

MARIPOSA COUNTY
BOARD OF SUPERVISORS

AGENDA
ACTION FORM

DATE: 1/10/95
AGENDA ITEM NO.: 7

DEPARTMENT: _____ BY: _____ PHONE: _____

RECOMMENDED ACTION AND JUSTIFICATION: (Policy Item: () Yes () No)

Recommendation to re-instate Investment Advisor contract to original budgeted amount of \$40,000. This position has been in the treasurer's office since 1989 when it was recommended by the Grand Jury. The investment advisors roll is to find, recommend, and monitor proper investments for Mariposa County. The County Treasurer does not have the needed tools, and resources to invest and monitor the many possible investment vehicles in todays market.

Please note attached letter stating the history and need for this position.

BACKGROUND AND HISTORY OF BOARD ACTIONS: The board was receptive to this position at the recommendation of the Grand Jury, and has continued to fund it since. Cutting this position would cut services currently provided in the Treasurer's office, and could reduce the speed in which taxes are collected, or cause the need for extra help during the collection periods. Investment decisions are made by the Treasurer and no one else. Having an advisor does not relieve the elected duty of investment decisions. However, with an advisor, it does help protect public investments, increasing safety and liquidity, by consulting and discussing with each other the investment alternatives.

LIST ALTERNATIVES AND CONSEQUENCES OF NEGATIVE ACTION: 1. Appropriate the \$20,000 originally taken at final budget, and continue the contract with Seidner & Company. 2. Deny this request, and add necessary tools to do the proper investments, and rely on brokers for the best deals. 3. Deny this request, and rely on the Treasurer and staff to make all investments, reducing the processing of tax payments timely, resulting in loss of interest revenue, and take the mail room function away, possibly giving it to another department, or not do bulk mail processing at all.

COSTS: () Not Applicable
A. Budgeted Current FY.....\$ 20,000
B. Total Anticipated Costs.....\$ 40,000
C. Required additional funding.....\$ 20,000
D. Internal Transfer.....\$ _____

SPECIAL INSTRUCTIONS:
List the attachments and number the pages consecutively.
1-2 Memo from Treasurer
3-4 Letter from Orange County
5 - Memo from Auditor

SOURCE: () 4/5ths Vote Required
A. Unanticipated Revenues.....\$ _____
B. Reserve for Contingencies.....\$ 20,000
C. Source Description:
Balance left in Reserve for Contingencies, if approved: (Operating)
\$ 114,382

CLERK'S USE ONLY:
Res. No.: 95-17 Ord. No. _____
Vote: Ayes: 5 Noes: _____
Absent: _____ Abstained: _____
() Approved () Denied
() Minute Order Attached () No Action Necessary

ADMINISTRATIVE OFFICER'S RECOMMENDATION:
This item on agenda as:
 Recommended
____ Not Recommended
____ For Policy Determination
____ Returned for Further Action

The foregoing instrument is a correct copy of the original on file in this office.

Comments: _____

Date: _____
ATTEST:

Mergie Williams, Clerk of the Board
By: _____
Deputy

C.A.O. Initials: 

MARIPOSA COUNTY BOARD OF SUPERVISORS

MINUTE ORDER

TO: DON Z. PHILLIPS, Treasurer
FROM: MARGIE WILLIAMS, Clerk of the Board *MW*
SUBJECT: Re-Instate Investment Advisor Position
Resolution Number 95-17

THE BOARD OF SUPERVISORS OF MARIPOSA COUNTY, CALIFORNIA,

ADOPTED THIS Order on January 10, 1995

ACTION AND VOTE:

9:45 a.m. Don Z. Phillips, Treasurer;
Request for Appropriation to Re-Instate Investment Advisor
Position in County Treasurer's Office (\$20,000) (4/5ths Vote
Required)

BOARD ACTION: Discussion was held and Don Phillips advised
of negotiated charges with Seidner for investment services.
Mike Coffield/County Administrative Officer, presented
recommendation to fund \$10,000 of costs for this year from
the Tax Collectors Cost Fund. (M)Reilly, (S)Balmain, Res.
95-17 adopted appropriating \$10,000 from Reserve for
Contingency and transferring \$10,000 from the Tax Collectors
Cost Fund to re-instate investment consultant services/Ayes:
Unanimous.

cc: Mike Coffield, County Administrative Officer
Ken Hawkins, Auditor
File

COUNTY OF
MARIPOSA

BUDGET ACTION FORM

DEPT/DIV: Treasurer

CONTACT: Don Z. Phillips

DATE: 1/10/95

PHONE: 966-2830

ACTION REQUESTED: (Check All That Apply)

- Budget appropriation by Board of Supervisors (4/5ths Vote Required): Amending the total amount available in the County budget, or in any one fund of the budget, or appropriating Reserve for Contingencies;
- Transfer by Board of Supervisors (3/5ths Vote Required): Moving existing appropriations from one budget to another, or between categories within a budget unit;
- Transfer by Administrator: Moving existing appropriations within a single budget category between line items (i.e. services and supplies, etc.)
- Transfer by Auditor: Moving salaries between line items to accommodate variances internal to salaries; OR transfers within the County budget under \$50.00 to accommodate minor variations from the budget.

FUND/DEPT/ACCT NO.	LINE ITEM DESCRIPTION	AMOUNT (FROM)/TO
General Contingency		(10,000.00)
172-1100-880-0416	Tax Collector's Cost Fund	(10,000.00)
001-0108-422-0433	Investment Fees	20,000.00

Justification: Re-instate Investment Advisor contract

Department Head Signature: *Don Z. Phillips* Date: 1/12/95

Approved By: Res. No. 95-17 Clerk: *mw* Date: 1/10/95

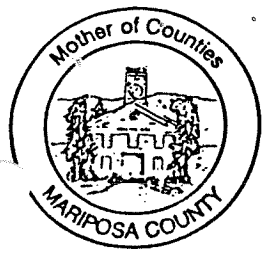
Administrator: _____ Date: _____

Auditor: _____ Date: _____

AUDITOR'S USE ONLY:

Description: _____ Transfer No.: _____

_____ B.R. No.: _____



County of Mariposa

Office of Treasurer - Tax Collector

Don Z. Phillips
Treasurer-Tax Collector
Hall of Records
4982 10th Street
P.O. Box 36
Mariposa, CA 95338

Telephone:

Tax Collector (209) 966-2621
Treasurer (209) 966-2830
FAX (209) 966-6496

TO: Board of Supervisors
Administrative Officer

FROM: Mariposa County Treasurer

SUBJECT: Investment Advisor

To bring you to date, during budget hearings this year, it was decided by the Board to cut the investment advisor's position from the budget, and require investments be done in-house. I was not here at the time of the discussions, since I was put on the agenda as a consent item, which normally doesn't require the department head to be present. Also, I had arranged my vacation, made reservations, and payments, six months prior to the budget hearings, which were by the way, later in the year than we have had normally.

I appreciated the board allowing myself and my current investment advisor, Mr. Alan Seidner, to make a presentation sometime later. At that presentation, it was fully discussed, the advantages of using an outside consultant, and he showed figures which backed up his services, showing realized gains even after his fees. At that time, the board was prepared to vote on continuing the service, when I asked them to hold off until I could go back and re-evaluate what we had done thus far, and perhaps could negotiate a lower fee, and perhaps need not request the full amount originally budgeted. That was agreed to, and I have made that determination. However, immediately after that meeting, a letter was written by the County Auditor, which I felt was very inappropriate, as well as containing inaccurate assumptions (copy enclosed). With this I consulted a couple of counties, which agreed in theory with me, and even received a very well explained letter from the Orange County Treasurer (copy enclosed). I believe this letter explains very well my position, without going into further explanations myself.

To give you a little history about why I decided to use an investment consultant to begin with, wasn't because I didn't want to do investments myself. It became apparent, that people who do ONLY this for a business, are better skilled, and have the necessary resources to track our daily investment portfolio. It was also a recommendation of the Grand Jury Audit for that year, wherein they too felt that County Treasurers, having more than one function to manage, could not possibly devote the required time to investments alone. Presently there are several small counties who use an outside consultant, and several others who are looking at the possibility. With the combining of departments and the wearing of several hats, department heads have to look at alternatives to the way business is conducted. This brings up the question of having an employee with the title "investment officer", when we also use an investment consultant. This employee title and job description was derived several years prior to our getting an investment consultant, when she actually did the investments (except for the final decision), and all other functions in the treasurer's office. By using an investment consultant, a great deal of her time was freed up, and other duties were put upon her. The Treasurer took on Public Administrator, and outgoing county mail processing. I also added delinquent unsecured collections to her job.

We recognized that her job description, as written, did not suit the actual function of her position, and it was discussed with the then Personnel Director. The personnel director asked us to bring this back to her at a later date, and then she left county employment, and we never got back to evaluating and changing that job description.

Memo to Board and Administrator
Re: Investment Advisor, Page 2

We were waiting until the office of County Clerk was combined with the Treasurer-Tax Collector, and then work on a re-organization of the entire department, which would include a new job description for this employee.

If we were not to utilize the services of an investment advisor, other functions in the combined department of Treasurer-Tax Collector and County Clerk-Public Administrator, would be hindered from the fact of not being able to use the current person (known as the investment officer) to do the Public Administrator cases, outgoing mail processing, and delinquent unsecured collections, as well as help out during heavy secured tax collections.

At the present time, during heavy collection periods, this employee opens mail, processes tax payments over the counter, does all the delinquent unsecured tax enforcement collections, such as filing liens, summary judgments, filing with the State DMV and Franchise Tax Board, and writing collection letters, something that was not being done prior to getting an investment advisor, to where her time was available for this important service. She also processes an average of 1,365 pieces of outgoing mail each week, and handles all public administrator cases.

As you can tell, without the investment advisor, this employee would have to go back to doing all the investments, which means many of the current functions, would be left unattended. At that point, I would have to recommend that the outgoing mail be processed by some other department, and that the unsecured delinquent collections be processed as time permits, and her time opening tax mail would be reduced, all of which would actually cost the county, rather than save. If we can not collect the delinquencies on a timely bases, we are losing tax revenue, and if we can not process our mail collections as quickly, we again are losing interest by not having those monies deposited and invested as quickly. This would have an impact on the Schools, Hospital, and other agencies who receive tax apportionments. I would not like to go back to the days when we had boxes of mail unopened in our vault, because we couldn't get to it in time.

This office has not had any part-time help, or any overtime by employees, since we added the investment advisor. If we have to go back to getting part-time help to process taxes, then we have not realized any savings.

The situation of Orange County was very unfortunate, and now that they have experienced their investment problems, I believe that this even strengthens the need of using outside consulting. The saying "Two heads are better than one", is really true in this business. Someone who is devoting all of their time and expertise in investments, and then consulting with the County Treasurer, who is ultimately responsible, makes more since than the County Treasurer doing it on a part-time bases. This would be the case, since I am also responsible for the millions of dollars in tax collections, public administrator cases, and elections, as well as many of the other functions in the combined department.

I hope I have answered any concerns, and ask that you consider re-instating the funds necessary to continue paying for an investment advisor. I believe this is money well spent, and as explained in the letter from Orange County, it doesn't relieve me as county treasurer from any responsibility, nor make my daily work any easier. I still have to make the final decision, but can do it more quickly and confidently with an investment advisor, since I must also think of the other functions and responsibilities of the combined department.

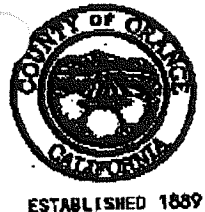
Thank you again for your consideration

COPY

ROBERT L. CITRON
COUNTY TREASURER-TAX COLLECTOR

TELEPHONE:(714)834-2911

TREASURER OFFICE ADDRESS
HALL OF FINANCE & RECORDS
RM. G76, 12 CIVIC CENTER PLAZA
P.O. BOX 4515
SANTA ANA, CALIFORNIA 92702
FAX:(714)834-2912



OFFICE OF THE TREASURER-TAX COLLECTOR

October 20, 1994

Don Z. Phillips
Treasurer-Tax Collector
County of Mariposa
Hall of records
4982 10th Street
Mariposa, CA 95338

Dear Don:

I am very concerned about the content of the letter your auditor has sent to your Board of Supervisors. It appears to assume that a county auditor, by virtue of his position, has the qualifications to evaluate the investment performance of the county treasurer. Unless your county auditor has investment management experience, I believe it is extremely inappropriate for him to judge comparative investment returns. Our county auditor, a very respected man, certainly has strong opinions about appropriate and inappropriate investment alternatives, but I have never heard him suggest we should have higher or lower yields. I think the more appropriate role of the auditor is to evaluate the safeguards that you have in place, and make sure adequate internal controls exist and are followed. Nevertheless, his comments require some response on your part.

Specifically, it must first be completely understood that each county has its own unique cash flows and cash demands. Participation in county investment pools differs dramatically, with schools, special districts and other entities having their individual cash flows. Unless a person is completely familiar (and this means works with the analysis of each cash flow regularly) with the different counties involved, he could not make any reasonable comparison of investment returns. I have not made such a study and therefore I cannot give an opinion on your relative returns. As noted in his letter, your auditor feels investing has much to do with the treasurer's determination of a prudent investment. Only the treasurer should be making that call, because he is the one with the statutory responsibility should the decision be wrong.

One should also be concerned about the idea that contracting for investment services should be tied to staff reduction. That is, unfortunately, a common assumption, and it demonstrates an incomplete understanding of the inherent risks in the investment function. Here in Orange County and also in Los Angeles County, a number of

municipalities suffered significant investment losses because they contracted out the investment function and did not provide adequate supervision over the independent contractor. Those treasurers and their governing bodies were publicly castigated for not maintaining more stringent oversight. We surmise that the time that you used to spend on investing is now spent on oversight. Those are wise dollars to spend. By the way, use of an investment advisor does not mean you have contracted out half of your job. It changes the complexion of the job from active investing to active oversight, an important component for a prudent investor. Would your auditor agree that by hiring a CPA firm to conduct the County's annual audit he has eliminated half of his job? Of course not. He spends the same amount of time working with the CPA firm to make sure they do a good job that he would have spent performing the audit. Oversight and control takes as much time as actually investing the money yourself, and any prudent treasurer would insist on oversight before contracting out this important function. If I were to use investment advisors, I'd watch them like a hawk.

I must also take issue with idea that safe investing involves less work than "risky" investing. First, what is a risky investment? It takes no more time to buy the 30 year treasury bond than the 3 month treasury bill, but the risk profile may be significantly different. In the audit business, the less work you perform, the more risk you take that a material problem was overlooked. The same is true for the treasury function. Its easy to make a bad investment, and even the very best investment managers make mistakes. Therefore, oversight is critical. I do believe that certain types of investing require more staff than others, but how much staff is open to discussion. Don, I have not reviewed your portfolio or your cash flows and therefore I am unable to offer an opinion as to how large a staff you should or should not have. I don't know that your auditor is correct or incorrect when he says you are overstaffed. I believe the decision about staffing should always be carefully made by the Board of Supervisors after input from the affected department head and the CAO. If the investment function was to absorb budget cuts, and an investment manager makes a poor decision that is overlooked, you, your board, and the CAO will all bear the brunt of the criticism. Therefore if I was to err in setting staffing levels, I would make it on the side of overprotection.

I hope this analysis is useful to you. Please feel free to contact me if I can provide additional information.

Very truly yours,

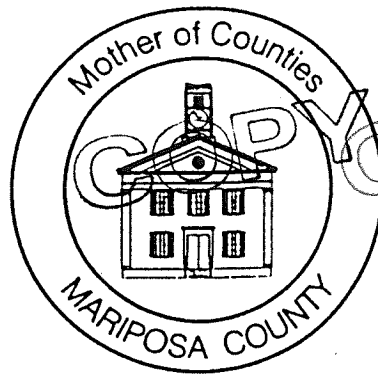


Robert L. Citron
Orange County Treasurer-Tax Collector

MARIPOSA COUNTY AUDITOR
POST OFFICE BOX 729
MARIPOSA, CA 95338

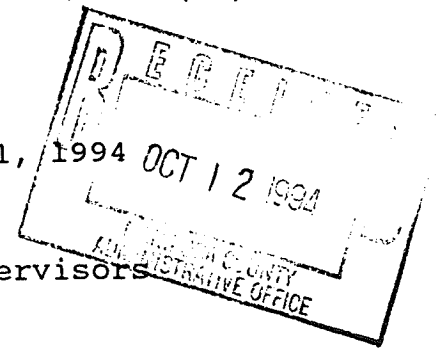
Ken Hawkins, County Auditor

Chris Ebie, Assistant Auditor



October 11, 1994

Office (209) 966-7606
FAX (209) 966-6496



To: Art Baggett, Chairman of the Board of Supervisors
From: Ken Hawkins, Auditor

Dear Art,

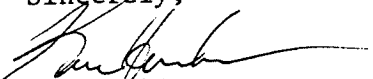
Mr. Seidner was not aware of the real questions concerning the Treasurer's Office. The major point not addressed is when compared to similar Counties, Mariposa County is clearly overstaffed one position especially if investment contracting continues. Colusa County's Treasurer did Public Administrator duties and all investing with a staff of four. Glenn County does its own investing with a staff of four. We can argue about rates of returns and apples and oranges forever, but it is the underlying staffing and department appropriations which is the problem.

As an aside, I would like to address the subject of risk. The Treasurer and I have referred to risk and rate of return in regards to what other Counties earn. The Treasurer says our return may not be optimum but our risk is low. My feeling is that the least risky investments also require the least amount of work (or to earn a higher rate of return requires more work for the Treasurer). Higher returns do not necessarily indicate higher risk. The duty of a professional investor, i.e., Treasurer, is to make his own evaluation of risk and base investment decisions on return vs. evaluated risk. Again, this requires work. The easiest investment for anyone to make is a CD or a Treasury bill.

Clearly, the wave of the future is to contract out investments coupled with incentives based on performance. Presently, there is no incentive for a Treasurer to do the extra work necessary to optimize investments or to reduce staff.

In hindsight, "the cat was let out of the bag" long ago on this problem. When the Treasurer proposed to contract investing some years ago, he should have been made to cut staff if his desire was to contract out half of his job. Knowing the excellent people working in his office at the present time, I don't have the fortitude to advocate that anyone be laid off, but I think this is a problem which should be kept at the top of the Board agenda in the future.

Sincerely,



Ken Hawkins

cc: Mike Coffield

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