Subject: Annual Statement of Investment Policy FY 2019-20

Department: Treasurer-Tax Collector

Meeting Date Requested: June 25, 2019

Contact: Kiley Patterson/Troy Kidd  Phone: 530.552.3731/3745

Regular Agenda  Consent Agenda

Department Summary: (Information provided in this section will be included on the agenda. Attach explanatory memorandum and other background as necessary).

The Treasurer-Tax Collector requests approval of the Annual Statement of Investment Policy for FY 2019-20. The Investment Policy, in accordance with Government Code sections 53600-53686, guides investment of surplus funds and funds under the custodianship of the Treasurer. The County Treasurer holds and invests the County's, School Districts', and Special Districts' funds. The Butte County Investment Pool Oversight Committee (Committee) is comprised of Debra Lucero, District 2 Supervisor, Butte County Board of Supervisors Representative (Chair); Lisa Anderson, Butte County Office of Education Senior Director of Fiscal Services, Superintendent of Schools Representative (Vice Chair); Graciela Gutierrez, Butte County Auditor-Controller; Heather Childs, Finance Manager, Chico Area Recreation and Park District, Special Districts Representative; and Susan Watts, Oroville Unified High School District Assistant Superintendent of Business, School Districts Representative. The Committee provides oversight to the Treasury and each year considers the Annual Statement of Investment Policy prior to its submission to the Board of Supervisors. The proposed Annual Statement of Investment Policy, by recommendation of the Committee, ends a historical practice of providing premium interest for funds having large, stable balances and little or no activity and instead proposes pro-rata interest based on account balances for all pool participants in the County Treasury for a more streamlined and equitable apportionment process. Other minor changes are also recommended to the policy and detailed in the staff report. Approval of the Annual Statement of Investment Policy also constitutes renewal of the investment authority delegated to the Treasurer by the Board. The Annual Statement of Investment Policy was reviewed and accepted on June 11, 2019 by the Committee. With Board approval, the policy for FY 2019-20 would become effective July 1, 2019.

Fiscal Impact:

None

Personnel Impact:

None

Action Requested:


Administrative Office Review: Meegan Jessee, Deputy Chief Administrative Officer
MEMORANDUM

DATE:       June 25, 2019
TO:         Butte County Board of Supervisors
FROM:       Kiley Patterson, Assistant Treasurer – Tax Collector
RE:         Annual Statement of Investment Policy Fiscal Year (FY) 2019-20

Summary

The Treasurer-Tax Collector requests approval of the annual Statement of Investment Policy for FY 2019-20. The Investment Policy, in accordance with Government Code Sections 53600-53686, guides investment of surplus funds and funds under the custodianship of the Treasurer. The County Treasurer holds and invests the County's, School Districts', Special Districts' and certain voluntary depositors' funds. The Butte County Investment Pool Oversight Committee (Committee) is comprised of Debra Lucero, 2nd District Supervisor, Butte County Board of Supervisors Representative (Chair); Lisa Anderson, Butte County Office of Education Senior Director of Fiscal Services, Superintendent of Schools Rep. (Vice Chair); Graciela Gutierrez, Butte County Auditor-Controller, Heather Childs, Finance Manager, Chico Area Recreation & Park District, Special Districts Representative, and Susan Watts, Oroville Unified High School District Assistant Superintendent of Business, School Districts Representative.

The Committee provides oversight to the Treasury and each year considers the annual Statement of Investment Policy prior to its submission to the Board of Supervisors. The proposed Investment Policy, by recommendation of the Committee, ends a historical practice of providing premium interest for funds having large, stable balances and little or no activity and instead proposes pro-rata interest based on account balances for all pool participants in the County Treasury for a more streamlined and equitable apportionment process. Other minor changes are also recommended to the policy and detailed in the staff report. Approval of the Investment Policy also constitutes renewal of the investment authority delegated to the Treasurer by the Board of Supervisors. The Annual Statement of Investment Policy was reviewed and accepted on June 11, 2019 by the Butte County Investment Pool Oversight Committee. Attachment A is a marked up version of the Draft Investment Policy, and a clean version can be found on Attachment D. With Board approval, the policy for fiscal year 2019-20 would become effective July 1, 2019.

PROPOSED CHANGES TO THE STATEMENT OF INVESTMENT POLICY FOR FY 2019-20 (SEE ATTACHMENT A)

At its April meeting, the Investment Pool Oversight Committee asked for a reassessment of the practice of paying premium interest to funds having large, stable balances and little or no activity and in June approved the proposed Statement of Investment Policy with this change to Section IV-METHOD OF APPORTIONMENT.
The change is recommended in order to increase efficiencies and have a more transparent, equitable process for apportionment of earnings. Additionally, this will allow for business process improvements. Before the change was voted on by the Committee the affected depositors, including the County, Butte Schools Self-Funded Programs JPA and Butte County Office of Education, were notified of the change under consideration. Attached is a spreadsheet demonstrating the financial impact to each of the affected Funds (Attachment B). Generally speaking, the feedback from staff was accepting, with the exception of the Superintendent of Schools (SOS) due to the reduction of interest revenue to their budget, and the SOS representative to the Committee voted against the change, accordingly.

To effect this change, the following sentence in Section IV of the proposed policy has been removed: “Those funds identified by the Treasurer as having large, stable balances and few transactions may earn interest at a premium to the established earnings apportionment rate, dependent upon analysis of the rate environment and impact to the remaining pool participants, and only upon approval of the Treasurer.” Instead, Section IV reads as follows:

“Earnings, net of Treasury costs, are apportioned quarterly, equally between all funds on deposit in the Treasury, based on each fund’s average daily balance for that quarter. The effective date earnings are deposited into each fund will vary, dependent upon available fund balance (derived from earnings actually received on individual investments).”

The Treasurer and Auditor are evaluating the calculation methodology for the apportionment of earnings to determine if a change from a strictly accrual basis to a cash/accrual combination in order to streamline the accounting and calculation processes is warranted. A change may or may not be implemented after due consideration of best practices in accounting and investment management to include potential utilization of investment management software. To provide additional flexibility, the sentence “Earnings are computed on an accrual basis.” is being deleted, accordingly.

The following changes have been made to Section VIII-INVESTMENT AUTHORITY AND ALLOWABLE INVESTMENTS: Subsection J, L and N have been revised to add the word “prior” and shall read: Investments in repurchase agreements (subsection J), mutual funds or other diversified management companies (subsection L) Notes, bonds or other obligations, secured by a valid first priority security interest in securities of the types listed by Section 53651 as eligible securities for the purpose of securing County deposits, having a market value at least equal to that required by Section 53652 for the purpose of securing County deposits (collateralized deposits) (subsection N) require the prior written approval of the Treasurer.

Subsection Q recognizes the entity name change from “World Bank” to “International Bank of Reconstruction and Development (IBRD).”

To provide more clarity in Section IX-MANAGEMENT OF INVESTMENTS, the phrase “provided that liquidity needs have been considered” has been replaced with “or in consideration of liquidity needs” in the following sentence: “Securities will be purchased to meet specific maturity and liquidity needs, with the intent to hold such until maturity. They shall become a “permanent” part of the investment portfolio; however, they may be sold prior to maturity as a result of favorable market conditions, or in consideration of liquidity needs, and provided the sale does not have significant adverse impact on portfolio yield.”
In Section XI-REPORTING, the addition of “or his/her designee” has been added to the following procedure to allow increased flexibility: “The Supervisor-Banking & Cash Management, or his/her designee, will be responsible for verification of the transactions, either by direct contact with the broker and/or financial institution or by monitoring confirmations, within five (5) business days of the transactions.”

The word “book” has been replaced with “records” to read as follows: “The Supervisor-Banking & Cash Management will oversee preparation and verification of worksheets for each investment and the logging of investment activity on the daily count sheet and appropriate bank records.”

**Annual Delegation of Investment Authority to the Treasurer-Tax Collector**

Delegation of Investment Authority allows the Treasury to conduct and manage investing of funds pursuant to the Investment Policy, without such delegation, the Board of Supervisors would be responsible to conduct and manage investment holdings for all pool participants. California Government Code 27000.3 (Attachment C) states that the Board of Supervisors is the agent bearing fiduciary responsibility for the prudent investment of all County funds, unless that responsibility and authority has been delegated to the Treasurer in accordance with Government Code 53607. Butte County’s Board of Supervisors adopted Ordinance 4803 on June 10, 2014, which provided that the delegation of investment authority to the Treasurer may be renewed annually at the discretion of the Board. This annual decision on the part of the Board, historically done with a new ordinance each year, is now part of the annual review and approval of the Investment Policy. Prior to 2014, a new Ordinance was crafted and approved annually to authorize delegation of investment authority to the Treasurer. This process was determined to be inefficient and not required by law.

Accordingly, the delegation of investment authority to the Treasurer is renewed annually upon Board approval of the annual Investment Policy; however, it is important to note the Board may revoke, or decide not to renew, this authority at any time. Additionally, the Ordinance and its delegation of investment authority to the Treasurer is highlighted on the Board Agenda to maintain transparency. Section VIII of the Investment Policy references this delegated investment authority.
I. PURPOSE

The purpose of this statement is to set forth the investment policy for Butte County, in accordance with California Government Code Section 53601 and following, for the investment of surplus funds and funds under the custodianship of the Treasurer. Butte County’s portfolio management is an active management strategy in that a broad range of market analysis techniques, investment options, and cash management tools are employed in making investment decisions.

II. OBJECTIVES

The objective of this policy is to obtain the highest feasible return consistent with a high degree of safety of principal and the level of liquidity necessary to meet the needs of the County and agencies participating in the Treasury. In that regard, safety and liquidity sufficient to meet cash flow needs are of primary concern. Return is secondary and subordinate to safety and liquidity in making investment decisions.

III. SETTING TREASURY FEES

Treasury fees, which include but are not limited to the costs of banking, cash management, accounting, investment and required audits, are set annually based on final budget expenditures from the previous fiscal year and the adopted final budget for the fiscal year in question. The Treasurer shall deduct from the gross interest received those actual administrative costs relating to the management of the treasury including salaries and other compensation, banking costs, facilities costs, costs of fixtures, equipment and supplies, costs of information services, audits and any other costs as provided by Section 27013 of the Government Code. Salary and benefits are pro rated between the Treasury / Tax Collector / Central Collections Divisions, based on payroll timesheet records. Costs directly attributable to a specific division, department or other entity (i.e. bank service charges) are identified and added to that division’s or entity’s annual costs. All remaining costs are then prorated based on the percentages derived from timesheet records. Once determined, the total operating cost for the Treasury Division is used as both an
estimate for that year’s costs and as the basis for any adjustments to the prior year’s estimate. A similar internal cost accounting system is maintained by the Auditor’s office; costs and actual timesheet analysis are used for their charges.

IV. METHOD OF APPORTIONMENT

Earnings, net of Treasury costs, are apportioned quarterly, equally between all funds on deposit in the Treasury, based on each fund’s average daily balance for that quarter. Earnings are computed on an accrual basis. The effective date earnings are deposited into each fund may will vary, dependent upon available fund balance (derived from earnings actually received on individual investments). Those funds identified by the Treasurer as having large, stable balances and few transactions may earn interest at a premium to the established earnings apportionment rate, dependent upon analysis of the rate environment and impact to the remaining pool participants, and only upon approval of the Treasurer.

V. TERMS AND CONDITIONS UNDER WHICH OUTSIDE MONEY MAY BE DEPOSITED INTO THE COUNTY TREASURY

Outside money may be accepted from agencies and other entities not required to deposit into the County Treasury on a case-by-case contract basis and only upon approval by the Treasurer. The contract will address dollar size, term, how the funds are to be invested and withdrawn as well as how administrative and other costs will be assessed.

VI. TERMS AND CONDITIONS FOR WITHDRAWAL OF FUNDS FOR INVESTMENT OUTSIDE THE COUNTY TREASURY

Any agency desiring to withdraw money on deposit with the County Treasury, for investment or deposit outside of the Treasury, must submit such request in writing at least thirty days prior to the anticipated withdrawal date. The request must state the amount, purpose and estimated date of withdrawal. Each request will be considered on the basis of conclusive proof that the withdrawal for outside investment will not work to the detriment of the other participants in the Treasury pool. The Treasurer reserves the right to adjust the principle amount of the withdrawal to market value at the time of withdrawal.

VII. DEPOSITS

Deposits consist of active and inactive deposits in state or national banks, state or federal savings and loan associations or consumer savings banks doing business in the State of California. Deposits are considered passive in nature in that they are purchased with a specific maturity and liquidity need in mind, based on cash flow analysis. Deposits will be placed with institutions approved by the Treasurer based on their latest audited financial statements and regulatory reports.

No more than 15 percent (15%) of the entire portfolio at the time the deposit is made will be in any one bank, savings bank or savings and loan association, and any such deposit will be either fully insured or collateralized in accordance with California Government Code Section 53630 through 53664. The Treasurer will determine, after a review of the most recent financial statements, the dollar limits that may be placed with each eligible institution.

Deposits will be placed through a competitive bidding process whereby at least three (3) institutions offer quotes. Placement will, in most circumstances, be with the highest quote, provided that maturity, diversification, dollar limitations and liquidity needs are consistent with this policy.

A local preference policy will allow that up to three per cent (3%) of the portfolio may be placed with financial institutions doing business in the County and approved by the Treasurer based on an analysis of their current financial reports and audits. The amount set aside will be placed with local institutions on a competitive basis. Yields must be within fifty basis points (.50%) of comparable U.S. Treasury securities and the term of deposit timed to meet liquidity needs. Maturity of deposits will not exceed two (2) years,
Non-negotiable receipts/certificates of deposit, if issued, will be maintained in vault custody at the Treasurer’s Office and do not fall within third party custody guidelines. Bank statements and collateralization statements may be retained in electronic format.

VIII. INVESTMENT AUTHORITY AND ALLOWABLE INVESTMENTS

Investment authority is delegated to the Treasurer by the Board of Supervisors, in accordance with California Government Code Section 53607, by ordinance 4083 dated June 10, 2014, which reads:

“2-166 Investment authority.

Pursuant to California Government Code Section 27000.1, subject to Section 53607, the County Treasurer is hereby delegated the authority to invest or reinvest the funds of the County and the funds of the other depositors in the County Treasury, pursuant to Chapter 4 (commencing with Government Code Section 53600) of Part 1 of Division 2 of Title 5 of the Government Code. The County Treasurer shall assume full responsibility for those transactions until the Board of Supervisors either revokes its delegation of authority, by ordinance, or decides not to renew the annual delegation.”

Annual approval of this Investment Policy by the Board of Supervisors constitutes renewal of the annual delegation of investment authority to the Treasurer, effective July 1 of each year.

Investments include any of the instruments described in California Government Code Section 53601, paragraphs (a) and following, and use of such instruments is further restricted later in this policy. Where no term or remaining limitation is referenced, it is understood that no investment shall be made in any security, other than a security underlying a repurchase or reverse repurchase agreement or authorized securities lending agreement that, at the time of the investment, has a term remaining to maturity in excess of five years. An exception to this policy applies only if the Board of Supervisors has granted express authority to make that investment, either specifically or as part of an investment program approved by the Board of Supervisors, no less than three months prior to the investment. Eligible instruments for investment, including maximum term and maximum percentage of portfolio and California Government Code Section authorization, are itemized below:

A. Bonds issued by the County, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled or operated by the County or by a department, board, agency or authority of the County. (5 years, 100%) 53601 (a)

B. United States Treasury notes, bonds, bills or certificates of indebtedness, or those for which the full faith and credit of the United States are pledged for payment of principal and interest, except that mortgage pool certificates through the Government National Mortgage Association (GNMA, “Ginnie Mae”) are not an allowable investment. (5 years, 100%) 53601 (b)

C. Bonds, notes, warrants or other evidence of indebtedness of the state of California, or any of the other 49 states of the United States, including bonds payable out of the revenues from revenue producing property owned, controlled, or operated by a state or by a department, board, agency or authority of a state. (5 years, 100%) 53601 (c & d)

D. Bonds, notes, warrants or other evidences of indebtedness of any local agency within this state, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the local agency, or by a department, board, agency, or authority of the local agency. (5 years, 100%) 53601 (e)

E. Local Agency Investment Fund, California State Treasurer’s Office. (liquid funds, 100%) California Government Code Section 16429.1
F. U.S. government sponsored enterprise obligations, or obligations issued by agencies of the federal government such as: Federal National Mortgage Association (FNMA, Fannie Mae”), Federal Home Loan Mortgage Corporation (FHLMC, “Freddie Mac”), Federal Farm Credit Bank (FFCB, “Farm Credit”), Student Loan Marketing Association (SLMA, “Sallie Mae”), Federal Agricultural Mortgage Corporation (FAMCA, “Farmer Mac”), or Tennessee Valley Authority (TVA), debentures or discount notes. (5 years, 100%) 53601 (f)

G. Bills of Exchange or time drafts drawn on and accepted by a commercial bank, otherwise known as banker’s acceptances, which are eligible for purchase by the Federal Reserve System. (180 days, 40%, 30% max. of any one issuer) 53601 (g)

H. Commercial paper of “prime” quality, consistent with provisions of Government Code Sections 53601 (h) & 53635. (270 days, 25%, max. 10% of any one issuer)

I. Negotiable certificates of deposit issued by institutions with a minimum “AA” rating and consistent with provisions of Government Code Section 53638. FDIC insured negotiable certificates are not rated but are considered to have the same rating as the U.S. Government for risk assessment purposes. Non-FDIC insured certificates with maturities exceeding two (2) years from the date of the investment require the written approval of the Treasurer. (5 years, 30%) 53601 (i)

J. Investments in repurchase agreements (maximum 1 year maturity) and reverse repurchase agreements (maximum 92 day maturity) that are consistent with the provisions of Government Code 53601 (j) are comprised of securities described as allowable investments in this Statement of Investment Policy. Investments in repurchase agreements require the prior written approval of the Treasurer. Additionally, investments in reverse repurchase agreements require prior Board of Supervisors’ approval and shall only be made through primary dealers of the Federal Reserve Bank of New York or with a nationally or state chartered bank that has or has had a significant banking relationship with the County. (20%) 53601 (j)

K. Medium-term/corporate notes consistent with provisions of Government Code Section 53601 (k). (5 years, 30%)

L. Shares of beneficial interest issued by diversified management companies that invest in securities and obligations authorized by subdivisions (a) to (k), inclusive, and (n) & (o) and are consistent with the provisions of 53601 (l). (20%, and no more than 10% in any one mutual fund). Any investment in mutual funds or other diversified management companies requires the prior written approval of the Treasurer.

M. Moneys held by a trustee or fiscal agent and pledged to the payment or security of bonds or other indebtedness, or obligations under a lease, installment sale, or other agreement of the County, or certificates of participation in the same, may be invested in accordance with statutory provisions governing their issuance or in accordance with the ordinance, resolution, indenture or agreement of the County. 53601 (m)

N. Notes, bonds or other obligations, secured by a valid first priority security interest in securities of the types listed by Section 53651 as eligible securities for the purpose of securing County deposits, having a market value at least equal to that required by Section 53652 for the purpose of securing County deposits (collateralized deposits). Any such investment requires the prior written approval of the Treasurer. 53601 (n)

O. Any mortgage pass-through security, collateralized mortgage obligation, mortgage-backed or other pay-through bond, equipment lease-backed certificate, consumer receivable pass-through certificate or consumer receivable backed bond of a maximum of five years maturity and, further, meets all provisions of Government Code Section 53601 (o). Any such investment requires the prior written approval of the Treasurer. (5 years, 20%)

P. Shares of beneficial interest issued by a joint powers authority organized pursuant to Section 6509.7 that invests in the securities and obligations authorized in 53601 (a) to (n), inclusive, and further, is consistent with the provisions of Government Code Section 53601 (p).
Q. Pursuant to AB1933, modifying Section 53601 and effective January 1, 2015: US dollar denominated senior unsecured unsubordinated obligations issued or unconditionally guaranteed by the World BankInternational Bank of Reconstruction and Development (IBRD), International Finance Corporations (IFC), or Inter-American Development Bank (IADB), that are eligible for purchase and sale within the U.S. (AA minimum rating, 5 years, 30%)

R. Pursuant to Section 53601.8, investments in deposits by means of selecting a depository institution (nationally or state chartered commercial bank, savings bank, savings and loan association or credit union) that participates in a private sector entity placement service whereby deposits are fully insured by the Federal Deposit Insurance Corporation or the National Credit Union Association through reciprocal placement agreements. This provision is scheduled to expire as of January 1, 2021 53601.8 (5 years, 30%)

No security may be purchased which does not receive an income payment within one year of the date of purchase and semi-annually thereafter, except investments in mutual funds or shares of beneficial interest issued by diversified management companies pursuant to Government Code Section 53601 (l).

IX. MANAGEMENT OF INVESTMENTS

Persons authorized to make investments for the County are the Treasurer, Assistant Treasurer and the Supervisor-Banking & Cash Management.

All securities shall be delivered to a third party (safekeeping service), either for book entry or physical delivery as dictated by the type of security, and shall be on a strict delivery versus payment basis. An independent verification and confirmation system is provided by this safekeeping in addition to internal record keeping. Internally, confirmation of details relating to all purchases/trades shall be made by a second party within the Treasurer’s Office, usually the Supervisor-Banking & Cash Management. Security transactions shall be with primary and/or regional broker-dealers authorized by the Treasurer. Broker-dealers will be selected by the Treasurer based on financial viability and the ability to provide service in accordance with Government Code Section 27133 (a). The selection of any broker, dealer or securities firm that has, within any consecutive 48-month period following 1/1/96, made a political contribution in an amount exceeding the limitations contained in Rule G-37 of the Municipal Securities Rulemaking Board to the local treasurer, any member of the governing board of the local agency, or any candidate for those offices, shall be prohibited.

Purchases/sales of banker’s acceptances, commercial paper and medium term notes and corporate notes may be made directly from/to the accepting bank or paper issuer. Purchases/sales of any security or other investment shall be on a competitive basis with bids/offers received from two dealers/issuers or, at the discretion of the Treasurer or Assistant Treasurer, from an individual dealer based on past performance, up-to-date investment analysis, market conditions, and current information available through an on-line financial service.

Securities not specifically mentioned in Section V. but included in applicable Government Code sections are allowable investments only on a case by case basis with prior written authorization from the Treasurer. Further, if there are limits in the applicable Code Sections as to the amount or maturity of securities purchased under this policy, those limits also apply.

Securities will be purchased to meet specific maturity and liquidity needs, with the intent to hold such until maturity. They shall become a “permanent” part of the investment portfolio; however, they may be sold prior to maturity as a result of favorable market conditions, provided that liquidity needs have been considered in consideration of liquidity needs, and provided the sale does not have significant adverse impact on portfolio yield.
X. OVERSIGHT COMMITTEE

An oversight committee shall be appointed to periodically review the investment practices and results. Members, including advisory members, of the oversight committee and the Treasurer shall not in any calendar year receive in excess of two hundred fifty dollars ($250) in honoraria, gifts, and gratuities from any advisor, broker, dealer, banker, or other person with whom the County Treasury conducts business. Also, any advisor, broker, dealer or banker cannot be appointed to the oversight committee within 36 months of making a campaign contribution exceeding limitations contained in Rule G-37 of the Municipal Securities Rulemaking Board.

XI. REPORTING

Reporting of investment activity will be consistent with applicable California Government Code Sections and Governmental Accounting Standards Board requirements. Reports made will include a statement of investment holdings reflecting the cost basis and fair market value and may include all transactions involving investments in securities. Treasurer’s Investment Reports will be submitted to the Board of Supervisors and the Investment Pool Oversight Committee no later than 30 days after the end of the reporting period. Quarterly Reports will be made available to pool participants and other interested parties on the Treasurer’s website at http://www.buttecounty.net/ttc.

Internally, the Assistant Treasurer will provide the Treasurer and Supervisor-Banking & Cash Management with the detail of all trade and deposit transactions. Third party verification should be through the counterparty to the transaction (broker or financial institution), in addition to documentation received from safekeeping. The Supervisor-Banking & Cash Management or his/her designee, will be responsible for verification of the transactions, either by direct contact with the broker and/or financial institution or by monitoring confirmations, within five (5) business days of the transactions. When verification has been completed, the Treasurer shall review and sign all trade tickets.

The Supervisor-Banking & Cash Management will oversee preparation and verification of worksheets for each investment and the logging of investment activity on the daily count sheet and appropriate bank book-records (this also includes tracking and booking all maturities and income/interest payments). Final verification of purchases, sales and interest/coupon payments will be made via daily reconciliation of the County’s commercial bank accounts. The Auditor-Controller shall periodically validate cash and investment balances utilizing safekeeping and other independent statements.

The Treasurer will cause to be performed a periodic review of the investment function to include:

• Comparison of investment records with those of independent statements and confirmations from brokers and institutions
• Review of the portfolio to ensure compliance with the Statement of Investment Policy
• Annual review of the Statement of Investment Policy

—— DRAFT

PEGGY MOAK TROY KIDD, TREASURER
COUNTY OF BUTTE

DATE: 7/01/20182019
## SPECIAL APPORTIONMENT RECEIPTS
01-01-2019 THRU 03-31-2019

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<td>$5,754,832.71</td>
<td>$27,274.88</td>
<td>0.01780</td>
<td>236,09,008.59</td>
</tr>
</tbody>
</table>

**ANNUAL DIFFERENCE APRIL 1, 2018 THROUGH MARCH 31, 2019**

- $8,206.77 County
- $8,662.63 Schools
- $8,472.39 Schools
- $8,475.15 Schools
- $8,481.09 Schools
- $9,304.77 County
- $9,992.63 County
- $9,992.63 County
- $9,479.17 County
- $9,479.17 County
- $9,940.26 County
- $9,940.26 County
- $7,736.04 County
- $7,736.04 County
- $7,946.45 County
- $7,946.45 County

12:28 PM 6/17/2019
ATTACHMENT C


GOVERNMENT CODE SECTION 27000-27013

27000. The county treasurer shall receive and keep safely all money belonging to the county and all other money directed by law to be paid to him and apply and pay it out, rendering the account as required by law.

27000.1. Subject to Section 53607, the board of supervisors may, by ordinance, delegate to the county treasurer the authority to invest or reinvest the funds of the county and the funds of other depositors in the county treasury, pursuant to Chapter 4 (commencing with Section 53600) of Part 1 of Division 2 of Title 5. The county treasurer shall thereafter assume full responsibility for those transactions until the board of supervisors either revokes its delegation of authority, by ordinance, or decides not to renew the annual delegation, as provided in Section 53607. Nothing in this section shall limit the county treasurer's authority pursuant to Section 53635 or 53684.

27000.3. (a) With regard to county funds deposited in the county treasury, the board of supervisors is the agent of the county who serves as a fiduciary and is subject to the prudent investor standard, unless a delegation has occurred pursuant to Section 53607 in which case the county treasurer shall be the agent of the county with respect to these funds, serve as a fiduciary, and be subject to the prudent investor standard and the board of supervisors shall not be the agent, serve as a fiduciary, or be subject to the prudent investor standard.

(b) With regard to funds deposited in the county treasury that are deposited by local agencies other than the county and at the discretion of those local agencies, the county treasurer serves as a fiduciary subject to the prudent investor standard.

(c) When investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds, the county treasurer or the board of supervisors, as applicable, shall act with care, skill, prudence, and diligence under the circumstances then prevailing, specifically including, but not limited to, the general economic conditions and the anticipated needs of the county and other depositors, 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 and the other depositors. Within the limitations of this section and considering individual investments as part of an overall investment strategy, investments may be acquired as authorized by law. Nothing in this chapter is intended to grant investment authority to any person or governing body except as provided in Sections 53601, 53607, and 53635.

27000.5. When investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds, the primary objective of the county treasurer or the board of supervisors, as the case may be, shall be to safeguard the principal of the funds under the treasurer's or the board's control. The secondary objective shall be to meet the liquidity needs of the depositor. The third objective shall be to achieve a return on the funds under his or her control.
BUTTE COUNTY TREASURER

STATEMENT OF INVESTMENT POLICY

Effective date: July 1, 2019

I. PURPOSE

The purpose of this statement is to set forth the investment policy for Butte County, in accordance with California Government Code Section 53601 and following, for the investment of surplus funds and funds under the custodianship of the Treasurer. Butte County’s portfolio management is an active management strategy in that a broad range of market analysis techniques, investment options, and cash management tools are employed in making investment decisions.

II. OBJECTIVES

The objective of this policy is to obtain the highest feasible return consistent with a high degree of safety of principal and the level of liquidity necessary to meet the needs of the County and agencies participating in the Treasury. In that regard, safety and liquidity sufficient to meet cash flow needs are of primary concern. Return is secondary and subordinate to safety and liquidity in making investment decisions.

III. SETTING TREASURY FEES

Treasury fees, which include but are not limited to the costs of banking, cash management, accounting, investment and required audits, are set annually based on final budget expenditures from the previous fiscal year and the adopted final budget for the fiscal year in question. The Treasurer shall deduct from the gross interest received those actual administrative costs relating to the management of the treasury including salaries and other compensation, banking costs, facilities costs, costs of fixtures, equipment and supplies, costs of information services, audits and any other costs as provided by Section 27013 of the Government Code. Salary and benefits are pro rated between the Treasury / Tax Collector / Central Collections Divisions, based on payroll timesheet records. Costs directly attributable to a specific division, department or other entity (i.e. bank service charges) are identified and added to that division’s or entity’s annual costs. All remaining costs are then prorated based on the percentages derived from timesheet records. Once determined, the total operating cost for the Treasury Division is used as both an estimate for that year’s costs and as the basis for any adjustments to the prior year’s estimate. A similar
IV. METHOD OF APPORTIONMENT

Earnings, net of Treasury costs, are apportioned quarterly, equally between all funds on deposit in the Treasury, based on each fund’s average daily balance for that quarter. The effective date earnings are deposited into each fund may vary, dependent upon available fund balance (derived from earnings actually received on individual investments).

V. TERMS AND CONDITIONS UNDER WHICH OUTSIDE MONEY MAY BE DEPOSITED INTO THE COUNTY TREASURY

Outside money may be accepted from agencies and other entities not required to deposit into the County Treasury on a case-by-case contract basis and only upon approval by the Treasurer. The contract will address dollar size, term, how the funds are to be invested and withdrawn as well as how administrative and other costs will be assessed.

VI. TERMS AND CONDITIONS FOR WITHDRAWAL OF FUNDS FOR INVESTMENT OUTSIDE THE COUNTY TREASURY

Any agency desiring to withdraw money on deposit with the County Treasury, for investment or deposit outside of the Treasury, must submit such request in writing at least thirty days prior to the anticipated withdrawal date. The request must state the amount, purpose and estimated date of withdrawal. Each request will be considered on the basis of conclusive proof that the withdrawal for outside investment will not work to the detriment of the other participants in the Treasury pool. The Treasurer reserves the right to adjust the principle amount of the withdrawal to market value at the time of withdrawal.

VII. DEPOSITS

Deposits consist of active and inactive deposits in state or national banks, state or federal savings and loan associations or consumer savings banks doing business in the State of California. Deposits are considered passive in nature in that they are purchased with a specific maturity and liquidity need in mind, based on cash flow analysis. Deposits will be placed with institutions approved by the Treasurer based on their latest audited financial statements and regulatory reports.

No more than 15 percent (15%) of the entire portfolio at the time the deposit is made will be in any one bank, savings bank or savings and loan association, and any such deposit will be either fully insured or collateralized in accordance with California Government Code Section 53630 through 53664. The Treasurer will determine, after a review of the most recent financial statements, the dollar limits that may be placed with each eligible institution.

Deposits will be placed through a competitive bidding process whereby at least three (3) institutions offer quotes. Placement will, in most circumstances, be with the highest quote, provided that maturity, diversification, dollar limitations and liquidity needs are consistent with this policy.

A local preference policy will allow that up to three per cent (3%) of the portfolio may be placed with financial institutions doing business in the County and approved by the Treasurer based on an analysis of their current financial reports and audits. The amount set aside will be placed with local institutions on a competitive basis. Yields must be within fifty basis points (.50%) of comparable U.S. Treasury securities and the term of deposit timed to meet liquidity needs. Maturity of deposits will not exceed two (2) years, except when it may be extended to avoid weekend or holiday maturity; however, maturity of deposits may be extended for up to five (5) years upon prior written approval of the Treasurer.
Non-negotiable receipts/certificates of deposit, if issued, will be maintained in vault custody at the Treasurer’s Office and do not fall within third party custody guidelines. Bank statements and collateralization statements may be retained in electronic format.

VIII. INVESTMENT AUTHORITY AND ALLOWABLE INVESTMENTS

Investment authority is delegated to the Treasurer by the Board of Supervisors, in accordance with California Government Code Section 53607, by ordinance 4083 dated June 10, 2014, which reads:

“2-166 Investment authority.

Pursuant to California Government Code Section 27000.1, subject to Section 53607, the County Treasurer is hereby delegated the authority to invest or reinvest the funds of the County and the funds of the other depositors in the County Treasury, pursuant to Chapter 4 (commencing with Government Code Section 53600) of Part 1 of Division 2 of Title 5 of the Government Code. The County Treasurer shall assume full responsibility for those transactions until the Board of Supervisors either revokes its delegation of authority, by ordinance, or decides not to renew the annual delegation.”

Annual approval of this Investment Policy by the Board of Supervisors constitutes renewal of the annual delegation of investment authority to the Treasurer, effective July 1 of each year.

Investments include any of the instruments described in California Government Code Section 53601, paragraphs (a) and following, and use of such instruments is further restricted later in this policy. Where no term or remaining limitation is referenced, it is understood that no investment shall be made in any security, other than a security underlying a repurchase or reverse repurchase agreement or authorized securities lending agreement that, at the time of the investment, has a term remaining to maturity in excess of five years. An exception to this policy applies only if the Board of Supervisors has granted express authority to make that investment, either specifically or as part of an investment program approved by the Board of Supervisors, no less than three months prior to the investment. Eligible instruments for investment, including maximum term and maximum percentage of portfolio and California Government Code Section authorization, are itemized below:

A. Bonds issued by the County, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled or operated by the County or by a department, board, agency or authority of the County. (5 years, 100%) 53601 (a)

B. United States Treasury notes, bonds, bills or certificates of indebtedness, or those for which the full faith and credit of the United States are pledged for payment of principal and interest, except that mortgage pool certificates through the Government National Mortgage Association (GNMA, “Ginnie Mae”) are not an allowable investment. (5 years, 100%) 53601 (b)

C. Bonds, notes, warrants or other evidence of indebtedness of the state of California, or any of the other 49 states of the United States, including bonds payable out of the revenues from revenue producing property owned, controlled, or operated by a state or by a department, board, agency or authority of a state. (5 years, 100%) 53601 (c & d)

D. Bonds, notes, warrants or other evidences of indebtedness of any local agency within this state, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the local agency, or by a department, board, agency, or authority of the local agency. (5 years, 100%) 53601 (e)

E. Local Agency Investment Fund, California State Treasurer’s Office. (liquid funds, 100%) California Government Code Section 16429.1

F. U.S. government sponsored enterprise obligations, or obligations issued by agencies of the federal government such as: Federal National Mortgage Association (FNMA, Fannie Mae”), Federal Home Loan Mortgage Corporation (FHLMC, “Freddie Mac”), Federal Farm Credit Bank (FFCB, “Farm Credit”), Student Loan Marketing Association (SLMA, “Sallie Mae”), Federal Agricultural Mortgage
Corporation (FAMCA, “Farmer Mac”), or Tennessee Valley Authority (TVA), debentures or discount notes. (5 years, 100%) 53601 (f)

G. Bills of Exchange or time drafts drawn on and accepted by a commercial bank, otherwise known as banker’s acceptances, which are eligible for purchase by the Federal Reserve System. (180 days, 40%, 30% max. of any one issuer) 53601 (g)

H. Commercial paper of “prime” quality, consistent with provisions of Government Code Sections 53601 (h) & 53635. (270 days, 25%, max. 10% of any one issuer)

I. Negotiable certificates of deposit issued by institutions with a minimum “AA” rating and consistent with provisions of Government Code Section 53638. FDIC insured negotiable certificates are not rated but are considered to have the same rating as the U.S. Government for risk assessment purposes. Non-FDIC insured certificates with maturities exceeding two (2) years from the date of the investment require the written approval of the Treasurer. (5 years, 30%) 53601 (i)

J. Investments in repurchase agreements (maximum 1 year maturity) and reverse repurchase agreements (maximum 92 day maturity) that are consistent with the provisions of Government Code 53601 (j)1 - 5 and are comprised of securities described as allowable investments in this Statement of Investment Policy. Investments in repurchase agreements require the prior written approval of the Treasurer. Additionally, investments in reverse repurchase agreements require prior Board of Supervisors’ approval and shall only be made through primary dealers of the Federal Reserve Bank of New York or with a nationally or state chartered bank that has or has had a significant banking relationship with the County. (20%) 53601 (j)

K. Medium-term/corporate notes consistent with provisions of Government Code Section 53601 (k). (5 years, 30%)

L. Shares of beneficial interest issued by diversified management companies that invest in securities and obligations authorized by subdivisions (a) to (k), inclusive, and (n) & (o) and are consistent with the provisions of 53601 (l). (20%, and no more than 10% in any one mutual fund). Any investment in mutual funds or other diversified management companies requires the prior written approval of the Treasurer.

M. Moneys held by a trustee or fiscal agent and pledged to the payment or security of bonds or other indebtedness, or obligations under a lease, installment sale, or other agreement of the County, or certificates of participation in the same, may be invested in accordance with statutory provisions governing their issuance or in accordance with the ordinance, resolution, indenture or agreement of the County. 53601 (m)

N. Notes, bonds or other obligations, secured by a valid first priority security interest in securities of the types listed by Section 53651 as eligible securities for the purpose of securing County deposits, having a market value at least equal to that required by Section 53652 for the purpose of securing County deposits (collateralized deposits). Any such investment requires the prior written approval of the Treasurer. 53601 (n)

O. Any mortgage pass-through security, collateralized mortgage obligation, mortgage-backed or other pay-through bond, equipment lease-backed certificate, consumer receivable pass-through certificate or consumer receivable backed bond of a maximum of five years maturity and, further, meets all provisions of Government Code Section 53601 (o). Any such investment requires the prior written approval of the Treasurer. (5 years, 20%)

P. Shares of beneficial interest issued by a joint powers authority organized pursuant to Section 6509.7 that invests in the securities and obligations authorized in 53601 (a) to (n), inclusive, and further, is consistent with the provisions of Government Code Section 53601 (p).

Q. Pursuant to AB1933, modifying Section 53601 and effective January 1, 2015: US dollar denominated senior unsecured unsubordinated obligations issued or unconditionally guaranteed by the International Bank of Reconstruction and Development (IBRD), International Finance Corporations (IFC),
or Inter-American Development Bank (IADB), that are eligible for purchase and sale within the U.S. (AA minimum rating, 5 years, 30%)

R. Pursuant to Section 53601.8, investments in deposits by means of selecting a depository institution (nationally or state chartered commercial bank, savings bank, savings and loan association or credit union) that participates in a private sector entity placement service whereby deposits are fully insured by the Federal Deposit Insurance Corporation or the National Credit Union Association through reciprocal placement agreements. This provision is scheduled to expire as of January 1, 2021. 53601.8 (5 years, 30%)

No security may be purchased which does not receive an income payment within one year of the date of purchase and semi-annually thereafter, except investments in mutual funds or shares of beneficial interest issued by diversified management companies pursuant to Government Code Section 53601 (l).

IX. MANAGEMENT OF INVESTMENTS

Persons authorized to make investments for the County are the Treasurer, Assistant Treasurer and the Supervisor-Banking & Cash Management.

All securities shall be delivered to a third party (safekeeping service), either for book entry or physical delivery as dictated by the type of security, and shall be on a strict delivery versus payment basis. An independent verification and confirmation system is provided by this safekeeping in addition to internal record keeping. Internally, confirmation of details relating to all purchases/trades shall be made by a second party within the Treasurer’s Office, usually the Supervisor-Banking & Cash Management. Security transactions shall be with primary and/or regional broker-dealers authorized by the Treasurer. Broker-dealers will be selected by the Treasurer based on financial viability and the ability to provide service in accordance with Government Code Section 27133 (a). The selection of any broker, dealer or securities firm that has, within any consecutive 48-month period following 1/1/96, made a political contribution in an amount exceeding the limitations contained in Rule G-37 of the Municipal Securities Rulemaking Board to the local treasurer, any member of the governing board of the local agency, or any candidate for those offices, shall be prohibited.

Purchases/sales of banker’s acceptances, commercial paper and medium term notes and corporate notes may be made directly from/to the accepting bank or paper issuer. Purchases/sales of any security or other investment shall be on a competitive basis with bids/offers received from two dealers/issuers or, at the discretion of the Treasurer or Assistant Treasurer, from an individual dealer based on past performance, up-to-date investment analysis, market conditions, and current information available through an on-line financial service.

Securities not specifically mentioned in Section V. but included in applicable Government Code sections are allowable investments only on a case by case basis with prior written authorization from the Treasurer. Further, if there are limits in the applicable Code Sections as to the amount or maturity of securities purchased under this policy, those limits also apply.

Securities will be purchased to meet specific maturity and liquidity needs, with the intent to hold such until maturity. They shall become a “permanent” part of the investment portfolio; however, they may be sold prior to maturity as a result of favorable market conditions, or in consideration of liquidity needs, and provided the sale does not have significant adverse impact on portfolio yield.

X. OVERSIGHT COMMITTEE

An oversight committee shall be appointed to periodically review the investment practices and results. Members, including advisory members, of the oversight committee and the Treasurer shall not in any calendar year receive in excess of two hundred fifty dollars ($250) in honoraria, gifts, and gratuities from any advisor, broker, dealer, banker, or other person with whom the County Treasury conducts business.
Also, any advisor, broker, dealer or banker cannot be appointed to the oversight committee within 36 months of making a campaign contribution exceeding limitations contained in Rule G-37 of the Municipal Securities Rulemaking Board.

XI. REPORTING

Reporting of investment activity will be consistent with applicable California Government Code Sections and Governmental Accounting Standards Board requirements. Reports made will include a statement of investment holdings reflecting the cost basis and fair market value and may include all transactions involving investments in securities. Treasurer’s Investment Reports will be submitted to the Board of Supervisors and the Investment Pool Oversight Committee no later than 30 days after the end of the reporting period. Quarterly Reports will be made available to pool participants and other interested parties on the Treasurer’s website at http://www.buttecounty.net/ttc.

Internally, the Assistant Treasurer will provide the Treasurer and Supervisor-Banking & Cash Management with the detail of all trade and deposit transactions. Third party verification should be through the counterparty to the transaction (broker or financial institution), in addition to documentation received from safekeeping. The Supervisor-Banking & Cash Management, or his/her designee, will be responsible for verification of the transactions, either by direct contact with the broker and/or financial institution or by monitoring confirmations, within five (5) business days of the transactions. When verification has been completed, the Treasurer shall review and sign all trade tickets.

The Supervisor-Banking & Cash Management will oversee preparation and verification of worksheets for each investment and the logging of investment activity on the daily count sheet and appropriate bank records (this also includes tracking and booking all maturities and income/interest payments). Final verification of purchases, sales and interest/coupon payments will be made via daily reconciliation of the County’s commercial bank accounts. The Auditor-Controller shall periodically validate cash and investment balances utilizing safekeeping and other independent statements.

The Treasurer will cause to be performed a periodic review of the investment function to include:

• Comparison of investment records with those of independent statements and confirmations from brokers and institutions

• Review of the portfolio to ensure compliance with the Statement of Investment Policy

• Annual review of the Statement of Investment Policy

DATE: 7/01/2019

TROY KIDD, TREASURER
COUNTY OF BUTTE