Conundrums, jig saw puzzles, now you see it, now you don't

When Federal Reserve Bank Chairman Alan Greenspan spoke before the Senate Banking Committee on February 16, 2005 at his semi-annual report on economic conditions and monetary policy, he spoke of a “conundrum” regarding the bond market, particularly about longer term interest rates. Webster’s College Dictionary defines a conundrum as “a riddle whose answer involves a pun” and “anything that puzzles”. If the person who is arguably the smartest man in the financial world is puzzled about the bond market, then why should any of us feel less challenged in our outlook for that market? Let’s look at the underlying data and see if we can find a common thread or two.

The Jig Saw Puzzle—The Yield Curve

Like a tire; a flat yield curve is not a good thing. On June 30, 2004, when the Federal Reserve announced it was increasing the Fed Funds target rate for the first time in a year from 1.00% to 1.25%, the spread in yield to maturity between the

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<th>Crude Oil</th>
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—Continued on page 9

California Government Finance Leaders Summit

Bill Gallardo, President; Christine Vuletich, Vice-President; Maureen Lennon, Secretary; and Shari Freidenrich, Immediate Past President of the California Municipal Treasurers Association attended the first ever California Government Finance Leaders Summit on May 18 in Sacramento. This one-day event sponsored by CSMFO brought the leadership of eight financial associations (representing cities, counties, and special districts) together with Chief Deputies of State finance-related agencies, including the Franchise Tax Board, Board of Equalization, Department of Finance, State Controller, and State Treasurer’s Office. The League of California Cities was also in attendance, and the Governor’s office was represented by Pat Dando, Director of Local Government Affairs.

The goal of the summit was to explore opportunities for associations to get involved more effectively in State issues, make connections with key officials in other associations and state agencies, and look for opportunities to collaborate on common issues. Several subgroups were established, including a joint CMTA/CSMFO/CDIAC group to discuss possible collaboration on education and training. All those in attendance agreed to continue the dialog and make the Finance Leaders Summit an annual event!
President’s message…
...goals set for new CMTA year!

The annual CMTA Conference for 2005 is now history and I hope everyone who attended found it beneficial. I am thankful to the members of CMTA for allowing me to serve as President this coming year. I will do all I can to continue the direction of the Board of Directors to provide the best communication and training available for our members.

The Board had its first meeting for the new fiscal year, and a few of our goals for the upcoming year include:

1) Continue the successful Treasury Management Educational Workshops held at Cal Poly Pomona

2) Continue our membership outreach to the 7,000 special districts across the State

3) Reconfigure and update the CMTA website

4) Build on the success of the April 2005 Annual Conference in San Diego and work towards the 2006 Conference in Monterey

New Commercial Associates elect succeeding liaison

At the annual Conference the Commercial Associates elected Kay Chandler, Chandler Asset Management, to succeed Ray Higgins, Higgins Capital Management when this term is complete in April 2006. Ray is in the second year of this two year assignment as the Commercial Associates Liaison to the Board. During this year Kay will work side by side with Ray and take over where Ray leaves off next April. I congratulate Kay, and I look forward to working with her and Ray in the coming year.

Until next time…Bill

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News from Division chairs...

News from Division VI CMTA

Our Conference in San Diego was full of enthusiasm and I know that this feeling is being brought to our division. This year we will be working on Membership, so if you know someone who is not a member and should be, bring him or her to our next meeting. We are also updating our e-mail address so if you have an update or are not getting updates please let us know.

I am excited to announce that we have filled all our Division VI board positions, but we are still looking for members to get involved.

Mary Morris, from San Juan Water district is our Vice Chair, Sue Clive, from the City of Santa Rosa is our Secretary and Christine Vuletich from South Lake Tahoe is our Treasurer, from one end of our Division to the other. One motivated group if you ask me.

Mary Morris has already burned the midnight oil and has developed the new POLICIES AND PROCEDURES for our Division. We have a new e-mail address that will make it easier to get in touch with the division. Our new e-mail is: div6cmta@yahoo.com.

I am working on a Division VI Calendar so that all members will be able to see what is coming up within the division. Look for this in a month or so.

We are currently lining up exciting speakers and we are planning some great programs for Division VI. We are also looking for sponsors, so now is the time to step up and be counted in this division.

June 9th we had our first Division meeting in Rocklin. Douglas Robinson, Securities American speaking about Demographics and Long-Term Economic Forecasting was our first speaker. Mike Gandy and Wendy Smith from the City of Rocklin spoke about Identity Theft and Fraud and Crime Scene Investigation. To wrap things up we had Tony Garcia from Wells Fargo speaking about Investment products.

Our next meeting will be September 8. Place to be announced.

Meeting updates for Division II

On April 13, 2005 the City of Long Beach hosted a meeting for division II at the Reef on the Water. We had a view of the harbor and yummy food. Our speaker was Keith A. Johnson, CFP of ICMA. Keith spoke on financial planning for the mid-career years. He gave us a realistic approach to achieving our desired standard of living.

The June 8 meeting was at the Border Grill in Santa Monica. Our speaker Tim Anderson, Wachovia Director of Fixed Income Securities, gave us an economic outlook.

We still have room for you at the Cash Handling Seminar in Pomona on Thursday July 21, 10am-4:30pm! (See pages 7-8 for more information and reservation form) Please contact your division chair for further information.

Successful meeting for Division X

One of the most highly attended meetings for Division X occurred on May 19 in Corona. The topics and speakers were “Accepting Online Payments,” with Jim Stalcup, Dick Franks, and Adam Franks of ACS from Buena Park giving the live demonstration. Following several questions from first-time attendees, the next topic was “Post-Check 21 Emerging Technologies,” presented by Randy Ungersma, Union Bank of California.

Copies of the CMTA newsletter as well as CMTA Membership forms were made available at the meeting. Some of the first-time attendees included Elsinore Valley Municipal Water District, Riverside Highland Water Company, and West Valley Water District (Customer Service and Information Department).

Division Chairs

<table>
<thead>
<tr>
<th>Division</th>
<th>Chair</th>
<th>Phone</th>
<th>Fax</th>
<th>Email</th>
</tr>
</thead>
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<tr>
<td>I</td>
<td>Nadine Mandery</td>
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<td><a href="mailto:nmandery@ci.chula-vista.ca.us">nmandery@ci.chula-vista.ca.us</a></td>
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<tr>
<td>II</td>
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<tr>
<td>III</td>
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<td>IV</td>
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<tr>
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<tr>
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<td>Marie Bernard</td>
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<td>(909) 875-1849</td>
<td><a href="mailto:dsousa@wvwd.org">dsousa@wvwd.org</a></td>
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<tr>
<td>IX</td>
<td>Christine Calderon</td>
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<td>(714) 647-5304</td>
<td><a href="mailto:ccalderon@ci.santa-ana.ca.us">ccalderon@ci.santa-ana.ca.us</a></td>
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<tr>
<td>X</td>
<td>Deborah Sousa</td>
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<td>(909) 875-1849</td>
<td><a href="mailto:dsousa@wvwd.org">dsousa@wvwd.org</a></td>
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Committee spotlight…

Education Committee plans workshop for treasury professionals

The Education Committee will be hosting the annual Essentials of Treasury Management Workshop at the Kellogg West Conference Center and Lodge located at Cal Poly Pomona on September 20-22, 2005. This 2½ day program provides treasury professionals with the fundamentals, resources, language and concepts that are crucial to our responsibilities. We strive to provide a diverse agenda so that experienced treasurers will also glean valuable information from the workshop.

Because the CMTA places a strong emphasis on the education of its members, the cost of the workshop is subsidized to encourage participation. For a mere $250, you receive the workshop, two night’s accommodations, and more meals than you can imagine. Additionally, scholarships are available for members who would otherwise be unable to attend.

How do we do it? With a team of dedicated volunteers! There are many tasks that need to be done behind the scenes – choosing topics and presenters, registration, facility coordination, notebook production and compilation… the list goes on. Joining a committee is a great way to get involved in CMTA and meet your fellow colleagues.

Please feel free to contact any of us with topics or suggestions! We look forward to seeing you in September, and save January 25-26 for the Advanced Workshop.

CURRENT COMMITTEE:
Dale Belcher, City of Oxnard
Bill Blackwill, Citigroup Global Markets
Josie Fong, City of Pleasanton
Ray Higgins, Higgins Capital Management
Donna Mullally, City of Irvine, Education Chair
Mike Reynolds, City of Redlands
Kelley Williams, City of Arcadia

Past President’s Raffle donates to Education Fund

The Past President’s Raffle at the Annual 2005 Conference in San Diego brought in $1,165 for the Education Fund.

The Past Presidents and CMTA thank the following cities and agencies for their donation: Huntington Beach, La Canada Flintridge, Oxnard, Oceanside, Pacifica, Palm Springs, Palos Verdes Estates, San Bernardino, South Lake Tahoe, Torrance, State Treasurer’s Office (LAIF), Trabuco Canyon Water District, Victorville, and Westlake Village.

The Past Presidents and CMTA thank the following commercial associates and other organizations for their contributions: Bank of America, Bank of New York, Bank of the West, Bond Logistix, Catamaran Hotel, Chandler Asset Management, Hoefer & Arnett, Higgins Capital, J.P. Morgan, MBIA Asset Management, Merrill Lynch, Morgan Stanley Dean Witter, Muni Financial, Payment Resources International, SAFEchecks, Stanford Group Company, Union Bank of California, Vining Sparks, Washington Mutual, and Wells Fargo. We apologize if your name or agency has been inadvertently missed.

Past Presidents participating in selling tickets were Dale Belcher, Oxnard; Linda Barnett, Torrance; Shari Freidenrich, Huntington Beach; Robert Groeber, Visalia Unified School District; Linda Lorenzetti, Concord; Adair Most, Victorville; and Mike Reynolds, Redlands. They sold almost 700 tickets and handed out over 100 raffle prizes. Thanks again to all who donated and bought raffle tickets. Remember to report on Form 700 in 2005 if you received raffle prizes of $50 or more.

Presentations on website!

Several presenters from the CMTA Annual Conference have given permission for their power point presentations to be placed on the MTA website.

Look now for this valuable information at www.cmta.org
GUTSY LEADERSHIP, PART II—Interview

In the last issue of Leadership Wired, we began a two-part conversation with leadership consultant Kevin Freiberg, coauthor of Nuts! Southwest Airlines’ Crazy Recipe for Business and Personal Success and Guts! Companies that Blow the Doors off Business-as-usual. Today, we move on to another one of Freiberg’s areas of expertise: corporate culture.

Leadership Wired: How important is corporate culture to the success of a business?

Kevin Freiberg: It’s incredibly important. Each year, Fortune magazine puts out a report called “The 100 Best Companies to Work For.” They asked the CEOs of these companies, “What’s the key to your success?” They said, “The key to success is our ability to attract and retain world-class talent. And the most important lever we have in attracting and retaining world-class talent is corporate culture.” The idea being, is this a place where people want to work and choose to stay and feel like they’re empowered to do their best? Or is this a place where people sort of check off the box and do the bare minimum and go home?

What we’ve found in our research is that companies like Southwest Airlines, SAS Institute, Synovus [and others described in Guts!] are places where people go home physically tired but emotionally charged because they’re working in an environment that values them as a whole person, not just as vice president of sales or a call-center operator. There’s a sense of informality that says we can get something done on a handshake in the hallway. Let’s not bureaucratize it; let’s not make people get 10 signatures to get done what they want to get done. Let’s give them the freedom to act, because if I take action and I do something cool, it inspires me to want to do future acts. So they’re environments where people are having fun in. They’re environments that are informal. If we can get it done today rather than write a memo about it and plan and plan and plan, let’s do it that way. And they’re environments where people are really cared about as individuals, not just as “most important assets.” We don’t talk about our loved ones like that—why would we talk about our employees like that? That’s culture.

Freiberg: The first thing I would say is culture is not a 10-step program; it’s multifaceted and complex. But in world-class cultures you have a genuine care for the individual. You have a meritocracy—people assume ownership and responsibility for results. World-class cultures aren’t just soft, as in lovey dovey all the time. World-class cultures are fun, playful and exciting, but they’re also places that demand results. So people have to pony up through ownership and personal accountability to achieve those results. World-class cultures give people the ability to risk more and fail faster—the idea being that you can’t innovate unless you’re willing to experiment, and you can’t experiment unless you’re willing to fail. If you’re going to keep the workforce jazzed in a cool culture, you’ve constantly got to be coming up with new things, whether it’s new ways to run the business or new products or services to offer the customer. When the waters are stirred, people stay excited.

And in great cultures, people are encouraged to have a voice—my contribution matters, my voice counts, people value me. One of the greatest ways we love and value people is by listening to them and acting upon what we hear. That doesn’t mean we’re going to act on every idea you come up with. It means we value you enough to listen to you, and when it makes sense to act on what you say, we’re going to act.

LW: So if a leader comes into a situation where that kind of culture doesn’t exist, is it possible to introduce it? How does that change happen?

Freiberg: I think you have a couple of choices. If a leader comes into a situation like that, you have to either say, “OK, did I make a mistake in coming here? Is this not the culture for me—do I need to change?” Or, “Do I have the guts to try and use my influence to try change the culture?” That is not an insignificant question because most cultures are designed to protect themselves. To try to change a culture using the characteristics of the current culture is almost a sure recipe for failure. When you look at people who radically change a culture, they usually blow things up and put it back together in new ways. That’s why we call it guts. That’s not easy.

For example, let’s say the current culture is one of fear, and you step in as a mid-level leader and the unwritten rule is “don’t tell senior management what they don’t want to hear.” Well, you...
have a choice—you can say, “I stepped into the wrong place and I need to make a change” or, “You know what, I’m going to test that. I’m going to be willing to lose my job over it. I’m going to tell senior management they’ve created fear-based culture.” You see where that becomes very gutsy? Most people don’t have the courage to step up to that plate. Most people say, “I’m just going to be a turtle. I poke my head out when I absolutely need to; otherwise I’m going to stay in my shell and stay safe and get my job done.” Again, I don’t think you can change culture by changing characteristics of the existing culture. That’s why we call the subtitle of our book “Companies that Blow the Doors Off Business-as-usual.” You really have to be to be willing to take it from a whole new angle.

LW: You assert that people are more energetic and more productive when they are having fun at work. What are some ways that leaders can make it fun without it being contrived?

Freiberg: We’re for authenticity, right to the bone. If you’re not a fun person and you typically don’t gravitate to fun and humor, you go to your staff or your coworkers and say, “I really would like to make it more fun around here, but I don’t have a clue how to do that. Give me 10 ideas.” Fun doesn’t always mean social parties or that kind of thing, although I think it does mean some of that. I think people who eat together and socialize together bond more. That’s why company picnics haven’t gone out of style.

The other thing that a lot of people don’t think about when it comes to having fun at work is if you drew on a piece of paper three concentric circles that overlap in the middle—you have one circle that says, this is what my gifts and talents are, another one that says here’s what I’m passionate about, and you have a third circle that says this is what needs to be done—this is what I get paid to do. When those three circles overlap, you have what we call a “sweet spot.” What could be more fun than showing up to a job that I’m gifted at, I’m passionate about and I get paid for? What causes work not to be fun is when I’m slotted in a role that I might be gifted at but I’m not passionate about. I did door-to-door sales when I was in college. I was really good at it and made a lot of money. But after about two years of doing it, I hated it. I was gifted at it but I wasn’t passionate about it. Some people are passionate about stuff that they really aren’t gifted at. And then sometimes you’re gifted at it and you’re passionate about it but the world doesn’t see a market for it. So back to fun, I think a core part of making work fun is when leaders can help people find their sweet spot by helping them discover their gifts, find their passion and then apply them in an area where they can make a significant contribution.

The other thing that makes work fun is when you and I are able to not take ourselves too seriously. I’ll tell you what that does. It allows us to be more human. If you can laugh at the silly, stupid, goofy things that you do, it gives me the freedom to laugh at the silly, stupid, goofy things that I do. In toxic cultures, people hide it and stuff gets swept under the rug. But in cultures where there’s freedom and liberty and fun, I can say, “What an idiot I was—that was really dumb! But you know what? People around here still love me—let’s leave that baggage on the curb and let’s move on.”

“This article is used by permission from Dr. John C. Maxwell’s free monthly e-newsletter ‘Leadership Wired’ available at www.MaximumImpact.com”
CMTA Dollars & Sense Summer 2005

Welcome to CMTA Dollars & Sense.

CMTA purpose is to promote the general and professional interests of city and other local government treasurers and the respective cities and agencies they represent through education to obtain a higher standard of efficiency, to promote improved service and relations with other municipal finance organizations and to promote a friendly and fraternal feeling among its members.

About the course

The Association of Public Treasurers CASH HANDLING TRAINING SEMINAR is a one-day program designed to train government employees and officials in proper cash handling techniques. Finance officers, treasury officials, city cashiers, and other cash handlers are encouraged to attend. The Model Cash Handling Training Manual is required text for the seminar. The Model provides a comprehensive set of cash handling techniques; a training syllabus; and instructions on how to develop a manual/program for an individual government, which may be submitted to the Association of Public Treasurers for review and certification. Seminar participants will receive a Certificate of Completion at the end of the course. Earns 2.5 CMTA/2.0 APT points.

About the Association of Public Treasurers of the United States and Canada

APT US&C represents public treasury and finance officials in local, county and state/provincial governments throughout North America. The Association provides educational seminars and conferences, publications, policy and legislative information, and technical assistance to members. APT US&C’s headquarters are located in Washington, D.C. The Association works closely with affiliated state associations and universities, national associations, and municipal leagues in an effort to provide the most up-to-date and accurate information and training to its members.

About the Trainer

Linda Patterson, CCM has served as Deputy State Treasurer/Director of Investments for the state of Texas. She was responsible for a $20 billion portfolio, as well as the Divisions of Cash Management, Federal Reserve Transfer/Clearing, Texas Trust Company, Securities Management and Cash Flow Forecasting. Linda was also City Treasurer of the City of Fort Worth. She initiated the Public Funds Investment Act of 1987, which opened investment alternatives for all Texas governmental entities. In 1989 she initiated the Public Funds Collateral Act. She sat on the GFOA Cash Management committee and has been on the Board of Texas Tech University SW School of Governmental Finance since 1989. She has been an officer and President-Elect of APT US&C and founded the Texas Treasurer’s Association. She received the APT US&C’s highest award, the Phillips Award, in 1990.

Topics covered in the seminar

- Cash Handling Program Certification—Application & Procedures
- Mission Statement
- Training Objectives
- Material Organization
- The Purpose of the City Treasurer’s Office
- Your Job as a Cash Handler
- Federal Cash Handling Regulations
- The Federal Reserve System
- Legal Background for Treasury Functions
- Currency and Check Recognition
- Recognizing Currency
- Counting Currency
- Receiving Monies
- Hand-to-Hand
- Hand-to-Table
- Walk-Through
- Counting Coins
- Steps to Receive Currency and Coins
- Making Change
- Strapping and Bundling Currency
- Handling Mutilated Currency
- Rules for Redemption of Mutilated Currency
- Counterfeit Currency
- Raised Notes
- Checks and Check Cashing
- Types of Checks
- Parts of a check
- Check Negotiability
- Check Endorsements
- Identification of Checkwriter
- Check Fraud
- Credit/Debit/Charge Cards
- Credit Card Transactions
- Daily Cashier Operations
- Introduction to Daily Cashier Operations
- Opening Activity/Cash Drawer Setup
- Receiving and Receipting City Funds
- Custodial Responsibility of Cash Handlers
- Losses/Shortages/Overages
- Closing Activity
- Balancing Cash Drawer
- Locating Cash Differences
- Common Errors Causing Out-of-Balance Situations
- Reasons for Hard-to-Find Errors
- Filling Out Deposit Slips
- Revenue Statement
- Armored Car and Night Deposits
- “Non-Government” Money
- Security Procedures/Loss Prevention
- Introduction to Security Procedures? Loss Prevention
- Robbery
- How to Prevent a Robbery
- Procedures to Follow During a Robbery
- Procedures to Follow After a Robbery
- Fire/Bomb Threat
- Emergency Procedures
- Other Forms of Payments
- Glossary of Terms
- Sample Cash Handling Legislation: Procedures and Documentation-City Cash
- Cash Handler’s Training Syllabus
- Federal Reserve System
- U.S. Currency
- Parts of a Check
- Sample Cash Drawer Reconciliation Sheet
- Currency Handling Exercise

California Municipal Treasurers Association – Divisions 2, 9 & 10 and Association of Public Treasurers of the United States and Canada

Invite you and your staff to attend the CASH HANDLING TRAINING SEMINAR

A one-day seminar, Thursday, July 21, 10:00am-4:30pm, 2005 in Pomona

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- Other Forms of Payments
- Glossary of Terms
- Sample Cash Handling Legislation: Procedures and Documentation-City Cash
- Cash Handler’s Training Syllabus
- Federal Reserve System
- U.S. Currency
- Parts of a Check
- Sample Cash Drawer Reconciliation Sheet
- Currency Handling Exercise
CASH HANDLING TRAINING SEMINAR
Registration Fees and Deadlines
Thursday, July 21, 2005  10:00am–4:30pm

LOCATION—
Pomona Valley Mining Co.
1777 Gillette Road
Pomona, CA 91768
(909-623-3515)

Reservations are limited to 150. To guarantee your spot, send the registration AND THE CHECK by Thursday, June 30th! Don't miss this opportunity!
Fee includes lunch and training manual—a $65 value.

Fees:
Pre-Registration ($75 each) $_________
Late registration after June 30, 2005 ($95 each) $_________
No. of Attendees ___________
Total fees $_________

Mail registration deadline: June 30, 2005
No refunds after June 30, 2005

RSVP your reservation and mail check (payable to CMTA) to:
West Valley Water District
C/O Debbie or Yolanda, Treasury
Cash Handling Training Seminar
P. O. Box 920 (855 W. Baseline)
Rialto, CA 92377
dsousa@wwwd.org
(909) 875-1804 Fax (909) 875-7284

Contact information
CITY CONTACT NAME: ____________________________

TITLE: ____________________________

PHONE: ____________________________

ORGANIZATION: ____________________________

ADDRESS: ____________________________

CITY: ____________________________

EMAIL: ____________________________

Attendees:

Copy or cut out form, fill out, and send with check to above address.

Conundrums, jig saw puzzles... —continued from page 1

2 Yr. Treasury and the 10 Yr. Treasury was 190 basis points (1.9%) with the 2 Yr. trading at a 2.68% yield and the 10 Yr. at 4.58%. Over the next six months, the Fed Funds rate was increased four times to finish 2004 at 2.25%. During that same period, the 2 Yr. Treasury yield increased only 40 basis points (.4%) to finish 2004 at 3.08%. However, the yield on the 10 Yr. Treasury note dropped 36 basis points (.36%) to 4.22%. So we have this:

Let’s try to put a perspective to this. Before the first rate hike, the markets had correctly assumed that it was inevitable that a 1.00% Fed Funds rate had to increase. The economy was doing better and we had averted earlier concerns about deflation. A substantial spread had been built in between overnight investments (Fed Funds) and an investment maturing in 2 years to help “protect” investors whenever the rate hikes would begin. Why did the 2 Yr. Treasury not move in lock step with the Fed Funds Target Rate? Because, with each “measured pace” that the Fed increased the Fed Funds Rate, we moved closer to a “neutral” policy with the Fed neither stimulating nor restraining economic growth. Once we get to that “neutral” position, we believe there will be a stabilizing of market prices and yields, and economic data will be the primary factor in determining future market trends. On May 31, 2005 the 2 Yr. Treasury closed at a yield of 3.58% and the 10 Yr. Treasury at 3.98%. The “spread” between the two is now 40 basis points. It was 190 basis points in June 2004 and in December 2004 it was 114 basis points. Using the baseball analogy, Dallas Fed Governor Richard Fisher was quoted on June 1st as saying, “we’re clearly in the eight inning of a tightening cycle” and “we have the ninth inning coming up at the end of June…”

Mr. Greenspan had also spoken about asset bubbles. Look at Gold and Oil from when the Fed lowered the Fed Funds rate from 1.25% to 1.00% to the beginning of last year’s increases:

Non-income producing investments like Gold & Oil have a “warehousing” cost attached to them. If you buy gold, you can put it in your vault and go down and polish it every day. But you will not earn anything until you sell it for a profit. If you put your money into a money market account you could at least earn something. But, with rates so low you wouldn’t earn very much. As an alternative, investors and speculators see an opportunity to borrow money at what becomes a negligible cost to them (Fed Funds @ 1.00%) and can then purchase appreciable assets with “borrowed” money. This may push the asset value artificially higher creating a “bubble”. How then can the Fed determine the fair value of a non-income producing asset when there is little or no cost of capital for a speculator to buy that asset?

That is why it became important for the Federal Reserve Bank to let some air out of this bubble without bursting it, so a “measured” pace of rate hikes was a prudent series of steps to take some of the speculation out of these commodities by increasing the cost of holding onto them.

Long-term interest rates and the reasons why they are lower is a different story. There are many widely different influences that affect 10-year interest rates. We cannot hope to cover all of them in this article, but here is the “Big 3” as we see them:

**INFLATION EXPECTATIONS.** The income of long-term investors is directly affected by inflation. We all know the story about if you get a penny on the 1st day of the month and it doubles each day for one month...on the last day of the month you can retire very wealthy! The reality of the current inflation outlook is that the current global economy will offer so much competition for every consumer dollar that inflation should stay well contained.

**SUPPLY.** As long as there is a U.S. Government deficit (and even when there isn’t) there will be U.S. Treasury Bonds and Notes being issued. The bigger the budget deficit, the more issuance will occur. Currently, on average about 40% of the U.S. Treasuries auctioned monthly and quarterly are being purchased by foreign central banks. If this demand were to diminish, then longer-term rates would have to rise to attract other investors. At present, this high demand for Treasuries has helped reduce the yields on this sector of the yield curve.

**GLOBAL ECONOMIC CONDITIONS.** First, the United States is importing an all-time record amount of goods and services. This puts more U.S. dollars in the hands of overseas corporations and governments. Many of these entities choose to re-invest those dollars in U.S. dollar denominated securities. Second, the economies of Germany, Italy and Japan have recently reported negative GDP and are on the verge of being in a recession (defined as at least 2 consecutive quarters of negative GDP).

These are just three factors (there are more) that we believe have helped push longer-term U.S. Treasury yields lower in spite of the Federal Reserve’s recent increases. The markets may be signaling that the pace of U.S. economic expansion may be “dragged” down as well and perhaps not sustainable? The more concerns the market has about our economy, the flatter the yield curve will become.

---Continued on page 10
Where Have All The Good Jobs Gone?

No, this is not a re-mix of a song from the ‘60s. There are some distinct problems in the data about the structure of the U.S. jobs market and how financial markets interpret this data. As an example, The Institute of Supply Management (a private industry group formerly known as the National Purchasing Manager’s) puts out a monthly manufacturing activity index. One of its components deals with employment. This employment component reports how many respondents will be adding new hires in the next 6 months and that is expressed in terms of a percentage of those who say “yes” versus the combined total of those who say “no” new hires or that they are reducing their workforce. Therefore, any number above 50% means more respondents will be hiring than those reducing or maintaining their current workforce. With exception to the report just released June 1, 2005, the employment component for this index has been above 50% since November 2003 (19 months in a row). So for those 19 months, according to the ISM, more of their members were adding workers than those holding steady or reducing staff. Concurrently, the Bureau of Labor Statistics (BLS) also puts out a monthly report on job creation. During the same period (excluding May 2005, which is not available yet) the BLS reported 20,000 manufacturing jobs were lost. Now You See It (Job Creation), Now You Don’t! There is no way to know which indices is a truer measure of job creation. This is just another piece of the puzzle that Mr. Greenspan has to find an answer to.

Can you imagine what Mr. Greenspan must be thinking as he and his fellow FOMC members try to solve the puzzle of the U.S. Economy? I would imagine it is like trying to solve one of those thousand piece puzzles without having a box cover to look at, so you don’t know what it is going to look like until you are done! During his Senate testimony, Mr. Greenspan was asked what neutral policy would be and his reply was “We don’t know what the actual number is, but it is that interest rate which creates a degree of stability in the economy and removes any sense of excess which would create inflationary pressures.”

OK…so what does this mean? We do know the Fed is not raising rates because of any significant inflationary pressures or an over heating economy. We do know the Fed is raising rates to absorb some of the excess liquidity provided during the dot.com meltdown and the immediate aftermath of Sept. 11th. With the Fed Funds rate now up 200 basis points and another hike expected at their next FOMC meeting, (June 30th as of this writing) we are still marching to the “measured pace” of the Fed. We are certainly a lot closer to our destination now than when we started, but if the leader of the band does not know how far he is going to march, no one else does either. We do know that when he gets there, he’ll let us know.

Howard Herring & Michael Swan
Howard N. Herring & Michael E. Swan are Registered Principals with Wachovia Securities Financial Network LLC, Laguna Niguel, CA. Member NASD and SIPC. The opinions expressed herein are strictly their own and do not necessarily represent the opinions of their firm. The information contained in this report is for informational purposes only. They can be reached at 800-553-0660 or email them at either mswan@wachiovafinet.com or hherring@wachiovafinet.com.

Guarantee you stay up to date with CMTA

CMTA leadership is exploring ways to make your membership dues go further. With the looming increase in postage and the expanding use of emails, the CMTA listservs will be used more frequently to keep members up to date on CMTA activities. Division Chairs recently discussed using the Division listservs to replace many of the notices now mailed to local members. So if you haven’t signed on to both the general and division CMTA e-mail listservs, now is a good time to do so. The members list may be used to survey members and share information on how different agencies handle particular issues. The division lists will be used to share meeting notices and agendas as well as local information.

To join the list, simply go to the website at www.cmta.org and subscribe online. Once you subscribe, you may send a message to any of the listed addresses.

Please remember when utilizing these lists that subscription is open to the general public; you may want to tailor your messages accordingly.

If you have any problems or questions regarding the listservs, please contact Tawni Escudero at 916/658-8209.

General Members list: cmta-members@cmta.org
Division 1: cmta-division1@cmta.org
Division 2: cmta-division2@cmta.org
Division 3: cmta-division3@cmta.org
Division 4: cmta-division4@cmta.org
Division 5: cmta-division5@cmta.org
Divisions 6 & 8: cmta-division6and8@cmta.org
Division 7: cmta-division7@cmta.org
Division 9: cmta-division9@cmta.org
Thank You to the Sponsors of Dollars & Sense!
(All advertisers throughout the newsletter)
## Calendar of Events

### CMTA DIVISION MEETINGS

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### EDUCATIONAL SEMINARS

- **Sep 20-22, 2005** Essentials of Treasury Management Workshop, CalPoly-Pomona.

### UPCOMING CONFERENCES/MEETINGS

- **Apr 23-27, 2006** CMTA Conference, Monterey