



**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:** 11/10/2009  
**Placement:** Administrative  
**Estimate Time:**  
**Continued Item:** NO  
**If Yes, date from:**  
**Vote Required:** Majority

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**TO:** Board of Supervisors  
**FROM:** Department Director(s) Bernice James, Treasurer - Tax Collector, 568-2490  
Contact Info: Stacey Matson, Investment & Debt Officer, 568-2158  
**SUBJECT: Treasurer's Investment Pool, Fiscal Year 2009-2010 First Quarter (July - September 2009)**

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**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 First Quarter (July – September, 2009) 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 Pool at principal cost on September 30, 2009, was \$797,710,642, and \$399,580 in Directed Investments. Market value of the investment pool was \$804,163,522 and of directed investments was \$421,095. The weighted average days-to-maturity (WAM) for the pool was 410 days.

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 finally, the objective of attaining a market average rate of return, consistent with the primary objectives of safety and liquidity.

The Treasurer’s Pool was assigned the highest Standard & Poor’s rating of ‘AAAF’ for credit quality and a rating of ‘S1’ for volatility, on October 13, 2009. In Standard & Poor’s (S & P) September 25, 2009 ratings definition report, the “Fund Quality Ratings Definitions” section explains that a rating identified

by the 'f' subscript is assigned to fixed income funds, and is a forward-looking opinion reflecting the level of protection against losses from credit defaults and is based on S & P's analysis of the credit quality of the fund's investments. A "Fund Volatility Rating", S & P explains, is a forward looking opinion about a fixed-income fund's sensitivity to changing market conditions relative to the risk of a portfolio composed of government securities. An 'S1' category rating is intended to signify the most liquid, highest quality securities issued by a government. Volatility ratings reflect S & P's view of the pool's sensitivity to interest rate movements, credit risk, investment diversification or concentration, liquidity, and leverage.

For the quarter ended 9/30/2009, the Treasurer's 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 pool is monitored on an ongoing basis. At September 30, 2009, and as reported in prior quarters, the pool holds two Bank of America senior medium term notes of \$5 million each that mature on February 12, 2010 and August 1, 2010. It also continues to hold a \$5 million senior medium term note of Citigroup that matures 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 notes were 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 dates both issuers have been downgraded below what is required 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.

\$3,261,749, a return of 1.474%, was earned from investments of the pool and distributed for the benefit of programs provided by the County, schools, and special districts.

It is the adopted 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. 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 contracted at an annual pace of -0.7% for the quarter ended 9/30/2009, as measured through 6/30/2009. Federal Reserve analyst's expect Gross Domestic Product (GDP), the value of all goods and services produced within the economy, to continue to decline at a slower pace for the quarter ending September 30 as compared to prior quarters over the last year, and to become positive sometime in the 2010 calendar year. Job losses continue to plague the modest improvement in economic activity. Although the pace of job losses slowed from those seen earlier in the 2009 calendar year, unemployment increased over the quarter to 9.8% from its beginning rate of 9.5%. Analyst's are projecting a slow improvement to labor markets, estimating the unemployment rate will be 9.25% by December of 2010, after reaching a high of 10.0% earlier in that year. Inflation is expected to be subdued due to unemployment holding down wages, personal income contracting,

continued tight credit conditions, and rates of household savings projected to increase, despite an improvement in consumer sentiment. Core consumer price levels have risen slightly, pushed up by costs for health-care, energy, and automobiles. Record levels of rental vacancies which make up almost 40% of the CPI and reductions in food prices have restrained costs.

The Federal Open Market Committee (FOMC) issued a statement at its September 23<sup>rd</sup> meeting stating "Information received since the FOMC met in August suggests that economic activity has picked up following its severe downturn." and "... the Committee expects that inflation will remain subdued for some time." The FOMC further stated that "The Committee will maintain the target range for the federal funds rate at 0 to ¼ percent and continues to anticipate that economic conditions 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, and it has remained there since.

The FOMC will meet on November 4th and December 16th, providing insights on the economy's stability since its September meeting, and the prospects for growth and inflation.

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 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.

Information regarding the Treasurer's Pool at September 30, 2009, including the adopted Treasurer's Investment Policy, pool holdings, daily operating procedures, and credit analysis procedures was submitted to Standard & Poor's (S&P) in order to obtain a rating for the pool. The Treasurer's Pool was assigned the highest S&P ratings of "AAAF" and 'S1' for credit quality and volatility, respectively. Standard & Poor's "Fund Quality Ratings Definitions" (September 25, 2009) define a 'AAAF' credit quality rating to mean "The fund's portfolio holdings provide extremely strong protection against losses from credit defaults". It defines a S1 fund volatility rating to mean "Funds that possess low sensitivity to changing market conditions are rated S1. These funds possess an aggregate level of risk that is less than or equal to that of a portfolio comprised of government securities maturing within one to three years and denominated in the base currency of the fund".

### **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 September 30, 2009, net investment earnings achieved by the pool were \$3.26 million, with the County receiving 42%, Schools 50%, 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 1.474% and over the past year is 2.018%.

\_\_\_\_\_ **Legal Positions:**  
N/A

**FTEs:**  
N/A

**Special Instructions:**

None

**Attachments:**

Treasurer's First Quarter Investment Pool Report (July – September 2009)  
Standard & Poor's Fund Ratings "Santa Barbara County Treasurer's Investment Pool  
Rated 'AAAf/S1'

**Authored by:**            Stacey Matson, CPA, Investment & Debt Officer