

Santa Cruz County Treasurer's

Quarterly Investment Report

For the Quarter Ended
September 30, 2009



Fred Keeley
Treasurer – Tax Collector

TREASURY OVERSIGHT COMMISSION

Chairperson: Bob Shepherd
Public Member
Alternate: Vacant

Current Members: Neal Coonerty
Member, Board of Supervisors
County of Santa Cruz
Alternate: John Leopold

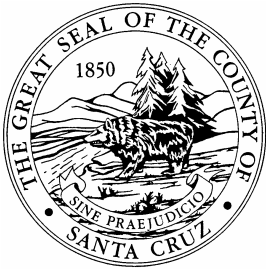
Michael Watkins
Superintendent
Santa Cruz County Office of Education
Alternate: Barney Finlay

Richard Clark
Director
Scotts Valley Fire Protection District
Alternate: Vacant

Dick Moss
Assistant Superintendent, Business Services
Santa Cruz City Schools
Alternate: Mary Hart

AUDIT PROCESS

The Santa Cruz County Treasurer's Office is audited on an annual basis by an outside auditor selected by the Santa Cruz County's Audit Committee. Additionally, all investments are audited on a regular basis by the County Auditor as well as on a daily basis by an in-house audit process.



County of Santa Cruz

TREASURER-TAX COLLECTOR

701 Ocean Street, Room 150
P.O. Box 1817
Santa Cruz, California 95061
Treasury: (831) 454-2450
FAX: (831) 454-2257

Fred Keeley
Treasurer-Tax Collector

October 13, 2009

Board of Supervisors
County of Santa Cruz
701 Ocean Street
Santa Cruz, CA 95060

Subject: **CERTIFICATION OF LIQUIDITY**

Dear Members of the Board:

This report shows the investment activity for the quarter ending September 30, 2009 of pooled funds on deposit with the Treasurer and that it is in compliance with California Government Code Sections 27000 et seq., 53600 et seq., and the County's Investment Policy of 2009.

Attached are summaries of the Portfolio Structure, Investment Details, Securities Activity by Brokers, and other information to give a better understanding of the investment activity that has occurred through September 30, 2009.

Pursuant to Government Code § 53646(b)(3), I certify that because of the liquidity of the pool and the county's issuance of Teeter Notes and TRAns, the county has the ability to meet the pool's expenditure requirements for the next six months.

Respectfully submitted,

FRED KEELEY
Treasurer

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 - f) Rate of Return
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County of Santa Cruz Investment Pool

Source of Funds

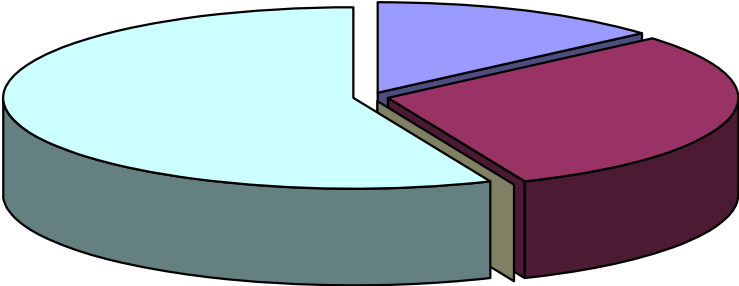
As of September 30, 2009

**County of
Santa Cruz**
56.28%

**Special
Districts**
13.65%

Schools
29.84%

Cities
0.23%



**Santa Cruz County Treasurer's Portfolio
as of September 30, 2009**

ISSUER	BOOK VALUE	YIELD	PAR VALUE	MARKET VALUE (1)	% of PORTFOLIO	% ALLOWED	PURCHASE DATE	MATURITY DATE	CREDIT RATING (2)
U.S. Treasuries									
US Treasury	9,998,833.33	0.31%	10,000,000.00	9,999,900.00	1.88%	100%	04/21/09	10/15/09	AAA
US Treasury	14,997,200.00	0.33%	15,000,000.00	14,999,700.00	2.82%	100%	12/31/08	10/22/09	AAA
US Treasury	15,064,566.74	1.10%	15,000,000.00	15,082,050.00	2.83%	100%	11/19/08	11/15/09	AAA
US Treasury	9,994,166.66	0.26%	10,000,000.00	9,997,500.00	1.88%	100%	07/16/09	12/24/09	AAA
US Treasury	9,983,958.33	0.57%	10,000,000.00	9,997,200.00	1.87%	100%	03/16/09	01/14/10	AAA
US Treasury	10,049,141.94	0.65%	10,000,000.00	10,064,800.00	1.89%	100%	12/10/08	01/31/10	AAA
US Treasury	15,335,448.53	0.51%	15,000,000.00	15,352,800.00	2.88%	100%	12/17/08	02/15/10	AAA
US Treasury	10,161,718.75	0.42%	10,000,000.00	10,169,900.00	1.91%	100%	12/31/08	02/15/10	AAA
US Treasury	10,060,313.21	0.53%	10,000,000.00	10,074,600.00	1.89%	100%	12/12/08	02/28/10	AAA
US Treasury	14,965,787.50	0.52%	15,000,000.00	14,989,950.00	2.81%	100%	04/15/09	03/11/10	AAA
US Treasury	11,962,386.66	0.54%	12,000,000.00	11,986,800.00	2.25%	100%	05/12/09	05/06/10	AAA
US Treasury	9,970,600.00	0.43%	10,000,000.00	9,980,700.00	1.87%	100%	07/09/09	06/10/10	AAA
US Treasury	15,149,998.28	0.57%	15,000,000.00	15,167,550.00	2.84%	100%	12/18/08	10/31/10	AAA
US Treasury	9,982,035.20	1.01%	10,000,000.00	10,041,800.00	1.87%	100%	06/17/09	01/31/11	AAA
US Treasury	9,996,886.03	1.06%	10,000,000.00	10,052,266.03	1.88%	100%	08/13/09	04/30/11	AAA
Total US Treasuries	\$ 177,673,041.16	0.59%	\$ 177,000,000.00	\$ 177,957,516.03	33.35%	100%			
U.S. Government Agencies									
Federal Farm Credit Bank	10,000,230.62	4.28%	10,000,000.00	10,003,100.00	1.88%	25%	10/26/07	10/05/09	AAA
Federal Home Loan Mortgage Corp.	9,997,922.22	0.23%	10,000,000.00	10,000,000.00	1.88%	25%	06/29/09	11/04/09	AAA
Federal Home Loan Bank	14,974,666.67	0.83%	15,000,000.00	14,998,500.00	2.81%	25%	12/29/08	12/16/09	AAA
Federal Home Loan Bank	15,000,000.00	3.01%	15,000,000.00	15,164,100.00	2.82%	25%	02/26/08	02/26/10	AAA
Federal Farm Credit Bank	10,000,000.00	1.05%	10,000,000.00	10,034,400.00	1.88%	25%	03/18/09	03/18/10	AAA
Federal Farm Credit Bank	10,077,828.98	0.86%	10,000,000.00	10,106,300.00	1.89%	25%	01/16/09	04/07/10	AAA
Federal National Mortgage Association	10,966,587.50	0.46%	11,000,000.00	10,984,600.00	2.06%	25%	07/22/09	06/01/10	AAA
Federal Home Loan Bank	9,995,568.35	0.63%	10,000,000.00	10,012,966.67	1.88%	25%	06/25/09	06/22/10	AAA
Federal Farm Credit Bank	11,995,979.56	2.94%	12,000,000.00	12,165,000.00	2.25%	25%	03/19/08	07/01/10	AAA
Federal Farm Credit Bank	10,000,000.00	3.20%	10,000,000.00	10,215,600.00	1.88%	25%	07/15/08	07/15/10	AAA
Federal Home Loan Mortgage Corp.	15,068,175.99	0.81%	15,000,000.00	15,129,300.00	2.83%	25%	05/15/09	08/18/10	AAA
Federal Farm Credit Bank	15,000,000.00	1.25%	15,000,000.00	15,098,400.00	2.82%	25%	03/09/09	09/09/10	AAA
Federal Home Loan Bank	10,222,276.50	2.69%	10,000,000.00	10,453,100.00	1.92%	25%	12/03/08	09/10/10	AAA
Federal Home Loan Bank	9,604,926.92	0.88%	9,550,000.00	9,634,273.44	1.80%	25%	06/10/09	10/14/10	AAA
Federal Home Loan Bank	9,996,122.69	0.78%	10,000,000.00	10,009,400.00	1.88%	25%	07/16/09	01/18/11	AAA
Federal National Mortgage Association	9,998,979.17	2.01%	10,000,000.00	10,050,000.00	1.88%	25%	02/11/09	02/11/11	AAA
Federal Home Loan Mortgage Corp.	10,997,244.76	2.00%	10,000,000.00	10,005,200.00	2.06%	25%	07/13/09	07/13/11	AAA
Federal Farm Credit Bank	10,000,000.00	1.25%	11,000,000.00	11,010,743.33	1.88%	25%	08/03/09	07/13/11	AAA
Total Government Agencies	\$ 203,896,509.93	1.62%	\$ 203,550,000.00	\$ 205,074,983.44	38.28%	100%			

**Santa Cruz County Treasurer's Portfolio
as of September 30, 2009**

ISSUER	BOOK VALUE	YIELD	PAR VALUE	MARKET VALUE (1)	% of PORTFOLIO	% ALLOWED	PURCHASE DATE	MATURITY DATE	CREDIT RATING (2)
Medium Term Notes									
Sun Life Financial	10,001,492.31	3.72%	10,000,000.00	9,869,800.00	1.88%	10%	07/25/05	07/06/10	AA / A
Sun Life Financial	10,001,493.59	3.72%	10,000,000.00	9,869,800.00	1.88%	10%	08/03/05	07/06/10	AA / A
Morgan Stanley	15,038,099.16	2.68%	15,000,000.00	15,379,650.00	2.82%	10%	12/05/08	12/01/10	AAA
Bank of America	15,000,000.00	1.70%	15,000,000.00	15,178,200.00	2.82%	10%	12/23/08	12/23/10	AAA
TIAA Global Markets	10,004,680.00	2.30%	10,000,000.00	9,963,900.00	1.88%	10%	07/12/07	01/12/11	AAA / AA
Citigroup	9,985,598.89	1.34%	10,000,000.00	10,032,100.00	1.87%	10%	06/04/09	06/03/11	AAA
Total Medium Term Notes	\$ 70,031,363.95	2.52%	\$ 70,000,000.00	\$ 70,293,450.00	13.15%	30%			
Bank of the West									
Bank of the West Checking	20,008,114.89	0.70%	20,008,114.89	20,008,114.89	3.76%	-		-	NR
Total Bank of the West	\$ 20,008,114.89	0.70%	\$ 20,008,114.89	\$ 20,008,114.89	3.76%	10%			
Money Market Mutual Funds									
FFI Premier Institutional Fund	1,000,461.84	0.25%	1,000,461.84	1,000,461.84	0.19%	10%		-	NR
Fidelity Institutional Cash	30.10	0.20%	30.10	30.10	0.00%	10%			NR
Bank of the West Money Market	30,000,000.00	0.65%	30,000,000.00	30,000,000.00	5.63%	10%			NR
Total Money Market Mutual Funds	\$ 31,000,491.94	0.64%	\$ 31,000,491.94	\$ 31,000,491.94	5.82%				
Miscellaneous Investments									
LAIF	30,063,706.45	0.90%	30,063,706.45	30,063,706.45	5.64%				NR
Total Miscellaneous Investments	\$ 30,063,706.45	0.90%	\$ 30,063,706.45	\$ 30,063,706.45	5.64%				
GRAND TOTAL	532,673,228.32	1.26%	531,622,313.28	534,398,262.75	100%				

(1) Market Value pricing derived from Union Bank safekeeper (custodial bank).

(2) Split ratings reflected (S&P / Moodys). If only one rating is posted for a security it is from both Moodys and Standard and Poors.

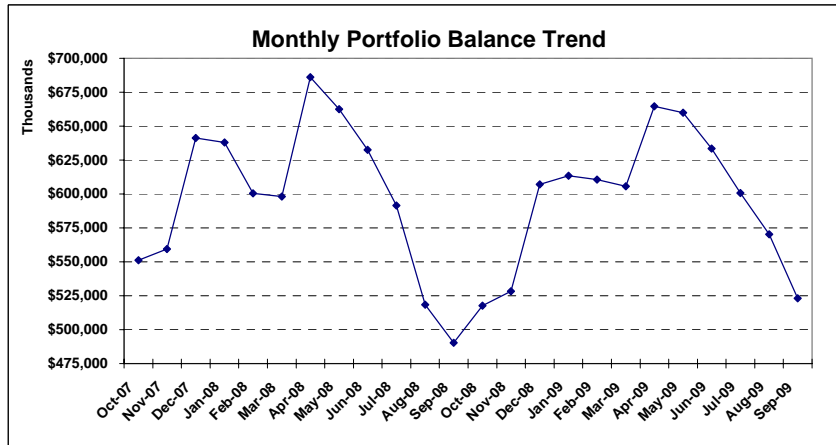
County of Santa Cruz Investment Pool

Portfolio Size and Composition

As of September 30, 2009

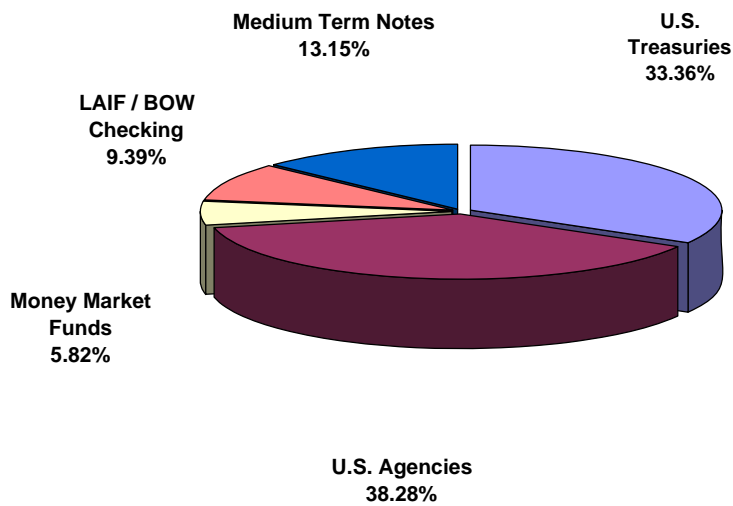
Monthly Balance History

Oct-07	\$ 551,174,385.77
Nov-07	\$ 559,507,896.51
Dec-07	\$ 641,324,248.24
Jan-08	\$ 637,928,239.01
Feb-08	\$ 600,537,052.60
Mar-08	\$ 598,051,318.68
Apr-08	\$ 686,074,112.00
May-08	\$ 662,611,224.83
Jun-08	\$ 632,548,199.67
Jul-08	\$ 591,542,176.82
Aug-08	\$ 518,320,159.51
Sep-08	\$ 490,218,548.48
Oct-08	\$ 517,772,051.21
Nov-08	\$ 528,215,581.75
Dec-08	\$ 607,104,284.14
Jan-09	\$ 613,463,672.37
Feb-09	\$ 610,629,339.78
Mar-09	\$ 605,566,970.49
Apr-09	\$ 664,567,903.25
May-09	\$ 659,930,444.88
Jun-09	\$ 633,424,827.19
Jul-09	\$ 600,620,510.10
Aug-09	\$ 570,261,435.14
Sep-09	\$ 523,130,278.82



	<u>9/30/2009</u>	<u>6/30/2009</u>	<u>9/30/2008</u>	<u>9/30/2007</u>
U.S. Treasuries	33.36%	30.70%	7.53%	0.00%
U.S. Agencies	38.28%	41.64%	42.55%	30.19%
Money Market Fund	5.82%	6.04%	1.89%	6.49%
Commercial Paper	0.00%	0.00%	0.00%	4.49%
Negotiable CD	0.00%	0.00%	22.60%	26.95%
LAIF / BOW / Other	9.39%	11.05%	8.50%	5.82%
Medium Term Note	13.15%	10.58%	16.94%	26.06%
	100%	100%	100%	100%

Portfolio Composition

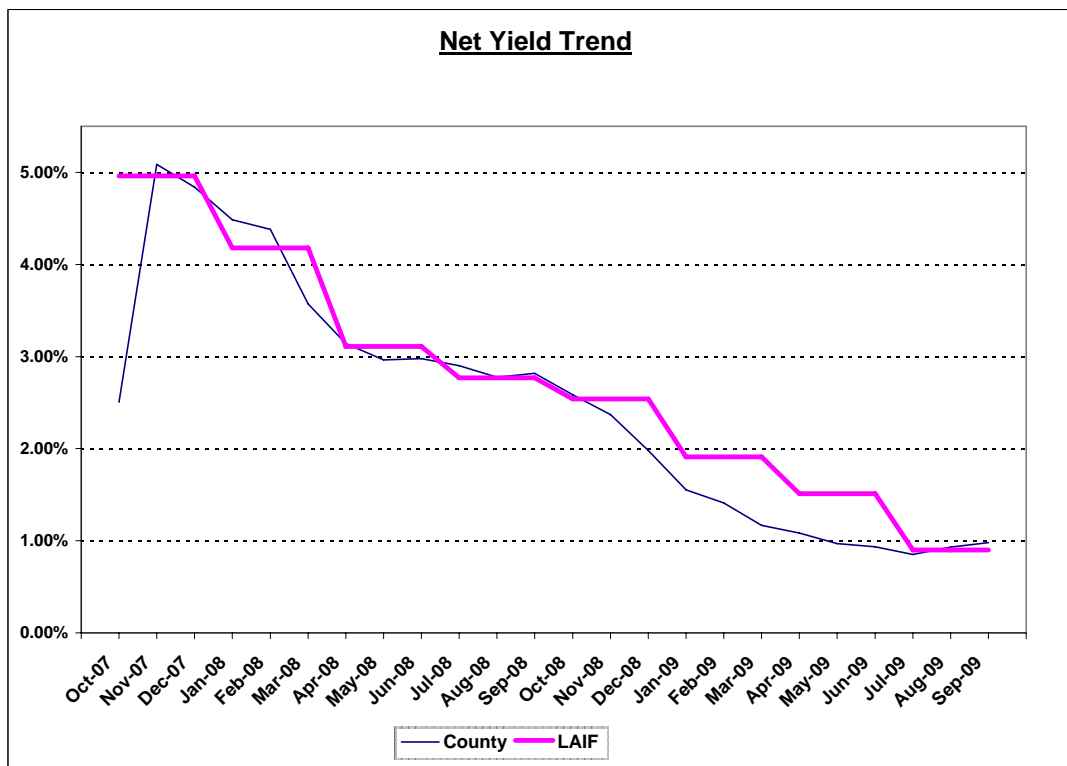


County of Santa Cruz Investment Pool

Portfolio Net Yield

September 30, 2009

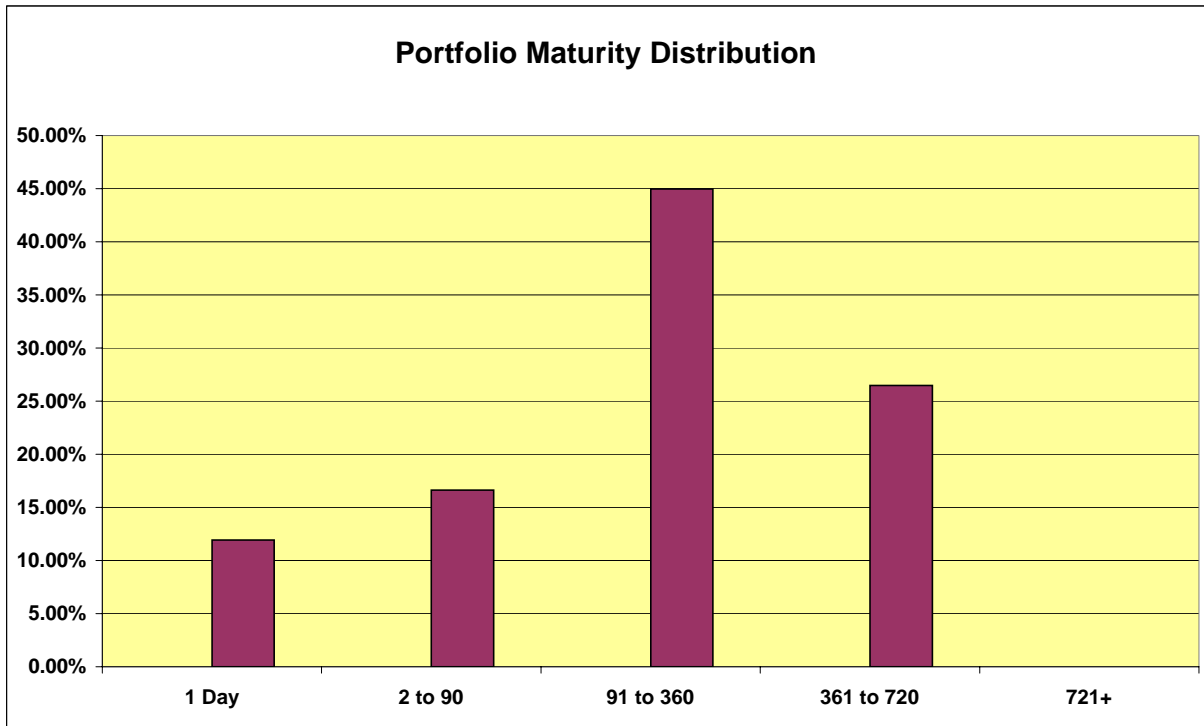
Apportionment Rate			
Month	County	LAIF	Difference
Oct-07	2.504%	4.960%	-2.46%
Nov-07	5.085%	4.960%	0.13%
Dec-07	4.839%	4.960%	-0.12%
Jan-08	4.485%	4.180%	0.31%
Feb-08	4.380%	4.180%	0.20%
Mar-08	3.571%	4.180%	-0.61%
Apr-08	3.141%	3.110%	0.03%
May-08	2.962%	3.110%	-0.15%
Jun-08	2.977%	3.110%	-0.13%
Jul-08	2.901%	2.770%	0.13%
Aug-08	2.777%	2.770%	0.01%
Sep-08	2.818%	2.770%	0.05%
Oct-08	2.586%	2.540%	0.05%
Nov-08	2.368%	2.540%	-0.17%
Dec-08	1.980%	2.540%	-0.56%
Jan-09	1.553%	1.910%	-0.36%
Feb-09	1.409%	1.910%	-0.50%
Mar-09	1.167%	1.910%	-0.74%
Apr-09	1.083%	1.510%	-0.43%
May-09	0.971%	1.510%	-0.54%
Jun-09	0.933%	1.510%	-0.58%
Jul-09	0.850%	0.900%	-0.05%
Aug-09	0.930%	0.900%	0.03%
Sep-09	0.980%	0.900%	0.08%



County of Santa Cruz Investment Pool Maturity Distribution

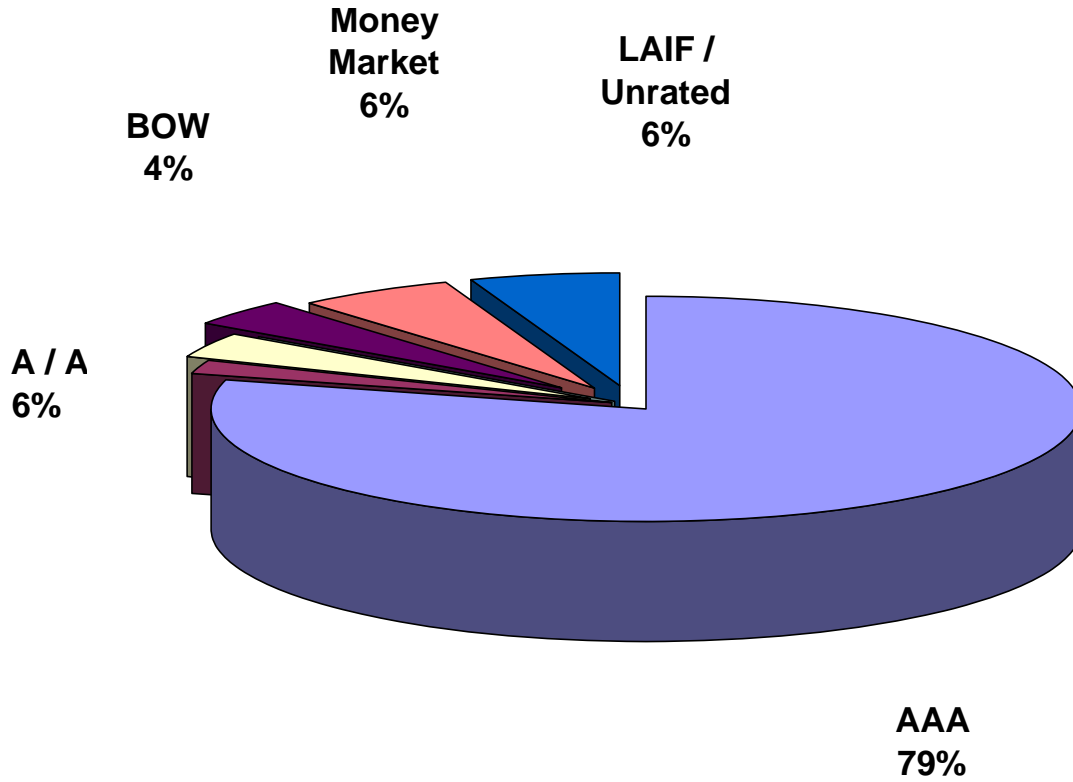
As of September 30, 2009

Maturing In:	9/30/2009	6/30/2009	9/30/2008
1 Day	11.92%	11.34%	11.97%
2 to 90	16.62%	27.32%	34.56%
91 to 360	44.96%	32.72%	18.53%
361 to 720	26.49%	28.60%	31.08%
721+	0.00%	0.00%	3.86%
Total	100%	100%	100%
WAM (days)	236	216	239
Duration	0.59	0.53	0.48



**County of Santa Cruz Investment Pool
Credit Quality Distribution**

As of September 30, 2009



Rating	Market Value (\$ ml)				
	9/30/2009	6/30/2009	9/30/2008	9/30/2007	
AAA	\$ 421	80%	68%	44%	
AA	\$ 10	2%	22%	39%	
A	\$ 20	4%	0%	0%	
A1 / P1	\$ -	0%	0%	4%	
BOW	\$ 20	4%	3%	1%	
Money Market	\$ 31	6%	2%	6%	
LAIF / Unrated	\$ 30	6%	5%	5%	
Total Portfolio Value	\$ 532	100%	100%	100%	

* Percentages add up to greater than 100% due to rounding.

DESCRIPTION OF INVESTMENT INSTRUMENTS

The investment activities of County Treasurers are restricted by state law to a select group of government securities and prime money market instruments. To reduce the risk inherent in any one instrument, state law further limits the percentage of the county's portfolio that can be invested in any one type of security.

The types of securities available to the County Treasurer can be divided into three main categories: 1) U.S. Treasury bills, notes and bonds. They are guaranteed by the U.S. Government and are considered to have no credit risk. They also typically have the lowest yield of the securities available for investing. 2) Securities issued by U.S. Government Agencies and Instrumentalities. These securities consist mostly of notes and debentures of agencies and government sponsored corporations. They are not guaranteed by the U.S. government and therefore have some credit risk. Their yield is typically higher than U.S. Treasury securities. 3) Prime money market securities. These consist of securities such as bankers' acceptances, certificates of deposit, commercial paper and municipal bonds. The yield is typically higher than the other types of securities in which the county invests but the risk is also higher. Through diversification and purchasing only highly rated paper, the credit risk is kept to an acceptable minimum. Each of the securities in these three categories is subject to market risk if sold prior to maturity.

What follows is a brief description of the different securities used by the County Treasurer:

U.S. Treasury Notes and Bonds are long term obligations of the U.S. government, which bear coupons. Interest is payable every six months at a rate of one-half the annual coupon. Treasury bonds and notes trading is conducted by the same securities dealers who trade T bills. In the secondary market, prices are quoted in thirty-seconds of 1 percent. Except for their maturities, notes and bonds are identical regardless of their label. Notes are issued for original maturities of one to 10 years. Bonds are issued with original maturities of more than 10 years.

U.S. Treasury Bills are unusual instruments because they bear no specific interest rate. Rather, they are issued originally at a discount from its ultimate maturity (par) value. Because T Bills are issued and traded at a discount, investors receive their returns at maturity or on subsequent resale, which ordinarily will be at prices higher than the original discount.

Federal Farm Credit Bank (FFCB) Discount Notes. FFCB is an instrumentality of the U.S. Government. The notes are the consolidated obligations of the 37 Farm Credit Banks issued on a discount basis with maturities of one year or less. Although not as risk free as Treasury notes, most experts believe the U.S. government has a moral commitment to the farm credit system.

Federal Farm Credit Bank (FFCB) debentures are consolidated obligations of the 37 Farm Credit Banks issued with a fixed coupon rate with maturities ranging from 6 months to 20 years. A debenture is a bond secured only by the general credit of the issuer.

Federal Home Loan Bank (FHLB) Discount notes are consolidated obligations of 12 District banks issued with a fixed coupon rate with maturities ranging from one to ten years. Although the FHLB operates under federal charter with government supervision, the securities are not guaranteed by the U.S. government. However, the banks are required to maintain a considerable reserve pledged against the outstanding debt. They are therefore considered relatively risk free.

Federal National Mortgage Association (Fannie Mae) Discount notes are consolidations of government chartered private corporations issued on a discount basis with maturities under one year. They are guaranteed by the corporations, but not by the U.S. government. Many investors consider the securities a moral obligation of the U.S. government and believe Congress would intervene before allowing default.

Federal National Mortgage Association (Fannie Mae) debentures are obligations issued by the Association with a fixed coupon rate and various maturities. A debenture is a bond secured only by the general credit of the issuer.

Local Agency Investment Fund (LAIF) is the state sponsored investment fund. LAIF is an excellent cash management tool to help meet most of the unexpected cash demands. Currently the state limits the county's investment in this pool to \$40,000,000.

Federal Home Loan Mortgage Corporation (Freddie Mac) Participation Notes are issues of the Federal Home Loan Mortgage Corporation representing undivided interests in conventional mortgages underwritten and previously purchased by it. The corporation guarantees the timely payment of interest at the certificate rate and full return of principal. Participation Certificates have original final payment dates of 30 years.

Government National Mortgage Association (Ginnie Mae) Pass Through are issues of the wholly owned government corporation within the Department of Housing and Urban Development. Principal and interest payment collected on mortgages in specified pools are passed through to holders of GNMA Guaranteed certificates after deduction of servicing and guaranty fees. GNMA's have original stated maturities of 12 to 40 years. For Santa Cruz County, these are used only as collateral for overnight repurchase agreements.

Municipal Securities (Notes and Bonds) Debt securities issued by state and local governments and their agencies are referred to as municipal securities. Such securities can be divided into two broad categories: bonds issued to finance capital projects and short term notes sold in anticipation of the receipt of other funds, such as taxes or proceeds from a bond issue.

Banker's Acceptances. Briefly stated, the function of the bankers' acceptance is as follows: A borrower may, under certain circumstances, obtain short-term credit by arranging for his bank to accept a time draft upon it. The bank stamps its official accepted across the face of the draft and converts it into a bankers' acceptance. The instrument, now being a bank obligation, may be sold to an acceptance dealer who, in turn, may sell it to an investor. Most BAs arise out of transactions involving the trade of manufactured goods or commodities. Maturities range from one to 180 days.

Commercial Paper is a short-term promissory note issued by a company to finance current transactions. All commercial paper is negotiable, but most commercial paper sold to investors is held to maturity. Commercial paper is issued not only by industrial and manufacturing firms but also by finance companies. Notes are sold on a discount or interest-bearing basis with maturities not exceeding 270 days.

Medium Term Notes are obligations that have maturities of less than 5 years and are issued by corporations or depositories organized and operating in the U.S.

Negotiable Certificate of Deposit (NCD). It is a receipt for deposit of a stated sum in the bank on a given date, together with a promise to redeem this sum plus interest at the indicated rate on a designated date. The instrument is negotiable because it is payable either to bearer or to the order of the depositor.

Repurchase Agreements (RP or Repos). A holder of securities sells securities to an investor with an agreement to repurchase them at a fixed price on a fixed date. Repurchase agreements are usually for short periods of time (one to five days), when large sums are received that will be needed in the next day or two. As a result, they are often called overnight repos. From the point of view of investors, overnight repos offer several attractive features. First, by rolling overnight repos, investors can keep surplus funds invested without losing liquidity or incurring a price risk. Second, because repo transactions are secured by top quality paper, investors expose themselves to little or no risk.

Guaranteed Investment Contract (GIC). This is a fixed income agreement offered by insurance companies. GICs offer to pay a specific interest rate over a period of time. Some GICs are eligible for early redemption, with or without penalty, which eliminates market risk if interest rates rise. In Santa Cruz County it is only used for the investment of secured indebtedness and only if the note documentation permits such an investment.

Money Market (Mutual) Fund. A money market mutual fund is a pooled fund that invests in a number of money market vehicles (CD's, CP, T-Bills, etc.). These funds are designed to pay the investor interest, as well as provide full liquidity. Maturities of the underlying investments are 13 months or less.