# Investment Policy Statement

## of the Shasta County Treasurer

2013-14

# INVESTMENT POLICY STATEMENT

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**INVESTMENT POLICY STATEMENT**

**of the**

**SHASTA COUNTY TREASURER**

## APPLICATION AND SCOPE

The principles, parameters and/or restrictions contained in this policy apply to all activities of the treasurer relating to the management, investment and/or deposit of investable funds in the possession or under the control of the treasurer.

As used in this policy, "treasurer" includes the person elected to the office of Shasta County Treasurer-Tax Collector-Public Administrator, the Chief Deputy Treasurer-Public Administrator, Treasury Cashiers, and all other persons acting in their capacity as deputies or agents of the treasurer. The term "department head" means the person elected to the office of Shasta County Treasurer-Tax Collector-Public Administrator. The term "Investment Officer" means the person elected to office of the Shasta County Treasurer-Tax Collector-Public Administrator and/or the Chief Deputy Treasurer-Public Administrator.

Funds resulting from various statutorily authorized forms of financing may be subject to unique requirements imposed by statute or as incorporated in the debt instruments or documents authorizing the issuance thereof as approved by the authorizing legislative body. In the event of a conflict between any provision of this policy and any provision relating to the financing, the provision specific to the financing will prevail.

## TERM

This policy is effective July 1, 2013, and shall remain in effect until it is amended or replaced by the Shasta County Treasurer-Tax Collector-Public Administrator and the new or amended policy has been submitted to and approved by the Shasta County Board of Supervisors and the Shasta County Treasury Oversight Committee.

## ELIGIBILITY AND CONTINUING EDUCATION

The Board of Supervisors enacted Ordinance SCC97-1 relating to eligibility and continuing education requirements for the office of Treasurer-Tax Collector. Said requirements are hereby applied to the position of Chief Deputy Treasurer-Public Administrator except that any certifications required to be filed by the Treasurer-Tax Collector with the State Controller shall in the case of the Chief Deputy Treasurer-Public Administrator be filed with the Treasurer-Tax Collector-Public Administrator.

## PRUDENT INVESTOR

Government Code 53600.3. Except as provided in subdivision (a) of Section 27000.3, all governing bodies of local agencies or persons authorized to make investment decisions on behalf of those local agencies investing public funds pursuant to this chapter are trustees and therefore fiduciaries subject to the prudent investor standard. When investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds, a trustee shall act with care, skill, prudence, and diligence under the circumstances then prevailing, including, but not limited to, the general economic conditions and the anticipated needs of the agency, that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of alike character and with like aims, to safeguard the principal and maintain the liquidity needs of the agency. Within the limitations of this section and considering individual investments as part of an overall strategy, investments may be acquired as authorized by law.

## OVERVIEW

Unless otherwise stated, all references to statutes contained herein are to provisions of the Government Code of the State of California.

The Shasta County Treasurer-Tax Collector-Public Administrator is responsible for the operation of a cash management and investment program pursuant to the provisions of Section 53635 et seq. of the Government Code. If the Shasta County Board of Supervisors enacts an ordinance pursuant to the provisions of Section 27000.1 delegating the Board's authority to invest or re-invest 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 treasurer shall thereafter assume full responsibility for those transactions until the Board of Supervisors, by ordinance, revokes its delegation of authority. During the term of any such delegation, should that occur, the provisions of this policy shall apply to any investments made under such delegated authority.

The cash management and investment program is conducted on a "pooled" basis. The "pool" consists of "investable" funds belonging to the County of Shasta and a multitude of other local agencies, primarily school districts and special districts. Investable funds exist when the treasury balance exceeds the daily cash flow requirements of the treasury. The legislature has found and declared that by pooling deposits from local agencies and other participants, county treasuries operate in the public interest when they consolidate banking and investment activities, reduce duplication, achieve economies of scale, and carry out coherent and consolidated investment strategies.

When investing, reinvesting, purchasing, acquiring, exchanging, selling and managing public funds, the primary objective of the County Treasurer shall be to safeguard the principal of the funds under his or her control. The secondary objective shall be to meet the liquidity needs of the depositor. The third objective shall be to achieve a return on the funds under his or her control. This policy is constructed to meet those objectives.

## AUTHORIZED INVESTMENT INSTRUMENTS

By statute (Section 53635), the following instruments are eligible for inclusion in the investment portfolio. For purposes of this policy, the term "investment portfolio" means all investments which produce earnings that are apportioned to pool participants based on the participants average daily balances in the treasury during the apportionment period. Where this section specifies a percentage limitation for a particular category of investment, that percentage is applicable only at the date of purchase. Investments in these instruments are subject to the limitations, restrictions or parameters contained in the policy language following each description:

A. Bonds issued by the local agency, 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.

*Policy:* *For purposes of this policy, the term "local agency" means the County of Shasta. Shall not exceed two years remaining to maturity and the total invested in instruments of this type shall not exceed 5% of the portfolio. Each investment of this type shall have specific written authorization of the department head.*

B. United States Treasury notes, bills, bonds 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.

*Policy:* *Except for treasury bills, which may be acquired without limit, investments of this type shall not exceed five years remaining to maturity.*

C. 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.

*Policy:* *Shall not exceed two years remaining to maturity, and the total invested in instruments of this type shall not exceed 10% of the portfolio. Each investment of this type shall have specific written authorization of the department head. Any such written authorization relating to registered warrants shall contain a statement that the department head expects, based on circumstances then present, that the warrants will be redeemed within one year.*

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.

*Policy:* *For purposes of this policy, the term "any local agency within this state" means local agencies other than the County of Shasta whose funds are deposited in the Shasta County Treasury. Shall not exceed one year remaining to maturity, and the total invested in instruments of this type shall not exceed 10% of the portfolio. Each investment of this type shall have specific written authorization of the department head.*

E. Obligations issued by federal home loan banks, the Federal Home Loan Bank, the Tennessee Valley Authority, or in obligations, participations, or other instruments of, or issued by, or fully guaranteed as to principal and interest by, the Federal National Mortgage Association; or in guaranteed portions of Small Business Administration notes; or in obligations, participations, or other instruments of, or issued by, a federal agency or a United States government-sponsored enterprise.

*Policy:* *Shall not exceed five years remaining to maturity and the total invested in instruments of this type shall not exceed 80% of the portfolio and no single issuer shall exceed 20% of the portfolio. No investment shall be made in Small Business Administration notes.*

F. Bills of exchange or time drafts drawn on and accepted by a commercial bank, otherwise known as bankers' acceptances. Purchases of banker's acceptances may not exceed 180 days maturity or 40 percent of the agency's surplus funds, which may be invested pursuant to this section. However, no more than 30 percent of the agency's surplus funds may be invested in the banker's acceptances of any one commercial bank pursuant to this section.

*Policy:* *The total invested in instruments of this type shall not exceed 35% of the portfolio, and no single issuer shall exceed 10% of the portfolio. The issuer must have a minimum long-term credit rating of A from Standard & Poor's Corporation and A2 from Moody's Investor Service, Inc. If the issuer is a branch of a foreign bank, the investment must meet the credit standard and have the specific written authorization of the department head.*

G. Commercial paper of "prime" quality of the highest ranking or of the highest letter and numerical rating as provided for by a nationally recognized statistical rating organization (NRSRO). Eligible paper is further limited to issuing corporations that are organized and operating within the United States and having total assets in excess of five hundred million dollars ($500,000,000) and having an "A-1" or higher rating by an NRSRO. Purchase of eligible commercial paper may not exceed 270 days maturity nor represent more than 10 percent of the outstanding paper of an issuing corporation. Purchases of commercial paper may not exceed 40 percent of the agency's surplus money which may be invested pursuant to this section.

*Policy:* *Shall not exceed 270 days remaining to maturity and shall not exceed 20% of the portfolio. No single issuer shall exceed 4% of the portfolio.*

H. Negotiable certificates of deposit issued by a nationally or state-chartered bank, a savings association or a federal association, a state or federal credit union, federally chartered branch of foreign banks (yankee banks), or by a federally licensed or state-licensed branch of a foreign bank. Purchases of negotiable certificates of deposit shall not exceed 30 percent of the agency's surplus money, that may be invested pursuant to this section. For purposes of this section, negotiable certificates of deposit do not come within Article 2 (commencing with Section 53630), except that the amount so invested shall be subject to the limitations of Section 53638. For purposes of this section, the legislative body of a local agency and the treasurer or other official of the local agency having legal custody of the moneys are prohibited from depositing or investing local agency funds, or funds in the custody of the local agency, in negotiable certificates of deposit issued by a state or federal credit union if a member of the legislative body of the local agency, or an employee of the Administrative Officer, Manager's Office, budget office, Auditor-Controller's Office or Treasurer's Office of the local agency also serves on the board of directors, or any committee appointed by the board of directors or the credit committee or supervisory committee of the state or federal credit union issuing the negotiable certificates of deposit.

*Policy:* *Shall not exceed one year remaining to maturity and shall not exceed 20% of the portfolio, provided, however, that the 20% limit may be exceeded if the transaction exceeding the 20% limit is of a duration of 30 days or less. No single issuer shall exceed 5% of the portfolio.*

I. (1) Investments in repurchase agreements or reverse repurchase agreements of any securities authorized by this section, so long as the agreements are subject to this subdivision, including the delivery requirements specified in this section.

(2) Investments in repurchase agreements may be made, on any investment authorized in this section, when the term of the agreement does not exceed one year. The market value of securities that underlie a repurchase agreement shall be valued at 102 percent or greater of the funds borrowed against those securities and the value shall be adjusted no less than quarterly. Since the market value of the underlying securities is subject to daily market fluctuations, the investments in repurchase agreements shall be in compliance if the value of the underlying securities is brought back up to 102% no later than the next business day.

(3) Reverse repurchase agreements may be utilized only when all of the following conditions are met:

(a) The security to be sold on reverse repurchase agreement has been owned and fully paid for by the local agency for a minimum of 30 days prior to sale, the total of all reverse repurchase agreements on investments owned by the local agency does not exceed 20 percent of the base value of the portfolio, and the agreement does not exceed a term of 92 days, unless the agreement includes a written codicil guaranteeing a minimum earning or spread for the entire period between the sale of a security using a reverse repurchase agreement and the final maturity date of the same security

(4) Funds obtained or funds within the pool of an equivalent amount to that obtained from selling a security to a counter party by way of a reverse repurchase agreement shall not be used to purchase another security with a maturity longer than 92 days from the initial settlement date of the reverse repurchase agreement, unless the reverse repurchase agreement includes a written codicil guaranteeing a minimum earning or spread for the entire period

between the sale of a security using a reverse repurchase agreement and the final maturity date of the same security. Reverse repurchase agreements specified in subparagraph (B) of paragraph (3) may not be entered into unless the percentage restrictions specified in that subparagraph are met.

(5) Investments in reverse repurchase agreements or similar investments in which the local agency sells securities prior to purchase with a simultaneous agreement to repurchase the security, may only be made upon prior approval of the governing body of the local agency, and shall only be made with 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 a local agency.

(6) (a) "Repurchase agreement" means a purchase of securities by the local agency pursuant to an agreement by which the counterparty seller will repurchase the securities on or before a specified date and for a specified amount and the counterparty will deliver the underlying securities to the local agency by book entry, physical delivery, or by third party custodial agreement. The transfer of underlying securities to the counterparty bank's customer book-entry account may be used for book-entry delivery.

(b) "Securities", for purpose of repurchase under this subdivision, means securities of the same issuer, description, issue date and maturity.

(c) "Reverse repurchase agreement" means a sale of securities by the local agency pursuant to an agreement by which the local agency will repurchase the securities on or before a specified date, and includes other comparable agreements.

(d) For purposes of this section, the base value of the local agency's pool portfolio shall be that dollar amount obtained by totaling all cash balances placed in the pool by all pool participants, excluding any amounts obtained through selling securities by way of reverse repurchase agreements or other similar borrowing methods.

(e) For purposes of this section, the spread is the difference between the cost of funds obtained using the reverse repurchase agreement and the earnings obtained on the reinvestment of the funds.

*Policy:* *Reverse repurchase agreements or similar investments are prohibited. Repurchase agreements shall not exceed 10% of the portfolio, and the term of the agreement shall not exceed 5 days. The 10% limit may be exceeded if the total invested in the repurchase agreement does not exceed 20% of the portfolio and the term of the agreement does not extend beyond the next county business day.*

J. Medium-term notes defined as all corporate and depository institution debt securities with a maximum of five years' maturity issued by corporations organized and operating within the United States or by depository institutions licensed by the United States or any state and operating within the United States. Notes eligible for investment under this subdivision shall be rated in a rating category of "A" or better by an NRSRO. Purchases of medium-term notes may not exceed 30 percent of the agency's surplus money which may be invested pursuant to this section.

*Policy:* *The total invested in instruments of this type shall not exceed 20% of the portfolio and no single issuer shall exceed 3% of the portfolio. Each investment of this type shall have the specific written approval of the department head.*

K. Shares of beneficial interest issued by diversified management companies investing in the securities and obligations as authorized by subdivisions (a) to (K), inclusive, of this section and which comply with the investment restrictions of this article (Article 2) and Article 1 (commencing with Section 53600). To be eligible for investment pursuant to this subdivision, these companies shall either: (1) attain the highest ranking or the highest letter and numerical rating provided by not less than two of the three largest nationally recognized rating services, or (2) have an investment adviser registered with the Securities and Exchange Commission with not less than five years' experience investing in the securities and obligations as authorized by subdivisions (a) to (m), inclusive, of this section and with assets under management in excess of five hundred million dollars ($500,000,000). The purchase price of shares of beneficial interest purchased pursuant to this subdivision shall not include any commission that the companies may charge and shall not exceed 20 % of the agency's surplus money, which may be invested pursuant to this section. No more than 10% of the agency's funds may be invested in shares of beneficial interest of any one mutual fund (money market, LIR).

*Policy:* *The total investment in instruments of this type shall not exceed 5% of the portfolio.*

L. Notes, bonds or other obligations which are at all times 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 local agency deposits having a market value at least equal to that required by Section 53652 for the purpose of securing local agency deposits. The securities serving as collateral shall be placed by delivery or book entry into the custody of a trust company or the trust department of a bank which is not affiliated with the issuer of the secured obligation, and the security interest shall be perfected in accordance with the requirements of the Uniform Commercial Code or federal regulations applicable to the types of securities in which the security interest is granted.

*Policy:* *Investments of this type are prohibited.*

M. Any mortgage pass-through security, collateralized mortgage obligation, mortgage-backed or other pay-through bond, equipment lease-backed certificate, consumer receivable pass-through certificate or consumer receivable-backed bond of a maximum of five years maturity. Securities eligible for investment under this subdivision shall be issued by an issuer having an "A" or higher rating for the issuer's debt as provided by an NRSRO and rated in a rating category of "AA" or its equivalent or better by an NRSRO. Purchase of securities authorized by this subdivision may not exceed 20 percent of the agency's surplus money that may be invested pursuant to this section.

*Policy:* *Investments of this type are prohibited.*

N. Inactive deposits made in accordance with the provisions of Article 2 (commencing with Section 53630) of Chapter 4 of Part 1 of Division 2 of Title 5

*Policy:* *No such deposits will be made in any institution that is not rated A or higher. The amount deposited in any single institution shall not exceed 7.5% of the portfolio.*

O. Deposits to the Local Agency Investment Fund of the State of California pursuant to Resolution No. 77-98 of the Shasta County Board of Supervisors dated April 18, 1977.

*Policy:* *Notwithstanding any other provision of this policy, deposits to L.A.I.F. may be made, subject only to the limitations thereon imposed by the State Treasurer.*

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 subdivisions (a) to (o), inclusive. Each share shall represent an equal proportional interest in the underlying pool of securities owned by the joint powers authority. To be eligible under this section, the joint powers authority issuing the shares shall have retained an investment adviser that meets all the following criteria:
(1) The adviser is registered or exempt from registration with the Securities and Exchange Commission.
(2) The adviser has not less than five years of experience investing in the securities and obligations authorized in subdivisions (a) to (o), inclusive.
(3) The adviser has assets under management in excess of five hundred million dollars ($500,000,000).

## SELECTION CRITERIA

### Brokers/Dealers and Depositories

The treasury shall maintain a list of qualified institutions with which the treasury will execute investment transactions. Only dealers that are licensed to do business in California and the investment departments of major California banks rated "AA" or higher and total assets in excess of $5,000,000,000 will be considered for inclusion on the list of qualified institutions. The department head will decide whether or not an institution should be placed on the list based on the length of time it has been in existence, its demonstrated ability to successfully maintain relationships with other municipal investors and its reputation for a commitment to maintaining a high level of professionalism and to meeting industry standards of ethical behavior. The foregoing criteria is intended to result in a list of well known institutions of the highest quality.

No broker, brokerage, dealer or securities firm shall be placed on or remain on the list if it has, within any consecutive 48 month period made a political contribution in an amount exceeding the limitations contained in Rule G-37 of the Municipal Securities Rulemaking Board, to the Shasta County Treasurer, any member of the Shasta County Board of Supervisors, any candidate for those offices, or any member of the Shasta County Treasury Oversight Committee.

The department head will periodically review each institution on the list and make a determination whether or not, in the opinion of the department head, it is in the best interests of the pool participants that the institution remain on the list.

The Investment Officer may remove an institution from the list at any time, and the fact that an institution is on the list does not create an obligation to execute investment transactions with a listed institution. The Investment Officer will furnish a copy of the current Statement of Investment Policy to each listed institution, who will then sign and return a receipt showing receipt and compliance to the policy.

### Representatives of Qualified Institutions

Individuals who represent qualified institutions in securities transactions with the treasury must be registered with the National Association of Securities Dealers, Inc., as having passed the General Securities Representative Examination (Series 7) and the Uniform Securities Agent State Law Examination (Series 63). Each representative:

- Shall have expertise and significant experience in institutional sales.
- Shall supply references consisting of the names of individuals at three California public agencies with whom they have executed investment transactions.

The Investment Officer shall maintain a list of authorized representatives of qualified institutions with whom the treasury may execute investment transactions.

## INVESTMENTS

Investments will be made by selection of instruments from the list of authorized investments only and the selection is further limited by the following in order to assure adequate liquidity while minimizing credit and market risks.

### Prohibited Investment Types and Restrictions Applicable to All Investments

Pursuant to Section 53631.5, any investment in inverse floaters, range notes or interest-only strips that are derived from a pool of mortgages, or any security that could result in zero interest accrual if held to maturity is prohibited.

Further, no investment shall be made in any security that, absent default on the part of the issuer, contains any provision, index or structure that would introduce any element of uncertainty in regard to the amount or rate of earnings if held to maturity or the amount of principal returned if held to maturity.

No investment shall be made in any security that has a maturity in excess of 5 years from the date of purchase.

Except for Repurchase Agreements, Sweep Account and Treasury Bills, the amount invested in a single issue shall not exceed 4% of the portfolio.

Notwithstanding the provisions of Section 53601.1 of the Government Code, no investments in financial futures or financial option contracts are allowed under this policy.

**Maturity Scheduling**

Market risks and cash flow problems will be reduced by a "hold to maturity" policy. This policy requires that the maturity of the instrument selected conform to anticipated cash flow requirements. In other words, no investment will be made knowing that the instrument will have to be sold prior to maturity. Securities may be liquidated prior to maturity if the sale is to meet unanticipated cash flow requirements or market conditions so warrant and the sale has department head approval. No securities may be exchanged or traded for other securities. No securities will be purchased that have a maturity in excess of three years from the date of purchase without department head approval. The dollar-weighted average days to maturity of the portfolio shall not exceed 1095 days.

## CREDIT ASSESSMENT

In determining the creditworthiness of an issuer, counter party or depository, the Investment Officer shall utilize the ratings of Standard and Poor's Corporation, Moody's Investor Services, Inc., Fitch, GFI Bank Rating Services, or nationally recognized statistical rating organization (NRSRO)

## DIVERSIFICATION

Both market risk and credit risk can be reduced by constructing an investment portfolio that contains a broad mix of types of investments and issuers. The policy or statutory limitations that are contained in the section of this policy which sets forth permissible investments are to be measured against the portfolio at the time of the transaction subject to the limitation occurs.

## YIELD

Investments meeting all other requirements of this policy shall be chosen based on yield. A minimum of three quotes for investment options meeting the maturity scheduling requirements shall be obtained for each transaction having a term in excess of five days and a written record of the quotes shall be retained by the Investment Officer until after the next subsequent compliance audit conducted pursuant to the provisions of Section 27134. Yield shall always be the last consideration, and if the quotes obtained are not for the same instrument, issues of safety, liquidity and diversity shall be given greater consideration than yield.

## SAFEKEEPING

Securities purchased from brokers and/or dealers shall be held in third party safekeeping by the trust department of the County's bank or other designated third party trust, in the County's name or control. All investment transactions subject to "delivery vs. payment" shall be conducted on that basis.

## CALCULATING AND APPORTIONING THE COSTS

The manner of calculating and apportioning the costs of investing, depositing, banking, auditing, reporting or otherwise handling or managing funds is as follows:

A. Total earnings for all funds will be accounted for and accumulated. All costs incurred as described in Government Code Sections 27013, 17133 and 27135 will be accounted for and paid out of earnings.

B. All costs will be spread at the same time and as part of the process of apportioning earnings so that each participant's share is in proportion to its earnings.

## CRITERIA FOR CONSIDERING REQUESTS TO WITHDRAW FOR INVESTMENT PURPOSES

The County Treasurer shall provide a form to agencies requesting withdrawal of funds for investment purposes.

Assessment of the effect of a proposed withdrawal on the stability and predictability of the investments in the county treasury will be based on the following criteria:

1. Size of withdrawal.

2. Size of remaining balances of:
   (a) Pool
   (b) Agency
3. Current market condition.
4. Duration of withdrawal.
5. Effect on predicted cash flows.
6. A determination if there will be sufficient balances remaining to cover costs.
7. Adequate information, including the statutory authority that allows the funds to be invested outside the treasury pool, has been supplied to the County Treasurer in order to make a proper finding that other pool participants will not be adversely affected.

Requests for withdrawals for the purpose of investing or depositing funds outside the pool shall be made at least ten (10) business days in advance of the proposed withdrawal date. Notice in writing of at least five (5) business days shall be required for withdrawals in excess of $250,000.00 for loan repayments, capital expenditures and any expenditure not in the ordinary course of operations.

## TERMS AND CONDITIONS FOR NON-STATUTORY COMBINED POOL PARTICIPANTS

All entities qualifying under Government Code Section 27133(g), may deposit funds for investment purposes providing all of the following have been accomplished:

1. The agency's administrative body has requested the privilege, has agreed to terms and conditions of an investment agreement as prescribed by the County Treasurer, and has by resolution identified the authorized officer acting on behalf of the agency.
2. The County Board of Supervisors approves the investment agreement.
3. The County Auditor-Controller has prescribed the appropriate accounting procedures.

## LIMITS ON RECEIPT OF HONORARIA, GIFTS AND GRATUITIES

No member of the staff of the Treasurer's Office or member of the Shasta County Treasury Oversight Committee may accept any honoraria, gift or gratuity from advisors, brokers, dealers, bankers or other persons with whom the county treasury conducts business. Excepted from the foregoing are ordinary desk-top promotional items of advertising, such as calendars, planners, etc., which are clearly identifiable as such. This prohibition is in addition to any other limit or prohibition set by the County of Shasta, the members' own agency, or by the Fair Political Practices Commission.

**REPORTING**

The County Treasurer will submit a copy of the Report of Investments required by Section 53646(b)(1) to the Shasta County Treasury Oversight Committee at the same time said report is submitted to the Board of Supervisors. The report shall be submitted within 30 days of the quarter, or month at the option of the Board of Supervisors, following the end of the period covered by the report.

**DATE:**____________________ ________________________________

**LORI J. SCOTT**
**Treasurer-Tax Collector-Public Administrator**

# GLOSSARY

**Banker's Acceptances**

Banker's acceptances (BAs) are another form of money market instruments issued by banks. BAs arise from transactions involving the import, export, transit, or storage of goods. The underlying transaction that gives rise to a BA is almost completely irrelevant to the credit quality or the liquidity of the instrument; the actual BA is created at a late stage in the underlying transaction when a back accepts its obligation to pay the holder of the unconditional obligation of the accepting bank.

From an investor's point of view, a BA is a bank obligation that has at least the same credit strength as any CD issued by the same bank. BAs are typically stronger that CDs because in addition to the credit strength of the accepting bank, they are backed by the credit strength of a drawer; an endorsing bank, if one is involved in the transaction; and usually by the pledge of documents representing ownership of the trade goods and insurance on the goods. BAs do not carry federal deposit insurance.

The term of a BA may be for an even 90, 180, or 270 days when it is created but is often for an odd number of days by the time an investor purchases it.

BAs meeting certain Federal Reserve regulations are called eligible BAs. Eligible BAs cannot exceed 180 days and are not subject to reserve requirements.
Like Treasury bills, BAs do not pay interest. Instead, they are bought and sold on a discount basis. For larger BAs created by creditworthy banks, there is an active secondary market.

**Broker**

A middleman who brings buyers and sellers together and handles their orders, generally charging a commission for his services. The broker does not own or take a position in the security.

**Commercial Paper**

Commercial paper is an unsecured, short-term promissory note issued by corporations for specific amounts and with specific maturity dates. Typical issuers are firms that need large amounts of short-term working capital or firms with fluctuating requirements for short-term funds.

Commercial paper is relatively safe but not the same quality as U.S. Treasury or agency obligations. Major credit rating agencies provide published credit ratings for commercial paper issues. Issuers without strong credit ratings, as well as smaller and less well known companies, often can only find buyers for their commercial paper if it is backed by a letter of credit from a commercial bank or guaranteed by the issuer's parent company.

Commercial paper can be sold at a discount or can be interest bearing; however, most commercial paper is issued at a discount. Terms can be as short as 1 day and usually do not exceed 270 days. Minimum sizes are determined by each issuer. They are often $100,000 but may be smaller.

**CUSIP Number**

A nine-digit letter and number combination established by the Committee on Uniform Securities Identification Procedures that is used to identify publicly traded securities. Each publicly traded security receives a unique CUSIP number when the security is issued.

**Discount**

The amount by which the price for a security is less than its par.

**Federal Farm Credit Bank Securities**

The Federal Farm Credit Banks (FFCBs) issue two types of short-term securities. Debentures are issued for terms of 3, 6 and 12 months. Interest on the debentures is paid at maturity.

The FFCBs also sell discount notes. Like Treasury bills, FFCB discount notes pay interest at maturity since they are sold at a discount, but redeemed at par. The discount notes are issued with original maturities ranging from 5 to 365 days.

Minimum size for both debentures and discount notes is $5,000. Obligations of the FFCBs are not guaranteed by the U.S. government, but are considered to have implied backing.

**Federal Home Loan Bank Notes**

The Federal Home Loan Bank (FHLB) issues discount notes. Like Treasury bills, these pay interest at maturity since they are sold at a discount but redeemed at par. The discount notes are issued with original maturities ranging from 5 to 365 days. These discount notes can be called before maturity. The minimum size is $5,000.

Obligations of the FHLB are not guaranteed by the U.S. government but are considered to have implied backing.

**Federal Home Loan Mortgage Corporation Discount Notes**

The Federal Home Loan Mortgage Corporation (FHLMC or Freddie Mac) also issues discount notes. The discount notes are issued with original maturities ranging from 1 to 360 days. Minimum size is $25,000. These discount notes are not guaranteed by the U.S. government but are considered to have implied backing.

**Federal National Mortgage Association Residential**

The Federal National Mortgage Association (FNMA or Fannie Mae) issues unsecured obligations called residential financing securities or REFs. REFs are issued with original maturities of six months, one year, and two years. Interest on the one-and-two year notes is paid semiannually. Minimum size is $10,000. REFs are not guaranteed by the U.S. government but are considered to have implied backing.

**Maturity**

The date on which the principal or last principal payment on a debt is due and payable.

**Par**

The value of a security as expressed on its face without consideration to any premium or discount.

**Repurchase Agreement**

Repurchase agreements (repos) involve selling a security subject to an agreement for the seller to buy it back (repurchase it) from the buyer. A repo is a type of short-term secured loan. The security that is sold is usually a U.S. Treasury obligation; however, agency securities are also used. Typical maturities may be as short as overnight or as long as six months.

**Treasury Notes and Bonds**

Treasury notes and bonds, the long-term debt obligations of the U.S. government, bear coupons and thus resemble municipal bonds. Interest is payable every six months at a rate of one-half the annual coupon.

Treasury coupon securities trading are conducted by the same securities dealers who trade T-bills. Notes are issued for original maturities of one to 10 years and carry that label only because of federal statutory language. Bonds are issued with original maturities of more than 10 years.

**U.S. Treasury Bills**

U.S. Treasury bills are the shortest term obligations issued by the U.S. Treasury. Bills are issued for maturities of one year or less. Usually, the Treasury issues bills in three maturities: 13 weeks, 26 weeks, and 52 weeks. Occasionally, the Treasury sells bills with different maturities, usually to match expected tax receipts. Those bills are referred to as cash management bills.

Bills are sold by the Treasury at weekly auctions. New 13-week and 26-week bills are issued each week. The auctions for 13-week and 26-week bills are held on Mondays. Bills purchased at an auction settle on the following Thursday, and they mature on Thursdays. If a Thursday is a bank holiday, the Friday is used. The Treasury usually issues 52-week bills only once each month. Bill transactions tend to be large. Even though the minimum size is only $10,000, a round Lot is considered to be $1 million. Buyer of bills in amounts less than a round Lot receive slightly higher prices (i.e., lower yields) than buyers of round Lots.

The owner of a Treasury bill earns a return because the bills are sold at a discount and redeemed at par.

Example. A one-year bill may be sold at a price of 94 and redeemed at the end of the year at par, or 100. In the example, the owner of a $100,000 bill would pay $94,000 and receive $100,000 a year later. The difference of $6,000 is the amount of the discount. The discount rate in the example is 6 percent.

Investors need to be aware that the yield they receive from Treasury bills is not the same as the discount rate.

**Yield**

The rate of annual income return on an investment, expressed as a percentage.

**Shasta County Treasurer**
**Disaster/Business Continuity Plan**
**Banking and Investment Functions**

## Scope

The Shasta County Treasurer's banking and investment functions are mission critical and as such, the office must have a Disaster/Business Continuity Plan in place. In the event we are unable to operate from our office, the plan shall be activated. Periodically, the plan shall be tested.

The plan's goal is to protect and account for all funds on deposit with the county treasurer and to be able to continue our banking and investment functions for all participants in the event of occurrence (earthquake, fire, pandemic, or other event) which disrupts normal operations.

## Chain of Command

The chain of command shall be in order of:

- Treasurer,
- Chief Deputy Treasurer
- Chief Deputy Tax Collector

## Continuity Procedure

In the event we are unable to conduct normal business operations, the authorized persons shall interact with one another by home phone, email or cellular phone to decide on the alternate location. If unable to contact one another, the authorized persons shall through the county's office of emergency services establish contact with one another.

## Functions & Tasks to be Performed

Recognizing we may be operating in less than optimal conditions, the primary functions are to protect and continue to account for all funds on deposit with the county treasurer. While normal processes may be modified, the investment policy shall be strictly followed.

Tasks to be performed include:

- Daily cash work up
- Investment of maturing securities and any daily deposits after making an allowance for checks/wires expected to clear
- Daily cash and bank reconciliation
- For deposits, the treasurer's office will notify county departments, special districts and schools of any changes to their deposit location. Deposits to any account other than those established by the treasurer is prohibited.
- Disbursement activity will be coordinated with the county Auditor-Controller.

## Equipment and Emergency Packets

The "authorized persons" in the treasurer's office including support staff upon an occurrence are official disaster workers and are assigned to support our Disaster/Business Recover Plan. Each shall have on their possession their County of Shasta Identification Card.

The level of disruption and assigned work location will be determined by the Treasurer, Chief Deputy Treasurer or Chief Deputy Tax Collector. All related costs shall be absorbed by the Treasurer's office and reimbursed pursuant to Government Code section 27013.

In all cases, the safety of treasury personnel is paramount. In no event should our alternate location or alternate procedure be employed if doing such will endanger any one.

## Offsite Locations

Failing the ability to operate from our office, our operations will relocate in the following order of priority:

- Location determined by the County Office of Emergency Services or County Administrator
- Treasurer's home
- Chief Deputy Treasurer's home
- One of our banks operations centers which may be outside Shasta County in a worst case scenario