

# SANTA BARBARA COUNTY BOARD AGENDA LETTER



Clerk of the Board of Supervisors  
105 E. Anapamu Street, Suite 407  
Santa Barbara, CA 93101  
(805) 568-2240

**Agenda Number:**

**Prepared on:** 3/7/02  
**Department Name:** Treasurer-Tax Collector  
**Department No.:** 065  
**Agenda Date:** 3/26/02  
**Placement:** Administrative  
**Estimate Time:**  
**Continued Item:** NO  
**If Yes, date from:**

---

**TO:** Board of Supervisors

**FROM:** Gary L. Feramisco  
Treasurer-Tax Collector

**STAFF CONTACT:** Tom Parsai,  
Investment Manager

**SUBJECT:** Treasurer's Investment Pool - 2001 Fourth Quarter, October-December

---

## **Recommendation(s):**

That the Board of Supervisors:

- A. Accept for filing the 2001 fourth Quarter (October-December) report on the Treasurer's Investment Pool.
- B. Approve the Treasurer's Investment Policy which includes the following modifications:
  1. Page 16, Section D - Is modified to allow 75% of funds to be invested other than short term.
  2. Page 18, Section E - Fitch Rating is added to the list of credit agencies from which we can obtain rating information.
  3. Other statutory and technical changes.

## **Alignment with Board Strategic Plan:**

The recommendation(s) are primarily aligned with Goal No. 4. A Community that is Economically Vital and Sustainable.

## **Executive Summary and Discussion:**

As presented on Page 14, assets at par value within the portfolio as of September 30, 2001, were \$668 Million and for the period ended December 31, 2001, were \$703 Million. During this period \$1.14 Billion of securities at par value were either matured or sold, and \$1.18 Billion in new assets were purchased. The dollar weighted average maturity of 695 days for the period ended is an increase of 17 days over the prior quarter. As compared with annualized quarterly maturity schedule, illustrated on Page 7, the distribution of maturities over the maximum five year period is stable between 2002 and 2006. This maturity distribution represents strength and quality in assets classification by tracking the yield curve to an effective level of 4.36%.

Within the investment guidelines, the structure of the portfolio's assets remain diversified to achieve prudent investment returns, the safety of principal with sufficient liquidity, and adequate balance of scheduled maturities to meet projected revenue and expenditure requirements for the next six month period. Quarter activity being \$475 Million in revenues and expenditures at \$434 Million, with agency distribution illustrated on Page 4. Activity for this quarter clearly tracks historical revenue and expenditure trends.

During this quarter interest earnings achieved were \$7.25 Million, with the County receiving 45%, Schools 40%, and Special Districts the balance of 15%, as shown on Page 11. This return is consistent with the various indexes, as summarized on Page 8.

The attached Treasurer's Investment Portfolio Investments Outstanding as of December 31, 2001, presents a detailed report, which reports fair market value and income on an accrued accounting basis and is not to be used for budgetary purposes. However, if budget preparation is in conformance to G.A.A.P. Standards, fair market fluctuations may be necessary to report. In recognition of these market fluctuations the pool maintains a liquidity policy that 25% of the portfolio must have a maturity schedule of less than eighteen months, with the remainder out to five years. Given the size of the pool, keeping 25% of the portfolio in short-term maturities will provide ample liquidity to meet our obligations. This discipline will substantially reduce risk and avoid actual realization of any losses due to market interest rate fluctuations. Section 53635 of the Government Code is amended to include Fitch Rating as an acceptable rating agency whose ratings can be used by government agencies. The maximum amount, which can be invested in LAIF, changes from time to time. Therefore, Page 18, Section H, of the Investment Policy is changed to reflect that. On Page 22 of the Investment Policy the "30 day written notice requirement for withdrawals" is not statutory. Therefore, the word "statutory" is deleted to reflect that. The Auditor-Controller has conducted the required quarterly compliance testing and the results were submitted to your Board under a separate cover. There were not any material findings and the accounting conforms to generally accepted accounting principles.

During the fourth quarter of 2001, the economy stayed weak and demand decreased even further to a level much below the rate of growth of the economy's potential output. This forced the Federal Reserve to keep its bias toward expansionary monetary policy.

At the December, 2001, FOMC meeting, the Federal Reserve cut short-term rates for the eleventh time this year by another 25 basis points. This takes the federal funds target rate to 1.75%, the lowest it has been since 1961. Most economists agree that, this was the last rate cut by the Federal Reserve. We also agree with that, and we think the economy will start to improve from this point.

**Mandates and Service Levels:**

No change in program or service levels.

**Fiscal and Facilities Impacts:**

None

**Special Instructions:**

Send Minute Order to Gary L. Feramisco, Treasurer-Tax Collector

cc: TOC Membership, Auditor-Controller, County Education Office, Sheriff, District Attorney