

THE PLUMAS COUNTY TREASURER'S OFFICE

INVESTMENT POLICY AND GUIDELINES

JULY, 1985

REVISED:

August, 1985
March, 1986
September, 1986
March, 1987
April, 1987
June, 1990
March, 1991
September, 1991
January, 1996
April, 1996
February, 1997
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January, 2000
February, 2001
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**Plumas County Treasurer's Office
Investment Policy**

September, 1991
Revised: January, 1996
Revised: April, 1996
Revised: February, 1997
Revised: February, 1998
Revised: February, 2001
Revised: February, 2002

The county treasurer is a trustee and therefore a fiduciary subject to the prudent investor standard. When investing, reinvesting, purchasing, acquiring, exchanging, selling, and managing public funds, the county treasurer shall act with care, skill, prudence, and diligence under the circumstances then prevailing, that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the county and other depositors. (G.C. Section 27000.3)

Sections 53630, 53601 * and 53601.1 of the Government Code provide legal authorization for the investment and deposit of funds of local agencies. Section 53635 provides additional authority for counties. The Plumas County Treasurer's Office shall conform to, and comply with, the restrictions of all applicable laws. In addition, further requirements shall be established taking into consideration prudent investment standards. Investments not specifically authorized in this policy shall be considered ineligible for purchase.

An adequate percentage of the portfolio should be maintained in liquid short-term securities which can be converted to cash if necessary to meet disbursement requirements. Since all cash requirements cannot be anticipated, investments in securities with active secondary or resale markets is highly recommended. Emphasis should be on marketable securities with low sensitivity to market risk. The Plumas County Treasurer's Office shall also have the option of depositing funds with the Local Agency Investment Fund, especially to help meet liquidity requirements. A resolution passed by the Plumas County Board of Supervisors authorizes deposits with the California Asset Management Program (CAMP). Deposits with CAMP are legal under Section 6502 of the Government Code.

Risk shall also be controlled primarily by purchasing securities that are marketable and of high quality. Rated issues will have their ratings reflected on the trade ticket prepared by the Plumas County Investment Advisor. If a security has its quality rating decline below the legal limit after purchase, the Plumas County Treasurer's investment advisor shall evaluate the quality of that security and provide the treasurer with a recommended plan of action.

The classes of investments that most adequately meet the above-mentioned criteria should be allowed for purchase. They are issues of the United States Government, agencies (The Government National Mortgage Associations, The Federal National Mortgage Association, The Federal Home Loan Bank, The Federal Home Loan Mortgage Corporation, The Federal Farm Credit System), negotiable certificates of deposit (including Yankees), bankers' acceptances (including foreign issues), medium term notes, commercial paper, and shares of beneficial interest. While not as liquid or marketable as the prior mentioned securities, repurchase agreements shall also be allowed as an investment.

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Adequate diversification shall be applied to the individual issuers of debt (normally banks), both within each class of investment and collectively.

Competitive bids shall be obtained when purchasing or selling securities whenever practical.

Guidelines will be developed for each type of security recommended above to allow the investment policy to be properly implemented. The guidelines will also establish limits as to the amount of funds that can be placed in any one type of investment and in the securities (or deposits) in any one company. These limits will be based on the percentage each represents of surplus funds at the time of each purchase. Included in the guidelines will be a brief description of each type of security.

Whenever practical, cash will be consolidated into one bank account and invested on a pooled concept basis. Interest earnings shall be allocated according to fund cash and investment balances on a quarterly basis.

Cash flow shall be analyzed and compared with the receipt revenues and maturity of investments schedules so that adequate cash will be available to meet disbursement requirements as well as developing a basis for the investment strategy.

An economic scenario shall be developed and maintained to assist in developing an investment strategy.

An investment strategy will be developed to help optimize earnings based upon liquidity needs and the economic scenario. Investments will be selected taking many variables into consideration. Probably the most important variables will be the shape of the yield curve, the anticipated change in that curve and the relative value of available securities. Proper use of the yield curve will involve not only purchasing securities with desirable maturities, but also swapping from existing portfolio securities with less desirable maturities into those with maturities that are perceived as currently more advantageous or into securities with more relative values. Securities with maturities of greater than five years may be purchased only with prior Board approval. The weighted average maturity of the portfolio shall not exceed five years without prior Board approval.

Additional income can be obtained through prudent use of swaps. Securities in different classes (sectors) trade at "average" yield differentials from each other. When those spreads are at extremes, an opportunity to increase yield exists by selling a security in the portfolio and purchasing (swapping into) a security in another sector that has a wider than "average" yield spread. This type of swap can be reversed when the yield differential becomes narrower than normal between the two issues, and the process repeated when appropriate.

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Brokers and dealers shall be selected for their proven competitiveness with regard to price and execution, clearance and settlement of transactions, commitment of capital, ability to report promptly and accurately, and to promptly and efficiently deliver securities. Additional criteria shall include the ability and willingness to supply financial publications, economic reports, and financial data. The Investment Advisory for the Plumas County Treasurer's Office shall use this criterion to assist the County Treasurer in the selection of brokers and dealers. The selection of any broker, brokerage, dealer, or securities firm that has, within any consecutive 48-month period following January 1, 1996, made a political contribution in an amount exceeding the limitations contained in Rule G-37 of the Municipal Securities Rulemaking Board, to the Plumas County Treasurer, any member of the Plumas County Board of Supervisors, or any candidate for those offices, shall be prohibited.

Plumas County Board of Supervisors adopted Resolution No. 92-5423 on December 15, 1992 which established a Conflict of Interest Code for Plumas County. The Code states that Subsection 18730(b) of Title 2 of the California Administrative Code, and any future amendments of that Code, is the Conflict of Interest Code for Plumas County.

The limits set forth in the California Administrative Code are the limits set forth by Plumas County.

In addition, the Board of Supervisors have adopted Rule 22 of the Personnel Rules, entitled "Code of Conduct" which further establishes limitations on the receipt of honoraria, gifts, and gratuities.

The Oversight Committee shall be provided with a monthly Investment Report that conforms with the Government Code.

Calculations for the treasurer's administrative fee for costs of investing, depositing, banking, auditing, reporting, or otherwise handling or managing funds, as authorized in Section 27013 of the Government Code, are based upon actual costs and are subtracted from interest earnings on a quarterly basis prior to distribution of interest earnings to all funds.

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Any local agency and other entity not required to deposit funds in the county treasury may do so for investment purposes according to the terms set forth in Section 53684 of the Government Code. In addition, the local agency or other entity must enter into a contract with the county treasurer stating the minimum amount to be deposited, the term of the deposit and anticipated cash-flow projection for deposits and withdrawals, agreement to share in the administrative costs as allowed under Section 27013 of the Government Code, and any other deposit terms required of the treasurer.

Before approving any request to withdraw funds, the county treasurer shall evaluate the request as per Government Code Section 27136 and 27133 (h). The evaluation will be based upon the following criteria:

- (a) legality
- (b) size of request and effect on liquidity of the pool
- (c) effect on earnings rate of the balance of funds in the pool
- (d) assessment of the stability and predictability of the investments in the treasury.

In addition, requests for withdrawal of funds will be at the lower of adjusted cost or market value of the pool at the time of withdrawal - or - to the last available report reflecting market values as of month end.

**PLUMAS COUNTY TREASURER'S OFFICE
SUMMARY OF INVESTMENT LIMITATIONS**

February, 2002

	<u>*Limit Per Institution</u>	<u>*Limit Per Type of Investment</u>
Treasuries		100%
Agencies		
GNMA		50%
FCCS		50%
FHLB		50%
FHLMC		50%
FNMA		50%
BAs	15%	40%
CDs	10%	20%
CP	10%	40%
MTNs	10%	30%
SBIs	15%	15%
TCDs		
Meeting minimum rating requirement	15%	50%
Not meeting minimum rating requirement but with branches in Plumas Co.	\$300,000	
Repos		
Less than 30 days	20%	100%
Greater than 30 days	10%	100%

The aggregate of all investments in any one bank or savings and loan shall be no more than 20 percent of available funds.

• Based on total of available funds at the time the investment decision is made.

Plumas County Treasurer's Office
INVESTMENT GUIDELINES
U.S. Treasuries and Agencies

July, 1985
Revised: January, 1996
Revised: February, 2002

INVESTMENTS: Issues of the U.S. Treasury (treasuries or governments), agencies of the federal government, and the Federal National Mortgage Association (FNMA) shall be authorized as acceptable investments for the Plumas County Treasurer's Office.

REASONS: U.S. Treasury issues are judged to be the safest of all investments. Agencies are typically considered the next safest class of securities available. (The Federal National Mortgage Association is now publicly owned, but the investment world still generally groups it with the agencies. For purposes of this recommendation it will be referred to as an agency.) These securities are also very liquid, marketable, and they offer a wide range of available maturities.

LEGAL AUTHORITY: Section 53601 of the Government Code authorizes local agencies to purchase all of these securities with no limitations as to the amount that can be owned of each.

CHARACTERISTICS: Agencies of the Federal Government are the Federal Home Loan Bank system (FHLB), the Federal Farm Credit System (FFCS), the Federal Home Loan Mortgage Corporation (FHLMC), the Government National Mortgage Association (GNMA).

Securities issued by the GNMA are guaranteed by the Federal Government and it is a general belief that the other agencies carry an "implied" guarantee (excluding FNMA).

Along with treasuries, agencies can be issued in discount form for securities with maturities of one year or less, or with coupons if the maturities are greater than one year. Maturities on these issues can be from just a few days to thirty years.

While all of these securities are classified as agencies, there can be perceived differences in quality and consequently, each can trade at a different yield from each other and treasuries. Issues of the GNMA, because of the government guarantee, are considered the safest of the agencies.

GUIDELINES GOVERNING GOVERNMENT AND AGENCY ISSUES: There should be no restrictions on the amount of dollars to be placed in governments at any one time. As a general guide, no more than 50 percent of available funds should be in any one agency.

Plumas County Treasurer's Office	July, 1985
INVESTMENT GUIDELINES	Revised: August, 1985
Bankers' Acceptances	Revised: January, 1996
	Revised: May, 2000
	Revised: February, 2002

INVESTMENTS: Domestic Bankers' Acceptances only shall be authorized as acceptable investments for the Plumas County Treasurer's Office.

REASONS: Bankers' Acceptances (BA's) are a suitable alternative to Fed Funds as a short-term investment. In addition to providing additional yield, they are considered a safe and liquid investment.

DEFINITION: A BA is a time draft drawn on and accepted by a bank for payment of the shipment or storage of merchandise. The initial obligation of payment rests with the drawer, but the bank substitutes its credit standing for that of the borrower and assumes the obligation to pay face value at maturity.

LEGAL AUTHORITY: Sections 53601 and 56635 of the Government Code allow counties to place up to 40 percent of available funds in bankers' acceptances with maturities not to exceed 180 days.

FOREIGN BA'S: During the 1970's foreign banks, and in particular the Japanese agencies, became a competitive force in the U.S., especially in the issuance of BA's. The International Banking Act (IBA) was passed by Congress and signed into law in 1978 to regulate foreign banks. The IBA created a dual state and federal regulatory system. The Fed was authorized to fix reserve requirements for both state and federally licensed agencies of foreign banks. Most states require foreign agencies to maintain assets in an amount not less than 108 percent of the adjusted total liabilities of the agency and to deposit cash or securities with the state equal to five percent of adjusted total liabilities.

HISTORY: A form of BA 's was used to finance foreign trade as early as the 12th century and they have been used in the United States for over 100 years. The Federal Reserve allowed national banks to accept time drafts in 1913 to encourage foreign trade and subsequently took action to promote expansion of the BA market. The most dramatic growth of the BA market began in 1974 when the total of BA's outstanding was approximately \$10 billion.

CHARACTERISTICS: BA's are issued in bearer form and are a discount instrument. Normal trading blocks are \$5 million, but the odd-lot market is active. The majority of BA's are created with a 90-day maturity and rarely extend over 180 days.

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INVESTMENT GUIDELINES

Bankers' Acceptances

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Due to the high volume of BA's being traded, they are relatively liquid instruments with spreads between the quoted bid and offer typically being between five and ten basis points, but often brokered for as little as two basis points.

The spread between treasuries and BAs will vary, depending upon a variety of circumstances. During periods of tight money, the spreads can be substantial. Likewise, easy money can produce narrower yield differentials.

Since BA's are a "two-name paper" they are perceived to be the safest of bank obligations. During the more than 70 years that BA's have been actively traded in the U.S. no loss of principal has been documented.

GUIDELINES GOVERNING BA INVESTMENT: Only the most financially sound banks should be acceptable for purchase. BAs shall only be purchased from banks that are approved by the Plumas County Treasurer with recommendations by its investment advisor.

Since BA's are a relatively safe investment, the Plumas County Treasurer's Office is authorized to invest in BA's up to the 40 percent maximum authorized by law. However, no more than 15 percent of funds in the Plumas County Treasurer's Office shall be placed in the BA's of any one bank at any one time. In combination with all other investments from the same bank (excluding repurchase agreements and commercial paper with maturities of seven days or less), BA's of any one bank should not exceed 20 percent of available funds.

**Plumas County Treasurer's Office
INVESTMENT GUIDELINES
Commercial Paper**

July, 1985
Revised: August, 1985
Revised: January, 1996
Revised: January, 2000

INVESTMENT: Commercial paper (CP) shall be authorized as an acceptable investment for the Plumas County Treasurer's Office.

REASONS: Commercial paper can be an appropriate short-term investment because of yield, liquidity and choice of maturities.

DEFINITION: Commercial paper is an unsecured negotiable instrument normally issued by large and financially sound corporations.

LEGAL AUTHORITY: Section 53601 of the Government Code allows local agencies to invest up to 30 percent of surplus funds in commercial paper if certain conditions are met.

HISTORY: The origin of commercial paper can be traced to the 19th Century in the United States where it became a substitute for bank loans.

CHARACTERISTICS: Commercial paper can be issued bearing a coupon or it can be discounted. Maturities never exceed 270 days and the majority of commercial paper is issued for 30 days or less. It can be issued by an "industrial" company or a bank holding company, but not directly by a bank.

Commercial paper can be written for any amount, but normally is issued in increments of \$1 million. There is a secondary market for commercial paper, but it has very limited liquidity compared to the CD or BA markets.

Commercial paper issuers can obtain a letter of credit from a bank to guarantee payment of principal and interest at maturity or a bank line of credit that can be drawn on for such payment.

Top grade commercial paper will typically yield slightly less than top grade CDs.

RECOMMENDED GUIDELINES GOVERNING COMMERCIAL PAPER INVESTMENTS:

Commercial paper eligible for purchase by the Plumas County Treasurer's Office shall be issued by a company that:

- (1) Has the highest rating offered by Moody's Investors Service, Inc. (A-1), or Standard and Poor's Corporation (P-1). (Current Law)

Plumas County Treasurer's Office
INVESTMENT GUIDELINES
Commercial Paper
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- (2) Has a Moody's or Standard and Poor's rating of "A" or better on its debentures other than commercial paper. (Current Law)
- (3) Is approved by the Plumas County Treasurer with recommendations by its investment advisor. This is the same restriction placed on banks that issue BA's and CD's.
- (4) Are organized and operating within the United States. (Current Law)
- (5) Have assets in excess of \$500,000,000. (Current Law)

Maturities of commercial paper shall not exceed 180 days. (Current Law)

Purchases of the commercial paper of any one corporation shall not exceed 10 percent of its outstanding paper. (Current Law)

Up to 40% of surplus funds may be placed in commercial paper (Law as of 1-1-00).

No more than 10 percent of surplus funds shall be placed in the commercial paper of any one institution at any one time (Law as of 1-1-00). '

In combination with all other investments from the same bank (excluding repurchase agreements of seven days or less) the commercial paper of any one institution shall not exceed 20 percent of surplus funds.

**Plumas County Treasurer's Office
INVESTMENT GUIDELINES
Medium-Term Corporate Notes**

March 13, 1987
Revised: January, 1996
Revised: January, 2000
Revised: February, 2002

INVESTMENT: Medium-term notes (MTNs) shall be authorized as acceptable investments for the investment portfolio of the Plumas County Treasurer's Office.

REASON: Medium-term notes are a suitable investment for maturity requirements of one to five years. High-quality corporate notes are relatively safe as to principal, reasonably liquid and they can offer attractive yields and a wide range of maturities.

DEFINITION: MTNs are negotiable instruments issued by corporations with maturities of nine months to fifteen years. Most are unsecured, although some are collateralized or carry other credit enhancements such as a letter of credit. The definition of legal investments under this section of the Code was expanded on 1-1-00 to include "all corporate and depository institution debt securities."

LEGAL AUTHORITY: Section 53601 of the Government Code allows public agencies to invest a maximum of 30 percent of surplus funds in MTNs with maturities up to five years. Issuers must be operating within the United States and possess ratings in the top three categories (A or better) by a nationally recognized rating service.

HISTORY: MTNs were initially issued by General Motors Acceptance Corporation (GMAC) in 1972. They have become a more prevalent investment since 1982 when the SEC removed some restrictions that had previously hindered their sale. Currently, there are over 100 issuers of MTNs.

CHARACTERISTICS: MTNs are generally issued in minimum amounts of \$25,000 or \$100,000 and integral amounts of \$1,000. Interest is calculated on a 30-day month, 360-day year basis and paid semi-annually on two pre-established dates. Floating rate MTNs can pay interest monthly, quarterly, or semi-annually.

Yields on MTNs will normally exceed those on treasuries with comparable maturities by about 10 to 75 basis points. Levels of interest rates, maturities, the quality of each issue, and supply and demand factors will affect available yields.

GUIDELINES GOVERNING MTNs INVESTMENTS: In addition to meeting legal rating requirements, MTNs must be approved by the Plumas County Treasurer with recommendations by its investment advisor prior to purchase. Up to 30 percent of surplus funds shall be allowed to be placed in MTNs at any one time. No more than 10 percent of surplus funds should be allowed to be placed in the notes of any one issuer at any one time.

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INVESTMENT GUIDELINES
Medium-Term Corporate Notes
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In combination with any other debt issued by any one corporation or its holding company (excluding repurchase agreements and commercial paper with maturities if seven days or less), no more than 20 percent of available should be placed in that corporation at any one time.

**Plumas County Treasurer's Office
INVESTMENT GUIDELINES
Negotiable Certificates of Deposit**

October, 1991
Revised: August, 1985
Revised: January, 1996
Revised: February, 2002

INVESTMENT: Domestic and Yankee negotiable certificates of deposit (CDs) shall be authorized as acceptable investments for the investment portfolio of the Plumas County Treasurer's Office.

REASONS: CDs have become a desirable investment because they offer a good combination of liquidity, marketability, yield, safety and choice of maturities.

DEFINITION: A CD is a negotiable instrument evidencing a time deposit with a bank at a fixed rate of interest for a fixed period of time. A variation is a variable rate CD that periodically changes the interest rate based upon a predetermined index, usually an average of shorter-term CDs or treasury bills. CDs are not collateralized and should be considered an unsecured deposit.

Yankee CDs are issued by foreign bank branches in the United States.

LEGAL AUTHORITY: Section 53601 of the Government Code allows public agencies to invest in a maximum of 30 percent of surplus funds in CDs.

HISTORY: New York banks began issuing CDs in 1961 in an effort to attract deposits from the national market. A secondary market was created at the same time. Yankee CDs began trading actively in the late 1970's.

CHARACTERISTICS: CDs are coupon bearing, which on CDs with maturities of one year or less is usually paid at maturity. A small percentage of CDs issued have maturities greater than one year and will normally pay interest on a semiannual basis. The majority of CDs are issued in the 30-90-day range.

CDs are normally issued in denominations of \$1 million and the normal trading block is \$5 million. The odd-lot market is active, but marketability and yield suffer slightly.

Yankee CDs usually trade at a slight yield premium to domestic CDs, and domestics at a premium to treasuries.

GUIDELINES GOVERNING CD INVESTMENTS: Since CDs are an unsecured deposit, only banks of the highest quality shall be eligible for purchase. CDs shall only be purchased from banks that have been approved by the Plumas County Treasurer with recommendations by its investment advisor.

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INVESTMENT GUIDELINES

Negotiable Certificates of Deposit

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Because CDs are considered lower quality than BAs, they shall represent a smaller percentage of the portfolio than BAs. That limit shall be 20 percent of available funds, and no more than 10 percent of those funds shall at any one time be in the CDs issued by a single bank. In combination with any other debt issued by any one bank, (excluding repurchase agreements and commercial paper with maturities of seven days or less), no more than 20 percent of available should be placed in that bank at any one time.

Plumas County Treasurer's Office
INVESTMENT GUIDELINES
Repurchase Agreements

July 1, 1985
Revised: August, 1985
Revised: January, 1996
Revised: August, 1998
Revised: February, 2002

INVESTMENT: Repurchase Agreements (repos) shall be authorized as acceptable investment instruments for the Plumas County Treasurer's Office.

REASONS: Repos are one of the most flexible investments available to invest short-term funds, and when proper guidelines are followed, are relatively safe.

DEFINITION: A repo involves two simultaneous transactions. One transaction involves the sale of securities (collateral) by a borrower of funds, typically a bank or broker/dealer in governments or agencies, to a lender of funds. The lender can be any investor with cash to invest. The second transaction is the commitment by the borrower to repurchase the securities at the same price plus a predetermined amount of interest on an agreed future date.

LEGAL AUTHORITY: Section 53601 of the Government Code permits Repos in any security that is allowed for purchase as defined in that same section of the Code. Collateral must be delivered to the local agency by book entry, physical delivery or third-party custodial agreement.

CHARACTERISTICS: Repos can be entered into with any amount of dollars, including odd amounts. They are typically for very short periods, often one day; but it is not unusual for repos to be for periods of up to 180 days and occasionally longer.

Any type of security can be used as collateral, but most often government or agencies securities are utilized.

The interest rate earned on a repo is a function of short-term borrowing rates, the term of the repo, the size of the transaction, and the quality and supply of the securities used as collateral.

When Repos are transacted with a bank it is a normal practice to allow that bank to maintain the collateral in a pooled trust account. When the transaction is with a broker/dealer investment policy differ, but typically the collateral is transferred to the safekeeping account of the investor, especially if the dollars involved are large and the term of the Repo is relatively long.

RISK: There are minimal risks involved in a repo transaction if the collateral is priced properly. Caution should be used for repos of greater than 30 days so that market changes do not substantially change the value of the collateral.

Plumas County Treasurer's Office

INVESTMENT GUIDELINES

Repurchase Agreements

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GUIDELINES: Collateral used for repos shall be any security approved for purchase. Collateral for repos transacted with banks shall be allowed to be maintained in a pooled trust account. Collateral for repos transacted with broker/dealers shall be delivered to the Plumas County's safekeeping agent.

For repos of 30 days or less, no more than 20 percent of the available funds shall be invested with any one dealer.

Securities purchased through repurchase agreements shall be considered "owned" and added to the total of those securities (excluding repos of seven days or less). This will prevent percentage limitations on any type of security from being exceeded.

**Plumas County Treasurer's Office
INVESTMENT GUIDELINES
Time Certificates of Deposit**

July 1, 1985
Revised: March, 1986
Revised: January, 1996
Revised: August, 1998
Revised: February, 2002

INVESTMENT: Time Certificates of Deposit (TCDs) shall be authorized as acceptable investments for the investment portfolio of the Plumas County Treasurer's Office.

REASONS: TCDs can be attractive investments because they offer competitive yields, a wide range of maturities, and a relatively high degree of safety if they are insured and/or issued by a financial institution of high quality.

DEFINITIONS: A TCD is a non-negotiable instrument evidencing a deposit with a financial institution for a fixed period of time and normally for a fixed rate of interest. TCDs can be collateralized with securities or mortgages or, if issued in denominations of \$100,000 or less, they can be insured.

LEGAL AUTHORITY: Section 53630 of the Government Code allows public agencies to invest in the TCDs of banks, savings associations, or federally insured industrial loan companies.

HISTORY: Prior to 1975, bank TCDs collateralized with securities were one of the few investments allowed for public agencies. Subsequently, TCOs of other depositories were legalized as investments, the insured portion of TCDs was raised to \$100,000, mortgages could be utilized as collateral, and collateral could be waived in lieu of insurance.

CHARACTERISTICS: TCOs purchased by public agencies pay interest at least quarterly. Maturities are typically one year or less. Because they are non-negotiable, they are non-liquid and cannot be sold or redeemed prior to maturity without suffering a loss of interest. TCDs can be written for any amount, but it has become common practice over the past few years to issue TCDs in \$100,000 denominations to take advantage of the insurance available on that amount.

TCOs covered by insurance typically yield slightly more than TCOs collateralized. Yields on TCDs issued by different institutions can vary a great deal depending upon the quality and size of the institution.

GUIDELINES GOVERNING TCD INVESTMENTS: Only TCDs of financial institutions of highest quality should be purchased.

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INVESTMENT GUIDELINES

Time Certificates of Deposit

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At the discretion of the Treasurer, up to \$300,000 may be placed in a bank or savings and loan not meeting the minimum rating requirement if a branch office is maintained in Plumas County.

No more than 15 percent of surplus funds shall be placed in TCDs of any one institution at any one time.

Waivers for insurance will be allowed.

Interest shall be collected monthly when possible.

Up to 50 percent of funds being managed may be deposited in TCDs at any one time. Deposits in any one financial institution, in combination with any other debt issued by that institution should equal not more than 20 percent of available funds (excluding repos and commercial paper with maturities of seven days or less).

Plumas County Treasurer's Office
Investment Guidelines
Shares of Beneficial Interest

January, 1996
February, 2002

INVESTMENT: Shares of Beneficial Interest shall be authorized as acceptable investments for the investment portfolio of the Plumas County Treasurer's Office.

REASONS: Shares of Beneficial Interest offer a reasonable amount of liquidity, diversification and safety. They are also easy to invest in and they allow odd amounts of money to be fully invested.

DEFINITION: Shares of Beneficial Interest are mutual funds. Each share of the Fund represents an ownership of the Fund's assets and shares all income and expenses.

LEGAL AUTHORITY: Section 53601 of the Government Code authorizes local agencies to purchase Shares of Beneficial Interest if they have been awarded the highest letter and numerical rating provided by at least two of the three largest nationally recognized rating services; or if they are managed by an investment advisor registered with the Securities and Exchange Commission with not less than five years' experience investing in the securities and obligations as authorized in Section 53601 of the Government Code and with assets under management in excess of \$500,000,000. Eligible Shares of Beneficial Interest must only invest in securities that meet the requirements and restrictions listed in Section 53601 of the Government Code. Commissions may not be included in the purchase price and the total of all Shares of Beneficial Interest may not exceed 15 percent of available funds.

GUIDELINES: The restriction on Shares of Beneficial Interest allow for prudent use of them. No additional restrictions need to be applied.

**Plumas County Treasurer's Office
INVESTMENT GUIDELINES
Exceptions to Established Guidelines**

September 4, 1986
Revised: January, 1996
Revised: February, 2002

When appropriate alternative investments cannot be located or because of time constraints, funds may temporarily be invested in BAs, CP or repos if the following conditions are met:

1. The maturity of the investment does not exceed 14 days.
2. The issuer is approved by the Plumas County Treasurer with recommendations by its investment advisor.
3. The amount invested in any one institution does not exceed legal limits.

AB 609 Kelley, affecting California local agency investments, became law Jan 1, 2002. It has minimal effect on existing investment policy and guidelines. The areas that are of most concern include:

- The elimination of the word "surplus" when referring to funds available for investment.
- Specifying that section 53601 of the Government code applies to all local agencies and section 53635 applies to counties.
- Since section 53601 now applies to all local agencies, the discrepancy between the two sections covering the maximum maturities of commercial paper and bankers' acceptances is eliminated. Commercial paper can have maturities up to 270 days. Bankers Acceptances can have maturities of up to 180 days.
- Section 53601 now allows local agencies to invest a maximum of 25 percent of available funds in commercial paper. Section 53635 allows counties to invest up to 40 percent of available funds in commercial paper.
- Fitch Financial Services, Inc was added to the list of rating agencies that can provide ratings for commercial paper.

Other changes to the Code cover how federal agencies are defined, and minor adjustments affecting repurchase agreements, reverse repurchase agreements and securities lending agreements. These changes do not materially impact existing investment policy and guidelines.

A copy of AB609 in its chaptered form is attached.