The Money Clip

Washington Municipal Treasurer's Association

November 2004

A Message From Your President

Whew! Fall has fell. Where oh where did the time go? It seems like last month we were in Chelan. Now we find ourselves with a few short months away from being there again.

During this past August your Board of Directors held a special workshop in Yakima on "Check-21" as well as updating participants on current IRS Regulations Regarding Reimbursement for Travel Expenses and 1099 Issuance. These classes were well received. All involved would like to extend a special "Thanks" to the faculty that donated their time to make this workshop a success. The WMTA Board extends its gratitude to Paul Wentink and Ted Written from U. S. Bank; Jeff Tinker from Wells Fargo Bank; Kim Monson and Debbie Rivetts from Key Bank; Alex Johnston from Bank of America and Clark Fletcher from the Internal Revenue Service for a job well done.

Board Members are already working hard planning next year's conference as well as making the magnitude of necessary arrangements. Board members are working harder this year as Wendy Picnich, Treasurer of Friday Harbor, is taking a well deserved rest. For the last twenty plus years Wendy took care of most details involved in putting on our conference. It became clear very quickly just how many duties Wendy performed once we started listing her conference duties on a spreadsheet to assign and monitor this work among the Board. We as a Board have expressed our gratitude to Wendy, but, I would ask each of you that have attended a past conference, the next time you see Wendy at a future WMTA conference or at another function to give her a big "Thank-You" for all of her effort.

As your President I have had the distinct pleasure of attending two events as your representative: (1) the National Association of Public Treasurers of the United States and Canada Conference (APT US&C) held in Las Vegas this past August. "Check 21" was a major general session topic with the speakers concluding that change is coming. However, everything is not going to change overnight. I thank you for the opportunity to attend and meet the national president and president elect, as well as presidents from other states. Resources are tight at the national level. They have developed a plan to preserve resources, continue their educational efforts and certification program for the future. (2) Washington State Fiscal Agent Performance Evaluation in New York in October. I was part of a team consisting of State Treasurer's debt issuance staff members, the Washington Finance Officers President and Washington County Treasurer's President. This trip was informative and productive. Our debt service payments are in good hands. Thanks to the State Treasurer's statewide contract our bondholder obligations as public entities are much more than satisfactorily in compliance.

Finally, the Board is looking into alternatives for a new Treasurer's Institute. We have decided to explore working with the Washington Municipal Clerks Association and piggy-backing their contract with Washington State University to develop a worthwhile curriculum for our membership. As details become available we will keep you posted on our website (*www.wmta-online.com*).

Thank you for the opportunity to work with such "fine" people and serve such a wonderful organization.

Craig J. Kerr, CTP
Treasury Manager
Port of Seattle

Inside this issue:

Happy Thanksgiving

Your Guide to Treasury Management Information

Why Certify?

By Lisa Hennessy, Office of the State Treasurer

Since WMTA established its Investment Policy Certification program in 1988, 82 policies have been certified. Those entities that put time and effort into developing sound policies and having them reviewed and certified should be very proud of their achievements. Unfortunately, this group of certified policy-holders represents an amazingly small percentage of the state's local public entities.

An investment policy is a fundamental part of any investment program, regardless of portfolio size. An investment policy defines your program's objectives, identifies your priorities, and provides a safeguard against unwise investments. It protects elected officials and investment staff and presents a clear picture of investment goals to your governing board and brokers/dealers. A well-developed investment policy provides the foundation for a successful investment program.

Perhaps you have an investment policy but have never considered having it certified. Certification ensures that your investment policy is sound and thorough, addressing necessary vital elements and conforming to the standards established by WMTA. The WMTA Investment Policy Certification Program is designed to provide professional assistance in developing or revising investment policies.

Your investment policy should be reviewed at least every two years. Consider re-certification if your policy has been modified. If you have any questions about the Investment Policy Certification program, or would like to receive an application packet, including guidelines and a model policy, contact Lisa Hennessy, Investment Policy Certification Chair, at (360) 902-9013 or *lisa@tre.wa.gov*. Application packets are also available online at *http://www.wmta-online.com*.

What's in a Name?
We Are an Association

By Allan J. Martin, Deputy Treasurer, State Treasurer's Office

"To promote the profession of Municipal Treasurers in the state of Washington through education, mutual support, professional recognition and legislative advocacy."

The strength of our association comes from the many individuals that come together under the banner of WMTA. Our Active members, Associate members, Honorary Life members and Sustaining members bring a variety of knowledge and experience that we can draw on to become better professionals. We learn from each other.

The range of our members, some from the treasuries of cities, counties and state; others from the spectrum of municipal finance professionals including bond counsels, financial advisors, and bankers, offer a wide network that we each can readily tap. Within this network ideas can be shared, options explored; decisions crafted with the benefit of broader experience. Indeed, these are the reasons why associations are created. And as members we collectively develop and promote, as well as benefit from, higher standards of professional education and conduct.

Thomas Jefferson said that "… Institutions must advance to keep pace with the times…" And WMTA is

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Municipal Money Managers Muddlin' Midst Miserable, Miserly Markets

In a 1993 interview, political strategist James Carville said that if he could be reincarnated he would prefer to come back as. . . ta dahhh! . . .the bond market! Not as a billionaire, neither as president nor even chairman of the Federal Reserve, but as the bond market! When asked to explain, Carville, no slouch when it comes to hyperbole, answered: "Because you can intimidate everybody"! It's not often I find myself on the same side of an issue with Mr. Carville, but he may just have it right on this topic.

Today the bond market is behaving as mysteriously and intimidatingly as then not only for its sheer complexity, but also because of the massive of foreign and domestic currency tied up in U.S. Treasury Securities (approx. $2800 billion) as well as other forms of bonds which the U.S. Government issues to fund it's record deficits (in total dollars owed, not however a record as a percentage of gross domestic product). For example, the Central Bank of Japan, as of September, owns $721 billion in U.S. treasuries. The Federal Reserve has to therefore walk a fine line in order to keep foreign capital content, and is in a box when choosing between raising short -term interest rates (anti-inflationary) and creating the possibility of an inverted yield curve (short term rates higher than long term ones) which scares foreign money away. It's best to watch how the U.S. dollar behaves as a weakening dollar will slow U.S. consumer buying, dampen foreign economic growth, force foreign central bankers to buy more of our debt, and thereby keep our interest rates on the low side. Thus, the Fed will be less likely to aggressively raise the Fed funds target rate.

Bond market machinations nonetheless are also a good way to judge the state of our economy and expectations of the future. When the economy is tanking, e.g., post September 11, 2001, bonds do rather well as investors seek the relative safety of fixed income securities. Conversely, once the economy starts chugging along bond yields increase (you may have noted, moving inversely to price) as investors sell bonds in the belief that higher returns are to be gained in other investment vehicles.

Somewhere in all this, municipal portfolio managers, et al, have to make their investment decisions in order to meet the needs of their community. Of late, based on my limited sampling, most of you are content to sit and wait for the end of the election cycle, watch for further Federal Reserve open market committee rate hikes and hope for higher yields in the future. Trouble is that the cussed, contrary bond market rarely cooperates with majority's wish. In June, actually 6/14, the market rushed to new high yields for the year across the yield curve as it was apparent to nearly everyone that the economy was cookin' again and the fed was likely changing its stance from accommodatingly "loose" monetary policy and tighten it's grip on any potential inflation. In the resultant "yield rally", the 2 year T-Note reached 2.94% and the 10 year T-Note topped out at 4.87%. Gee whiz, everyone was hurting as their portfolio values plunged, so they headed for the safety of cash. Come July 7th, however, another sea change hit bond investors as a surprisingly weak nonfarm payroll employment number brought the anticipated economic expansion to a trickle. Gee whiz, portfolio values were restored, but now everyone had a pile of cash earning less than the rate of CPI inflation (Consumer Price Index). Not good, what to do?

With the growing realization that municipal assets need to be managed to their fullest to compensate for the simultaneous burdens of lower taxing authority and demand for more services (often mandated without funding from the Federal Government), where does one find value in the current market? Sorry, I dunno. However, here's some thoughts to consider before making your investment decisions, or not making a decision, which is a form of decision I see all too often. Inherent in bond valuation is a prediction of future inflation trends. Inflation, other than default I, is a bond investors's biggest enemy. The real rate of return (bond yield less inflation over the life on the bond) is an important measure of value. Historically, that is from 1926, CPI has typically ranged from 2% to 4.99% with a central tendency of 3.4%. Over the past 50 years, the real rate of return of the 10 year T-Note has been 2.7%. That all suggests that the 10 year yield historically has an average value of 6.1%. As this is written, in late October, the 10 year is hovering near 4%, and the CPI was at 2.5% for the 12 months ending in September. Hmmm, an implied real rate of return for now of 1.5%, and cash equivalents are returning approximately minus 75 basis points. Yeah, I know, this time it's different, but with $50+ per oil barrel, healthcare insurance premiums increasing at double digit annual rates, and noting that a broad measure of economic demand, the CRB index (Commodity Research Bureau) is now trending to higher commodity prices after a 20+ year decline. Furthermore, no less than Bill Gross, a bond guru, has an axe to grind with the Bureau of Labor Statistics on how they fiddle with the CPI numbers. He says fully 46% of the index components are subject to regular and somewhat dubious changes. While he isn't of a conspiratorial frame of mind, Mr. Gross does chide federal reserve chairman Alan Greenspan (who's retiring in 1/06, another market issue) for allowing "this con job". Gross considers it a serious disservice to investors and pensioners, who are deceived into believing they're

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Mark Your Calendar

Washington Municipal Treasurer's Association

22nd Annual Conference

Financial Ports of Call

April 13-15, 2005

at

Campbell's Lodge
Chelan, Washington

Conference Chair
Arif Kanji, Snohomish County
(425) 388-3630

What's in a Name? continued from page 2

doing just that. Your association consistently seeks to bring innovative ideas to the annual conference, asking those on the cutting edge of technology and practice to participate in the successful round table format, a format that allows like sized entities to associate together to share their similar circumstances and challenges.

What better way to learn than from a trusted colleague?

The key to success in this modern age is working together. WMTA is much more than an annual conference or regional meeting. During the year, pick up the telephone and seek the answer to a puzzling question from one of your fellow members. Experience the true power of shared knowledge. Bounce innovative ideas off each other. Follow up and see how others are doing. Encourage your fellow members to succeed.

We are an organization of persons having a common interest in providing quality service to our citizens and by working together WMTA can be the catalyst to advance and improve the treasury management profession. Together we can build trusting relationships between professional and citizenry.◗

Managers Muddlin' continued from page 3

earning a real rate of return above inflation.

In short, I can't help but feel that the bond market is overbought as inflation lurks. You should continue to wait until after the elections where hopefully, we'll get timely results i.e., no "hanging chad" or the electronic equivalent. Then loiter a bit to see the next nonfarm payroll stats on 11/7, and stall further for the Fed announcement on 11/10, to hear the tone of their comments. Afterwards, if you feel uncomfortable with too much cash earning less than cpi, consider the 2 1/2 to three year area where certain securities yield nearer that CPI central tendency of 3.4%.

So it goes.

Annoyingmous
SVP, Vining Sparks/Seattle

P.S. *To anyone who reads this far. . . I'll send $50 to your designated charity of the first two of you who can answer the following question. . . which was the last year in the United States that the census reported more males than females? First two correct answers by telephone/e-mail win. . . hurrah, whohaa!*◗

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