



**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:** 5/12/2009  
**Placement:** Administrative  
**Estimate Time:**  
**Continued Item:** NO  
**If Yes, date from:**  
**Vote Required:** Majority

---

**TO:** Board of Supervisors  
**FROM:** Department Director(s) Bernice James, Treasurer - Tax Collector, 568-2490  
Contact Info: Stacey Matson, Investment & Debt Officer, 568-2158  
**SUBJECT: Treasurer's Investment Pool, Fiscal Year 2008-2009 Third Quarter (January - March 2009)**

---

**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 F/Y 2008-2009 Third Quarter (January – March, 2009) report on the Treasurer’s Investment Pool, pursuant to Government Code section 53646(b);
- B) Review and approve the Investment Policy Statement.

**Summary:**

As presented on Page 9, the value of the Treasurer’s Pool at principal cost on March 31, 2009, was \$843,983,867, and \$399,580 in Directed Investments. Market value of the investment pool was \$846,892,160 and of directed investments was \$431,270. The weighted average days-to-maturity (WAM) for the pool was 317 days.

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 finally, the objective of attaining a market average rate of return, consistent with the primary objectives of safety and liquidity.

For the quarter ended 3/31/2009, the Treasurer’s 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 pool is monitored on an ongoing basis. At March 31, 2009 the pool has an investment in a

Bank of America senior medium term note with a maturity value of \$5 million, and a maturity date of August 1, 2010. It also has an investment in a Bank of America senior medium term note with a maturity value of \$5 million, and a maturity date of February 12, 2010. When purchased the credit rating for both securities was "AA" by S&P and Fitch, and "AA1" by Moodys, more than meeting compliance requirements. Since the purchase dates in July and December of 2007, the rating agencies have downgraded Bank of America's rating to the following: S&P "A", Fitch "A+", and Moodys "A2". In accordance with the Treasurer's Investment Policy the events leading to the downgrade were thoroughly scrutinized, along with the risk to principal of the pool. At this time, it has been determined the likelihood of actual default is remote and that it would be in the best interest of pool participant's to hold the securities until maturity.

\$4,702,784, a return of 2.136%, was earned from investments of the pool and distributed for the benefit of programs provided by the County, schools, and special districts.

It is the adopted policy of the Santa Barbara County Treasurer to invest public funds in a manner which provides the maximum security of principal, while meeting the daily cash flow needs of investment pool participants. A lesser emphasis is to achieve the highest yield possible. The Santa Barbara County Treasurer conforms to all applicable State statutes and County resolutions that govern the investment of public funds.

### **Background:**

The US economy contracted at an annual pace of -6.3% for the quarter ended 3/31/2009, as measured through 12/31/2008. Federal Reserve analyst's expect Gross Domestic Product (GDP), the value of all goods and services produced within the economy, to decline further before flattening in the second half of calendar year 2009. Unemployment is expected to rise further into early next year, before flattening at a high level. Inflation is expected to be subdued due to unemployment holding down wages, the sharp fall in foreign economic activity resulting in falling prices for United State's exports, and sharp declines that have occurred in oil prices since last summer.

The Federal Open Market Committee (FOMC) issued a statement at its March 18<sup>th</sup> meeting stating "Job losses, declining equity and housing wealth, and tight credit conditions have weighed on consumer sentiment and spending. ... US exports have slumped as a number of major trading partners have also fallen into recession. Although the near term economic outlook is weak, the FOMC anticipates that policy actions to stabilize financial markets and institutions, together with fiscal and monetary stimulus, will contribute to a gradual resumption of sustainable economic growth." The FOMC again included the statement that "... the Committee anticipates that weak economic conditions are likely to warrant exceptionally low levels of the federal funds rate for some time." At the December meeting the rate was lowered to a target range of 0 to .25%, where it has remained since.

The Federal Reserve's emphasis on initiatives of asset purchases and lending facilities, which was a shift from targeting the federal funds rate to achieve monetary policy, is also expected to continue, with the aim of providing support to private credit markets and economic activity. The FOMC will meet on April 29th and June 24th, providing insights on the economy's stability since its March meeting, and the prospects for growth and inflation.

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.

The attached investment policy has been amended on pages seven, eight, nine, ten, and sixteen. Additions to the policy are underlined and deletions are indicated by a line through the text. On page seven, Section XI. Authorized Dealers and Institutions, a paragraph was removed because it is a duplication of similar language and requirements contained in Section VII. Ethics and Conflicts of Interest. Pages seven and eight, Section XII. Permitted Investments, A. Authorized Investments, 3.c. and 3.d. were deleted. 3.c., requiring prior approval to purchase state, local agency, and County of Santa Barbara issuances has been found to be overly cumbersome, while adding little benefit. 3.d., requiring a "AAA" rating for these issuances is overly restrictive based upon municipal levels of default and moves our policy into alignment with those of many other California counties. Page 9, Section XII. Permitted Investments, A. Authorized Investments, 12. added the Temporary Liquidity Guarantee Program (TLGP) which provides Federal Deposit Insurance Corporation protection and a "AAA" rating to corporate note issuances, modernizing our policy to reflect this new program. On page ten language is added to clarify the required ratings for non-TLGP and TLGP issuances. Page 16, Appendix I Authorized Investment Summary Table, has been updated to reflect applicable changes.

This report and the Treasurer's Investment Policy were 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

To ensure the financial stability of the County, achieve an investment pool yield equal to, or greater than LAIF's, on a five year moving average: Not Accomplished. LAIF's five year moving average for the quarter is 3.5%, as compared to 3.4% for the pool. This is the result of LAIF earning a higher rate of return for the period December 2005 – March 2008. However, for the quarter ended 3/31/2009 the Treasurer's pool earned a net return that is 23 basis points greater than LAIF's.

**Fiscal and Facilities Impacts:**

Budgeted:  Yes  No

**Fiscal Analysis:**

For the quarter ending March 31, 2009, net investment earnings achieved by the pool were \$4.7 million, with the County receiving 39%, Schools 54%, and Special Districts the balance of 7%, as shown on Page 14, Chart 4. The net yield earned for the quarter on an annualized basis is 2.136% and over the past year is 2.975%.

**Legal Positions:**

N/A

**FTEs:**

N/A

**Treasurer's Investment Pool, Fiscal Year 2008-2009 Third Quarter (January - March 2009)**

5/12/2009

Page 4 of 4

**Special Instructions:**

None

**Attachments:**

Treasurer's Third Quarter Investment Pool Report  
Treasurer's Investment Pool, Investment Policy

**Authored by:**

Stacey Matson, CPA, Investment & Debt Officer