



**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:** 8/10/2010  
**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: Harry Hagen, Asst. Treasurer - Tax Collector, 568-2150  
Kim Tesoro, Investment and Debt Officer, 568-2153

**SUBJECT: Treasurer's Investment Pool, Fiscal Year 2009-2010 Fourth Quarter (April - June 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 2009-2010 Fourth Quarter (April – June, 2010) 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 June 30, 2010, was \$770,094,133. Market value of the investment pool was \$775,430,846 and the investment pool also held \$105,786,049 in cash on deposit at the bank. The weighted average days-to-maturity (WAM) for the investment pool was 391 days.

The Treasurer’s Investment Pool earned \$2,458,485 for the quarter ending June 30, 2010, an annualized return of .945%. 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 June 30, 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 June 30, 2010, and as reported in prior quarters, the investment pool holds a Bank of America senior medium term note of \$5 million that matures on August 1, 2010. It also continues to hold a \$5 million senior medium term note of Citigroup that will mature on September 29, 2011.

At the purchase dates of the medium term notes, both issuers met credit rating requirements of the Treasurer's Investment Policy. The Bank of America note was rated 'AA' by S&P, 'AA1' by Moodys, and 'AA' by Fitch. The Citigroup note was rated 'AA' by S&P, 'AA1' by Moodys, and 'AA+' by Fitch. Since their purchase both issuers have been downgraded below the credit rating that is required for purchase by the Treasurer's Investment Policy for medium term notes. They have retained investment grade ratings and meet State legal requirements for investment of public funds. Bank of America is currently rated 'A' by S&P, 'A2' by Moodys, and 'A+' by Fitch. Citigroup is currently rated 'A' by S&P, 'A3' 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 pool participant's to hold the securities until maturity.

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 expanded at an annual pace of 2.7% and Federal Reserve analysts expect Gross Domestic Product (GDP), the value of all goods and services produced within the economy, to continue to expand at a similar pace for the next quarter of the year. Although there have been some indications that the labor market is beginning to stabilize, including the unemployment rate declining from 9.7% in March to 9.5% in June, reports have been inconsistent.

Economic recovery proceeded at a moderate pace for the quarter. Businesses continued to increase employment and lengthen workweeks but the unemployment rate remained elevated. Industrial production rose as did business investment in equipment. Labor demand has continued to firm as non-farm payrolls increased by 621,000 jobs. This increase was boosted significantly by the hiring of temporary workers for the census. The labor force participation rate was also higher in recent months as rising employment was accompanied by an increasing number of jobseekers. Consumer spending continued to move up. Housing starts dropped and nonresidential construction remained depressed.

Underlying inflation remained low and is trending lower. The Consumer Price Index began the quarter at 2.3%, moved down to 2.2% in April, 2.0% in May and ended June at 1.1%. The latest readings on core inflation, which excludes the volatile prices of food and energy, also moved down. Core inflation began the quarter at 1.1% and ended June at .9%.

The Federal Open Market Committee (FOMC) issued this statement at its June 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 August 10 and September 21. 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.

**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 June 30, 2010, net investment earnings achieved by the Treasurer's Investment Pool were \$2,458,485, with the County receiving 40%, Schools 51%, and Special Districts the balance of 9%, as shown on Page 14, Chart 4. The net yield earned for the quarter on an annualized basis is .945% and over the past year is 1.183%.

**Staffing Impacts**

**Legal Positions:**  
N/A

**FTEs:**  
N/A

**Special Instructions:**

None

**Attachments:**

Treasurer's Fourth Quarter Investment Pool Report (April – June 2010)

**Authored by:**

Harry Hagen, CPA, CPFO, CPFIM, Asst. Treasurer – Tax Collector