



**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: 8/14/2007
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 Fourth Quarter (April - June)

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 F/Y 2006-2007 Fourth Quarter (April - June, 2007) 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 June 30, 2007, was \$818,283,334 and \$2,616,081 in Directed Investments. Market value of the investment pool was \$816,375,234. The weighted average days to maturity (WAM) for the pool was 433 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 6/30/2007, 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, \$11,480,633, a return of 4.969%, 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 expanded at an annual pace of .7% for the quarter ended 6/30/2007, the slowest rate of growth in the last four years. Gross Domestic Product (GDP), the value of all goods and services produced within the economy, is expected to moderate over the second half of calendar year 2007. The Federal Reserve has trimmed its forecast for the US growth rate to a range of 2.25% - 2.5% from a range of 2.5% to 3%. The Federal unemployment rate increased to 4.5% for the month ended April 2007, from a rate of 4.4% at the beginning of the quarter. The 4.5% unemployment rate remained constant for the months ended May and June of 2007. Short-term interest rates and long-term interest rates experienced some fluctuation over the quarter. Financial market volatility remained due to concerns regarding the sub-prime sector and the decline in the exchange value of the dollar. Flattening out, after having a negative slope for many quarters, the yield curve then normalized during the quarter. In a positive sloping yield curve environment short term interest rates are lower than long term rates.

On June 29, 2006 the Federal Funds overnight lending rate increased to 5.25%, its last, and 17th consecutive increase. Since that date the Federal Funds rate has been maintained at 5.25%. At the Federal Reserve Board's June 2007 Federal Open Market Committee meeting it was noted that the economy seemed to be expanding at a moderate pace over the first half of the year. The members agreed that while measures of core inflation had improved, a sustained moderation of inflation remained in question due to consistent low levels of unemployment and increased energy prices. Accordingly, they unanimously authorized the following text to be included in their policy statement for the meeting: "The Committee's predominant concern remains the risk that inflation will fail to 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." The Federal Open Market Committee will meet on August 8 and September 20, providing insights on the economy's growth prospects 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 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.

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 \$5.1 billion. Cash invested for the fiscal year is greater than anticipated due to the persistent inverted yield curve experienced for most of the fiscal year. Thus, shorter term maturities provided 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 6/30/07 the pool's quarterly and annualized rate of return, respectively, is 4.969% and 4.453%, as compared to LAIF's rates of 5.23% and 5.11%. 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 26 basis points from LAIF for the quarter ended 6/30/2007, as compared to differences of 57, 85, and 95 basis points for the quarters ended 3/31/2007, 12/31/2006 and 9/30/2006, respectively. If, as expected, interest rates remain relatively stable in the near term, the Treasurer's Pool is likely to equal or 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 June 30, 2007, investment earnings achieved by the pool were \$11.480 million, with the County receiving 42%, Schools 49%, and Special Districts the balance of 9 %, as shown on Chart 4. The yields for the quarter and year – to - date were 4.969% and 4.453%, respectively.

Staffing Impact(s):

Legal Positions:

N/A

FTEs:

N/A

Special Instructions:

None

Attachments:

Treasurer's Fourth Quarter Investment Pool Report

Authored by:

Stacey Matson, Investment & Debt Officer