

Housing Authority of the County of Contra Costa Investment Policy

Scope

This policy covers the investment activities of all contingency reserves and cash reserves or surplus under the direct authority of HACCC.

Prudence

Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs; not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived. The standard of prudence to be used by investment officials shall be the "prudent person" standard (Government Code 53600.3) and shall be applied in the context of managing an overall portfolio. The Executive Director and his designees acting in accordance with written procedures and this investment policy and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes. Any information received which identifies potential security risks or market price changes of significance shall be reported in a timely fashion and efforts to control adverse developments shall be pursued.

Objective

Section 53600.5 of the Government Code outlines the primary objectives of a trustee investing public money. The primary objectives, in order of priority, of HACCC investments activities shall be:

1. Safety: Safety of principal is the foremost objective of this investment policy. Investments of the HACCC shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio.
2. Liquidity: The investment portfolio will remain sufficiently liquid to enable the HACCC to meet all operating requirements, which might be reasonably anticipated.
3. Return on Investment: Investment return becomes a consideration only after the basic requirements of safety and liquidity have been met. The investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles consistent with HACCC investment policy, taking into consideration investment risk constraints and cash flow characteristics of the portfolio.

Authority to manage the investment program is derived from Section 401(E) of the Annual Contribution Contract (ACC) between HUD and HACCC, and the Government Code Sections 53601, et seq. Management responsibility for the investment program is hereby delegated to the Executive Director of HACCC, who shall establish written procedures for the operation of the investment program consistent with this investment policy. Procedures should include references to safekeeping and repurchase agreements, wire transfer agreements, collateral/depository agreements and banking services contracts, as appropriate. Such procedures shall include explicit delegation of authority to persons responsible for investment transactions. No person may engage in an investment transaction except as provided under the terms of this policy and procedures established by the Executive Director. The Executive Director, as authorized by the Housing Authority Board of Commissioners, shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials. The Executive Director is a trustee and a fiduciary subject to the prudent investor standard. (Government Code 53600.3)

Ethics and Conflicts of Interest

Officers and employees of the Housing Authority and such investment underwriters, bond counsel and other financial advisors or consultants involved in the investment process shall refrain from personal business activity which could conflict with the proper execution of the investment program, or which could impair their ability to make impartial investment recommendations and decisions.

Authorized Financial Institutions and Dealers

- A) The Executive Director will maintain a list of financial institutions that are authorized to provide investment services. Selection for placement on this list will be on the basis of credit worthiness, financial strength, experience and minimal capitalization. In addition, a list will also be maintained of approved security broker/dealers or investment bank underwriters who are authorized to provide investment and financial advisory services in the State of California. No public deposit shall be made except in a qualified public depository as established by state laws.
- B) Selection: For brokers/dealers or investment bank underwriters of government securities and other investments, the Executive Director shall select only brokers/dealers or investment bank underwriters who are licensed and in good standing with the California Department of Securities, the Securities and Exchange Commission, the National Association of Securities Dealers or other applicable self-regulatory organizations; and, cannot have made any campaign contributions to any member of the Housing Authority's Board of Commissioners.

- C) Certification: Before engaging in investment transactions with a broker/dealer or investment bank underwriter, the Executive Director shall have received from said firm a signed Certification Form (See Exhibit 1). This form shall attest that the individual responsible for the Housing Authority's account with that firm has reviewed the Housing Authority's Investment Policy and that the firm understands the policy and intends to present investment recommendations and transactions to the Housing Authority that are appropriate under the terms and conditions of the Investment Policy.

Authorized and Suitable Investments

The Housing Authority is empowered by the HUD Notice 02-13 (See Attachment A) to invest HUD funds in the following:

- A. United States Treasury Bills, Notes & Bonds.
- B. Obligations issued by Agencies or Instrumentalities of the U.S. Government.
- C. State or Municipal Depository Funds, such as the Local Agency Investment Fund (LAIF).
- D. Insured Demand and Savings Deposits, provided that deposits in excess of the insured amounts must be 100 percent collateralized by securities listed in A & B above.
- E. Insured Money Market Deposit Accounts, provided that deposits in excess of the insured amount must be 100 percent collateralized by securities listed in A & B above.
- F. Insured Super NOW Accounts, provided that deposits in excess of the insured amount must be 100 percent collateralized by securities listed in A & B above.
- G. Repurchase Agreements of any securities authorized by this Section. Securities purchased under repurchase agreements shall be no less than 102 percent of market value. (See special limits in HUD Notice 02-13 (Attachment A) and Government Code 53601.0 (Attachment B).)
- H. Reverse Repurchase Agreements of any U. S. Treasury and Federal Agency Securities in portfolio. Securities purchased under reverse repurchase agreements shall be for temporary and unanticipated cash flow needs only. (See also special limits in HUD Notice 02-13 (Attachment A) and GOVERNMENT CODE 53601.0 (Attachment B).)

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- I. Sweep Accounts that are 100 percent collateralized by securities listed in A & B above.
- J. Shares of beneficial interest issued by diversified management companies investing in the securities and obligations authorized by this Section (Money Market Mutual Funds). Such Funds must carry the highest rating of at least two national rating agencies. Not more than 15 percent or 20 percent of surplus funds can be invested in Money Market Mutual Funds.
- K. Funds held under the terms of a Trust Indenture or other contract or agreement, including the HUD/Public Housing Agency Annual Contributions Contract, may be invested according to the provisions of those indentures or contracts.
- L. Any other investment security authorized under the provisions of HUD Notice PIH 02-13.

The Housing Authority is empowered by California Government Code (Government Code) Sections 5922 and 53601 et seq. to invest non-HUD funds in the following:

- A. Bonds issued by local government agencies with a maximum maturity of five years (See Attachment 2).
- B. United States Treasury Bills, Notes & Bonds.
- C. Registered warrants, treasury notes or bonds issued by the State of California.
- D. Bonds, notes, warrants or other evidence of debt issued by a local agency within the State of California, including pooled investment accounts sponsored by the State of California, County Treasurer, other local agencies or Joint Powers Agencies.
- E. Obligations issued by Agencies or Instrumentality of the U.S. Government.
- F. Bankers Acceptances with a term not to exceed 270 days. Not more than 40 percent of surplus funds can be invested in Bankers Acceptances and no more than 30 percent of surplus funds can be invested in the bankers acceptances of any single commercial bank.
- G. Prime Commercial Paper with a term not to exceed 180 days and the highest ranking issued by Moody's Investors Service or Standard & Poor's Corp. Commercial paper cannot exceed 15 percent of total surplus funds, provided, that if the average maturity of all Commercial paper does not exceed 31 days, up to 30 percent of surplus funds can be invested in Commercial paper.

- H. Repurchase Agreements of any securities authorized by this Section. Securities purchased under repurchase agreements shall be no less than 102 percent of market value. (See special limits in Government Code 53601(Attachment B).)
- I. Reverse Repurchase Agreements of any U. S. Treasury and Federal Agency Securities in portfolio. Securities purchased under reverse repurchase agreements shall be for temporary and unanticipated cash flow needs only. (See also special limits in Government Code 53601.0 (Attachment B).)
- J. Medium term notes (not to exceed 2 Years) of U.S. corporations rated "A" or better by Moody's or S&P. Not more than 30 percent of surplus funds can be invested in medium term notes.
- K. Shares of beneficial interest issued by diversified management companies investing in the securities and obligations authorized by this Section. (Money Market Mutual Funds) Such Funds must carry the highest rating of at least two national rating agencies. Not more than 15% of surplus funds can be invested in Money Market Mutual Funds.
- L. Funds held under the terms of a Trust Indenture or other contract or agreement may be invested according to the provisions of those indentures or agreements.
- M. Collateralized bank deposits with a perfected security interest in accordance with the Uniform Commercial Code (UCC) or applicable federal security regulations.
- N. Any mortgage pass-through security, collateralized mortgage obligation, mortgaged backed or other pay-through bond, equipment lease-backed certificate, consumer receivable pass-through certificate or consumer receivable backed bond of a maximum maturity of five years. Securities in this category must be rated AA or better by a national rating service. No more than 30% of surplus funds can be invested in this category of securities.
- O. Any other investment security authorized under the provisions of Government Code 5922 and 53601.

Attachment A, HUD Approved Investment Instruments, and Attachment B, Government Code Section 53601, also provide a detailed summary of the limitations and special conditions that apply to each of the above listed investment securities. These attachments are included by reference in this investment policy.

Under the provisions of Government Code Section 53631.5, the Housing Authority shall not invest any funds covered by this Investment Policy in inverse floaters, range notes, interest-only STRIPS derived from mortgage pools or any investment that may result in a zero interest accrual if held to maturity. In addition the provisions of Government Code Section 53601 et seq applies.

Collateralization

All certificates of deposits must be collateralized by U.S. Treasury Obligations. Collateral must be held by a third party and valued on a monthly basis. The percentage of collateralization on repurchase agreements will conform to the amount required under Government Code 53601(I)(2).

Safekeeping and custody

All security transactions entered into by the Housing Authority shall be conducted during the normal business hours of the Housing Authority, on Housing Authority premises and on a delivery-versus-payment (DVP) basis. Only during an extreme emergency shall security transactions be conducted during non-business Housing Authority hours, not on Housing Authority premises. All securities purchased or acquired shall be delivered to the Housing Authority by book entry, physical delivery or by third party custodial agreement. (Government Code 53601)

Diversification

It is the policy of the Housing Authority to diversify its investment portfolio. The Housing Authority will diversify its investments by security type and, within each type, by institution. Assets shall be diversified to eliminate the risk of loss resulting from over concentration of assets in a specific maturity, a specific issuer or a specific class of securities. Diversification strategies shall be determined and revised periodically. In establishing specific diversification strategies, the following guidelines shall apply:

- A) Portfolio maturities shall be matched against projected liabilities to avoid an over concentration in a specific series of maturities.
- B) Maturities selected shall provide for stability and liquidity.
- C) Disbursement and payroll dates shall be covered by the scheduled maturity of specific investments, marketable U.S. Treasury Bills or notes or other cash equivalent instruments, such as money market mutual funds.

The Executive Director shall submit to each member of the Housing Authority Board of Commissioners a quarterly investment report. The report shall include a complete description of the portfolio, the type of investments, the issuers, maturity dates, par values and the current market values of each component of the portfolio, including funds managed by third party contractors. The report will also include the source of the portfolio valuation. In the case of funds invested in The Local Agency Investment Fund (LAIF), Federal Deposit Insurance Corporation (FDIC) accounts or county investment pools, current statements from those institutions will satisfy the above reporting requirement. The report will also include a certification that (1) all investment actions executed since the last report have been made in full compliance with the Investment Policy and; (2) the Housing Authority will meet its expenditure obligations for the next six months. (Government Code 53646(b)). The Executive Director and/or his designee shall maintain a complete and timely record of all investment transactions.

Investment Policy Adoption

The Investment Policy shall be adopted by resolution by the Housing Authority Board of Commissioners. Moreover, the Policy shall be reviewed on an annual basis, and modifications must be approved by the Housing Authority Board of Commissioners.