

MENDOCINO COUNTY INVESTMENT POOL

Round Table Discussion February 16, 2012

The following entities were represented:

- Treasurer's Office - 2
- Auditor's Office - 1
- Board of Supervisors – 2
- Executive Office - 1
- Office of Education - 1
- School District Business Managers - 5
- Mendocino College – 1
- Members of the Public - 3

The following items were discussed:

- 1) Current Investment Strategy - All participants received an Investment Report for the quarter ending January 31, 2012. The current investment strategy includes purchasing certificates of deposit, commercial paper, and medium term notes, and holding the securities to maturity. The pool remains extremely liquid with approximately 37% of the pool invested in the Local Agency Investment Fund (LAIF) and the California Asset Management Program (CAMP); both funds have same-day access. Our long-standing strategy of investing in the biggest banks in the most stable countries has become difficult in light of the European debt crisis. The debt crisis has severely limited our investment options.
- 2) Outlook on Investments - In January 2012, Federal Reserve Chairman Ben Bernanke announced the current historically low interest rates will continue through the end of 2014; therefore, interest apportionment rates will remain extremely low for several more years. At this time, there are no rating downgrades to report; however, one particular security was discussed in detail – a medium-term note with Abbey National. Abbey National is a U.K. subsidiary of Banco Santander, a Spanish banking group. Despite the European debt crisis, CNBC.com ranked Banco Santander as the 10th safest bank worldwide; up from last year's ranking of 14th. This security was purchased on May 3, 2011 in the par amount of \$4 million. With the headline risks associated with Europe, the market value on this investment has fluctuated dramatically over the past six months, but has stabilized recently. Like with all securities in a fixed income portfolio, the par amount is collected at maturity, regardless of the market value.

- 3) Changes with Investment Advisor – For approximately the past 20 years, Craig Ehlenberger of Abalone Cove Advisors has served as investment advisor to the Treasurer. Mr. Ehlenberger was instrumental in crafting legislation in the Government Code regarding permissible investments after the Orange County Bankruptcy. He used his knowledge to advise several California County Treasurers on investment related issues. That being said, in this increasingly complicated world of financial investing, Mr. Ehlenberger's one-man operation is no longer the best solution for the county. Due to recent retirements, Mr. Ehlenberger now has access to only one of his long-time broker connections and Mr. Ehlenberger himself is contemplating retirement within the next few years. The group was informed that a Request for Proposal (RFP) for Investment Advisory Services will be issued by the end of February.
- 4) Interest Apportionment Rates - All participants were provided with a spreadsheet outlining the interest apportionment rates dating back to 1996-97. The interest apportionment rate at December 31, 2011 was .54%. In addition, all participants were provided with the quarterly apportionment rates for the State of California Local Agency Investment Fund (LAIF) account. Important to note, LAIF's interest apportionment rate for the quarter ending December 31, 2011 was .38% - the lowest rate ever recorded since LAIF's inception in 1977.
- 5) Costs Associated with Treasury Pool - Spreadsheets were provided outlining the total costs associated with the management of the investment pool for the past six quarters. The rate for the quarter ending December 31, 2012 is \$1.54 per \$1,000 in the pool. Specific components of the costs associated with the treasury pool are detailed below.
- 6) Implementation of New Remittance Processing System - Since approximately 1985, staff in the Treasurer-Tax Collector's Office has utilized a remittance processing system for processing property tax payments, encoding and endorsing checks, and imaging payment stubs and checks. In April 2011, we were informed by our current software vendor, J&B Software, they would no longer continue supporting our current software application and the necessary upgrades would cost \$117,187. On September 1, 2011, we issued an RFP for a new remittance processing system, including both hardware and software; the committee, comprised of staff in the Treasurer-Tax Collector's Office as well as staff in Information Services, selected R T Lawrence Corporation at a cost of \$49,999. On November 15, 2011, the Board of Supervisors approved the expenditure. Staff from R T Lawrence will be on site for implementation and training on the new remittance processor the week of March 19, 2012. The costs of the new system will be deducted from interest earnings of the treasury pool over the course of the next three quarters. As maintenance costs will decrease from \$15,000 to \$4,500 per year, the new remittance processing system should pay for itself in approximately four and a half years. With the implementation of the new remittance processing system, checks will be deposited through image cash letter (a file with images of the checks) with hard copies of the checks no longer being submitted to the bank. This process enables checks to be processed by the bank a full day earlier.

- 7) Banking Services Request for Proposal - All participants were provided with a spreadsheet outlining our service banking fees for the past nine years. Our current three-year contract with Bank of America expires in March 2012; to insure that we are receiving competitive pricing, an RFP was issued on January 23, 2012 with a submission deadline of March 19, 2012.
- 8) Change with Safekeeping Bank - We have been informed by our current safekeeping bank, Union Bank, that safekeeping fees will be substantially increased effective March 1, 2012; the fees are currently in the neighborhood of \$1,600 per year and will increase to approximately \$10,000 per year. Typically, financial advisors will have relationships with various banks and their clients are able to utilized safekeeping services at a reduced rate; I plan for this situation to be addressed through the Investment Advisory Services RFP.

Prepared By:

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