



**BOARD OF SUPERVISORS
AGENDA LETTER**

Agenda Number:

Clerk of the Board of Supervisors
105 E. Anapamu Street, Suite 407
Santa Barbara, CA 93101
(805) 568-2240

Department Name: Treasurer - Tax
Collector
Department No.: 065
For Agenda Of: 5/10/2011
Placement: Departmental
Estimate Time: 15 mins
Continued Item: NO
If Yes, date from:
Vote Required: Majority

TO: Board of Supervisors
FROM: Department Director(s) Harry E. Hagen, CPA, CPFO, CPFIM, Treasurer - Tax Collector
568-2490
Contact Info: Kim Tesoro, CPA, CPFO, Investment and Debt Officer
568-2153

SUBJECT: Treasurer's Investment Pool, Fiscal Year 2010-2011 Third Quarter (Jan - Mar 2011)

County Counsel Concurrence:

As to form: Yes No N/A

Auditor-Controller Concurrence:

As to form: Yes No N/A

Other Concurrence: N/A

As to form: Yes No N/A

Recommended Action(s):

That the Board of Supervisors:

- A) Accept for filing the Fiscal Year 2010-2011 Third Quarter (January – March, 2011) report on the Treasurer’s Investment Pool, pursuant to Government Code section 53646(b).

Summary:

As presented on Page 9, the value of the Treasurer’s Investment Pool at principal cost on March 31, 2011, was \$895,339,559. Market value of the investment pool was \$894,539,088 and the investment pool also held \$98,022,864 in cash on deposit at the bank and imprest cash. The weighted average days-to-maturity (WAM) for the investment pool was 566 days.

The Treasurer’s Investment Pool earned \$2,268,286 for the quarter ending March 31, 2011, an annualized return of .900%. Per Government Code Section 53600.5, the Santa Barbara County Treasurer has a mandated responsibility to manage and invest public funds with the primary objective of safeguarding principal, the secondary objective of meeting the liquidity needs of pool participants, and thirdly, the objective of attaining a market average rate of return, consistent with the primary objectives of safety and liquidity.

In October 2009 the Treasurer’s Investment Pool was assigned Standard & Poor’s (S&P) top rating of ‘AAAF’ for credit quality, reflecting the highest level of protection against potential losses from default and a top rating of

'S1' for volatility, indicting the low risk sensitivity of the investment pool to interest rate movements, credit risk, investment diversification or concentration, liquidity, and leverage. S&P has upheld the rating in their monthly reviews.

For the quarter ending March 31, 2011 the Treasurer's Investment Pool anticipated and met all liquidity requirements, precluding any need to sell holdings unexpectedly at a potential loss in order to meet cash flow demands.

All investments purchased, met or exceeded state and local policy requirements for credit quality. Credit quality of assets held in the Treasurer's Investment Pool is monitored on an ongoing basis. At March 31, 2011, the investment pool held a Wells Fargo senior medium term note of \$5 million that matures on September 1, 2012. At the purchase date of the medium term note, the issuer met credit rating requirements of the Treasurer's Investment Policy. It was rated 'AA' by S&P, 'AA2' by Moodys, and 'AA-' by Fitch. Since its purchase, the issuer has been downgraded below the credit rating that is required for purchase by the Treasurer's Investment Policy for medium term notes. It has retained investment grade ratings and met State legal requirements for investment of public funds. Wells Fargo is currently rated 'A+' by S&P, 'A2' by Moodys, and 'A+' by Fitch. In accordance with the Treasurer's Investment Policy for securities that have been downgraded to a rating below what it requires, the events leading to the downgrade were thoroughly scrutinized, along with the risk to principal of the pool. At this time, it has again been determined that the likelihood of actual default is remote and that it would be in the best interest of the pool participants to hold the security until maturity.

The Santa Barbara County Treasurer conforms to all applicable State statutes and County resolutions that govern the investment of public funds.

Background:

Economic activity was continuing at a moderate pace as Gross Domestic Product expanded at an annual rate of 3.1%. The labor market continued to show signs of firming with the national unemployment rate dropping markedly in January then continuing to tick down in February and March to 8.8%. Consumer spending was also increasing at a moderate pace in early 2011, however, consumer confidence dropped back in early March to 63.4. The housing market continued to be depressed with a large inventory of foreclosed properties and weak demand.

Measures of underlying inflation remained subdued. The Consumer Price Index began the quarter at 1.5% and ended at 2.7%. The latest readings on core inflation, which excludes the volatile prices of food and energy, began the quarter at .8% and ended at 1.2%

The Federal Open Market Committee (FOMC) issued this statement at its December meeting "The Committee will maintain the target range for the federal funds rate at 0 to ¼ percent and continues to anticipate that economic conditions, including low rates of resource utilization, subdued inflation trends, and stable inflation expectations, are likely to warrant exceptionally low levels of the federal funds rate for an extended period." The target range of 0 to .25% was set by the FOMC in December 2008, where it has remained since.

The FOMC will meet next quarter on April 27 and June 22. The committee's focus is to seek monetary and financial conditions that will foster price stability and promote sustainable growth in output.

This quarterly report is being submitted to you as required by California Government Code section 53646 (b). In addition, California Government Code section 53646 (b) (3) requires the Treasurer-Tax Collector to include a statement in the Treasurer's Report affirming the ability of the Santa Barbara County Investment Pool to meet expenditure requirements for the next six months.

This report was reviewed and discussed by the Treasury Oversight Committee at its quarterly meeting. The Treasury Oversight committee promotes the public interest and is governed by California Government Code sections 27130 through 27133.

Performance Measures:

The following performance measures are related to the Treasurer's Investment Pool:

To ensure the financial stability of the County, monitor and project liquidity requirements as evidenced by zero securities sold at a loss to meet cash flow needs of pool participants: Accomplished

To ensure the financial stability of the County and secure public agency funds, stay within compliance 100% of the time with the Government Code and the Treasurer's Investment Policy: Accomplished.

Fiscal and Facilities Impacts:

Budgeted: Yes No

Fiscal Analysis:

For the quarter ending March 31, 2011, net investment earnings achieved by the Treasurer's Investment Pool were \$2,268,286, with the County receiving 43%, Schools 49%, and Special Districts the balance of 8%, as shown on Page 14, Chart 4. The net yield earned for the quarter on an annualized basis is .900% and over the past year is .915%.

Staffing Impacts

Legal Positions:
N/A

FTEs:
N/A

Special Instructions:

None

Attachments:

1. Treasurer's Third Quarter Investment Pool Report (January– March 2011)

Authored by: Kim Tesoro, CPA, CPFO, Investment & Debt Officer