



MONTEREY COUNTY TREASURER'S INVESTMENT POLICY

FISCAL YEAR 2017-2018

APPROVED BY THE BOARD OF SUPERVISORS JULY 25, 2017

MONTEREY COUNTY INVESTMENT POLICY

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INVESTMENT POLICY

**Treasurer-Tax Collector
County of Monterey**

1.0 Policy

It is the policy of the Treasurer-Tax Collector of Monterey County (“Treasurer”) to invest public funds in a manner which provides for the safety of the funds on deposit, the cash flow demands or liquidity needs of the Treasury Pool participants, and the highest possible yield after first considering the first two objectives of safety and liquidity. In addition, it is the Treasurer-Tax Collector's Policy to invest all funds in strict conformance with all state statutes governing the investment of public monies.

2.0 Scope

This Investment Policy applies to all financial assets in the Treasury Pool. The Policy does not apply to bond proceeds, which are governed by their respective bond documents. These funds are accounted for in the Comprehensive Annual Financial Reports of the County and each of the Treasury Pool's participating agencies.

2.1 Participating Agencies

Participants in the Treasurer's Investment Pool shall be limited to the County of Monterey, school districts within Monterey County and those special districts, which, by statute, maintain depository authority with the County Treasurer.

2.2 Outside Agency Participation

It is the Treasurer's policy to prohibit any voluntary agency participation in the Treasury Pool.

3.0 Prudence

The County Treasurer is a trustee and therefore a fiduciary subject to the prudent investor standard. When investing, reinvesting, purchasing, acquiring, exchanging, selling, and managing public funds, the County Treasurer shall act with care, skill, prudence and diligence under the circumstances then prevailing, that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the county and the other depositors. Within the limitations of this section and considering individual investments as part of an overall investment strategy, a trustee is authorized to acquire investments as authorized by law.

Nothing in this Policy is intended to grant investment authority to any person or governing body except as provided in Sections 53601 and 53607 of the Government Code.

4.0 Objectives

The primary objectives, in priority order, of the County of Monterey's investment activities shall be:

4.1 Safety of Principal

Investments of the County shall be undertaken in a manner that seeks to ensure preservation of capital in the overall portfolio. To attain this objective, diversification is required in order that potential losses do not exceed the income generated from the remainder of the portfolio.

4.2 Liquidity

The investment portfolio shall remain sufficiently liquid to enable all depositors to meet all expenditure requirements that might be reasonably anticipated. A minimum of 30% of the invested assets, including cash held in commercial bank accounts, shall be kept in assets having a maturity of one (1) year or less. In the event that unforeseen cash-flow fluctuations temporarily cause the ratio of liquid assets to decline below 30% of the portfolio balance, no new investments will be made until the minimum percentage is restored.

4.3 Return on Investment

The County's investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the County's investment risk constraints and the cash flow characteristics of the portfolio.

5.0 Delegation of Authority

Subject to amended delegation by the Board of Supervisors pursuant to Government Code Section 53607, the Treasurer-Tax Collector is authorized to manage the Monterey County investment program. The Treasurer-Tax Collector shall establish written procedures for the operation of the investment program consistent with this Investment Policy.

Procedures should include reference to: safekeeping, master repurchase agreements, funds transfer agreements, collateral/depository agreements and banking service contracts. Such procedures shall include explicit delegation of authority to persons responsible for investment transactions. No person may engage in an investment transaction except as provided under the terms of this Policy and the procedures established by the Treasurer-Tax Collector. The Treasurer-Tax Collector shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials.

6.0 Conflict of Interest

Pursuant to Article 2 (commencing with Section 87200) of Chapter 7 of Title 9 of the Government Code and the regulations of the Fair Political Practices Commission enacted pursuant thereto, the Treasurer-Tax Collector shall disclose investments, interests in real properties, and any income received during the period since the previous statement was filed. Such disclosure shall be in writing, and shall be filed with the officer designated by law within the time periods specified by law.

6.1 Acceptance of Gifts

The Treasurer-Tax Collector, all deputized departmental staff, and members of the Treasury Oversight Committee are prohibited from accepting any monetary or in-kind gift from any broker, dealer, or firm doing business or seeking to do business with the Monterey County Treasurer.

7.0 Authorized Dealers and Institutions

The Treasurer-Tax Collector will maintain a list of broker/dealers and institutions authorized to provide investment services. Repurchase agreements and reverse repurchase agreements shall only be made with primary dealers designated by the Federal Reserve Bank of New York. The Treasurer-Tax Collector may impose additional qualifications of brokers and their firms in order to ensure professionalism and suitability. At a minimum, all broker/dealers and/or financial institutions authorized to provide investment services to Monterey County shall meet the following criteria:

- a. Commercial banks and savings institutions must be authorized as insured with the FDIC, SIPC, or NCUA (credit unions), as applicable.
- b. Must hold an active corporate registered status with the Secretary of State (California), or an out-of-state counterpart agency.
- c. Commercial banks and savings institutions used for deposits, must be a state or national bank, savings association or federal association, a state or federal credit union, or a federally insured industrial loan company, in this state
- d. Must be an active member of the Financial Industry Regulatory Authority.

If a third-party Investment Advisor is authorized to conduct investment transactions on the County's behalf, the Investment Advisor may use its own list of approved broker/dealers and financial institutions for investment purposes. The Investment Advisor's approved list must be made available to the County upon request.

7.1 Limitations on Political Contributions

Pursuant to Government Code Section 27133 (c), the Treasurer-Tax Collector shall not select for business any broker, brokerage, dealer, or securities firm that has made a political contribution within the last four years in an amount exceeding the limitations contained in Rule G-37 of the Municipal Securities Rulemaking Board, to the County Treasurer, any member of the Monterey County Board of Supervisors, or any candidate for those offices.

8.0 Authorized and Suitable Investments.

The Treasurer-Tax Collector of Monterey County may invest in any security within the limits authorized by Section 53601 and 53635 of the Government Code of the State of California, and within the limits of any other Government Code Statute that permits public agency investment in various securities or participation in investment trading techniques or strategies. Permissible investments are detailed in Appendix A.

Rating requirements and percentage limitations, where indicated, apply at the time of purchase.

8.1 Limitations

The Treasurer shall not invest in any security, which, by its structure, term or other characteristics, has the possibility of returning a zero or negative yield or could be subject to a loss of principal at the time such security has attained its maturity date. Investments shall not be made in inverse floaters, range notes, and mortgage-derived interest-only strips.

8.2 Reverse Repurchase Agreements

Any reverse repurchase agreement shall have a maximum maturity of 92 days, and the proceeds shall not be invested beyond the expiration of the reverse repurchase agreement. The maximum amount of Reverse Repurchase Agreements shall be limited to 20% of the portfolio's book value on the date of the transaction.

8.3 Maximum Credit Exposure

The Treasurer shall limit the investments in any single issuer, regardless of the combination of asset class; to no more than 5% of the portfolio's book value on the date of the transaction. Obligations of the U. S. Treasury, federal agencies, supranational, and pooled investments such as LAIF, CAMP, CalTrust, and money market funds are exempted from this restriction.

8.4 Credit Downgrade

In the event a security held by the County is downgraded below the minimum ratings required by the Policy, the security will be reviewed. The course of action will be determined on a case-by-case basis, considering such factors as the reason for the ratings change, prognosis for recovery or further ratings changes, and the market price of the security.

9.0 Safekeeping and Custody

All security transactions, including collateral for repurchase agreements, shall be conducted on a delivery-versus-payment basis. Securities shall be held by a third-party custodian designated by the Treasurer-Tax Collector and evidenced by safekeeping receipts and tri-party master repurchase agreements.

10.0 Investments Outside Treasury Pool

The Treasurer will accept funds for investment outside of the core pooled portfolio (custom invested funds) from depository agencies who also deposit their operating fund in the core portfolio under the following criteria:

- a. All such investments are subject to prior approval by the Monterey County Treasurer.
- b. The funds represent proceeds of bonds, other forms of indebtedness, or special purpose funds not required for normal operating expenses, and
- c. The funds represent new or additional assets of the agency that were not previously invested in the Monterey County Investment Pool, or under other conditions approved by the Treasurer, and
- d. The funds may be transferred to the core portfolio upon mutual agreement between

Exhibit F

the depository agency and the Monterey County Treasurer. Any such transfer will reflect the market value of any securities sold prior to their maturity, where the underlying funds cannot be transferred back to a custom investment outside the core portfolio unless approved by the Treasurer, and

- e. Funds may be transferred to the Monterey County Treasurer's operating (checking) account for further disbursement provided the funds originate from: maturing securities; overnight funds; sold securities subject to subsection 10 (c.) above, and associated earned income on those funds, and
- f. Within 7 business days prior to the maturity of any security the depository agency shall inform the Monterey County Treasurer of the desired disposition of such maturing assets to include, rollover to a new asset, transfer to the core portfolio, or transfer to the Monterey County Treasurer's operating account subject to the conditions in 10 (a.) through (g.) inclusive, and
- g. Any earned income on "custom invested funds" will be segregated from the core portfolio and deposited to an overnight fund designated specifically for such income. Any liquidation or transfer of the underlying asset will invoke a corresponding transfer of the associated earned income.

11.0 Criteria for Withdrawal of Funds from the Treasury Investment Pool Section 27136 and Section 27133 (h) - Government Code

An agency with funds on deposit in the County Treasury where such funds may statutorily be invested outside of the County Treasury may apply for a withdrawal of those funds. Pursuant to Government Code Sections 27133 (h) and 27136, the County Treasurer shall evaluate each proposal for withdrawal of funds. The Treasurer's evaluation shall assess the effect of a proposed withdrawal on the stability and predictability of the investments in the County Treasury Pool. In addition and prior to any withdrawal, the Treasurer shall find that the proposed withdrawal will not adversely affect the interests of the other depositors in the Treasury Pool.

All applications for withdrawal must be submitted by a Resolution of the depository agency at least 30 days in advance of the anticipated date of withdrawal. Resolutions for withdrawal shall include:

- a. A statement of the purpose for withdrawal.
- b. The date(s) and amount(s) of funds to be withdrawn.
- c. A certification that funds withdrawn from the county pool shall be managed by the applicant agency and that withdrawn funds shall not be returned for future investment by the County Treasurer for a term of one year, and
- d. An acknowledgement that the value of any funds withdrawn from the County Treasury shall reflect their most recent quarterly asset valuation as reported by the Treasurer.

The Treasurer shall provide an applicant agency a written response within 15 days from receipt of the application. The Treasurer's determination shall be final.

12.0 Maximum Maturities

Any non-marketable investments, such as time deposits, should not exceed a two-year maturity. In addition, no specific investment shall have a term remaining to maturity in excess of five years except under the following circumstance, and subject to specific approval of the Board of Supervisors at least 90-days in advance of purchasing investments:

Other special purpose investments where the maturity term is not integral to short term cash flow needs.

12.1 Weighted Average Maturity

The weighted average maturity of the pool portfolio (exclusive of custom investments) shall not exceed two years.

13.0 Audits

The Monterey County investment portfolio shall be subject to a process of independent review by the Auditor-Controller's internal auditor. The County's external auditors shall review the investment portfolio in connection with the annual county audit and requirements of the Governmental Accounting Standards Board.

14.0 Performance Standards

The investment portfolio will be designed to obtain a market average rate of return during budgetary and economic cycles, taking into account the County's investment risk constraints and cash flow needs. The County may establish a market-based performance benchmark for comparison.

15.0 Investment Policy Review and Approval

The Treasurer-Tax Collector of Monterey County shall submit the Investment Policy to the Board of Supervisors for review and approval at least annually.

15.1 Legislative Changes

Any State of California legislative action that further restricts allowable maturities, investment types, minimum credit requirements, or percentage allocations will be incorporated immediately into the Investment Policy.

16.0 Reporting

Pursuant to Government Code Section 53646 (b) the Treasurer-Tax Collector may provide quarterly investment reports to the Board of Supervisors, Treasury Oversight Committee, and all pool participants. The report shall include a listing of all securities held in the portfolio. Such listing shall include investment description, maturity date, par, amortized book value, market values and their source, and a risk measurement standard such as duration, along with certifications concerning the portfolio's compliance with the Policy and the portfolio's available liquidity to meet expenditure requirements for the next six months. The quarterly report shall be submitted to the Board of Supervisors within 30 days of the quarter end being reported.

17.0 Allocation of Investment Costs

The costs of investing, banking, and cash management as budgeted annually and applied quarterly shall be assessed to depositing agencies at the time of quarterly interest apportionment by the County Auditor-Controller, and in accordance with Government Code statutes. Depositing agencies will receive net revenue after pro rata application of costs that correspond to a basis point reduction to earned interest rates.

When actual annual costs of investing are determined, any differences from budgeted amounts shall be included in an adjusting interest allocation by the Auditor-Controller.

18.0 Treasury Oversight Committee

A Treasury Oversight Committee nominated by the County Treasurer and confirmed by the Board of Supervisors shall provide oversight through periodic review of the Investment Policy and compliance with such Policy. The Treasury Oversight Committee, pursuant to Government Code Section 27130 et seq; shall consist of 6 members including: the Treasurer-Tax Collector, the County Administrative Officer or his/her designee, the County Superintendent of Schools, or his/her designee, a representative of the governing bodies of County School Districts, a representative of the legislative bodies of County Special Districts that are authorized depositors in the County Treasury, and a member of the public. The committee shall meet at least annually, or as needed, and shall review the Investment Policy and report on compliance with such Policy.

18.1 Establishment of Treasury Oversight Committee

Pursuant to Section 27130 et seq; of the Government Code, the Monterey County Treasury Oversight Committee was established. The committee shall be subject to the provisions of the Political Reform Act of 1974, as amended (Government Code Sections 8100 et seq).

18.2 Brown Act

Pursuant to Government Code Section 27132.4, Committee meetings shall be open to the public and subject to the Ralph M. Brown Act (Chapter 9 (commencing with Section 54950) of Part 1 of Division 2 of Title 5).

18.3 Membership Prohibitions

Pursuant to Government Code Section 27132.2, no member of the committee shall directly or indirectly raise money for a candidate for local Treasurer or a member of the governing board of any local agency that has deposited funds in the County Treasury while a member of the committee.

Pursuant to Government Code Section 27132.3, a member of the Treasury Oversight Committee may not secure employment with, or be employed by, bond underwriters, bond counsel security brokerages or dealers or financial services firms, with whom the Treasurer is doing business during the period that the person is a member of the Committee or for one year after leaving the Committee.

18.4 Compliance Audit

Pursuant to Government Code Section 27134, the County Treasury Oversight

Exhibit F

Committee shall cause an annual audit to be conducted to determine the County Treasurer's compliance with Article 6, Chapter 5 of Division 2 of Title 3 of the Government Code.

19.0 Disaster Recovery

The Treasurer-Tax Collector shall maintain a disaster recovery plan and shall include contact information for key personnel as well as active bankers, broker/dealers, and the County's investment advisor.

APPENDIX A
Authorized Investments County General Pool

Instrument	Maximum Maturity per code	County Restriction	Max %/ Dollar Limit
California State Treasurer's Local Agency Investment Fund	N/A	N/A	Amount permitted by LAIF per account or as approved by the State Treasurer for bond/note proceeds (Currently \$65,000,000)
California Asset Management Program (CAMP)	N/A	N/A	20%
CalTrust	N/A	N/A	20%
Bonds, including revenue bonds, issued by the County, its Agencies, or authorities	5 years	N/A	10% limit issuer
U.S. Treasury notes, bonds, bills, or certificates of indebtedness bearing a full faith and credit pledge	5 years	N/A	N/A
Registered warrants, notes, and bonds, including revenue bonds, of the State of California and all other 49 states ⁽¹⁾	5 years	N/A	10% limit issuer
Bonds, notes, warrants, and other evidences of indebtedness issued by any local agency within California, including revenue bonds ⁽¹⁾	5 years	N/A	10% limit issuer
Obligations of federal agencies and United States government-sponsored enterprises	5 years	N/A	N/A
Bankers acceptances ⁽²⁾	180 days	N/A	40%
Prime commercial paper of domestic issuers with assets in excess of \$500 million ⁽²⁾	270 days	N/A	40%
Negotiable certificates of deposit issued by domestic banks, associations, and state- chartered branches of foreign banks ⁽¹⁾	5 years	N/A	30%
Reverse repurchase agreements	92 days matched maturities	N/A	20%
Repurchase agreements	1 year	20%	N/A
Medium term notes issued by domestic corporations and depository institutions ⁽³⁾	5 years	No inverse floating rate instruments	30%
Money market mutual funds	N/A	N/A	20% Total all funds 10% any one fund
Mortgage-based or asset-backed securities ⁽⁴⁾	5 years	N/A	20%
U.S. dollar denominated senior unsecured unsubordinated obligations issued or unconditionally guaranteed by the International Bank for Reconstruction and Development, International Finance Corporation, or Inter-American Development Bank, and eligible for purchase and sale within the U.S. ⁽⁵⁾	5 years	N/A	30%
Overall portfolio weighted average maturity	2 years	-----	-----

- (1) which are rated in a rating category of "A" or its equivalent or better for securities longer than one year and rated in a rating category of "A-1" or its equivalent, or better for securities under one year at time of purchase by a minimum of one nationally recognized statistical rating organization (NRSRO)
- (2) which are rated in a rating category of "A-1" or its equivalent, or better by a minimum of one NRSRO at time of purchase
- (3) which are rated in a rating category of "A" or its equivalent, or better by a minimum of one NRSRO at the time of purchase
- (4) which are rated in a rating category of "A" or its equivalent, and from an issuer rated in a rating category of "A" or its equivalent, or better by a minimum of one NRSRO at time of purchase
- (5) which are rated in a rating category of "AA" or its equivalent, or better by a minimum of one NRSRO at time of purchase