

BUTTE COUNTY TREASURER

STATEMENT OF INVESTMENT POLICY

Effective date: July 1, 2011

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. 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 (i.e. bank service charges) are identified and added to that division's annual costs. All remaining costs are then pro rated 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 is the

first day of the following quarter (January 1, April 1, July 1 and October 1). Those funds identified by the Treasurer as having large, stable balances and few transactions will earn interest at the rate established prior to deduction of fees.

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 53648. 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 will be maintained in vault custody at the Treasurer's Office and do not fall within third party custody guidelines.

VIII. ALLOWABLE INVESTMENTS

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. 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) and are comprised of securities described as allowable investments in this Statement of Investment Policy. Investments in repurchase agreements require the 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 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 written approval of the Treasurer. 53601 (n)
- O. Any mortgage passthrough security, collateralized mortgage obligation, mortgage-backed or other pay-through bond, equipment lease-backed certificate, consumer receivable passthrough 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 Section 53601.8, investments in non-negotiable certificates of deposit (CDs) by means of selecting a depository institution (nationally or state chartered commercial bank, consumer savings bank, savings and loan association or credit union) that participates in a private sector entity placement service whereby CDs are fully insured by the Federal Deposit Insurance Corporation or the National Credit Union Association through reciprocal placement agreements. Any such investment requires the prior written approval of the Treasurer. 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 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 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 and the sale does not have significant adverse impact on portfolio yield.

X. OVERSIGHT COMMITTEE

An oversight committee shall be established and its responsibility defined in accordance with Government Code Section 27130 et seq. 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 will be made

monthly and include market values where applicable for those instruments with a maturity greater than one (1) year. These reports will be submitted to the Board of Supervisors and the Treasury Oversight Committee and will be made available to other interested parties. On a quarterly basis, these reports will also be provided to special districts participating in the treasury pool, and will be made available to the general public on the Treasurer-Tax Collector'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 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 (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 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



C. LINDA BARNES, TREASURER
COUNTY OF BUTTE

7/01/2011
DATE