

4.0 FISCAL AND BUDGET POLICIES (Adopted 1982)

In 1982, the Santa Clara County Board of Supervisors adopted several policies to ensure the long-term fiscal health of the County. Those policies were augmented in 1984 with guidelines that were adopted by the Board on annual contingency reserves. All of these policies were revisited in a 1991 workshop that the Administration prepared and presented to the Board of Supervisors. During the workshop, the Board reaffirmed its commitment to the following policy guidelines:

4.1 APPROPRIATION POLICY (Adopted January, 1982)

The Board requires the Administration, through the Office of Budget and Analysis and the Department of Finance, to ensure that expenses are controlled in such a manner that department budgets are not expended above the levels that are appropriated in the annual budget or beyond that which the County has the funds to pay.

4.1.1 Retiree Health Program Unfunded Liability (Adopted 6-19-98)

The following policy was adopted by the Board of Supervisors on June 19, 1998 (Policy Resolution No. 98-01):

The Board of Supervisors hereby adopts the policy that any savings generated from reduced Public Employee Retirement System (PERS) costs be used to further reduce the existing unfunded liability for the Retiree Health Program.

4.2 REVENUE POLICY

The Board expects that revenues will only be budgeted when there is substantial assurance of their receipt in the fiscal year that is being considered. No revenues will be budgeted unless there is concurrence by the Department of Finance and the Office of Budget and Analysis.

4.2.1 Revenue Policy Relating to Investments

Variances between the cost of investments and the fair value of investments shall not be considered budgetary resources or uses of resources unless the value of investments is permanently impaired because of decreased issuer credit worthiness or it is determined that the Treasurer will be unable to hold investments to maturity.

4.3 CONTINGENCY RESERVE POLICY (Adopted 1984; Amended FY 1991; Amended 6-19-98; Amended 5-25-99; Amended 1-11-00; Amended 2-10-04)

The Board has established the goal of setting the Contingency Reserve at 5 percent of general fund revenues, net of pass-throughs, by July 1, 2007 (FY 2008). In order to achieve this goal, the Board has established targets to set the contingency Reserve at 2.5 percent of

general fund revenues in FY 2005, 3 percent in FY 2006 and 4 percent in FY 2007, all net of pass-throughs.

By direction of the Finance and Governmental Operations Committee, the Administration has developed several policy guidelines that will guide the allocation of the Contingency Reserve in future years.

The Contingency Reserve will be used to support costs on a one-time basis for the following purposes:

- When the County is impacted by an unanticipated reduction in State and/or Federal grants and aid.
- When the County faces economic recession/depression and the County must take budget actions before the beginning of any one fiscal year.
- When the County is impacted by a natural disaster.
- When the County is presented with an unanticipated or unbudgeted lease expense that is necessary for the delivery of local services.
- When the County is affected by unforeseen events that require the allocation of funds.

The Contingency Reserve may be used to support ongoing costs, as a financing mechanism, when presented with critical program initiatives that have a time requirement that cannot be deferred. The program initiatives would become part of the next year's operating budget and be subject to review by the Board at that time.

In each case when a request for contingency reserve funding is made, the Department requesting the funds must provide an analysis demonstrating that funds do not exist within their current modified budget. The County Executive's Office of Budget and Analysis will review and verify that funding cannot be taken from existing appropriations. The County Executive's Office will also verify that the action requested cannot be deferred until the next budget cycle. These statements will appear in each transmittal presented to the Board requesting the allocation of contingency reserve funds along with statements of which allocation criteria are used and why.

The allocation of contingency reserve funding should occur at the mid-year budget review if possible.

4.4 POLICY ON USE OF ONE-TIME FUNDS (Adopted 1982)

In 1982, the Board adopted a policy of dedicating one-time revenues only for use as one-time expenditures. Since that time, and particularly since 1991, the County has had great difficulty balancing the General Fund budget in the face of downturns in the economy and State cuts in subventions for locally mandated services. As a result, the Board has seen fit to modify this policy to allow for the use of one-time sources of funds to ease the transition to downsized and/or reorganized operations.

4.5 SALARY SAVINGS POLICY (Amended 3-11-03)

The Board of Supervisors adopts annual operating budgets that generally incorporate a three to six percent salary savings factor in the calculations for salaries and most fringe benefits for most County operations. This means that a portion of the funding that would be required to cover the full cost of all approved positions is withheld from most department budgets at the outset of each fiscal year and is reflected as a negative line-item in the Object 1 grouping of appropriations. At the same time, the Board has recognized that certain departments, either because of size or unique operating requirements, are unable to generate salary savings; those departments are therefore exempt from this policy requirement.

4.6 POLICIES ON USE OF FUND BALANCE

General Fund balance that is available at the end of any given fiscal year is estimated during the final stages of the budget development process for the following year. In recent years, fund balance has ranged from between two and three percent of the General Fund budget. Roughly half of this amount is derived from the GF Contingency Reserve that is appropriated in the budget, and the remainder is generated through salary savings and other unencumbered free balances that are generated in department operating budgets. This latter amount is treated as a one-time source of funding and has historically been earmarked to support capital projects, fixed asset purchases and the acquisition of computer systems. Board policy has historically prohibited the use of fund balance to support ongoing operations, although this source has occasionally been used for transition purposes.

4.7 DEBT POLICIES (Amended 9-23-03; Amended 9-26-06; Amended 9-26-17)

Since 1982, the Board of Supervisors has supported the Administration's effort to limit the issuance of short-term debt to cover cyclical cash flow needs. Every effort has been made to incorporate actions in the County's adopted annual budget that capitalize ongoing operations with existing revenues, thus avoiding or severely restricting situations where short-term deficits are financed through long-range indebtedness. Board policy does allow for the issuance of long-term debt to finance major capital improvements. However, the County historically has required a careful assessment of capital improvement priorities, capital costs, annual debt service capacities, and annual operating and maintenance costs on the scheduled improvement in advance of incurring the indebtedness. On occasion, the Board also has supported the issuance of debt when market conditions could be optimally leveraged along with arbitrable opportunities.

4.7.1 Debt Management Policy (Adopted 9-23-03; Amended 9-26-17; Amended 1-24-23)

This Debt Management Policy sets forth certain debt management objectives for the County and establishes overall parameters for issuing and administering the County's debt. Recognizing that cost-effective access to the capital markets depends on prudent management of the County's debt program, this policy will be incorporated into an annual

debt report presented to the Finance and Government Operations Committee with ultimate recommendation to the Board of Supervisors.

4.7.1.1 Debt Management Goals and Objectives

The County's debt issuance activities and procedures shall be aligned with the County's vision and goals for providing adequate facilities and programs that support the residents. The County shall consider the overall impact of the current and future debt burden of the financing when determining the duration of the debt issue. When issuing debt, the County shall ensure that it:

1. Maintains accountability for the fiscal health of the County, including management and transparency of the County's financing programs.
2. Attains the best possible credit rating for each debt issue in order to reduce interest costs, within the context of preserving financial flexibility and meeting capital funding requirements.

The purpose of this Debt Management Policy is to assist the County in pursuit of the following objectives:

- Minimize debt service and issuance costs
- Maintain access to cost-effective borrowing
- Achieve the highest practical credit rating
- Full and timely repayment of debt
- Maintain full and complete financial disclosure and reporting
- Ensure financial controls are in place with respect to proceeds of debt issuances
- Ensure compliance with applicable State and Federal laws

4.7.1.2 General Provisions

(A) Scope of Application

(1) Entities Covered

These policies establish the parameters within which debt may be issued by the County of Santa Clara and the Santa Clara County Financing Authority. The County, as a member of any joint powers authority, shall take these policies into account when considering the issuance of joint powers authority debt.

Supplemental policies, tailored to the specifics of certain types of financings, may be adopted by the Board of Supervisors in the future. These supplementen-

tal policies may address, but are not limited to, any future County general obligation, enterprise, multifamily housing, and land-secured financings.

(2) Types of Debt that May be Issued

The following types of debt may be issued under this policy subject to State and Federal law, the County's Charter and County Ordinances and Policies as may be applicable. Prior to issuance of debt, a reliable revenue source shall be identified to secure repayment of the debt. Cost savings are not a revenue source for the purposes of securing debt repayment.

- a. General obligation bonds
- b. Bond or grant anticipation notes
- c. Lease revenue bonds or notes, certificates of participation and lease-purchase transactions
- d. Other revenue bonds or notes and certificates of participation (COPs)
- e. Tax and revenue anticipation bonds or notes (TRANs)
- f. Land-secured financings, such as special tax revenue bonds and limited obligation assessment bonds
- g. Conduit financings, such as financings for affordable rental housing and qualified 501(c)(3) organizations
- h. Special financing programs or structures offered by the federal or state government such as Qualified Energy Conservation Bonds (QECBs) or other tax credit obligations or obligations that provide subsidized interest payments, when the use of such programs or structures is determined to result in sufficiently lower financing costs compared to traditional bonds and/or COPs
- i. Derivatives. While the County currently has one interest rate swap in its outstanding debt portfolio, no further issuance of derivatives is contemplated.

Debt may be publicly issued or privately placed and may be issued on either a long-term basis ("Long-term Borrowing") or short-term basis ("Short-term Borrowing") consistent with the provisions of this Policy.

From time to time, the Board of Supervisors may find that other forms of debt, or that an exception to the revenue requirement, consistent with the Objectives and Goals of this Policy, would further its

public purposes and may approve the issuance of such debt without an amendment of this Policy.

(B) Responsibility for Debt Management Activities

The Finance Agency shall be responsible for managing and coordinating all activities related to the issuance and administration of debt, including the implementation of internal control procedures to ensure that the proceeds of debt are directed to the intended use. The Director of Finance is appointed by the County Executive and is subject to his or her direction and supervision. In accordance with the County Charter and the County Ordinance Code, the Director of Finance is charged with responsibility for the conduct of all Finance functions.

Departments implementing debt-financed capital programs will work in partnership with the Finance Agency to provide information and otherwise facilitate the issuance and administration of debt.

(1) Debt Management Policy Review and Approval

This policy shall be presented to the Finance and Government Operations Committee as part of the annual debt report and reviewed annually by the Finance Agency to ensure its consistency with respect to the County's debt management objectives. Any modifications to this policy shall be presented to the Finance and Government Operations Committee with ultimate approval by the Board of Supervisors.

(2) Debt Administration Activities

The Finance Agency is responsible for the County's debt administration activities, particularly the timely payment of debt, investment of bond proceeds, monitoring compliance with bond covenants, continuing disclosure, and arbitrage compliance for tax-exempt debt. The Finance Agency is also responsible for implementing internal control procedures to ensure that bond proceeds or other debt is directed to the intended use.

(3) Annual Debt Report

The Finance Agency shall prepare an annual debt report for review by the Finance and Government Operations Committee containing the following:

- Description of the currently outstanding debt portfolio
- Refunding and restructuring opportunities
- Future financings
- Debt administration

4.7.1.3 Purposes For Which Debt May be Issued

(A) Long-term Borrowing

Long-term borrowing may be used to finance the acquisition or improvement of land, facilities, or equipment for which it is appropriate to spread these costs over multiple budget years, attempting to match the useful life of the assets acquired by the financing. Long-term borrowing may also be used to fund capitalized interest, costs of issuance, required reserves, and any other financing related costs which may be legally capitalized. Long-term borrowing shall not be used to fund operating costs.

(B) Short-term Borrowing

Short-term borrowing, such as TRANs (tax and revenue anticipation notes) and lines of credit, will be considered as an interim source of funding to be utilized when appropriate. Short-term debt may be issued for any purpose for which long-term debt may be issued, including capitalized interest and other financing related costs.

(C) Refunding and Restructuring

Periodic reviews of outstanding debt will be undertaken to identify refunding and restructuring opportunities. Refunding will be considered (within federal tax law constraints) if and when there is a net economic benefit of the refunding. Refundings which are non-economic may be undertaken to achieve objectives relating to changes in covenants, call provisions, operational flexibility, tax status, issuer or the debt service profile.

In general, refundings which produce a net present value savings of at least three percent (3%) of the refunded debt are considered economically viable. Refundings which produce a net present value savings of less than three percent (3%) will be considered on a case by case basis. Refundings with negative savings will not be considered unless there is a compelling public policy objective that is accomplished by retiring the debt.

Restructuring may be undertaken with the objective of minimizing long-term volatility and the exposure to future market conditions on the overall debt portfolio.

4.7.1.4 Debt Issuance

(A) Debt Service Limit

The County shall establish an affordable level of debt service to preserve credit quality and ensure financial stability. As such,

- (1) Total Governmental Fund debt service shall not exceed eight percent (8%) of Total Governmental Fund expenditures and

- (2) Lease Revenue Bond debt service shall not exceed eight percent (8%) of Total General Fund expenditures

(B) Relationship to County's Budget

The County will keep outstanding debt within the practical limits of the County's debt rating and any applicable law.

The County shall assess the impact of new debt issuance on the short-term and long-term affordability of all outstanding and planned debt issuance, including additional operating costs. Such analysis recognizes that the County has limited capacity for debt service in its budget, and that each newly issued financing will obligate the County to a series of payments until the bonds are repaid. Tools include, but are not limited to, the County's Debt Affordability Model which helps evaluate the impact of proposed debt on the operating budget as well as on the County's credit ratings.

(C) Credit Quality

The County seeks to obtain and maintain the highest possible credit ratings for all categories of short and long-term debt. If appropriate from a cost-benefit standpoint, and appropriate from a sale structure, the County will consider the issuance of bonds that do not carry investment grade ratings.

The County has traditionally benefited from strong ratings and shall take any necessary steps to maintain favorable ratings.

(D) Structural Features

The Director of Finance shall be responsible for determining the appropriate structure for the debt financing considering factors including, but not limited to, the inter-generational benefit of the financing and current market conditions.

(1) Debt Repayment

Debt will be structured for a period consistent with a fair allocation of costs to current and future beneficiaries of the financed capital project. The County shall structure its debt issues so that the maturity of the debt issue is consistent with the economic or useful life of the capital project to be financed.

(2) Variable-rate Debt

The County may choose to issue securities that pay a rate of interest that varies according to a pre-determined formula or results from a periodic remarketing of the securities. Such issuance must be consistent with applicable

law and covenants of pre-existing bonds, and in an aggregate amount consistent with the County's creditworthiness objectives. When making the determination to issue bonds in a variable rate mode, consideration will be given in regards to the useful life of the project or facility being financed or refinanced or the term of the project requiring the funding, market conditions, and the overall debt portfolio structure. The Director of Finance shall evaluate the use of variable-rate debt on a case by case basis to determine whether the potential benefits are sufficient to offset any potential costs.

(3) **Tax Structure**

The County may choose to issue securities on a taxable or tax-exempt basis. The Director of Finance shall evaluate the use of taxable versus tax-exempt bonds on a case by case basis to determine which structure will be most effective and beneficial.

(E) **Professional Assistance**

The County shall utilize the services of bond counsel on all debt financings. The County shall utilize the services of independent financial/municipal advisors when deemed appropriate by the Director of Finance. The Director of Finance shall have the authority to periodically select service providers as necessary to meet legal requirements and minimize net County debt costs. Such services, depending on the type of financing, may include financial advisory, underwriting, trustee, verification agent, escrow agent, arbitrage consulting, and special tax consulting. The goal in selecting service providers, whether through a competitive process or single-source selection, is to achieve an appropriate balance between service and cost.

(F) **Method of Sale**

Except to the extent a competitive process is required by law, the Director of Finance shall be responsible for determining the appropriate manner in which to offer any securities to investors. The County has used competitive bid, negotiated sale, and private placement to sell its bonds. On a case-by-case basis the Director of Finance will make a determination as to the most effective method of sale.

4.7.1.5 Debt Administration

(A) **Investment of Bond Proceeds**

Investment of bond proceeds or other forms of debt shall be consistent with federal tax requirements, the County's Investment Policy as modified from time to time, and with requirements contained in the governing bond documents.

(B) **Disclosure Practices and Arbitrage Compliance**

(1) **Financial Disclosure**

The County is committed to full and complete primary and secondary market financial disclosure in accordance with disclosure requirements established by the Securities and Exchange Commission and the Municipal Securities Rulemaking Board, as may be amended from time to time. The County is also committed to cooperating fully with rating agencies, institutional and individual investors, other levels of government, and the general public to share clear, timely, and accurate financial information.

(2) Arbitrage Compliance

The Finance Agency shall maintain a system of record keeping and reporting to meet the arbitrage compliance requirements of federal tax law.

4.7.1.6 Compliance with Internal Control Procedures

The Finance Director shall establish internal control procedures to ensure that the proceeds of any debt issuance are directed to the intended use. Such procedures shall assist the County in maintaining the effectiveness and efficiency of operations, properly expending funds, reliably reporting debt incurred by the County and the use of proceeds, complying with all laws and regulations, preventing fraud and avoiding conflict of interest.

The County shall be vigilant in ensuring that bond or other proceeds are only expended in accordance with the stated purposes at the time such debt was incurred as defined in the text of the voter-approved bond measure or other governing document. This includes maintaining records of draws on said proceeds which identify the purpose and payee of said draw.

Proceeds of debt will be held either by (a) the County, to be held and accounted for in a separate fund or account, the expenditure of which will be carefully documented by the County; or (b) by a third-party trustee or fiscal agent, which will disburse such proceeds to or upon the order of the County upon submission of one or more written requisitions by the Finance Director or designee.

The policy of the County is to comply with all federal tax and securities law which may be applicable to its debt, which may include requirements relating to arbitrage, rebate and continuing disclosure. Reviews of such requirements in connection with prior and new debt issues may be conducted by County Counsel or bond counsel. Any county personnel involved in conducting such reviews may receive periodic training regarding their responsibilities as needed.

In addition, the Finance Director or designee shall ensure that the County completes, as applicable, all performance and financial audits that may be required for any debt issued by the County, including disclosure requirements applicable to a particular transaction.

4.7.2 Interest Rate Swap Policy (Swap Policy) (Adopted 9-26-06)

The purpose of the Interest Rate Swap Policy (Swap Policy) of the County of Santa Clara (County) is to provide guidelines for the execution and management of swaps in connec-

tion with the County's Debt Management Policy. While the use of such derivatives can reduce the County's exposure to interest rate risk on its variable debt, careful monitoring of such a financial management tool is required to preserve and maintain the County's credit strength and budget flexibility.

This policy describes the circumstances and methods with which a swap can be used, the guidelines that will be imposed on them, and who in the County is responsible for implementing these policies.

4.7.2.1 Purposes for Interest Rate Risk Mitigation Products

The purposes for which the County may utilize Interest Rate Risk Mitigation Products are specified in Section 5922(a) of the California Government Code. The Director of Finance shall evaluate the use of such products on a case-by-case basis to determine whether the potential benefits are sufficient to offset any potential costs.

As required by the Government Code, no local agency may enter into any contracts or arrangements unless its governing body first determines that the contract, arrangement or program of contracts is designed to reduce the amount or duration of payment, currency, rate, spread, or similar risk or result in a lower cost of borrowing when used in combination with the issuance of bonds or enhance the relationship between risk and return with respect to the investment or program of investment in connection with, or incident to, the contract or arrangement which is to be entered into. When the Director of Finance recommends the use of such derivatives, the Director of Finance shall provide information to the County Executive and Board of Supervisors (Board) necessary to make the determination required by the Government Code.

4.7.2.2 No Speculation

Swaps will not be used for speculative purposes.

4.7.2.3 Form of Swap Agreements

To the extent possible, the swap agreements entered into by the County will contain the terms and conditions set forth in the International Swap and Derivatives Association, Inc. (ISDA) Master Agreement, including any schedules and confirmation. However, the County reserves the right to amend these terms and conditions, including the remedies and obligations, and any other section of such agreement, as appropriate to benefit the County.

4.7.2.4 Professional Assistance

The County shall utilize the services of independent financial advisors when deemed appropriate by the Director of Finance. The County shall utilize the services of bond counsel on all debt financings. The Director of Finance shall have the authority to periodically select service providers as necessary to meet legal requirements and minimize net County debt costs. Such services, depending on the type of financing, may include financial advisory, underwriting, trustee, verification agent, escrow agent, bond counsel, disclosure counsel, arbitrage consulting, and special tax consulting. The goal in selecting service pro-

viders, whether through a competitive process or negotiated sale, is to achieve an appropriate balance between service and cost.

4.7.2.5 Method of Sale

Except to the extent a competitive process is required by law, the Director of Finance shall be responsible for determining the appropriate manner in which to offer any securities to investors. The County has used competitive bid, negotiated sale, and private placement to sell its bonds. On a case-by-case basis, the Director of Finance will make a recommendation as to the most effective method of sale to the Finance and Government Operations Committee (FGOC).

4.7.2.6 Aspects of Risk Exposure

Before entering into a swap agreement, the Director of Finance will evaluate risks inherent in the transaction. The risks to be evaluated may include, but are not limited to, the following: amortization risk; basis risk; credit risk; counterparty risk; interest rate risk; rollover risk; tax event risk; and termination risk. Important consideration will be given to diversifying counterparty risk by having separate swap issuances with different counterparties as much as prudently possible.

Identification of the risks and discussion of the means, if any, employed to mitigate the risks will be contained in the Director of Finance report recommending to the County Executive and Board approval of the swap agreement.

4.7.2.7 Counterparty Credit Standards

To protect the County's interests in the event of a credit problem, the Director of Finance will recommend entering into a swap agreement with a counterparty only if it meets the following standards:

- (A) At least two of the counterparty's credit ratings are rated at least "Aa3" or "AA-", or equivalent, by any two of the nationally recognized rating agencies (i.e. Moody's, Standard and Poor's, or Fitch); or
- (B) The payment obligations of the counterparty are unconditionally guaranteed by an entity with such a credit rating.

4.7.2.8 Collateralization on Downgrade

In the event of a downgrade, the obligations of the counterparty will be collateralized at levels and with securities acceptable to the Director of Finance, as set forth in the swap agreements, should the rating:

- (A) of the counterparty, if its payment obligations are not unconditionally guaranteed by another entity, or
- (B) of the entity that unconditionally guarantees its payment obligations, if so secured,

does not satisfy the requirements set forth in Section 4.7.2.7 Counterparty Credit Standards above.

4.7.2.9 Refunding

While the adopted County Debt Policy threshold for a standard refunding is 3 percent net present value (NPV) savings, the criteria for a swap structured refunding threshold will be 5 percent NPV savings to compensate for the inherent higher risk factor of a swap financing. The Director of Finance shall be responsible for determining the appropriate type of swap structure to be used in the refunding. Additionally, any swap structured refunding analysis will also take into account the percentage amount of swaps in the overall debt portfolio with the goal of having a balanced portfolio.

4.7.2.10 Debt Portfolio Distribution

Aggregate net (including offsetting reverse swaps) notional amount of all County swaps should not exceed 40 percent of the County's overall debt, assuming that the swaps have an average life of 20 years. If the life of the swaps are longer or shorter than 20 years, percentages may be adjusted accordingly, e.g. the percentage would be reduced for longer life since risk increases.

4.7.2.11 Termination

A termination payment to or from the County may be required in the event of termination of a swap agreement due to default of either the County or the counterparty, certain additional termination events or optional termination by the County. Prior to making any termination payment due to default of the counterparty, the Director of Finance will evaluate whether it is financially advantageous for the County to obtain a replacement counterparty to avoid making such termination payment.

4.7.2.12 Legality

The County shall receive appropriate legal opinion that swap agreements entered into by the County are legal, valid and binding obligations of the County.

4.7.2.13 Responsibilities

The Director of Finance is responsible for determining the appropriate uses for derivatives in conjunction with the County's debt financing and programmatic needs and making recommendations to the County Executive and the Board of Supervisors.

The Board is responsible for approving all debt issuances and approval of all official documents related to such issuance. County Counsel is responsible for approving all documents in any such issuance.

The County Controller is responsible for monitoring and reporting on all County debt obligations and reporting on such debt to the County Executive and Board. In this capacity, the County Controller will review and report on the activities and assumptions related

to the various swap transactions. In addition, the Controller is responsible for reflecting the use of interest rate swap agreements and other financing transactions on the County's financial statements in accordance with Generally Accepted Accounting Principles (GAAP) and with rules promulgated by the General Accounting Standards Board (GASB).

4.7.2.14 Monitoring and Reporting

The Director of Finance will issue a report to the County Executive and Board as deemed appropriate during the term of the interest rate swap agreement. One such report that will be issued is a quarterly report on portfolio balance to the Finance and Operations Committee. Additionally, the Director of Finance will include, in an Annual Debt Report, the following information, to the extent applicable:

- (A) Highlights of material changes to interest rate swap agreements including counterparty downgrades and/or terminations;
- (B) A summary of new interest rate swap agreements entered into by the County since the last report;
- (C) A summary of planned interest rate swap transactions and the impact of such transactions on the County;
- (D) A description of each outstanding interest rate swap agreement, including a summary of its terms and conditions, the notional amount, rates, maturity, the estimated market value of each agreement, the method of procurement (competitive or negotiated), and the full name, description and credit ratings of the agreement's counterparty and, if necessary, its applicable guarantor;
- (E) Amounts which were required to be paid and received, and any amounts which actually were paid and received under each outstanding interest rate swap agreement;
- (F) Credit enhancement, liquidity facility or reserves associated with the swaps including an accounting of all costs and expenses incurred, whether or not in conjunction with the procurement of credit enhancement or liquidity facilities under each outstanding interest rate swap agreement; and
- (G) An assessment of the counterparty risk, termination risk, and other risks associated therewith, which will include the aggregate mark-to-market value for each counterparty and relative exposure compared to other counterparties and a calculation of the County's Value at Risk for each counterparty.

This report will also include a copy of this Policy in the quarter after it is adopted or subsequently modified. The Director of Finance, with the assistance of the Counsel, and the County Controller, will periodically review this Policy for changes in best practices (i.e. GFOA Recommended Practices) and recommend modifications to this Policy to the County Executive and Board.

4.8 TREASURY INVESTMENT POLICY (Adopted 3-17-98; Amended 12-14-99; Amended 12-12-00; Amended 2-6-01; Amended 1-29-02; Amended 1-11-11; Amended 4-10-12; Amended 12-17-13; Amended 1-13-15; Amended 6-21-16; Amended 4-17-18; Amended 5-7-19; Amended 4-21-20; Amended 3-14-23)

4.8.1 Statement of Intent

The purpose of this document is to set forth the County of Santa Clara's policy applicable to the investment of short-term surplus funds. In general, it is the policy of the County to invest public funds in a manner that will provide a competitive rate of return with maximum security while meeting the cash flow requirements of the County, school districts and special districts whose funds are held in the County Treasury, in accordance with all state laws and County ordinances governing the investment of public funds.

4.8.2 Scope

This investment policy applies to all financial assets held by the County. Those assets specifically included in this investment policy are accounted for in the County's Comprehensive Annual Financial Report and are included here as part of the County's Commingled Investment Pool.

4.8.3 Objectives

The following investment objectives shall be applied in the management of the County's funds.

- (A) The foremost objective of the County's investment program shall be to safeguard principal. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio.
- (B) The secondary objective shall be to meet the liquidity needs of its participants. The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated.
- (C) The third objective shall be to attain a market rate of return (yield) throughout budgetary and economic cycles, taking into account the County's investment constraints and cash flow characteristics. The core of investments will be limited to low risk securities in anticipation of earning a fair return relative to the risk being assumed.

Risk Mitigation

Those factors that can lead to an unexpected financial loss can be broadly grouped into the following categories: credit risk, liquidity risk, interest rate risk and operational risk. Credit risk is the possibility that a bond issuer will default or that the change in the credit

quality of counter-party will affect the value of a security. Liquidity risk for a portfolio that does not market value its holdings on a daily basis is the risk that sufficient cash or cash equivalents are not available and a security may have to be sold at a loss (based on its original cost) in order to meet a payment liability. Interest rate risk is the risk that the value of a fixed income security or portfolio will fall as a result of an increase in interest rates. Operational risk refers to potential losses resulting from inadequate systems, management failure, faulty controls, fraud and human error.

It is part of this policy to pursue the listed actions below to reduce the risk of exposure to the County's investments.

Credit Risk

- Diversifying the investment portfolio so that potential losses on individual securities will be minimized.
- Only purchasing securities that meet ratings standards specified in this policy.
- Conducting ongoing reviews as needed of all credit exposures within investment portfolios.
- Rating restrictions for all investments are denoted as requirements at time of purchase. If a security should incur a downgrade by either rating agency, placing the security on special surveillance to identify and monitor any continuing deterioration trends and, if warranted, selling the security.
- Reviewing the possible sale of a security whose credit quality is declining to minimize loss of principal.

Liquidity Risk

- To the extent possible, matching investment maturities with anticipated cash demands, also known as creating static liquidity. Alternatively, apply application software to analyze and validate that cash from investment activity is sufficient to cover all liabilities.
- Since all possible cash demands cannot be anticipated, maintaining portfolios largely of securities with active secondary or resale markets (dynamic liquidity).
- Making investments that could be appropriately held to maturity without compromising liquidity requirements.
- Prior to approving or disapproving a withdrawal request (a reduction of liquidity), the County Treasurer shall determine that the proposed withdrawal will not adversely affect the interests of the other depositors in the County pool.

Interest Rate Risk

- Not investing in securities maturing more than five years from the settlement date unless the issuer is an Federal Agency of the United States or the credit is backed by the full faith and credit of the United States Government and the underlying remaining weighted average life of the debt security is less than five years at time of purchase.
- Limiting the weighted average maturity of the County's Commingled portfolio to three years or less.
- Limiting segregated investments to maturities of five years or less unless a longer term is specifically approved by the appropriate legislative body.
- Not investing in any funds in financial futures, option contracts, inverse floaters, range note 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.
- Ensuring that adequate resources are devoted to interest rate risk measurement.

Operational Risk

- Establishing a system of internal controls, which is designed to prevent losses of public funds arising from fraud, employee error, and misrepresentation by third parties, unanticipated changes in financial markets, or imprudent actions by employees and officers of the County.
- Having an audit review to examine the system of internal controls to assure that established policies including risk management procedures are being complied with.

4.8.4 Standards of Care

- (A) **Prudence.** 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 prudent person acting in a like capacity and familiar 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 the other depositors. Within the limitations of this section and considering individual investments as part of an overall investment strategy, the County Treasurer is authorized to acquire investments as authorized by law.

The overall investment program shall be designed and managed with a degree of professionalism that is worthy of the public trust. The County recognizes that no investment program is totally riskless and that the investment activities of the County are a matter of public record. Accordingly, the County recognizes that occasional measured losses are inevitable in a diversified portfolio and shall be considered within the context of the overall portfolio's return, provided that the portfolio is adequately diversified and that the sale of a security is in the best long-term interest of the County. Significant adverse credit changes or market price

changes on County-owned securities shall be reported to the Board of Supervisors and the County Executive in a timely fashion.

- (B) **Competitive Transactions.** Where practicable, each investment transaction shall be competitively transacted with brokers/dealers/banks approved by the County Treasurer.
- (C) **Indemnification.** Investment officers acting in accordance with state laws, County ordinances, this policy and written procedures, and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided that deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse development.

Ethics and Conflicts of Interest. County employees involved in the investment process shall refrain from personal business activity that could conflict with the proper execution and management of the investment program, or that could impair their ability to make impartial decisions. Investment officials shall disclose any material interests in financial institutions with which they conduct business. They shall further disclose any personal financial/investment positions that could be related to the performance of the investment portfolio. Employees and investment personnel shall subordinate their personal investment transactions to those of the County, particularly with regard to the timing of purchases and sales.

County officers and employees involved with the investment process shall refrain from accepting gifts that would be reportable under the Fair Political Practices Commission (FPPC) regulations.

Members of the Treasury Oversight Committee shall not accept any honoraria, gifts or gratuities from advisors, brokers, dealers, bankers or other persons with whom the County Treasury conducts business that would be reportable under the FPPC regulations, or prohibited under any applicable law or policy.

4.8.5 Authorized Financial Dealers and Institutions

The County Treasurer shall establish an approved list of brokers, dealers, banks and direct issuers of commercial paper to provide investment services to the County. It shall be the policy of the County to conduct security transactions only with approved institutions and firms. To be eligible for authorization, firms that are commercial banks must be members of the FDIC, and broker/dealers:

- Preferably should be recognized as a Primary Dealer by the Market Reports Division of the Federal Reserve Bank of New York, and
- Must maintain a secondary position in the type of investment instruments purchased by the County.

In addition, the firm must also qualify under SEC Rule 15C3-1 (Uniform Net Capital Rule). Approved broker/dealer representatives and the firms they represent shall be licensed to do business in the State of California.

The criteria for selecting security brokers and dealers from, to, or through whom the County Treasury may purchase or sell securities or other instruments, prohibits 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 any member of the governing board of any local agency that is a participant in the County Treasury or any candidate for those offices.

No public deposit shall be made except in a qualified public depository as established by state law. An annual analysis of the financial condition and professional institution/bank rating will be conducted by the County Treasurer and reported to the County Treasury Oversight Committee. Information indicating a material reduction in ratings standards or a material loss or prospective loss of capital must be shared with the Board of Supervisors, the County Executive, and the Oversight Committee in writing immediately.

To be eligible to receive local agency money, a bank, savings association, federal association or federally insured industrial loan company shall have received an overall rating of not less than “satisfactory” in its most recent evaluation by the appropriate federal financial supervisory agency of its record of meeting the credit needs of California communities, including low- and moderate-income neighborhoods, pursuant to Section 2906 of Title 12 of the United States Code.

4.8.6 County Treasury Oversight Committee

A County Treasury Oversight Committee shall be established by the Board of Supervisors pursuant to Government Code Section 27130 et seq to advise the County Treasurer in the management and investment of the Santa Clara County Treasury. The Oversight Committee shall be comprised of six members representing the County, school districts and other local government agencies whose funds are deposited in the County’s commingled pool and other segregated investments. Members of the Oversight Committee will be nominated by the Treasurer and confirmed by the Board of Supervisors. The Committee is comprised of the following members:

- (1) County Director of Finance.
- (2) County Executive appointed by the Board of Supervisors.
- (3) Representative appointed by a majority of the presiding officers of the legislative bodies of the special districts in the County that are required or authorized to deposit funds in the County Treasury.
- (4) County Superintendent of Schools or his or her designee.
- (5) Representative selected by a majority of the presiding officers of the governing bodies of the school districts and community college districts in the County.
- (6) One member of the public that has expertise in and or an academic background in public finance.

Each member may designate an alternate to serve in the absence of the member. The alternate shall take the oath of office and file a conflict of interest report with the Clerk of the Board. The alternate shall exercise the vote of the member at meetings where the member is not present.

It is the responsibility of the County Treasury Oversight Committee to approve the investment policy prepared annually by the County Treasurer, to review and monitor the quarterly investment reports prepared by the County Treasurer, to review depositories for County funds and broker/dealers and banks as approved by the County Treasurer, and to cause an annual audit to be conducted to determine the County Treasury's compliance with all relevant investment statutes and ordinances, and this investment policy. Any receipt of honoraria, gifts, and gratuities from advisors, brokers, and dealers, bankers or other persons with whom the County Treasury conducts business by any member of the County Treasury Oversight Committee is limited to amounts that would not be reportable to the Fair Political Practices Commission. These limits may be in addition to the limits set by a committee member's own agency or by state or local law or policy.

Nothing in this article shall be construed to allow the County Treasury Oversight Committee to direct individual investment decisions, select individual brokers, or dealers, or impinge on the day-to-day operations of the County Treasury.

4.8.7 Eligible, Authorized and Suitable Investments

All investments shall conform with state law including but not limited to Government Code 53600 et seq and any further restrictions imposed by this policy (Authorized Investments). Where this section specifies a percentage limitation for a particular category of investment or specific issuer, that percentage is applicable only at the date of purchase. If subsequent to purchase, portfolio percentage constraints are above the maximum thresholds due to changes in value of the portfolio or changes due to revisions of the policy, then affected securities may be held to maturity in order to avoid principal losses. However, the County Treasurer may choose to rebalance the portfolio if percentage imbalances are deemed to impair portfolio diversification.

If after purchase securities are downgraded below the minimum required rating level the securities shall be reviewed for possible sale within a reasonable amount of time after the downgrade. Significant downgrades and the action to be taken will be disclosed in the Quarterly Investment Report.

U.S. Treasury and Government Agencies. There shall be no limit in the amount that may be invested in debt obligations that are backed by the full faith and credit of the United States government. This includes but is not limited to U.S. Treasury bills, notes or bonds. However, this does not include Medium-Term Corporate Notes or Deposit Notes, as described below.

There shall be no limit in the amount that may be invested in Federal Agencies of the United States or United States government sponsored-enterprise obligations, participations, and bond issuances including those issued by or fully guaranteed as to principal and interest by federal agencies or the United States government.

Repurchase Agreements. A repurchase agreement consists of two simultaneous transactions under the same agreement. One is the purchase of securities by an investor (County Treasury) from a financial institution. The other is the commitment by the financial institution to repurchase the securities at a specified price and on a date mutually agreed upon.

Repurchase agreements shall be entered into only with financial institutions which have executed a Master Repurchase Agreement with the County. Counterparty dealers must be recognized as primary dealers with the Market Reports Division of the Federal Reserve Bank of New York.

- The term of the repurchase agreement is limited to 92 days or less. The securities underlying the agreement may be obligations of the United States Government, its agencies, or agency mortgage backed securities. For repurchase agreements that exceed 15 days, the maturities on purchased securities may not exceed 5 years.
- The purchased securities shall have a minimum market value, including accrued interest, of 102 percent of the dollar value of the agreement. Purchased securities shall be held in the County's custodian bank as safekeeping agent either as a purchase versus delivery or a tri-party arrangement, and the market value of the securities shall be marked-to-market on a daily basis.

Reverse Repurchase Agreements. A reverse repurchase agreement consists of two simultaneous transactions under the same agreement. One is the sale of securities by the County Treasury to a bank or dealer. The other is the commitment by the County Treasury to repurchase the securities at a specified price and on a date mutually agreed upon.

Reverse repurchase agreements may only be transacted with dealers and financial institutions which have executed a Master Repurchase Agreement with the County as approved by the Board of Supervisors, and which are Primary Dealers of the Federal Reserve Bank of New York. Reverse repurchase transactions must meet the following requirements:

- Sold securities must be owned and fully paid a minimum of 30 days prior to transaction.
- The total of all reverse repurchase and securities lending agreements cannot exceed 20% of the portfolio's base value.¹
- The term of the reverse repurchase agreement is not to exceed 92 days unless the agreement includes a written codicil that guarantees 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.
- Funds obtained through 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

1. Base value of the County's Pool refers to the 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 securities lending agreements.

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 may only be used to effect a “matched” transaction whereby the proceeds of the reverse are reinvested for approximately the same time period as the term of the reverse repurchase agreement.
- Reverse repurchase agreements may not exceed \$90 million.
- Investments in reverse repurchase agreements in which Treasury sells securities prior to purchase with a simultaneous agreement to repurchase the security may only be made upon prior approval of the Board of Supervisors.

Reverse Repurchase Agreements will be used solely for the intent of accessing liquid funds on a temporary basis and will not be used as a means to amplify portfolio returns.

All other cost effective means of obtaining liquidity will be considered prior to exercising this option.

In exception to the above, a trial transaction will be permitted on a periodic basis as emergency preparation to ensure that internal systems and staff members remain up-to-date on processing procedures. The amount of the trial transaction will not exceed pre-established limits set by the Treasurer.

Securities Lending. The mechanics behind a securities lending transaction consist of the County lending a security. The borrower, a financial institution, pledges collateral consisting of cash to secure the loan. Borrowers sometimes offer letters of credit as collateral. The lending agreement requires that the collateral must always exceed the market value of the security by 2%. Changes in the security’s price during the term of the loan may require adjustments in the amount of collateral. The cash collateral obtained from the borrower is then invested in short-term assets for additional income. Also, the County is entitled to all coupon interest earned by the loaned security. At the end of the loan term, the transaction is unwound, the securities and collateral, which are held by a custodian bank, are returned to the original owners. The borrower is obliged to return the securities to the lender, either on demand from the County or at the end of any agreed term. Lending transactions must meet the following requirements:

- Loaned securities must be owned and fully paid a minimum of 30 days prior to transaction.
- The total of all reverse repurchase and securities lending agreements cannot exceed 20% of the portfolio’s base value.
- The term of the securities lending agreement is not to exceed 92 days.
- Funds obtained through a securities lending agreement shall not be used to purchase another security with a maturity longer than 92 days from the initial settlement date of the securities lending agreement.
- The objective of the transaction is to produce positive earnings.

To qualify as a counter-party to the County in a securities lending transaction, the broker/dealer must be recognized as a Primary Dealer by the Federal Reserve Bank and the County's custodial bank must indemnify the County against losses related to the broker-dealer.

Non-negotiable Time Deposits (CDs) that are FDIC Insured and Collateralized Time Deposits. Time deposits with banks or savings and loan associations shall be subject to the limitations imposed by the Government Code, as amended, and additional constraints prepared by the County Treasurer that would limit amounts to be placed with institutions based on creditworthiness, size, market conditions and other investment considerations.

Negotiable Certificates of Deposit. The bank issuing a negotiable certificate of deposit with a maturity of one year or less, must reflect the following or higher ratings from at least two of these *nationally recognized statistical rating organizations* (NRSRO's): Moody's (P1), Standard and Poor's (A1), and Fitch (F1). Certificates that exceed one year, must reflect the following ratings or higher by at least two of these NRSRO's: Moody's (Aa3), Standard and Poor's (AA-), and Fitch (AA-). Negotiable certificates of deposit shall not exceed 30% of the surplus funds of the portfolio. No more than 5% of the portfolio shall be in a single bank.

Bankers' Acceptances. Investments in eligible bankers' acceptances of United States or foreign banks shall not exceed 180 days maturity from the date of purchase. This debt must reflect the following or higher ratings by at least two of these NRSRO's: Moody's (P1), Standard and Poor's (A1), and Fitch (F1). Bankers' Acceptances shall not exceed 40% of surplus funds. No more than 5% of the portfolio shall be invested in a single commercial bank.

Commercial Paper. Investments in commercial paper shall not have a maturity that exceeds 270 days. Commercial paper must reflect the following or higher ratings by at least two of these NRSRO's: Moody's (P1), Standard and Poor's (A1), and Fitch (F1). The issuer must meet the qualifications as indicated below pursuant to California Government Code:

If the commercial paper is short-term unsecured promissory notes issued by financial institutions or corporations, the issuer must:

- Be organized and operating in the United States as a general corporation;
- Have total assets in excess of five hundred million dollars (\$500,000,000); and
- If the issuer has senior debt outstanding, the senior debt must reflect the following ratings or higher by at least two of these NRSRO's: Moody's (A3) Standard and Poor's (A-) and Fitch (A-).

If the commercial paper is asset backed, the issuer must:

- Be organized within the United States as a special purpose corporation, trust, or limited liability company; and

- Have program-wide credit enhancements including, but not limited to, over collateralization, letters of credit or surety bonds and include a liquidity vehicle.

Commercial paper shall not exceed 40% of the local agency's funds. No more than 5% of the portfolio shall be invested in any single issuer of commercial paper.

Medium Term Corporate Notes or Deposit Notes. The purchase of corporate notes shall be limited to securities that reflect the following ratings or higher by at least two of these NRSRO's: Moody's (A3), Standard and Poor's (A-), and Fitch (A-), but no single NRSRO rating can be lower than A- or equivalent. Medium term corporate notes or deposit notes (five years or less) shall be limited to 30% of surplus funds. No more than 5% of the portfolio shall be invested in any single corporation including those issuers whose debt is fully guaranteed as to principal and/or interest by federal agencies or the United States government.

Local Agency California Investment Fund (LAIF). Funds may be invested in LAIF, a State of California managed investment pool up to the maximum dollar amounts in conformance with the account balance limits authorized by the State Treasurer.

Municipal Obligations. The purchase of municipal obligations shall include the following:

- (A) **Treasury notes or bonds of the state of California**, including other obligations such as registered state warrants, certificates of participation, lease revenue bonds and 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.
- (B) **Bonds, notes, warrants, certificates of participation, lease revenue bonds 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.
- (C) **Registered treasury notes or bonds of any of the other 49 United States in addition to California**, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by a state or by a department, board, agency, or authority of any of the other 49 United States, in addition to California.

For those instruments that are rated, long-term obligations must reflect the following ratings or higher by at least two of these NRSRO's: Moody's (A3), Standard and Poor's (A-), and Fitch (A-). Short term obligations must carry the following ratings or higher by at least one of these NRSRO's: Moody's (MIG-1), Standard and Poor's (SP-1), and Fitch (F-1). No more than 10% of surplus funds shall be in such obligations.

Money Market Funds. Companies issuing such money market funds must have assets under management in excess of \$500,000,000. The advisors must be registered with the

Securities and Exchange Commission (SEC) and have at least five years' experience investing in such types of investments. The fund must reflect the highest rating by at least two of these NRSRO's: Moody's (Aaa), Standard and Poor's (AAA), and Fitch (AAA). No more than 20% of the Treasury's funds may be invested in money market funds and no more than 10% of the Treasury's funds may be invested in one money market fund. If the money market fund is tax-exempt then only one "AAA" rating by an NRSRO is required. The money market fund must also be "no-load", which is a fund that does not compensate sales intermediaries with a sales charge or commission that is deducted from the return of the fund.

Asset Backed Securities. Asset backed securities (ABS) are notes or bonds secured or collateralized by pools of loans such as installment loans or receivables.

- The asset backed security itself must reflect the following ratings or higher from at least two of these NRSRO's: Moody's (Aa3), Standard and Poor's (AA-) and Fitch (AA-).
- Asset backed securities may not exceed 20% of the Treasury's surplus money.

Agency Mortgage Backed Securities. Mortgage backed securities (MBS) are collateralized by pools of conforming mortgage loans or multi-family mortgage loans insured by FHLMC or FNMA and or guaranteed by FHA (GNMA).

Supranational Debt Obligations. United States dollar-denominated senior unsecured unsubordinated obligations issued or unconditionally guaranteed by the International Bank for Reconstruction and Development of the World Bank (IBRD) or the Inter-American Development Bank (IADB), with a maximum remaining maturity of five years or less, and eligible for purchase and sale within the United States. Investments must be rated "AAA" by at least two of the following, NRSRO's, Moody's, Standard and Poor's or Fitch and shall not exceed ten percent, in aggregate, of the Treasury's surplus funds.

General Parameters

Socially and Environmentally Responsible Investments

Whenever possible, in addition to and subordinate to the objectives set forth in section 4.8.3 herein, it is the County's policy to create a positive impact by investing in socially and environmentally responsible corporations and agencies as defined by priorities set by the Board of Supervisors.

Ineligible Investments

Ineligible investments include common stock, inverse floaters, range notes, mortgage-derived interest only strips and any security that could result in zero interest accrual if held to maturity or any security that does not pay (cash or earn accrued) interest in one year or at least semi-annually in subsequent years and any investment not authorized by this policy unless otherwise allowed by law and approved by the Board of Supervisors.

Combined Issuer/Institutional Limits.

No more than 5% of the portfolio shall be invested in aggregate of any single institution of the following types: Bankers Acceptances, Commercial paper, Negotiable Certificates of Deposit, and Corporate Notes.

Swaps

Investments will be reviewed for the possibility of a swap to enhance yield when both securities have a similar duration so as not to affect the cash flow needs of the program. Swaps should have a minimum of five basis points before being transacted.

4.8.8 Maximum Maturity

The County Investment portfolio shall be structured to provide that sufficient funds from investments are available to meet the anticipated cash needs of the depositors in the County's commingled investment pool. The choice of investment instruments and maturities shall be based on an analysis of depositors cash needs, existing and anticipated revenues, interest rate trends and specific market opportunities. The average weighted maturity of the portfolio will not exceed three years and investments will have a maturity of no more than five years from the settlement date unless specifically approved by the Board of Supervisors or the provisions set forth elsewhere in this policy.

4.8.9 Segregated Investments (excludes Commingled Funds)

Segregated investments of instruments permitted in Government Code Section 53601 can be made upon proper authorization where cash flow or other factors warrant segregation from the commingled pool. Examples that may justify such segregation are bond or note proceeds, Retiree Health funds or Workers Compensation funds where longer term or matching term investments are warranted.

For segregated investment funds, no investment shall be made that could not appropriately be held to maturity without compromising liquidity requirements.

Segregated investments shall be limited to five years maturity unless a longer term is specifically approved by the appropriate legislative body.

Government Code Sections 53620 and 53622 grant the County authority to invest the assets of the Santa Clara County Retiree Health Trust in any form or type of investment deemed prudent by the governing body. Accordingly, the County Board of Supervisors has determined that up to 67 percent of the Trust's assets, excluding near-term liability pay-outs, may be invested in equities through mutual funds or through the direct purchase of common stocks by a money management firm(s) approved by the Board of Supervisors.

In accordance with the prudent person standard in Government Code Sections 53620 through 53622, the assets of the Santa Clara County Retiree Health Trust may be invested in bonds that have a final maturity of 30 years or less from purchase date, and in bonds that reflect the following ratings or higher from at least two of these NRSRO's: Moody's (A3), Standard and Poor's (A-), and Fitch (A-).

4.8.10 Safekeeping and Custody

All security transactions, including collateral for repurchase agreements, shall be conducted on a delivery-versus-payment (DVP) basis. Securities will be held in the name of the County by a custodian designated by the County Treasurer and evidenced by trade confirmations and safekeeping holdings reports.

The County Treasurer will approve certain financial institutions on an annual basis to provide safekeeping and custodial services for the County. Custodian banks shall be selected on the basis of their ability to provide service to the County's account and the competitive pricing of their safekeeping related services. All securities purchased by the County under this section shall be properly designated as an asset of the County and held in safekeeping by a custodial bank chartered by the United States Government or the State of California. The County will execute custodial agreement(s) with its bank(s). Such agreements will outline the responsibilities of each party for the notification of security purchases and sales, address wire transfers as well as safekeeping and transaction costs, and provide details on procedures in case of wire failures or other unforeseen mishaps along with the liability of each party.

To be eligible for designation as the County's safekeeping and custodian agent, a financial institution shall meet the following criteria:

- Have a Moody's rating of P-1 or Standard and Poor's rating of A-1 for the most recent reporting quarter before the time of selection.
- Qualify as a depository of public funds in the State of California as defined in Government Code Section 53638.

The County Treasurer shall require each approved custodial bank to submit a copy of its Consolidated Report of Condition and Income (Call Report) to the County within forty-five days after the end of each calendar quarter.

It is the intent of the County to mitigate custodial credit risk by insuring that all securities are appropriately held.

Securities typically clear and settle as electronic book entries through the following clearinghouses: (1) the Depository Trust Corp. (DTC), a member of the Federal Reserve Bank; or (2) the Fed Book-Entry System, owned by the Federal Reserve. Governments generally do not have their own account in the Fed Book-Entry System or at DTC, but have access to those systems through large financial institutions who are members and participants. The County's securities within the clearing system are held under the Custodial Bank's name. The Custodial Bank's internal records identify the County as the underlying beneficial owner of securities.

Infrequently, physical certificates are used to reflect ownership of a security. When physical securities are received by the Custodial Bank, they are sent to a transfer agent to be registered into the Custodial Bank's nominee name. It is kept in the bank's vault until

redeemed or sold. The Custodial Bank records identify the County as the underlying beneficial owner and include the securities on the County's Safekeeping report.

4.8.11 Internal Controls and Accounting

The County shall establish a system of internal controls, which is designed to prevent losses of public funds arising from fraud, employee error, and misrepresentation by third parties, unanticipated changes in financial markets, or imprudent actions by employees and officers of the County.

The County maintains its records on the basis of funds and account groups, each of which is considered a separate accounting entity. All investment transactions shall be recorded in the various funds of the County in accordance with Generally Accepted Accounting Principles as promulgated by the Government Accounting Standards Board.

The County shall establish a process for an annual review by either the County's internal or external auditor. This review will examine the system of internal controls to assure that the established policies and procedures are being complied with and many result in recommendations to change operating procedures to improve internal control.

4.8.12 Reporting

(A) Methods.

(i) The County Treasurer shall prepare an investment report quarterly, including a management summary that provides a clear status of the current investment portfolio, quarterly transactions, investment philosophy and market actions and trends. The management summary will be prepared in a manner which will allow the County to ascertain whether investment activities during the reporting period have conformed to the investment policy. The report should be provided to the Board of Supervisors, the County Executive, the County Treasury Oversight Committee, Internal Auditor, and local agencies with funds on deposit in the County pool. The report will include the following:

- A listing of individual securities by type of investment and maturity held at the end of the reporting period.
- A composite of transactions purchased during the reporting period by type of security.
- Unrealized gains or losses resulting from appreciation or depreciation of securities held in the portfolio, by listing the cost of market value of securities.
- Average weighted yield to maturity of the portfolio and benchmark comparisons.
- Weighted average maturity of the portfolio.
- A summary of purchases during the reporting period by broker/dealers or banks showing the purchase date, issuing agency, amount purchased, cost and purchase date.

- A statement denoting the ability of the County to meet its pool's expenditure requirements for the next six months, or provide an explanation as to why sufficient money shall, or may not, be available.

(ii) The County Treasurer shall prepare a monthly report with a brief summary of the investment report and a listing of the transactions conducted during the month. The report will be provided to the Board of Supervisors, Treasury Oversight Committee and the local agencies with funds on deposit in the County Pool.

Material deviations from projected budgetary investment results shall be reported no less frequently than quarterly to the Board of Supervisors and the County Executive.

(B) Performance Standards.

The investment portfolio will be managed in accordance with the parameters specified within this policy. The portfolio should obtain a market average rate of return during a market/economic environment of stable interest rates, taking into account the County's investment risk constraints and cash flow needs.

The basis for measurement used to determine whether market yields/rate of return are being achieved shall be the State Treasurer's Local Agency Investment Fund (LAIF). It should be recognized, however, that since the investment parameters of LAIF are broader than the County's investment policies, the returns realized by the County cannot necessarily be expected to exceed the returns realized by LAIF on a regular basis.

- (C) The County utilizes the following methods to pay for banking services and County administration of the investment function:

General Banking Services. General banking services such as safekeeping, items deposited, statements, account maintenance, etc., may be paid to the bank through direct payment or a combination of direct payment and compensating balance.

Investment and Banking Administration Costs. The County recovers staffing and other costs relating to the County's administration services for banking and investment functions provided to the County Treasury. The administrative costs are allocated against the earnings of the County pool prior to apportionment of earnings.

Earnings Apportionment. Earnings of the County pool are apportioned quarterly to all participants of the pool based on the average daily balance of each fund during the quarter.

Realized capital gains (the gain from securities sold at a higher price compared to cost) are added to quarterly earnings. Realized capital losses (the loss from securities sold at a lower price compared to cost) reduce quarterly earnings. To the extent that a realized capital loss exceeds the quarterly aggregate earnings of the Pool, the loss will be shared across all funds. The size of the write-down for any individual fund balance will be based on the average daily balance of each fund during the quarter in which the loss occurred.

Any apportioned earnings may not be available for withdrawal until all monies that have been earned (i.e., accrued) have actually been received by the County Treasurer.

4.8.13 Investment Policy Adoption

Pursuant to Government Code Section 27133 the County Treasurer annually prepares an investment policy that is reviewed, monitored and approved by the County Treasury Oversight Committee. Any changes must be approved by the Board of Supervisors. Copies of the approved investment policy shall be circulated annually to local agencies with funds on deposit in the County pool.

4.8.14 Voluntary Participants

The County provides the opportunity for local agencies to deposit excess funds within the County's Commingled Pool pursuant to Government Code Section 53684. In order to participate, voluntary participants must sign the County's Disclosure and Agreement for Voluntary Deposits which outlines the terms and conditions of participation, including constraints on deposits and withdrawals from the pool. Voluntary participants must also submit a resolution duly adopted by its governing board authorizing the deposit of funds into the Investment Pool.

It is the County's policy to not allow access to the pool unless the voluntary participant agrees to a long-term relationship utilizing the pool and County Treasury for its primary banking needs. The County does not wish to enter into relationships where an entity is placing funds because yields for a time may be higher than what is available at other organizations, because such activity can have an adverse and unfair impact on the other participants. Upon approval of the Treasurer, accommodations may be made to utilize the County resources to make specific investments or manage segregated funds for a voluntary participant at an agreed cost.

4.8.14.1 Temporary Loans to Pool Participants

Various public entities maintain funds on deposit with the County Treasury. From time to time, these public entities experience cash flow problems. Allowing these entities to temporarily borrow from the commingled investment pool is an alternative way to address their short-term cash flow problems. In order to ensure that these temporary loans comply with all legal requirements and investment pool objectives, no such transfers shall be made unless all of the following requirements are met:

- Because the commingled investment pool consists of deposits from both restricted and unrestricted sources, all transfers shall comply with all requirements of Government Code Sections 53601, 53840, 53841 and 53842, including the requirements that they be legally characterized as loans and formalized with "evidences of indebtedness," and meet maturity and security criteria.
- All transfers shall comply with Article XVI, Section 6 of the California Constitution, including the limitations on borrowing amounts and loan periods.

- No transfers shall be made during any fiscal year unless the Board of Supervisors has adopted a resolution authorizing transfers for that fiscal year. (Cal. Constitution Article XVI, Section 6; Government Code Section 25252.)
- Any inter-fund transfers between school district and community college accounts shall be formally approved by the district's governing board and shall comply with all other requirements of Education Code Sections 42603, 42620 and 85220, including requirements regarding repayment, sufficient income, and maximum transfer amounts.
- No transfer may occur until the fund needing the transfer meets the revenue sufficiency test, consistent with state law and County investment pool investment-risk constraints, established by the Director of Finance to ensure repayment.
- Direct borrowing from the pool should be a last resort funding alternative. Pool participants will be encouraged to use all available internal sources for cash flow needs through inter-fund borrowing between the participant's various funds.

The Director of Finance shall do all of the following:

- Proactively monitor fund balances.
- Establish early warning triggers to identify those funds most likely to incur an overdraft and require a transfer.
- Establish a revenue sufficiency test for the purpose of assessing repayment ability.
- Place tax apportionments assigned to an overdrawn fund in a lock box sequestered for credit to the investment pool.
- Establish and monitor investment pool exposure limits.
- Monitor funds to ensure that loans meet dry period (last Monday in April through June 30 of the fiscal year) financing restrictions.
- Restrict certain individual funds (e.g., bond reserve funds) from use as a borrowing source in inter-fund borrowing across funds held by pool participant.
- Establish a hierarchy of associated funds owned by each pool participant to be used as alternative funding sources in the event any of the participant's funds needs a loan.
- Implement accounting procedures that either manually or automatically transfer funds from one fund to another based on preset rules.
- Report within the Quarterly Investment listing all loans extended by the investment pool to participants.

The County's external financial auditor shall regularly review all of the practices and procedures in this Section to ensure compliance with all legal requirements.

4.8.15 Withdrawal of Funds by Voluntary Participants

Public entities that are voluntary participants in the County pool who wish to make withdrawals for the purpose of investing outside of the County pool may request such withdrawals in accordance with the County Investment Management Agreement.

The County Treasurer will assess the proposed withdrawal on the stability and predictability of the investments in the County pool. Prior to approving or disapproving a withdrawal request, the County Treasurer shall determine that the proposed withdrawal will not adversely affect the interests of the other depositors in the County pool. Funds are withdrawn based on the market value.

4.8.16 Warranties

All depositors acknowledge that funds deposited in the Investment Pool are subject to market/investment risk, and that the County Treasurer makes no warranties regarding Investment Pool performance, including but not limited to preservation of capital or rate of return earned on funds deposited in the Investment Pool. Depositors knowingly accept these risks and waive any claims or causes of action against the County Treasurer, the County, and any employee, official or agent of the County for loss, damage or any other injury related to the Depositors' funds in the Investment Pool, with the exception of loss, damage or injury caused solely by the County Treasurer's material failure to comply with the County Investment Policy and all applicable laws and regulations.

4.9 MANUFACTURING PERSONAL PROPERTY TAX REBATE SANTA CLARA COUNTY GROWTH AND JOB CREATION POLICY (Adopted 9-19-95)

The following policy was adopted by the Board of Supervisors on September 19, 1995:

POLICY ON MANUFACTURING PERSONAL PROPERTY TAX REBATE SANTA CLARA COUNTY GROWTH AND JOB CREATION POLICY

The County of Santa Clara supports efforts to maintain and expand manufacturing and research-and-development employment in Santa Clara County as a tool to improve living standards in our community. The County of Santa Clara, through Assembly Bill 1823 of 1993, is willing to assist manufacturers expand or relocate facilities, create good jobs, and increase property tax revenues.

Under provisions of AB 1823, the County of Santa Clara will, for eligible manufacturing facility projects, consider granting a rebate for up to five (5) years of a portion of the County's share of the 1 percent property tax levy on manufacturing equipment. The amount of the rebate granted shall not exceed the amount granted by the city within which the project is located.

The Board of Supervisors has established the following policy and application guidelines to ensure a prompt and thorough review of eligible projects.

4.9.1 Eligibility

- (A) Consistent with the intent of AB 1823, the County shall only grant personal property tax rebates to companies that, but for the rebate, would not otherwise have

expanded or located within Santa Clara County. The County shall not consider an application if, prior to filing for the rebate, any of the following actions have occurred:

- (1) A building permit for the subject development for which a deduction is being sought has been issued by a City within the County jurisdiction or construction of the subject development has begun; or
 - (2) Manufacturing equipment for which a deduction is being sought has been or is being installed.
- (B) The County shall look more favorably for the purposes of this tax rebate upon companies that:
- (1) Provide healthcare for all permanent employees;
 - (2) Have a history of fair labor practices;
 - (3) Have workplace health and safety policies in place;
 - (4) Pay wages at or above the competitive industry wages;
 - (5) Provide childcare for their workers;
 - (6) Hire County job training program alumni;
 - (7) Hire current residents of Santa Clara County;
 - (8) Locate the project so that workers can make use of mass transit;
 - (9) Have public giving programs that benefit the local community;
 - (10) Have a commitment to workplace training for all employees;
 - (11) Have policies in place to reduce the use of toxics and to reduce environmental damage;
 - (12) Have a history of mitigating environmental violations.

Please enclose your corporate policy on these items, if applicable.

4.9.2 Application

Any company applying for a Santa Clara County tax rebate shall provide the following information:

- (A) A copy of the applicant's most recent audited financial statement and shareholder report;

- (B) A description of the applicant's expansion or relocation plans which include project timeline and estimated total investment, including costs of real property and manufacturing equipment;
- (C) An estimated tax schedule for payments of real property tax and manufacturing equipment taxes, including an amortization schedule and anticipated rebate schedule;
- (D) An estimate of the construction jobs created by the proposed development or expansion;
- (E) An estimate of the total jobs and wage and benefit (or suitable alternative) scales by job category (including full-time, part-time, permanent, temporary, and manufacturing) created by the proposed development or expansion and the anticipated hiring dates;
- (F) A list of all other local, state and federal public bodies that the applicant has approached or will approach for additional financial incentives, abatements, rebates or subsidies related to the Santa Clara County application.

4.9.3 Approval

Within 30 days of receipt of the completed application, the Board of Supervisors shall schedule the item for discussion and possible action at a regularly scheduled Board meeting. The Director of Finance will present a recommendation to the Board of Supervisors which evaluates the application and relevant information from state and/or city analysis of project.

4.9.4 Manufacturing Personal Property Tax Rebate Criteria

Minimum Standards:

Companies with expansion projects approved for personal property rebates will:

- (A) Be eligible for a rebate on personal property taxes for up to 28.5 percent of the County portion of the 1 percent secured and unsecured property taxes paid over a five year period following project completion;
- (B) Create and sustain a minimum of ten (10) full-time permanent manufacturing jobs over the life of the rebate period;
- (C) Demonstrate competitive industry wages, by category and industry at a minimum of \$10 per hour, for both full-time and part-time jobs created by the expansion;
- (D) Provide health care benefits, or a suitable alternative, for permanent jobs created;
- (E) Appoint a contact person who will be responsible for working with the County's designated staff for the purposes of hiring and training job applicants when practi-

cal through County offices of the State of California Employment Development Department, locally sponsored Job Training Partnership Act Programs, and Santa Clara County's Greater Avenues for Independence, and to jointly submit an annual report regarding their progress.

4.9.5 Accountability Criteria

A company shall annually submit its claim for a tax rebate. The claim shall show proof of the 1 percent secured and unsecured property taxes paid in the current fiscal year.

The claim shall also list the number of manufacturing and other jobs created because of the project along with a summary of pay rates and health insurance coverage or suitable alternatives afforded its employees for the respective job categories.

Companies failing to meet projected job creation, wage rate, or health insurance coverage requirements shall be subject to a proportional claim reduction as defined in the contract.

The County shall have the right to recover a rebate from a company if it is determined, by way of a final decision of an administrative agency or court of competent jurisdiction, that the company has committed a willful or grossly negligent act with regard to the company's business within Santa Clara County.

4.10 CAPITAL OUTLAY POLICY (Adopted 9-23-97; Amended 12-5-06)

It shall be the policy of the Board of Supervisors of Santa Clara County that Facilities Department General Fund capital projects shall be funded through the Capital Outlay Process which shall include a 10-Year Capital Improvement Plan. The capital project evaluation criteria will continue to guide priority setting.

4.10.1 Capital Budget Concept Paper Phase

Agencies/Departments prepare a conceptual project description and justification to allow policy makers to arrive at a tentative priority listing as well as assess viability and appropriateness of including the projects in the County's long-range capital outlay plan.

4.10.2 Capital Budget Proposal (CBP)

Agencies/Departments, in conjunction with the Capital Programs staff, develop the projects and justification to allow the Administrative Capital Committee to be able to make recommendations on whether to request funds for projects selected in the Concept Paper Phase.

4.10.3 Capital Budget Proposal and 10-Year Plan (Amended 12-5-06)

Capital Programs makes a final review and analysis of Capital Budget Proposals to advise the Administrative Capital Committee of their appropriateness and readiness to be submit-

ted as part of the County's capital budget submission. A draft priority listing of all projects is completed at this time.

4.10.4 Preparation and Submission of County's 10-Year Plan and Budget Submission Phase (Amended 12-5-06)

Once recommendations are reviewed and evaluated, this phase covers the actual development of the 10-Year planning document and budget submission through the County Executive's Office to the Board of Supervisors.

The Plan identifies what the Board is anticipated to consider in the next ten years for physical plant modifications, annual phasing and cash flow for each project and the Plan's project priorities.

4.10.5 Board of Supervisors Review and Approval Phase (Amended 12-5-06)

This phase includes several steps: approval from the Administrative Capital Committee and Finance and Government Operations Committee in the development and submission of the 10-Year Plan until its adoption by the Board annually in Budget Hearings.

The Facilities Department will be working very closely with operating departments throughout the entire process.

4.11 POLICY FOR PLANNING, REPORTING, AND FINANCING CAPITAL PROJECTS (Adopted 3-10-98; Amended 2-26-08)

The Board of Supervisors believes that a high priority must be placed on the financing of capital projects. This approach allows for a capital expenditure strategy which enables the County to:

- provide appropriate facilities for its workforce and clients;
- manage maintenance, utilities and other facility ownership costs; and,
- plan for the future replacement of facilities.

The Board supports a rigorous annual planning process and application of well-defined and policy driven criteria. Board Policy 4.10 describes the annual Capital Outlay Process whereby departments will submit capital budget concept proposals for review to the Administrative Capital Committee. The Finance and Government Operations Committee will annually review capital project requests as submitted by the Administrative Capital Committee and will forward recommended projects to the full Board of Supervisors for consideration based upon the following criteria:

- **Legal Mandates** - legal requirements which require implementation of the proposed project.

- **Health and Safety Effects** - the degree to which a project reduces or eliminates the exposure of employees and residents to health and safety hazards.
- **Preservation of Existing Capital Facilities** - the ability of a project to eliminate an existing deficiency, substandard condition, or need for future major rehabilitation.
- **Service Level Changes (Quality of Service)** - the project's effect on the efficiency of County programs.
- **Fiscal Impacts** - the cost effectiveness of the project (cost-benefit, life cycle cost, pay-back term, risk assessment analysis).
- **Environmental Sustainability** - the potential for the project to improve one or more of the following indicators of environmental sustainability, consistent with Board Policy Section 7.14 (County Green Building Policy):
 - (A) Reduced energy use
 - (B) Reduced Greenhouse Gas (GHG) emissions
 - (C) Reduced water use
 - (D) Improvements to water quality
 - (E) Improvements to air quality
 - (F) Contribution of project to habitat conservation goals
- **Aesthetic or Social Effects** - the beneficial or adverse impact of a project on the quality of life for residents and/or employees.

4.11.1 Reporting Capital Projects in the 10-Year Capital Improvement Plan

Capital projects are developed and reviewed by the Finance and Government Operations Committee and by the Board of Supervisors as described in Board Policy Section 4.10 (Capital Outlay Policy). Capital projects are reported in the annually updated 10-Year Capital Improvement Plan as described below:

- (A) Capital projects that exceed \$500,000 will be presented in the 10-Year Capital Improvement Plan and will include information on the stage of the project, estimated life cycle costs including one-time and ongoing costs, and additional costs of the service program, if any.
- (B) Capital projects that exceed \$500,000 and require more than one year for completion will be presented to the Board in a multi-year format with clear definition of the need for expenditures and/or encumbrances within each fiscal year based.
- (C) For capital projects that exceed \$500,000, distinct phases will be clearly defined separating the design phase from the construction phase. Though a total cost of all

phases will be estimated, funding for construction will normally be considered only at the completion of the design phase when accurate costs have been determined.

- (D) Projects to be funded from bonds or other sources outside the regular capital review process, such as Santa Clara Valley Health and Hospital capital accounts, will be included in the document for reference purposes.

Projects that are not requested during the annual Capital Projects planning process, as described in Board Policy Section 4.10 (Capital Outlay Policy), will not be considered for funding unless the need has been created by an emergency or other compelling reason.

4.11.2 Capital Projects Descriptions

This policy recommends that capital expenditures be sorted as based on the following categories of projects:

- (A) Preventative / Corrective Maintenance projects
- (B) Life Cycle Replacement / Major Maintenance projects
- (C) Special Program projects
- (D) New Construction / Alteration projects

4.11.3 Preventative / Corrective Maintenance Projects (Amended 6-19-98)

Preventative and corrective maintenance projects are the maintenance work needed to keep a facility and its systems functioning to the end of their engineered lives or “life cycle.” Preventative maintenance accomplishes facility system inspections and services in accordance with schedules established by manufacturers’ recommendations, industry standards, and government regulations. Corrective maintenance is the repair of a facility system that has failed unexpectedly prior to the end of the engineered life of that system. Most corrective maintenance projects are small repair projects that can be performed by County employees since the project work costs less than the dollar amount established by California Public Contract Code Section 22032(a).

These projects typically fall under the criteria of “Preservation of Capital Facilities,” “Legal Mandates,” and “Health and Safety Effects.”

Preventative and corrective maintenance projects are funded in department annual operating maintenance budgets from county “ongoing funds”, and are not capital projects per se. But, failure to perform this work will result in the creation of expensive capital repair projects. Larger corrective maintenance projects may be reclassified as “major maintenance” projects.

The Board of Supervisors has adopted a policy to determine a level of allocation for preventive maintenance based on the value of County-owned buildings. The preventative maintenance annual funding standard shall be 2% of the facility value.

4.11.4 Life Cycle Replacement / Major Maintenance Projects

Buildings and their systems are engineered for a useful design life. Life cycle replacement and major maintenance projects, also known within the County as Backlog projects, are those capital funded projects that replace or renovate buildings and their systems as those buildings / building systems reach the end of their useful lives. Large corrective maintenance projects may be reclassified as major maintenance projects due to the need to fund these projects with capital funds rather than from department annual operating budgets.

These projects typically fall under the criteria of “Preservation of Existing Capital Facilities,” “Legal Mandates,” and “Health and Safety Effects.”

The list of projects and desired level of annual capital funding for this work is identified through a Facility Condition Assessment process. A prioritized list of these projects is annually presented to the Board of Supervisors during the annual capital planning process.

Funding for these projects is typically provided from County “one-time” funds. Consideration should be given to using other sources of funding if “one-time” funds are insufficient to meet the life cycle replacement requirements of the County’s facilities.

Unexpected emergency maintenance projects are often funded from the County Contingency Reserve Fund. These projects are considered separately from the annual capital project review process due to the unexpected nature of their occurrence and the urgency with which the repair work must be completed.

4.11.5 Special Program Projects

Special program projects are those groupings of projects having unique characteristics that are of special interest to the County. Possible examples of such programs include energy conservation, water conservation, greenhouse gas reduction, Americans with Disabilities Act projects, security, and others. These projects may be reflective of one or more of the listed capital projects selection criteria.

These projects are prioritized within their groupings, and the suggested prioritized lists are annually provided to the Board of Supervisors for funding consideration. The program lists are often included in the 10-Year Capital Improvement Plan.

These projects are typically funded from “one-time” funds.

4.11.6 New Construction / Alteration Projects (Amended 9-10-13)

These projects provide new, or significantly or materially alter, improve or modify existing, facilities, facility design, parking needs, leased or licensed buildings, space or other properties. An alteration, improvement or modification to a facility, parking need, build-

ing, space or other property may be considered material or significant if it materially or significantly alters, modifies or changes the County's or a Department's fiscal, operational, management, structural or facility responsibility needs or obligations. While these projects may be selected due to a number of capital project selection criteria, the most commonly used criteria for these projects may be "Service Level Changes." Changes in Federal or State laws, regulations, and building codes may also create a need for such projects under the "Legal Mandates" criteria.

This policy will require the Administration to include comprehensive statements regarding the fiscal, operational, facility and management impact of new construction or design, and the alteration, improvement, or modification of new or existing capital projects on affected departments including, but not limited to, the impact on the Facilities and Fleet Department relating to utility, custodial, and maintenance costs, space and design needs and modifications, lease amendments and change orders, and to other support departments such as the Information Services Department. An additional requirement will be to demonstrate how the funding of such a project will improve the performance of particular departments as it relates to productivity, efficiency, service outcomes, or meeting legal mandates. It is anticipated that projects to provide (by lease, license, purchase or agreement) new, expanded, altered, improved or modified facilities, facility design, space, parking, buildings or properties will derive from the Facilities Condition Assessment process, the Real Estate Master Plan, and/or specific operational strategic plans that examine productivity, efficiency, service outcomes, short-term and long-term objectives, legal mandates and a cost/benefit analysis taking into account a lease versus purchase option (where applicable). An examination of the cost effectiveness including a life cycle analysis should be reported regardless of funding sources. All of these factors must be included in the justifications presented to the Finance and Government Operations Committee and the Board of Supervisors.

These projects may be funded from a variety of funding sources including Federal, State, grant, bond indebtedness, and County "one-time" funds; and special funds such as Tobacco Funds, Criminal Justice Funds, parcel tax, and other funding sources.

The financial amount required to fund a large new construction or major alteration project may exceed the financial resources available in any given year. These projects should be considered on a case by case basis and be evaluated separately from annual capital requirements.

4.12 POLICY REGARDING CALCULATION OF THE RETIREMENT LEVY (Adopted 6-14-99)

It shall be the policy of the Board of Supervisors to include all eligible costs in the calculation of the annual retirement levy.

4.13 TAX LOSS RESERVE FUND (Adopted 11-9-99; Amended 10-28-03)

The Board of Supervisors exercises the option under the Revenue and Taxation Code to be governed by Section 4703.2. The Tax Loss Reserve Fund shall be maintained at not less than 25 percent of the total delinquent secured taxes and assessments for participating entities in the County at the end of the fiscal year, and any amount in the fund in excess of referenced 25 percent may be credited to the County General Fund.

4.14 BUDGETARY CONTROL OF CAPITAL PROJECTS (Adopted 1-14-03; Amended 1-13-04; Amended 12-6-05; Amended 12-5-06; Amended 2-26-08)

It is the policy of the Board of Supervisors of Santa Clara County that capital project funds be managed according to the following guidelines.

4.14.1 General Capital Funding Guidelines

County departments shall develop policies and procedures for the budgetary control of capital funds. Guidelines should define the appropriation process; establish appropriate and prohibited uses for capital funds; set guidelines for handling funds at project close and fiscal year-end; and define reporting requirements for capital projects.

4.14.2 Budgetary Control and Reporting of the Facilities and Fleet (FAF) and Santa Clara Valley Medial Center (SCVMC) Capital Funds (Amended 12-7-04)

The Board of Supervisors approves FAF and SCVMC Capital Funds according to the guidelines established in Section 4.11 of this policy.

(A) FAF Capital Fund and Appropriation Categories

FAF Capital funds are typically appropriated by the Board during the annual Capital Budget Process or by subsequent Board actions. Board Capital Funds are appropriated as either Board Identified Programs or as Board Identified Capital Projects.

- (1) Board Identified Programs (BIP) - These purpose specific appropriations are maintained in the BIP account until an Administration Identified Capital Project (AICP) is established.
 - (a) Building Operations Division BIPs including, but not limited to, Life-cycle Infrastructure Investment Program/Deferred Maintenance Backlog (Backlog) and Energy Conservation Programs
 - (i) These Building Operations AICPs are approved by the Manager of FAF Building Operations Division within the

BIPs scope, e.g., Backlog, to address either deferred maintenance backlog or equipment and building system life cycle replacement needs in County-owned facilities.

- (ii) There may be leased buildings for which FAF is contractually obligated to provide maintenance and in those cases, Backlog funds may be used in accordance with this policy. Energy Conservation Funds may also be used in leased buildings.
- (b) Capital Programs Division BIPs including, but not limited to, Security Master Plan, American's with Disabilities Act/Fire Marshal (ADA/FM), Unanticipated, Planning Programs
- (i) Capital Programs Division AICPs are approved in accordance with the procedures set forth in paragraph 4.14.2.B.1.b and then are managed by the Manager of Capital Programs to address facility needs within the scope of the BIP appropriation.
 - (ii) There may be leased buildings for which FAF determines that enhancements are needed and, in those cases, BIP funds may be used in accordance with this policy, e.g., Security Master Plan improvements.
- (2) Board Identified Capital Projects (BICP) - These are line-item appropriations with a defined project scope.

(B) Appropriation Guidelines

- (1) Board Identified Programs (BIP)
- (a) Building Operations, (i.e., Backlog, Energy Conservation Programs)
 - (i) Building Operations AICP scope must be in alignment with the BIP scope.
 - (ii) The FAF Building Operations Division may commit funds to and move funds between Building Operations AICPs using current year Building Operations BIP Funds only.
 - (iii) Building Operations BIP Funds allocated to an AICP in a prior fiscal year cannot be reallocated to another AICP by FAF. Prior year surplus or uncommitted funds shall be transferred to the appropriate holding account when the AICPs are closed out or the funds are otherwise no longer needed for designated AICPs.

- (b) Capital Programs, AICPs. (i.e., ADA/FM, Security Master Plan Programs)
 - (i) AICP scope must be in alignment with the BIP scope.
 - (ii) The Deputy County Executive, Office of Budget and Analysis (OBA) or designee may approve or augment an AICP up to \$250,000 that is funded entirely from one BIP.
 - (iii) AICP funding approved by OBA may be made in increments as long as the total funding for the AICP does not exceed \$250,000;
 - (iv) AICPs initiated and closed in the same fiscal year shall have unused funds returned to the BIP for reallocation;
 - (v) OBA may approve funding transfers between current-year AICPs within a single BIP.
 - (vi) OBA may augment the funding of a prior year AICP from within the same BIP using current year funding only.
 - (vii) BIP Funds allocated to an AICP in a prior fiscal year cannot be reallocated to another AICP by OBA. Prior year surplus or uncommitted funds shall be transferred to the appropriate holding account when the AICPs are closed out or the funds are otherwise no longer needed for designated AICPs.
 - (viii) AICPs requiring funding from more than one BIP or in an amount greater than \$250,000 must be approved by the Board or its designee. Upon Board action, the AICP is reclassified as a BICP and is subject to the guidelines in Section 4.14.2.B.2 of this policy.
- (2) Board Identified Capital Projects (BICP) - The Board or its designee must approve the following changes to a BICP:
 - (a) Total appropriation increases or decreases;
 - (b) Designated line item appropriation increases or decreases (i.e., land purchase); or
 - (c) Significant programmatic scope changes.

(C) **Holding Accounts**

- (1) Board Identified Programs (BIP)

- (a) For each approved BIP, a single holding account shall be established to receive any and all surplus or uncommitted funds returned from its AICPs that were allocated in any prior fiscal year. This account will be separate from the original BIP account. To the extent possible, holding accounts shall identify the year of initial appropriation.
 - (b) FAF shall transfer identified surplus or uncommitted prior year funds from AICPs to the designated BIP holding account.
 - (c) The Office of Budget and Analysis should provide recommendations to the Board for future allocations of holding account funds; however, only the Board or its designee may appropriate funds from these holding accounts.
- (2) Board Identified Capital Projects (BICP)
 - (a) One single holding account shall be established to receive any and all surplus or uncommitted funds from all BICPs that were allocated in any fiscal year. To the extent possible, holding accounts shall identify the year of initial appropriation.
 - (b) FAF shall transfer identified surplus or uncommitted funds from BICPs to the designated BICP holding account.
 - (c) The Office of Budget and Analysis should provide recommendations to the Board for future allocations of holding account funds; however, only the Board or its designee may appropriate funds from these holding accounts.
- (D) Guidelines for Appropriation Management at Fiscal Year End**
 - (1) FAF shall carry BICP appropriations across fiscal years until completion and closeout of the project; and
 - (2) FAF shall carry AICP allocations across fiscal years until completion and closeout of the project; and
 - (3) At fiscal year end, current BIP appropriations that are not committed to a project with an established scope and budget shall be transferred to the designated holding account.
- (E) Reporting Fund Transfers to the Board**
 - (1) FAF Building Operations Division shall report all BIP fund transfers annually to the Finance and Government Operations Committee (FGOC). That report shall include the following:

- (a) Funds allocated to Building Operations AICPs from current year BIPs
 - (b) Funds returned to BIP holding accounts(s)
- (2) FAF Capital Programs Division shall report all BIP (AICP) fund transfers annually to the FGOC, no later than the April meeting, so the Board will have the information during the budget process. That report shall include the following:
- (a) Funds allocated from current year BIPs to current and prior year AICPs
 - (b) Funds returned to current year BIPs from current year AICPs
 - (c) Funds transferred to the appropriate BIP holding account(s)
 - (d) Any funds transferred by the Board, OBA or FAF
- (3) FAF Capital Programs Division shall report all BICP fund transfers annually to the FGOC, no later than the April meeting, so the Board will have the information during the budget process. That report shall include the following:
- (a) Funds appropriated to BICPs
 - (b) Funds returned to the BICP holding account
 - (c) Funds appropriated from the BICP holding account
- (4) SCVMC shall report all capital project fund transfers annually in the Final Budget document and reconcile this list at the end of the fiscal year during the re-appropriation request to the Board of Supervisors. These reports shall include the following:
- (a) All projects equivalent to AICPs, including new and re-appropriated projects.
 - (b) At the time of re-appropriation request, a reconciliation of the prior year's Final Budget and the request for re-appropriation.

(F) Procedures

FAF and SCVMC shall develop internal procedures to implement this Board policy.

4.15 SELF-INSURANCE FUNDING POLICIES (Adopted 3-11-03; Amended 6-19-15)

It is the policy of the Board of Supervisors that:

- (A) The workers' compensation self-insurance program has targeted funding at no less than 70% confidence level and not more than 80% confidence level, unless the Board approves a lower or higher target for a single fiscal year.
- (B) The general liability, medical malpractice, and automobile claim self-insurance programs have a targeted funding at no less than 70% confidence level and not more than 80% confidence level for the most current two years' claims, and all other years' claims at the expected level, unless the Board approves a lower or higher target for a single fiscal year.
- (C) When actual funding is higher or lower than the targeted funding level for workers' compensation, general liability, medical malpractice, or automobile claim self-insurance program, then Administration will use a two-year rolling average funding method to refund surplus reserves and up to a five-year rolling average funding method to recover a reserve deficit.
- (D) The property insurance program will include a self-insurance component with targeted funding for an earthquake probable loss of a once in every 20 year earthquake event. The administration will use a fixed 20 year period to gradually collect contributions to achieve the targeted funding level by FY 2037.

4.16 TOBACCO SETTLEMENT REVENUES (Adopted 11-18-03)

It is the understanding of the Board of Supervisors that Tobacco Settlement Revenues are discretionary and can be allocated to any cost center as they see fit. With this in mind, it shall be the policy of the Board of Supervisors to allocate 100 percent of Tobacco Settlement revenues received in any year to support the delivery of any and all Health Care services and/or Health Related Costs.

Health Care Services and/or Health Related Costs include but are not necessarily limited to the following:

- Salary and benefit costs supporting the delivery of health services (both direct service and administrative costs)
- Service and supply costs supporting the delivery of health services
- Debt Service related to any facility where health services are delivered
- Facility costs that support the delivery of health services to include:
 - Capital costs related to construction or remodeling

- Equipment costs
- Technology/System Development or Upgrades

4.17 FISCAL CONTROLS ON REPLACEMENT AND PURCHASE OF INFORMATION TECHNOLOGY ASSETS [Interim Policy Applicable for Fiscal Year 05] (Adopted 12-9-03)

4.17.1 Purpose

The purpose of this policy is to establish fiscal controls for IT asset replacement and purchases for FY05. This policy applies to purchases of Desktops, Servers, Desktop/Server Software, Laptops, Monitors and Printers.

4.17.2 General Requirements

- New purchases of technology assets will be clearly identified in new project documentation.
- All IT infrastructure funding requests submitted to the ITEC Funding Request process will be reviewed according to the information provided by the Department and the criteria contained in this policy.
- Agency and Department Heads will determine if IT asset replacement requests comply with the policy prior to approval.
- State and Federal mandates or requirements will be excluded from applicability of the policy only if required.

4.17.3 Replacement Criteria Applicable to Specific Equipment

- IT replacement for desktops, servers, desktop/server software, monitors and laptops will comply with the following criteria:

Desktops:

- 4 years of age, or if one or more of the following:
 - Software levels are preventing Security patches from being applied
 - New Application or capability requirements
 - Repair, Upgrading or Maintenance is more expensive (time/material) versus purchase
- Redeployment versus disposal is a possibility

Software/Maintenance: (Pertains only to Desktop/Server/Laptop Software)

- 3 to 4 years of age, or if one or more of the following:
 - Software levels are preventing Security patches from being applied
 - New Application or capability requirements
 - Upgrading is more expensive versus purchase
 - (Note: Dependent on established software licensing agreements)

Monitors:

- 6 years of age
- New Application or capability requirements
- Repair or Maintenance is more expensive (time/material) versus purchase

Laptops: (If Laptops are used as Desktops use Desktop criteria)

- 5 years of age, or if one or more of the following:
 - Software levels are preventing Security patches from being applied
 - New Application or capability requirements
 - Repair, Upgrading or Maintenance is more expensive (time/material) versus purchase
- Redeployment versus disposal is a possibility

Servers:

- 5 years of age, or if one or more of the following:
 - Software levels are preventing Security patches from being applied
 - New Application or capability requirements
 - Repair, Upgrading or Maintenance is not possible and/or is more expensive (time/material) versus purchase
- Redeployment versus disposal is a possibility

Printers:

- 6 years of age

- New Application or capability requirements
- Repair, Upgrading or Maintenance (including accessories) is more expensive (time/material) versus purchase
- Redeployment versus disposal is a possibility

4.18 USE OF EXTRA HELP AND OVERTIME (Adopted 2-10-04)

All departments shall stay within their respective budgetary allotment approved by the Board. Departments requiring the transfer of funds in an amount exceeding \$100,000 from one Object to another, or to augment either of these Objects using the Contingency Reserve, shall submit such requests to the full Board of Supervisors for approval.

All departments shall limit extra help usage in accordance with currently-effective agreement with SEIU Local 715, and the limits imposed by the County Executive for non-715 extra help. In addition, departments will comply with the requirements of the Merit System Rules and/or applicable labor agreements that limit the number of extra help hours worked per individual, and the allowance for extensions when necessary under limited circumstances and within the criteria outlined in the applicable ordinance or labor agreement.

4.19 INFORMATION TECHNOLOGY (IT) CAPITAL INVESTMENT POLICY (Adopted 12-6-05)

It shall be the policy of the Board of Supervisors of Santa Clara County that a Biennial Three-Year Information Technology Plan will be produced to provide an overview of the County's IT Strategy. The Plan will include a listing of funded, proposed and conceptual projects, consisting of projects that are over \$100,000, regardless of the source of funding for Board review and acceptance.

It shall be the policy of the Board of Supervisors of Santa Clara County that IT Capital Projects requiring General fund allocations shall be funded through the IT Investment Process, which shall include the prioritized list of IT Projects that are reviewed and accepted by the Finance and Government Operations Committee (FGOC) then recommended for funding, in the annual budget hearings for Board review and approval.

It shall be the policy of the Board of Supervisors of Santa Clara County that IT Capital Projects that have been approved and allocated General Funds or that are managed by Agencies or Departments that report to the FGOC, shall report progress of these IT projects through the Quarterly IT Status Report to the FGOC then to the Board for review and acceptance.

All IT projects, whether funded through the General Fund, state or federally funded, or as part of a larger business program, will be reviewed and accepted or approved by the Board of Supervisors through one of the five Board policy committees.

4.19.1 Biennial Three-Year IT Plan Submission for Board Review and Acceptance

Biennially, the CIO's office will develop a Three-Year Information Technology Plan based on Countywide, Agency and Department needs. The plan will be reviewed by the ITGC, ITEC and the County Executive's Office and forwarded to the FGOC for review and acceptance. These recommendations will be provided to the Board of Supervisors for review and acceptance.

The purpose of the Biennial Three-Year Information Technology Plan is to provide decision-makers with Countywide, Agency and Department Information Technology Plans covering a three-year planning period, or greater. The plans will cover strategic, tactical and conceptual IT programs and projects that are tied to the County, Agency and Department Business Strategies and their priorities. The plan will be published biennially, with any major changes being identified and reported annually.

The plan will cover all IT Projects for all Agencies and Departments regardless of funding sources. The intent of the plan is to assist decision-makers in budgetary planning, and understanding the impact of projects on the County or operational budgets. The plan will identify how technology is being used to improve services and productivity, and to provide an overall understanding of how the projects are connected to each other or to large programs or initiatives.

4.19.2 IT Governance Structure

The CIO will be the chairperson of the two technology committees that comprise the IT governance structure, they include: the Information Technology Executive Committee (ITEC) and the Information Technology Governance Council (ITGC). Both committees have Agency and Department representatives from across the County.

The purpose of the ITEC and ITGC is to develop decision-making processes regarding strategies, priorities, standards, and resource and cost allocations to assist policy-makers. Together the committees will provide the set of guidelines that determine how major IT decisions are made and how exceptions to standard practice are considered and are resolved.

The ITEC is comprised of the Chief Deputy County Executive and Agency and Department Heads. The function of the ITEC is to provide leadership in the direction of IT in the County in an advisory capacity, provide input in the formulation of IT Policy and recommendations, review strategies, projects, recommend prioritization, and serve as business advisors.

The ITGC is comprised of Department Managers and IT Managers whose function is to review and advise the ITEC regarding the validity and soundness of proposed technical solutions, provide input to the formulation of Policy, review strategies, projects and recommend prioritization, serve as technical and business advisors, and to develop IT standards.

4.19.3 IT Capital Funding Review of General Funded IT Projects and Agencies and Departments Reporting to the FGOC

The CIO's Office will be responsible for developing the IT Capital Project Funding Review processes and forms for Agencies and Departments requesting General Fund allocations or who report to the FGOC. Templates, guidelines and review processes will be implemented to ensure that Agencies and Departments prepare appropriate business cases or concept papers that justify the need for funding the project, along with the cost/benefit analysis. The documents will be evaluated and reviewed by the ITEC and ITGC committees and the County Executive's Office to produce a recommended prioritized list for funding using the General Fund to be reviewed through the FGOC.

Non-General Fund requests from Agencies and Departments reporting to other Board committees will be submitted through the appropriate Board Policy committee based on their current processes.

4.19.4 Board of Supervisors Review and Approval

The Board of Supervisors will review and approve IT Capital Projects until its adoption by the Board through the annual Budget Hearings.

4.19.5 IT Capital Project Quarterly Status Report for Review and Acceptance by the Board of Supervisors

Owners of an active IT Capital Project will be required to report quarterly on the status of their project that will be incorporated into the FGOC Quarterly IT Status Report provided by the CIO's Office and reviewed by the County Executive's Office. This report reflects the summary of the status, including budget, resources or timeline slippages and reasons. A risk assessment by the CIO's office or an independent contractor is required for projects over \$1 million or deemed a high risk, is also submitted as part of the FGOC IT Quarterly Report.

The FGOC and the Board members will take appropriate action based on the Quarterly Status Report if an IT project's progress is deemed seriously unsatisfactory, based on recommendations provided in the report by the CIO and the County Executive's Office. If the project targets for budget, timeline or resources have not been reached by the Agency or Department they will be required to report to the FGOC at the discretion of the committee.

Agencies and Departments that report to other Board Committees will submit their transmittals and status to the assigned committee to reduce duplicate efforts.

When a project is initially defined, the Agencies and Departments will identify the benefits and outcomes, how they will track them and when the benefits will be achieved.

When a project is completed or the benefits are achieved per earlier identified timelines, the Agency or Department will work with the Office of Budget and Analysis and the Chief Information Officer's Office to validate the outcomes and report back to the FGOC through the Quarterly IT Status Report.

4.20 TEN-YEAR FLEET PLAN (Adopted 1-23-07; Repealed 6-22-10)

4.21 CAP ON BUDGET INVENTORY ITEMS (Adopted 5-12-20)

It is the policy of the Board of Supervisors that the cumulative total amount of all budget inventory items for each Supervisor shall be capped at \$500,000 per Supervisor for Fiscal Year 2020-2021. For purposes of this policy, “budget inventory item” means one-time funding appropriations, including one-time funding appropriations with multi-year commitments, submitted as part of the Budget Hearing to support community programs that augment or complement services provided by the County.

4.22 VACANT POSITIONS POLICY (Adopted 6-19-15)

Employee Services Agency (ESA) will produce a list of all positions that have been vacant continuously for two years or more, and submit the list to the County Executive’s Office of Budget and Analysis (OBA) during the fall of each year.

OBA will review the circumstances related to each vacant position, with input from County departments, as part of the development of the Recommended Budget. OBA will review the findings with the County Executive and a recommendation to address the retention or deletion of these positions will be included in the annual County Executive’s Recommended Budget, with specific information to that effect.

The County will not maintain a vacant position for more than five years unless the Board approves an exception for a particular position or classification.

4.23 CHILDREN’S BUDGET (Adopted 2-11-20)

The Children’s Budget is an annual County publication providing a description of the programs that are funded through the County of Santa Clara’s Adopted Budget and benefit the County’s children, youth, and families.

The Children’s Budget reflects the policy of the Board of Supervisors to enhance the welfare of the County’s children and youth and to ensure that Santa Clara County is a place where children, youth, and families can flourish.

Prior to the commencement of the public hearing on the County Executive’s Recommended Budget, the County Executive will present to the Board a list of all programs benefiting children, youth, and families proposed to be funded in the County Executive’s Recommended Budget. This list will include the name, description, and purpose for each program.

At the time of the publication of the Adopted Budget, the County Executive will publish the Children’s Budget.

4.23.1 Board Priorities Related to the Children’s Budget

The Board endorses measuring program outcomes and tracking community-level indicators of child and family well-being to target funding to the most effective programs that address the greatest needs.

Additionally, the Board is committed to strengthen and expand local children’s programs using local, state, federal, philanthropic, and other funds in the following areas:

- a. Childcare and early childhood education;
- b. Screening and early intervention services to foster healthy mental, emotional, and behavioral development in children and youth;
- c. Prevention of child abuse and other adverse childhood experiences;
- d. Housing and supportive services for homeless families and families at risk of homelessness;
- e. Food security for children, families, and caregivers; and
- f. Health promotion programs in home, school, and community settings.

