

# COUNTY OF SONOMA



## STATEMENT OF INVESTMENT POLICY

## TABLE OF CONTENTS

|  | Page |
|--|------|
| 1. Policy Statement .....  | 1    |
| 2. Standards of Care .....   | 1    |
| 3. Investment Objectives .....   | 1    |
| (a) Safety of Capital .....  | 1    |
| (b) Liquidity .....  | 1    |
| (c) Maximum Rate of Return .....   | 2    |
| 4. Implementation .....  | 2    |
| 5. Participants .....  | 2    |
| (a) Statutory Participants .....   | 2    |
| (b) Voluntary Participants .....   | 2    |
| 6. Authorized Persons .....  | 3    |
| 7. Authorized Investments .....  | 3    |
| 8. Prohibited Investments .....  | 3    |
| 9. Investment Criteria .....   | 4    |
| 10. Bankers' Acceptance .....  | 5    |
| 11. Commercial Paper .....   | 5    |
| 12. Repurchase and Reverse Repurchase Agreements/Securities Lending Agreements ..... | 5    |
| 13. Mutual Funds and Money Market Mutual Funds .....                                 | 5    |
| 14. Joint Powers Agreement .....   | 5    |
| 15. Collateral .....   | 6    |
| 16. Criteria for the Selection of Broker/Dealers and Financial Institutions .....    | 6    |
| 17. Withdrawal Requests .....  | 7    |
| (a) Statutory Participants .....   | 7    |
| (b) Voluntary Participants .....   | 7    |
| 18. Delivery & Safekeeping .....   | 7    |
| 19. Apportionment of Interest & Costs .....  | 7    |
| 20. Review, Monitoring and Reporting of the Portfolio .....                          | 8    |
| 21. Limits on Honoraria, Gifts and Gratuities .....                                  | 8    |
| 22. Audits .....   | 8    |
| 23. Exception to Policy .....  | 8    |
| 24. Investment of Bond Proceeds .....  | 9    |
| 25. Disaster Recovery Plan .....   | 9    |
| 26. Glossary of Terms .....  | 10   |

# COUNTY OF SONOMA

## STATEMENT OF INVESTMENT POLICY

Under the authority delegated to the County Treasurer by the Board of Supervisors to invest and reinvest all of the funds in the County Treasury and, in accordance with the California Government Code, the following sets forth the investment policy of the County of Sonoma:

### **1. POLICY STATEMENT**

The purpose of this Investment Policy (Policy) is to establish cash management and investment guidelines for the County Treasurer, who is responsible for the stewardship of the Sonoma County Pooled Investment Fund. Each transaction and the entire portfolio must comply with California Government Code Section 53601, et. seq., Section 53635, et. seq., and this policy. All portfolio activities will be judged by the standards of the Policy and ranking of investment objectives.

### **2. STANDARDS OF CARE**

The County Treasurer is the Trustee of the Pooled Investment Fund and, therefore, a fiduciary subject to the prudent investor standard. The County Treasurer, employees involved in the investment process and the members of the Treasury Oversight Committee (Oversight Committee) shall refrain from all personal business activity that could conflict with the management of the investment program. All individuals involved will be required to report all gifts and income in accordance with California State law. When investing, reinvesting, purchasing, acquiring, exchanging, selling and managing public funds, the County Treasurer shall act with the care, skill, prudence and diligence to meet the aims of the investment objectives listed in the Policy.

### **3. INVESTMENT OBJECTIVES**

The Pooled Investment Fund shall be prudently invested in order to earn a reasonable return, while awaiting application for governmental purposes. The specific objectives for the Pooled Investment Fund are ranked in order of importance:

- [a] **SAFETY OF CAPITAL** - The preservation of capital is the primary objective. Each transaction shall seek to ensure that capital losses are avoided, whether they be from securities default or erosion of market value.
  
- [b] **LIQUIDITY** - As a second objective, the Pooled Investment Fund should remain sufficiently flexible to ensure the County Treasurer meets all operating requirements, which may be reasonably anticipated in any depositor's fund.

- [c] **MAXIMUM RATE OF RETURN** - As the third objective, the Pooled Investment Fund should be designed to attain a rate of return through budgetary and economic cycles, consistent with the risk limitations, prudent investment principles and cash flow characteristics identified herein.

#### **4. IMPLEMENTATION**

In order to provide direction to those responsible for management of the Pooled Investment Fund, the County Treasurer has established this Policy and presented it to the Treasury Oversight Committee and the Board of Supervisors, and has provided the report to the legislative body of local agencies that participate in the Pooled Investment Fund.

The Policy defines investible funds; authorized instruments; credit quality required; maximum maturities and concentrations; collateral requirements; qualifications of broker-dealers and financial institutions doing business with, or on behalf of, the County; limits on gifts and honoraria; the reporting requirements; the Treasury Oversight Committee; the manner of appropriating costs; and the criteria to request withdrawal of funds.

#### **5. PARTICIPANTS**

- [a] **STATUTORY PARTICIPANTS** - General Participants are those government agencies within the County of Sonoma for which the Sonoma County Treasurer is statutorily designated as the Custodian of Funds.
- [b] **VOLUNTARY PARTICIPANTS** - Other local agencies, such as Special Districts and Cities for which the Treasurer is not the statutory designated Custodian of Funds, may participate in the Pooled Investment Fund. Such participation is subject to the consent of the County Treasurer and must be in accordance with the California Code Section 53684, et seq. The agency must approve in writing the Sonoma County Pooled Investment Fund as an authorized investment and accept the County of Sonoma Investment Policy.

#### **6. AUTHORIZED PERSONS**

The Sonoma County Board of Supervisors, by resolution, has delegated investment responsibility for the Sonoma County Investment Program to the Auditor-Controller/Treasurer-Tax Collector. Daily management responsibility of the investment program has been assigned to the Assistant Treasurer. The Treasury Manager or the Revenue and Debt Manager are also authorized to initiate investment transactions.

All investment decisions shall be made with care, skill, prudence and diligence, under the circumstances then prevailing, that a prudent person acting as a trustee in a like capacity and familiarity would use in the conduct of funds of a like character, and with like aims, to safeguard the principal and maintain the liquidity needs of depositors.

#### **7. *AUTHORIZED INVESTMENTS***

Authorized investments shall match the general categories established by the California Government Code Sections 53601, et. seq. and 53635, et. seq. Authorized investments shall also include, in accordance with California Government Code Section 16429.1, investments into the State Local Agency Investment Fund (LAIF). No investment shall be made in any security with a maturity greater than five years, unless the Board of Supervisors has granted express authority to make that investment. As the California Government Code is amended, this Policy shall likewise become amended.

#### **8. *PROHIBITED INVESTMENTS***

No investments shall be authorized that have the possibility of returning a zero or negative yield if held to maturity. These shall include inverse floaters, range notes, and interest only strips derived from a pool of mortgages.

#### **9. *INVESTMENT CRITERIA***

| Investment Type   | Maximum Maturity | Maximum % of Pool      | Rating                   |
|---|------------------|------------------------|--------------------------|
| U.S Treasury and Agency Securities (§53601 (b & f))   | 5 years          | 100                    | N/A                      |
| Bonds and Notes issued by local agencies (§53601 (e))   | 5 years          | 100                    | N/A                      |
| Registered State Warrants and Municipal Notes and Bonds (§53601 (c, d & e))                   | 5 years          | 100                    | N/A                      |
| Bankers' Acceptances (See Section 10) (§53601 (g))  | 180 days         | 40                     | N/A                      |
| Commercial Paper (See Section 11) (§53601 (h) and (§53635 (a))                                | 270 days         | 40                     | A-1/F-1/P-1              |
| Negotiable Certificates of Deposit (§53601 (i))   | 5 years          | 30                     | N/A                      |
| Repurchase Agreements (See Section 12) (§53601 (j))   | 1 year           | 100                    | N/A                      |
| Reverse Repurchase Agreements and Securities Lending Agreements (See Section 12) (§53601 (j)) | 92 days          | 20                     | N/A                      |
| Medium Term Corporate Notes (§53601 (k))  | 5 years          | 30                     | A                        |
| Mutual Funds & Money Market Mutual Funds (§53601 (l))   | N/A              | 20                     | Aaa & AAAM or Section 13 |
| Collateralized Mortgage Obligations (§53601 (m))  | 5 years          | 20                     | AA                       |
| Joint Powers Agreement (See Section 14) (§53601 (p))  | N/A              | 20                     | N/A                      |
| Local Agency Investment Fund (LAIF) (§16429.1)  | N/A              | As limited by LAIF     | N/A                      |
| Investment Trust of California (CalTRUST) (§6509.7)   | N/A              | As limited by CalTRUST | N/A                      |
| Collateralized Time Deposits (§53650 et seq.)   | 5 years          | N/A                    | N/A                      |

## **10. BANKERS' ACCEPTANCE**

No more than 30 percent of the agency's surplus funds may be invested in the Bankers' Acceptances of any one commercial bank pursuant to this section.

**11. COMMERCIAL PAPER**

All commercial paper issuers must maintain an "A-1" rating by Standard & Poor's Corporation, a "P-1" rating by Moody's Investor Service, or a "F-1" rating by Fitch Financial Services issued by corporations operating within the United States, and having total assets in excess of five hundred million dollars (500,000,000.00). As used in this policy, "corporation" includes a limited liability company.

No more than 10% of the total assets of the investments held by a local agency may be invested in any one issuer's Commercial Paper.

**12. REPURCHASE AND REVERSE REPURCHASE AGREEMENTS / SECURITIES LENDING AGREEMENTS**

Under California Government Code Section 53601, Paragraph (i) and Section 53635, the County Treasurer may enter into repurchase agreements and reverse repurchase agreements / securities lending agreements. The maximum maturity of repurchase agreements shall be one year. The maximum maturity of a reverse repurchase agreement shall be 92 days, and the proceeds of reverse repurchase agreements / securities lending agreements may not be invested beyond the expiration of the agreement. The reverse repurchase agreements / securities lending agreements must be "matched to maturity."

**13. MUTUAL FUNDS AND MONEY MARKET MUTUAL FUNDS**

A Mutual Fund managed by an investment adviser registered or exempt from registration with the Securities and Exchange Commission with not less than five years' experience investing in the securities and obligations authorized by Government Code Section 53601, subdivisions (a) to (j), inclusive, or subdivisions (m) or (n) and with assets under management in excess of five hundred million dollars (\$500,000,000.00).

No more than 10% of the agency's funds may be invested in any one Mutual Fund.

**14. JOINT POWERS AGREEMENT**

With approval of the Board of Supervisors, the Treasurer is allowed to enter into a Joint Powers Agreement with governments whose policies are consistent with or more restrictive than Sonoma County's Statement of Investment Policy.

**15. COLLATERAL**

Repurchase agreements executed with approved broker-dealers must be collateralized with either: (1) U.S. Treasuries or Agencies with a market value of 102% for collateral marked to market daily; or (2) money market instruments which are on the approved list of the County and which meet the qualifications of the Policy, with a market value of 102%. Use of mortgage-backed securities for collateral is not permitted. For purposes of investing the daily excess bank balance, the collateral provided by the County's depository bank can include mortgage-backed securities valued at 100%.

#### **16. CRITERIA FOR THE SELECTION OF BROKER/DEALERS AND FINANCIAL INSTITUTIONS**

All transactions initiated on behalf of the Pooled Investment Fund and Sonoma County shall be executed through either government security dealers reporting as primary dealers to the Market Reports Division of the Federal Reserve Bank of New York, financial institutions that directly issue their own securities which have been placed on the Approved List of Broker/Dealers and Financial Institutions or broker/dealers in the State of California approved by the County Treasurer based on the reputation and expertise of the company and individuals employed . All brokers/dealers and financial institutions must have a strong industry reputation and open lines of credit with other dealers. Further, these firms must have an investment grade rating from at least one national rating service, if applicable.

Broker/dealers and financial institutions which have exceeded the political contribution limits within a four year period to the County Treasurer or any member of the governing board of a local agency or any candidate for those offices, are prohibited from the Approved List of Broker/Dealers and Financial Institutions.

Each broker/dealer or financial institution will be sent a copy of this Policy and a list of those persons authorized to execute investment transactions. Each firm must acknowledge receipt of such materials to qualify for the Approved List of Broker/Dealers and Financial Institutions.

Each broker/dealer and financial institution authorized to do business with Sonoma County shall, at least annually, supply the County Treasurer with financial statements.

#### **17. WITHDRAWAL REQUESTS**

[a] **STATUTORY PARTICIPANTS** - The County Treasurer will honor all requests to

withdraw funds for normal cash flow purposes that are approved by the Sonoma County Auditor-Controller at a one dollar net asset value. Any requests to withdraw funds for purposes other than cash flow, such as for external investing, shall be subject to the consent of the County Treasurer. In accordance with California Government Code Section 27136, et seq., such requests for withdrawals must first be made in writing to the County Treasurer. These requests are subject to the County Treasurer's consideration of the stability and predictability of the Pooled Investment Fund, or the adverse effect on the interests of the other depositors in the Pooled Investment Fund. Any withdrawal for such purposes shall be at the market value of the Pooled Investment Fund as of the date of the withdrawal.

[b] **VOLUNTARY PARTICIPANTS** - For outside participants who utilize Government Code Section 53684, where the County Treasurer does not serve as the agency's treasurer, any withdrawal request, with the exception of normal cash flow withdrawals, shall submit the request for withdrawal to the County Treasurer to determine the timing of the payout, in order that the withdrawal will not adversely affect the interests of the other depositors in the County Treasury Investment Fund. Withdrawals will be paid based upon the market value of the Pooled Investment Fund. If the Treasurer deems appropriate, the deposits may be returned at any time.

#### **18. DELIVERY & SAFEKEEPING**

Delivery of all securities shall be either to the County Treasurer or to a third party custodian. No securities shall be held in the safekeeping of a broker / dealer unless it is collateral for a reverse repurchase agreement.

#### **19. APPORTIONMENT OF INTEREST & COSTS**

Interest shall be apportioned to all pool participants quarterly, based upon the ratio of the average daily balance of each individual fund to the average daily balance of all funds in the Investment Pool. The amount of interest apportioned shall be determined using the accrual method of accounting, whereby interest will be apportioned for the quarter in which it was actually earned. The Treasurer shall deduct from the gross interest earnings those budgeted administrative costs relating to the management of the Treasury, including salaries and other compensation, banking costs, equipment costs, supplies, the cost of information services, audit and any other costs as provided by Section 27013 of the Government Code. The deduction shall be adjusted to actual cost in the fourth quarter of the fiscal year and/or the first quarter of the following fiscal year.

#### **20. REVIEW, MONITORING AND REPORTING OF THE PORTFOLIO**

Quarterly, the County Treasurer will provide to the Treasury Oversight Committee, the Board of Supervisors, and to any local agency participant a report on the Pooled Investment Fund. The report

will list the type of investments, name of issuer, maturity date, par amount and dollar amount of the investment. For the total Pooled Investment Fund, the report will list average maturity, the market value and the pricing source. Additionally, the report will show any funds under the management of contracting parties, a statement of compliance to the Investment Policy and a statement of the pooled fund's ability to meet the expected expenditure requirements for the next six months.

Annually, the County Treasurer shall provide to the Treasury Oversight Committee a Statement of Investment Policy. Additionally, the County Treasurer will render a copy of the Statement of Investment Policy to the Board of Supervisors and to the legislative body of the local agencies that participate in the Pool.

## **21. LIMITS ON HONORARIA, GIFTS AND GRATUITIES**

In accordance with California Government Code Section 27133 (d), et seq., this Policy hereby establishes limits for the County Treasurer, individuals responsible for management of the portfolios, and members of the Oversight Committee. Any individual who receives an aggregate total of gifts, honoraria and gratuities in excess of \$50 in a calendar 12 month time period from a broker/dealer, bank or service provider to the Pooled Investment Fund must report the gifts, dates and firms to the County Treasurer and complete the appropriate state forms.

No individual may receive aggregate gifts, honoraria and gratuities in a calendar twelve (12) month time period in excess of the limits established by the Fair Political Practices Commission (FPPC). Any violation must be reported to the FPPC on an annual basis.

## **22. AUDITS**

The Treasury Oversight Committee shall initiate an annual audit to ensure the County's Investment Portfolio is in compliance with its policy and state law.

## **23. EXCEPTION TO POLICY**

The County Treasurer, except as prohibited by state law, can make exceptions to the investment purchasing limits when he deems it in the best interest of all of the pool participants. All exceptions will be reported in the quarterly report. Any State of California legislative action that further restricts allowable maturities, investment type, or percentage allocations will become effective immediately.

## **24. INVESTMENT OF BOND PROCEEDS**

The County Treasurer shall invest bond proceeds using the standards of the County of Sonoma's Investment Policy. The bond proceeds will be invested in securities permitted by the bond

documents. If the bond documents are silent, the bond proceeds will be invested in securities permitted by the County of Sonoma's Investment Policy.

## **25. *DISASTER RECOVERY PLAN***

The County Treasurer's Disaster Recovery Plan includes contact information for the Treasury staff and key county personnel, as well as contact information for authorized banks and brokers. Copies of the plan have been distributed to the investment staff: Assistant Treasurer, Treasury Manager, and Revenue and Debt Manager.

In the event we are unable to conduct normal business operations, the investment staff shall interact with one another by home phone, cell phone, or e-mail to decide on an alternate location from which to conduct daily operations. If unable to contact one another, the investment staff shall establish contact with one another through the County Office of Emergency Services.

## **GLOSSARY OF TERMS**

### **ACCRUED INTEREST**

Interest that has accumulated but has not yet been paid from the most recent interest payment date or issue date to a certain date.

### **BANKERS' ACCEPTANCES**

A time bill of exchange drawn on and accepted by a commercial bank to finance the exchange of goods. When a bank "accepts" such a bill, the time draft becomes, in effect, a predated, certified check payable to the bearer at some future specified date. Little risk is involved for the investor because the commercial bank assumes primary liability once the draft is accepted.

### **BASIS POINT**

One basis point is equal to 1/100 of one percent. For example, if interest rates increase from 4.25% to 4.50%, the difference is referred to as a 25-basis-point increase.

### **BOOK VALUE**

The value of a held security as carried in the records of an investor. May differ from current market value of the security.

### **BROKER/DEALER**

Any person engaged in the business of effecting transactions in securities in this state for the account of others or for her/his own account. Broker/dealer also includes a person engaged in the regular business of issuing or guaranteeing options with regard to securities not of her/his own issue.

### **COMMERCIAL PAPER**

Short-term, unsecured promissory notes issued in either registered or bearer form and usually backed by a line of credit with a bank. Maturities do not exceed 270 days and generally average 30-45 days.

### **COUPON RATE**

The annual rate of interest payable on a security expressed as a percentage of the principal amount.

### **CREDIT RISK**

The risk to an investor that an issuer will default in the payment of interest and/or principal on a security.

### **CURRENT YIELD**

The annual income from an investment divided by the current market value. Since the mathematical calculation relies on the current market value rather than the investor's cost, current yield is unrelated to the actual return the investor will earn if the security is held to maturity.

**CUSIP NUMBERS**

CUSIP is an acronym for Committee on Uniform Security Identification Procedures. CUSIP numbers are identification numbers assigned each maturity of a security issue and usually printed on the face of each individual security in the issue. The CUSIP numbers are intended to facilitate identification and clearance of securities.

**DISCOUNT**

The amount by which the par value of a security exceeds the price paid for the security.

**EARNINGS APPORTIONMENT**

The quarterly interest distribution to the Pool Participants where the actual investment costs incurred by the Treasurer are deducted from the interest earnings of the Pool.

**FAIR VALUE**

The amount at which an investment could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

**FEDERAL FUNDS**

Funds placed in Federal Reserve banks by depository institutions in excess of current reserve requirements. These depository institutions may lend Fed funds to each other overnight or on a longer basis. They may also transfer funds among each other on a same-day basis through the Federal Reserve banking system. Fed funds are considered to be immediately available funds.

**FEDERAL FUNDS RATE**

Interest rate at which banks lend federal funds to each other.

**FEDERAL OPEN MARKET COMMITTEE (FOMC)**

This committee sets Federal Reserve guidelines regarding purchases and sales of government securities in the open market as a means of influencing the volume of bank credit and money.

**FLOATING RATE NOTE**

A debt security whose interest rate is reset periodically (monthly, quarterly, annually) and is based on a market index (e.g. Treasury bills, LIBOR, etc.).

**INTEREST**

The amount earned while owning a debt security, generally calculated as a percentage of the principal amount.

**LOCAL AGENCY INVESTMENT FUND (LAIF)**

The State of California investment pool in which money of local agencies is pooled as a method for managing and investing local funds.

**MARKET VALUE**

The price at which a security is trading and could presumably be purchased or sold.

**MATURITY**

The date upon which the principal of a security becomes due and payable to the holder.

**MONEY MARKET MUTUAL FUND**

A mutual fund with investments directed in short-term money market instruments only, which can be withdrawn daily without penalty.

**PAR**

The stated maturity value, or face value, of a security.

**PAR VALUE**

The stated or face value of a security expressed as a specific dollar amount marked on the face of the security; the amount of money due at maturity. Par value should not be confused with market value.

**PREMIUM**

The amount by which the price paid for a security exceeds the security's par value.

**PRIME RATE**

A preferred interest rate charged by commercial banks to their most creditworthy customers. Many interest rates are keyed to this rate.

**REPURCHASE AGREEMENT OR RP OR REPO**

An agreement consisting of two simultaneous transactions whereby the investor purchases securities from a bank or dealer and the bank or dealer agrees to repurchase the securities at the same price on a certain future date. The interest rate on a RP is that which the dealer pays the investor for the use of his funds. Reverse repurchase agreements are the mirror image of the RPs when the bank or dealer purchases securities from the investor under an agreement to sell them back to the investor.

**SECURITIES LENDING**

A transaction wherein the Treasurer's Pool transfers its securities to broker/dealers and other entities for collateral which may be cash or securities and simultaneously agrees to return the collateral for the same securities in the future.

**SETTLEMENT DATE**

The date on which the purchase or sale of securities is executed. For example, in a purchase transaction, the day securities are physically delivered or wired to the buyer in exchange for cash is the settlement date.

**TRADE DATE**

The date and time corresponding to an investor's commitment to buy or sell a security.

**WEIGHTED AVERAGE MATURITY**

The remaining average maturity of all securities held in a portfolio.