

# COUNTY OF MENDOCINO



## STATEMENT OF INVESTMENT POLICY

Office of  
Shari L. Schapmire  
Mendocino County Treasurer  
January 2012

As designated by the Board of Supervisors under the laws of the State of California, it is the responsibility of the County Treasurer, to secure and protect the public funds of the County, and to establish proper safeguards, controls, and procedures to maintain these funds in a lawful, rational, and auspicious manner. Said maintenance shall include the prudent and secure investment of those funds that are not immediately required for daily operations, in a manner anticipated to provide additional benefit to the people of the County of Mendocino. In addition, the County Treasurer acts as the Treasurer, cash manager, and investor for a sizable number of public agencies within the County, rather than each entity having to locate and hire a knowledgeable person to handle the entity's banking, investments, and other financial duties separately. This pooling of public funds not only eliminates duplication of expenses, but also smoothes out cash flow differences, permits cost savings through higher volume, and attracts more professional service providers. This document contains the policies, procedures, and legalities guiding the County Treasurer when investing the Pool's temporarily unemployed funds.

This Statement of Investment Policy is reviewed no less than annually and may be adjusted as needed to reflect any changes in the Government Code or investment practices. Upon request, a hard copy of this policy will be provided to participants in the County Investment Pool; to securities dealers, banks, and brokers, currently approved for conducting investment transactions with the County Treasurer's office in the ongoing effort to manage the excess cash portfolio; to other involved persons or entities; and to any member of the electorate wishing to review this document. For convenience purposes, the most updated Investment Policy is accessible on the county website at all times.

## **SCOPE**

This Statement of Investment Policy pertains to those temporarily surplus funds under the control of the Treasurer, designated for the daily ongoing operations of the County pool participants; and concerns the deposit, maintenance, and safekeeping of all such funds, and the investments made with these funds. This Policy does not apply to pension moneys, delayed compensation funds, trustee, and certain other non-operating funds not participating in the County Investment Pool. Percentage limitations noted within this Policy shall apply to all money considered to be within the County Investment Pool. Any investments existing outside the Pool shall be subject to the local agency's individual percentages.

## **PURPOSE OF POLICY STATEMENT**

The purpose of this Statement of Investment Policy is to provide those entities participating in the County Investment Pool, those involved in servicing the investment requirements of the County, and any other interested party, a clear understanding of the regulations and internal guidelines that will be observed in maintaining and investing those pooled funds deemed to not be required to meet immediate cash flow requirements.

## **TREASURY OBJECTIVES**

The primary and overriding objective of the Treasurer is to protect the safety of the principal of the Investment Pool through the judicious purchase of those legal investments permitted to local agencies, as defined in the State of California Government Codes, consistent with current conditions and the other dominant objectives pursuant to managing a local agency portfolio, namely:

**Safety:** It is the primary responsibility of the Treasurer to maintain the safe return of all principal placed in investments by avoiding decisions that might result in losses through fraud, default, or adverse market conditions. Importance is also placed on the protection of accrued interest earned on any investment instrument.

**Liquidity:** It is imperative that a vast majority of all investments be in items that are immediately negotiable, as the portfolio is a cash management fund. It shall always be assumed that all investments could require immediate liquidation in order to meet unexpected cash calls.

**Availability:** Due to the nature of a public funds portfolio, it is mandatory that moneys be available to meet the monetary requirements inherent to operating a public entity. Thus funds need to be invested in such a manner that money will always be available, without risk of trading loss, to pay normal cash requirements. A vast majority of the moneys invested by the Treasurer should never require the realization of immoderate losses should an unforeseen cash demand require the sale of investments prior to maturity. A sufficient portion of all funds shall be invested in securities providing a high degree of availability, that is, in securities easily sold or converted to cash in a timely manner, with little or no loss of interest earnings.

**Yield:** While it is considered desirable to obtain a yield commensurate to current conditions, yield shall not be the driving force in determining which investments are to be selected for purchase. Yield is definitely considered to be of much lessor importance than safety, liquidity, or availability.

The Treasurer places investments with the objective of obtaining a respectable rate of return, not attempting to maximize yield at the expense of safety, liquidity, or availability, yet not totally ignoring those factors within the marketplace that may be indicative of either favorable or hazardous conditions. The portfolio will be managed very conservatively, but actively enough to avert avoidable losses due to adverse market conditions.

## **PRUDENCE**

The Treasurer is subject to the "Prudent Person Rule" whenever making a decision regarding the investment of the County Pool's funds. This rule states, in principle:

*"In investing property for the benefit of others, a trustee shall exercise the judgment and care, under circumstances then prevailing, that persons of prudence, discretion, and intelligence, would exercise in the management of their own affairs - not in regard to speculation, but in regard to the permanent disposition of their funds, considering the probable safety of, as well as the probable income from, their capital."*

The Treasurer, and those acting for the Treasurer, are considered to have a fiduciary, trustee, relationship with the public for the public funds, and all investment decisions will be made in a manner sustaining this responsibility.

## **DELEGATION OF AUTHORITY**

While the Treasurer has final responsibility for all investment decisions, other Treasury personnel may aid in the day-to-day operations. Those staff members, in addition to the Treasurer, currently authorized to act on behalf of the County Pool, as of the date entered on this Policy, are listed below. This list is subject to change, and those parties newly involved in transactions with the Treasurer's department should always obtain a current Trading Authorization and Agreement form, and be verbally introduced by a known Treasury employee, prior to accepting unconfirmed verbal instructions from any previously unknown Treasury staff member.

### **Authorized Personnel**

### **Title**

Julie Forrester

Assistant Treasurer-Tax Collector

Sarah Norbury

Deputy Treasurer-Tax Collector

Other persons, both inside and outside County employment, may act in the role of assistant or advisor to aid in the timely and proper settlement of investment transactions. While these persons may provide information or aid in the expedient delivery of securities, they may not authorize, approve, or initiate any trading activities. **Only the persons listed on a current *Trading Authorization & Agreement*, and the Treasurer, may initiate trading activity.**

## SECURITIES CUSTODY

The Treasurer has established a third party custody and safekeeping account to which all negotiable instruments shall be delivered upon purchase on a payment versus delivery basis. No negotiable, deliverable, securities or investments will be left in the custody of any brokerage firm or issuing party, including any collateral from Repurchase Agreements.

## AUTHORIZED INVESTMENTS AND LIMITATIONS

The Government Codes of the State of California, primarily within sections 53600 et. seq., establish the legality of certain types of investment vehicles for a California local agency's portfolio. Thereby, under no circumstances is the Treasurer permitted to purchase an investment that is not specifically authorized for a local agency under these, or other code sections that may apply, or might later be enacted, pertaining to local agency investments. Securities brokers dealing with the County Pool should possess a complete understanding of these Code sections.

An attached Addendum briefly describes the types of securities legal within the Government Code sections noted above and outlines the various limitations included in these sections. Except for the restrictions noted below in this section, all legally permitted investment options described in the Government Code are authorized at this time. Funds placed in the State's Local Agency Investment Fund (LAIF) shall follow the limitations placed on these deposits by the State and may change in accordance with these restrictions.

Though these Government Code sections define the investment types and terms permissible to the Treasurer under this Policy, various temporary and more restrictive constraints may at times be deemed beneficial due to transient conditions within the marketplace. These flexible constraints are not part of this Policy but may be obtained by requesting a current "Temporary Constraints and Restrictions on Investments", document which will change on an "as needed" basis. These constraints or restrictions may only be *more* restrictive than those of the Policy, but may *not* be *less* restrictive. Securities Brokers and Dealers should be aware of these temporary conditions in order to save time and best serve the County Pool.

Though the Government Code sections define the investment types and terms permissible to the Treasurer, **the Treasurer will not:**

- ◆ Invest in any security or investment with a stated or potential final maturity longer than five years, unless the conditions of the security include terms that permit the purchaser to unconditionally "put", or sell back, to the original issuer the security prior to five years from the purchase date; or the Board of Supervisors has pre-approved as required by the Government Codes.
- ◆ Invest in any security or investment wherein, by the terms of the investment, interest might not be earned during any period the security or investment exists.
- ◆ Purchase any security wherein under terms inherent to the security, or the investment agreement under which the security is purchased, circumstances could result wherein the investment runs a risk of earning a rate of return substantially below other investments obtainable on a fixed rate basis at the time of purchase or drastically different than the prevailing rate during any time prior to the maturity of the issue.
- ◆ Enter into a reverse repurchase agreement.
- ◆ Purchase any Collateralized Mortgage Obligation.
- ◆ Lend securities.
- ◆ Invest in futures or options.

## AUTHORIZED DEALER LIST

It is prohibited for a transaction to be entered into with any securities broker, dealer or bank investment department or subsidiary prior to that entity being designated an Authorized Dealer, and placed on the Authorized Dealer List. For a firm to become authorized it must first demonstrate that it will add value to the Treasurer's efforts to best manage the cash portfolio, as well as fulfill certain other minimum requirements. To qualify for Authorized Dealer status, a brokerage firm or bank must:

- 1) Be a dealer operation properly licensed to deal with local agencies in California, **and**;
- 2) Have a minimum of \$10mm in capital, or, be a Primary Dealer of the Federal Reserve Bank of New York; **and**;
- 3) Be headquartered in the State of California, or, the City of New York, or be the direct issuer of a security type normally purchased by the Treasurer,

**Or;**

Be a department or subsidiary of an insured bank with minimum assets of \$500mm that the County has comprehensive banking relationships with,

**Or;**

Be an established broker operation in New York or its locality, with a history of profitability that is properly licensed to deal with local agencies in California, that has capital of \$500mm and does not position securities for their own portfolio, but brokers securities for their established clients consisting primarily of traders for Primary Dealers and/or other major institutional fixed income brokerage operations, issuers and investors.

If meeting the above requirements, a salesperson may apply to become an Authorized Dealer by sending to the Treasurer their most recent annual and interim audited financial statements and a letter furnishing:

- 1) Their reasons for believing they would add value to the present coverage; **and**,
- 2) A general roster of those markets they participate in, and specifics on those types of securities they as a firm, regularly issue or regularly hold dealer trading positions in; [**or**, a list of those dealers they are able to represent, and the securities they regularly position;] **and**,
- 3) A list of five references, at least three being California local agency treasurers, including telephone numbers that the Treasurer or his representative may contact.

The Treasurer will instigate an investigation of the applying salesperson and the firm through various sources, including the California Department of Corporations and the Financial Industry Regulatory Authority, to determine market participation, knowledge, reputation, and financial stability. All salespeople and their supervisors will be expected to have a working knowledge of the appropriate sections of the State of California Government Code, sufficient experience in covering public entities, a willingness to well serve their customers, a complete and total understanding of this Investment Policy, and demonstrate an ongoing ability to work with the Treasurer and staff. The Treasurer will review all new requests at the end of each quarter, and if the decision is made that additional dealers would be beneficial to best service the portfolio's needs, those dealers selected will be informed of their addition to the Authorized Dealer List. All dealers are subject to removal from the Authorized Dealer List at any time, solely at the discretion of the Treasurer.

The Treasurer, or Treasury staff, is prohibited from dealing with a salesperson, broker, or account executive from any broker, dealer or bank investment department or bank subsidiary until the Acknowledgment form found on the last page of the Trading Authorization and Agreement is signed by all parties and received by the Treasurer. The Trading Authorization and Agreement is sent out to all approved dealers, and is an integral addition to this Policy Statement for Brokers/ Dealers, etc. doing investment business with the County Treasurer or Treasury staff.

Similar restrictions and forms may be required of those firms doing business with the County Pool through retained financial advisors or managers. Certain selected firms may be chosen or appointed by the Treasurer to render specific services the Treasurer determines they are uniquely qualified to provide, wherein some of the requirements of this section may be waived.

Neither the Treasurer, nor any member of the Treasurer's staff, may accept any gift, honoraria, gratuity or service of value in violation of the regulations set forth by the Fair Political Practices Commission, the Government Code, additional limitations set forth by County ordinance, or internal requirements of the

Treasurer. The Treasurer and all members of the Treasury staff are prohibited from conducting any business with any broker, dealer, or securities firm that has made a political contribution within any consecutive 48 month period beginning January 1, 1996, in an amount exceeding the limitation contained in Rule G 37 of the Municipal Securities Rulemaking Board, to the County Treasurer or any member of the Board of Supervisors, or any candidate for these offices.

## **TERMS FOR FUNDS INVESTED WITH THE COUNTY INVESTMENT POOL**

The Government Code requires the County Treasurer to define the limits and conditions under which local agencies having their money in the Investment Pool may deposit and withdraw their funds. The Government Codes confer upon the Treasurer the final authority as to how funds for which the Treasurer is held responsible for overseeing, are to be invested. The Treasurer must take into consideration the current financial condition of the sum total of the Pool's agencies, the conditions of the market place, as well as the cash flow projections and the potential for changes in the Pool's cash needs. The Treasurer must protect the earnings of each individual local agency in the Pool, and also see that no decision will reward a particular agency or group of agencies within the Pool at the expense of another or others within the Pool. If the Treasurer determines that a request for a withdrawal of funds for a specific or outside investment is not, in the Treasurer's opinion, in the best interest of a particular agency, or is overly detrimental to the pool as a whole, the Treasurer must legally deny the request, or find a means of neutralizing the harm to all others affected.

Any funds deposited in accounts that are consolidated into the County Investment Pool that are immediately required to meet cash flows of the Pool will be invested by the Treasurer or the Treasurer's staff. All Pool entities agree that by placing funds in such accounts that they agree to proportionately participate in all investments within the Investment Pool.

## **FUNDS OF AGENCIES REQUIRED TO INVEST WITHIN THE POOL**

Funds will be accepted at all times, in the manner prescribed, from those local agencies where the County Treasurer is also the Treasurer for the local agency, or from any agencies that by statute must place their money in the County Pool. Funds will earn interest based on the average daily balance, paid on a quarterly basis.

Should a legislative body of a local agency determine that certain funds will not be required by the local agency for a period of at least two years, the local agency may petition the County Treasurer to invest that portion of the local agency's excess funds in a specific investment under the control of the County Treasurer. Such a petition should state the nature of the funds the legislative body wishes to invest specifically, and the reasons why the legislative body believes a specific investment is a preferable and viable alternative to general Pool participation. Should the Treasurer determine that the request for a specific investment is valid and not counter-productive to the Pool as a whole, the Treasurer will consult with the local agency's legislative body, or its appointed representative, to suggest and determine exactly what investment(s) should be purchased to fulfill the needs of the local agency. The Treasurer will then purchase the specific investment(s) upon receipt of a written resolution, issued by the legislative body of the local agency, requesting the specific investment. The resolution must acknowledge that the local agency's legislative body takes full responsibility for the decision to purchase the specific investment(s), and that should conditions change requiring a sale prior to maturity of the specific investment(s), any loss that might be suffered as a result, will be solely that of the local agency, and that this loss shall not be shared by the Pool as a whole, nor by the County.

Under language added to the Government Code in 1995, it is not permissible for local agency legislative bodies, required to have their funds within the Pool, to withdraw funds from the Pool in order to invest outside the County Pool in any manner, at any time, without the specific permission of the Treasurer. Any such investments shall either be terminated and all funds returned to the Pool, or the securities so purchased shall be transferred to the custody of the County Treasurer immediately. Upon receipt of any such securities by the Treasurer, the Treasurer shall at the Treasurer's option, place the investment in the Pool, terminate the investment at the current market value and credit the local agency with the proceeds, or place the security in the name of the local agency as a specific investment.

## **MONEY VOLUNTARILY INVESTED WITH THE COUNTY INVESTMENT POOL**

By Code, the County Treasurer shall set conditions under which money from local agencies, not required to have their funds in the Investment Pool, may deposit and withdraw voluntarily invested funds.

Local agencies from outside the County will not be permitted to deposit funds in the County Pool. Funds from local agencies within the County, voluntarily wishing to participant in the Pool, shall be accepted under the terms existing in this Policy, along with any additional terms the Treasurer deems prudent, given the entity's particular situation. Voluntary money may be withdrawn under conditions set forth in Sections 27133 and 27136 of the Government Codes and as previously specified in any agreements made with the Treasurer. Specific investments are not normally permitted with voluntary funds, though on a cost recovery basis and under circumstances that dictate such activity, exceptions may be permitted.

### **APPORTIONING OF COSTS AND INTEREST**

All costs related to investing, maintaining, and accounting for the investments purchased for the Investment Pool, as authorized by Section 27013, shall be apportioned equally on the average daily balance method quarterly to all participants with funds in the Investment Pool, including those held in specific investments. Interest earning shall be apportioned on the same basis and also distributed quarterly.

### **REPORTING**

The Treasurer may make adjustments to the County Pool Investment Policy and will provide the revised document to those requesting it. Other reports on the holdings, status, and earnings of the portfolio are also available during the year.

Policy effective upon approval of Board of Supervisors, submitted for approval December 22, 2011.

## Addendum

<u>Investment Type</u>	<u>Max. % of Portfolio</u>	<u>Max. Maturity</u>	<u>Quality Requirements</u>
a) Bonds issued by a local agency	None	None	None
b) Treasury obligations	None	None	None
c) State of California Obligations	None	None	None
d) Obligation of Calif. local agency	None	None	None
e) Obligations issued by Federal Agencies, and U.S and Government sponsored enterprises.	None	None	None
f) Bankers Acceptances	40%	180 days	None
g) Commercial Paper	40% (maximum 10% of portfolio per issuer) (maximum 10% of issuer's program)	270 days	U.S. entity with credit enhancements resulting in paper rating A1/P1 or better; with \$500MM in assets; A or higher long term rating, if any
h) Negotiable C.D.s	30%	5 years	None
i) Repurchase Agreements	None	1 year	Collateral must by a legal investment.
j) Medium Term Note	30%	5 years	U.S. Corporations, or Banks licensed within any State of the U.S., "A" or better rating by major rating service.
k) Mutual Funds	20%, 10% per fund	NA	A defined money market fund; or invest only in a-j, m, n, of this list, as restricted; Highest letter and number ranking of 2 of 3 rating services; or a SEC Registered Advisor with 5 yrs. experience, managing assets of \$500MM or more; No load.
l) Investments as permitted by provision in agreements of indebtedness	As per bond agreement	NA	Not contrary to 53601 and 53635 and other pertinent law.
m) Asset secured indebtedness	None	None	As required by 53652
n) Collateralized Mortgage obligations	20%	5 years	Issuer must be rated "A" minimum, security must be "AA" by national rating service.
o) Contracted Non-neg. Time Deposits	None	None	None
p) Deposited pooled small CDs	30%	None	Insured as to principle and interest

**These tables are not meant to be a replacement for the Government Code. Involved parties should obtain a valid, updated copy of the pertinent Code sections to fully understand all the details included within these Codes.**