



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: 8/9/11
Placement: Administrative
Estimated Tme:
Continued Item: No
If Yes, date from:
Vote Required: Majority

TO: Board of Supervisors
FROM: Department Harry E. Hagen, CPA, CPFO, CPFIM, Treasurer - Tax Collector
Director(s) 568-2490
Contact Info: Kim Tesoro, CPA, CPFO, Investment and Debt Officer
568-2153
SUBJECT: Treasurer's Investment Pool, FY 2010-2011 Fourth Quarter (Apr - Jun 2011)

County Counsel Concurrence

As to form: N/A

Other Concurrence: N/A

As to form: Select_Concurrence

Recommended Actions:

That the Board of Supervisors:

- A) Accept for filing the Fiscal Year 2010-2011 Fourth Quarter (April - June, 2011) report on the Treasurer's Investment Pool, pursuant to Government Code section 53646(b).
- B) Review and approve the Investment Policy Statement.
- C) Appoint the Santa Barbara County Executive Officer to the Treasury Oversight Committee.

Summary Text:

As presented on Page 9, the value of the Treasurer's Investment Pool at principal cost on June 30, 2011, was \$926,301,035. Market value of the investment pool was \$928,291,817. The weighted average days-to-maturity (WAM) for the investment pool was 529 days.

The Treasurer's Investment Pool earned \$2,118,420 for the quarter ending June 30, 2011, an annualized return of 0.796%. 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. However, on July 15, 2011 S&P has placed the "AAAF" fund credit quality rating on CreditWatch Negative because of its significant exposure to the U.S. sovereign credit ratings through direct and indirect investments in U.S. Treasury and U.S. government agency securities. This action follows the placement by S&P of its short- and long-term credit ratings on the United States of America on CreditWatch with negative implications on July 14, 2011. The rating agency has indicated there is a fifty percent chance it could downgrade the U.S. debt within the next 90 days "if we conclude that Congress and the Administration have not achieved a credible solution to the rising U.S. government debt burden and are not likely to achieve one in the foreseeable future." The long-term ratings of Fannie Mae, Freddie Mac, select Federal Home Loan Banks, and the Farm Credit System Banks have also been affected.

For the quarter ending June 30, 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.

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

The attached investment policy has been amended on pages, five, seven and sixteen. The Ethics and Conflicts of Interest section on page 5 was clarified by limiting the types of financial services firms a Treasury Oversight Committee member may not be employed by to just those with which the Treasurer is doing business with. The Permitted Investments section on page 7 and the Authorized Investment Summary Table on page 16 were updated to remove the 'AAA' credit rating requirement on securities issued by government-sponsored enterprises. Both of these changes realign our policy with the California Government Code.

As outlined in Government Code section 27130 et. seq., the Board of Supervisors, in consultation with the County Treasurer, shall establish the Treasury Oversight Committee with membership consisting of between three and eleven members from specified categories.

The County Treasurer nominates the County Executive Officer as the representative appointed by the County Board of Supervisors to the Treasury Oversight Committee. In addition, the following members, previously nominated by the Treasurer and confirmed by the Board, will continue to serve:

- Dr. Elizabeth Miller, Vice President Administrative Services, Allan Hancock College, Community College District Member
- Mr. Fred Gaeden, CPA, Public Member with academic background in finance
- Mr. Craig Geyer, Santa Barbara County Special Districts Association, Special Districts Member
- Mr. Steven Towner, Santa Barbara County Education Office, Designee of the County Superintendent of Schools

Background:

The FOMC meeting on June 21-22 discussed the slowdown of the economic recovery in recent months. Conditions in the labor market are still weak and the unemployment rate rose each month to end the quarter at 9.2 percent. This resulted in more foreclosure of family homes and low demand in the housing market even as

measures of home prices continued to fall further. Furthermore, the Japan earthquakes in March had negatively affected the global supply chain and increased the price of auto parts and reduced the U.S. industrial production of automobiles.

The Federal Open Market Committee (FOMC) issued this statement at its June meeting “To promote the ongoing economic recovery and to help ensure that inflation, over time, is at levels consistent with its mandate, the Committee decided today to keep the target range for the federal funds rate at 0 to ¼ percent. The Committee continues to anticipate that economic conditions – including low rates of resource utilization and a subdued outlook for inflation over the medium run – are likely to warrant exceptionally low levels for 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 August 9 and September 20. 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 and the Treasurer’s Investment Policy 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 Measure:

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

Fiscal Analysis:

For the quarter ending June 30, 2011, net investment earnings achieved by the Treasurer’s Investment Pool were \$2,118,420, 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 0.796 % and over the past year is 0.878%.

Attachments:

1. Treasurer’s Fourth Quarter Investment Pool Report (April - June 2011)
2. Treasurer’s Investment Policy Statement

Authored by:

Kim Tesoro, CPA, CPFO, Investment & Debt Officer