

KEN BURKE

CLERK OF THE CIRCUIT COURT — PINELLAS COUNTY, FLORIDA

FINANCE DIVISION

Clerk of the County Court
Recorder of Deeds
Clerk and Accountant of the Board of County Commissioners
Custodian of County Funds
County Auditor
Clerk of the Water and Navigation Control Authority

AMSOUTH BLDG. - 5th FLOOR
400 CLEVELAND STREET
CLEARWATER, FL 33755-4041
Telephone: (727) 464-8300
FAX: (727)464-8359

TO: The Honorable Chairman and Members
of the Board of County Commissioners

THRU: *KAB* Ken Burke
Clerk of the Circuit Court

FROM: Claretha N. Harris *CNH*
Chief Deputy Director, Finance Division

DISTRIB: Susan H. Churuti, County Attorney
Stephen M. Spratt, County Administrator

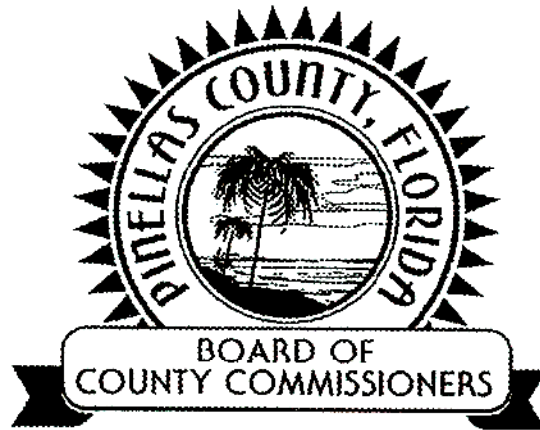
Board Records
Press

SUBJECT: Annual Investment Report for the Fiscal Year Ended September 30, 2005

DATE: December 29, 2005

Attached is the Annual Investment Report for the fiscal year ended September 30, 2005, a more in depth report than the quarterly reports. In this report, not only do we discuss portfolio performance, we provide information to demonstrate compliance with established policy. We discuss key components of the investment policy, including investment objectives, permitted investments, portfolio composition, and allowable maturities. All investment activity was conducted in accordance with established policy.

If you have any questions regarding this report, please contact me at 464-8300.



ANNUAL
INVESTMENT REPORT

For the Fiscal Year Ended
September 30, 2005

Prepared by Ken Burke
Clerk of the Circuit Court
Finance Division

Investment Policy

Section 218.415, Florida Statutes authorizes the governing body of a local government to adopt a written investment plan to govern investment activity. The Board of County Commissioners (Board) adopted Section 2-144 of the Pinellas County Code, Investment of Surplus Public Funds, establishing policies for investing all County surplus funds controlled by the Board. All investment activity is conducted in accordance with Code Section 2-144 and additional written policies and procedures.

In accordance with the above laws and policies, the Clerk is required to submit a report on the performance of the County's investments portfolio quarterly and annually. In this Annual Investment Report, we also show investment objectives and permitted investments, demonstrating compliance with policies.

Portfolio Activity Summary

During the fiscal year, the portfolio's book value increased \$37.3 million from revenues exceeding disbursements. In addition, \$1.6 million in short-term funds was used to invest in long-term Federal Agency securities, against a decrease of the portfolio's weighted average maturity in securities from 2.4 to 1.6 years. This shift has changed the long-term portfolio's weighted average yield to 3.01 % at September 30, 2005 compared to 3.04% at September 30, 2004. Portfolio activity for the fiscal year is shown on page 7 of this report.

Portfolio Performance

Total realized investment income for the fiscal year ended September 30, 2005 and 2004 were \$17.7 million and \$12.6 million, respectively. Investment income for this quarter was \$4.6 million. The increase in investment income was due to increased interest rates over the last year by the FOMC, as discussed later in this report.

The book value of the long-term portfolio (\$317.3 million) on September 30, 2005 was \$1.6 million higher than September 30, 2004. The balance of the portfolio was held in liquid funds (\$269.5 million) to hedge a potential increase in interest rates while protecting future cash flows. The effective annual yield for the long-term portfolio was below its benchmark and the short-term portfolio's effective annual yield was also below its benchmark due to the SBA lagging behind the market in a period of rising interest rates.

<i>Quarter-End Yields Over The Last Year</i>					
<u>Individual Yields</u> (at quarter end)	<u>09/04</u>	<u>12/04</u>	<u>03/05</u>	<u>06/05</u>	<u>09/05</u>
Short Term Portfolio:					
Cash Pools	1.76 %	1.97 %	2.96 %	3.35 %	3.93 %
Public Funds Money Market	2.18	1.94	-	-	-
State Board of Administration	1.72	2.17	2.60	3.02	3.76
Long Term Portfolio:					
Securities (weighted average yield)	3.36	3.56	4.15	4.00	4.48
<u>Effective Yields</u> (3 month average)					
Short Term Portfolio	1.28	1.57	2.36	2.86	3.18
Long Term Portfolio	3.04	2.99	3.01	3.01	3.01
Portfolio Overall	2.38	2.19	2.56	2.91	3.03
<u>Benchmarks</u>					
Short Term Funds:					
3-month US Treasury constant maturity (3-month average)	1.52	2.04	2.58	2.93	3.43
Long Term Funds:					
2-year US Treasury constant maturity (12-month average)	2.14	2.38	2.82	3.12	3.46

Treasury Yields

Historical Treasury yields rose in comparison to last year, with the increases occurring during each of the last four quarters. The increases in yields ranged between 82 basis points (5 Year) and 193 basis points (6 Month), year-over-year. Treasury yields in all categories also rose in comparison to last quarter with increases ranging between 42 and 59 basis points. The historical Treasury yields at quarter-end for the last five quarters are presented below.

<i>Historical U.S. Treasury Yields Over the Last Year</i>					
<u>Maturity</u>	<u>09/04</u>	<u>12/04</u>	<u>03/05</u>	<u>06/05</u>	<u>09/05</u>
3 Month	1.70%	2.21%	2.77%	3.12%	3.54%
6 Month	1.99	2.58	3.12	3.33	3.92
2 Year	2.61	3.07	3.78	3.63	4.16
3 Year	2.85	3.22	3.92	3.64	4.17
5 Year	3.37	3.61	4.17	3.70	4.19

Investment Objectives

The investment policy outlines three specific objectives to be applied in the management of County investments. The primary objective is safety of County funds. Safe investments are those that ensure minimum credit risk (the risk that principal will not be repaid) and minimum market risk (the risk that the principal value will not decrease over the life of the investment).

The second objective is the provision of sufficient liquidity. The funds are invested so that the County can meet its operating, payroll and capital requirements as they come due. Liquidity also means the ability to sell investments when necessary, with minimal delay and loss of principal. The portfolio's investments are held to maturity to avoid selling prior to maturity and risking a loss of principal.

Income or return on investment is the third objective. Return on investment is secondary to the safety and liquidity objectives. We strive to maximize the return on the portfolio, but avoid assuming unreasonable investment risk.

Permitted Investments, Portfolio Composition and Allowable Maturities

Permitted investments include:

The Florida Local Government Surplus Funds Trust Fund (SBA) - The SBA is administered and invested by the State Board of Administration for the purpose of pooling investments for local governments while providing liquidity and safety of principal.

U. S. Treasury Obligations - Negotiable direct obligations, or obligations the principal and interest of which are unconditionally guaranteed by the U. S. Government. Such securities include, but are not limited to, Treasury bills, notes or bonds and Treasury strips.

U. S. Agency Obligations - Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by United States agencies, provided with the full faith and credit of the U. S. Government. Such securities include, but are not limited to, the Farmers Home Administration, the Federal Financing Bank, Federal Housing Administration Debentures and Government National Mortgage Association (GNMA).

Federal Instrumentalities - Bonds, debentures, notes or other evidence of indebtedness issued by government-sponsored corporations established by law to implement various federal government lending programs. These corporations are not full faith and credit agencies. Such securities include, but are not limited to, Federal Farm Credit Bank (FFCB), Federal Home Loan Bank (FHLB), Federal National Mortgage Association (FNMA), Federal Home Loan Mortgage Corporation (Freddie Mac) and Student Loan Marketing Association (Sallie Mae).

Commercial Paper - Commercial paper is an unsecured short-term promissory note issued by a corporation ranging from 3 to 270 days. The policy requires the issuer's debt to be rated, at the time of purchase, A1 by Standard and Poors and P1 by Moody's Investor Services.

Certificates of Deposit - Non-negotiable interest bearing time certificates of deposit in banks organized under the laws of the United States and doing business and situated in Florida, provided any such deposits are secured by the Florida Security for Public Deposits Act, Chapter 280, Florida Statutes.

Money Market Funds - Securities and Exchange Commission registered money market funds with the highest credit quality rating from a nationally recognized rating agency.

Time Deposits - Interest bearing time deposits or savings accounts in qualified public depositories, as defined by Section 280.02, Florida Statutes.

The **composition** of the portfolio is diversified to control the risk of loss resulting from the over concentration of assets in a specific maturity, issuer, instrument, dealer or bank through which investments are bought and sold. Diversification strategies are reviewed and revised periodically as necessary to meet portfolio objectives.

The **maximum allowable maturity** for any investment in the portfolio is five years, however we make every effort to match investment maturities with known cash needs and anticipated cash flow requirements. Funds needed to meet current operating requirements have shorter maturities, generally less than twelve (12) months. Bond construction funds, bond fund reserves and other non-operating funds have terms appropriate to the need for funds and, if applicable, in accordance with debt covenants.

Key Economic Indicators

Federal Funds Rate - The Federal Open Market Committee (FOMC) met on August 9, September 20, November 1 and December 13 voting to raise its target for the Federal Funds Rate by 25 basis points at each meeting, to the present 4.25%.

The statement from the December 13 FOMC meeting indicated "the Committee judges that some further measured policy firming is likely to be needed to keep the risks to the attainment of both sustainable economic growth and price stability roughly in balance. In any event, the Committee will respond to changes in economic prospects as needed to foster these objectives."

Beginning with the June 30th, 2004 FOMC meeting when the target Federal Funds rate was 1.25%, there have been twelve rate increases by the Committee culminating in the last 25 basis point increase at the December 13, 2005 meeting which targeted the Federal Funds interest rate at 4.25%.

Gross Domestic Product (GDP) – Real GDP rose at an annualized seasonally adjusted rate (in chain linked 2000 dollars) of 3.8%; up from 3.3 percent from the second quarter. The increase in GDP was due to increases in personal consumption expenditures, equipment and software expenditures, exports, government spending, and residential fixed investment.

Durable Goods Orders – New orders for manufactured durable goods decreased 0.9% during the third quarter, or \$5.5 billion.

Unemployment Rate – The unemployment rate increased from 5.0% in June 2005 to 5.1% in September 2005. Unemployment in September 2004 was 5.4%. Initial jobless claims increased from 311,000 for the week ending June 24, 2005 to 390,000 for the week ending September 30, although the high for the year was 435,000 for the week ending September 16, 2005.

Personal Income and Outlays - Personal income rose 1.2% for during the third quarter while personal outlays rose 1.4%. According to the U. S. Department of Commerce, Bureau of Economic Analysis, the August and September 2005 estimates for personal income have been adjusted to reflect the impact of Hurricanes Rita and Katrina on the southeastern part of the United States.

New Home Sales - The third quarter estimate for new home sales of 316,000 is a decrease of 10.0% from the second quarter (revised). The seasonally adjusted estimate of new houses for sale at the end of September was 493,000 compared to 456,000 (revised) for the second quarter.

Existing Home Sales - In September, the estimate for seasonally adjusted annual existing home sales was to 7.28 million, down from 7.35 million in June. The total supply of homes available for purchase expressed in months increased from 4.4 at the end of June 2005 to 4.7 at the end of September 2005.

Consumer Confidence - The Conference Board's Consumer Confidence Index declined again in September for the second consecutive month to 87.5. This was a decline of 18.7 points since June 2005. This decline has been attributed to Hurricane Katrina, soaring gasoline prices and a weakening labor market.

Consumer Price Index (CPI) - The CPI for all urban consumers, all items, rose 2.2% in the third calendar quarter, or a compound annual rate of 9.4%. This increase was caused primarily by an increase in the energy index of 20.8% in the third quarter. The food index increased 0.5 % during the third quarter and the index for all other non-food, non-energy groups increased by 0.3%. The CPI for September 2005 was 4.7 percentage points higher than September 2004.

<i>Summary of Key Economic Indicators</i>				
	<i>Quarter Ending</i>			
	<u>12/31/04</u>	<u>03/31/04</u>	<u>06/30/05</u>	<u>09/30/05</u>
Federal Funds Rate (target)	1.75% - 2.25%	2.25%-2.75%	2.75%-3.25%	3.25%-4.0%
Gross Domestic Product (GDP) (annualized) (billions) †	\$ 10,897.1	\$ 10,999.3	\$ 11,089.2	\$ 11,193.2
Durable Goods Orders (millions) †	\$ 587,551	\$ 593,714	\$ 627,688	\$ 622,189
Unemployment Rate	5.5% - 5.4%	5.4%-5.2%	5.2%-5.0%	5.0%-5.1%
Personal Income (annualized) (billions) †	\$ 10,024.8	\$ 10,073.4	10,221.2	10,293.0
Personal Outlays (annualized) (billions) †	\$ 8,725.0	\$ 8,854.6	9,001.2	9,170.2
New Home Sales (units) †	268,000	328,000	351,000	316,000
Existing Home Sales (units) †	1,633,000	1,342,000	2,047,000	2,060,000
Consumer Confidence †	90.5 – 102.7	105.1-103.0	97.5-106.2	103.2-87.5
Consumer Price Index (CPI) (annualized) change †	3.0%	4.3%	1.9%	9.4%

† Values include industry projections commonly subject to revision.

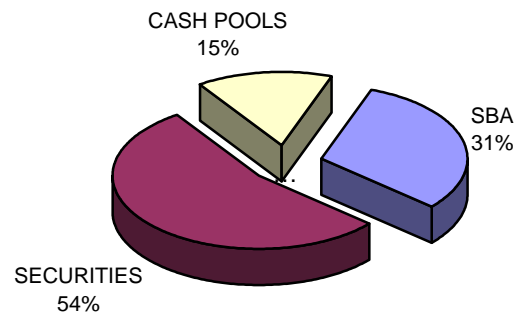
Investment Strategy

Our “buy and hold” investment strategy is based on our current security mix (Agencies, Instrumentalities, Treasuries, etc.), projected cash flows, current and desired weighted average maturity (WAM), and interest rate projections. Economists are projecting short-term interest rates to rise to 4.5% by December 2006. As shown in the Detailed Portfolio Schedule on page 6 we are currently strong in callable Agency securities. Since interest rates are projected to increase through 2006, most of these callable securities have a high probability of being held to maturity (not being called). We have sufficient short-term investments to meet cash flow needs through November 2005; which is when ad valorem tax revenues start arriving. Over the next year, we anticipate maintaining the weighted average maturity of the portfolio in order to take advantage of the anticipated continuing interest rate hikes through the use of mixed-term securities and smaller blocks (\$10M vs. \$20M). This projection of activity could change if the interest rates decline.

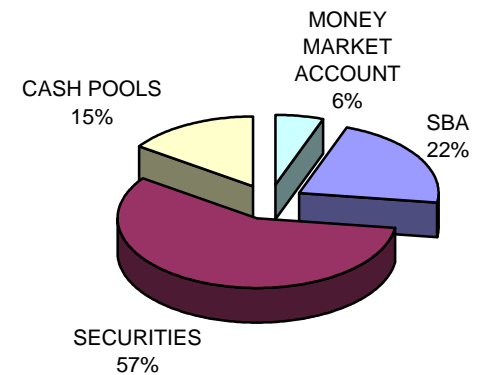
**Pinellas County Board of County Commissioners
Portfolio Summary**

	----- September 30, 2005 -----				----- September 30, 2004 -----	
Investments	Par Value	Market Value	Book Value	% of Portfolio	Book Value	% of Portfolio
Treasury Securities	\$ 10,000,000	\$ 9,855,500	\$ 10,004,548	1.69 %	\$ 10,009,000	1.83
Federal Agency Issues	307,005,000	300,993,788	307,312,126	52.37	305,732,000	55.64
State Board of Administration	125,418,707	125,418,707	125,418,707	21.37	60,144,762	10.95
Public Funds Money Market Account	-	-	-	-	30,643,997	5.58
Cash Pools	88,791,884	88,791,884	88,791,884	15.13	84,329,847	15.35
Unrestricted Cash and Investments	531,215,591	525,059,879	531,527,265	90.56	490,859,606	89.35
State Board of Administration 2003 Sewer Bond Proceeds Account	55,277,948	55,277,948	55,277,948	9.44	58,633,529	10.65
Total Cash and Investments	\$ 586,493,539	\$ 580,337,827	\$ 586,805,213	100.00 %	\$ 549,493,135	100.00

September 30, 2005



September 30, 2004



**Pinellas County Board of County Commissioners
Detailed Portfolio Schedule
September 30, 2005**

<u>Issuer</u>	<u>CUSIP #</u>	<u>Purchase Date</u>	<u>Callable Date</u>	<u>Maturity Date</u>	<u>Market Value</u>	<u>Book Value</u>	<u>Coupon Rate</u>	<u>Yield to Maturity</u>	<u>Days to Maturity</u>
Securities									
<u>Federal Agency Callables</u>									
FNMA	31359MRV7	2-Jun-03	N/A	26-May-06	\$ 19,743,800	\$ 20,009,616	2.250	2.173	238
FHLMC	3128X1QH3	14-Jul-03	14-Jan-06	14-Jul-06	19,645,200	19,995,025	2.000	2.033	287
FHLB	3133X1XS1	13-Nov-03	Continuous	13-Nov-07	17,439,786	17,647,517	3.800	3.822	774
FHLMC	3128X2BS3	26-Nov-03	N/A	24-Nov-06	18,732,798	19,026,572	3.000	2.968	420
FFCB	31331TMMO	17-Dec-03	Continuous	17-Dec-07	19,562,600	20,011,061	3.800	3.773	808
FNMA	3136F4T53	23-Jan-04	19-Jan-06	19-Jan-07	19,693,800	20,041,546	3.160	2.992	476
FFCB	31331TNQO	6-Feb-04	Continuous	24-Dec-07	19,487,600	20,015,277	3.625	3.587	815
FHLMC	3128X2Q24	17-Mar-04	17-Mar-06	17-Sep-07	19,553,600	20,033,411	3.150	3.060	717
FHLMC	3128X2K95	18-Mar-04	18-Mar-06	18-Sep-07	19,497,400	20,051,759	3.000	2.861	718
FHLB	3133X1QT7	19-Mar-04	Continuous	22-Oct-07	19,687,600	20,120,939	3.590	3.275	752
FHLMC	3128X2Q24	19-Mar-04	17-Mar-06	17-Sep-07	2,986,811	3,064,113	3.150	2.989	717
FHLB	3133X55Q7	6-Apr-04	6-Oct-05	6-Jul-07	7,077,193	7,273,766	2.780	2.791	644
FFCB	31331TWHO	24-Mar-04	Continuous	17-Mar-08	19,200,000	20,000,000	3.240	3.240	899
FHLB	3133X4YJ4	30-Mar-04	Continuous	30-Mar-07	19,556,200	20,044,877	2.875	2.718	546
FNMA	3136F5DQ1	30-Mar-04	15-Jun-05	15-Dec-06	19,506,200	20,032,964	2.640	2.498	441
FHLMC	3128X3CH4	30-Apr-04	30-Oct-05	30-Apr-07	19,681,600	20,000,000	3.300	3.300	577
					281,052,188	287,368,443			
<u>Federal Agency Discount Note</u>									
FHLMC	313397NR8	29-Mar-05	N/A	31-Oct-05	19,941,600	19,943,683	N/A	3.373	31
<u>U.S. Treasury Note</u>									
U.S.Treasury	912828BF	15-Aug-03	N/A	15-Aug-06	9,855,500	10,004,548	2.375	2.321	319
Total Securities					310,849,288	317,316,674			
Weighted Average Yield								3.01%	
Weighted Average Maturity (years)									1.55
<u>Liquid</u>									
<u>State Board of Administration</u>									
Pooled Account					125,418,707	125,418,707	3.760	3.760	1
2003 Sewer Bond Proceeds Account					55,277,948	55,277,948	3.760	3.760	1
					180,696,655	180,696,655			
<u>Financial Institutions</u>									
Publid Funds Money Market Account					-	-			
Cash Pools					88,791,884	88,791,884	3.930	3.930	1
					88,791,884	88,791,884			
Total Liquid					269,488,539	269,488,539			
Total Cash and Investments					\$ 580,337,827	\$ 586,805,213			

Pinellas County Board of County Commissioners
Portfolio Activity (1)
October 1, 2004 through September 30, 2005

Issuer	CUSIP #	Purchase Date	Beginning Balance	Purchases and Deposits	Calls, Maturities and Withdrawals	Security Amortizations	Ending Balance
<u>Securities</u>							
<u>Federal Agency Callables</u>							
FNMA	31359MRV7	2-Jun-03	\$ 20,024,000	\$ -	\$ -	\$ (14,384)	\$ 20,009,616
FHLMC	3128X1QH3	14-Jul-03	19,988,000	-	-	7,025	19,995,025
FHLB	3133X1XS1	13-Nov-03	17,644,000	-	-	3,517	17,647,517
FHLMC	3128X2BS3	26-Nov-03	19,032,000	-	-	(5,428)	19,026,572
FFCB	31331TMMO	17-Dec-03	20,016,000	-	-	(4,939)	20,011,061
FHLB	3133X2VA0	24-Dec-03	18,149,000	-	(18,149,000)	-	-
FNMA	3136F4T53	23-Jan-04	20,073,000	-	-	(31,454)	20,041,546
FFCB	31331TNQO	6-Feb-04	20,022,000	-	-	(6,723)	20,015,277
FHLMC	3128X2Q24	17-Mar-04	20,055,519	-	-	(22,108)	20,033,411
FHLMC	3128X2K95	18-Mar-04	20,078,000	-	-	(26,241)	20,051,759
FHLB	3133X1QT7	19-Mar-04	20,180,000	-	-	(59,061)	20,120,939
FHLMC	3128X2Q24	19-Mar-04	3,063,481	-	-	632	3,064,113
FHLB	3133X55Q7	6-Apr-04	7,273,000	-	-	766	7,273,766
FFCB	31331TWHO	24-Mar-04	20,000,000	-	-	-	20,000,000
FHLB	3133X4YJ4	30-Mar-04	20,074,000	-	-	(29,123)	20,044,877
FNMA	3136F5DQ1	30-Mar-04	20,060,000	-	-	(27,036)	20,032,964
FHLMC	3128X3CH4	30-Apr-04	20,000,000	-	-	-	20,000,000
Total Federal Agency Callables			305,732,000	-	(18,149,000)	(214,557)	287,368,443
<u>Federal Agency Discount Note</u>							
FHLMC	313397NR8	29-Mar-05	-	19,607,600	-	336,083	19,943,683
<u>U.S. Treasury Note</u>							
U.S.Treasury	912828BF	15-Aug-03	10,009,000	-	-	(4,452)	10,004,548
Total Securities			315,741,000	19,607,600	(18,149,000)	117,074	317,316,674
<u>Liquid</u>							
<u>State Board of Administration (SBA)</u>							
Pooled Account			60,144,762	405,275,235	(340,001,290)	-	125,418,707
2003 Sewer Bond Proceeds Account			58,633,529	1,546,375	(4,901,956)	-	55,277,948
<u>Financial Institutions</u>							
Public Funds Money Market Account			84,329,847	2,750,534,021	(2,746,071,984)	-	88,791,884
Cash Pools			30,643,997	123,660	(30,767,657)	-	-
Total Liquid Funds			233,752,135	3,157,479,291	(3,121,742,887)	-	269,488,539
Total Cash and Investments			\$ 549,493,135	\$ 3,177,086,891	\$ (3,139,891,887)	\$ 117,074	\$ 586,805,213

(1) At book value