Sierra County
Board of Supervisors' Agenda Transmittal & Record of Proceedings

MEETING DATE: May 7, 2019	**TYPE OF AGENDA ITEM:** ☐Regular ☐Timed ☒Consent
DEPARTMENT: Treasurer **APPROVING PARTY:** Van A. Maddox **PHONE NUMBER:** 530-289-3273	

AGENDA ITEM: Resolution Delegating the Investment Authority and Renewing the Investment Policy.

SUPPORTIVE DOCUMENTS ATTACHED: ☐Memo ☒Resolution ☐Agreement ☒Other

BACKGROUND INFORMATION: This is the annual resolution to comply with State code requiring the Board to reaffirm the delegation of investing authority annually. No changes have been made to the policy from last year. The Investment Guidelines are included for informational purposes.

FUNDING SOURCE: BOARD BUDGET
GENERAL FUND IMPACT: No General Fund Impact
OTHER FUND:
AMOUNT: $ N/A

ARE ADDITIONAL PERSONNEL REQUIRED? ☐Yes, -- -- ☒No	**IS THIS ITEM ALLOCATED IN THE BUDGET?** ☐Yes ☐No **IS A BUDGET TRANSFER REQUIRED?** ☐Yes ☐No

SPACE BELOW FOR CLERK'S USE

BOARD ACTION: ☐Approved ☐Approved as amended ☐Adopted ☐Adopted as amended ☐Denied ☐Other ☐No Action Taken	☐Set public hearing For: ____________________ ☐Direction to: ______________ ☐Referred to: ______________ ☐Continued to: ______________ ☐Authorization given to: ____________________________	Resolution 2019- ____________ Agreement 2019- ____________ Ordinance ________________ Vote: Ayes: Noes: Abstain: Absent: ☐By Consensus

COMMENTS:

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CLERK TO THE BOARD _______________________ DATE _______________________

BOARD OF SUPERVISORS
COUNTY OF SIERRA
STATE OF CALIFORNIA

Resolution No.______

Resolution Re-Authorizing Delegation of Investing Authority and Renew Annual Approval and Approve the Investment Policy

WHEREAS, pursuant to the provisions of Government Code Sections 27000.1 and 53607, the Board of Supervisors may delegate to the Treasurer the authority to invest or reinvest funds and renew such delegation on an annual basis; and

WHEREAS, pursuant to Sierra County Code 2.56.060, Ordinance 839, the Board of Supervisors approved said delegation to the Treasurer; and

WHEREAS, it is the desire and intent of the Board of Supervisors to affirm the Board's approval and annual renewal of the authority for the Treasurer to invest or reinvest the funds of the County and the funds of the other depositors in the County treasury; and

WHEREAS, pursuant to the provisions of Government Code Sections 53646, the treasurer may annually submit to the Board of Supervisors for their approval the County investment policy.

NOW THEREFORE BE IT HEREBY RESOLVED THAT, the Board of Supervisors hereby affirms and approves the authority and annual renewal to invest funds as provided for under the above referenced provisions of the California Government Code and Sierra County Code; and

AND FURTHERE BE IT RESOLVED THAT, the Board of Supervisors hereby approves the investment policy.

ADOPTED by the Board of Supervisors of the County of Sierra, State of California on the 7th day of May 2019 by the following vote:

AYES:
NOES:
ABSTAIN:
ABSENT:

COUNTY OF SIERRA

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PAUL ROEN, CHAIRPERSON
BOARD OF SUPERVISORS

ATTEST:

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HEATHER FOSTER
CLERK OF THE BOARD

APPROVED AS TO FORM:

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DAVID PRENTICE
COUNTY COUNSEL

SIERRA COUNTY

INVESTMENT POLICY

ADOPTED FEBRUARY 6, 2018

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I. INTRODUCTION

The purpose of this investment policy is to identify various policies and procedures that will foster a prudent and systematic investment program designed to seek Sierra County's objectives of safety, liquidity and return on investment through a diversified investment portfolio. This policy also serves to organize and formalize the County's investment-related activities, while complying with all applicable statutes governing the investment of public funds. This policy is written to incorporate industry best practices and recommendations from sources such as the Government Finance Officers Association (GFOA), California Municipal Treasurers Association (CMTA), California Debt and Investment Advisory Commission (CDIAC) and the Association of Public Treasurers (APT).

This investment policy was endorsed and adopted by the Sierra County Board of Supervisors and is effective as of the 6th day of February, 2018, and replaces any previous versions.

II. SCOPE

This policy covers all funds and investment activities under the direct authority of the County, as set forth in the State Government Code, Sections 53600 *et seq.*, with the following exceptions:

- Proceeds of debt issuance shall be invested in accordance with the County's general investment philosophy as set forth in this policy; however, such proceeds are to be invested pursuant to the permitted investment provisions of their specific bond indentures.

- Any other funds specifically exempted by the Board of Supervisors.

POOLING OF FUNDS

The County will consolidate cash and reserve balances from all funds to maximize investment earnings and to increase efficiencies with regard to investment pricing, safekeeping and administration. Investment income will be allocated to the various funds based on their respective participation and in accordance with generally accepted accounting principles.

III. PRUDENCE

Pursuant to California Government Code, Section 53600.3, all persons authorized to make investment decisions on behalf of the County are trustees and therefore fiduciaries subject to the *Prudent Investor Standard*:

> "…all governing bodies of local agencies or persons authorized to make investment decisions on behalf of those local agencies investing public funds pursuant to this chapter are trustees and therefore fiduciaries subject to the prudent investor standard. When investing, reinvesting, purchasing, acquiring, exchanging, selling,

or managing public funds, a trustee shall act with care, skill, prudence, and diligence under the circumstances then prevailing, including, but not limited to, the general economic conditions and the anticipated needs of the County, that a prudent person acting in a like capacity and familiarity with those matters 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 the County. Within the limitations of this section and considering individual investments as part of an overall strategy, investments may be acquired as authorized by law."

The County Treasurer and other authorized persons responsible for managing County funds acting in accordance with written procedures and this investment policy and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes provided that the County Treasurer or other authorized persons acted in good faith. Deviations from expectations of a security's credit or market risk should be reported to the governing body in a timely fashion and appropriate action should be taken to control adverse developments.

IV. OBJECTIVES

The County's overall investment program shall be designed and managed with a degree of professionalism worthy of the public trust. The overriding objectives of the program are to preserve principal, provide sufficient liquidity, and manage investment risks, while seeking a market-rate of return.

- **SAFETY.** Safety of principal is the foremost objective of the investment program. Investments will be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. To attain this objective, the County will diversify its investments by investing funds among a variety of securities with independent returns.

- **LIQUIDITY.** The investment portfolio will remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated.

- **RETURN ON INVESTMENTS.** The investment portfolio will be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints for safety and liquidity needs.

V. DELEGATION OF AUTHORITY

Authority to manage the County's investment program is derived from California Government Code, Sections 41006 and 53600 *et seq.*
The Board of Supervisors is responsible for the management of the County's funds, including the administration of this investment policy. Management responsibility for the cash management of the County's funds is hereby delegated to the County Treasurer.

The County Treasurer will be responsible for all transactions undertaken and will establish a system of procedures and controls to regulate the activities of subordinate officials and employees. Such procedures will include explicit delegation of authority to persons responsible for investment transactions. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the County Treasurer.

The County may engage the services of one or more external investment advisers, who are registered under the Investment Advisers Act of 1940, to assist in the management of the County's investment portfolio in a manner consistent with the County's objectives. External investment advisers may be granted discretion to purchase and sell investment securities in accordance with this investment policy.

The County's overall investment program shall be designed and managed with a degree of professionalism that is worthy of the public trust. The County recognizes that in a diversified portfolio, occasional measured losses may be inevitable and must be considered within the context of the overall portfolio's return and the cash flow requirements of the County.

VI. ETHICS AND CONFLICTS OF INTEREST

All participants in the investment process shall act as custodians of the public trust. Investment officials shall recognize that the investment portfolio is subject to public review and evaluation. Thus employees and officials involved in the investment process shall refrain from personal business activity that could create a conflict of interest or the appearance of a conflict with proper execution of the investment program, or which could impair their ability to make impartial investment decisions.

Employees and investment officials shall disclose to the County Treasurer any material interests in financial institutions with which they conduct business, and they shall further disclose any large personal financial/investment positions that could be related to the performance of the investment portfolio. Employees and officers shall refrain from undertaking any personal investment transactions with the same individual with whom business is conducted on behalf of the County.

VII. INTERNAL CONTROLS

The County Treasurer is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the entity are protected from loss, theft or misuse. The internal control structure shall be designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgments by management.

Periodically, as deemed appropriate by the County Auditor and/or the Board of Supervisors, an independent analysis by an external auditor shall be conducted to review internal controls, account activity and compliance with policies and procedures.

VIII. AUTHORIZED FINANCIAL INSTITUTIONS, DEPOSITORIES, AND BROKER/DEALERS

To the extent practicable, the Treasurer shall endeavor to complete investment transactions using a competitive bid process. The Treasurer will determine which financial institutions are authorized to provide investment services to the County. It shall be the County's policy to purchase securities only from authorized institutions and firms.

The Treasurer shall maintain procedures for establishing a list of authorized broker/dealers and financial institutions which are approved for investment purposes that are selected through a process of due diligence as determined by the County. Due inquiry shall determine whether such authorized broker/dealers, and the individuals covering the County are reputable and trustworthy, knowledgeable and experienced in Public Agency investing and able to meet all of their financial obligations. These institutions may include "primary" dealers or regional dealers that qualify under Securities and Exchange Commission (SEC) Rule 15c3-1 (uniform net capital rule).

In accordance with Section 53601.5, institutions eligible to transact investment business with the County include:

- Primary government dealers as designated by the Federal Reserve Bank and non-primary government dealers.

- Nationally or state-chartered banks.

- The Federal Reserve Bank.

- Direct issuers of securities eligible for purchase.

Selection of financial institutions and broker/dealers authorized to engage in transactions will be at the sole discretion of the County, except where the County utilizes an external investment adviser in which case the County may rely on the adviser for selection.

All financial institutions which desire to become qualified bidders for investment transactions (and which are not dealing only with the investment adviser) must supply the Treasurer with audited financials and a statement certifying that the institution has reviewed the California Government Code, Section 53600 *et seq*. and the County's investment policy. The Treasurer will conduct an annual review of the financial condition and registrations of such qualified bidders.

Public deposits will be made only in qualified public depositories as established by State law. Deposits will be insured by the Federal Deposit Insurance Corporation, or, to the extent the amount exceeds the insured maximum, will be collateralized in accordance with State law.

Selection of broker/dealers used by an external investment adviser retained by the County will be at the sole discretion of the adviser. Where possible, transactions with broker/dealers shall be selected on a competitive basis and their bid or offering prices shall be recorded. If there is no other readily available competitive offering, best efforts will be made to document quotations for comparable or alternative securities. When purchasing original issue instrumentality securities, no competitive offerings will be required as all dealers in the selling group offer those securities at the same original issue price.

IX. AUTHORIZED INVESTMENTS

The County's investments are governed by California Government Code, Sections 53600 *et seq*. Within the investments permitted by the Code, the County seeks to further restrict eligible investments to the guidelines listed below. In the event a discrepancy is found between this policy and the Code, the more restrictive parameters will take precedence. Percentage holding limits listed in this section apply at the time the security is purchased.

Any investment currently held at the time the policy is adopted which does not meet the new policy guidelines can be held until maturity, and shall be exempt from the current policy. At the time of the investment's maturity or liquidation, such funds shall be reinvested only as provided in the current policy.

An appropriate risk level shall be maintained by primarily purchasing securities that are of high quality, liquid, and marketable. The portfolio shall be diversified by security type and institution to avoid incurring unreasonable and avoidable risks regarding specific security types or individual issuers.

1. **MUNICIPAL SECURITIES** include obligations of the County, the State of California and any local agency within the State of California, provided that:

    - The securities are rated in a rating category of "A" or its equivalent or better by at least one nationally recognized statistical rating organization ("NRSRO").
    - No more than 5% of the portfolio may be invested in any single issuer.
    - No more than 30% of the portfolio may be in Municipal Securities.
    - The maximum maturity does not exceed five (5) years.

2. **MUNICIPAL SECURITIES (REGISTERED TREASURY NOTES OR BONDS)** of any of the other 49 states in addition to California, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by a state or by a department, board, agency, or authority of any of the other 49 states, in addition to California.

    - The securities are rated in a rating category of "A" or its equivalent or better by at least one nationally recognized statistical rating organization ("NRSRO").
    - No more than 5% of the portfolio may be invested in any single issuer.
    - No more than 30% of the portfolio may be in Municipal Securities.
    - The maximum maturity does not exceed five (5) years.

3. **U.S. TREASURIES** and other government obligations for which the full faith and credit of the United States are pledged for the payment of principal and interest. There are no limits on the dollar amount or percentage that the County may invest in U.S. Treasuries, provided that:

- The maximum maturity is five (5) years.

4. FEDERAL AGENCIES 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. There are no limits on the dollar amount or percentage that the County may invest in Federal Agency or Government-Sponsored Enterprises (GSEs), provided that:

- No more than 25% of the portfolio may be invested in any single Agency/GSE issuer.
- The maximum maturity does not exceed five (5) years.

5. BANKER'S ACCEPTANCES, provided that**:**

- They are issued by institutions which have short-term debt obligations rated "A-1" or its equivalent or better by at least one NRSRO; or long-term debt obligations which are rated in a rating category of "A" or its equivalent or better by at least one NRSRO.
- No more than 40% of the portfolio may be invested in Banker's Acceptances.
- No more than 5% of the portfolio may be invested in any single issuer.
- The maximum maturity does not exceed 180 days.

6. COMMERCIAL PAPER, provided that:

- The issuer is a corporation organized and operating in the United States with assets in excess of $500 million.
- The securities are rated "A-1" or its equivalent or better by at least one NRSRO.
- They are issued by corporations which have long-term obligations rated in a rating category of "A" or its equivalent or better by at least one NRSRO.
- County may purchase no more than 10% of the outstanding commercial paper of any single issuer.
- No more than 25% of the portfolio may be invested in Commercial Paper.
- No more than 5% of the portfolio may be invested in any single issuer.
- The maximum maturity does not exceed 270 days.

7. NEGOTIABLE CERTIFICATES OF DEPOSIT (NCDS), issued by a nationally or state-chartered bank, a savings association or a federal association, a state or federal credit union, or by a federally licensed or state-licensed branch of a foreign bank, provided that:

- The amount of the NCD insured up to the FDIC limit does not require any credit ratings.
- Any amount above the FDIC insured limit must be issued by institutions which have short-term debt obligations rated "A-1" or its equivalent or better by at least one NRSRO; or long-term obligations rated in a rating category of "A" or its equivalent or better by at least one NRSRO.
- No more than 30% of the total portfolio may be invested in NCDs (combined with CDARS).

- No more than 5% of the portfolio may be invested in any single issuer.
- The maximum maturity does not exceed five (5) years.

8. **FEDERALLY INSURED TIME DEPOSITS** (Non-Negotiable Certificates of Deposit) in state or federally chartered banks, savings and loans, or credit unions, provided that:

   - The amount per institution is limited to the maximum covered under federal insurance.
   - No more than 20% of the portfolio will be invested in a combination of federally insured and collateralized time deposits.
   - The maximum maturity does not exceed five (5) years.

9. **COLLATERALIZED TIME DEPOSITS** (Non-Negotiable Certificates of Deposit) in state or federally chartered banks, savings and loans, or credit unions in excess of insured amounts which are fully collateralized with securities in accordance with California law, provided that:

   - No more than 20% of the portfolio will be invested in a combination of federally insured and collateralized time deposits.
   - The maximum maturity does not exceed five (5) years.

10. **CERTIFICATE OF DEPOSIT PLACEMENT SERVICE (CDARS)**, provided that:

    - No more than 30% of the total portfolio may be invested in a combination of Certificates of Deposit, including CDARS.
    - The maximum maturity does not exceed five (5) years.

11. **COLLATERALIZED BANK DEPOSITS.** The County's deposits with financial institutions will be collateralized with pledged securities per California Government Code, Section 53651.

12. **REPURCHASE AGREEMENTS** collateralized with securities authorized under California Government Code, maintained at a level of at least 102% of the market value of the Repurchase Agreement. There are no limits on the dollar amount or percentage that the County may invest, provided that:

    - Securities used as collateral for Repurchase Agreements will be delivered to an acceptable third party custodian.
    - Repurchase Agreements are subject to a Master Repurchase Agreement between the County and the provider of the repurchase agreement. The Master Repurchase Agreement will be substantially in the form developed by the Securities Industry and Financial Markets Association (SIFMA).
    - The maximum maturity does not exceed one (1) year.

13. **STATE OF CALIFORNIA LOCAL AGENCY INVESTMENT FUND (LAIF)**, provided that:

    - The County may invest up to the maximum amount permitted by LAIF.

- LAIF's investments in instruments prohibited by or not specified in the County's policy do not exclude the investment in LAIF itself from the County's list of allowable investments, provided LAIF's reports allow the Treasurer to adequately judge the risk inherent in LAIF's portfolio.

14. LOCAL GOVERNMENT INVESTMENT POOLS

- California Asset Management Program
- Investment Trust of California

15. CORPORATE MEDIUM TERM NOTES (MTNS), provided that:

- The issuer is a corporation organized and operating within the United States or by depository institutions licensed by the United States or any state and operating within the United States.
- The securities are rated in a rating category of "A" or its equivalent or better by at least one NRSRO.
- No more than 30% of the total portfolio may be invested in MTNs.
- No more than 5% of the portfolio may be invested in any single issuer.
- The maximum maturity does not exceed five (5) years.

16. ASSET-BACKED, MORTGAGE-BACKED, MORTGAGE PASS-THROUGH SECURITIES, AND COLLATERALIZED MORTGAGE OBLIGATIONS, provided that:

- The securities are rated in a rating category of "AA" or its equivalent or better by a NRSRO.
- They are issued by an issuer having long-term debt obligations rated in a rating category of "A" or its equivalent or better by at least one NRSRO.
- No more than 20% of the total portfolio may be invested in these securities.
- No more than 5% of the portfolio may be invested in any single Asset-Backed or Commercial Mortgage security issuer. There is no issuer limitation on any Mortgage security where the issuer is the US Treasury or a Federal Agency/GSE.
- The maximum legal final maturity does not exceed five (5) years.

17. MUTUAL FUNDS AND MONEY MARKET MUTUAL FUNDS that are registered with the Securities and Exchange Commission under the Investment Company Act of 1940, provided that:

a. **MUTUAL FUNDS** that invest in the securities and obligations as authorized under California Government Code, Section 53601 (a) to (k) and (m) to (q) inclusive and that meet either of the following criteria:
   1. Attained the highest ranking or the highest letter and numerical rating provided by not less than two (2) NRSROs; or
   2. Have retained 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 California Government Code, Section 53601 and with assets under management in excess of $500 million.

3. No more than 10% of the total portfolio may be invested in shares of any one mutual fund.

b. **MONEY MARKET MUTUAL FUNDS** registered with the Securities and Exchange Commission under the Investment Company Act of 1940 and issued by diversified management companies and meet either of the following criteria:
   1. Have attained the highest ranking or the highest letter and numerical rating provided by not less than two (2) NRSROs; or
   2. Have retained an investment adviser registered or exempt from registration with the Securities and Exchange Commission with not less than five years' experience managing money market mutual funds with assets under management in excess of $500 million.
   3. No more than 20% of the total portfolio may be invested in Money Market Mutual Funds.

c. No more than 20% of the total portfolio may be invested in these securities.

18. SUPRANATIONALS, provided that:

- Issues are US dollar denominated senior unsecured unsubordinated obligations issued or unconditionally guaranteed by the International Bank for Reconstruction and Development, International Finance Corporation, or Inter-American Development Bank.
- The securities are rated in a rating category of "AA" or its equivalent or better by a NRSRO.
- No more than 30% of the total portfolio may be invested in these securities.
- No more than 10% of the portfolio may be invested in any single issuer.
- The maximum maturity does not exceed five (5) years.

X. PROHIBITED INVESTMENT VEHICLES AND PRACTICES

- State law notwithstanding, any investments not specifically described herein are prohibited, including, but not limited to futures and options.
- In accordance with Government Code, Section 53601.6, investment in inverse floaters, range notes, or mortgage derived interest-only strips is prohibited.
- Investment in any security that could result in a zero interest accrual if held to maturity is prohibited.
- Trading securities for the sole purpose of speculating on the future direction of interest rates is prohibited.
- Purchasing or selling securities on margin is prohibited.
- The use of reverse repurchase agreements, securities lending or any other form of borrowing or leverage is prohibited.
- The purchase of foreign currency denominated securities is prohibited.

XI. INVESTMENT POOLS/MUTUAL FUNDS

The County shall conduct a thorough investigation of any pool or mutual fund prior to making an investment, and on a continual basis thereafter. The Treasurer shall develop a questionnaire which will answer the following general questions:

1. A description of eligible investment securities, and a written statement of investment policy and objectives.
2. A description of interest calculations and how it is distributed, and how gains and losses are treated.
3. A description of how the securities are safeguarded (including the settlement processes), and how often the securities are priced and the program audited.
4. A description of who may invest in the program, how often, what size deposit and withdrawal are allowed.
5. A schedule for receiving statements and portfolio listings.
6. Are reserves, retained earnings, etc. utilized by the pool/fund?
7. A fee schedule, and when and how is it assessed.
8. Is the pool/fund eligible for bond proceeds and/or will it accept such proceeds?

XII. COLLATERALIZATION

CERTIFICATES OF DEPOSIT (CDS). The County shall require any commercial bank or savings and loan association to deposit eligible securities with an agency of a depository approved by the State Banking Department to secure any uninsured portion of a Non-Negotiable Certificate of Deposit. The value of eligible securities as defined pursuant to California Government Code, Section 53651, pledged against a Certificate of Deposit shall be equal to 150% of the face value of the CD if the securities are classified as mortgages and 110% of the face value of the CD for all other classes of security.

COLLATERALIZATION OF BANK DEPOSITS. This is the process by which a bank or financial institution pledges securities, or other deposits for the purpose of securing repayment of deposited funds. The County shall require any bank or financial institution to comply with the collateralization criteria defined in California Government Code, Section 53651.

REPURCHASE AGREEMENTS. The County requires that Repurchase Agreements be collateralized only by securities authorized in accordance with California Government Code:

- The securities which collateralize the repurchase agreement shall be priced at Market Value, including any Accrued Interest plus a margin. The Market Value of the securities that underlie a repurchase agreement shall be valued at 102% or greater of the funds borrowed against those securities.
- Financial institutions shall mark the value of the collateral to market at least monthly and increase or decrease the collateral to satisfy the ratio requirement described above.
- The County shall receive monthly statements of collateral.

XIII. DELIVERY, SAFEKEEPING AND CUSTODY

DELIVERY-VERSUS-PAYMENT (DVP). All investment transactions shall be conducted on a delivery-versus-payment basis.

SAFEKEEPING AND CUSTODY. To protect against potential losses due to failure of individual securities dealers, and to enhance access to securities, interest payments and maturity proceeds, all cash and securities in the County's portfolio shall be held in safekeeping in the County's name by a third party custodian, acting as agent for the County under the terms of a custody agreement executed by the bank and the County. All investment transactions will require a safekeeping receipt or acknowledgment generated from the trade. A monthly report will be received by the County from the custodian listing all securities held in safekeeping with current market data and other information.

The only exceptions to the foregoing shall be depository accounts and securities purchases made with: (i) local government investment pools; (ii) time certificates of deposit, and, (iii) money mutual funds, since the purchased securities are not deliverable.

XIV. MAXIMUM MATURITY

To the extent possible, investments shall be matched with anticipated cash flow requirements and known future liabilities.

The County will not invest in securities maturing more than five (5) years from the date of trade settlement, unless the Board of Supervisors has by resolution granted authority to make such an investment.

XV. RISK MANAGEMENT AND DIVERSIFICATION

MITIGATING CREDIT RISK IN THE PORTFOLIO

Credit risk is the risk that a security or a portfolio will lose some or all of its value due to a real or perceived change in the ability of the issuer to repay its debt. The County will mitigate credit risk by adopting the following strategies:

- The diversification requirements included in the "Authorized Investments" section of this policy are designed to mitigate credit risk in the portfolio.

- No more than 5% of the total portfolio may be deposited with or invested in securities issued by any single issuer unless otherwise specified in this policy.

- The County may elect to sell a security prior to its maturity and record a capital gain or loss in order to manage the quality, liquidity or yield of the portfolio in response to market conditions or County's risk preferences.

- If securities owned by the County are downgraded by an NRSRO to a level below the quality required by this investment policy, it will be the County's policy to review the credit situation and make a determination as to whether to sell or retain such securities in the portfolio.

- If a security is downgraded, the Treasurer will use discretion in determining whether to sell or hold the security based on its current maturity, the economic outlook for the issuer, and other relevant factors.

- If a decision is made to retain a downgraded security in the portfolio, its presence in the portfolio will be monitored and reported monthly to the Board of Supervisors.

MITIGATING MARKET RISK IN THE PORTFOLIO

Market risk is the risk that the portfolio value will fluctuate due to changes in the general level of interest rates. The County recognizes that, over time, longer-term portfolios have the potential to achieve higher returns. On the other hand, longer-term portfolios have higher volatility of return. The County will mitigate market risk by providing adequate liquidity for short-term cash needs, and by making longer-term investments only with funds that are not needed for current cash flow purposes.

The County further recognizes that certain types of securities, including variable rate securities, securities with principal paydowns prior to maturity, and securities with embedded options, will affect the market risk profile of the portfolio differently in different interest rate environments. The County, therefore, adopts the following strategies to control and mitigate its exposure to market risk:

- The County will maintain a minimum of six months of budgeted operating expenditures in short term investments to provide sufficient liquidity for expected disbursements.

- The maximum percent of callable securities (does not include "make whole call" securities as defined in the Glossary) in the portfolio will be 20%.

- The maximum stated final maturity of individual securities in the portfolio will be five (5) years, except as otherwise stated in this policy.

- The duration of the portfolio will generally be approximately equal to the duration (typically, plus or minus 20%) of a Market Benchmark, an index selected by the County based on the County's investment objectives, constraints and risk tolerances.

XVI. REVIEW OF INVESTMENT PORTFOLIO

The Treasurer shall periodically, but no less than quarterly, review the portfolio to identify investments that do not comply with this investment policy and establish protocols for reporting major and critical incidences of noncompliance to the Board of Supervisors.

XVII. PERFORMANCE EVALUATION

The investment portfolio shall be designed to attain a market-average rate of return throughout budgetary and economic cycles, taking into account the County's risk constraints, the cash flow characteristics of the portfolio, and state and local laws, ordinances or resolutions that restrict investments.

The Treasurer shall monitor and evaluate the portfolio's performance relative to the chosen market benchmark(s), which will be included in the Treasurer's quarterly report. The Treasurer shall select an appropriate, readily available index to use as a market benchmark.

XVIII. REPORTING

MONTHLY REPORTS

Monthly transaction reports will be submitted by the Treasurer to the Board of Supervisors in accordance with California Government Code Section 53607.

QUARTERLY REPORTS

The Treasurer will submit a quarterly investment report to the Board of Supervisors which provides full disclosure of the County's investment activities within 60 days after the end of the quarter. These reports will disclose, at a minimum, the following information about the County's portfolio:

1. An asset listing showing par value, cost and independent third-party fair market value of each security as of the date of the report, the source of the valuation, type of investment, issuer, maturity date, interest rate and interest rate.

2. Transactions for the period.

3. A description of the funds, investments and programs (including lending programs) managed by contracted parties (i.e. LAIF; investment pools, outside money managers and securities lending agents)

4. A one-page summary report that shows:
   a. Average maturity of the portfolio and modified duration of the portfolio;
   b. Maturity distribution of the portfolio;
   c. Percentage of the portfolio represented by each investment category;
   d. Average portfolio credit quality; and,
   e. Time-weighted total rate of return for the portfolio for the prior one month, three months, twelve months and since inception compared to the County's market benchmark returns for the same periods;

5. A statement of compliance with investment policy, including a schedule of any transactions or holdings which do not comply with this policy or with the California Government Code, including a justification for their presence in the portfolio and a timetable for resolution.

6. A statement that the County has adequate funds to meet its cash flow requirements for the next six months.

XIX. REVIEW OF INVESTMENT POLICY

The investment policy will be reviewed and adopted at least annually within to ensure its consistency with the overall objectives of preservation of principal, liquidity and return, and its relevance to current law and financial and economic trends.

Any recommended modifications or amendments shall be presented by Staff to the Board of Supervisors for their consideration and adoption.

Glossary of Investment Terms
Glossary of Investment Terms

Agencies. Shorthand market terminology for any obligation issued by *a government-sponsored entity (GSE),* or a *federally related institution*. Most obligations of GSEs are not guaranteed by the full faith and credit of the US government. Examples are:

- **FFCB.** The Federal Farm Credit Bank System provides credit and liquidity in the agricultural industry. FFCB issues discount notes and bonds.
- **FHLB.** The Federal Home Loan Bank provides credit and liquidity in the housing market. FHLB issues discount notes and bonds.
- **FHLMC.** Like FHLB, the Federal Home Loan Mortgage Corporation provides credit and liquidity in the housing market. FHLMC, also called "FreddieMac" issues discount notes, bonds and mortgage pass-through securities.
- **FNMA.** Like FHLB and FreddieMac, the Federal National Mortgage Association was established to provide credit and liquidity in the housing market. FNMA, also known as "FannieMae," issues discount notes, bonds and mortgage pass-through securities.
- **GNMA.** The Government National Mortgage Association, known as "GinnieMae," issues mortgage pass-through securities, which are guaranteed by the full faith and credit of the US Government.
- **PEFCO.** The Private Export Funding Corporation assists exporters. Obligations of PEFCO are not guaranteed by the full faith and credit of the US government.
- **TVA.** The Tennessee Valley Authority provides flood control and power and promotes development in portions of the Tennessee, Ohio, and Mississippi River valleys. TVA currently issues discount notes and bonds.

Asked. The price at which a seller offers to sell a security.

Asset Backed Securities. Securities supported by pools of installment loans or leases or by pools of revolving lines of credit.

Average Life. In mortgage-related investments, including CMOs, the average time to expected receipt of principal payments, weighted by the amount of principal expected.

Banker's Acceptance. A money market instrument created to facilitate international trade transactions. It is highly liquid and safe because the risk of the trade transaction is transferred to the bank which "accepts" the obligation to pay the investor.

Benchmark. A comparison security or portfolio. A performance benchmark is a partial market index, which reflects the mix of securities allowed under a specific investment policy.

Bid. The price at which a buyer offers to buy a security.

Broker. A broker brings buyers and sellers together for a transaction for which the broker receives a commission. A broker does not sell securities from his own position.

Callable. A callable security gives the issuer the option to call it from the investor prior to its maturity. The main cause of a call is a decline in interest rates. If interest rates decline since an issuer issues securities, it will likely call its current securities and reissue them at a lower rate of interest. Callable securities have reinvestment risk as the investor may receive its principal back when interest rates are lower than when the investment was initially made.

Certificate of Deposit (CD). A time deposit with a specific maturity evidenced by a certificate. Large denomination CDs may be marketable.

Certificate of Deposit Account Registry SYSTEM (CDARS). A private placement service that allows local agencies to purchase more than $250,000 in CDs from a single financial institution (must be a participating institution of CDARS) while still maintaining FDIC insurance coverage. CDARS is currently the only entity providing this service. CDARS facilitates the trading of deposits between the California institution and other participating institutions in amounts that are less than $250,000 each, so that FDIC coverage is maintained.

COLLATERAL. Securities or cash pledged by a borrower to secure repayment of a loan or repurchase agreement. Also, securities pledged by a financial institution to secure deposits of public monies.

COLLATERALIZED MORTGAGE OBLIGATIONS (CMO). Classes of bonds that redistribute the cash flows of mortgage securities (and whole loans) to create securities that have different levels of prepayment risk, as compared to the underlying mortgage securities.

COMMERCIAL PAPER. The short-term unsecured debt of corporations.

COST YIELD. The annual income from an investment divided by the purchase cost. Because it does not give effect to premiums and discounts which may have been included in the purchase cost, it is an incomplete measure of return.

COUPON. The rate of return at which interest is paid on a bond.

CREDIT RISK. The risk that principal and/or interest on an investment will not be paid in a timely manner due to changes in the condition of the issuer.

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.

DEALER. A dealer acts as a principal in security transactions, selling securities from and buying securities for his own position.

DEBENTURE. A bond secured only by the general credit of the issuer.

DELIVERY VS. PAYMENT (DVP). A securities industry procedure whereby payment for a security must be made at the time the security is delivered to the purchaser's agent.

DERIVATIVE. Any security that has principal and/or interest payments which are subject to uncertainty (but not for reasons of default or credit risk) as to timing and/or amount, or any security which represents a component of another security which has been separated from other components ("Stripped" coupons and principal). A derivative is also defined as a financial instrument the value of which is totally or partially derived from the value of another instrument, interest rate, or index.

DISCOUNT. The difference between the par value of a bond and the cost of the bond, when the cost is below par. Some short-term securities, such as T-bills and banker's acceptances, are known as discount securities. They sell at a discount from par, and return the par value to the investor at maturity without additional interest. Other securities, which have fixed coupons, trade at a discount when the coupon rate is lower than the current market rate for securities of that maturity and/or quality.

DIVERSIFICATION. Dividing investment funds among a variety of investments to avoid excessive exposure to any one source of risk.

DURATION. The weighted average time to maturity of a bond where the weights are the present values of the future cash flows. Duration measures the price sensitivity of a bond to changes in interest rates. (See modified duration).

FEDERAL FUNDS RATE. The rate of interest charged by banks for short-term loans to other banks. The Federal Reserve Bank through open-market operations establishes it.

FEDERAL OPEN MARKET COMMITTEE. A committee of the Federal Reserve Board that establishes monetary policy and executes it through temporary and permanent changes to the supply of bank reserves.

LEVERAGE. Borrowing funds in order to invest in securities that have the potential to pay earnings at a rate higher than the cost of borrowing.

LIQUIDITY. The speed and ease with which an asset can be converted to cash.

LOCAL AGENCY INVESTMENT FUND (LAIF). A voluntary investment fund open to government entities and certain non-profit organizations in California that is managed by the State Treasurer's Office.

LOCAL GOVERNMENT INVESTMENT POOL. Investment pools that range from the State Treasurer's Office Local Agency Investment Fund (LAIF) to county pools, to Joint Powers Authorities

(JPAs). These funds are not subject to the same SEC rules applicable to money market mutual funds.

MAKE WHOLE CALL. A type of call provision on a bond that allows the issuer to pay off the remaining debt early. Unlike a call option, with a make whole call provision, the issuer makes a lump sum payment that equals the net present value (NPV) of future coupon payments that will not be paid because of the call. With this type of call, an investor is compensated, or "made whole."

MARGIN. The difference between the market value of a security and the loan a broker makes using that security as collateral.

MARKET RISK. The risk that the value of securities will fluctuate with changes in overall market conditions or interest rates.

MARKET VALUE. The price at which a security can be traded.

MARKING TO MARKET. The process of posting current market values for securities in a portfolio.

MATURITY. The final date upon which the principal of a security becomes due and payable.

MEDIUM TERM NOTES. Unsecured, investment-grade senior debt securities of major corporations which are sold in relatively small amounts on either a continuous or an intermittent basis. MTNs are highly flexible debt instruments that can be structured to respond to market opportunities or to investor preferences.

MODIFIED DURATION. The percent change in price for a 100 basis point change in yields. Modified duration is the best single measure of a portfolio's or security's exposure to market risk.

MONEY MARKET. The market in which short-term debt instruments (T-bills, discount notes, commercial paper, and banker's acceptances) are issued and traded.

MORTGAGE PASS-THROUGH SECURITIES. A securitized participation in the interest and principal cash flows from a specified pool of mortgages. Principal and interest payments made on the mortgages are passed through to the holder of the security.

MUNICIPAL SECURITIES. Securities issued by state and local agencies to finance capital and operating expenses.

MUTUAL FUND. An entity which pools the funds of investors and invests those funds in a set of securities which is specifically defined in the fund's prospectus. Mutual funds can be invested in various types of domestic and/or international stocks, bonds, and money market instruments, as set forth in the individual fund's prospectus. For most large, institutional investors, the costs associated with investing in mutual funds are higher than the investor can obtain through an individually managed portfolio.

NATIONALLY RECOGNIZED STATISTICAL RATING ORGANIZATION (NRSRO).
A credit rating agency that the Securities and Exchange Commission in the United States uses for regulatory purposes. Credit rating agencies provide assessments of an investment's risk. The issuers of investments, especially debt securities, pay credit rating agencies to provide them with ratings. The three most prominent NRSROs are Fitch, S&P, and Moody's.

NEGOTIABLE CD. A short-term debt instrument that pays interest and is issued by a bank, savings or federal association, state or federal credit union, or state-licensed branch of a foreign bank. Negotiable CDs are traded in a secondary market and are payable upon order to the bearer or initial depositor (investor).

PREMIUM. The difference between the par value of a bond and the cost of the bond, when the cost is above par.

PREPAYMENT SPEED. A measure of how quickly principal is repaid to investors in mortgage securities.

PREPAYMENT WINDOW. The time period over which principal repayments will be received on mortgage securities at a specified prepayment speed.

PRIMARY DEALER. A financial institution (1) that is a trading counterparty with the Federal Reserve in its execution of market operations to carry out U.S. monetary policy, and (2) that participates for statistical reporting purposes in compiling data on activity in the U.S. Government securities market.

PRUDENT PERSON (PRUDENT INVESTOR) RULE. A standard of responsibility which applies to fiduciaries. In California, the rule is stated as “Investments shall be managed with the care, skill, prudence and diligence, under the circumstances then prevailing, that a prudent person, acting in a like capacity and familiar with such matters, would use in the conduct of an enterprise of like character and with like aims to accomplish similar purposes.”

REALIZED YIELD. The change in value of the portfolio due to interest received and interest earned and realized gains and losses. It does not give effect to changes in market value on securities, which have not been sold from the portfolio.

REGIONAL DEALER. A financial intermediary that buys and sells securities for the benefit of its customers without maintaining substantial inventories of securities and that is not a primary dealer.

REPURCHASE AGREEMENT. Short-term purchases of securities with a simultaneous agreement to sell the securities back at a higher price. From the seller’s point of view, the same transaction is a reverse repurchase agreement.

SAFEKEEPING. A service to bank customers whereby securities are held by the bank in the customer’s name.

STRUCTURED NOTE. A complex, fixed income instrument, which pays interest, based on a formula tied to other interest rates, commodities or indices. Examples include inverse floating rate notes which have coupons that increase when other interest rates are falling, and which fall when other interest rates are rising, and "dual index floaters," which pay interest based on the relationship between two other interest rates - for example, the yield on the ten-year Treasury note minus the Libor rate. Issuers of such notes lock in a reduced cost of borrowing by purchasing interest rate swap agreements.

SUPRANATIONAL. A Supranational is a multi-national organization whereby member states transcend national boundaries or interests to share in the decision making to promote economic development in the member countries.

TOTAL RATE OF RETURN. A measure of a portfolio’s performance over time. It is the internal rate of return, which equates the beginning value of the portfolio with the ending value; it includes interest earnings, realized and unrealized gains, and losses in the portfolio.

U.S. TREASURY OBLIGATIONS. Securities issued by the U.S. Treasury and backed by the full faith and credit of the United States. Treasuries are considered to have no credit risk, and are the benchmark for interest rates on all other securities in the US and overseas. The Treasury issues both discounted securities and fixed coupon notes and bonds.

TREASURY BILLS. All securities issued with initial maturities of one year or less are issued as discounted instruments, and are called Treasury bills. The Treasury currently issues three- and six-month T-bills at regular weekly auctions. It also issues “cash management” bills as needed to smooth out cash flows.

TREASURY NOTES. All securities issued with initial maturities of two to ten years are called Treasury notes, and pay interest semi-annually.

TREASURY BONDS. All securities issued with initial maturities greater than ten years are called Treasury bonds. Like Treasury notes, they pay interest semi-annually.

VOLATILITY. The rate at which security prices change with changes in general economic conditions or the general level of interest rates.

YIELD TO MATURITY. The annualized internal rate of return on an investment which equates the expected cash flows from the investment to its cost.

SIERRA COUNTY INVESTMENT GUIDELINES

SUMMARY OF INVESTMENT LIMITATIONS

	* Limit Per Institution	* Limit Per Type of Investment	Maximum Allowable Maturity
Treasuries		100%	5 years
Agencies			
Government National Mortgage Assn.		50%	5 years
Federal Farm Credit System		50%	5 years
Federal Home Loan Bank		50%	5 years
Federal Home Loan Mortgage Corporation		50%	5 years
Federal National Mortgage Association		50%	5 years
Medium Term Corporate Notes	10%	30%	5 years
Negotiable Certificates of Deposit	10%	20%	5 years
Time Certificates of Deposits	15%	50%	5 years
Bankers Acceptances ***	15%	40%	180 days
Commercial Paper ***	10%	40%	270 days
Repurchase Agreements			
Less than 30 days	20%	30%	30 days
Greater than 30 days	10%	30%	365 days
Local Agency Investment Fund	100%	100%	** N/A
California Asset Management Program	100%	100%	** N/A
Investment Trust of California	100%	100%	** N/A

No more than 20% of the portfolio, except Treasuries and Agencies, may be invested in the securities of a single issuer including its related entities.

* Based on total funds at the time the investment decision is made.

** One day availability of funds and no maturity date.

*** Amended 5/21/02

SIERRA COUNTY INVESTMENT GUIDELINES

U.S. TREASURIES AND AGENCIES

INVESTMENTS: Issues of the U.S. Treasury (treasuries or governments), agencies of the federal government, and the Federal National Mortgage Association (FNMA) shall be authorized as acceptable investments for the Pooled Investment Fund.

REASONS: U.S. Treasury issues are judged to be the safest of all investments. Agencies are typically considered the next safest class of securities available. (The Federal National Mortgage Association is now publicly owned, but the investment world still generally groups it with the agencies. For purposes of this recommendation it will be referred to as an agency.) These securities are also very liquid, marketable, and they offer a wide range of available maturities.

LEGAL AUTHORITY: Government Code §53601 of the authorizes local agencies to purchase all of these securities with no limitations as to the amount that can be owned of each.

CHARACTERISTICS: Agencies of the Federal Government are the Federal Home Loan Bank system (FHLB), the Federal Farm Credit System (FFCS), the Federal Home Loan Mortgage Corporation (FHLMC), and the Government National Mortgage Association (GNMA).

Securities issued by the GNMA are guaranteed by the Federal Government and it is a general belief that the other agencies carry an "implied" guarantee (excluding FNMA).

Along with treasuries, agencies can be issued in discount form for securities with maturities of one year or less, or with coupons if the maturities are greater than one year. Maturities on these issues can be from just a few days to thirty years.

While all of these securities are classified as agencies, there can be perceived differences in quality and consequently, each can trade at a different yield from each other and treasuries. Issues of the GNMA, because of the government guarantee, are considered the safest of the agencies. The market's perception of the relative quality of issues of the FFCS, the FHLB, FHLMC and FNMA can vary with changes in economic and political environments.

GUIDELINES GOVERNING GOVERNMENT AND AGENCY ISSUES: There should be no restrictions on the amount of dollars to be placed in governments at any one time. As a general guide, no more than 50 percent of surplus funds should be in any one agency at any one time.

MEDIUM TERM CORPORATE NOTES

INVESTMENT: Medium-term notes (MTNs) shall be authorized as acceptable investments for the investment portfolio of the Pooled Investment Fund.

REASON: Medium-term notes are a suitable investment for maturity requirements of one to five years. High-quality corporate notes are relatively safe as to principal, reasonably liquid and they can offer attractive yields and a wide range of maturities.

DEFINITION: MTNs are negotiable instruments issued by corporations with maturities of nine months to fifteen years. Most are unsecured, although some are collateralized or carry other credit enhancements such as a letter of credit.

LEGAL AUTHORITY: Government Code §53601 allows public agencies to invest a maximum of 30 percent of surplus funds in MTNs with maturities up to five years. Issuers must be operating within the United States and possess ratings in the top three categories (A or better) by two of the three largest nationally recognized rating services (currently Moody's, Standard and Poor's, and Fitch's Rating Services).

HISTORY: MTNs were initially issued by General Motors Acceptance Corporation (GMAC) in 1972. They have become a more prevalent investment since 1982 when the SEC removed some restrictions that had previously hindered their sale. Currently, there are over 100 issuers of MTNs with outstanding notes of over 35 billion dollars.

CHARACTERISTICS: MTNs are generally issued in minimum amounts of $25,000 or $100,000 and integral amounts of $1,000. Interest is calculated on a 30-day month, 360-day year basis and paid semi-annually on two pre-established dates. Floating rate MTNs can pay interest monthly, quarterly, or semi-annually.

Yields on MTNs will normally exceed those on treasuries with comparable maturities by about 10 to 75 basis points. Levels of interest rates, maturities, the quality of each issue, and supply and demand factors will affect available yields.

GUIDELINES GOVERNING MTNs INVESTMENTS: Only MTNs issued by the most stable corporations shall be eligible for purchase. Eligible issuers must be approved by the County Treasurer or the investment advisor.

Up to 30 percent of surplus funds shall be allowed to be placed in MTNs at any one time. No more than 10 percent of surplus funds should be allowed to be placed in the notes of any one issuer at any one time. In combination with any other debt issued by any one corporation or its holding company (excluding repurchase agreements and commercial paper with maturities of seven days or less), no more than 20 percent of surplus funds should be placed in that corporation at any one time.

NEGOTIABLE CERTIFICATES OF DEPOSIT

INVESTMENT: Domestic and Yankee negotiable certificates of deposit (CDs) shall be authorized as acceptable investments for the Pooled Investment Fund.

REASONS: CDs have become a desirable investment because they offer a good combination of liquidity, marketability, yield, safety and choice of maturities.

DEFINITION: A CD is a negotiable instrument evidencing a time deposit with a bank at a fixed rate of interest for a fixed period of time. A variation is a variable rate CD that periodically changes the interest rate based upon a predetermined index, usually an average of shorter term CDs or treasury bills. CDs are not collateralized and should be considered an unsecured deposit.

Yankee CDs are issued by foreign bank branches in the United States.

LEGAL AUTHORITY: Government Code §53601 allows public agencies to invest in a maximum of 30 percent of surplus funds in CDs.

HISTORY: New York banks began issuing CDs in 1961 in an effort to attract deposits from the national market. A secondary market was created at the same time. Yankee CDs began trading actively in the late 1970's.

CHARACTERISTICS: CDs are coupon bearing, which on CDs with maturities of one year or less is usually paid at maturity. A small percentage of CDs issued have maturities greater than one year and will normally pay interest on a semiannual basis. The majority of CDs are issued in the 30-90 day range. CDs are normally issued in pieces of $1 million and the normal trading block is $5 million. The odd-lot market is active, but marketability and yield suffer slightly.

Yankee CDs usually trade at a slight yield premium to domestic CDs, and domestics at a premium to treasuries.

GUIDELINES GOVERNING CD INVESTMENTS: Since CDs are an unsecured deposit, only banks of the highest quality shall be eligible for purchase. Eligible banks must have the highest short-term rating available from at least two national rating services and must be approved by the County Treasurer or the investment advisor.

Because CDs are considered lower quality than BAs, they shall represent a smaller percentage of the portfolio than BAs. That limit shall be 20 percent of funds managed, and no more than 10 percent of those funds shall at any one time be in the CDs issued by a single bank. In combination with any other debt issued by any one bank, (excluding repurchase agreements and commercial paper with maturities of seven days or less), no more than 20 percent of managed funds should be placed in that bank at any one time.

SIERRA COUNTY INVESTMENT GUIDELINES

TIME CERTIFICATES OF DEPOSIT

INVESTMENT: Time Certificate of Deposit (TCDs) shall be authorized as acceptable investments for the Pooled Investment Fund.

REASONS: TCDs can be attractive investments because they offer competitive yields, a wide range of maturities, and a relatively high degree of safety if they are insured and/or issued by a financial institution of high quality.

DEFINITIONS: A TCD is a non-negotiable instrument evidencing a deposit with a financial institution for a fixed period of time and normally for a fixed rate of interest. TCDs can be collateralized with securities or mortgages or, if issued in denominations of $100,000 or less, they can be insured by the Federal Deposit Insurance Corporation, or other corporations.

LEGAL AUTHORITY: Government Code §53630 allows public agencies to invest in the TCDs of depositories (banks, savings and loan associations, savings associations, savings banks or federally insured loan companies).

HISTORY: Prior to 1975, bank TCDs collateralized with securities were one of the few investments allowed for public agencies. Subsequently, TCDs of other depositories were legalized as investments, the insured portion of TCDs was raised to $100,000, mortgages could be utilized as collateral, and collateral could be waived in lieu of insurance.

CHARACTERISTICS: TCDs purchased by public agencies pay interest at least quarterly. Maturities are typically one year or less. Because they are non-negotiable, they are non-liquid and cannot be sold or redeemed prior to maturity without suffering a loss of interest. TCDs can be written for any amount, but it has become common practice over the past few years to issue TCDs in $100,000 denominations to take advantage of the insurance available on that amount.

TCDs covered by insurance typically yield slightly more than TCDs collateralized. Because of recent financial strains suffered by some financial institutions, yields on TCDs issued by different institutions can vary a great deal depending upon the quality and size of the institution. Normally, yields on TCDs issued by larger, more stable (first-tier) banks will be at a slight premium to treasury yields.

GUIDELINES GOVERNING TCD INVESTMENTS: No more than 15 percent of surplus funds shall be placed in TCDs of any one institution at any one time.
All TCD deposits shall be fully collateralized as provided for in the Government Code. Waivers of insurance will not be allowed. Eligible banks must have the highest short-term rating available from at least two national rating services.
Interest shall be collected monthly when possible.

TIME CERTIFICATES OF DEPOSIT, cont.

Up to 50 percent of funds being managed may be deposited in TCDs at any one time. Deposits in any one financial institution, in combination with any other debt issued by that institution should equal not more than 20 percent of surplus funds (excluding repos and commercial paper with maturities of seven days or less).

BANKERS' ACCEPTANCES

INVESTMENTS: Domestic and Japanese Bankers' Acceptances shall be authorized as acceptable investments for Pooled Investment Fund.

REASONS: Banker's Acceptances (BA's) are a suitable short-term investment. In addition to providing good yields, they are considered a relatively safe and liquid investment.

DEFINITION: A BA is a time draft drawn on and accepted by a bank for payment of the shipment or storage of merchandise. The initial obligation of payment rests with the drawer, but the bank substitutes its credit standing for that of the borrower and assumes the obligation to pay face value at maturity.

LEGAL AUTHORITY: Government Code § 53635 allows to place up to 40 percent of surplus funds in bankers' acceptances. (Amended 5/21/02)

FOREIGN BA's: During the 1970's foreign banks, and in particular the Japanese agencies, became a competitive force in the U.S., especially in the issuance of BA's. The International Banking Act (IBA) was passed by Congress and signed into law in 1978 to regulate foreign banks. The IBA created a dual state and federal regulatory system. The Fed was authorized to fix reserve requirements for both state and federally licensed agencies of foreign banks. Most states require foreign agencies to maintain assets in an amount not less than 108 percent of the adjusted total liabilities of the agency and to deposit cash or securities with the state equal to five percent of adjusted total liabilities.

HISTORY: A form of BA's was used to finance foreign trade as early as the 12th century and they have been used in the United States for over 100 years. The Federal Reserve allowed national banks to accept time drafts in 1913 to encourage foreign trade and subsequently took action to promote expansion of the BA market. The most dramatic growth of the BA market began in 1974 when the total of BA's outstanding was approximately $10 billion. Annual volume now approaches $100 billion.

CHARACTERISTICS: BA's are issued in bearer form and are a discount instrument. Normal trading blocks are $5 million, but the odd-lot market is active. The majority of BA's are created with a 90-day maturity and rarely extend over 180 days.

BANKERS' ACCEPTANCES, cont.

Due to the high volume of BA's being traded, they are relatively liquid instruments with spreads between the quoted bid and offer typically being between five and ten basis points, but often brokered for as little as two basis points.

Domestic BA's usually will yield 10 to 20 basis points over Treasury bills, and foreign BA's an additional 10 to 20 basis points. During periods of easy money, the spreads can be substantially less. Likewise, tight money can produce wider yield differentials.

Since BA's are a "two-name paper" they are perceived to be the safest of bank obligations. During the more than 70 years that BA's have been actively traded in the U.S., no loss of principal has been documented.

GUIDELINES GOVERNING BA INVESTMENT: Only the most stable of banks shall be acceptable for purchase. Eligible banks must have the highest short-term rating available from at least two national rating services and must be approved by the County Treasurer or the investment advisor.

Since BA's are a relatively safe investment, the County Treasurer is authorized to invest in BA's up to the 40 percent maximum authorized by law. However, no more than 15 percent of funds in the Pooled Investment Fund shall be placed in the BA's of any one bank at any one time. In combination with all other investments from the same bank (excluding repurchase agreements and commercial paper with maturities of seven days or less), BA's of any one bank should not exceed 20 percent of surplus funds.

COMMERCIAL PAPER

INVESTMENT: Commercial paper (CP) shall be authorized as an acceptable investment for the Pooled Investment Fund.

REASONS: Commercial paper can be an appropriate short-term investment because of yield, liquidity and choice of maturities.

DEFINITION: Commercial paper is an unsecured negotiable instrument normally issued by large and financially sound corporations.

LEGAL AUTHORITY: Government Code § 53635 allows to invest up to 40 percent of surplus funds in commercial paper with maturities not to exceed 270 days. **(Amended 5/21/02)**

COMMERCIAL PAPER, cont.

HISTORY: The origin of commercial paper can be traced to the 19th Century in the United States where it became a substitute for bank loans.

CHARACTERISTICS: Commercial paper can be issued bearing a coupon or it can be discounted. Maturities never exceed 270 days and the majority of commercial paper is issued for 30 days or less. It can be issued by an "industrial" company or a bank holding company, but not directly by a bank.

Commercial paper can be written for any amount, but normally is issued in increments of $1 million. There is a secondary market for commercial paper, but it has very limited liquidity compared to the CD or BA markets.

Commercial paper issuers can obtain a letter of credit from a bank to guarantee payment of principal and interest at maturity or a bank line of credit that can be drawn on for such payment. Top grade commercial paper will typically yield about the same as top grade CDs.

RECOMMENDED GUIDELINES GOVERNING CP INVESTMENTS: Commercial paper eligible for purchase by the County Treasurer shall be issued by a company that:

(1) Has the highest rating offered by Moody's Investors Service, Inc. (A-1), or Standard and Poor's Corporation (P-1).

(2) Is approved by the County Treasurer or the investment advisor.

(3) Is organized and operating within the United States.

(4) Has assets in excess of $500,000,000.

Maturities of commercial paper shall not exceed 270 days. (Amended 5/21/02)

Purchases of the commercial paper of any one corporation shall not exceed 10 percent of its outstanding paper.

Up to 40 percent of surplus funds may be placed in commercial paper at any one time. (Amended 5/21/02)

No more than 10 percent of surplus funds shall be placed in the commercial paper of any one institution at any one time. In combination with all other investments from the same bank (excluding repurchase agreements of seven days or less) the commercial paper of any one institution shall not exceed 20 percent of surplus funds.

REPURCHASE AGREEMENTS

INVESTMENT: Repurchase Agreements (repos) shall be authorized as acceptable investment instruments for the Pooled Investment Fund.

REASONS: Repos are one of the most flexible investments available to invest short-term funds, and when proper guidelines are followed, are relatively safe.

DEFINITION: A repo involves two simultaneous transactions. One transaction involves the sale of securities (collateral) by a borrower of funds, typically a bank or broker/dealer in governments or agencies, to a lender of funds. The lender can be any investor with cash to invest. The second transaction is the commitment by the borrower to repurchase the securities at the same price plus a predetermined amount of interest on an agreed future date.

LEGAL AUTHORITY: Government Code §53601 permits repos in any security that is allowed for purchase as defined in that same section of the Code. Collateral must be delivered to the local agency by book entry, physical delivery or third party custodial agreement. Repos shall only be made with primary dealers of the Federal Reserve Bank of New York. Market value of collateral must be equal to at least 102 percent of the repo.

CHARACTERISTICS: Repos can be entered into with any amount of dollars, including odd amounts. They are typically for very short periods, often one day; but it is not unusual for repos to be for periods of up to 180 days and occasionally longer.

Any type of security can be used as collateral, but most often government or agencies securities are utilized. The term of the agreement shall not exceed one year.

The interest rate earned on a repo is a function of short-term borrowing rates, the term of the repo, the size of the transaction, and the quality and supply of the securities used as collateral.

The market value of securities that underlay a repurchase agreement shall be valued at 102 percent or greater of the funds borrowed against those securities and the value shall be adjusted no less than monthly.

The counterparty will deliver the underlying securities to the local agency by book entry, physical delivery, or by third party custodial agreement. The transfer of underlying securities to the counterparty bank's customer book-entry account may be used for book-entry delivery.

RISK: There are minimal risks involved in a repo transaction if the collateral is priced properly. Caution should be used for repos of greater than 30 days so that market changes do not substantially change the value of the collateral.

REPURCHASE AGREEMENTS, cont.

GUIDELINES: Repos shall be transacted only with banks and broker/dealers considered reputable and financially strong. Eligible banks or broker/dealers must have the highest short-term rating from at least two national rating services.

Collateral used for repos shall be any security approved for purchase. For repos of 30 days or less, no more than 20 percent of the funds managed by the County Treasurer shall be invested with any one institution.

For repos of over 30 days, no more than 10 percent of the funds managed by the County Treasurer shall be placed with any one institution.

Securities purchased through repurchase agreements shall be considered "owned" and added to the total of those securities (excluding repos of seven days or less). This will prevent percentage limitations on any type of security from being exceeded.

LOCAL AGENCY INVESTMENT FUND

INVESTMENTS: The State of California Local Agency Investment Fund (LAIF) shall be authorized as acceptable for deposit of funds from the County Treasurer.

REASONS: LAIF provides an attractive alternative for short term funds. Yields on LAIF are often higher than short term securities. Withdrawals can be made with short notice (24 hours or less) and the deposits are considered to be very safe.

DEFINITION: LAIF was created in 1977 as a source for California local agencies to pool smaller deposits to obtain the yield and safety advantages inherent to larger portfolios. LAIF deposits are part of the State Treasurer's pooled investment portfolio.

LEGAL AUTHORITY: Government Code §16429.1,2,3 allows a California local agency to place up to $30 million with LAIF (Amended May, 1999)

GUIDELINES GOVERNING LAIF: There shall be no restrictions on the amount of deposits that can be placed in LAIF.