

**Exhibit G**  
**TREASURER-TAX COLLECTOR**  
**County of Monterey Investment Policy**  
**Final Version**

# **TREASURER-TAX COLLECTOR**

## **County of Monterey Investment Policy**

### **1.0 Policy**

It is the policy of the Treasurer-Tax Collector of Monterey County 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 of the treasury pool participants. The Policy does not apply to bond proceeds, which are governed by their respective bond documents. These funds are accounted for in the 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 Chapter 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.** 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 overnight liquid assets. In the event that unforeseen cash-flow fluctuations temporarily cause the ratio of overnight liquid assets to decline below 30% of the portfolio balance, no new investments will be made until the minimum ratio 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 his investments, interests in real properties, and any income received during the immediately preceding 12 months. 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 and all deputized departmental staff 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. 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:

1. Commercial banks and saving institutions must be authorized as insured with the FDIC, SIPC, or NCUA (credit unions), as applicable.
2. Must hold an active corporate registered status with the Secretary of State (California), or an out-of-state counterpart agency.
3. 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.
4. Must be an active member of the Financial Industry Regulatory Authority.

**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 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.

**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 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 Securities Lending.** The Treasurer may engage in securities lending programs through nationally recognized counter parties, with a 20% restriction based on the portfolio's book value on the date of the transaction. Instruments involved in a securities lending program are restricted to U.S. Treasuries and Federal Agency securities as described in Government Code Section 53635 and the County Investment Policy. Notification of collateral substitution is required.

**8.4 Maximum Credit Exposure.** The Treasurer shall limit the investments in any single issuer, regardless of the combination of asset class, to no more than 10% of the portfolio's twelve month projected minimum size. Obligations of the United States Treasury and its Agencies are exempted from this restriction. Pooled funds such as LAIF, CAMP, CalTrust, and money market funds have other specific limitations as described in Appendix A.

**8.5 Maximum Dollar Limits.** The Treasurer shall limit investments to specific maximum dollar limits by issuer as detailed in Appendix A. In the case of investments outside the core portfolio, maximum dollar limits shall apply to each separate investment.

## **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. Securities acquired through reverse repurchase agreement transactions may be held as collateral by primary dealers acting as counter-parties.

## **10.0 Investments Outside Core Portfolio**

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) the funds represent proceeds of bonds, other forms of indebtedness, or special purpose funds not required for normal operating expenses, and
- b) 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
- c) the funds may be transferred to the core portfolio upon mutual agreement between 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

- d) funds may be transferred to the Monterey County Treasurer's operating (checking) account for further disbursement provided the funds originate from: maturing securities; overnight liquid funds; sold securities subject to section 9.5(c) above, and associated earned income on those funds, and
- e) 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 9.5 (a) through (f) inclusive, and
- f) any earned income on "custom invested funds" will be segregated from the core portfolio and deposited to an overnight liquid 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 circumstances, 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 overall portfolio shall not exceed two years.

**12.2 Money Market Fund.** The maximum maturity of investments in a money market fund shall not exceed 397 days, and the weighted average maturity of the fund shall not exceed 60 days. A Money Market Fund shall not comprise more than 10% of the portfolio's book value on the date investments are made; maximum investment in all Money Market Funds, as described in Government Code Section 53635(k) shall not exceed 20% of the portfolio's book value on the date that investments are made.

## **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.

**13.1 Compliance Audit** Pursuant to Government Code Section 27134, the County Treasury Oversight 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.

## **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.

## **15.0 Investment Policy Adoption**

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

**15.1 Policy Amendments.** As the California Government Code pertaining to investments is amended, this policy shall likewise become amended and adopted by the Board of Supervisors. Other amendments may be recommended periodically by the Treasurer-Tax Collector.

## **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 value, amortized book value and market values, a risk measurement standard such as duration, along with a certification concerning the portfolio's available liquidity to meet expenditure requirements for the next succeeding reporting period, and disclosure of the method used to apportion investment interest.

## **17.0 Allocation of Investment Cost**

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 is 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 covered security brokers 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.

Appendix A  
Authorized Investments County General Pool

<u>Instrument</u>	<u>Maximum Maturity</u>	<u>County Restriction</u>	<u>Max %/ Dollar Limit</u>
California State Treasurer's Local Agency Investment Fund	N/A	N/A	\$50,000,00 (per account or as approved by the State Treasurer for bond/note proceeds)
California Asset Management Program	N/A	N/A	20%
CalTRUST	N/A	N/A	20%
Bonds, including revenue bonds, issued by the County, it's 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 <sup>(1)</sup>	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. <sup>(1)</sup>	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 <sup>(2)</sup>	180 days	N/A	40% (*)
Prime commercial paper of domestic issuers with assets in excess of \$500 million <sup>(2)</sup>	270 days	N/A	40% (*)
Negotiable certificates of deposit issued by domestic banks, associations, and state chartered branches of foreign banks <sup>(1)</sup>	5 Years	N/A	30% (*)
Reverse repurchase agreements and Securities Lending	92 days, matched maturities	N/A	N/A
Repurchase agreements	1 year	N/A	N/A
Medium term notes issued by domestic corporations and depository institutions rated "A" or higher at time of purchase	5 Years	No inverse floating rate instruments	30% (*)
Money market mutual funds	N/A	N/A	20% total all funds 10% any one fund
Collateralized deposits and investment contracts	5 Years	N/A	10% limit issuer (*)
Securitized pass through instruments rated "A" or higher, from an issuer rated "AA" or higher at time of purchase	5 Years	N/A	20% (*)
Overall portfolio weighted average maturity	2 years (*)		

\*Total exposure of all asset classes to any single issuer shall not exceed 10% of the 12 month projected minimum size of the portfolio.

- (1) which are rated by a nationally recognized statistical rating organization (NRSRO) as "A" or better for securities longer than one year and A-1 or better for securities under one year.
- (2) which are rated by an NRSRO as A-1 or better