

TREASURER-TAX COLLECTOR
County of Monterey Investment Policy
Adopted October 27, 2009

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. 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, 53608, and 53635, 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.

Authority of the Treasurer-Tax Collector to manage the investment program is derived from Section 53608 and 53635 of the Government Code of the State of California. 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. For 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. For commercial banks and savings institutions, must be nationally or state chartered, or be a state licensed branch of a foreign bank.
4. Must be an active member of the National Association of Security Dealers.

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, within any consecutive 48-month period following January 1, 1996, made a political contribution 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 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.

8.1 Limitations. The Treasurer shall not invest in any security not previously purchased prior to January 1, 1995, 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 where securities were not purchased previous to January 1, 1995, 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 those securities provided in Government Code Section 53635 and the County Investment Policy.

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.

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.

9.5 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.

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

The County Treasurer is defined by statute (Government Code Sec. 27000.3) as a fiduciary subject to the prudent investor standard. The Treasurer shall have exclusive authority to approve any withdrawal request predicated on the impact such withdrawal may have on other depositors and other criteria incorporated in the Treasurer’s Investment Policy.

An agency having funds on deposit in the county treasury investment pool, and where such agency possesses specific statutory authority to separately invest funds on deposit in the county treasury, may make application to the Treasurer for the withdrawal of funds. All such applications must be in writing and be received by the County Treasurer at least 30 days in advance of the first anticipated date of withdrawal. All application for withdrawal requests must include the following:

1. A resolution of the governing body of the requesting agency declaring a surplus of funds targeted for separate investment. The resolution must state the specific purpose for the withdrawal of funds and incorporate all of the following elements:
 - a) an investment plan specifying the first target date of withdrawal,
 - b) complete details of how, where, and by whom the targeted funds would be managed,
 - c) a statement of compliance assuring that all targeted funds would be managed in full accordance with all laws pertaining to the investment of public funds,
 - d) complete explanation of how the targeted investment funds would interface with the agency’s operating account including the account reconciliation process, the specific source of all audits of the investment funds, and an explanation of how the agency plans to coordinate and balance externally invested funds with the agency’s general ledger;
2. An investment policy adopted by the governing board of the requesting agency. Such policy must conform in all respects to all sections of the Government Code of California pertaining to the investment of public funds;
3. A contractual safekeeping agreement with a recognized bank or safekeeping institution providing for third party custody of invested public funds. The safekeeping agent must provide at least quarterly statements of all account activity and provide copies to the County Treasurer. The safekeeping agent must provide full delivery versus payment capability, and separate statements or other documents defining the GASB 3 investment categories encumbering invested

funds. All agency deposits must conform to category 1 of GASB 3;

4. A detailed cash flow projection reflecting at least a 25% liquidity cushion where invested funds may be immediately withdrawn without the necessity to sell or liquidate other securities that are separately invested. The liquidity cushion must extend over a projected 12-month time horizon;
5. A statement of justification for withdrawal of funds. The statement must describe how the withdrawn funds would sustain their safety and liquidity on a basis comparable at least to the funds on deposit in the county treasury investment pool.

Before any withdrawal of funds is approved by the Treasurer, the requesting agency must first meet with the Treasurer to determine whether a mutually acceptable investment plan can be arranged within the county investment pool. In the absence of such a plan, and if all conditions for withdrawal (1) through (5) are satisfied, the Treasurer shall evaluate the proposal for withdrawal. In no instance will the Treasurer approve a withdrawal request where yield enhancement is the justified purpose for the withdrawal. A written decision of the Treasurer shall be delivered to the requesting agency no later than 15 days prior to the target date for first withdrawal. All decisions of the Treasurer are final. The value of the withdrawing participants' interest in the pooled portfolio will reflect its most recent quarterly valuation.

11.0 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:

Bond proceeds where the maturity term is not integral to short term cash flow needs.

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

11.1 Weighted Average Maturity. The weighted average maturity of the overall portfolio shall not exceed two years.

11.2 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 90 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.

12.0 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.

12.1 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.

13.0 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.

14.0 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.

14.1 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.

15.0 Reporting.

Pursuant to Government Code Section 53686 (b) the Treasurer-Tax Collector shall 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 and market values, and 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. Each second and fourth calendar quarter investment report and the current investment policy shall be provided to the State Treasurer's California Debt and Investment Advisory Committee as required by Sections 8855 and 53646 of the Government Code.

16.0 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.

17.0 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 quarterly, or as needed, and shall review investment policy and report on compliance with such policy.

17.1 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).

17.2 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).

17.3 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.

ADOPTED 10/27/2009

APPENDIX A
Authorized Investments County General Pool

Instrument	Maximum Maturity	County Restriction	Max %/ Dollar Limit
California State Treasurer's Local Agency Investment Fund account or as approved by the State Treasurer for bond/note proceeds.)	N/A	N/A	\$40,000,000 (per
California Asset Management Program	N/A	N/A	20%
CalTRUST	N/A	N/A	20%
Negotiable Order of Withdrawals funds)	N/A	N/A	10% limit issuer (% limit all
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	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	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	180 days	N/A	40% (*)
Prime commercial paper of domestic issuers with assets in excess of \$500 million	270 days	N/A	40% (*)
Negotiable certificates of deposit issued by domestic banks, associations, and state-chartered branches of foreign banks.	5 years	N/A	30% (*)
Reverse repurchase agreements and Securities Lending	92 days matched maturities	N/A 20%	N/A
Repurchase agreements	1 year	20%	N/A
Medium term notes issued by domestic corporations and depository institutions rated "A" or better	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 at least "A"	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-mo projected minimum size of the portfolio.