

COUNTY OF YOLO

**INVESTMENT POLICY
2011**



Proposed by:

Auditor-Controller Treasurer-Tax Collector

Reviewed by:

County Treasury Oversight Committee
November 10, 2010

Approved by:

Board of Supervisors
December 7, 2010

Amended by:

Board of Supervisors
June 7, 2011

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I. Introduction

This document is known as the annual investment policy and represents the policies of the board of supervisors of the County of Yolo related to the investment of funds under the control of the county treasury.

This policy is prepared annually by the county treasurer in accordance with the California Government Code and prudent asset management principles. Pursuant to Government Code sections 27133 and 53646 this policy has been reviewed by the County Treasury Oversight Committee and approved by the Board of Supervisors at a public meeting.

II. Scope

This policy applies to the cash management and investment activities performed by County personnel and officials for any local agency, public agency, public entity or public official that has funds on deposit in the county treasury. The terms "County" and "county treasury pool" are used interchangeably and include all such funds so invested. The investment of bond proceeds will be governed by the provisions of relevant bond documents.

III. Standard of Care

Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion, and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived.

The standard of prudence to be used by investment officials shall be the "prudent person" standard and shall be applied in the context of managing an overall portfolio. Investment officers acting in accordance with written procedures and the investment policy and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments.

IV. Public Trust

All participants in the investment process shall seek to act responsibly as custodians of the public trust. Investment officials shall avoid any transaction that might impair public confidence in the County's ability to govern effectively.

V. Objectives

The primary objectives, in descending priority order, of the investment activities of the County shall be:

Safety. Safety of principal is the foremost objective of the investment program. Investments of the County shall be undertaken in a manner that seeks to ensure preservation of capital in the portfolio.

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Liquidity. The investment portfolio shall be maintained in such a manner as to provide sufficient liquidity to meet the operating requirements of any of the participants.

Return on Investment. The investment portfolio of the County shall be designed with the objective of attaining a market rate of return on its investments consistent with the constraints imposed by its safety objective and cash flow considerations.

VI. Delegation of Authority

Subject to Section 53607 the authority of the Board of Supervisors to invest or to reinvest funds of the pooled investments, or to sell or exchange securities so purchased, may be delegated for a one-year period by ordinance in accordance with Government Code Sections 27000.1 and 27000.3.

Since 1999 the Board of Supervisors has designated the Auditor-Controller as its agent authorized to make investment decisions in consultation with the Audit-Fiscal Committee of the Board after considering the strategy proposed by the investment advisor.

VII. Ethics and Conflict of Interest

Officers and employees involved in the investment process shall refrain from personal business activities that could conflict with proper execution of the investment program, or which could impair their ability to make impartial decisions.

Individuals performing the investment function and members of the County Treasury Oversight Committee (CTOC) shall maintain the highest standards of conduct. These individuals should follow the Code of Ethics for Procurement approved by the Board of Supervisors and comply with all relevant provisions of the Political Reform Act, especially the requirements of Chapter 7 – Conflict of Interest and Chapter 9.5 – Ethics. The key requirements are listed below:

- a. Officers, employees and members of the CTOC involved in the investment process shall refrain from personal business activity that could conflict with the proper execution and management of the investment program, or that could affect their ability to make impartial decisions.
- b. Officers, employees and members of the CTOC shall refrain from undertaking personal investment transactions with the same individual with whom business is conducted on behalf of the County.
- c. Officers, employees and members of the CTOC shall not accept gifts or gratuities with a value exceeding \$420 in any one year from any bank, broker, dealer, or any other person, firm, or organization who conducts business with the County Treasurer.
- d. No members of the Board of Supervisors or any person with investment decision-making authority in the County Administrator's office or the Auditor-Controller and Treasurer-Tax Collector's office may serve on the board of directors or any committee appointed by the board or the credit committee or supervisory committee of a state or federal credit union which is a depository for County funds.

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VIII. Internal Controls

Internal control procedures shall be established and maintained by the Treasurer that provide reasonable assurance that the investment objectives are met and to ensure that the assets are protected from loss, theft, misuse, or mismanagement. The internal controls shall be reviewed as part of the regular annual independent audit. The controls and procedures shall be designed to prevent employee error, misrepresentations by third parties, and imprudent or illegal actions by employees or officers of the County.

IX. Cash Management

In determining the amount that can be invested County personnel shall take into account the liquidity needs of the County and the agencies in the Treasury pool, and shall take reasonable steps to ensure that cash flow requirements of the County and pool participants are met for the next six months, barring unforeseen actions from the State Controller or other funding sources, such as deferrals of cash payments.

County personnel shall maintain separate accounting for cash funds and monitor aggregate cash balances of the County and each agency in the Treasury pool, and shall notify the County Administrator or agency management of unhealthy trends in aggregate cash balances and near-deficit aggregate balances.

Agencies that are so notified are expected to take immediate action to cure any deficit and improve cash balances. Continuing deficits shall be reported to the Board of Supervisors for further action.

The County Treasurer-Tax Collector shall provide quarterly reports on total cash flows and balances of the Treasury Pool to the Treasury Oversight Committee.

X. Authorized Financial Dealers and Qualified Institutions

The County may secure the services of an Investment Adviser. Precautionary contractual language with such an adviser shall include: delivery versus payment methods, third-party custody arrangements, prohibitions against self-dealings, independent audits, and other appropriate internal control measures as deemed necessary by the Auditor Controller and Treasurer-Tax Collector.

The County or the County's Investment Advisor, shall maintain a list of authorized broker/dealers and financial institutions which are approved for investment transaction purposes, and it shall be the policy of the County to purchase securities only from those authorized institutions or firms. Authorized brokers/dealers must either (i) be classified as Reporting Dealers affiliated with the New York Federal Reserve Bank as Primary Dealers or (ii) be registered to conduct business in the State of California and be licensed by the state as a broker-dealer, as defined in Section 25004 of the Corporations Code.

No broker/dealer shall be selected which has within any consecutive 48-month period made a political contribution to the local auditor-controller, treasurer-tax collector or to

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any member of the Board of Supervisors or to any candidate for these offices in an amount exceeding the limitations contained in Rule G-37 of the Municipal Securities Rulemaking Board.

XI. Permitted Investment Instruments

1. **United States Treasury Obligations.** Government obligations for which the full faith and credit of the United States are pledged for the payment of principal and interest.
2. **Federal Agency Obligations.** Federal agency or United States government-sponsored enterprise obligations, participations, or other instruments, including those issued by or fully guaranteed as to principal and interest by federal agencies or United States government-sponsored enterprises.
3. **California Municipal Obligations.** Obligations of the State of California, this local agency or any local agency within the state, including bonds payable solely out of revenues from a revenue-producing property owned, controlled or operated by the state, this local agency or any local agency or by a department, board, agency or authority of the state or any local agency; provided that the obligations are approved by a Board of Supervisors resolution, unless rated in one of the two highest categories by Moody's or Standard and Poor's. Any investment in obligations of this local agency shall be in a ratio proportionate to the County's share of the pooled investments.
4. **Repurchase Agreements.** Agreements to be used solely as short-term investments not to exceed 90 days.

The County may enter into Repurchase Agreements with primary dealers in U.S. Government securities who are eligible to transact business with, and who report to, the Federal Reserve Bank of New York.

The following collateral restrictions will be observed: Only U.S. Treasury securities or Federal Agency securities, as described in X.1 and X.2, will be acceptable collateral.

All securities underlying Repurchase Agreements must be delivered to the County's custodian bank versus payment or be handled under a properly executed tri-party repurchase agreement. The total market value of all collateral for each Repurchase Agreement must equal or exceed, 102 percent of the total dollar value of the money invested by the County for the term of the investment. For any Repurchase Agreement with a term of more than one day, the value of the underlying securities must be reviewed at least weekly.

Market value must be calculated each time there is a substitution of collateral.

The County or its trustee shall have a perfected first security interest under the Uniform Commercial Code in all securities subject to Repurchase Agreement.

The County will have properly executed a PSA agreement with each counter party with which it enters into Repurchase Agreements.

5. **Banker's Acceptances.** Issued by domestic or foreign banks, the short-term paper of

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which is rated in the highest category by Moody's Investors Services or by Standard & Poor's Corporation.

Purchases of Banker's Acceptances may not exceed 180 days maturity or 40 percent of the County's investment portfolio. No more than 10 percent of the County's investment portfolio may be invested in the Banker's Acceptances of any one commercial bank.

6. **Commercial Paper.** Of prime quality of the highest ranking or of the highest letter and number rating as provided for by a nationally recognized statistical-rating organization (NRSRO). The entity that issues the commercial paper shall meet all of the following conditions shown in either paragraph (1) or paragraph (2):
 1. The entity meets the following criteria:
 - A. Is organized and operating in the United States as a general corporation.
 - B. Has total assets in excess of five hundred million dollars (\$500,000,000).
 - C. Has debt other than commercial paper, if any, that is rated "A" or higher by a nationally recognized statistical-rating organization (NRSRO).
 2. The entity meets the following criteria:
 - A. Is organized within the United States as a special purpose corporation, trust, or limited liability company.
 - B. Has program wide credit enhancements including, but not limited to, over collateralization, letters of credit, or surety bond.
 - C. Has commercial paper that is rated "A-1" or higher, or the equivalent, by a nationally recognized statistical-rating organization (NRSRO).

Purchases of eligible commercial paper may not exceed 270 days maturity.

No more than 40 percent of the County's investment portfolio may be invested in eligible commercial paper and no more than 10 percent of the portfolio may be invested in any one issuer's commercial paper.

7. **Medium-Term Corporate Notes.** Notes issued by corporations organized and operating within the United States or by depository institutions licensed by the U.S. or any state and operating within the U.S. Medium-term corporate notes shall be rated in a rating category "A" or its equivalent by a nationally recognized rating service if the term to maturity from the date of purchase is 3 years or less. If the term to maturity at the time of purchase is between 3 and 5 years then the rating shall be "AA" or better by a nationally recognized rating service.

Purchase of medium-term corporate notes may not exceed 30 percent of the County's investment portfolio. No more than 10 percent of the County's investment portfolio may be invested in any one issuer.

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8. **Non-Negotiable Certificates of Deposit.** FDIC insured or fully collateralized time certificates of deposit in financial institutions located in California, including U.S. branches of foreign banks licensed to do business in California. All time deposits must be collateralized in accordance with California Government Code Section 53651, either at 150% by promissory notes secured by first mortgages and first trust deeds upon improved residential property in California eligible under section (m) or at 110% by eligible marketable securities listed in subsections (a) through (l) and (n) and (o). The County, at its discretion and by majority vote of the Board of Supervisors, on a quarterly basis, may waive the collateralization requirements for any portion of the deposit that is covered by federal insurance.

Alternatively, the County may invest in certificates of deposit at a commercial bank, savings bank, savings and loan association, or credit union that uses a private sector entity that assists in the placement of certificates of deposit as provided for in Government Code section 53635.8.

9. **Negotiable Certificates of Deposit.** Negotiable certificates of deposit or deposit notes issued by a nationally or state-chartered bank or a state or federal savings and loan association or by a state-licensed branch of a foreign bank; provided that the senior debt obligations of the issuing institution are rated "A" or better by Moody's or Standard & Poor's.

Purchases of all negotiable certificates of deposit may not exceed 30 percent of the County's investment portfolio.

10. **Local Government Investment Pools.** (Either state-administered or through joint powers statutes and other intergovernmental agreement legislation.)

Investments may be maximized to the level allowed by the State and should be reviewed periodically. Investment objectives, limitations, and controls of each pool must be consistent with this policy.

11. **Money Market Funds.** Shares of beneficial interest issued by diversified management companies that are money market mutual funds registered with Securities and Exchange Commission under the Investment Company Act of 1940. To be eligible for investment pursuant to this subdivision these companies shall either: (1) attain the highest ranking letter or numerical rating provided by not less than two of the largest nationally recognized statistical rating organizations or (2) have retained an investment advisor registered or exempt from registration with the Securities and Exchange Commission with not less than five years experience investing in securities and obligations authorized by Government Code Section 53601 and with assets under management in excess of \$500,000,000.

Money Market Funds shall not exceed 20 percent of the investment portfolio of the County as recorded at purchase price on date of purchase.

12. **Mortgage Pass-Through Securities.** Any mortgage pass-through security, collateralized mortgage obligation, mortgage-backed or other pay-through bond, equipment lease-back certificate, consumer receivable pass-through certificate, or consumer receivable-backed bond of a maximum of five years maturity. Eligible securities must be rated, by a nationally recognized rating service, as "AAA" or higher, and the issuer of the security must have an "A" or higher rating for its debt as

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provided by a nationally recognized rating service. No more than 20 percent of the County's investment portfolio may be invested in this type of security.

13. **Reverse Repurchase Agreements.** Reverse repurchase agreements shall be used primarily as a cash flow management tool and subject to all the following conditions:
1. The security to be sold using a reverse repurchase agreement has been owned and fully paid for by the County for a minimum of 30 days prior to sale.
 2. The total of all reverse repurchase agreements on investments owned by the County does not exceed 20 percent of the base value of the portfolio. The base value of the County's portfolio for this section is defined as that dollar amount obtained by totaling all cash balances placed in the portfolio by all participants, excluding any amounts obtained through selling securities by way of reverse repurchase agreements, securities lending agreements, or other similar borrowing methods.
 3. The agreement does not exceed a term of 92 days, unless the agreement includes a written codicil guaranteeing a minimum earning or spread for the entire period between the sale of a security using a reverse repurchase agreement and the final maturity date of the same security.
 4. Funds obtained or funds within the pool of an equivalent amount to that obtained from selling a security to a counterparty using a reverse repurchase agreement shall not be used to purchase another security with a maturity longer than 92 days from the initial settlement date of the reverse repurchase agreement, unless the reverse repurchase agreement includes a written codicil guaranteeing a minimum earning or spread for the entire period between the sale of a security using a reverse repurchase agreement and the final maturity date of the same security.
 5. Investments in reverse repurchase agreements or similar investments in which the County sells securities prior to purchase with a simultaneous agreement to repurchase the security shall be made only with primary dealers of the Federal Reserve Bank of New York or with a nationally or state-chartered bank that has or has had a significant banking relationship with a local agency. A significant banking relationship is defined by any of the following activities of a bank:
 - a. Involvement in the creation, sale, purchase, or retirement of the County's bonds, warrants, notes, or other evidence of indebtedness.
 - b. Financing of the County's activities.
 - c. Acceptance of the County's securities or funds as deposits.

Credit criteria listed in this section refers to the credit of the issuing organization at the time the security is purchased. Should a security owned by the County be downgraded below "A" the Investment Advisor shall immediately notify the County Auditor-Controller who will report to the Board of Supervisors, at their next regularly scheduled meeting, the circumstances of the downgrade and any action taken or recommended.

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XII. Ineligible Investments

The County shall not invest any funds in inverse floaters, range notes, or interest-only strips that are derived from a pool of mortgages, or in any security that could result in zero interest accrual if held to maturity. Any other security not specifically permitted by Section X is prohibited.

XIII. Maximum Maturity

Investment maturities shall be based on a review of cash flow forecasts. Maturities will be scheduled so as to permit the County to meet all projected obligations.

Unless otherwise specified in this policy or authorized by the Board of Supervisors, no investment shall be made in any security, other than a security underlying a repurchase agreement as authorized by this policy, that at the time of the investment has a term remaining to maturity in excess of five years.

XIV. Diversification & Percentage Limitations

The County shall limit the County's investments in any one non-governmental issuer to no more than 10 percent of the County's total investments at the time of purchase.

All percentage limitations apply at the time of the investment (purchase date).

XV. Reporting Requirements

The County Auditor-Controller and Treasurer-Tax Collector shall render a monthly investment report to the Board of Supervisors that includes, at a minimum, the following information for each investment:

- Type of investment instrument (i.e., U.S. Treasury note, Federal Agency note)
- Issuer name (i.e., General Electric Capital Corp.)
- Credit quality
- Purchase date
- Maturity date
- Par value
- Purchase price
- Current market value and the source of the valuation
- Current amortized or book value
- Accrued interest
- Original yield to maturity
- Overall portfolio yield based on cost
- New investment transactions

The monthly report also shall (i) state compliance of the portfolio to the statement of investment policy, or manner in which the portfolio is not in compliance, (ii) include a description of any of the County's funds, investments or programs that are under the management of contracted parties, including lending programs, and (iii) include a

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statement explaining the ability of the County to meet its cash flows requirements for the next six months, or provide an explanation as to why sufficient money shall, or may, not be available.

This monthly report shall be available within 30 days following the end of the month, and submitted to the Board of Supervisors at the earliest reasonable opportunity, with copies to all pool participants.

XVI. Annual Review of Investment Policy

The County Auditor-Controller and Treasurer-Tax Collector shall annually prepare an investment policy that will be reviewed by the County Treasury Oversight Committee and submitted to the Board of Supervisors for approval in a public meeting. Any change to the investment policy shall be reviewed and approved by the Board in a public meeting. A copy of the policy shall be provided to the California Debt and Investment Advisory Commission.

XVII. Safekeeping and Custody

All securities, whether negotiable, bearer, registered or non-registered shall be delivered either by book entry or physical delivery to the County's third party custodian.

Monthly safekeeping statements are received from custodians where securities are held. Authorized personnel, other than the person handling daily investments, shall review the statements to confirm that investment transactions have settled and been delivered to the County's third party custodian.

XVIII. Apportionment of Earnings and Costs

The manner of calculating and apportioning the cost of investing, depositing, banking, auditing, reporting, or otherwise handling or managing funds is as follows:

Investment earnings 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. Earnings are computed on an accrual basis and the effective date that earnings are deposited into each fund is the first day of the following quarter (January 1, April 1, July 1, and October 1).

Direct and Administrative (including indirect) costs associated with investing, depositing, banking, auditing, reporting, safekeeping, or otherwise handling or managing funds shall be netted against any moneys received pursuant to state mandated reimbursements and deducted from the gross investment earnings in the quarter received.

XIX. Criteria for Considering Requests to Withdraw Funds

Withdrawal of funds from county treasurer pool may occur pursuant to Government Code Section 27136 and approval of the Board of Supervisors.

Assessment of the effect of a proposed withdrawal on the stability and predictability of

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the investment in the County Pool will be based on the following criteria:

- Size of withdrawal
- Size of remaining balances of:
 - Pool
 - Agency
- Current market conditions
- Duration of withdrawal
- Effect on predicted cash flows
- A determination if there will be sufficient balances remaining to cover costs
- Proof that adequate information has been supplied in order to make a proper finding that other pool participants will not be adversely affected.

The Auditor-Controller and Treasurer-Tax Collector reserves the right to mark a fund balance to market value prior to allowing a withdrawal if it is deemed necessary to be equitable to the remaining funds.

XX. Terms and Conditions for Non-Statutory Combined Pool Participants

All entities qualifying under California Government Code Section 27133 (g) may deposit funds for investment purposes providing all of the following has been accomplished: (1) the agency's administrative body has requested the privilege, (2) has agreed to terms and conditions of an investment agreement as prescribed by the County's Board of Supervisors, (3) has by resolution identified the authorized officer acting on behalf of the agency; and (4) the County Auditor-Controller has prescribed the appropriate accounting procedures.

XXI. Audits

Annual Compliance Audit - Pursuant to Government Code section 27134 the County Treasury Oversight Committee shall cause an annual audit to be conducted to determine the County's compliance with article 6 of the Government Code. The audit may include issues relating to the structure of the investment portfolio and risk. The costs of complying with this article shall be County charges and may be included with those charges enumerated under Section 27013.

Quarterly Review and Annual Financial Audit – The Auditor-Controller shall cause quarterly reviews to be made of the Treasurer's records relative to the type and amount of assets in the treasury, pursuant to Government Code sections 26920 - 23. The Auditor-Controller shall also cause an annual financial audit to be made of the Treasurer's records as of June 30. In addition to an opinion on the statement of assets held in the treasury this audit shall include a review of the adequacy of internal controls.

The annual compliance audit and the annual financial audit may be combined.

The Treasurer shall report audits that contain significant audit findings, as defined by Statement on Auditing Standards No. 114, to the Finance and Investment Committee of the Board of Supervisors immediately and to the full Board at the earliest reasonable opportunity. The audit reports shall be copied to the County Treasury Oversight

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Committee.

All audit recommendations shall be addressed timely and in a manner acceptable to the Board of Supervisors.

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