

THE BOARD OF SUPERVISORS OF THE COUNTY OF STANISLAUS
BOARD ACTION SUMMARY

DEPT: Treasurer Tax Collector

BOARD AGENDA #: *B-14

AGENDA DATE: March 28, 2017

SUBJECT:

Accept the Stanislaus County Tobacco Endowment Investment Fund Compliance Audit for Year Ending June 30, 2016

BOARD ACTION AS FOLLOWS:

No. 2017-137

On motion of Supervisor Withrow, Seconded by Supervisor Olsen
and approved by the following vote.

Ayes: Supervisors: Olsen, Withrow, Monteith, DeMartini, and Chairman Chiesa

Noes: Supervisors: None

Excused or Absent: Supervisors: None

Abstaining: Supervisor: None

1) Approved as recommended

2) Denied

3) Approved as amended

4) Other:

MOTION:

ATTEST:


PAM VILLARREAL, Assistant Clerk

File No.

**THE BOARD OF SUPERVISORS OF THE COUNTY OF STANISLAUS
AGENDA ITEM**

DEPT: Treasurer Tax Collector

BOARD AGENDA #: *B-14

Urgent Routine

AGENDA DATE: March 28, 2017

G.B.F.

CEO CONCURRENCE: *pkc*

4/5 Vote Required: Yes No

SUBJECT:

Accept the Stanislaus County Tobacco Endowment Investment Fund Compliance Audit for Year Ending June 30, 2016

STAFF RECOMMENDATIONS:

1. Accept the Stanislaus County Tobacco Endowment Investment Fund Compliance Audit for year ending June 30, 2016 prepared by Brown Armstrong, Certified Public Accountants, and reviewed for conformity with State Law by the Stanislaus County Treasury Oversight Committee.

DISCUSSION:

In November 1998, the Attorneys General of 46 states (including California), the District of Columbia, the Commonwealth of Puerto Rico, Guam, The United States Virgin Islands, American Samoa and the Territory of the Northern Marianas (collectively, the "Settling States") and the four largest United States tobacco manufacturers (OPM's) entered into a master settlement agreement in resolution of cigarette-smoking related litigation. The master settlement agreement released the OPM's from past, present and future smoking-related claims in exchange for, among other things, certain payments to be made to the settling states.

On August 5, 1998, the counsel for the State of California and various cities and counties therein ("participating jurisdictions") entered into a memorandum of understanding (MOU). Pursuant to the MOU, participating jurisdictions were entitled to receive a portion of the payments made to the State of California in accordance with the master settlement agreement. Some jurisdictions, in an effort to manage/mitigate the risks associated with the receipt of the Tobacco Settlement Revenues (TSRs) opted to securitize this revenue stream.

On June 6, 2000, the Board of Supervisors authorized the Chief Executive Officer and the Debt Advisory Committee to proceed with the securitization of the County's share of the TSRs by issuing Tobacco Settlement Asset-Backed Bonds. In March 2002, the County sold their interest in the TSRs, received \$52,403,206 and subsequently placed the funds in an endowment. The balance in this fund at June 30, 2016 was \$63,239,212.

In January 2002, the Board of Supervisors delegated responsibility for the investment of the TSRs to the County Treasurer/Tax Collector (TTC) in accordance with Stanislaus County's Investment Policy for the Investment of the Proceeds from the Securitization of the Tobacco Industry's Master Settlement Agreement.

Accept the Stanislaus County Tobacco Endowment Investment Fund Compliance Audit for Year Ending June 30, 2016

Since the offering of the 2002 Tobacco Bonds, interest rates fell and investor demand for tobacco settlement asset-backed bonds greatly improved giving the County the opportunity to either refund or restructure the 2002 bonds or issue additional bonds. In January 2006, the Board of Supervisors authorized the Chief Executive Officer and the Debt Advisory Committee to proceed with determining the optimal bond structure for the County.

On March 29, 2006, Stanislaus County issued additional bonds to further securitize the Tobacco Settlement Revenues. Of that amount, \$40,971,290 was placed in an endowment identified as the County of Stanislaus Tobacco Endowment Series 2006 Fund. These funds have been used for several capital projects such as the Animal Services Facility, Coroner's Facility and the Jail Expansion Project. The balance in this fund at June 30, 2016 was \$29,803,325. These funds also fall under Stanislaus County's Investment Policy for the Investment of the Proceeds from the Securitization of the Tobacco Industry's Master Settlement Agreement, and are invested within the parameters of that policy.

The Funds were originally invested with Mutual Fund Companies such as USAA and INVESCO. The Security Exchange Commission (SEC) recently introduced Money Market Reforms that came into effect from October 14, 2016. Under this Reform, the Governmental funds should be under Constant NAV (Net Asset Value), non AMT (Alternative Minimum Tax) and Tax Free. The existing Mutual Fund Companies of INVESCO and USAA do not offer any account with non AMT and Tax Free status. According to our Investment policy, the Tobacco funds cannot be invested in Taxable Mutual Funds. Therefore, \$805,373.23 and \$494,025.99 have been withdrawn from Mutual Companies and deposited within the County and named as Tobacco Endowment Funds-Series 2002 and Tobacco Endowment Funds-Series 2006 respectively.

The attached audit was prepared by Brown Armstrong, Certified Public Accountants. The independent auditors found the County TTC to be materially compliant with the Investment Policy and Government code regarding the Securitization of the Tobacco Industry's Master Settlement Agreement.

The Treasury Oversight Committee reviewed the audit report at their meeting on February 21, 2017.

POLICY ISSUE:

Per the Stanislaus County Tobacco Investment Policy, an annual audit shall be conducted to insure that investment transactions are in compliance with State Law and Policy. The Policy states the audit findings shall be forwarded to the Board of Supervisors for review and acceptance.

FISCAL IMPACT:

Total Endowment funds audited as of June 30 2016, at market value, were \$93,042,537. The cost of the audit report is \$4,500. Costs associated with this audit were funded in the Treasurer-Tax Collector's 2016-2017 Adopted Final Budget appropriations. No budget adjustments are required in conjunction with this item.

Accept the Stanislaus County Tobacco Endowment Investment Fund Compliance Audit for Year Ending June 30, 2016

Cost of recommended action:		\$ 4,500
Source(s) of Funding:		
Departmental Revenue	\$ 4,500	
Funding Total:		\$ 4,500
Net Cost to County General Fund		\$ -
Fiscal Year:	2016/2017	
Budget Adjustment/Appropriations needed:	No	
Fund Balance as of	N/A	

BOARD OF SUPERVISORS' PRIORITY:

Approval of this agenda item supports the Board's priority of Efficient Delivery of Public Services by providing transparency and conformity to policy through the evaluation of independent auditors.

STAFFING IMPACT:

There is no staffing impact associated with acceptance of the Tobacco Endowment Fund audit report. Existing Treasurer-Tax Collector staff assisted in preparing necessary documents for the audit.

CONTACT PERSON:

Gordon B. Ford, Treasurer-Tax Collector Telephone: (209) 525-4463
 Jegan L. Raja, Assistant Treasurer-Tax Collector Telephone: (209) 525-6400

ATTACHMENT(S):

1. Tobacco Endowment Fund Compliance Audit Report

ATTACHMENT 1

TOBACCO ENDOWMENT INVESTMENT FUND COMPLIANCE AUDIT REPORT

COUNTY OF STANISLAUS, CALIFORNIA

**TREASURER-TAX COLLECTOR
ENDOWMENT INVESTMENT FUND
COMPLIANCE AUDIT REPORT**

JUNE 30, 2016

**COUNTY OF STANISLAUS, CALIFORNIA
TREASURER-TAX COLLECTOR
ENDOWMENT INVESTMENT FUND
COMPLIANCE AUDIT REPORT
JUNE 30, 2016**

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BROWN ARMSTRONG

Certified Public Accountants

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

County of Stanislaus
Treasury Oversight Committee
Stanislaus County, California

We have examined management's assertion, included in its engagement letter dated June 6, 2016, that the County of Stanislaus Treasurer-Tax Collector (the County TTC) complied with the provisions of the California Government Code and the County TTC's Investment Policy for the Investment of the Proceeds from the Securitization of the Tobacco Industry's Master Settlement Agreement during the year ended June 30, 2016. As discussed in that representation letter, management is responsible for the County TTC's compliance with those requirements. Our responsibility is to express an opinion on management's assertion about the County TTC's compliance based on our examination.

Our examination was conducted in accordance with standards established by the American Institute of Certified Public Accountants (AICPA) and, accordingly, included examining, on a test basis, evidence about the County TTC's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

In our opinion, management's assertion that the County TTC complied with the aforementioned requirements for the year ended June 30, 2016, and is fairly stated, in all material respects.

We have also performed the procedures enumerated in the Procedures and Findings Section of this report, which were agreed to by the County TTC solely to assist in evaluating internal control procedures in accordance with established policies, as of June 30, 2016. This agreed-upon procedures engagement was performed in accordance with standards established by the AICPA. The sufficiency of these procedures is solely the responsibility of the County TTC (the specified user of this report). Consequently, we make no representations regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures performed and the results of those procedures are listed in the Procedures and Findings section.

These agreed-upon procedures do not constitute an audit or review of financial statements or any part thereof, the objective of which is the expression of an opinion or limited assurance on the financial statements or a part thereof. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the use of Stanislaus County Treasury Oversight Committee, the County Board of Supervisors, management, and applicable legislative bodies and should not be used by those who have not agreed to the procedures and taken responsibility for the sufficiency of the procedures for their purposes.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

*Brown Armstrong
Accountancy Corporation*

Bakersfield, California
October 31, 2016

**COUNTY OF STANISLAUS, CALIFORNIA
TREASURER-TAX COLLECTOR
ENDOWMENT INVESTMENT FUND
PROCEDURES AND FINDINGS
JUNE 30, 2016**

Background and General

In November 1998, the attorneys general of 46 states (including California), the District of Columbia, the Commonwealth of Puerto Rico, Guam, The United States Virgin Islands, American Samoa, and the Territory of the Northern Marianas (collectively, the "Settling States") and the four largest United States tobacco manufacturers (OPM's) entered into a Master Settlement Agreement in resolution of cigarette-smoking related litigation. The Master Settlement Agreement releases the OPM's from past, present, and future smoking-related claims in exchange for, among other things, certain payments to be made to the Settling States.

On August 5, 1998, the counsel for the State of California and various cities and counties therein ("participating jurisdictions") entered into a memorandum of understanding (MOU). Pursuant to the MOU, participating jurisdictions are entitled to receive a portion of the payments made to the State of California in accordance with the Master Settlement Agreement. Some jurisdictions, in an effort to manage/mitigate the risks associated with the receipt of such revenues, opted to securitize this revenue stream.

Stanislaus County (the County) opted to securitize the revenue stream and sold its interest in the Tobacco Settlement revenues in March 2002, and created an endowment in order to generate additional discretionary revenue for the County. By securitizing this revenue stream, the County received over \$50 million and subsequently placed the funds in an endowment. In January 2002, the County Board of Supervisors delegated responsibility for the investment of said funds to the County Treasurer-Tax Collector (the County TTC) in accordance with the Investment Policy for the Investment of the Proceeds from the Securitization of the Tobacco Industry's Master Settlement Agreement.

Since the offering of the 2002 Tobacco Bonds, interest rates fell and investor demand for tobacco settlement asset-backed bonds greatly improved giving the County the opportunity to either refund or restructure the 2002 bonds or issue additional bonds. On March 29, 2006, the County issued \$42,153,611 in bonds to further securitize the Tobacco Settlement Revenues. Of that amount, \$40,971,291 was placed in an endowment – the County Tobacco Endowment Series 2006 Fund. However, while these funds are invested separately, they fall under the County's Investment Policy for the Investment of the Proceeds from the Securitization of the Tobacco Industry's Master Settlement Agreement, and are invested within the parameters of that policy.

Compliance Audit Requirement

The Investment Policy for the Investment of the Proceeds from the Securitization of the Tobacco Industry's Master Settlement Agreement requires an annual audit to ensure that investment transactions are in compliance with State Law and Policy. Per the Investment Policy, the annual audit is to be forwarded to the Board of Supervisors for review and acceptance. This engagement serves to comply with that requirement.

Investment Policy Statement

Per the Investment Policy, the Investment Policy shall be reviewed on an annual basis. Any changes must be prepared by the County TTC and then reviewed and approved by the County Board of Supervisors. The Investment Policy was reviewed and approved by the County TTC. There was a slight revision of the Investment Policy during fiscal year 2011-2012, which became effective on May 3, 2012. The Investment Authority and Standards of Care section was updated to show that the delegation of investment authority to the County TTC is an annual delegation given by the County Board of Supervisors each year and can be revoked at anytime.

**COUNTY OF STANISLAUS, CALIFORNIA
TREASURER-TAX COLLECTOR
ENDOWMENT INVESTMENT FUND
PROCEDURES AND FINDINGS (Continued)
JUNE 30, 2016**

Investment Authority and Standards of Care

We reviewed the requirements specified under the provisions of the Investment Policy for Broker/Dealer qualifications. No exceptions were noted.

Investment Policy Review

We reviewed and compared the authorized investment requirements specified in Government Code Section 53601 with the provisions of the Investment Policy and believe the policy addressed the requirements specified. No exceptions were noted.

Compliance to Policy

We reviewed the County's authorized investments and actual practices during fiscal year 2015-2016 to determine compliance with State Law and Policy. As part of determining compliance we performed the following: compared actual investments to those authorized, determined that maximum percentages by investment type as well as maximums for single issuers and term limits were not exceeded. We noted an investment into the Orange County Sanitation District purchased on March 30, 2016 in two different transactions of \$2,000,000 each was in non-compliance with the authorized investments guideline established by the County's Investment Policy for the Investment of the Proceeds from the Securitization of the Tobacco Industry's Master Settlement Agreement. The authorized investment guideline of the Investment Policy requires California local agency bonds, notes or other indebtedness that are tax exempt non-AMT obligations or bonds with no more than 5% of the total portfolio invested in any one municipality or agency (at the time of purchase). Total investment amount into Orange County Sanitation District netted to \$4,000,000 at the time of purchase on March 30, 2016. The total portfolio invested netted to \$79,385,137 and the 5% threshold amount was calculated to be \$3,969,257 at the time of purchase on March 30, 2016. The investment amount was over the 5% threshold by \$30,743 and resulting in non-compliance with authorized investment guideline of the Investment Policy.

Annual Distribution

We reviewed the County's actual practices during fiscal year 2015-2016 to determine compliance with the Investment Policy. We noted no exceptions to the annual distribution practices during fiscal year 2015-2016.

Reporting

We reviewed the detail listing of security transactions grouped by investment type and the summary of the total portfolio to verify they contained all information specified in the Investment Policy. The reports were in compliance with the policy requirements and the annual report was reviewed and accepted by the Board of Supervisors on September 27, 2016.

Summary

As of June 30, 2016, the Endowment Investment Fund Series 2002 and 2006, at par, totaled \$53,305,484.44 and \$26,111,617.98, respectively, while the market value was \$63,239,212.87 and \$29,803,325.33, respectively. Market value was 118.64% and 114.14%, respectively, of par. Investments appeared prudent and were of the type common to investments of other counties. Safekeeping agents were used for custody of investments.

We believe County TTC is materially compliant with the Investment Policy and Government Code regarding the Securitization of the Tobacco Industry's Master Settlement Agreement other than the item noted under Compliance to Policy section.