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WHAT RISKS DOES THE INVESTMENT POOL FACE?

State law mandates that the County investment pool be invested conservatively and limits investments to fixed-income securities. Accordingly, County pools may not invest in equities, commodities, real estate, index funds and derivative notes. While these mandates mitigate risk, the following risk factors remain present:

- **Liquidity Risk:** Risk of being unable to quickly sell an asset at its fair market value.
- **Interest Rate Risk:** Risk that changes in interest rates will adversely affect the value of securities in the portfolio.
- **Credit Risk:** Risk that an issuer may default on repayment of principal assets, resulting in a loss in the portfolio.

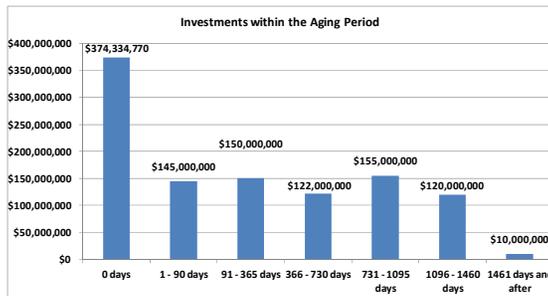
The Monterey County investment pool is a local government investment pool with approximately \$1.076 billion in assets as of December 31, 2014.

The primary objectives, in priority order, of Monterey County investment activities are:

- **Safety:** Safety of principal.
- **Liquidity:** The portfolio shall remain sufficiently liquid to enable all depositors to meet reasonably anticipated expenditure requirements.
- **Return on Investment:** The portfolio is designed with the objective of attaining a market rate of return throughout budgetary and economic cycles within the parameters of prudent risk management.

Portfolio Asset Composition			
Corporate Assets	Overnight Liquid Assets	US Treasuries	Federal Agencies
5%	35%	2%	58%

Portfolio Credit Composition					
AA+	AA-	A-1+	Not Rated	AAAm	Amf/S1
62%	2%	1%	14%	10%	11%



Monterey County

TREASURY



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WHAT IS THE ROLE OF THE TREASURY IN MONTEREY COUNTY?

The Monterey County Treasury functions as the County's bank. The Treasury receives annual revenue from deposits totaling nearly \$2.1 billion from County departments, school districts, special districts, and the State of California. The Treasury maintains records of all bank activity and balances those funds to the County Auditor-Controller's ledgers.

WHAT ARE THE SOURCES OF DEPOSITED REVENUE?

Annually, the Treasury receives more than 300,000 checks and other negotiable instruments, including electronic deposits. These are normally deposited into the County's operating account within 24 hours of receipt.

The major sources of deposited revenue include:

- Property taxes
- State subventions, for health and human services, local sales tax, school average daily attendance revenue, and motor vehicle license fees
- Fines
- Service charges

WHAT ROLE DO INVESTMENTS PLAY IN THE TREASURY?

The general purpose of the investments is to provide for the liquidity needs of depositors. The County Treasury manages a short term fixed income investment portfolio that averages approximately \$1 billion. Investments are limited to those instruments legally permitted under Section 53601 of the California Government Code, and must meet the criteria of the Monterey County Treasurer-Tax Collector's Investment Policy. The investment policy is reviewed and approved annually by the County Board of Supervisors. The Treasury's compliance with the investment policy is also audited annually by an independent certified public accountant and periodically by the County Auditor-Controller.

WHO IS INVESTED IN THE POOL?

Participants in the Treasury's investment pool are limited to the County of Monterey, school districts within Monterey County and special districts, which by statute, maintain depository authority with the County Treasurer-Tax Collector.

WHAT ARE THE TYPES OF INVESTMENTS/ SECURITIES IN THE POOL?

Pool monies are invested in accordance with the standards set by California Government Codes 53601 and 53608, as well as the County investment policy. Investments may include U.S. Treasury and Federal Agency securities, commercial paper, bankers acceptances, highly-rated corporate notes and various highly liquid funds. The investment portfolio currently maintains a weighted average maturity of less than one and a half years.

WHO OVERSEES THE POOL?

The Monterey County Board of Supervisors delegates authority to manage the Monterey County investment program to the Treasurer-Tax Collector pursuant to Government Code Section 53607. The Treasurer-Tax Collector is responsible for establishing written procedures for the operation of the investment program that are consistent with the investment policy, and include explicit delegation of authority to persons responsible for investment transactions. Additionally, a Treasury Oversight Committee, selected by the Treasurer-Tax Collector and confirmed by the Board of Supervisors pursuant to Government Code section 27130, reviews policy and reports on compliance on an annual basis.

HOW IS THE POOL'S SAFETY MEASURED?

Several tools are utilized to ensure the safety of Treasury pool assets. The Treasury staff assesses each investment's credit rating to ensure it complies with required levels and maintains the majority of investments in the Treasury pool are comprised of overnight liquid assets, U.S. Treasuries and AA rated Federal Agency securities. The remaining assets are invested in highly rated corporate debt instruments.

Also of importance, is diversification. Markets offer several types of fixed income securities. Assets are diversified through different investment vehicles, which reduces the risk of incurring losses.

The pool's safety is also measured in terms of liquidity. Per investment policy, a minimum of 30% of the pool is invested in overnight liquid assets. This provides for immediate cash needs and avoids a forced sale of securities in the event of extreme cash flow demands.

