

**THE BOARD OF SUPERVISORS OF THE COUNTY OF STANISLAUS
BOARD ACTION SUMMARY**

DEPT: Treasurer / Tax Collector

BOARD AGENDA: 5.B.3
AGENDA DATE: June 28, 2022

SUBJECT:

Acceptance of the Stanislaus County Treasury Pool and Tobacco Investment Policies and Delegation of Investment Authority to the Stanislaus County Treasurer


BOARD ACTION AS FOLLOWS:

RESOLUTION NO. 2022-0328

On motion of Supervisor B. Condit Seconded by Supervisor Chiesa
and approved by the following vote,
Ayes: Supervisors: B. Condit, Chiesa, Grewal, C. Condit, and Chairman Withrow
Noes: Supervisors: None
Excused or Absent: Supervisors: None
Abstaining: Supervisor: None

- 1) Approved as recommended
- 2) Denied
- 3) Approved as amended
- 4) Other:

MOTION:

ATTEST: 
ELIZABETH A. KING, Clerk of the Board of Supervisors

File No.

**THE BOARD OF SUPERVISORS OF THE COUNTY OF STANISLAUS
AGENDA ITEM**

DEPT: Treasurer / Tax Collector

BOARD AGENDA:5.B.3
AGENDA DATE: June 28, 2022

CONSENT:

CEO CONCURRENCE: YES

4/5 Vote Required: No

SUBJECT:

Acceptance of the Stanislaus County Treasury Pool and Tobacco Investment Policies and Delegation of Investment Authority to the Stanislaus County Treasurer

STAFF RECOMMENDATION:

1. Accept the Stanislaus County Treasury Pool Investment Policy, to be effective July 1, 2022.
2. Accept the Stanislaus County Tobacco Investment Policy, to be effective July 1, 2022.
3. Delegate the Stanislaus County Treasurer the authority to invest funds as indicated in the Treasury Pool Investment Policy, as well as the authority to invest any other funds under the County's control.

DISCUSSION:

Pursuant to Government Code Section 27000.1, and subject to Government Code Section 53607, the Board of Supervisors may, by ordinance, delegate to the County Treasurer the authority to invest and reinvest funds of the County and funds of other depositors in the County Treasury. Under the Board's delegation in Stanislaus County Code Section 2.30.010, the County Treasurer assumes full responsibility for those transactions until the Board either revokes its delegation of authority, by ordinance or decides not to renew the annual delegation, as provided in Government Code Section 53607. This action requests the renewal of the annual delegation.

Government Code Section 53646 permits the Board to annually approve the Stanislaus County Treasury Pool Investment Policy. The primary objectives of the Treasury Pool Investment Policy, in priority order, are to maintain the safety of principal, to provide liquidity, and to achieve a return on funds invested. These objectives align with those in State law. The Treasury Pool Investment Policy is reviewed annually to ensure that it aligns with any changes in the Government Code. The submitted policy represents a thorough review of the existing policy and Government Code. The Treasury Pool Investment Policy includes all investments permitted under State Government Code, which allows for flexibility in procuring suitable investments for the Treasury Pool while maintaining the primary objective of safety.

The current Treasury Pool Investment Policy is fully in line with California Government Code Section 53601 while maintaining the necessary diversification and flexibility for a portfolio of this magnitude. For Fiscal Year 2022-2023, there were minor edits to remove StanCERA from the scope of this policy, additional requirements for bond issue participants to disclose any fee-sharing arrangements or fee-splitting to the Treasurer prior to execution of any trades, and clarification that safekeeping and custodial services will be corroborated by a written custodial agreement approved by the Treasurer. To further enhance diversification across the portfolio, a single issuer will be limited to 10% of the total portfolio across all asset types for Certificates of Deposit, Negotiable Certificates of Deposit, Yankee Certificates of Deposit, Commercial Paper, Medium-Term and Corporate Notes.

The California Municipal Treasurers Association (CMTA) Investment Policy Certification has been granted to Stanislaus County. This investment policy certification recognizes that CMTA has validated that Stanislaus County's Investment Policy adheres with the State of California Government Code and meets the program requirements within 18 different topic areas deemed to be best practices for investment policies. Moreover, it was conveyed that the submitted policy received a perfect score which is something that has only been achieved by two other counties since the inception of the program ten years ago.

The Stanislaus County Treasury Investment Policy for the Proceeds from the Securitization of the Tobacco Industry's Master Settlement Agreement (Stanislaus County Tobacco Investment Policy) was previously amended on July 1, 2020. The policy has been reviewed and there are no recommended changes for Fiscal Year 2022-2023.

POLICY ISSUE:

Pursuant to County Code Section 2.30.010, the Board of Supervisors has delegated the authority to invest or reinvest the funds of the County and the funds of other depositors in the County treasury to the County Treasurer for a one-year period. This delegation is subject to review and renewal of authority by the Board of Supervisors each year. Government Code Section 53646 further permits the Board to annually approve the Stanislaus County Treasury Pool Investment Policy.

The existing Tobacco Investment Policy requires it to be reviewed on an annual basis by the Treasurer-Tax Collector. Any changes must be prepared by the Stanislaus County Treasurer-Tax Collector and be reviewed and approved by the Board of Supervisors.

FISCAL IMPACT:

There are no fiscal impacts associated with delegation of investment authority or acceptance of the Treasury Pool and Tobacco Investment Policies.

BOARD OF SUPERVISORS' PRIORITY:

The recommended actions are consistent with the Board's priority of *Delivering Efficient Public Services and Community Infrastructure* by providing transparency and ensuring that the policies are current and appropriate.

STAFFING IMPACT:

There is no staffing impact associated with acceptance of the Treasury Pool and Tobacco Investment Policies and delegation of investment authority. Existing Department staff and Treasury Oversight Committee members accommodate the affiliated tasks.

CONTACT PERSON:

Dolores Sarenana, Assistant Treasurer-Tax Collector Telephone: (209) 525-6400

ATTACHMENT(S):

1. Stanislaus County Treasury Pool Investment Policy
2. Stanislaus County Treasury Tobacco Investment Policy
3. CMTA Investment Policy News Release & Certificate May 2022

2022

STANISLAUS COUNTY
TREASURY POOL
INVESTMENT POLICY



Donna Riley
Treasurer – Tax Collector
Effective Date: July 1, 2022

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1. Purpose

The purpose of the Stanislaus County Treasury Pool Investment Policy ("Policy") is to provide guidance for the investment of funds in excess of the current day anticipated expenditures. Investment responsibility has been entrusted and delegated to the Stanislaus County Treasurer ("Treasurer") in accordance with California State Law ("Law") and local ordinance. This policy is intended to provide guidelines to ensure compliance with State and local laws and the prudent money management and investment of funds in the Stanislaus County Treasury Pool ("Pool").

2. Scope

This investment policy applies to all financial assets and investment activity of the County of Stanislaus ("County") including monies entrusted to the Treasurer and deposited into the Pool by County departments, County & City Schools, and Special Districts. The funds covered by this Policy are accounted for and incorporated in the County of Stanislaus Comprehensive Annual Financial Report (CAFR) and include:

- 2.1. General Fund
- 2.2. Special Revenue Funds
- 2.3. Debt Service Funds
- 2.4. Capital Project Funds
- 2.5. Enterprise Funds
- 2.6. Internal Service Funds
- 2.7. Fiduciary Funds

3. Objective

The investment program shall provide for daily cash flow requirements while following the objectives of this Policy in priority order of Safety, Liquidity, and Return on Investment. In accordance with Government Code 53600.5, the primary objectives of the investment program for the Pool, in priority order, shall be:

3.1. Safety

Safety of principal is the foremost objective of the investment program. Investments shall be undertaken in a prudent manner as to ensure the preservation and return of capital in the overall portfolio. To attain this objective, investments will only be made in highly rated or strongly collateralized securities with a very high probability of maintaining the principal amount invested. The County will diversify its investments by type, issuer, and maturity among a variety of securities with independent returns.

3.2. Liquidity

The investment portfolio will remain sufficiently liquid to meet all anticipated cash flow requirements of all the Pool's depositors. This may be accomplished through a variety of investment strategies, such as laddering investment maturities to meet historical cash flow needs, seasonal disbursements, and one-time disbursement requests by depositors. To further ensure liquidity, a portion of the Pool may be in highly liquid securities which can easily be sold on the secondary market or matched to known expenditures such as bond payments. In addition, reserves may be held in a local government investment pool offering same day withdrawal.

3.3. Return on Investments

The investment portfolio strategy shall be designed with the objective of achieving a competitive market rate of return or yield, while adhering to credit quality requirements and liquidity needs. A market rate of return should correspond with the County's investment risk constraints identified in the Policy and the cash flow requirements of the depositors. Due to the primary objectives of safety and liquidity, the portfolio's yield may be lower than that of a higher risk and/or longer maturity investment pool.

3.4. Strategy

The core investment strategy will call for securities to be held to maturity. The following exceptions may apply:

- 3.4.1 Liquidity needs of the portfolio require a security to be sold;
- 3.4.2 A security with declining credit may be sold early to minimize loss of principal; or
- 3.4.3 Sale of a security before maturity may be made if such sale will allow investment in a higher yielding instrument and any loss upon sale can be more than compensated by additional interest earnings within a six-month period.

4. Delegation of Authority

In accordance with Government Code Section 27000-27013 and Government Code 53607, the Stanislaus County Board of Supervisors ("Board") has delegated the daily investment of Pool funds to the Treasurer. This is an annual delegation given to the Treasurer by the Board and can be revoked at any time. The Treasurer is responsible for all transactions undertaken and for establishing a system of controls to regulate the activities of staff authorized to invest, specifically the Assistant Treasurer-Tax Collector and the Chief Deputy Treasurer, and their procedures in the absence of the Treasurer.

5. Prudent Investor Standard

In accordance with Government Code 53600.3, the County Treasurer is a fiduciary subject to the "Prudent Investor Standard" which shall be applied in the context of managing the overall portfolio. When investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds, the Treasurer shall act with care, skill, prudence, and diligence to meet the objectives set forth in the Policy to safeguard investment principal, maintain liquidity needs of the County and earn a reasonable competitive market rate of return.

6. Ethics and Conflicts of Interest

Investment officials shall refrain from personal business activity that could conflict with proper execution and management of the Policy and investment program, or which could impair their ability to make impartial decisions. Investment officials must provide a public disclosure document (Form 700) by February 1 of each year or when material interest in financial institutions or personal investment positions require it. Furthermore, investment officials must refrain from undertaking personal investment transactions with the same individual(s) employed by the financial institution with whom business is conducted on behalf of the County. All bond issue participants, including but not limited to, underwriters, bond counsel, financial advisors, brokers, and dealers will disclose any fee sharing arrangements or fee splitting to the Treasurer prior to the execution of any transactions.

7. Treasury Oversight Committee

In accordance with Government Codes 27130 - 27137 and 53646, the Board established a Treasury Oversight Committee ("Committee") in 1996. The purpose of the Committee is to review and monitor the Policy and regular reporting thereof. The Committee will cause an annual audit to be conducted to determine compliance with this Policy.

This policy shall be reviewed by the Treasurer annually, and any changes prepared by the Treasurer shall be reviewed and approved for propriety by the Committee, prior to being submitted for review and approval by the Board at a public meeting. The members of the Committee are the County Auditor-Controller (or designee), the County Superintendent of Schools (or designee) and a member of the public familiar with the investment industry.

In 2004, Government Code Section 27131 (b) was added to remove the mandate requiring counties to have a Committee. The Committee is now optional and no longer required. However, Stanislaus County chooses to maintain its Treasury Oversight Committee functionality as an added layer of oversight and transparency to the compliance of investment policies and government code.

Pursuant to Government Code Sections 27132.1, 27132.2 and 27132.3, Committee members are prohibited from:

- 7.1. Being an employee of an entity, which has contributed to the campaign fund of any candidate for local treasurer or legislative body either during membership or three years prior to membership.
- 7.2. Raising any money for a candidate for local treasurer or governing board.
- 7.3. Securing employment with bond underwriters, bond counsel, security brokerages or dealers, or like financial services while a Committee member or for three years after leaving the Committee.

An annual certification of compliance as prepared by the Treasurer shall be submitted by Committee members.

Pursuant to Government Code Section 27132.4, Committee meetings shall be open to the public and subject to the Ralph M. Brown Act.

8. Limits on Honoraria, Gifts, and Gratuities

A limit of \$50 per calendar year is placed on the receipt of honoraria, gifts, and gratuities from advisors, brokers, dealers, bankers, or other persons with whom the County Treasury ("Treasury") conducts business by any member of the Committee, the Treasurer and any staff involved in the investment process. A Statement of Economic Interests (Form 700 from the California Fair Political Practices Commission) will be collected from the Treasurer-Tax Collector, Assistant Treasurer-Tax Collector, and Chief Deputy Treasurer on an annual basis. Committee members will confirm their understanding and agreement with these limitations annually.

The acceptance of transportation, meals, and/or refreshments received during regularly scheduled conferences (such as the California Association of County Treasurers and Tax Collectors – CACTTC) are not prohibited by this Policy.

9. Authorized Broker/Dealers and Institutions

In accordance with Government Code 53601.5, the Treasurer shall maintain an approved list of broker/dealers and institutions authorized to provide investment services to the County. The approved list may include "primary" or regional dealers qualified under Securities & Exchange Commission Rule 15C3-1 (uniform net capital rule) with a minimum capitalization of \$250,000 and have at least one major office in the State of California. Broker/Dealers staff assigned to Stanislaus County accounts must have at least five years of experience in California public agency investing with knowledge of investment products acceptable under the Stanislaus County Investment Policy. The firms and individuals assigned to the County accounts shall be reputable and trustworthy. No public deposit shall be made except in a qualified public depository as established by Law. All financial institutions and broker/dealers proposing to conduct investment transactions with the County shall supply the following to the Treasurer for review:

- 9.1. Proof of registration with the Financial Industry Regulation Authority (FINRA)
- 9.2. Proof of registration with the State of California
- 9.3. Completed Broker/Dealer questionnaire
- 9.4. Certification of review and willingness to comply with all aspects of this Policy.

Broker/Dealers are prohibited from making political contributions to any candidate for the Board or Treasurer, which exceed the limitations contained in Rule G-37 of the Municipal Securities Rulemaking Board. The County is prohibited from selecting any broker/dealer or security firm within any consecutive 48-month period following a contribution exceeding the limit set forth in the above rule.

A review of the financial condition and registrations of previously approved Broker/Dealer firms will be conducted by the Treasurer, at least annually or more often, as needed. A current audited financial statement is required to be on file for each financial institution and broker/dealer on the County's approved list.

10. Authorized Investments

In accordance with Government Code 53601 and 53635, investments will only be made in authorized securities with a maturity date of five (5) years or less from the transaction settlement date unless otherwise approved by the Board. Such approval must be issued no less than three months prior to the purchase of any security exceeding the five-year maturity limit.

For the purpose of approved investments and compliance with the investment percentage limits compared to the overall portfolio balance, calculations shall be performed on the date the investment is purchased. If the percentage is legally compliant on the date of purchase, then compliance with the Law shall have been met. Calculations are to be based on the final maturity date, and neither duration nor average days may be used.

The investment instruments listed in Attachment 1 are authorized for investment and any instrument not listed are specifically prohibited. Authorized investments are allowed under California State Government Code 53601 and 53635 and concentration limitations are equivalent to, or more conservative than, the code allows.

11. Non-Authorized Investments

In accordance with Government Code 53601.6, investments in derivative securities such as inverse floaters, range notes, or mortgage-derived, interest-only strips or any securities that could result in zero interest accrual if held to maturity are prohibited.

12. Due Diligence - Investment Pools and Mutual Funds

Due diligence shall be performed by investigating any pool or fund prior to investing and on an annual basis thereafter. A completed questionnaire will be required which will answer the following questions:

- 12.1. A description of eligible investment securities, and a written statement of investment policy and objectives.
- 12.2. A description of interest calculations and how interest is distributed, and how gains and losses are treated.
- 12.3. A description of how the securities are safeguarded (including the settlement processes), how often the securities are priced, and the how often the program is audited for compliance.
- 12.4. A description of who may invest in the program, how often, what size deposit and withdrawal are allowed.
- 12.5. A schedule for receiving statements and portfolio listings.

12.6. Are reserves, retained earnings, etc. utilized by the pool/fund?

12.7. A fee schedule, and when and how is it assessed.

12.8. Is the pool/fund eligible for bond proceeds and/or will it accept such proceeds?

All Due Diligence reviews will be maintained with the annual investment files for a period of five (5) years. Third-party safekeeping arrangements will be approved by the Treasurer and will be corroborated by a written custodial agreement.

13. Review of Investment Portfolio

The securities held by the Pool must be in compliance with Section 10.0 Authorized Investments at the time of purchase. The Treasurer shall review the portfolio, at least monthly, to identify any securities that may not comply with Section 10.0 Authorized Investments after the date of purchase and establish a procedure to report to the Board and Committee any major or critical incidences of non-compliance identified through review of the portfolio. To ensure diversification of the portfolio, purchases of the following types of investments will limit commercial issuers to 10% across all asset types:

- 13.1 Certificates of Deposit
- 13.2 Negotiable Certificates of Deposit
- 13.3 Yankee Certificates of Deposit
- 13.4 Commercial Paper
- 13.5 Medium-Term and Corporate Notes

14. Collateralization

In accordance with Government Code 53601, collateralization will be required on certificates of deposit and repurchase agreements. To anticipate market changes and provide a level of security for all funds, the collateralization level will be 110% of market value for certificates of deposit and 102% or greater based on the collateral type for repurchase agreements. Collateralization of any investment will be in accordance with securities approved under this policy. Collateral will always be held by an independent third party with whom the entity has a current custodial agreement. A clearly marked evidence of ownership (safekeeping receipt) must be supplied to the entity and retained. The right of collateral substitution is granted.

15. Safekeeping & Custody

In accordance with Government Code 53608, all security transactions, including collateral for repurchase agreements, entered into by the Treasurer shall be conducted on a delivery-versus-payment (DVP) basis. Securities will be held by a third-party custodian designated by the Treasurer and evidenced by safekeeping statements. Third-party safekeeping arrangements will be approved by the Treasurer and will be corroborated by a written custodial agreement.

16. Diversification

The Treasurer will diversify the Pool investments by security type and institution to achieve a diversified mix of independent maturities. No more than 10% of the total portfolio may be invested in the securities of any single issuer, across all investment types, other than the US Government, its agencies and instrumentalities.

17. Maximum Maturities

Investment purchases shall not include securities maturing more than five years from the date of purchase unless previously approved by the County Board of Supervisors. If approved by the Board,

reserve funds may be invested in securities exceeding five years if the maturity of such investments is made to coincide as nearly as practicable with the expected use of the funds. Board approval must be issued no less than three months prior to the purchase of any security exceeding the five-year maturity limit.

18. Internal Controls

The Treasurer is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the Pool are protected from loss, theft, fraud or misuse. Accordingly, the Treasurer shall budget for independent review by an external auditor, with the scope of the audit to be determined by the Auditor-Controller in consultation of the Treasury Oversight Committee. This review will provide internal control by assuring investment transactions are in compliance with policies, procedures and laws.

The annual audit shall be supervised by a Certified Public Accountant (CPA) who shall render an opinion to the Committee. The opinion shall be forwarded to the Board for review and acceptance. The selection of the CPA shall be by the Stanislaus County Auditor-Controller as a Committee member.

19. Performance Standards

The investment portfolio shall be designed with the objective of earning a rate of return throughout budgetary cycles, corresponding with the investment risk constraints and the cash flow needs of the Pool.

20. Reporting

In accordance with Government Code 53607, a monthly report shall be prepared by the Treasurer no later than 30 days following the end of the monthly reporting period. A copy of the report will be forwarded to Committee members, and the Treasurer will maintain a file of their acceptance. The report will be forwarded to the Board for final review and acceptance. The report will be provided through both the Board and Treasurer's web sites.

The monthly report shall include:

- 20.1. A concise management summary of Pool activity and position rendered with statements of review and reconciliation with custodial records, source of market valuation, ability to meet next six (6) month's expenditures and for compliance with this Policy by the Treasurer.
- 20.2. A detailed listing of securities held at the end of the month grouped by investment type (e.g. CD, CP, MTN) and delineated as follows:
 - 20.2.1. Issuing agency (e.g. U.S. Government, FHLB, Toyota Motor Credit)
 - 20.2.2. Date purchased
 - 20.2.3. Date of maturity
 - 20.2.4. Par Value
 - 20.2.5. Book Value
 - 20.2.6. Market value
 - 20.2.7. Stated rate (coupon rate)
 - 20.2.8. Yield-to-Maturity
 - 20.2.9. Days-to-Maturity
- 20.3. A detailed listing of security transactions during the report period (purchases, sales and maturities) grouped by investment type and to include the following:

- 20.3.1. Date of transaction
- 20.3.2. Issuing agency (e.g. U.S. Government, FHLB, Toyota Motor Credit)
- 20.3.3. Purchase, Deposit, Sale, Maturity or Withdrawal Amount
- 20.3.4. Stated rate (coupon rate)
- 20.3.5. A summary of Pool position by investment type dollar amount, percentage of total portfolio and average weighted maturity showing compliance with Policy limitations.
- 20.3.6. A summary by investment type of purchases and sales/maturities and ending position.

21. Investment Policy Adoption

In accordance with Government Code 53646, the Policy shall be adopted by resolution of the Board. The Policy shall be reviewed annually by the Board and any modifications made thereto must be approved by the Board.

The Treasurer shall establish written procedures for the operation of the investment program consistent with this Policy. The procedures will include reference to: safekeeping, master repurchase agreements, wire transfer agreements, banking service contracts and collateral/depository agreements. Such procedures shall include explicit delegation of authority to persons responsible for investment transactions. No person may engage in an investment transaction except as provided under the terms of this Policy and the procedures established by the Treasurer.

22. Investment Pool Expenses

The expenses for administration of the Pool shall be borne by all depositors by the utilization of investment earnings to offset the costs. Costs include normal Treasury costs for staff and support services in the areas of:

- 22.1. Handling, safekeeping, and depositing monies received;
- 22.2. Investment transactions and custodial safekeeping of securities;
- 22.3. Bank services; accounting, reporting, and auditing of deposit and investment transactions;
- 22.4. Training, informational, and educational materials and services related to financial markets, investments, and individual business and governmental entities' financial condition; and
- 22.5. Other duties and costs related to the management of Pool funds.

Appropriate costs normally charged as "Treasury/org 30400" on the Stanislaus County Auditor-Controller's records will incorporate and clearly define the Pool expenses.

23. Agencies' Voluntary Depositing and Withdrawal

"Voluntary" agency depositing is discouraged due to the potential volatility of depositing and withdrawal, which may occur. The Pool is designed as an operating fund for the County and entities, which are required to deposit by Law or have historically utilized the efficiencies of the Treasury. Only those agencies which use the Treasury for operational purposes due to their ties to County departmental functions, area schools or special public districts and are either required or allowed to deposit funds in the Treasury are allowed to be participants in the Pool.

Withdrawals from the Pool, for investment purposes outside of the Pool, by non-County member agencies may be done if the following conditions are met:

- 23.1. The agency has provided the Treasurer with legal authority that it can invest funds outside of the Pool and specifying that responsibility for investment of funds now resides with the agency;

- 23.2. The agency shows evidence of maintaining a minimum cash balance of one month's normal payroll expenditures for 30 days prior to the date of request as verified by the County Auditor-Controller;
- 23.3. The agency withdraws a minimum of \$1,000,000 and will continue to maintain a minimum Pool cash balance of one month's normal payroll costs;
- 23.4. The agency makes its request in writing signed by an authorized representative of the agency's board; and
- 23.5. The agency must allow two business days for each five million dollars or increment thereof which is being withdrawn (e.g. a \$15,000,000 withdrawal would require that the Treasurer receive a completed request form with appropriate signatures and verifications 6 business days before the funds are released)

If the withdrawing agency's Pool cash balance falls below one month's payroll expense, the Treasurer may demand that funds be retrieved to restore the Pool cash balance to such level.

Reinvestment of funds from external investments (e.g. California State Local Agency Investment Fund) may be done without the above procedures. The Treasurer's Office may verify with the Auditor's Office, by email, that the agency has one month's payroll expenditures as cash in the Pool exclusive of the redemption of the external investment funds.

24. Investment Earnings Apportionment and Rate

The Pool's investment earnings shall be apportioned by the following method. The investment earnings, which have been received in cash and accumulated from the beginning to the end of each calendar quarter, shall be apportioned to each cash balance fund maintained within the Pool. The apportionment of earnings to any cash balance fund will be in direct proportion of that fund's average daily cash balance to the entire Pool's average daily cash balance for that same quarter.

Example:

Earnings received for the quarter ending March 31	\$5,000,000
Fund ABC average daily cash balance during the quarter	\$10,000,000
Treasury Pool average daily cash balance during the quarter	\$500,000,000
Interest earnings apportioned to Fund ABC would be calculated as \$5,000,000 x (\$10,000,000/\$500,000,000)	\$100,000

Cash balance accounts shall be maintained in and earnings apportionment shall be performed by the County Auditor-Controller's Office.

The cash earnings apportionment rate is calculated as the investment earnings received on a cash basis for the quarter divided by the average daily cash balance for the entire Pool, annualized (times four). In the example above the cash earnings apportionment rate would be 4% [(\$5,000,000 / \$500,000,000) x 4].

25. Exemptions and Amendments

Any investment held prior to the adoption of changes to this Policy, which does not meet the revised guidelines of the Policy, shall be exempted from the requirements. Upon that investment's maturity or liquidation, the monies received shall be invested in accordance with this Policy.

ATTACHMENT I – AUTHORIZED INVESTMENTS

Authorized Investments	Authorized by CA Gov Code	Maximum Maturity	Maximum % or \$ Limit of Portfolio	Issuer Concentration % Limit	Minimum Credit Quality	Additional Requirements
Local Agency Bonds, Notes, and Warrants						
Bonds, notes, warrants, or other evidences of indebtedness of a 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 including Stanislaus County.	53601 (a)(e)	5 years	None	None	None	None
U.S. Treasury Obligations						
United States Treasury notes, bonds, bills, or certificates of indebtedness, or those for which the faith and credit of the United States are pledged for the payment of principal and interest.	53601 (b)	5 years	None	None	None	None
California State Registered Warrants, Treasury Notes, and Bonds						
Registered State warrants or Treasury notes or bonds of this State, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the State or by a department, board, agency, or authority of the State.	53601 (c)	5 years	None	None	None	None

Authorized Investments	Authorized by CA Gov Code	Maximum Maturity	Maximum % or \$ Limit of Portfolio	Issuer Concentration % Limit	Minimum Credit Quality	Additional Requirements
State Registered Treasury Notes and Bonds						
Registered Treasury notes or bonds of any of the other 49 states in addition to California, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by a State or by a department, board, agency, or authority of any of the other 49 states, in addition to California.	53601 (d)	5 years	None	None	None	None
U.S. Agency Obligations						
Federal agency or United States government-sponsored enterprise obligations, participations, or other instruments, including those issued by or fully guaranteed as to principal and interest by federal agencies or United States government-sponsored enterprises.	53601 (f), 53601.6	5 years	None	None	None	None
Bankers' Acceptances						
Bankers' acceptances otherwise known as bills of exchange or time drafts that are drawn on and accepted by a commercial bank.	53601 (g)	180 days	40%	30%	None	None

Authorized Investments	Authorized by CA Gov Code	Maximum Maturity	Maximum % or \$ Limit of Portfolio	Issuer Concentration % Limit	Minimum Credit Quality	Additional Requirements
Commercial Paper						
Commercial paper of "prime" quality only. The entity that issues the commercial paper shall meet all of the following conditions: (A) Is organized and operating in the United States as a general corporation. (B) Has total assets in excess of five hundred million dollars (\$500,000,000). (C) Has debt other than commercial paper, if any, that is rated in a rating category of "A" or its equivalent or higher by an NRSRO.	53601 (h), 53601.2, 53635 (a)	270 days	40%	10%	"A-1" by S&P or equivalent by an NRSRO	Must not exceed 10% of the outstanding commercial paper of one issuer, commercial paper must be 3(a)3 only. 144A commercial paper is not allowed. NRSRO is a nationally recognized statistical rating organization.
Negotiable Certificates of Deposit						
Negotiable certificates of deposit issued by a Nationally- or State-Chartered Bank, or by a Federally- or State-Licensed branch of a foreign bank. NCD's are highly liquid and actively traded in the secondary market.	53601 (i), 53638	5 years	30%	10%	None	The deposit shall not exceed the shareholder's equity of any depository bank.
Certificates of Deposit (Non-Negotiable)						
Certificates of deposit issued by a nationally or state-chartered bank which are 110% collateralized by the institution with government securities.	53635, 53635.2, 53635.8, 53636, 53637, 53638, 53641	5 years	None	10%	None	The deposit shall not exceed the shareholder's equity of any depository bank.

Authorized Investments	Authorized by CA Gov Code	Maximum Maturity	Maximum % or \$ Limit of Portfolio	Issuer Concentration % Limit	Minimum Credit Quality	Additional Requirements
Repurchase Agreement						
Repurchase Agreement for any security authorized by government code 53601 with an approved broker/dealer and a third-party custodial bank. Signed Master Repurchase Agreement is required.	53601 (j)	1 year	None	None	None	The market value of the agreement's underlying securities shall be valued at 102% or greater. Reverse repurchase agreements are prohibited.
Medium-Term and Corporate Notes						
Debt securities issued by corporate or depository institutions operating or licensed in the United States with a maximum remaining maturity of five years or less.	53601 (k)	5 years	30%	10%	"A" by S&P or equivalent by an NRSRO	Notes purchased at par or a discount and payable at par or greater are preferred. Private placement notes are prohibited.
Mutual Funds (Beneficial Interest)						
Shares of beneficial interest issued by diversified management companies that invest in the securities and obligations as authorized by Government Code 53601 (a) to (l) inclusive and have assets under management in excess of \$500 million.	53601 (l)(1)	N/A	20%	10%	See Additional Requirements	Mutual Fund must receive highest rating by not less than two NRSROs or have an investment advisor registered or exempt from registration with the Securities & Exchange Commission (SEC) with at least five years' experience investing in instruments authorized by Sections 53601 and 53635 with assets under management in excess of \$500 million dollars.

Authorized Investments	Authorized by CA Gov Code	Maximum Maturity	Maximum % or \$ Limit of Portfolio	Issuer Concentration % Limit	Minimum Credit Quality	Additional Requirements
Money Market Mutual Funds (Beneficial Interest)						
Shares of beneficial interest issued by diversified management companies that are money market funds registered with the SEC under the Investment Company Act of 1940 (15 U.S.C. Sec 80a-1 et seq.)	53601 (l)(2)	N/A	20%	None	See Additional Requirements	Money Market Mutual Fund must receive highest rating by not less than two NRSROs or have an investment advisor registered or exempt from registration with the SEC with at least five years' experience investing in money market mutual funds with assets under management in excess of \$500 million dollars.
California Asset Management Program (CAMP)						
CAMP is a California Joint Powers Authority established in 1989 for public agencies to jointly exercise their common power to invest surplus funds.	53601 (p)	N/A	None	N/A	None	To be used for reserves and liquidity
Local Agency Investment Fund (LAIF)						
LAIF is a voluntary program created by statute in 1977 as an investment alternative for California's local governments and special districts.	16429.1 (b)	N/A	\$75 million or as approved by the State Treasurer	N/A	None	To be used for reserves and liquidity

Authorized Investments	Authorized by CA Gov Code	Maximum Maturity	Maximum % or \$ Limit of Portfolio	Issuer Concentration % Limit	Minimum Credit Quality	Additional Requirements
Supranational Bonds and Notes						
Obligations issued or unconditionally guaranteed by the International Bank for Reconstruction and Development (IBRD), International Finance Corporation (IFC) and Inter-American Development Bank (IADB) and eligible for purchase and sale in the United States.	53601 (q)	5 years	30%	None	"AA" by S&P or equivalent by an NRSRO	None

ATTACHMENT II – GLOSSARY

AGENCIES: Federal agency securities and/or Government-sponsored enterprises.

BANKERS' ACCEPTANCE (BA): A draft or bill of exchange accepted by a bank or trust company. The accepting institution guarantees payment of the bill, as well as the issuer.

BROKER: A broker brings buyers and sellers together for a commission.

CERTIFICATE OF DEPOSIT (CD): A time deposit with a specific maturity evidenced by a Certificate. Large-denomination CD's are typically negotiable.

COLLATERAL: Securities, evidence of deposit or other property, which a borrower pledges to secure repayment of a loan. Also refers to securities pledged by a bank to secure deposits of public monies.

COMPREHENSIVE ANNUAL FINANCIAL REPORT (CAFR): The official annual report of the (*entity*). It includes five combined statements for each individual fund and account group prepared in conformity with GAAP. It also includes supporting schedules necessary to demonstrate compliance with finance-related legal and contractual provisions, extensive introductory material, and a detailed Statistical Section.

COUPON: (a) The annual rate of interest that a bond's issuer promises to pay the bondholder on the bond's face value. (b) A certificate attached to a bond evidencing interest due on a payment date.

DEALER: A dealer, as opposed to a broker, acts as a principal in all transactions, buying and selling for his own account.

DELIVERY VERSUS PAYMENT: There are two methods of delivery of securities: delivery versus payment and delivery versus receipt. Delivery versus payment is delivery of securities with an exchange of money for the securities. Delivery versus receipt is delivery of securities with an exchange of a signed receipt for the securities.

DERIVATIVES: (1) Financial instruments whose return profile is linked to, or derived from, the movement of one or more underlying index or security, and may include a leveraging factor, or (2) financial contracts based upon notional amounts whose value is derived from an underlying index or security (interest rates, foreign exchange rates, equities or commodities).

DISCOUNT: The difference between the cost price of a security and its maturity when quoted at lower than face value. A security selling below original offering price shortly after sale also is considered to be at a discount.

DISCOUNT SECURITIES: Non-interest-bearing money market instruments that are issued at a discount and redeemed at maturity for full face value (*e.g., U.S. Treasury Bills.*)

DIVERSIFICATION: Dividing investment funds among a variety of securities offering independent returns.

DURATION: A measure of the sensitivity of the price (the value of principal) of a fixed-income investment to a change in interest rates. Duration is expressed as a number of years.

FEDERAL AGENCIES: Agencies of the Federal government set up to supply credit to various classes of institutions and individuals, e.g., S&L's, small business firms, students, farmers, farm cooperatives, and exporters.

FEDERAL HOME LOAN BANKS (FHLB): Government sponsored wholesale banks (currently 12 regional banks), which lend funds and provide correspondent banking services to member commercial banks,

thrift institutions, credit unions and insurance companies. The mission of the FHLBs is to liquefy the housing related assets of its members who must purchase stock in their district Bank.

FEDERAL NATIONAL MORTGAGE ASSOCIATION (FNMA): FNMA, like GNMA was chartered under the Federal National Mortgage Association Act in 1938. FNMA is a federal corporation working under the auspices of the Department of Housing and Urban Development (HUD). It is the largest single provider of residential mortgage funds in the United States. Fannie Mae, as the corporation is called, is a private stockholder-owned corporation. The corporation's purchases include a variety of adjustable mortgages and second loans, in addition to fixed-rate mortgages. FNMA's securities are also highly liquid and are widely accepted. FNMA assumes and guarantees that all security holders will receive timely payment of principal and interest.

GOVERNMENT NATIONAL MORTGAGE ASSOCIATION (GNMA or Ginnie Mae): Securities influencing the volume of bank credit guaranteed by GNMA and issued by mortgage bankers, commercial banks, savings and loan associations, and other institutions. Security holder is protected by full faith and credit of the U.S. Government. Ginnie Mae securities are backed by the FHA, VA or FHA mortgages. The term "pass-throughs" is often used to describe Ginnie Maes.

LIQUIDITY: A liquid asset is one that can be converted easily and rapidly into cash without a substantial loss of value. In the money market, a security is said to be liquid if the spread between bid and asked prices is narrow and reasonable size can be done at those quotes.

LOCAL GOVERNMENT INVESTMENT POOL (LGIP): The aggregate of all funds from political subdivisions that are placed in the custody of the State Treasurer for investment and reinvestment.

MARKET VALUE: The price at which a security is trading and could presumably be purchased or sold.

MASTER REPURCHASE AGREEMENT: A written contract covering all future transactions between the parties to repurchase—reverse repurchase agreements that establishes each party's rights in the transactions. A master agreement will often specify, among other things, the right of the buyer-lender to liquidate the underlying securities in the event of default by the seller borrower.

MATURITY: The date upon which the principal or stated value of an investment becomes due and payable.

MONEY MARKET: The market in which short-term debt instruments (bills, commercial paper, bankers' acceptances, etc.) are issued and traded.

MUTUAL FUND: An investment company that pools cash and is able to invest in a variety of securities, including fixed-income securities and money market instruments, as outlined in the fund's prospectus.

NRSRO: National Recognized Statistical Rating Organization; current NRSROs include: A.M. Best Rating Services, Inc., DBRS, Inc., Egan-Jones Ratings Co., Fitch Ratings, Inc., HR Ratings de México, S.A. de C.V., Japan Credit Rating Agency, Ltd., Kroll Bond Rating Agency, Inc., Moody's Investors Service, Inc., & S&P Global Ratings.

PORTFOLIO: Collection of securities held by an investor.

PRIMARY DEALER: A group of government securities dealers who submit daily reports of market activity and positions and monthly financial statements to the Federal Reserve Bank of New York and are subject to its informal oversight. Primary dealers include Securities and Exchange Commission (SEC)-registered securities broker-dealers, banks, and a few unregulated firms.

PRUDENT PERSON RULE: An investment standard. In some states the law requires that a fiduciary, such as a trustee, may invest money only in a list of securities selected by the custody state—the so-called legal list. In other states the trustee may invest in a security if it is one which would be bought by a prudent person of discretion and intelligence who is seeking a reasonable income and preservation of

capital.

RATE OF RETURN: The yield obtainable on a security based on its purchase price or its current market price. This may be the amortized yield to maturity on a bond the current income return.

REPURCHASE AGREEMENT (REPO): A holder of securities sells these securities to an investor with an agreement to repurchase them at a fixed price on a fixed date. The security “buyer” in effect lends the “seller” money for the period of the agreement, and the terms of the agreement are structured to compensate the buyer for this.

REVERSE REPURCHASE AGREEMENT (REVERSE REPO): Reverse repurchase agreements are forms of short-term lending and borrowing using bonds or securities as collateral.

RULE G-37 OF THE MUNICIPAL SECURITIES RULEMAKING BOARD (MSRB): Federal regulations to sever any connection between the making of political contributions and the awarding of municipal securities business.

SAFEKEEPING: A service to customers rendered by banks for a fee whereby securities and valuables of all types and descriptions are held in the bank’s vaults for protection.

SECONDARY MARKET: A market made for the purchase and sale of outstanding issues following the initial distribution.

SECURITIES & EXCHANGE COMMISSION (SEC): Agency created by Congress to protect investors in securities transactions by administering securities legislation.

SEC RULE 15(C)3-1: See Uniform Net Capital Rule.

STRUCTURED NOTES: Notes issued by Government Sponsored Enterprises (FHLB, FNMA, SLMA, etc.) and Corporations, which have imbedded options (e.g., call features, step-up coupons, floating rate coupons, derivative-based returns) into their debt structure. Their market performance is impacted by the fluctuation of interest rates, the volatility of the imbedded options and shifts in the shape of the yield curve.

TREASURY BILLS: A non-interest-bearing discount security issued by the U.S. Treasury to finance the national debt. Most bills are issued to mature in three months, six months, or one year.

TREASURY BONDS: Long-term coupon-bearing U.S. Treasury securities issued as direct obligations of the U.S. Government and having initial maturities of more than 10 years.

TREASURY NOTES: Medium-term coupon-bearing U.S. Treasury securities issued as direct obligations of the U.S. Government and having initial maturities from two to 10 years.

UNIFORM NET CAPITAL RULE: Securities and Exchange Commission requirement that member firms as well as nonmember broker-dealers in securities maintain a maximum ratio of indebtedness to liquid capital of 15 to 1; also called net capital rule and net capital ratio. Indebtedness covers all money owed to a firm, including margin loans and commitments to purchase securities, one reason new public issues are spread among members of underwriting syndicates. Liquid capital includes cash and assets easily converted into cash.

YIELD: The annual rate of income returned on an investment, expressed as a percentage. (a) INCOME YIELD is obtained by dividing the current dollar income by the current market price for the security. (b) NET YIELD or YIELD TO MATURITY is the current income yield minus any premium above par or plus any discount from par in purchase price, with the adjustment spread over the period from the date of purchase to the date of maturity of the bond.

2022

STANISLAUS COUNTY TREASURY

INVESTMENT POLICY FOR
THE PROCEEDS FROM THE SECURITIZATION OF THE TOBACCO
INDUSTRY'S MASTER SETTLEMENT AGREEMENT



Donna Riley

Treasurer – Tax Collector

Effective Date: July 1, 2022

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1. Purpose

The purpose of the Stanislaus County Treasury Investment Policy for the Proceeds from the Securitization of the Tobacco Industry's Master Settlement Agreement is to provide guidance with respect to the investment of the proceeds of such securitization, evidenced by the Tobacco Settlement Asset-Backed Bonds issued in 2002 (the "2002 Bonds") and 2006 (the "2006 Bonds" and, together with the 2002 Bonds, the "Bonds"), that were deposited into a 2002 Endowment Fund (the "2002 Endowment") and a 2006 Endowment Fund (the "2006 Endowment" and, together with the 2002 Endowment, the "Endowments"), respectively, and the governance of the distribution of income generated from the investments held in the Endowments, as well as the final disposition of such investments.

2. Scope

- 2.1. The scope of this policy applies solely to the funds generated from securitization of Tobacco Industry mandated payments to Stanislaus County ("County") through the Master Settlement Agreement (MSA) with the major tobacco product manufacturers in the United States and the interest earned on those funds.
- 2.2. As bond principle is paid down, funds become deallocated. Once deallocated, funds are no longer subject to tax-exempt bond investment guidelines and may be invested pursuant to the current Stanislaus County Treasury Pool Investment Policy, even if the funds are not transferred out of the Tobacco Endowment. Additionally, all funds, allocated or deallocated, invested within the Tobacco Endowment may be invested according to this policy.

Deallocated funds may be used for maintaining daily operations, working capital expenditures, capital expenditures, invested in obligations other than tax-exempt non-Alternative Minimum Tax (non-AMT) municipal obligations, or invested at yields higher than the bond yield without generating any rebate liability.

3. Objective

3.1. Safety

The primary objective of the investment of the proceeds (with interest earned thereon) from securitization of the Tobacco industry's MSA payments to Stanislaus County, deposited into each of the two Endowments, is Safety of principal and surety of interest income. Investment will be made only in fixed income securities rated "BBB" or higher by Standard and Poor's (or a comparable rating from an NRSRO) at the time of purchase. The goal is to have a very high probability of return of principal and receipt of promised interest payments. Diversification by issuer will further enhance the likelihood of preserving the capital and receiving scheduled interest payments.

3.2. Liquidity

Liquidity needs of these funds are generally limited to the payment of expenses related to the investment administration of these funds, projects approved by the Board of Supervisors, and the investment income distribution to the County.

3.3. Yield

After consideration of the above safety and liquidity needs of the Endowment funds, the funds shall be invested to earn a competitive market rate of return or yield. Due to the unique nature

of Endowment funds, the funds shall be invested in fixed income vehicles with final maturities of up to 30 years from the date of purchase.

4. Investment Authority

The investment of the funds generated by the securitization of the Tobacco industry's MSA payments has been delegated to the Stanislaus County Treasurer-Tax Collector ("Treasurer") pursuant to Government Code section 27000.1 and 53607. This is an annual delegation given to the Stanislaus County Treasurer-Tax Collector by the Stanislaus County Board of Supervisors each year and can be revoked by the Stanislaus County Board of Supervisors at any time. The Treasurer is responsible for all transactions undertaken and for establishing a system of controls to regulate the activities of staff authorized to invest, specifically the Assistant Treasurer-Tax Collector and the Chief Deputy Treasurer, and their procedures in the absence of the Treasurer.

5. Standards of Care

- 5.1. All investments shall be made with the care, skill, and diligence, which any prudent investor, acting in a like capacity, familiar with the matters involved, and the circumstances then prevailing, would use to accomplish the stated objectives.
- 5.2. Financial market security transactions will be executed by delivery versus payment (DVP) and the securities shall be held by a third-party custodian.
- 5.3. The following are the requirements for the broker/dealers:
 - 5.3.1. Broker/Dealer qualifies under Securities and Exchange Commission Rule;
 - 5.3.2. 15C3-1 (uniform net capital rule) with a minimum capitalization of \$250,000;
 - 5.3.3. Broker/Dealer staff have at least five years' experience with trading in investment grade fixed income securities;
 - 5.3.4. Certified by the Financial Industry Regulatory Authority (FINRA) with written documentation supplied;
 - 5.3.5. Registered with the State of California (written documentation supplied);
 - 5.3.6. Individual broker must reside within the State of California;
 - 5.3.7. Submitted affidavit of review and willingness to comply with this Policy; and
 - 5.3.8. Commitment and adherence to no political contributions being made to any candidate for the Stanislaus County Board of Supervisors or Stanislaus County Treasurer-Tax Collector which exceed the limitations contained in Rule G-37 of the Municipal Securities Rulemaking Board.
- 5.4. Internal controls as approved and monitored by the Stanislaus County Auditor-Controller shall be maintained to avoid or detect collusion and separate duties appropriately. The Assistant Treasurer-Tax Collector and/or Chief Deputy Treasurer may place all trades. Written authorization of trades by the Treasurer is only required for investments that have a final maturity of greater than five years from the date of purchase and authorization will be provided by the Treasurer's signature affixed to the trade ticket.
- 5.5. To avoid even the appearance of a conflict of interest, all officers and employees involved in the investment process shall refrain from personal business activity which in any way could hinder

the proper execution and management of the investment program or impair anyone's ability to make an impartial decision.

- 5.6. A limit of \$50 per calendar year is placed on the receipt of honoraria, gifts, and gratuities by the Stanislaus County Treasurer-Tax Collector and any staff involved in the process from advisors, brokers, dealers, bankers or other persons with whom the Stanislaus County Treasurer-Tax Collector or a deputy conducts business.

6. Authorized Investments

- 6.1. Due to the status of the Tobacco Endowment funds as proceeds from tax-exempt bonds, investment of these funds must comply with the originating bond documents, Internal Revenue Service (IRS) Code, and other federal guidelines, as may exist. In the event of a change in IRS or other federal guidelines effecting current investments, it is imperative that the tax-exempt status of the bonds be maintained. Exceptions may be made for short-term overages in concentration while appropriate investments are made to comply with changes in IRS and federal guidelines.
- 6.2. Pursuant to Government Code Section 53601, investments will only be made in authorized securities with a maturity of thirty (30) years or less from the transaction settlement date but in no case shall any tax-exempt security have a maturity which exceeds the final maturity on any Tobacco Settlement Asset-Backed Bonds, which is 2043 for the 2002 Endowment and 2055 for the 2006 Endowment. The purchase of securities with greater than five (5) years maturity may commence ninety (90) days after the Board of Supervisors resolve to accept this investment policy.
- 6.3. All individual securities must yield a positive return if held to call date or maturity.
- 6.4. The following instruments are authorized for investment of bond proceeds (and any outstanding amount of issued) from the Tobacco Settlement Asset-Backed Bonds:
 - 6.4.1. Individual tax exempt non-Alternative Minimum Tax (non-AMT) State of California obligations or bonds not to exceed 50% of all investments in the combined Endowment portfolios (at time of purchase). Investment in any indebtedness that is related to Tobacco Settlement Asset-Backed Bonds is prohibited.
 - 6.4.2. California local agency bonds, notes or other indebtedness that are tax exempt non-AMT obligations or bonds, provided that no more than 10% of the combined Endowments portfolio are invested in any one municipality or agency (at the time of purchase) with a Standard and Poor's rating of BBB or higher (or equivalent NRSRO rating) at the time of purchase.
 - 6.4.3. For funds that have been designated as deallocated, any security described in Government Code Section 53601, except reverse repurchase agreements, is deemed to be acceptable. These amounts may also be invested in the Stanislaus County Treasury Pool in an interest-bearing account at the current rate of interest.

7. Distribution of Investment Income

The investment earnings, including interest and net capital gains or losses on the investments held in the Endowments, net of investment-related expenses (including expenses relating to the administration of the Tobacco Endowments that are performed by the Treasurer-Tax Collector Treasury Division) will be distributed to the County General Fund, within 90 days of receipt of such investment income, unless otherwise directed by the Chief Executive Office to reinvest all or a portion

of such investment income in investments of the type described in paragraphs 6.1 or 6.2 of Authorized Investments above within 90 days of receipt, pending project approval by the Board of Supervisors. The distributed monies shall be subject to the discretion of the Stanislaus County Board of Supervisors.

8. Reporting Requirements

- 8.1. The Treasurer-Tax Collector shall prepare an annual report no later than August 15 following the close of each fiscal year on June 30. The report shall be forwarded to the Board of Supervisors for final review and acceptance.
- 8.2. The annual report shall include:
 - 8.2.1. A concise management summary of the Tobacco Settlement Agreement (TSA) funds' investment activity and position rendered with statements of review and reconciliation with custodial records, source of market valuation, ability to meet annual disbursement, and for compliance with this Policy; the amounts of interest earned and net gains or losses taken and the investment-related expense with net discretionary revenue distribution to the county; and amount subject to non-AMT investment versus taxable investment;
 - 8.2.2. Signature(s) of the Treasurer-Tax Collector and staff attesting to the above; and
 - 8.2.3. Place for signature of the Chairman or Chairwoman of the Board of Supervisors showing review and acceptance.
- 8.3. A detailed listing of securities held as of June 30 grouped by investment type (e.g. State of California bonds, California local bonds, etc.) delineated as follows:
 - 8.3.1. Issuing Agency (e.g. State of California, City of Costa Mesa, etc.);
 - 8.3.2. Date purchased (settlement date);
 - 8.3.3. Par Value;
 - 8.3.4. Book Value;
 - 8.3.5. Market Value;
 - 8.3.6. Stated interest rate (coupon rate);
 - 8.3.7. Yield to Maturity; and
 - 8.3.8. Days to Maturity.
- 8.4. A detailed listing of security transactions during the report period (purchases, sales, and maturities) grouped by investment type and to include the following:
 - 8.4.1. Date of transaction;
 - 8.4.2. Issuing agency (e.g. State of California, City of Costa Mesa, etc.);
 - 8.4.3. Purchase, Sale or Maturity Amount;
 - 8.4.4. Stated interest rate (coupon rate);
 - 8.4.5. A summary of the total portfolio and average weighted maturity showing compliance with Policy limitations as well as an annualized "cash" rate of return net of expenses

for fiscal year-to-date interest received on average daily balances for the TSA funds as a whole; and

- 8.4.6. A summary by investment type of beginning period position, purchases and sales/maturities and ending position.

9. Annual Audit

An annual audit shall be conducted to ensure that investment transactions are in compliance with State Law and this Policy. The audit shall be supervised by a Certified Public Accountant (CPA) who shall render an opinion to the Stanislaus County Auditor-Controller. The opinion shall be forwarded to the Board of Supervisors for review and acceptance. The Stanislaus County Auditor-Controller shall select the CPA.

10. Investment Related Expenses

- 10.1. The expenses of administration of the TSA funds shall be paid from interest earnings on the TSA funds. Total costs shall not exceed 25 basis points (0.25%) of the average daily balance of the portfolio for any fiscal year.
- 10.2. Investment related expenses shall include:
 - 10.2.1. Normal Treasurer-Tax Collector costs for staff and support services in the area of investment transactions;
 - 10.2.2. Custodial safekeeping of securities and banking services related to the TSA funds;
 - 10.2.3. Accounting, reporting and auditing of all transactions for the combined portfolios;
 - 10.2.4. Informational and educational materials and services related to investment of the funds;
 - 10.2.5. Materials showing financial conditions of issuing agencies; and
 - 10.2.6. Other duties and costs related to the management of the investment of TSA funds.
- 10.3. Expenses incurred due to the relative size of the portfolio, are to be charged based on the relative size of the portfolio. Examples of such costs may include audit, where sampling and charges are based on the number of trades and instruments within the portfolio, and administrative hours. Certain costs are recognized as third-party charges, such as custodial costs, will be charged to the appropriate portfolio. In other events, costs may be apportioned equally.

11. Policy Review and Amendment

This Policy shall be reviewed by the Treasurer-Tax Collector on an annual basis. Any changes must be prepared by the Stanislaus County Treasurer-Tax Collector and then reviewed and approved for propriety by the Stanislaus County Board of Supervisors.

ATTACHMENT I – GLOSSARY

BOND: A fixed income instrument that represents a loan made by an investor to a borrower (typically corporate or governmental). A bond could be thought of as an I.O.U. between the lender and borrower that includes the details of the loan and its payments. Bonds are used by companies, municipalities, states, and sovereign governments to finance projects and operations. Owners of bonds are debtholders, or creditors, of the issuer. Bond details include the end date when the principal of the loan is due to be paid to the bond owner and usually includes the terms for variable or fixed interest payments made by the borrower.

BROKER: A broker brings buyers and sellers together for a commission.

DEALER: A dealer, as opposed to a broker, acts as a principal in all transactions, buying and selling for his own account.

DEALLOCATED: The [value of the investment portfolio of each Endowment] is *greater* than the [value of the outstanding 2002 Bonds or 2006 Bonds, each determination made separately, including investment income not yet distributed to the County’s General Fund, and/or income that is derived from authorized investments].

ENDOWMENT: A permanent fund of property or money established to benefit an institution or person. It has a specific purpose defined, for which the income derived from the money or property is to be applied. The 2002 and 2006 tobacco funds are accounted for in separate endowments. The phrase “combined endowment”, in this policy, refers to the 2002 and 2006 tobacco funds in the aggregate.

FUND: A pool of money that is allocated for a specific purpose, each of which is considered a separate accounting entity. The 2002 and 2006 settlement monies/proceeds are maintained in separate funds.

CA GOV CODE 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.

CA GOV CODE 53601: The authority of the legislative body to invest or to reinvest funds of a local agency, or to sell or exchange securities so purchased, may be delegated for a one-year period by the legislative body to the treasurer of the local agency, who shall thereafter assume full responsibility for those transactions until the delegation of authority is revoked or expires, and shall make a monthly report of those transactions to the legislative body. Subject to review, the legislative body may renew the delegation of authority pursuant to this section each year.

MARKET VALUE: The price at which a security is trading and could presumably be purchased or sold.

MATURITY: The date upon which the principal or stated value of an investment becomes due and payable.

MSA: Master Settlement Agreement. In November 1998, the Attorney General of 46 states (including California) and various other public entities (collectively, the Settling States) and the four largest United States tobacco manufacturers entered into a master settlement agreement (MSA) in resolution of cigarette smoking-related litigation. The MSA effectively releases the manufacturers from past, present, and future smoking related claims in exchange for certain payments to be made to the Settling States.

MUNICIPAL BOND: A debt security issued by a state, municipality or county to finance its capital expenditures, including the construction of highways, bridges or schools. They can be thought of as loans that investors make to local governments. Municipal bonds are typically tax-exempt (from federal and most state and local taxes). Municipal bonds may also be known as "muni bonds" or "muni."

NRSRO: National Recognized Statistical Rating Organization. Current NRSROs include: A.M. Best Rating Services, Inc., DBRS, Inc., Egan-Jones Ratings Co., Fitch Ratings, Inc., HR Ratings de México, S.A. de C.V., Japan Credit Rating Agency, Ltd., Kroll Bond Rating Agency, Inc., Moody's Investors Service, Inc., & S&P Global Ratings.

PORTFOLIO: Collection/group of securities/investments held by an investor. The 2002 and 2006 funds are maintained in two separate portfolios.

PRUDENT PERSON RULE: An investment standard. In some states the law requires that a fiduciary, such as a trustee, may invest money only in a list of securities selected by the custody state—the so-called legal list. In other states the trustee may invest in a security if it is one which would be bought by a prudent person of discretion and intelligence who is seeking a reasonable income and preservation of capital.

SECURITIZATION: In contrast to more "traditional" general obligation bond instruments, tobacco securitization bonds do not require voter approval. If a local agency determines that a tobacco securitization bond is the most prudent use of the stream of payments, it must first obtain approval from its governing body. The legislature must authorize the state's issuance of a tobacco securitization bond. Securitization is the procedure where an issuer designs a marketable financial instrument by merging or pooling various financial assets into one group. The issuer then sells this group of repackaged assets to investors. Securitization offers opportunities for investors and frees up capital for originators, both of which promote liquidity in the marketplace.

SECURITIES & EXCHANGE COMMISSION: Agency created by Congress to protect investors in securities transactions by administering securities legislation.

UNIFORM NET CAPITAL RULE: Securities and Exchange Commission requirement that member firms as well as nonmember broker-dealers in securities maintain a maximum ratio of indebtedness to liquid capital of 15 to 1; also called net capital rule and net capital ratio. Indebtedness covers all money owed to a firm, including margin loans and commitments to purchase securities, one reason new public issues are spread among members of underwriting syndicates. Liquid capital includes cash and assets easily converted into cash.

YIELD: The annual rate of income returned on an investment, expressed as a percentage. (a) **INCOME YIELD** is obtained by dividing the current dollar income by the current market price for the security. (b) **NET YIELD** or **YIELD TO MATURITY** is the current income yield minus any premium above par or plus any discount from par in purchase price, with the adjustment spread over the period from the date of purchase to the date of maturity of the bond.



News Release

FOR IMMEDIATE RELEASE

Date: May 6, 2022

For more information contact:
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(Sacramento, California) – The California Municipal Treasurers Association (CMTA) Investment Policy Certification has been granted to the **County of Stanislaus**.

This Investment Policy Certification recognizes that CMTA has validated that the County of Stanislaus' Investment Policy adheres with the State of California Government Code and meets the program requirements within 18 different topics areas deemed to be best practices for investment policies. Those topics include: Scope, Prudence, Objective, Delegation of Authority, Ethics and Conflicts of Interest, Authorized Financial Dealers and Institutions, Authorized and Suitable Investments, Review of Investment Portfolio, Investment Pools/Mutual Funds, Collateralization, Safekeeping and Custody, Diversification, Maximum Maturities, Internal Controls, Performance Standards, Reporting, Investment Policy Adoption and Glossary. Once a policy is received by CMTA, it is independently evaluated using a scoring matrix by three separate CMTA professionals. When the agency receives a passing score, the Investment Policy earns the 'Certified' distinction.

To enhance the municipal treasurer's role, CMTA has developed a number of certification programs to reflect best practices and increase an individual's knowledge of fixed income instruments. The Investment Policy Certification program began in 2012 with the support from the California Debt and Investment Advisory Commission. It is open to all government agencies within the State of California including special districts, cities and counties.

CMTA was founded in 1958 by a handful of Municipal Treasurers from both Northern and Southern California whose primary interest was to improve their function in local Government. CMTA is a professional organization governed by active public officials who are representatives of their own local governmental units.

California Municipal Treasurers Association



Investment Policy Certification

Issued on 05/10/2022



County of Stanislaus

The California Municipal Treasurers Association certifies that the investment policy of the County of Stanislaus complies with the current State statutes governing the investment practices of local government entities located within the State of California.



A handwritten signature in black ink, appearing to be 'D. D. D.', written over a horizontal line.

President

05/10/2022

Date