September	128,597,767	551,756	5.220%
Totals	\$129,995,796	\$ 5,774,793	4.424%

CHANGES IN INVESTMENTS DURING THE PERIOD

Beg. Balances Jul. 1, 2006	Increases	Decreases	Ending Balances Sep. 30, 2006
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TEXPOOL	\$104,505,074	\$24,711,055	(\$46,668,569)	\$ 82,547,560
TEXSTAR	3,260,938	43,466	-0-	3,304,404
TEXASTERM	24,274,331	209,565	(10,323,132)	14,160,764
Investment Securities	6,000,000	18,000,000	-0-	24,000,000
TOTALS	\$138,040,343	\$42,964,086	(\$56,991,701)	\$124,012,728

MARKET VALUE INFORMATION

	Book Value Sep. 30, 2006	Market Value Sep. 30, 2006	Net Change
TEXPOOL	\$82,547,560	82,544,258	(\$3,302)
TEXSTAR	3,304,404	3,305,228	824
TEXASTERM	14,160,764	14,061,639	(99,125)
Investment Securities	24,000,000	24,283,557	283,557
TOTALS	\$124,012,728	\$124,194,682	\$181,954

SUMMARY



During the quarter, the total average balance available for investment was \$136,191,779; total interest earned for the quarter was \$1,738,756. The overall yield on the portfolio for the quarter was 5.077 %. These interest earnings figures include accrued interest earned on the investment securities of \$241,383. Total interest earned for the year of \$5,774,794 was up 119.96 % over the prior year's earnings of \$2,625,424. The staff will continue to monitor the financial markets and seek the best investments considering current market conditions. As of September 30, 2006 the total market value of the portfolio exceeded book value by \$181,954. 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.

RANA LACER, CPA
DIRECTOR OF FINANCE
INVESTMENT OFFICER