

SANTA BARBARA COUNTY BOARD AGENDA LETTER



Clerk of the Board of Supervisors
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Agenda Number:

Prepared on: 08/3/06
Department Name: Treasurer-Tax Collector
Department No.: 065
Agenda Date: 08/15/06
Placement: Administrative
Estimate Time:
Continued Item: NO
If Yes, date from:

TO: Board of Supervisors

FROM: Bernice James
Treasurer-Tax Collector

STAFF: Stacey Matson
Investment & Debt Officer

CONTACT: (805) 568-2158

SUBJECT: Treasurer's Investment Pool, F/Y 2005-2006 Fourth Quarter (April-June, 2006)

Recommendation(s):

That the Board of Supervisors:

- A. Accept for filing the F/Y 2005-2006 Fourth Quarter (April-June, 2006) report on the Treasurer's Investment Pool, pursuant to Government Code section 53646(b);
- B. Adopt and Execute a Resolution Authorizing the County of Santa Barbara "Public Agency" to Join With Other Public Agencies As A Participant of the Investment Trust of California, carrying On Business As CalTRUST;
- C. Accept and approve the Santa Barbara County Treasurer Investment Policy; as amended;
- D. Receive and file the Auditor – Controller's Review Report on the assets held in the Santa Barbara County Treasury Pool for the quarter ended June 30, 2006.

Alignment with Board Strategic Plan:

The recommendation(s) are primarily aligned with actions required by law or by routine business practice.

Executive Summary and Discussion:

As presented on Page 9, the value of the Treasurer's Pool at cost on June 30, 2006, was \$804,369,147 and \$2,616,081 in Directed Investments. Market value of the investment pool was \$796,103,091. The weighted average days to maturity (WAM) for the pool was 276 days.

It is the 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 while conforming to all applicable State statutes and County resolutions that govern the investment of public funds.

CalTRUST is a Joint Powers Authority and public agency which provides an efficient means for local public agencies to pool their assets for investment purposes, similar to the Local Agency Investment Fund (LAIF). The Treasury Oversight Committee took into consideration and recommended adding CalTRUST as an allowed investment in the Treasurer's Pool. The Treasurer Tax Collector's Investment Policy Statement has been amended to include CalTRUST. CalTRUST investments are authorized under the California Government Code, ensuring credit quality and legality. Invested funds in LAIF and CalTRUST are readily available in the event of any unforeseen expenditures, thus increasing liquidity for the Treasurer's pool and earn a better rate of return as compared to available balances in our bank account. Unlike the Local Agency Investment Fund (LAIF) which has a \$40 million maximum, there is no limitation to the amount that may be invested in CalTRUST.

The economy grew at a rate of 5.6% last quarter. However, it grew at an annual rate of 2.5% well below analysts forecasts. Most forecasts predict a growth rate of 3% - 3.25% for the remainder of the year. The Federal unemployment rate has continued to improve slightly ending the quarter at 4.6%. Short-term interest rates have increased this quarter; long-term interest rates have stayed the same. At certain points during this quarter the yield curve was inverted.

On June 29, 2006 the Federal Funds overnight lending rate increased to 5.25%, its 17th consecutive increase. Forecasts regarding future increases are mixed. Indications of a slowing economy contrasted with increasing inflation, has led to uncertainty. The Federal Reserve Board's Federal Open Market Committee (FOMC) will meet on August 9 and September 20, providing insights on the economy's growth prospects and inflation for the remainder of the year.

Mandates and Service Levels:

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 Treasury Oversight Committee promotes the public interest and is governed by California Government Code sections 27130 through 27133.

The Auditor-Controller's Review Report is being submitted pursuant to California Government Code section 26920 and Santa Barbara County Code Section 2-23.2. The apportionment of unrealized gains/losses to participating funds causes volatility in the recording of revenues. However, it is reflective of the actual position of the fair market value of the pool and is required by the Government Accounting Standards Board, which is recognized as the correct practice to be applied to all governmental entities. The Treasurer recognizes that there will be changes in the fair value of the pool investments and sufficient liquidity is maintained in the pool to avoid the actual realization of any unrealized losses due to market interest fluctuations.

Fiscal and Facilities Impacts:

For the quarter ending June 30, 2006, interest earnings achieved by the pool were \$8.570 million, with the County receiving 43%, Schools 46%, and Special Districts the balance of 11 %, as shown on Chart 4.

The yields for the quarter and year to date were 3.74% and 3.3%, respectively. This compares with 4.53% and 3.87% respectively, for the state's local agency investment fund (LAIF). Therefore, we did not meet our performance objective of earning 10 basis points more than LAIF. LAIF has a much shorter weighted average maturity (WAM) than our investment pool. This means LAIF's yield adjusts to interest rate changes faster than ours. Therefore, when interest rates increase quickly in a short period of time LAIF's earnings are likely to be higher than ours. As shown on Chart 3, this also occurred in 2000.

Special Instructions:

Send Minute Order and five original signed Resolutions to Stacey Matson, Office of the Treasurer – Tax Collector, Investment & Debt Officer.

cc: Auditor-Controller

Attachments: Treasurer's Investment Report
Resolution
CalTRUST: JPA Program Registration Form and Participation Agreement
Santa Barbara County Treasurer Investment Policy Statement
Auditor – Controller's Review Report