



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: 5/1/2007
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: Stacey Matson, Investment & Debt Officer, 568-2158
SUBJECT: Treasurer's Investment Pool, Fiscal Year 2006-2007 Third Quarter (January - March)

County Counsel Concurrence:

As to form: [ ] Yes [ ] No [x] N/A

Auditor-Controller Concurrence:

As to form: [x] Yes [ ] No [ ] N/A

Other Concurrence: N/A

As to form: [ ] Yes [ ] No [x] N/A

Recommended Action(s):

- That the Board of Supervisors:
A. Accept for filing the F/Y 2006-2007 Third Quarter (January - March, 2007) report on the Treasurer's Investment Pool, pursuant to Government Code section 53646(b);
B. Approve the following member to the Treasury Oversight Committee, pursuant to Government Code Section 27132:
Mr. Craig Geyer, Goleta Cemetery District, Special Districts Member;
C. Receive and file the Auditor - Controller's Review Report on the assets held in the Santa Barbara County Treasurer's Pool for the quarter ended March 31, 2007.

Summary:

As presented on Page 9, the value of the Treasurer's Pool at principal cost on March 31, 2007, was \$845,282,472 and \$2,616,081 in Directed Investments. Market value of the investment pool was \$843,707,760. The weighted average days to maturity (WAM) for the pool was 432 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 thirdly the objective of achieving a return on pool participant's funds, in this order of importance. For the quarter ended 3/31/2007, the Treasurer's Pool anticipated and met all liquidity requirements, precluding any need to sell holdings unexpectedly at a potential loss. All investments purchased met or exceeded state and local policy requirements for credit quality. In

addition, \$9,769,510, a return of 4.602%, 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:**

As anticipated, the economy expanded at a moderate rate over the quarter, ending at a rate of 2.5%. Although the recent increase in oil prices, decline in equity prices, and strains in the sub-prime mortgage sector are expected to exert some slowing on growth, Gross Domestic Product (GDP), the value of all goods and services produced within the economy, is expected to remain relatively constant, with an emphasis on continuing to expand at a moderate rate throughout the remainder of the calendar year. A growth rate of 2.4% - 2.8% is predicted. The Federal unemployment rate increased to 4.6% for the month ended January 2007, decreased to 4.5% for the month ended February 2007, and ended the quarter at 4.4%. Anecdotal and statistical data suggest that labor markets remain relatively tight. Shortages of skilled workers in technical and professional fields, with significant wage pressures in some occupations, as well as a scarcity of less skilled and unskilled workers in some areas of the country are being consistently reported. Short-term interest rates and long-term interest rates experienced some fluctuation over the quarter. Financial market volatility increased sharply due to mounting concerns regarding the sub-prime sector and significant declines in foreign equity prices. The yield curve remained inverted with short term interest rates higher than long term interest rates over the past quarter, although there has been some flattening of the inversion.

On June 29, 2006 the Federal Funds overnight lending rate increased to 5.25%, its last, and 17<sup>th</sup> consecutive increase. Since that date the Federal Funds rate has been maintained at 5.25%. Analysts have characterized economic growth as "expanding at a moderate pace" over the past few quarters. At the March 2007 Federal Open Market Committee meeting it was noted by all that economic indicators had been mixed and a statement that "The Committee's predominant concern remains the risk that inflation will not moderate as expected. Future policy adjustments will depend on the evolution of the outlook for both inflation and economic growth, as implied by incoming information.". Although market analyst's expect a decrease in the Federal Funds rate, inflation risk may preclude such a move. The Federal Reserve Board's Federal Open Market Committee (FOMC) will meet on May 9 and June 28, providing insights on the economy's growth prospects and inflation for the remainder of the year.

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 and the Treasurer's Investment Policy were 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.

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.

**Performance Measures:**

The following performance measures are related to the Treasurer's Investment Pool:

Update the quarterly investment report and make available on the Treasurer – Tax Collector's website within 10 days of filing the report with the Clerk of the Board: Accomplished

File the Treasury Investment Report with the Clerk of the Board within 30 days after quarter end: Accomplished

Cash invested, \$2.6 billion, annually: Fiscal year – to - date \$3.6 billion. Cash invested for the fiscal year will be greater than anticipated due to the inverted yield curve and thus shorter term maturities providing a higher yield and less risk than longer term maturities.

Earn a rate of return on investments that is at least equal to, or higher than, the State of California's investment pool earnings rate, in basis points: For the quarter ended 3/31/07 the pool's quarterly and annualized rate of return, respectively, is 4.602% and 4.145%, as compared to LAIF's rates of 5.17% and 4.935%. In a market environment of increasing interest rates, the State pool's shorter maturity period may result in a higher return than the Treasurer's pool. Over time this margin is expected to diminish, until eventually the Treasurer's Pool will exceed LAIF. The difference in earnings of the Treasurer's Pool is 57 basis points from LAIF for the quarter ended 3/31/2007, as compared to a difference of 85 and 95 basis points for the quarters ended 12/31/06 and 9/30/2006, respectively. Both the quarters ended 3/31/07 and 12/31/06 had an 11% improvement when compared to LAIF. If, as analyst's expect, interest rates remain relatively stable in the near term, the Treasurer's Pool is likely to exceed the return on LAIF as early as the calendar year ended December 31, 2007.

**Fiscal and Facilities Impacts:**

Budgeted:  Yes  No

**Fiscal Analysis:**

For the quarter ending March 31, 2007, investment earnings achieved by the pool were \$9.770 million, with the County receiving 41%, Schools 50%, and Special Districts the balance of 9 %, as shown on Chart 4. The yields for the quarter and year – to - date were 4.602% and 4.145%, respectively.

**Staffing Impact(s):**

**Legal Positions:**

N/A

**FTEs:**

N/A

**Special Instructions:**

None

**Attachments:**

Treasurer's Third Quarter Investment Pool Report  
Auditor – Controller's Third Quarter Review Report

**Authored by:**

Stacey Matson, Investment & Debt Officer