

TO: James L. App, City Manager
FROM: Mike Compton, Director of Administrative Services and City Treasurer
SUBJECT: Investment Policy – Annual Review
DATE: November 15, 2005

Needs: For the City Council to undertake its annual review of the City's Investment Policy.

Facts:

1. The City Council has an approved investment policy to guide the investment of surplus City funds.
2. Legislation that became effective 1/1/96 added Section 53646 to the Government Code which requires that the treasurer or chief fiscal officer annually render to the legislative body of the local agency a statement of investment policy which the legislative body shall consider at a public meeting.
3. The City's Investment Policy review committee including Mayor Frank Mechem and Councilman Gary Nemeth (sitting in for Mayor Pro Tem Jim Heggarty) met Friday, November 4, 2005 to review the investment policy and investment portfolio.
4. The balance of the committee is made up of:

| | |
|-------------------------------|--------------------------|
| Any Jeremi | Union Bank of California |
| Ed Murphy for Margaret Torres | Heritage Oaks Bank |
| Sally Coons | Mission Community Bank |
| Greg Kudlick | American Express |
5. Staff recommended two changes to the investment policy that were supported by the Committee.

Analysis
and
Conclusion:

Staff recommended the following changes to the investment policy:

1. That the allowable percentage of total portfolio that may be invested in corporate notes be increased from 10% to 20%; and
2. That the allowable percentage of total portfolio that may be invested in agency securities be increased from 40% to 60% with the limit that only 30% (half of the 60%) may be invested in agency notes and only 30% (the other half) may be invested in agency mortgage backed notes.

The purpose of the proposed changes is to allow greater flexibility in the mix of portfolio investments which may provide a higher yield overall without any significant additional investment risk nor loss of liquidity.

Currently, the City holds approximately \$25 million in the Local Agency Investment Fund administered by the State Treasurer's Office. The Fund provides great liquidity. Moneys may be deposited on Friday and withdrawn the following Monday or may be deposited overnight.

The downside to the positive liquidity is that the yield on the Fund lags the "market" by three to four months. Thus, in a rising interest rate environment, the yields will not reflect current market rates. For example, the apportionment rate (the rate used to distribute interest income to participating public agencies) for the quarter ending September 30, 2005 was 3.18%. The average yield rate for the month of September was 3.32%. During September, three time certificates of deposits were placed with yields ranging from 4.31% (two years) to 4.65% (three years). Staff received numerous quotes for both corporate notes and agency securities in the 4.5% range.

The committee supports the proposed changes in the investment policy.

The Committee voiced its annual concern about having an elected treasurer. Given the size of the City's investment portfolio, the complexity of today's investment environment and the City's cash flow demands, the Committee is concerned about the havoc that potentially could be wrecked if an unqualified treasurer was elected. The only solace that could be given was that the Council, by ordinance, could restrict/limit the responsibilities of any elected treasurer. Additionally, my term as elected treasurer runs through 2008. Whether or not I'm employed in my full time position at that time doesn't mean that I couldn't continue as elected treasurer.

While unrelated to investment policy, it should be noted that I have been formally designated by the California Municipal Treasurer's Association (CMTA) as a "certified" treasurer. To become certified, a treasurer must meet certain qualifications such as formal school education, minimum hours of training/education at CMTA sponsored courses, years of experience, portfolio size and attendance at annual CMTA and CSMFO seminars.

Fiscal
Impact:

Slightly higher investment yields on invested funds.

Options:

That the Council:

- a. Approve the attached revised Investment Policy providing that 20% of the City's total portfolio may be invested in corporate notes and that U.S. government agency notes may represent 30% of the total portfolio and U.S. government agency mortgage backed issues may represent a separate 30% of the total portfolio; or

b . Amend, modify, or reject the above option.

CITY OF EL PASO DE ROBLES INVESTMENT POLICY

I. PURPOSE

The City has a fiduciary responsibility to maximize the productive use of its assets entrusted to its care and to manage those public funds wisely and prudently.

The purpose of this policy is to provide broad guidelines and direction to the officer(s) of the City charged with the responsibility for the investment of the City's temporary idle funds under the prudent man rule (Civil Code Section 2261, et seq).

II. OBJECTIVE

The Objective of the City's investment program shall be to maintain a level of investment of all temporary idle funds as near as 100% as possible with due consideration given to safety, liquidity, cash flow requirements and yield.

III. INVESTMENT GUIDELINES

All City funds not required for immediate expenditure shall be fully invested or deposited to maximize investment returns. To maximize returns, the economy and market conditions should be monitored in order to assess the probable course of interest rates. The City shall utilize those eligible investments instruments as set forth in Government Code Sections 53601 and 53635 while following these guidelines:

1. All investments of the City shall have the City of Paso Robles as the registered owner or shall be kept in the custody of the City or the trust/custodial department of its designated third party, safekeeping institution. If securities are kept by a safekeeping institution, the City shall have access to buy and sell such securities independently of any broker.

While in safekeeping, the City shall have on file from its designated safekeeping institution, an executed contract for said safekeeping services which specifically requires the City's securities to be held separately from all other securities and funds on deposit with the trust/custodial department. The trust/custodial department shall be required to send the City a monthly statement of what is being kept including an estimate of the current market valuation.

2. Investments shall be diversified among institutions, types of instruments, and maturities in order to maximize safety and yield with market conditions; except that no investment shall be purchased with a final stated maturity of more than five (5) years from

the purchase date except as provided for in Section V-5. Long-term maturities shall not represent a significant percentage of the total portfolio and shall be specifically limited as per Section 3 under Allowable Investment Instruments. Security investments currently held by the City that met investment policy restrictions at the time of purchase shall be deemed in compliance.

3. Certificates of deposit in local financial institutions shall be encouraged; provided that the criteria for safety, and liquidity are equal to or greater than that of non-local financial institutions and the interest rate earned is within one quarter of one percent (0.25%) of the rate that may be earned from any other financial institution outside of Paso Robles.

4. Investments shall not knowingly be made in any financial institution that practices or supports directly or indirectly through its actions discrimination on the basis of race, religion, color, creed, natural or ethnic origin, age or sex or physical ability.

5. Investments shall be made only in securities for which market value information is generally available.

6. The City Treasurer shall report monthly to the City Manager and City Council the type of investment, financial institution, date of maturity, amount of investment, and rate of interest for all investments.

7. The City Treasurer shall report quarterly, in addition to the information required in Section 6 above, whether or not any funds, investments or programs are managed under contract by outside parties. If such contracts exist, a description of the investments shall be included along with the market values of the funds, investments or programs under contract by said parties.

8. The City Treasurer shall also include in the quarterly report a statement as to whether or not the City can meet its cash flow requirements during the next six (6) months.

9. Pursuant to Government Code, Section 53647, the Director of Administrative Services shall allocate interest earned to all appropriate funds. No fund with an ending monthly cash balance of less than \$10,000.00 will receive interest unless required otherwise by law. All interest not otherwise allocated shall remain in the General Fund.

10. Competitive bids/quotations are to be obtained and documented on all investments when practical.

11. A close working relationship should be maintained with well-established brokers/dealers and bankers whose proven technical knowledge and expertise is of assistance in making investment decisions.

12. Selling securities prior to maturity is only acceptable when the sale clearly enhances the yield (value). If traded at a loss, the trade must enhance yield on a total return basis.

13. The current value of all investments shall be reported annually according to Governmental Accounting Standards Board, GASB No. 31.

14. Whenever practical, cash should be consolidated and invested on a pooled concept basis. Interest earnings shall be allocated monthly pursuant to paragraph 9 of this section.

15. The City Treasurer shall annually submit the Investment Policy to the City Council for review and re-confirmation at a public meeting.

16. The City will review annually its investment portfolio. Said review will be conducted by an ad hoc committee comprised of the two local bank officials (one official being from the City's current banking institution), an official from the City's custodial services institution, a local investment broker and two ad hoc appointees from the City Council. The ad hoc committee will report its findings to the City Council.

IV. Investment Criteria

1. **Safety** - Investment Safety refers to attempts to reduce the potential for loss of principal and/or interest. The first level of loss control is found in state law that restricts the particular type of investment permissible for public agencies. The second level of loss control is reducing risk by investing in instruments that appear to be the most credit worthy. The third level of loss control is by investing in instruments that have maturities coinciding with cash needs thereby eliminating loss from forced sale. Safety is the primary duty and responsibility of the City Treasurer.

2. **Liquidity** - Liquidity refers to the ability to sell or otherwise make immediately accessible without risk of losing some portion of principal or interest on the investment. Most investment instruments available to public agencies are highly liquid with the exception of Time Certificates issued by banks and savings and loan institutions that have fixed maturities.

3. **Yield** - Yield is the potential dollar earnings an investment can provide, sometimes described as the rate of return. Attempts should be made to obtain the highest yield possible by the City provided the criteria for safety and liquidity are met.

V. Allowable Investment Instruments

1. Time Certificates of Deposit - TCD's shall be made only with banks and savings and loan institutions that are insured by the FDIC. Waiver of collateralization is permissible only on the first \$100,000.00. For collateralized TCDs, banks shall be required to certify semi-annually that the TCDs are fully collateralized in accordance with State law.

The bank or savings and loan institution must be located in California. Purchases of negotiable certificates of deposit shall not exceed 30% of the City's invested funds. The City Treasurer may require additional selection criteria as deemed appropriate.

2. Local Agency Investment Fund (LAIF) - Managed by the Treasurer of the State of California Treasurer's Office, investments are permitted up to the regulatory maximum for each account established by the City and its relating entities. Transactions shall be in accordance with established criteria as set forth by the State Treasurer's Office.

3. Banker's Acceptances - Banker's Acceptance (BA's) are bills of exchange or time drafts which are drawn on and accepted by a commercial bank and are eligible for purchase by the Federal Reserve System. By its acceptance, the bank becomes primarily liable for the payment of the draft at its maturity. This bank liability makes the banker acceptance a readily marketable investment. The restrictions on use of banker's acceptances are as follows:

- (a) The City will only invest through the 15 largest banks in the United States;
- (b) Purchases of BA's may not exceed 180 days maturity;
- (c) Purchases of BA's may not exceed 40% of the City's surplus fund; and
- (d) Nor more than 30% of the City's surplus funds may be invested in BA's of any one commercial bank.

4. Treasury Bills and Notes - Those items having the full faith and credit of the federal government pledged for the payment of principal and interest and having maximum maturities of five years or less.

5. Federally Sponsored Credit Agency Securities - The City may invest in the debt securities of the following U.S. government sponsored corporate agencies. The amount invested may not exceed 30% for Agency notes and 30% for mortgage backed agencies representing 60% in the aggregate 40% of the total portfolio of which 15% may be invested in agencies with maturities between five and seven years. Otherwise maturities may not exceed five years.

- (a) Government National Mortgage Association
- (b) Federal National Mortgage Association
- (c) Federal Home Loan Mortgage Association
- (d) Federal Home Loan Bank

6. Repurchase Agreements - Repurchase agreements (Repos) represent agreements to sell idle funds for U.S. government securities that will be repurchased at a future date for a specific price. Investments in repos shall not exceed 90 days. Physical delivery of the securities backing the repos or a safekeeping documentation to a qualified safekeeping institution is required.

7. Commercial Paper - Commercial paper is essentially an unsecured promissory note of a corporation or financial institution with a fixed maturity date. Maturities vary from 1 to 270 days. The restrictions on use of commercial paper are as follows:

- (a) Maturity shall not exceed 180 days.
- (b) Amount invested at any given time shall not exceed 10% of the investment portfolio.
- (c) Only commercial paper from companies with a rating of A1/P1 shall be purchased.

8. Corporate Bonds - Unsecured promissory note of a corporation or financial institution with a fixed maturity date that is much longer than commercial paper (generally measured in years). Restrictions on use of corporate bonds are as follows:

- (a) Maturity shall not exceed 5 years.
- (b) Amount invested at any given time may not exceed ~~20%~~ 10% of the investment portfolio.
- (c) Only corporate bonds from companies with an A+ rating better shall be purchased.
- (d) Not more than \$1 million may be purchased from any single corporate entity.

VI. Investment Restrictions

Idle funds of the City may not be invested in the following instruments:

- 1. Reverse repurchase agreements
- 2. Financial futures and options
- 3. Zero coupon bonds
- 4. Small Business Administration notes
- 5. Or any other investment instrument specifically restricted by State Code and/or regulation.

Date of Last Review:

| | |
|-----------|----------|
| Committee | 11/4/05 |
| Council | 11/15/05 |



CITY OF EL PASO DE ROBLES

To: City Council
 Cc: Executive Managers
 From: Mike Compton, City Treasurer
 Subject: Treasurer's Report - Month Ending September 30, 2005

This report presents the City's investment portfolio as of September 30, 2005. It includes all investments managed by the City except funds held by trustees. Funds held by trustees include bond reserve funds and deferred compensation plans. The investment portfolio is in compliance with all State laws and the City Investment Policy as approved and reviewed annually by the City Council, except as otherwise noted herein. On 12/28/04, a \$498,400 GE Capital corporate note was purchased. The City's Investment policy restricts investments in a single corporate issuer to \$1,000,000. With this investment, the total amount of GE notes held totals nearly \$1.5 million. Rather than sell at a loss, the corporate note will be held till maturity given its favorable yield. I hereby certify that the City's investment portfolio provides sufficient liquidity to meet the City's cash flow requirements for the next six months.

Michael J. Compton, City Treasurer

Investment Amount By Type - Cost v. Market

| | Amount at Cost | Market Value | % of Total (Cost Basis) | Weighted Average Yield | Weighted Ave. Maturity |
|------------------------------|----------------------|----------------------|----------------------------|---------------------------|---------------------------|
| Local Agency Investment Fund | \$ 25,750,000 | \$ 25,750,000 | 40.67% | 3.32% | 1 |
| Bank Certificates of Deposit | 7,425,000 | 7,425,000 | 11.73% | 3.45% | 462 |
| Corporate Bonds | 11,448,423 | 11,304,303 | 18.08% | 3.75% | 734 |
| Federal Agency Securities | 18,688,324 | 18,280,996 | 29.52% | 3.44% | 974 |
| TOTAL INVESTMENTS | \$ 63,311,747 | \$ 62,760,299 | 100.00% | 3.45% | 475 |

Investment Maturities By Investment Type
 (Based on Final Maturity Date & Stated on Cost Basis)

| | < 30 Days | 30 Days to 1 Year | 1 Year to 2 Years | 2 Years to 5 Years | 5 Years to 7 Years |
|------------------------------|----------------------|----------------------|----------------------|-----------------------|-----------------------|
| Local Agency Investment Fund | \$ 25,750,000 | \$ - | \$ - | \$ - | \$ - |
| Bank Certificates of Deposit | - | 2,578,000 | 4,351,000 | 496,000 | - |
| Corporate Bonds | - | - | 6,989,221 | 4,459,202 | - |
| Federal Agency Securities | - | 2,199,921 | 4,161,812 | 11,972,580 | 354,011 |
| | \$ 25,750,000 | \$ 4,777,921 | \$ 15,502,033 | \$ 16,927,782 | \$ 354,011 |
| TOTAL INVESTMENTS | \$ 63,311,747 | | | | |

City of Paso Robles
Schedule of Investments
September 30, 2005

| Type/ Issuer | Account/ CUSIP# | Institution | Current Quantity at Cost | Current Market * Value | Coupon | Yield ** | Purchase Date | Maturity Date | Total # Days Invested | Total # Days Remaining | Next Call Date |
|------------------------------|--------------------|-------------|--------------------------------|------------------------------|--------|----------|------------------|------------------|-----------------------------|------------------------------|-------------------|
| L.A.I.F. | 40271 | St. of Cal | 25,750,000 | 25,750,000 | 3.324 | 3.324 | n/a | Demand | n/a | 1 | n/a |
| Gold Country Bank | 3600815 | Bank | 99,000 | 99,000 | 3.750 | 3.750 | 11/22/02 | 11/22/05 | 1,095 | 52 | n/a |
| Sterling Bank and Trust | 279370 | Bank | 99,000 | 99,000 | 2.720 | 2.720 | 07/02/04 | 12/31/05 | 547 | 91 | n/a |
| Western State Bank | 10997793 | Bank | 99,000 | 99,000 | 2.370 | 2.370 | 01/26/04 | 01/26/06 | 1,095 | 117 | n/a |
| First Coastal Bank | 6331 | Bank | 99,000 | 99,000 | 2.250 | 2.250 | 01/27/03 | 01/27/06 | 1,096 | 118 | n/a |
| Network Bank USA | 527207 | Bank | 99,000 | 99,000 | 2.980 | 2.980 | 07/27/04 | 01/27/06 | 547 | 118 | n/a |
| Tamalpais Bank | 130574100 | Bank | 99,000 | 99,000 | 2.100 | 2.100 | 02/06/04 | 02/06/06 | 731 | 128 | n/a |
| First United Bank | 8033 | Bank | 99,000 | 99,000 | 2.860 | 2.860 | 10/03/03 | 03/03/06 | 821 | 153 | n/a |
| Placer Sierra Bank | 95001232 | Bank | 99,000 | 99,000 | 3.650 | 3.650 | 03/10/05 | 03/10/06 | 365 | 160 | n/a |
| Cathay Bank | 20-1003203 | Bank | 100,000 | 100,000 | 3.400 | 3.400 | 03/10/05 | 03/10/06 | 365 | 160 | n/a |
| United Commercial Bank | 75911 | Bank | 100,000 | 100,000 | 2.680 | 2.680 | 08/31/04 | 04/02/06 | 546 | 183 | n/a |
| Six Rivers Bank | 4400004786 | Bank | 99,000 | 99,000 | 3.100 | 3.100 | 04/09/03 | 04/10/06 | 1,096 | 191 | n/a |
| Five Star Bank | 1002013 | Bank | 100,000 | 100,000 | 2.550 | 2.550 | 09/18/03 | 04/18/06 | 943 | 199 | n/a |
| Rancho Bernardo Community Bk | 1802223 | Bank | 99,000 | 99,000 | 3.550 | 3.550 | 05/04/05 | 05/04/06 | 365 | 215 | n/a |
| Metropolitan Bank | 8892 | Bank | 99,000 | 99,000 | 3.000 | 3.000 | 05/27/04 | 05/29/06 | 733 | 240 | n/a |
| Legacy Bank | 44 | Bank | 99,000 | 99,000 | 3.050 | 3.050 | 06/16/04 | 06/16/06 | 731 | 258 | n/a |
| Commercial Bank of CA | 150263 | Bank | 99,000 | 99,000 | 4.000 | 4.000 | 06/22/05 | 06/22/06 | 365 | 264 | n/a |
| First Bank of Beverly Hills | 42483 | Bank | 99,000 | 99,000 | 3.100 | 3.100 | 07/09/04 | 07/10/06 | 731 | 282 | n/a |
| National Bank of California | 41115 | Bank | 99,000 | 99,000 | 3.950 | 3.950 | 07/14/05 | 07/14/06 | 365 | 286 | n/a |
| Quaker City Bank | 1120140701 | Bank | 99,000 | 99,000 | 2.770 | 2.770 | 08/07/03 | 08/07/06 | 1,096 | 310 | n/a |
| First Credit Bank | 71993 | Bank | 99,000 | 99,000 | 3.100 | 3.100 | 08/10/04 | 08/10/06 | 732 | 313 | n/a |
| United Security Bank | 1310662 | Bank | 100,000 | 100,000 | 2.900 | 2.900 | 08/30/04 | 08/30/06 | 731 | 333 | n/a |
| Independence Bank | | Bank | 99,000 | 99,000 | 4.300 | 4.300 | 08/30/05 | 08/30/06 | 365 | 333 | n/a |
| Downey Savings & Loan | 9904902195 | Bank | 99,000 | 99,000 | 2.960 | 2.960 | 08/31/04 | 08/31/06 | 731 | 334 | n/a |
| 1st Pacific Bank | 10805 | Bank | 99,000 | 99,000 | 3.300 | 3.300 | 09/09/04 | 09/09/06 | 731 | 343 | n/a |
| Gateway Bank | 120193203 | Bank | 99,000 | 99,000 | 2.960 | 2.960 | 09/16/03 | 09/16/06 | 1,097 | 350 | n/a |
| Cedars Bank | 2000011618 | Bank | 99,000 | 99,000 | 3.000 | 3.000 | 09/27/04 | 09/27/06 | 731 | 361 | n/a |
| Pacific Trust Bank | 3020003702 | Bank | 99,000 | 99,000 | 2.800 | 2.800 | 10/30/05 | 10/30/06 | 1,096 | 394 | n/a |
| National American Bank | 223117047 | Bank | 99,000 | 99,000 | 3.000 | 3.000 | 11/05/04 | 11/06/06 | 731 | 401 | n/a |
| South Bay Bank | 100300040 | Bank | 99,000 | 99,000 | 3.000 | 3.000 | 11/05/04 | 11/06/06 | 731 | 401 | n/a |
| First Bank | 46166-120 | Bank | 99,000 | 99,000 | 3.000 | 3.000 | 11/15/04 | 11/15/06 | 731 | 411 | n/a |
| Summit National Bank | 212460 | Bank | 99,000 | 99,000 | 3.200 | 3.200 | 11/15/04 | 11/15/06 | 731 | 411 | n/a |
| Five Star Natomas Bank | 396 | Bank | 99,000 | 99,000 | 3.290 | 3.290 | 05/18/04 | 11/18/06 | 912 | 413 | n/a |
| Business First National Bank | 90201 | Bank | 99,000 | 99,000 | 3.250 | 3.250 | 11/30/04 | 11/30/06 | 730 | 425 | n/a |
| U.S. Bank | 59524 | Bank | 99,000 | 99,000 | 3.200 | 3.200 | 08/11/04 | 12/11/06 | 852 | 436 | n/a |
| Community Commerce | 57001012 | Bank | 99,000 | 99,000 | 3.500 | 3.500 | 12/21/04 | 12/20/06 | 730 | 445 | n/a |
| First Republic Bank | 80705 | Bank | 99,000 | 99,000 | 3.400 | 3.400 | 06/21/04 | 12/21/06 | 1,096 | 446 | n/a |
| Comerica Bank of California | 6322 | Bank | 99,000 | 99,000 | 3.520 | 3.520 | 07/14/04 | 01/14/07 | 730 | 470 | n/a |
| Merchants Bank of Ca | 9104054 | Bank | 99,000 | 99,000 | 3.000 | 3.000 | 01/15/04 | 01/15/07 | 1,095 | 471 | n/a |
| Mission National Bank | 186585450 | Bank | 99,000 | 99,000 | 3.550 | 3.550 | 07/14/04 | 01/15/07 | 731 | 472 | n/a |
| County Bank | 6270000688 | Bank | 99,000 | 99,000 | 3.250 | 3.250 | 08/12/04 | 02/12/07 | 914 | 499 | n/a |
| Pacific Liberty Bank | 1411339 | Bank | 100,000 | 100,000 | 3.660 | 3.660 | 02/16/05 | 02/16/07 | 730 | 499 | n/a |
| Lake Community Bank | 190049270 | Bank | 100,000 | 100,000 | 2.810 | 2.810 | 02/25/04 | 02/25/07 | 1,097 | 512 | n/a |
| First Federal of Ca | 10638039 | Bank | 99,000 | 99,000 | 2.800 | 2.800 | 02/25/04 | 02/26/07 | 1,097 | 513 | n/a |
| Neighborhood National Bank | 160038477 | Bank | 99,000 | 99,000 | 2.850 | 2.850 | 02/25/04 | 02/26/07 | 1,097 | 513 | n/a |
| One United Bank | 1002175784 | Bank | 100,000 | 100,000 | 3.000 | 3.000 | 02/25/04 | 02/26/07 | 1,097 | 513 | n/a |
| Valley Independent Bank | 41143543 | Bank | 99,000 | 99,000 | 2.950 | 2.950 | 02/29/04 | 03/01/07 | 784 | 516 | n/a |
| Premierwest Bank | 664000585 | Bank | 99,000 | 99,000 | 3.700 | 3.700 | 03/10/05 | 03/10/07 | 732 | 527 | n/a |
| Auburn Community Bank | 20411872 | Bank | 99,000 | 99,000 | 3.000 | 3.000 | 03/12/04 | 03/12/07 | 1,094 | 558 | n/a |
| Wilshire State Bank | 001-911758 | Bank | 99,000 | 99,000 | 3.750 | 3.750 | 03/10/05 | 03/12/07 | 732 | 529 | n/a |
| Summit State Bank | 860 | Bank | 99,000 | 99,000 | 2.960 | 2.960 | 03/22/04 | 03/22/07 | 1,094 | 568 | n/a |
| Pacific Commerce Bank | 290008950 | Bank | 99,000 | 99,000 | 3.725 | 3.725 | 03/23/05 | 03/23/07 | 730 | 538 | n/a |
| American Premier Bank | 1702661 | Bank | 99,000 | 99,000 | 3.660 | 3.660 | 03/23/05 | 03/23/07 | 730 | 538 | n/a |
| First FS & LA of San Rafael | 81-492985 | Bank | 99,000 | 99,000 | 3.000 | 3.000 | 03/25/04 | 03/26/07 | 1,097 | 572 | n/a |
| Redding Bank of Commerce | 634780388 | Bank | 99,000 | 99,000 | 4.050 | 4.050 | 03/31/05 | 04/02/07 | 732 | 548 | n/a |
| Circle Bank | 20022459 | Bank | 99,000 | 99,000 | 4.000 | 4.000 | 04/08/05 | 04/09/07 | 732 | 556 | n/a |
| First Bank of SLO | 281121870 | Bank | 99,000 | 99,000 | 4.000 | 4.000 | 04/13/05 | 04/13/07 | 730 | 559 | n/a |
| Golden State Business Bank | 1005578 | Bank | 99,000 | 99,000 | 4.000 | 4.000 | 05/04/05 | 05/04/07 | 730 | 580 | n/a |
| Ramona National Bank | 106003957 | Bank | 99,000 | 99,000 | 3.930 | 3.930 | 05/04/05 | 05/04/07 | 730 | 580 | n/a |

**City of Paso Robles
Schedule of Investments
September 30, 2005**

| Type/ Issuer | Account/ CUSIP# | Institution | Current Quantity at Cost | Current Market * Value | Coupon | Yield ** | Purchase Date | Maturity Date | Total # Days Invested | Total # Days Remaining | Next Call Date |
|----------------------------------|--------------------|-------------|--------------------------------|------------------------------|--------|----------|------------------|------------------|-----------------------------|------------------------------|-------------------|
| Sterling Bank and Trust | 49-70-901880 | Bank | 99,000 | 99,000 | 3.950 | 3.950 | 05/05/05 | 05/05/07 | 730 | 581 | n/a |
| Broadway Federal Bank | 558 | Bank | 99,000 | 99,000 | 2.950 | 2.950 | 04/19/04 | 05/21/07 | 1,127 | 628 | n/a |
| America California Bank | 280113920 | Bank | 99,000 | 99,000 | 4.250 | 4.250 | 06/22/05 | 05/22/07 | 730 | 629 | n/a |
| Beal Bank | 8056 | Bank | 99,000 | 99,000 | 3.840 | 3.840 | 06/21/04 | 06/21/07 | 1,097 | 659 | n/a |
| State Farm Bank | 1005637943 | Bank | 100,000 | 100,000 | 4.070 | 4.070 | 07/03/05 | 07/03/07 | 730 | 640 | n/a |
| Santa Barbara Bank | 8615 | Bank | 99,000 | 99,000 | 3.500 | 3.500 | 07/09/04 | 07/09/07 | 1,095 | 677 | n/a |
| Golden Security Thrift | 1074771 | Bank | 90,000 | 90,000 | 3.850 | 3.850 | 07/15/04 | 07/15/07 | 1,095 | 683 | n/a |
| Independence Bank | 516848698 | Bank | 99,000 | 99,000 | 4.400 | 4.400 | 08/30/05 | 08/30/07 | 730 | 698 | n/a |
| Banco Popular | 8906701332 | Bank | 99,000 | 99,000 | 4.310 | 4.310 | 09/01/05 | 09/01/07 | 732 | 702 | n/a |
| Hanmi Bank | 2032871 | Bank | 99,000 | 99,000 | 4.350 | 4.350 | 09/01/05 | 09/03/07 | 732 | 704 | n/a |
| Western State Bank | 100997750 | Bank | 99,000 | 99,000 | 4.070 | 4.070 | 09/05/05 | 09/07/07 | 733 | 709 | n/a |
| California Savings Bank | | Bank | 99,000 | 99,000 | 4.450 | 4.450 | 09/28/05 | 09/28/07 | 730 | 727 | n/a |
| CA Center Bank | 13787 | Bank | 100,000 | 100,000 | 4.750 | 4.750 | 06/08/05 | 06/09/08 | 1,096 | 982 | n/a |
| Countrywide Bank | 9603217885 | Bank | 99,000 | 99,000 | 4.450 | 4.450 | 06/08/05 | 06/15/08 | 1,102 | 988 | n/a |
| Bank of Whittier | 1005561 | Bank | 99,000 | 99,000 | 4.500 | 4.500 | 07/11/05 | 01/11/08 | 912 | 830 | n/a |
| First Nat'l Bank of North County | 5106431 | Bank | 99,000 | 99,000 | 5.000 | 5.000 | 08/23/05 | 08/25/08 | 1,097 | 1,058 | n/a |
| Metropacific Bank | | Bank | 99,000 | 99,000 | 4.650 | 4.650 | 09/16/05 | 09/16/08 | 1,095 | 1,080 | n/a |
| US Bank Corporate Bond | 90331HHW6 | UBOC | 974,610 | 960,018 | 2.850 | 2.909 | 02/07/05 | 11/15/06 | 646 | 441 | n/a |
| GE Capital Corporate Bond | 36962GF41 | UBOC | 998,500 | 980,570 | 2.800 | 2.855 | 10/05/04 | 01/15/07 | 832 | 502 | n/a |
| Toyota Motor Corporate Bond | 89233PRP3 | UBOC | 994,715 | 975,760 | 2.700 | 2.767 | 11/23/04 | 01/30/07 | 798 | 517 | n/a |
| Pfizer Inc. | 717081AP8 | UBOC | 971,250 | 961,570 | 3.300 | 3.432 | 08/31/05 | 03/02/09 | 1,279 | 1,248 | n/a |
| Morgan Stanley Dean Witter | 617446HB8 | UBOC | 1,029,230 | 1,017,390 | 5.800 | 5.701 | 03/31/05 | 04/01/07 | 731 | 547 | n/a |
| Proctor & Gamble | 742718BW8 | UBOC | 1,013,516 | 1,005,330 | 4.750 | 4.725 | 03/31/05 | 06/15/07 | 806 | 622 | n/a |
| Wal Mart | 931142BR3 | UBOC | 1,007,400 | 1,000,150 | 4.375 | 4.374 | 07/19/05 | 07/12/07 | 723 | 649 | n/a |
| Wells Fargo & Company | 949746CQ2 | UBOC | 993,302 | 988,440 | 3.750 | 3.794 | 05/09/05 | 10/15/07 | 889 | 744 | n/a |
| Bank One Corporate Bond | 06423EPM1 | UBOC | 995,000 | 983,220 | 3.700 | 3.763 | 06/23/05 | 01/15/08 | 936 | 836 | n/a |
| Citigroup Corporate Bond | 172967BS9 | UBOC | 998,500 | 977,390 | 3.500 | 3.581 | 02/04/05 | 02/01/08 | 1,092 | 884 | n/a |
| GE Capital Corporate Bond | 36962GB78 | UBOC | 498,400 | 488,265 | 3.500 | 3.584 | 12/28/04 | 05/01/08 | 1,103 | 857 | n/a |
| Bank of America Corporate Bond | 060505BC7 | UBOC | 974,000 | 966,200 | 3.250 | 3.364 | 04/29/05 | 08/15/08 | 1,204 | 1,049 | n/a |
| Federal Home Loan Mortgage | 31289VAS7 | UBOC | 21,423 | 20,888 | 5.000 | 4.997 | 09/25/02 | 10/01/05 | 1,101 | 1 | n/a |
| Federal Home Loan Mortgage | 31289VBB3 | UBOC | 43,271 | 42,969 | 5.000 | 4.997 | 03/26/01 | 12/01/05 | 1,769 | 92 | n/a |
| Federal National Mortgage Asso. | 31379NN29 | UBOC | 2,785 | 2,785 | 6.000 | 5.941 | 03/08/01 | 03/01/06 | 1,818 | 182 | n/a |
| Federal Home Loan Mortgage | 3128DBME4 | UBOC | 82,988 | 80,935 | 5.500 | 5.449 | 04/24/03 | 06/01/06 | 1,131 | 274 | n/a |
| Federal Home Loan Bank | 31339YMA7 | UBOC | 1,000,000 | 984,380 | 2.300 | 2.336 | 07/28/03 | 07/28/06 | 1,095 | 331 | 10/28/05 |
| Federal Home Loan Bank | 31339YTK8 | UBOC | 1,000,000 | 983,440 | 2.260 | 2.298 | 08/07/03 | 08/07/06 | 1,095 | 341 | 12/07/05 |
| Federal Home Loan Mortgage | 31282UXE2 | UBOC | 49,455 | 49,366 | 5.500 | 5.455 | 09/25/01 | 09/01/06 | 1,800 | 366 | n/a |
| Federal Home Loan Mortgage | 31374TZ44 | UBOC | 59,261 | 57,736 | 6.500 | 6.433 | 10/31/02 | 09/01/06 | 1,400 | 366 | n/a |
| Federal Home Loan Mortgage | 31282UXJ1 | UBOC | 19,065 | 18,673 | 6.000 | 5.948 | 10/31/02 | 10/01/06 | 1,400 | 396 | n/a |
| Federal Home Loan Mortgage | 31282UX69 | UBOC | 50,736 | 50,826 | 4.500 | 4.495 | 02/14/02 | 12/01/06 | 1,751 | 457 | n/a |
| Federal Home Loan Mortgage | 31282UXV4 | UBOC | 54,567 | 54,337 | 5.000 | 4.971 | 12/24/01 | 12/01/06 | 1,825 | 457 | n/a |
| Federal Home Loan Mortgage | 31282UXX0 | UBOC | 95,901 | 94,625 | 5.000 | 4.956 | 07/11/02 | 01/01/07 | 1,634 | 494 | n/a |
| Federal Home Loan Mortgage | 31282UYL5 | UBOC | 83,594 | 91,493 | 5.500 | 5.426 | 01/09/03 | 03/01/07 | 1,511 | 547 | n/a |
| Federal Home Loan Bank | 3133X7GX6 | UBOC | 300,000 | 296,532 | 3.500 | 3.541 | 06/23/04 | 03/23/07 | 1,004 | 570 | 10/23/05 |
| Federal Home Loan Bank | 3133X5NM6 | UBOC | 999,688 | 974,380 | 2.620 | 2.689 | 04/23/04 | 04/23/07 | 1,095 | 600 | 10/23/05 |
| Federal Home Loan Bank | 3133X5SC3 | UBOC | 1,000,000 | 975,630 | 2.700 | 2.760 | 04/23/04 | 04/26/07 | 1,098 | 606 | 10/26/05 |
| Federal Home Loan Bank | 3133X4DU2 | UBOC | 500,000 | 489,065 | 3.030 | 3.098 | 03/18/04 | 06/18/07 | 1,188 | 657 | 12/18/05 |
| Federal Home Loan Mortgage | 3128X4DY4 | UBOC | 999,000 | 992,620 | 4.000 | 4.030 | 07/13/05 | 07/13/07 | 730 | 650 | 01/13/06 |
| Federal Home Loan Bank | 3133X5SJ8 | UBOC | 1,000,000 | 972,810 | 3.000 | 3.084 | 04/23/04 | 10/25/07 | 1,283 | 788 | 10/25/05 |
| Federal Home Loan Bank | 3128X27J8 | UBOC | 500,000 | 489,735 | 3.250 | 3.318 | 04/26/04 | 10/26/07 | 1,281 | 789 | 01/26/06 |
| Federal Home Loan Bank | 3128X6EH5 | UBOC | 500,000 | 490,155 | 3.390 | 3.458 | 04/30/04 | 10/30/07 | 1,279 | 791 | 10/30/05 |
| Federal Home Loan Mortgage | 31282UZ83 | UBOC | 249,432 | 243,316 | 4.500 | 4.494 | 11/25/02 | 11/01/07 | 1,436 | 792 | n/a |
| Federal Home Loan Bank | 3133X8HF2 | UBOC | 500,000 | 497,030 | 3.000 | 3.018 | 09/21/04 | 03/20/08 | 1,275 | 931 | 12/21/05 |
| Federal Home Loan Mortgage | 31282U3R6 | UBOC | 444,152 | 426,532 | 4.000 | 4.055 | 05/22/03 | 04/01/08 | 1,774 | 943 | n/a |
| Federal Home Loan Mortgage | 31282RXN9 | UBOC | 118,159 | 115,686 | 6.000 | 5.909 | 05/22/03 | 05/01/08 | 1,804 | 973 | n/a |
| Federal Home Loan Mortgage | 31282U4J3 | UBOC | 584,999 | 571,774 | 3.500 | 3.611 | 03/23/05 | 06/01/08 | 1,166 | 974 | n/a |
| Federal Home Loan Mortgage | 31289U4B0 | UBOC | 408,009 | 402,855 | 4.000 | 4.055 | 03/31/05 | 06/01/08 | 1,158 | 974 | n/a |
| Federal Home Loan Mortgage | 31282U4M6 | UBOC | 625,095 | 609,480 | 3.500 | 3.590 | 11/23/04 | 07/01/08 | 1,316 | 1,035 | n/a |
| Federal National Mortgage Asso. | 3136F32X3 | UBOC | 98,350 | 97,563 | 3.500 | 3.587 | 06/16/05 | 07/24/08 | 1,134 | 1,027 | n/a |
| Federal Home Loan Mortgage | 31282U4P9 | UBOC | 612,399 | 590,829 | 3.500 | 3.611 | 08/21/03 | 08/01/08 | 1,805 | 1,065 | n/a |

**City of Paso Robles
Schedule of Investments
September 30, 2005**

| Type/ Issuer | Account/ CUSIP# | Insti- tution | Current Quantity at Cost | Current Market * Value | Coupon | Yield ** | Purchase Date | Maturity Date | Total # Days Invested | Total # Days Remaining | Next Call Date |
|---------------------------------|--------------------|------------------|--------------------------------|------------------------------|--------|----------|------------------|------------------|-----------------------------|------------------------------|-------------------|
| Federal Home Loan Mortgage | 31282U6J1 | UBOC | 356,792 | 344,559 | 3.000 | 3.126 | 10/27/03 | 10/01/08 | 1,434 | 1,126 | n/a |
| Federal Home Loan Mortgage | 3128D44E0 | UBOC | 371,042 | 359,651 | 3.500 | 3.611 | 11/23/04 | 10/01/08 | 1,408 | 1,127 | n/a |
| Federal Home Loan Mortgage | 31282U6M4 | UBOC | 279,648 | 273,436 | 4.000 | 4.055 | 06/24/04 | 11/01/08 | 1,598 | 1,165 | n/a |
| Federal Home Loan Mortgage | 31282U6B8 | UBOC | 639,370 | 613,605 | 3.500 | 3.611 | 12/23/03 | 12/01/08 | 1,810 | 1,188 | n/a |
| Federal Home Loan Mortgage | 31282VA47 | UBOC | 868,757 | 842,566 | 3.000 | 3.135 | 04/30/04 | 04/01/09 | 1,795 | 1,308 | n/a |
| Federal Home Loan Mortgage | 31282VAU9 | UBOC | 414,542 | 409,370 | 4.000 | 4.056 | 03/23/05 | 05/01/09 | 1,500 | 1,308 | n/a |
| Federal National Mortgage Asso. | 31282VBH7 | UBOC | 517,482 | 504,429 | 3.500 | 3.614 | 08/24/04 | 07/01/09 | 1,740 | 1,368 | n/a |
| Federal Home Loan Bank | 3133X9DY3 | UBOC | 797,804 | 780,517 | 3.840 | 3.945 | 06/06/05 | 11/25/09 | 1,633 | 1,516 | 10/23/05 |
| Federal Home Loan Mortgage | 31282R4P6 | UBOC | 1,571,056 | 1,537,317 | 3.500 | 3.624 | 03/24/04 | 06/01/10 | 2,259 | 1,734 | n/a |
| Federal Home Loan Mortgage | 31282R4S0 | UBOC | 515,493 | 498,399 | 4.000 | 4.071 | 04/26/04 | 08/10/10 | 2,297 | 1,805 | n/a |
| Federal National Mortgage Asso. | 31371LF79 | UBOC | 354,011 | 348,704 | 3.500 | 3.637 | 08/24/04 | 11/01/10 | 2,259 | 1,887 | n/a |
| Total All Investments | | | <u>\$ 63,311,747</u> | <u>\$ 62,760,299</u> | | | | | | | |

* Market value for securities is from statements prepared by Union Bank of California (safekeeping, custodial institution)

** Yield is from statements of Union Bank of California