

**SANTA BARBARA COUNTY
BOARD AGENDA LETTER**



Clerk of the Board of Supervisors
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Santa Barbara, CA 93101
(805) 568-2240

Agenda Number:

Prepared on: 04/21/06
Department Name: Treasurer-Tax Collector
Department No.: 065
Agenda Date: 05/09/06
Placement: Administrative
Estimate Time:
Continued Item: NO
If Yes, date from:

TO: Board of Supervisors
FROM: Bernice James
Treasurer-Tax Collector
STAFF: Harry Hagen
Assistant Treasurer – Tax Collector
CONTACT: (805) 568-2150
SUBJECT: Treasurer’s Investment Pool, F/Y 2005-2006 Third Quarter (January-March, 2006)

Recommendation(s):

That the Board of Supervisors:

- A. Accept for filing the F/Y 2005-2006 Third Quarter (January-March, 2006) report on the Treasurer’s Investment Pool, pursuant to Government Code section 53646(b).
- B. Approve the following members to the Treasury Oversight Committee, pursuant to Government Code section 27132:
 1. Conrad Tedeschi, County of Santa Barbara Education Office
 2. Fred Gaeden, CPA – Public Member
- C. Receive and file the Auditor – Controller’s Review Report on the assets held in the Santa Barbara County Treasury Pool for the quarter ended March 31, 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 March 31, 2006, was \$853,935,851 and \$2,616,081 in Directed Investments. Market value of the investment pool was \$845,158,620. The weighted average days to maturity (WAM) for the pool was 319 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.

On February 1, 2006 Ben S. Bernanke was sworn in as the Chairman of the Board of Governors of the U.S. Federal Reserve System replacing Alan Greenspan. Bernanke becomes the Federal Reserve's 14th Chairman in its 82nd year of existence and will face two primary issues:

- The increasing U.S. budget deficits
- The increasing U.S. trade deficits

The economy grew at an annual rate of 1.7% last quarter, the slowest in three years. Most forecasts predict a growth rate of 3% - 3.5% for the remainder of the year. The Federal unemployment rate has improved slightly in the past few months ending the quarter at 4.7%. Short-term interest rates have increased this quarter; long-term interest rates have stayed the same creating an inverted yield curve.

On March 28, 2006 the Federal Funds rate increased to 4.75%, the 15th consecutive increase. Most forecasts are for higher interest rates this year. The Federal Reserve Board's Federal Open Market Committee (FOMC) meets on May 10 and June 29 providing insights on the economy's growth prospects for the remainder of the year.

The County Treasurer recommends the following two public members for inclusion on the committee:

Mr. Conrad Tedeshci, Fiscal Manager, County Education Office, Schools Member with academic background in finance;

Mr. Fred Gaeden, CPA, Public Member with academic background in finance.

Per GC 27132 these members have been nominated by the Treasurer and are to be confirmed by the Board of Supervisors. The following members, previously nominated and confirmed, will also continue to serve:

Ms. Suzanne Schomer, Senior Vice President, Northern Trust, Public Member with academic background in finance;

Mr. Don Sweeney, Attorney – At – Law, Public Member with academic background in finance;

Mr. Mitch Bernstein, District Manager, Santa Barbara Coastal Vector Control District, Special Districts Member;

Mr. Michael F. Brown, County Executive Officer, County of Santa Barbara Member;

Dr. Elizabeth Miller, Vice President Business Services, Allan Hancock College, Community College District Member.

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 March 31, 2006, interest earnings achieved by the pool were \$7.263 million, with the County receiving 41%, Schools 48%, and Special Districts the balance of 11 %, as shown on Chart 4.

The yields for the quarter and year to date were 3.34% and 3.01%, respectively. This compares with 4.03% and 3.42% 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 to Bernice James, Treasurer-Tax Collector

cc: Auditor-Controller

Attachments: Treasurer's Investment Report