

IMPERIAL COUNTY
ANNUAL INVESTMENT POLICY
FOR THE
POOLED INVESTMENT FUND



TREASURER-TAX COLLECTOR

*Approved: Imperial County Board of Supervisors
On August 9, 2016*

Imperial County Investment Policy

Authority

In accordance with the laws and regulations of the State of California and authority granted by the Imperial County Board of Supervisors the County Treasurer-Tax Collector is responsible for investing all the funds in the County Treasury.

Policy Statement

The Treasurer-Tax Collector shall establish investment policy procedures for the operation of the investment program and a system of controls to regulate the activities of the subordinate officials. Each transaction and the entire portfolio must comply with the California Government Code section 53635 et seq., and this policy.

Scope

This investment policy applies to all financial assets of the County of Imperial as accounted for in the comprehensive annual financial report and shall apply to all other funds under the County Treasurer-Tax Collector's span of control unless specifically exempted by resolution.

Outside local agencies, where the County Treasurer-Tax Collector does not serve as the agency's Treasurer-Tax Collector, may invest in the Pooled Investment Fund through California Government Code section 53684 et seq. Deposits are subject to the consent of the County Treasurer-Tax Collector. The local agency legislative body must approve the Imperial County Pooled Investment Fund as an authorized investment and execute a Memorandum of Understanding. This agreement should spell out the exact rules for participating in the pool and provide the County Treasurer-Tax Collector with reasonable predefined discretion to establish the frequency and amount of voluntary funds that can be removed from the pool at a particular time.

The County Treasurer-Tax Collector may honor all requests to withdraw funds for normal cash flow purposes. Any requests to withdraw funds for purposes other than cash flow such as for external investing shall be subject to the consent of the Treasurer-Tax Collector. In accordance with California Government Code section 27136 et seq., and 27133(h) et seq., such requests for withdrawals must first be made in writing to the County Treasurer-Tax Collector. These requests are subject to the County Treasurer-Tax Collector consideration of the stability and predictability of the Pooled Investment Fund, or the adverse affect on the interests of the other depositors in the Pooled Investment Fund. Any withdrawal for such purposes shall be at the market value of the Pooled Investment Fund as of the date of the withdrawal.

Standards

The County Treasurer-Tax Collector is the trustee of the Pooled Investment Fund and therefore, a fiduciary subject to the prudent investor standard. The County Treasurer-Tax Collector and employees involved in the investment process shall refrain from all personal business activity that could conflict with the management of the investment program. All individuals involved will be required to report all gifts and income in accordance with the California State law. When investing, reinvesting, purchasing, acquiring, exchanging, selling and managing public funds, the Treasurer-Tax Collector shall act with the care, skill, prudence and diligence in order to meet the investment objectives.

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

Objectives

Investment Objectives: The Pooled Investment Fund shall be prudently invested in order to earn a reasonable return, while awaiting application for governmental purposes. The specific objectives for the Pooled Investment Fund are listed in order of importance.

Safety of Principal: The preservation of principal is the primary objective. Each transaction shall seek to ensure that capital losses are avoided, whether they are from securities default or erosion of market value.

Liquidity: As a second objective, the Pooled Investment Fund should remain sufficiently flexible to enable the County Treasurer-Tax Collector to meet all operating requirements that may be reasonably anticipated in any depositor's fund.

Public Trust: In managing the Pooled Investment fund, the County Treasurer-Tax Collector and the authorized investment traders should try and avoid any transactions that might impair public confidence in the Imperial County and the participating local agencies. Investments should be made with precision and care, considering the probable safety of the capital as well as the probable income to be derived.

Return on Investments: The Pooled Investment Fund shall be designed with the objective of attaining a rate of return throughout budgetary and economic cycles, commensurate with the County's investment risk constraints and the cash flow characteristics of the portfolio.

Calculation of Yield and Costs

The costs of managing the investment portfolio, including but not limited to: investment management; accounting for the investment activity; custody of the assets; managing and accounting for the banking; receiving and remitting deposits; oversight controls; indirect and overhead expenses are charged to the investment earnings based upon actual labor hours worked in respective areas. Costs of these respective areas are accumulated by specific cost accounting projects and charged to the Pooled Investment Fund on a quarterly basis throughout the fiscal year.

The Auditor/Controller will allocate the net interest earnings of the Pooled Investment Fund quarterly. The net interest earnings are allocated based upon the average daily cash balance of each Pooled Investment Fund participant.

Internal Controls

The County Treasurer-Tax Collector shall establish internal controls to provide reasonable assurance the investment objectives are met and to ensure that the assets are protected from loss, theft or misuse. To assist in implementation and internal controls, the Treasurer-Tax Collector shall establish written policy procedures for the operation of the investment program consistent with this policy. Such procedures shall include explicit delegation of authority to persons responsible for investment transaction. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the County Treasurer-Tax Collector.

Authorized Personnel: The following is a list of delegated staff responsible for investment transactions, County Treasurer-Tax Collector, Finance Manager and the Accounting Technician's. Authorized personnel may be changed from time to time at the discretion of the County Treasurer-Tax Collector.

The investment portfolio and all related transactions are reviewed and balanced to appropriate general ledger accounts by the Auditor/Controller's office on a monthly basis.

An independent audit shall be conducted annually to review internal control, account activity and compliance with policies, procedures and applicable laws.

The County Treasurer-Tax Collector, or Finance Manager, should, from time to time perform a review of the investment function. This review should consist of:

- Comparison of the investment records to the independent statements and confirmations received from brokers, dealers, banks and other financial institutions.

- Review of the contents of the investment portfolio to assure that it conforms to this policy.
- Review of the financial institution with which investments have been made to assure that the County Treasurer-Tax Collector or authorized staff has approved them.
- Confirmations resulting from securities purchased under a repurchase agreement should clearly state the exact and complete nomenclature of the underlying securities purchased and that said securities have been sold to the County with a promise of resale by the County back to the seller.

The County Treasurer-Tax Collector shall establish and define authorized investments as well as credit, marketability, maturity and diversification criteria for County investments. Where possible, County investments should be placed, confirmed, held and accounted for, and audited by different people.

Ethics and Conflicts of Interest

In accordance with California Government Code section 27133(d) et seq., officers and employees involved in the investment process shall refrain from personal business activity that could cause conflict with the investment program, or which could impair their ability to make impartial investment decisions.

Any individual who receives a aggregate total of gifts, honoraria and gratuities in excess of \$50 in a calendar year from a broker-dealer, bank or service provider to the Pooled Investment Fund must report the gifts, dates and firms to the designated filing official and complete the appropriate State forms. No individual may receive aggregate gifts, honoraria gratuities in excess of \$340 in a calendar year. Any violation must be reported to the State Fair Political Practices Commission.

Investment Parameters

Safekeeping and Custody: All securities purchased, with the exception of time deposits, LAIF and bank short term Investment Funds (bank's overnight investment fund), can be delivered to the independent third-party

custodian selected by the County Treasurer-Tax Collector. This includes all collateral for repurchase agreement. All trades, where applicable, will be executed by delivery versus payment by the designated party.

Qualified Broker/Dealers: All financial institutions, whether investment banks and dealers, commercial banks, or savings and loans must be approved by the County Treasurer-Tax Collector or authorized staff before they receive County funds. All firms with whom the County does business should have a strong capital base and be deemed credit-worthy before any investments or deposits are placed with such firms. In accordance with California Government Code section 27133(c) et seq., the County Treasurer-Tax Collector or authorized staff will prescribe minimum standards.

The Treasurer-Tax Collector's staff shall annually send a copy of the current investment policy to all broker/dealers approved to do business with the County. Receipt of this policy shall be considered confirmation that the broker/dealer understands the County's investments authorized by this investment policy.

The Treasurer-Tax Collector will maintain a list of financial institutions authorized to provide investment services. An annual review of the financial condition and registrations of qualified bidders will be conducted by the Treasurer-Tax Collector.

Collateral Requirements: Collateral is required for investments in certificates of deposit (over the standard maximum deposit insurance amount "SMDIA" in FDIC regulations), repurchase agreements and reverse repurchase agreements. In order to reduce market risk, the collateral level will be a least 102% of market value or principal and accrued interest.

The only securities acceptable as collateral shall be direct obligations of, or fully guaranteed as to principal and interest by, the United States or any agency of the United States.

Diversification: The County Treasurer-Tax Collector will diversify its investments by security type and institution. With the exception of U.S. Treasury, U.S. Agency securities and authorized pools, no more than 50% of the County's total investment portfolio should be invested in a single security type.

Investable Fund: Total investable funds for purposes of this policy are all Pooled Investment Fund moneys that are available for investment at any one time, including the estimated bank account float. Bond proceeds may be invested in accordance with the Government Code provisions, or they may be invested in alternative vehicles if authorized by Bond documents.

Compliance: The portfolio must be in compliance with statute at the time that the investment is purchased. It is recommended that the portfolio be monitored, as practical, for subsequent changes in percentages resulting from non-purchase activity or changes in credit rating of existing securities.

Rebalancing is not required in the case where subsequent maturities, sales, withdrawals, or similar non-purchase activities result in the remaining portfolio having one or more of the categories of investment rise above the percentage restrictions applicable at the time of purchase.

In the event the portfolio or individual investments are deemed to be out of compliance with either statute or the investment policy, the Treasurer-Tax Collector and staff shall analyze and take appropriate course of action to rebalance the portfolio with the preservation of principal being the primary objective.

Authorized Investments: As stated earlier, authorized investment shall match the general categories established by the California Government Code section 53635 et seq. Authorized investments shall also include, in accordance with California Government Code section 16429.1, investment into LAIF.

The chart on the next page provides a list of the permitted securities and conditions for using them. Only the County Treasurer-Tax Collector or authorized staff will be authorized to invest in the approved investment. (See chart)

**ALLOWABLE INVESTMENT INSTRUMENTS PER
STATE GOVERNMENT CODE (as of January 1, 2003)**

| Investment Type¹ | Maximum Maturity | Maximum Specified % of Portfolio | Minimum Quality Requirements |
|--|-------------------------|---|-------------------------------------|
| Local Agency Bonds | 5 years | None | None |
| U.S. Treasury Obligations | 5 years | None | None |
| State of California Obligations | 5 years | None | None |
| CA Local Agency Obligations | 5 years | None | None |
| U.S. Agency | 5 years | None | None |
| Bankers' Acceptances | 180 days | 40 Percent ² | None |
| Negotiable Certificates of Deposit | 5 years | 30 percent | None |
| Repurchase Agreements | 1 year | None | None |
| Reverse Repurchase Agreements & Securities Lending Agreements | 92 days | 20 percent combined of base value | None ³ |
| Medium-Term Notes | 5 years | 30 percent | A rating |
| Mutual Funds | N/A | 20 percent ⁴ | Multiple ⁵ |
| Money Market Mutual Funds | N/A | 20 percent | Multiple ⁶ |
| Collateralized Bank Deposit | 5 years | None | None |
| Mortgage Pass-Through Securities | 5 years | 20 percent | AA rating ⁷ |
| Time Deposits | 5 years | None | None |
| County Pooled Investment Funds | N/A | None | None |
| Local Agency Investment Fund | N/A | None | None |

Prohibited Investments: No investment should be authorized that have the possibility of returning a zero or negative yield if held to maturity. These shall include inverse floaters, range notes, and interest only strips derived from a pool of mortgages.

¹ Prior to January 1, 2000, county governments were subject to the same restrictions as all other local governments for purchases of commercial paper. In addition, prior to January 1, 2000, the Government Code did not include language referring specifically to investments in securities lending agreements.

² No more than 30 percent of the surplus funds may be in Bankers Acceptances of any one commercial bank.

³ Reverse repurchase agreements must be made with primary dealers of the Federal Reserve Bank of New York and the securities used for the agreement must have been held by the issuer for at least 30 days.

⁴ No more than 10 percent of the agency's surplus funds may be invested in any one mutual fund.

⁵ Must receive the highest ranking by 2 of the 3 largest nationally recognized rating agencies or the fund must retain an investment advisor who is registered with the SEC (or exempt from registration), has assets under management in excess of \$500 million, and has at least 5 years experience investing in instruments authorized by the State Government Code Sections 53601 and 53635.

⁶ Must receive the highest ranking by 2 of the 3 largest nationally recognized rating agencies or the fund must retain an investment advisor who is registered with the SEC (or exempt from registration), and has not less than 5 years experience managing money market funds with assets under management in excess of \$500 million.

⁷ Issuer must have an A rating or better for the issuer's debt as provided by a nationally recognized rating agency.

Implementation

In accordance with California Government Code section 53646, et seq., the Board of Supervisors shall review and approve this Policy at least annually during open session.

Monthly, the Treasurer-Tax Collector shall present and file with the Board of Supervisors during public session the Imperial County Treasurer-Tax Collector's Portfolio Master Summary.

Summary

The County Treasurer-Tax Collector, or Finance Manager, is to have express authority to invest County funds in any investments, securities and other instruments as described herein as the County Treasurer-Tax Collector, or Finance Manager deems appropriate.

The County Treasurer-Tax Collector will develop, interpret, clarify and maintain this Statement of Investment Policy. As the California Government Code and legislation is amended this Policy shall likewise become amended.