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TO: HONORABLE MENDOCINO COUNTY BOARD OF SUPERVISORS

FROM: SHARI L. SCHAPMIRE, TREASURER-TAX COLLECTOR

SUBJECT: ANNUAL REPORT OF INVESTMENTS

Per the Mendocino County Investment Policy adopted by the Board of Supervisors on January 10, 2017, a comprehensive annual report will be issued at the conclusion of each fiscal year. This report includes an economic update and a review of the account profile, as well as a list of the portfolio holdings.

Included in the Annual Report of Investments is the regularly submitted quarterly report of all investments held by the Mendocino County Investment Pool; this quarterly report reflects holdings as of June 30, 2017. The investments have been made in accordance with the Investment Policy and are permitted investments according to current California law. Due to the nature of a public funds portfolio, it is mandatory that moneys be available to meet the monetary requirements inherent to operating a public entity. The attached report demonstrates that sufficient liquidity is available to meet anticipated expenditures during the next six months.

The primary and overriding objective for the investment pool is to protect the safety of the principal. The second objective is to insure a sufficient portion of all funds are invested in securities providing a high degree of liquidity and availability. The third objective is to obtain a yield commensurate to current conditions; yield shall not be the driving force in determining which investments are to be selected for purchase. In the event all general objectives mandated by state law are met and created equal, investments in corporate securities and depository institutions will be evaluated for social and environmental concerns.

#### LIBOR Lawsuit Recap

On November 13, 2013, the County of Mendocino filed suit for alleged financial damages from the manipulation of the interest rates on its investment holdings against more than twenty financial institutions that set the London Interbank Offered Rate, or "LIBOR." The lawsuit was filed in Federal Court in the Northern District (San Francisco) by Cotchett, Pitre & McCarthy, LLP; legal representation was provided on a minimal contingency basis. The County of Mendocino joined numerous other public entities in the lawsuit, including the University of California Regents, the Counties of Sonoma, Sacramento, San Mateo, and San Diego, the Cities of Richmond and Riverside, as well as others.

To clarify, LIBOR is the world's benchmark interest rate used for setting short-term interest rates on a wide range of financial instruments – from simple car loans to complex municipal derivative investments used by public entities. The rate is set each day by the British Bankers' Association (BBA), based on an average of the interest rates that each LIBOR member bank reports it could borrow money from the other member banks. LIBOR was accepted by the global financial system as the true cost of borrowing between financial institutions because it was believed to represent the true interest rate at which borrowers are able to borrow money. It is alleged that during the financial crisis reporting banks submitted artificially low submissions to create a sense of health in the banking sector in an effort to keep the financial markets calm.

During the time period in question, January 1, 2008 through December 31, 2010, the Mendocino County Treasury Pool routinely held floating rate securities. The interest rate on these securities reset either monthly or quarterly, based on LIBOR. The situation described above does appear to have modestly affected interest earnings in the treasury pool.

After several years of litigation, Barclays Bank PLC and Barclays Capital Inc., have reached a LIBOR settlement agreement with various State Attorneys General. On July 17, 2017, the County of Mendocino received \$13,062.74 as its share of the settlement agreement. The funds were deposited in the treasury pool interest account and included in the interest apportionment calculation for the quarter ending June 30, 2017. Hopefully, as the litigation continues, additional settlements will be reached with other financial institutions.

Please feel free to contact me directly with any questions or concerns that you may have.