

INVESTMENT POLICY
COUNTY OF SAN JOAQUIN

Pol-2009
Rev 05/12/09

PURPOSE

The Investment Policy establishes the criteria for the prudent investment of the pool participant's temporary surplus treasury funds, and outlines the policies for maximizing the efficiency of the County's cash management system.

OBJECTIVE

The objective of the Investment Policy is to enhance the economic status of all treasury pool participants while protecting their pooled cash.

POLICY

San Joaquin County operates its temporary pooled surplus money investment program under the "Prudent Person Rule" (Probate Code Section 16040(b)). This affords the County a broad spectrum of investment opportunities as long as the investment is deemed prudent and is allowable under current legislation of the State of California. (Government Code Section 53601, et seq.).

The criteria for selecting investments and their order of priority are as follows:

1. Safety. The safety and risk associated with an investment refers to the potential loss of principal and/or interest. The treasury pool only enters into those investments that are considered very safe.
2. Liquidity. This refers to the ability to "cash in" at any time with a minimal chance of losing some portion of principal or interest. Liquidity is an important investment quality, especially when the need for unexpected funds may occur.
3. Yield. Yield is the potential dollar earnings an investment can provide, and sometimes is described as the rate of return.

GENERAL CONSTRAINTS

The following criteria represent the general framework within which the County's treasury investment program shall be conducted:

- The laws of the State of California and the Prudent Person Rule shall be the primary standards by which all County treasury investments are transacted.
- Surplus money management and investment transactions are the responsibility of the County Treasurer.
- The treasurer strives to maintain the level of investment of all funds as near 100% as possible, through daily and projected cash flow determination.
- The basic premise underlying the County's investment philosophy is to ensure that the pool funds are always safe and available when needed.
- Surplus (Idle) Funds are all funds, which are not required to meet the banks' demands on the treasury to redeem warrants on any given day.

CONSTRAINTS SET BY GOVERNMENT CODE

Government Code Sections 53601 and 53635 impose restrictions on the investments of government entities. All such restrictions are to be adhered to in their entirety. In addition, the treasurer may make further restrictions to the Code sections if the treasurer deems such action appropriate. Such action is deemed appropriate with the following section listing the only authorized investments of the County.

AUTHORIZED INVESTMENTS OF THE COUNTY

The following investments are the only authorized investments to be made by the County. The restrictions specified in Government Code sections 53601 and 53635 apply unless stated otherwise. Authorized investments are as follows:

1. **United States Treasury Bills, Notes and Bonds- Maximum of 100%**

United States Treasury Bills, Notes, Bonds for which the full faith and credit of the United States are pledged for the principal and interest. Zero Coupon issues of these types of investments are authorized. There is no percentage limit on the total dollar amount that may be invested.

2. **Obligations issued by the Federal Government- Maximum of 100%**

Federal Agency issues of the Federal National Mortgage Association (also known as Fannie Mae and/or FNMA), and the Federal Home Loan Mortgage Corporation (also known as Freddie Mac and/or FHLMC), the Federal Farm Credit Bank System (also know as FFCB), and the Federal Home Loan Bank (also known as FHLB). Debentures, Zero Coupon, Discount Notes, or Floaters of the above issue are authorized. There is no percentage limit on the total dollar amount that may be invested.

3. Medium Term Notes- Maximum of 30%

Corporate Debentures (Medium Term Notes), other than those of security or insurance firms, that have a rating in the highest or second highest categories of Moody's and Standard & Poor's rating agencies. The maximum maturity of such issues is three years. Floaters of the above issues are authorized as long as the maximum maturity does not exceed three years. Medium Term Notes may not exceed 30 percent of the investments.

4. Time Deposits- Maximum of 30%

Certificates of Deposits issued by nationally or state-chartered bank, savings association, federal association, or state-licensed branch of a foreign bank. The bank must have a branch or office in the County of San Joaquin. The bank must have a minimum long term credit rating of AA- from Standard & Poor's and a minimum credit rating of Aa3 from Moody's. The limit for each issuer is specified in the treasurer's "Approved Negotiable Certificates Of Deposit List." Certificates of Deposit may not exceed one year maturity and may not exceed 30 percent of the investments.

5. Commercial Paper- Maximum of 30%

The maximum maturity of commercial paper is 45 days. The limit for each issuer is specified in the treasurer's "Approved Commercial Paper Issues". Commercial Paper may not exceed 30 percent of the investments.

6. Bankers Acceptances- Maximum of 40%

Bills of Exchange or Time Drafts (Referred to as Bankers Acceptances). Bankers Acceptances may not exceed 40 percent of the investments and no more than 30 percent may be invested in the Bankers Acceptances of one commercial bank. The limit for each issuer may be specified in the treasurer's "Approved Bankers Acceptance Issues".

7. Repurchase Agreements- Maximum of 100%

Term repurchase agreements may be collateralized by either U.S. Treasury Securities or by any U.S. Federal Agency security.

Regardless of maturity, repurchase agreements must be collateralized at 102% (market value plus accrued interest). Repurchase agreements shall only be made with dealers with assets in excess of five hundred million dollars (\$500,000,000.00) and having either the highest commercial paper rating, or A or higher rating for the issuer's debt, if any, as provided by

Moody's Investors Service, Inc. or Standard and Poor's Corporation. There is no percentage limit on the total dollar amount that may be invested.

All Repurchase Agreements with brokers/dealers will be done through a "Tri-Party Custodian Agreement" that has been approved, in writing, by the treasurer.

All Repurchase Agreements with commercial banks will be governed by a Public Securities Association (PSA) agreement that has been approved, in writing, by the treasurer.

8. Mutual Funds- Maximum of 20%

Mutual Funds, as defined in Government Code Section 53601, that consist only of those investments authorized by this Policy. Mutual Funds may not exceed 20 percent of the investments.

9. Registered California State Warrants or Bonds- Maximum of 100%

Registered California State Warrants or Treasury Notes or Bonds as defined in Government Code Section 53601. There is no percentage limit on the total dollar amount that may be invested.

10. Local Agency Investment Fund- Maximum of \$40 Million

Local Agency Investment Fund (LAIF) of the State of California. There is no percentage limit on the total dollar amount that may be invested, however, the Local Agency Investment Fund usually sets a limit on investments.

11. Article 53601(M) Specific Securities Maximum Per Approval

Specific securities as specified in the ordinance, resolution, indenture, or agreement for monies pledged to the payment or security of bonds or other indebtedness as governed by section "M" of Article 53601 of the Government Code. The treasurer must give written approval for any such securities authorized by this paragraph.

Summary of Maximum Percentage Limitations of Investments, by Investment Type

The following summary of maximum percentage limits, by instrument, are established for the County's total pooled funds portfolio:

<u>Investment Type</u>	<u>Percentage</u>
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U.S. Treasury Bills, Notes and Bonds	0 to 100%
U.S. Government Agency Obligations	0 to 100%
Medium-Term Notes	0 to 30%
Time Deposits	0 to 30%
Commercial Paper	0 to 30%
Bankers Acceptances	0 to 40%
Repurchase Agreements	0 to 100%
Mutual Funds	0 to 20%
Registered State Warrants	0 to 100%
Local Agency Investment Fund	\$40 million

MATURITY STRUCTURE

The maturity of investments, excluding investments that have been specifically matched to a bond issue maturity, are subject to the following restrictions at the time of purchase:

1. 25% of the Portfolio is to mature within 30 days.
2. An additional 30% may mature up to 180 days.
3. An additional 25% may mature up to 1 year.
4. An additional 20% may mature up to 3 years.

If for any reason the investment portfolio is not in compliance with the maturity percentages, all new investments will be restricted to 30 days or less until compliance is achieved.

If the market value of all such securities is less than 95% of the original cost, then any further purchase of maturities of longer than one year is prohibited. Purchases of such securities may resume if the total market value is at least 95% of the original cost.

Securities that are purchased to specifically match the maturity of a bond issue are not included in the above requirements. Such securities shall be clearly designated in the appropriate investment reports and journals.

The treasurer must give written approval for all purchases of securities with a maturity of one year or longer.

DEALER APPROVAL

All financial institutions used for the placement of treasury pool investments, must have been approved by the Treasurer in writing.

All financial institutions will be investigated by the treasurer as to their credit-worthiness.

The treasurer will not approve any broker, brokerage, dealer, or securities firm that has, within any consecutive 48-month period following January 1, 1996, made a political contribution in an amount exceeding the limitations contained in Rule G-37 of the Municipal Securities Rulemaking Board, to the treasurer, any member of the Board of Supervisors, or any candidate for these offices.

COMPETITIVE BIDDING

Bids for any investment shall be taken from a minimum of two banks or broker/dealers. Awards will be made to the highest bidder, giving consideration to safety, a balanced portfolio, and diversification. If two bids for a similar investment security are unavailable, then the second bid may be for another investment security with a similar maturity.

SWAPS AND TRADES

Securities may be swapped and traded for other eligible securities after 1) calculating the gain between the buy and sell candidates in the transaction, and 2) approval by the treasurer.

A "Swap Calculation Sheet", signed by the treasurer, will be prepared for each such trade and will be included in that day's "Daily Cash Flow Summary" report.

LOSSES

Generally, losses are acceptable on a sale before maturity and may be taken if reinvested proceeds will earn an income flow with a present value higher than the present value of the income flow that would have been generated by the original investment.

SAFEKEEPING

Securities purchased from broker/dealers shall be held in third party safekeeping by the trust department of the County's bank or other designated third party trust and in the County's name.

Such safekeeping will be classified at least at GASB Category "b" (GASB Technical Bulletin No. 87-1 to paragraph 68 of GASB Statement 3).

Safekeeping of Repurchase Agreements and Collateralized Non-Negotiable Certificates of Deposit are stipulated in the section titled "Authorized Investments of the County".

CONFIRMATION

All investment confirmations are to be reviewed for conformity with the original transaction. Discrepancies are to be reported to the treasurer.

DAILY CASH FLOW SUMMARY

A "Daily Cash Flow Summary" report is to be prepared, and kept on file, for each day's work. The report is to include at least the following:

- (1) "Daily Cash Flow Summary" sheet.
- (2) Daily "Report of Investments" sheet.
- (3) "Treasury Deposit Report" detailing the interest and principle that matured on that date. A copy of the original trade confirmation will be attached to this report.
- (4) Daily Bank Balance Report.
- (5) Copies of all wires used to transfer funds for investments.
- (6) "Swap Calculation Sheet" if appropriate.

CREDIT FOR INTEREST EARNINGS

Interest earnings on the County's pooled investments shall be credited to participating entities quarterly. The credit is computed based on the average daily cash balance of funds on deposit during the quarter in the County Treasury.

Authorized costs of investing, depositing, banking, auditing, reporting or otherwise handling or managing funds, and the costs of the county treasury oversight committee will be subtracted from the total interest earnings before the interest earnings are apportioned.

DIRECTED INVESTMENTS

The treasurer may allow special directed investments for Tax and Revenue Anticipation Note proceeds or other special purposes. The treasurer will work with the entity to make a single directed investment. For proceeds between \$10 and \$50 million that investment will be in a U.S. Treasury Bill. For proceeds in excess of \$50 million the investment can be in either a U.S. Treasury Bill or a U.S. Treasury Note. Upon the maturity of the investment all funds will be put into the county pool. Any funds from the TRANS sale not included in the investment will be placed in the county pool. The charge for the investment will be \$5,000.00, which is estimated to cover the actual expenses of the offices of the Treasurer and Tax Collector and the Auditor-Controller. These expenses may include paying agent, safekeeping, establishment of entity funds, tracking and recording the investment. The treasurer may negotiate a different charge if it is cost justified and appropriate. Directed investments will be separate from the county pool.

OUTSIDE AGENCIES

Agencies not required to deposit funds with the county may place funds in the county pool with the approval of the treasurer. All agencies must comply with this investment policy. It is anticipated that most funds will be withdrawn from the county pool by a warrant. Wire transfers must be arranged with the Treasurer's office.

WITHDRAWALS

The treasurer has determined that withdrawals of less than \$10 million will not affect the stability and predictability of the investments in the county treasury. Most withdrawals are by warrant and do not require early notification. The Treasurer's office requires 24 hours notice on wire transfer withdrawals of \$1 million to \$10 million, at least seven (7) days notice on any withdrawals between \$10 million and \$25 million, and 30 days notice for amounts over \$25 million. The treasurer may waive or reduce the required notice. The treasurer also reserves the right to work with any agency on the timing of a wire transfer above \$10 million if that withdrawal might affect the stability or predictability of the investments in the county treasury. The treasurer may refuse any withdrawal above \$25 million or any series of withdrawals in one month which exceed \$25 million which might affect the stability and predictability of the investments in the county treasury.

REPORTING

The County Treasurer shall provide a monthly report to the County Board of Supervisors, chief executive officer, internal auditor, and county treasury oversight committee showing all Treasury investments by the type of investment, institution, date of maturity, amount of investment, rate of interest, and for all securities the current market value. Securities will be valued based on information from the trustee, broker, the Wall Street Journal, or other sources approved by the treasurer. The market value for Certificates of Deposit, Repurchase Agreements of less than 30 days and Local Agency Investment Fund will be at cost. The report will include the weighted average maturity of the investments within the treasury, and a statement denoting the ability of the local agency to meet its pool's expenditure requirements for the next six months.

COUNTY TREASURY OVERSIGHT COMMITTEE

The county treasury oversight committee will review and monitor this policy. The committee shall cause an annual audit to be conducted to determine the county treasury's compliance with the law and this policy.

The county treasury oversight committee shall not direct individual investment decisions, select individual investment advisors, brokers, dealers, or impinge on the day-to-day operations of the county treasury.

Government Code Section 27132.1 . A member may not be employed by an entity that has contributed to the campaign of a candidate for the office of local treasurer, or contributed to the campaign of a candidate to be a member of a legislative body of any local agency that has deposited funds in the county treasury, in the previous three years or during the period that the employee is a member of the committee.

Government Code Section 27132.2 . A member may not directly or indirectly raise money for a candidate for local treasurer or a member of the governing board of any local agency that has deposited funds in the county treasury while a member of the committee.

Government Code Section 27132.3 . A member may not secure employment with, or be employed by, bond underwriters, bond counsel, security brokerages or dealers, or financial services firms, with whom the treasurer is doing business during the period that the person is a member of the committee or for one year after leaving the committee.

Committee meetings shall be open to the public and subject to the Ralph M. Brown Act.

INDEMNIFICATION

The standard of care to be used by the County's Investment officials in all investment transactions shall be the Prudent Person Rule (Probate Code Section 16040(b)), which states:

When investing, reinvesting, purchasing, acquiring, exchanging, selling, and managing trust property, the trustee shall act with the 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 trust and its beneficiaries, 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 the purposes of the trust as determined from the trust instrument. In the course of administering the trust pursuant to this standard, individual investments shall be considered as part of an overall investment strategy.

The above criteria are established as the standard for professional responsibility and shall be applied in the context of managing the County's treasury investment portfolio. Investment officers acting in accordance with this investment policy shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided that deviations from expectations are reported in a timely fashion, and appropriate action is taken to control adverse developments.

CONFLICT OF INTEREST

No employee or member of the county treasury oversight committee may directly or indirectly accept or solicit from any person, corporation, or group having a business relationship with the Treasurer or treasury related functions, any rebate, kickback, or anything of an economic value as a gift, gratuity, or honoraria.

No employee of the Treasurer's office shall, outside of working hours, engage in any profession, trade, business, or occupation, which is incompatible or involves a conflict of interest with his/her duties as a County officer or employee.

SHABBIR A. KHAN
Treasurer
San Joaquin County

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(Replaces Policy, Approved May 2008)

(INV/POLMAY2009)