



Butte County

LAND OF NATURAL WEALTH AND BEAUTY

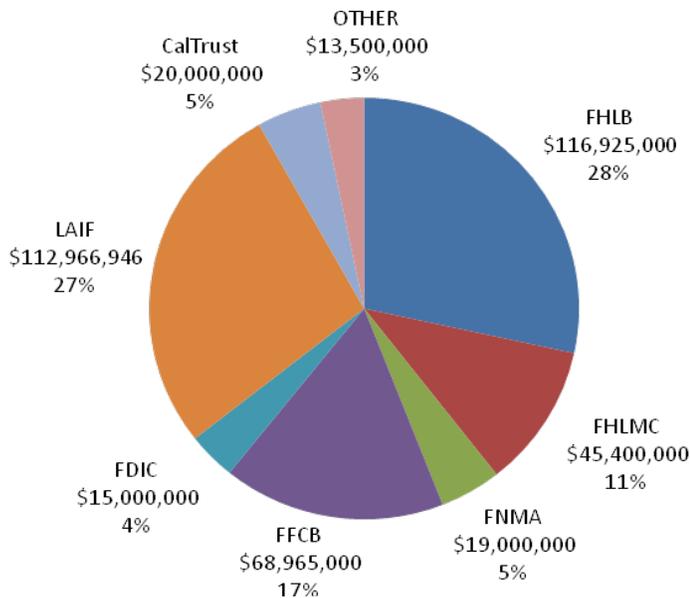
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BUTTE COUNTY POOLED INVESTMENT PORTFOLIO STATEMENT OF CONDITION DECEMBER 31, 2008

As a follow up to the report issued in September of 2008, the Treasurer would like to assure pool participants that your monies on deposit in the Butte County Pooled Portfolio continue to perform well. We do not anticipate any erosion of principal. At this time, pooled funds are solely invested in Federal Agencies, Federally insured corporate notes, LAIF and CalTrust. Investments in FHLMC and particularly in FNMA have been limited for quite some time due to negative reports, and are currently being purchased only on a minimal basis even in light of the Federal Conservatorship implemented to stabilize those Agencies. All Agency investments carry the highest possible rating of AAA. The chart below shows the current investment distribution of the Butte County Pooled Investment Portfolio. The Portfolio has a Fair Value of more than \$10M above the Cost Carried, or 102.7%, as of December 31, 2008.



LEGEND:

- FHLB: Federal Home Loan Bank
- FHLMC: Federal Home Loan Mortgage Corp.
- FNMA: Federal National Mortgage Association
- FFCB: Federal Farm Credit Bank
- FDIC: Federal Deposit Insurance Corporation
- LAIF: Local Agency Investment Fund
- CalTrust: Investment Trust of California
- Other: Tennessee Valley Authority, Tri-Counties
- Bank CD: Federal Agricultural Mortgage Corp.

The Treasury continues to maintain a higher liquidity position than the historical norm due to the uncertainty of the State budget situation. As of January 28, about \$93M of the Pool's actively invested portfolio and \$40M in GO Bond proceeds are invested in LAIF. We have confidence in LAIF's money management philosophy; however, we also have been closely monitoring LAIF's investments as a cautionary measure. A review of LAIF holdings as of 12-31-08 reveals they have reduced the amount of investment in commercial paper and CDs to only 14% of the portfolio, generally with maturities of 30 days or less (the number was closer to 33% in September 2008, with maturities of up to 120 days). The Fair Value of the LAIF portfolio is 100.3% of the Cost Carried balance as of December 31, 2008.

The State Treasurer has also provided a letter entitled AB 55 Loan Comments (attached) regarding the portion of the State's Pooled Money Investment Account invested in AB 55 loans to State agencies or departments. The letter provides assurances to LAIF depositors that their deposits are not linked to these loans and will not be affected by any repayment issues.

For more detailed information, contact Peggy Moak at 538-7443 or pmoak@buttecounty.net.



NEWS RELEASE

FOR IMMEDIATE RELEASE

January 16, 2009

Contact: Tom Dresslar/916.653.2995

Treasurer Lockyer Comments on Board's Decision to Partially Thaw California Infrastructure Financing Freeze *Cash Crisis Forced Funding Halt Affecting 5,600 Projects*

SACRAMENTO – State Treasurer Bill Lockyer issued the following statement on today's decision by the Pooled Money Investment Board (PMIB) to partially ease a financing freeze that affects infrastructure projects throughout California.

“The Board's action, while positive, provides little comfort for businesses, workers and nonprofits. They remain innocent victims of the cash crisis that forced the freeze. They watch helplessly as they lose billions of dollars in revenues and tens of thousands of jobs. And the people of California, who desperately need their economy to recover, instead see it choked as the stimulus provided by infrastructure projects vanishes.

“If the State can get back in the bond-selling business, we may be able to get more of the frozen infrastructure dollars flowing again. The bond market is showing signs it may allow California access, despite the State's worsening cash crisis and its \$41 billion budget shortfall. My office is actively exploring options for issuing bonds soon. We're also exploring other possible arrangements that could help pump more money into projects.

“But there are no guarantees these efforts will succeed. And even if they do, they won't return our infrastructure program to its full capacity to generate jobs and economic prosperity. That won't happen until the Legislature and Governor adopt a budget that keeps California out of the poorhouse and puts the State on solid fiscal footing.”

Forced by the State cash crisis, the PMIB last December 17 froze financing for bond-funded infrastructure projects from the Pooled Money Investment Account (PMIA). The action affected \$3.8 billion in funding for about 5,600 projects across California. Roughly 5,300 of those projects have been halted or delayed, according to the State Department of Finance (DOF).

In today's action, the PMIB eased the freeze by approving the expenditure of \$650 million on infrastructure projects through June 30. That's the maximum the State can afford until its fiscal situation improves.

(MORE)

The DOF will decide how to allocate the \$650 million, based on its determination of which expenditures have the highest priority and best serve the State's interests. The DOF will report on how it distributes the funds at the PMIB's next meeting, which will be held in early February.

BACKGROUND

The PMIB manages the PMIA. The PMIA provides loans both to bond-funded infrastructure projects and to the State general fund to help meet cash flow needs. The growing budget problem has put the State in a precarious cash-flow position and placed unprecedented demand on the PMIA to loan the general fund money to support crucial public services. Stopping the flow of funds to infrastructure projects provides the PMIA more resources to keep operating higher-priority programs such as schools.

Normally, the money the PMIA lends to infrastructure projects gets replenished when the State sells bonds. Unfortunately, the nationwide credit crunch and State budget woes have combined to close the bond market to California. With the State unable to sell bonds, continued lending for infrastructure projects would substantially reduce the resources available to the PMIA to meet the State's legally-required payments through June.

That's why the PMIB last Dec. 17: stopped new infrastructure loans; barred increases to existing loans; and generally prohibited agencies from spending any more funds under existing loans.

The three-member PMIB is comprised of the State Treasurer, State Controller and State Director of Finance. The State Treasurer chairs the panel.

NEW CIRCUMSTANCES

While the State's cash and budget problems have deepened since December, the bond market has strengthened. A steady decline in interest rates over the past month points to a surplus of investor demand, compared to supply. Mutual funds – key buyers of the State's bonds – appear better positioned to invest. The State last week completed a \$350 million revenue bond transaction. And investment banks have advised Lockyer's office that, given current market conditions, the State may be able to sell a limited amount of bonds. How long these favorable market forces will exist, however, is impossible to predict.

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Bill Lockyer
California State Treasurer

Pooled Money Investment Account

AB55 Loan Comments

The Pooled Money Investment Board (PMIB) on Dec. 17, 2008, unanimously voted to limit the further servicing of loans to bond-funded infrastructure projects (AB 55 Loans). The PMIB took this action to ensure that the Pooled Money Investment Account (PMIA) continues to meet its primary responsibility to provide appropriate liquidity ongoing to all Pool participants. The PMIB determined the loan restrictions were necessary because the State cannot issue either commercial paper or bonds – the two essential methods of repaying AB 55 loan expenditures.

The inability to issue debt is directly attributable to the State's worsening fiscal condition. Current projections by the State Controller show the State will run out of cash to pay its bills in February, while the Department of Finance projects a budget shortfall of \$40 billion through FY 2009-10. Until the Legislature and Governor enact a credible solution to the budget problem, Treasurer Lockyer has determined the State will not be able to sell bonds.

In light of these recent developments, I wanted to stress two points:

1. The PMIB's limits on further AB 55 expenditures do NOT suggest, imply, or connote any credit concerns with the loans themselves, the agencies responsible for the loans, or the pending bond sales backing the loans. The AB 55 Loans, therefore, remain credible obligations within the PMIA portfolio until -- not if -- the State can sell bonds or commercial paper, and provide the PMIA the funds necessary to pay back the expended principal and interest.
2. Assets held in the Local Agency Investment Fund (LAIF) are not affected in ANY way. Our city, county, school and special district partners can rest assured -- there is no reason for concern about the safety or availability of LAIF funds. They belong to you. The State cannot touch them.

AB 55 Loans

AB 55 Loans are lines of credit extended by the PMIB to State agencies or departments to provide funds for startup costs or progress payments on authorized bond projects. After a vetting process that includes verification of the project, the legal authority for bond issuance, and the ability of the borrower to repay the expended line of credit, the PMIB agrees to the department or agency request and the line of credit is provided by the Pool. All lines of credit are granted for a period of 364 days, bear the interest rate of the daily Pooled rate from the day before, and may be increased or extended upon request of the borrower.

The State created the AB 55 Loan Program in response to the Tax Reform Act of 1986. The objective of the program was to minimize the requirement to track arbitrage earnings and rebates of excessive earnings on bonds. The line of credit was considered more of a service to the requesting agency or department than an investment.

Because the AB 55 Loan Program was a service, the PMIB's primary responsibilities to the PMIA continued to be preserving capital, maintaining prudent liquidity to PMIA participants, and earning appropriately competitive incremental returns for all commingled funds.

As long as adequate liquidity remains available on demand, the PMIA can continue to maintain the AB 55 lines of credit. However, when the draws on these lines of credit encroach on the prudent level of liquidity for PMIA participants, the PMIB has a legal duty to consider whether to continue funding AB 55 loans. The State's cash flow crisis placed the PMIA in exactly that position. And that is why the PMIB took action on Dec. 17, 2008, to significantly restrict further expenditures of AB 55 Loans.

Since the AB 55 Loan Program started more than 20 years ago, the PMIA has been able to facilitate AB 55 Loans and to provide sufficient liquidity for all PMIA participants. The PMIA has been able to carry out both functions

because the State has been able to successfully sell commercial paper or bonds, or both.

Now the nationwide credit crunch and the State's budget crisis have combined to close the bond market to the State. Monthly draws on AB 55 lines of credit were averaging approximately \$660 million a month. Faced with a continued drain on the PMIA's resources, and considering the PMIA's responsibility to provide necessary liquidity to all participants, the PMIB correctly, though with great regret, voted to limit further AB 55 expenditures.

The suspension of the Pool's provision for continued lines of credit does NOT indicate any likelihood of default, insolvency, bankruptcy, or any other credit deficiency involving either the loan project, the bond program underlying the loan project, or the department or agency responsible for the project.

Since the PMIB's action limited interim funding of qualified bond projects through the PMIA loan program, the AB 55 Loans will remain open project loans until the State once again has access to the commercial paper and municipal bond markets. There is no issue with the credit of the borrowing department or agency, and there is no challenge to the authority to issue the project bond. For those reasons, the current AB 55 Loans will continue accruing interest to the PMIA. The principal and interest on these AB 55 Loans will be paid back to the Pool when - not if - the State sells the bonds related to the loans.

Should you have any further questions or concerns, please do not hesitate to call me.

Daniel S. Dowell
Director of Investments