



COUNTY OF SONOMA

575 ADMINISTRATION
DRIVE, ROOM 102A
SANTA ROSA, CA 95403

SUMMARY REPORT

Agenda Date: 12/6/2022

To: Board of Supervisors

Department or Agency Name(s): Auditor-Controller-Treasurer-Tax Collector

Staff Name and Phone Number: Kathleen Parnell, 707-565-6124; David Maurice, 707-565-2858

Vote Requirement: Majority

Supervisory District(s): Countywide

Title:

Authority to Invest and Reinvest Funds, Approval of the Statement of Investment Policy, and Annual Auditor-Controller -Treasurer-Tax Collector Informational Treasury Report

Recommended Action:

- A. Approval of the Concurrent Resolution of the Board of Supervisors of the County of Sonoma and all Districts governed ex-officio by the Board of Supervisors renewing authorization for the County Treasurer to assume full responsibility for all transactions and expenditures related to the investment and reinvestment of Funds on deposit in the County Treasury for calendar year 2023.
- B. Approval of the County of Sonoma Statement of Investment Policy with no changes.

Executive Summary:

This item provides for the annual review and authorization of the delegated authority of the Board of Supervisors to the County Treasurer to invest and reinvest funds, as provided for in County Ordinance 5037, and approval of the Statement of Investment Policy.

This item also provides an update of the Sonoma County Pooled Investment Fund ("Pooled Investment Fund") and a discussion of the status of the funds invested in the Pooled Investment Fund.

Discussion:

The Board of Supervisors adopted County Ordinance 5037 ("the Ordinance") on June 17, 1997. The Ordinance permits the annual delegation of the authority to invest and reinvest funds held on deposit in the Pooled Investment Fund, as well as the authority to sell or exchange securities. The County Treasurer then assumes full responsibilities for all transactions and expenditures related to the investment and reinvestment of funds on deposit until the annual delegation expires or until the Board revokes its delegation of authority by ordinance.

This authority is also requested in order to comply with the County of Sonoma Statement of Investment Policy ("Policy"), approved by the Board of Supervisors on December 7, 2021. Section 6 of the Policy states the Sonoma County Board of Supervisors, by resolution, has delegated investment responsibility for the Sonoma County Investment Program to the Auditor-Controller-Treasurer-Tax Collector.

Regardless of whether changes are made, the Policy is brought annually to the Board for approval per

Government Code Section 53646. On August 10, 2022, the Treasury Oversight Committee reviewed the Policy and agreed with Treasury staff that no changes be made to Policy.

Treasury Investment Status Update

Overview

The Sonoma County Treasurer is responsible for safely managing the daily investment of the approximately \$3 billion Pooled Investment Fund on behalf of the County, schools, special districts, and other agencies. Funds are invested in accordance with both State law and the Policy. Government Code Section 53600, et seq. guides the investment process and establishes the following three investment objectives in order of importance: 1) Safety of Capital, 2) Liquidity to meet participant cash flow needs, and 3) Maximum Rate of Return.

In December 2019, your Board added social and environment considerations to the investment strategy. Whenever possible and consistent with the three statutory objectives listed above, investment opportunities will be evaluated for social and environment impacts with the intent to create positive impacts by investing in socially and environmentally responsible agencies and corporations.

The Pooled Investment Fund is restricted to fixed income instruments that mature within five years, with the exception of Sonoma County Energy Independence Program bonds, for which the Board has been granted express authority. Investments are limited to very high credit quality and include US Treasury securities; obligations issued by US Government Agencies such as Fannie Mae and Freddie Mac, states, and California municipalities and local agencies; and supranational bonds, which are issued by multi-national institutions devoted to economic, health, education and social development, as well as green projects. Investments in corporations such as commercial paper, bank certificates of deposit or medium-term notes are restricted to single-A or better credit ratings.

Cash Flow Management

Each year the Treasurer oversees the investment of over \$4 billion primarily comprised of the inflow of property taxes, reinvestment, State school apportionments, sales tax revenues, and school bond proceeds. Interest earnings are accrued and apportioned to participants based on their average balance in the Pooled Investment Fund during each quarterly reporting period. Participants received \$17.8 million in interest earnings during FY 2021-22.

On a daily basis, the Treasurer's Investment staff assesses participant needs to assure there is sufficient cash on hand to cover expenditures. Quarterly, Government Code Section 53646(b)(3) requires the Treasurer to state that the Pooled Investment Fund has the ability to cover six months of participant expenditures. The ongoing liquidity needs are managed by investment staff through continual communication with participants to understand future expenditure requirements. Staff also utilizes a cash flow forecasting model that matches future revenues and investment maturities with projected expenditures.

Each day, staff reviews the cash needs and manages the movement of cash between various financial institutions to cover all expenditures, investments, and other obligations. After covering all other outstanding

obligations, staff determines the level of cash available for investment and reviews the financial market for investment opportunities to safely optimize interest earnings.

The Investment Process

Pursuant to Sonoma County Ordinance 5037, Section 2-33-20, the County Board of Supervisors has delegated the authority to invest and reinvest funds of the County and other depositors to the County Treasurer.

Primary guidance for the investment process is provided in the Policy. The main purpose of the Policy is to prescribe the permissible amounts and types of investments that the Pooled Investment Fund can purchase. The Policy provides a level of guidance and accountability for investment staff and promotes public trust. The Policy is an essential component of a disciplined approach to the investment process and when combined with quarterly reports as required by Government Code Section 53646(b)(2), helps to assure that the investment process adheres to a set of safe practices to aid in the protection of investments. The Treasurer is the Trustee of the Fund and is a fiduciary subject to the prudent investor standard. The stated investment objectives of the Policy are in order of importance: 1) Safety of Capital 2) Liquidity and 3) Maximum Rate of Return. Preservation of capital is the primary objective. Providing sufficient liquidity to meet all Fund depositor's operating requirements is secondary. After the first two objectives are met, maximizing the rate of return through careful consideration of market conditions, risk assessment, and consideration of economic cycles is desirable. In 2019, the Board of Supervisors added criteria to foster positive social and environmental impacts when choosing investments, provided the mandates of Safety, Liquidity and Return are met.

Prior to purchasing securities, the investment process takes into consideration various types of risk and the condition of the financial markets. The most common types of risk affecting a fixed income portfolio are interest rate, market, and credit risk. To a lesser degree, headline risk is also a concern. Interest rate risk is the risk that rates will rise or fall causing an adverse effect on the value of investments. Market risk (also known as systemic risk) is the adverse effect of recessions, political turmoil or other systemic issues that affect the entire market. Credit risk is the chance that a particular company will fail to meet their financial obligations resulting in possible non-payment of an obligation such as bond interest and principal due. Headline risk is the effect of news headlines negatively affecting the value of a company and their outstanding debt obligations.

In order to assess the most optimal investment opportunities, staff uses tools such as a Bloomberg computer terminal and a network of securities brokers to ascertain current market pricing for the different types of securities available for purchase. Investment decisions are made based on current market offerings from brokers who have a constantly changing supply of qualified securities available for purchase. As market conditions change, staff tracks the direction of interest rates and assesses various types of risk to make investment decisions that align with primary objectives. Throughout the year, staff performs several portfolio management functions, including continuously monitoring the market for advantageous investment opportunities; monitoring the companies whose bonds are held in the Pooled Investment Fund and evaluate for credit worthiness based on ratings provided by major credit rating agencies such as Standard & Poor's, Fitch, and Moodys; monitor, and if needed, rebalance the mix of investment types and holdings; and track the

mix and level of sector diversification for owned corporate securities.

Lastly, there is a robust audit program in place and several periodic audits are performed each year to help assure that Treasury Investment staff comply with relevant Government Code requirements when administering the investment function and performing Treasury operations. An annual compliance audit is performed by an independent outside auditor who reviews the annual activity of the Pooled Investment Fund to assure compliance with all applicable State laws. Quarterly, an audit of Pooled Investment Fund assets are accounted for and reconciled. Finally, the County's independent auditor performs random testing of investment activity to check for compliance with relevant statutory requirements.

Environmental, Social & Governance Investing

Pursuant to guidance approved by the Board in 2019, Treasury staff has focused on incorporating Environmental, Social and Governance ("ESG") principles into the framework used to manage the Pooled Investment Fund. ESG investing seeks to broaden and deepen the impact of focused investment by bringing certain portfolio concepts into the mix when considering investments. Treasury staff has incorporated several of these concepts into the investment process.

First, in alignment with Board priorities, staff has continued to avoid investments in fossil fuel development corporations as well as companies involved in the private-for-profit prison industry. The Pooled Investment Fund does not have investments in any oil, gas or coal extraction or refining companies. Investment in green power providers continues to not be an option as participants do not have high enough credit ratings to comply with California Code or simply do not offer debt instruments. The Pooled Investment Fund has been fully divested from Wells Fargo and BNP for several years and has not been invested in other banks that finance private prison corporations.

Second, staff has focused investments in corporate issuers that have high ESG rankings and incorporated the use of two third-party ranking systems when considering potential investments. The two systems are offered by MSCI (<https://www.msci.com/esg-ratings>) and CSR (<<https://www.csrhub.com/>>) and utilize peer-industry group comparisons to rank corporations within their peer space. Average ESG rankings for Corporate notes and CDs are "AA" from MSCI and 90% from CSR. These rankings are at the same level (MSCI) or higher (CSR) than last year.

Lastly, staff has expanded holdings in green bonds, supranational development bonds, schools and education, and other impact investments as appropriate under the Policy.

As of September 30, 2022, investments in green bonds, which are devoted to financing sustainable energy and efficiency projects, total \$133 million or 4.4% of the Fund, a decrease from \$147 million as of September 30, 2021. Investments in supranational development bonds are \$281 million or 9.2% of the Fund, up from \$240 million. Investments in designated social investments, including housing funding, are \$109 million or 3.6%, compared with \$71 million in investments last year. Investments in education, comprised of California schools and universities total \$193 million or 6.3% of the Fund, is up from \$156 million last year and includes \$4.4 million in Sonoma County schools. An additional \$0.7 million is invested in other Sonoma County issuers. In

Strategic Plan:

N/A

Prior Board Actions:

12-07-2021 - Board of Supervisors approved Resolution #2021-1220 Authority to Invest and Reinvest Funds, Approval of the Statement of Investment Policy, and Annual Auditor-Controller -Treasurer-Tax Collector Informational Treasury Report

10-13-2020 - Board of Supervisors approved Resolution #20-0946 Authority to Invest and Reinvest Funds, Approval of the Statement of Investment Policy, and Auditor-Controller -Treasurer-Tax Collector Informational Treasury Report

12-10-2019 - Board of Supervisors approved Resolution #19-1598 Authority to Invest and Reinvest Funds, Approval of the Statement of Investment Policy, and Auditor-Controller -Treasurer-Tax Collector Informational Treasury Report

These have been approved yearly prior, since 1997.

FISCAL SUMMARY

Expenditures	FY 22-23 Adopted	FY23-24 Projected	FY 24-25 Projected
Budgeted Expenses			
Additional Appropriation Requested			
Total Expenditures			
Funding Sources			
General Fund/WA GF			
State/Federal			
Fees/Other			
Use of Fund Balance			
Contingencies			
Total Sources			

Narrative Explanation of Fiscal Impacts:

None.

Staffing Impacts:			
Position Title (Payroll Classification)	Monthly Salary Range (A-I Step)	Additions (Number)	Deletions (Number)

Narrative Explanation of Staffing Impacts (If Required):

Agenda Date: 12/6/2022

None.

Attachments:

Resolution

Statement of Investment Policy

Related Items “On File” with the Clerk of the Board:

None.