



**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: 2/15/2011
Placement: Administrative
Estimate Time:
Continued Item: NO
If Yes, date from:
Vote Required: Majority

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

SUBJECT: Treasurer's Investment Pool, Fiscal Year 2010-2011 Second Quarter (Oct - Dec 2010)

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 Second Quarter (October – December, 2010) report on the Treasurer’s Investment Pool, pursuant to Government Code section 53646(b).
- B) Review and approve the Investment Policy Statement and authorize the County Treasurer to manage the investment pool in accordance with the policy, pursuant to sections 53646(a) and 53607 of the Government Code.

Summary:

As presented on Page 9, the value of the Treasurer’s Investment Pool at principal cost on December 31, 2010, was \$993,239,188. Market value of the investment pool was \$994,456,769 and the investment pool also held \$89,760,722 in cash on deposit at the bank. The weighted average days-to-maturity (WAM) for the investment pool was 544 days.

The Treasurer’s Investment Pool earned \$1,958,286 for the quarter ending December 31, 2010, an annualized return of .844%. 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, indicating 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 December 31, 2010 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 December 31, 2010, 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 increasing at a moderate rate as Gross Domestic Product expanded at an annual pace of 2.6%. Conditions in the labor market appeared to be improving with a declining number of new jobless claims, an increase in job openings, and an uptick in the average workweek. However, the pace of hiring was still sluggish and the unemployment rate ticked up in both October and November before falling to its lowest point in 19 months in December at 9.4%. The pace of consumer spending picked up in October and November from earlier in the year. Residential construction and home sales continued to be depressed and nonresidential construction remained weak.

Underlying inflation remained subdued. The Consumer Price Index began the quarter at 1.1% and ended at 1.5%. The latest readings on core inflation, which excludes the volatile prices of food and energy, were static beginning and ending the quarter at .8%.

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 January 26 and March 15. 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.

The Treasurer's Investment pool is managed by the County Treasurer's office on behalf of the County, local community colleges, local school districts, and other districts and agencies. Government Code Section 53646 requires the County Treasurer to annually present to the Board of Supervisors a statement of investment policy for review and approval. The attached investment policy was amended and approved by the Board in November 2010 when it was updated to allow for investments in shares of beneficial interest issued by a joint powers authority organized pursuant to Government Code Section 53601(p). There are no proposed changes at this time. The Treasury Oversight Committee reviewed the Treasurer's Investment Policy Statement at its quarterly meeting in January 2011, and approved it. The policy meets or exceeds the requirements of laws and regulations governing the pool.

Government Code section 53607 provides that a County Board of Supervisors may delegate the authority to invest and reinvest funds of the County to the County Treasurer for a one-year period. The government code further provides that this delegation may be made only to the Treasurer of the County.

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 December 31, 2010, net investment earnings achieved by the Treasurer's Investment Pool were \$1,958,286, with the County receiving 44%, Schools 48%, 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 .844% and over the past year is .971%.

Staffing Impacts

Legal Positions:
N/A

FTEs:
N/A

Special Instructions:

None

Treasurer's Investment Pool, Fiscal Year 2010-2011 Second Quarter (Oct - Dec 2010)

2/15/2011

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Attachments:

1. Treasurer's Second Quarter Investment Pool Report (October– December 2010)
2. Treasurer's Investment Policy Statement

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