



COUNTY OF SONOMA

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

SUMMARY REPORT

Agenda Date: 12/12/2023

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

Supervisorial District(s): Countywide

Title:

Authority to Invest and Reinvest Funds, and Approval of the Statement of Investment Policy

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 2024.
- B. Approval of the County of Sonoma Statement of Investment Policy with 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. In the past year, we have seen short term rates increase as a result of the Fed’s monetary policy and a Treasury yield curve that both inverted and shifted upward. The rate earned on the Pooled Investment Funds during the first quarter of FY23-24 was 2.73% which is an increase from 1.04% in the first quarter of FY22-23. The increase in yield reflects changes in the overall interest rate environment, as well as the dynamic nature of the Pooled Investment Funds (diversification across investment types, issuer name, maturities, etc.). Historical yields and the composition of the portfolio are provided in a Quarterly Report, which is kept on file with the Clerk of the Board.

Updates to the Sonoma County Statement of Investment Policy (“Policy”) have been made to reflect current and best industry practices, incorporate updates to government code, and to provide further clarification and make the Policy more robust.

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 Policy, approved by the Board of Supervisors on December 6, 2022. 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 16, 2023, the Treasury Oversight Committee reviewed the Policy and agreed with Treasury staff's recommendation that updating the Policy was necessary.

Recommended changes have been made to the Policy to align it with current state law as well as to incorporate best practices. These changes are ministerial in nature and will not materially impact how the Pooled Investment Fund is managed. Obsolete sections of the policy have been removed, and areas that were vague or unclear have been re-written to provide better clarity. As the changes are manifold and throughout the document, both the changed and final recommended versions of the Policy are attached.

Recommendations include:

- Update Section 2. Standard of Care - amend prudent investor description to align with Government Code Section 27000.3
- Update Section 3. c. Rate of Return - amend rate of return investment objective language to align with Government Code Section 53600.5
- Add Section 4. Cash Flow Analysis - staff considers this to be a best practice
- Add Section 9. Diversification - staff considers this to be a best practice
- Add Section 11. Credit Ratings & Downgrades - staff considers this to be a best practice
- Add Section 12. Trading or Early Sale of Securities - staff considers this to be a best practice
- Add Section 13. Maximum Maturity - staff considers this to be a best practice
- Add Section 23. Treasury Oversight Committee - staff considers this to be a best practice
- Delete Bankers' Acceptance Section - obsolete investment type
- Expand Glossary of Terms and other ministerial changes

Investment Overview

The Sonoma County Treasurer is responsible for safely managing the daily investment of the approximately \$3.4 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) 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, 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.

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.

As of September 30, 2023, investments in green bonds, which are devoted to financing sustainable energy and efficiency projects, total \$72 million or 2.9% of the Fund which includes investments through the SCEIP program. Investments in supranational development bonds are \$186 million or 5.5% of the Fund. Investments in designated social investments, including housing funding, are \$165 million or 4.5%. Investments in education, comprised of California schools and universities total \$182 million or 5.4% of the Fund and includes \$8.2 million in Sonoma County schools. In total, impact investments held by the Fund amount to \$633 million, or 18.7% of the Fund.

Strategic Plan:

N/A

Prior Board Actions:

Annually, since 1997, Resolutions have been approved granting Authority to Invest and Reinvest Funds, Approval of the Statement of Investment Policy, and Annual Auditor-Controller -Treasurer-Tax Collector Informational Treasury Report; most recently:

- 12-06-2022 - Board of Supervisors approved Resolution #22-0490
- 12-07-2021 - Board of Supervisors approved Resolution #21-0482
- 10-13-2020 - Board of Supervisors approved Resolution #20-0946
- 12-10-2019 - Board of Supervisors approved Resolution #19-1598

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			

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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):

None.

Attachments:

- Resolution
- Statement of Investment Policy
- Statement of Investment Policy (redline)

Related Items "On File" with the Clerk of the Board:

None.