



CMTA Annual Conference {Pre-Conference Training}

Tuesday, May 3rd 2:30-:300

3:15-4:30

Deborah M. Higgins, President



HIGGINS CAPITAL
MANAGEMENT, INC.

We Quarterback Money®

John Johnson, Chief Deputy Treasurer



INVESTMENT POLICY OVERVIEW & WORKSHOP

OVERVIEW AND WORKSHOP OBJECTIVES

- ❑ Understand CA Code Parameters & Investment Policy Importance
- ❑ Demonstrate Best Practices, meeting minimum code requirements
- ❑ Illustrate Investment Policy Guidelines Specific to your Entity
- ❑ Review and Understand the Importance of Policy Structure
- ❑ Analyze the 18 areas of an IPS as an Evaluator and Score/Grade
- ❑ Evaluate the Results in Preparation for your IP Certification

CALIFORNIA LEGISLATIVE INFORMATION

- × [Leginfo.legislature.gov](http://leginfo.legislature.gov)
 - + California Law
 - + Government Code – GOV
 - + Title 5. Local Agencies [50001-57607]
 - + Division 2; Chapter 4;
 - + Article 1. Investment of Surplus

CDIAC

- × The California Debt and Investment Advisory Commission (**CDIAC**) provides information, education and technical assistance on debt issuance and public fund investments to local public agencies and other public finance professionals.
- × CDIAC's Local Agency Investment Guidelines (**LAIG**) provides you with a concise chart, *Figure 1 Allowable Investment Instruments along with a Table of Notes for Figure 1*, pages 16-17/142 (I print both pages, laminate front/back for a readily available chart). The Government Code sections that pertain to handling public agency monies and specifically the Investment of Surplus, starts on page 70/142, Government Code Section 53600-53610.

CA GOVERNMENT CODE 53601 ET AL

LIST OF CA AUTHORIZED INVESTMENTS

1. Local Agency Bonds
2. U.S. Treasury Obligations
3. State Obligations-CA & Others
4. CA Local Agency Obligations
5. U.S. Agency Obligations
6. Bankers' Acceptances
7. Commercial Paper-Non-Pooled < 100 million
8. Commercial Paper-Non-Pooled =/> 100 million
9. Commercial Paper-Pooled
10. Negotiable Certificates of Deposit
11. Non-negotiable Certificates of Deposit
12. Placement Service Deposits
13. Placement Service Certificates of Deposit
14. Repurchase Agreements
15. Reverse Repo Agreements & Securities Lending Agreements
16. Medium-Term Notes
17. Mutual Funds and Money Market Mutual Funds
18. Collateralized Bank Deposits
19. Mortgage Pass-Through and Asset-Backed Securities
20. County Pooled Investment Funds
21. Joint Powers Authority Pools
22. Local Agency Investment Fund (LAIF)
23. Voluntary Investment Program
24. Supranational Obligations
25. Public Bank Obligations
26. Options and Futures

INVESTMENT POLICY STATEMENT (IPS)

- ✘ The purpose of your Investment Policy Statement is to establish guidelines for the individual(s) who is (are) responsible for the public agency's Investment Program. The Investment Policy identifies those investments authorized for a particular local agency within the legal parameters outlined in the CA Government Code. It is intended to be a roadmap for the prudent investor* in managing the Investment Program towards the desired results within a legal framework.

- ✘ *Prudent Investor Rule states that governing bodies of state and local agencies or persons authorized to make investment decisions on behalf of those local agencies investing public funds are trustees, and therefore fiduciaries. The Prudent Investor Standard states: When investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds, a trustee shall act with care, skill, prudence, and diligence under the circumstances then prevailing, including, but not limited to, the general economic conditions and the anticipated needs of the agency, that a prudent investor acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the agency. Within the limitations of this section and considering individual investments as part of an overall strategy, investments may be acquired as authorized by law.

INVESTMENT POLICY IMPORTANCE

- ❑ Defines whether your IPS is more restrictive than CA Code or matches the minimum standards set forth by code requirements
- ❑ Identifies investment objectives, risk tolerance and constraints on the investment portfolio
- ❑ Facilitates decision making with the emphasis on safety, liquidity, and yield
- ❑ Demonstrates a commitment to the fiduciary care of public funds
- ❑ Your Investment Policy is important to:
 - ❑ Your Constituents
 - ❑ Auditors
 - ❑ Capital Markets (issuing, buying/selling)
 - ❑ Rating Agencies

PRIMARY INVESTMENT OBJECTIVES

- × **Safety:** Safety of principal is the foremost objective of the investment program. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio.
- × **Liquidity:** The investment portfolio shall be structured with sufficient liquidity to timely meet expected cash outflow needs and associated obligations which might be reasonably anticipated. This objective shall be achieved by matching maturities and cash flow needs.
- × **Return on Investments:** The investment portfolio shall have the objective of attaining a comparative performance measurement or an acceptable rate of return throughout budgetary and economic cycles. *These measurements should be commensurate with the investment risk constraints identified in the Investment Policy and the cash flow characteristics of the portfolio*

EFFECTIVE LEGISLATIVE CHANGES AND IPS ADOPTION

- ✘ Keep abreast of the regulatory and statutory change process—So you can add to your IPS ASAP.
- ✘ Keep an ongoing list of potential IPS changes that you would like to make when legislation becomes law.
- ✘ Consider IPS changes when needed, instead of just once per year.
- ✘ Get involved in the legislative process!!
- ✘ For California Agencies, make sure that you have a copy of CDIAC's updated Local Agency Investment Guidelines! It includes a summary of the most recent applicable legislative changes!

ESG...ESG...ESG

- ❑ Governing Body ESG Mandates (reactive)
 - No control or input on IPS language
 - Changes may be activist influenced or driven
 - No fiduciary considerations
- ❑ Proactive ESG Language Added to IPS
 - You have more control on IPS language
 - Provides a ready response to activists
 - Includes fiduciary considerations
 - Allows for more flexibility

ESG IPS LANGUAGE EXAMPLES

- ❑ **SOCIAL RESPONSIBILITY:**
- ❑ **Environmental, Social and Governance (“ESG”)**
 - ❑ The (City/County etc.) supports companies that consider long-term sustainability as part of their operations. ESG factors will be considered when selecting securities. When possible, it is the City’s policy to invest in companies that promote ESG factors, subject to the prudent investment standard.

ESG IPS LANGUAGE EXAMPLES

ENVIRONMENTAL, SOCIAL, AND GOVERNANCE (ESG) RESPONSIBILITIES:

The City recognizes its responsibility to positively impact society and that its portfolio is ultimately tied to the long-term sustainability of corporations and entities in which the City invests. While Safety, Liquidity, and Yield remain the City's primary investment objectives, all else being equal and acting under statutory investment limitations, the City affirms its commitment to the consideration of ESG criteria in evaluating securities.

While the City's portfolio is not formally classified as an ESG portfolio, the City encourages investments in entities that support the betterment of communities, while still fulfilling its fiduciary responsibilities under the prudent investor standard. Examples of considerations are as follows.

1. Encourage investments in entities that promote environmental stewardship, taking into account climate change, carbon emissions, pollution, biodiversity, deforestation, and food and water waste
2. Encourage investments in entities that value health and safety, including clean air and water, nutrition and human health, and protections for life, resources, and property
3. Encourage investments in entities that support fairness and treating people equally without discrimination related to sex, race, age, disability, color, religion, veteran status, genetic information, and other protected classes
4. Encourage investments in entities that provide customer satisfaction through high quality products, excellent service, value for money, and community relations initiatives
5. Encourage investments in entities that uphold good governance and respect for the law, through proper internal policies and controls, transparency, and protections for stakeholder rights
6. Encourage impact investing in the Burbank community through local banks and credit unions that can provide funds to homeowners and small businesses
7. No investments are to be made in bonds issued by foreign countries or foreign corporations that support terrorism and genocide

ESG IPS LANGUAGE EXAMPLES

Consideration of Environmental, Social, and Corporate Governance (ESG) Scores

The Treasurer considers that environmental, social and governance (ESG) factors may financially impact the safety, liquidity and yield of investment opportunities. The Treasurer therefore may pursue pragmatic and cost-effective means to consider such factors to fulfill the objectives set forth for the Investment Pool.

The Treasurer may also seek to further the (City/County's) sustainability goals and enhance the transition to a green economy, consistent with the (City/County's) Sustainability Plan, in its investment decisions, as long as such investments achieve substantially equivalent safety, liquidity and yield compared to other investment opportunities.

ESG IPS LANGUAGE EXAMPLES

Consideration of Environmental, Social, and Corporate Governance (ESG) Scores

Overview of Sustainalytics' ESG Risk Ratings

Sustainalytics' ESG Risk Ratings measure a company's exposure to industry-specific material ESG risks and how well a company is managing those risks. This multi-dimensional way of measuring ESG risk combines the concepts of management and exposure to arrive at an absolute assessment of ESG risk. We identify five categories of ESG risk severity that could impact a company's enterprise value

Negligible	Low	Medium	High	Severe
0 - 10	10 - 20	20 - 30	30 - 40	40+

ESG IPS LANGUAGE EXAMPLES

Consideration of Environmental, Social, and Corporate Governance (ESG) Scores

ENVIRONMENTAL, SOCIAL, AND CORPORATE GOVERNANCE (ESG) SCORE IMPACT ON INVESTMENT LIMITS

If an issuer's Sustainalytics ESG score is lower than the median Sustainalytics ESG score of its business sector, investment limits will be subject to the following investment limit reductions:

Score Differential	Percentage Reduction of Investment Limit
≤ 5 points lower	0%
5 ≤ 10 points lower	15%
10 ≤ 20 points lower	30%
> 20 points lower	50%

TREASURY OVERSIGHT COMMITTEE

26.0 TREASURY OVERSIGHT COMMITTEE:

In accordance with California Government Code Section [27131](#), the Board of Supervisors has established a Treasury Oversight Committee. The Treasury Oversight Committee will render unbiased and objective opinions on matters involving the Treasurer's investment of public funds. Specifically, the law requires that the Treasury Oversight Committee meet to:

- Review the Treasurer's annual IPS and any subsequent changes thereto prior to submission to the Board of Supervisors for review and adoption.
- Review the Treasurer's investment portfolio reports and the portfolio's compliance with law and this Investment Policy.
- Cause an annual audit to be conducted of the Treasury Oversight Committee in accordance with California Government Code Section [27134](#).

The Treasury Oversight Committee shall receive a copy of every Audit Report as prepared by an independent certified public accounting firm(s). Such reports are made in accordance with the California Government Code Sections [26920](#) and [26922](#) and County Board of Supervisor's resolution dated July 6, 1971, and which includes an evaluation of investments for compliance with California Government Code Section [53601](#) and [53635](#).

All meetings of the Oversight Committee are to be open to the public and subject to the Ralph M. Brown Act.

Page 6 of 15

By law, the Treasury Oversight Committee is not allowed to direct individual investment decisions, nor select individual investment advisors, brokers, or dealers, or impinge on the day-to-day operations of the County Treasury. Members of the Oversight Committee are prohibited from accepting gifts or gratuities from investment advisors, brokers, dealers, bankers or other persons with whom the county treasury conducts business.

IPS AND RATING AGENCIES

- ✘ If your treasury pool is rated, it is advisable to ask your rating agency to review any proposed IPS changes. Good communication is very important.
- ✘ Rating Agencies will not officially “approve” your IPS.
- ✘ Rating Agencies will “review” your IPS and opine as to whether your limits are consistent with specific ratings criteria.
- ✘ Rating Agencies do consider your IPS when rating your treasury pool/fund.
- ✘ Make sure all references to rating agencies in your IPS are correct.

IPS POLICY TABLE

COUNTY OF SAN BERNARDINO INVESTMENT POLICY				
OFFICE OF THE AUDITOR-CONTROLLER/TREASURER/TAX COLLECTOR (SCHEDULE I)				
AUTHORIZED INVESTMENTS	DIVERSIFICATION	PURCHASE RESTRICTIONS	MATURITY (not to exceed)	MINIMUM ALLOWABLE CREDIT QUALITY (S&P/MOODY'S/FITCH)
United States Treasury notes, bonds, bills, or certificates of indebtedness, or those for which the full faith and credit of the U. S. are pledged for the payment of principal and interest	100%	None	5 years	Not Applicable
Notes, participations or obligations issued or fully guaranteed as to principal and interest by an agency of the Federal Government or U.S. government-sponsored enterprises (excluding mortgage-backed securities)	100%	Senior debt only	5 years	Not Applicable
Notes, participations or obligations issued or fully guaranteed as to principal and interest by the International Bank for Reconstruction and Development, the International Finance Corporation, and/or the Inter-American Development Bank	30%	US Dollar denominated Senior Unsecured debt only	5 years	AA by at least one rating agency
Bonds, notes, warrants or certificates of indebtedness issued by agencies of and/or within the County of San Bernardino	10%	With approval of Treasurer	5 years	AAA by at least 2 of the 3 rating agencies*
Commercial paper of U.S. Corps with total assets in excess of \$500 MM	40% total for all Commercial Paper	Max 5% of portfolio by any one issuer, subject to 5% overall corporate issuer limit	270 Days	Rated by at least 2 of the 3 rating agencies, minimum A-1, P-1, and/or F1 (if rated)*
Asset-backed Commercial Paper	40% total for all Commercial Paper	Issuer must have program-wide credit enhancements	270 Days	Rated by at least 2 of the 3 rating agencies, minimum A-1, P-1, and/or F1 (if rated)*
Negotiable CDs issued by approved banks	30%	Max 5% of portfolio by any one issuer, subject to 5% overall corporate issuer limit	3 years from settlement date	Rated by at least 2 of the 3 rating agencies, minimum A-1, P-1, and/or F1 short-term rating or long-term letter rating of A- and/or A3, or higher (if rated)*
Collateralized Certificates of Deposit	10%	As stipulated in Article 2, Section 53630 et al. of the Calif. Govt. Code	1 year from settlement date	See Section 53630 et al. of the California Government Code

Repurchase Agreements with 102% collateral	40%	Repurchase Agreements (contracts) must be on file	180 days	Restricted to Primary Dealers on Eligible Broker/Dealer List
Reverse Repurchase Agreements	10%	See Schedule II	92 days (See Schedule II)	Restricted to Primary Dealers on Eligible Broker/Dealer List
Medium Term Notes of U.S. Corporations & Depository Institutions and/or Corporate or Bank notes	20% (shall not exceed 10% over 13 months)	Max \$200MM par value of any one issuer, subject to 5% overall corporate issuer limit.	3 years and 2 months (38 months) from settlement date	Rated long-term A- and/or A3, or higher by at least 2 of the 3 rating agencies*
Asset-Backed Securities	10%	Max \$200MM par value of any one issuer, subject to 5% overall special purpose entity** limit	2.75 Weighted Average Life and 5 years	As per Section 53601(c) of the California Government Code
FDIC Insured Deposit Accounts Authorized under California Government Code Sections 53601.8 & 53635.8	5%	Max \$50MM per selected depository institution. Max \$100MM per placement service	Term Deposits not permitted	Not Applicable
JPA Investment Pools authorized under California Government Code Section 53601(p)	5%	Max \$200MM per JPA Pool Maintain Constant Net Asset Value (NAV)	Immediate Liquidity	AAA by at least one rating agency
Money Market mutual funds that meet requirements of California Government Code	15%	Registered with SEC. No NAV adjustments. No loads. Max 10% per fund.	Immediate Liquidity	AAA by at least 2 of the 3 rating agencies*
* Standard & Poor's Ratings Services, Moody's Investors Service Inc., and Fitch Ratings Ltd.				
** See Glossary Terms				

IPS POLICY TABLE

COUNTY OF SAN BERNARDINO INVESTMENT POLICY				
OFFICE OF THE AUDITOR-CONTROLLER/TREASURER/TAX COLLECTOR				
(SCHEDULE I)				
AUTHORIZED INVESTMENTS	DIVERSIFICATION	PURCHASE RESTRICTIONS	MATURITY (not to exceed)	MINIMUM ALLOWABLE CREDIT QUALITY (S&P/MOODY'S/FITCH)
United States Treasury notes, bonds, bills, or certificates of indebtedness, or those for which the full faith and credit of the U. S. are pledged for the payment of principal and interest	100%	None	5 years	Not Applicable
Notes, participations or obligations issued or fully guaranteed as to principal and interest by an agency of the Federal Government or U.S. government-sponsored enterprises (excluding mortgage-backed securities)	100%	Senior debt only	5 years	Not Applicable
Notes, participations or obligations issued or fully guaranteed as to principal and interest by the International Bank for Reconstruction and Development, the International Finance Corporation, and/or the Inter-American Development Bank	30%	US Dollar denominated Senior Unsecured debt only	5 years	AA by at least one rating agency

CMTA CERTIFICATION PROCESS

- ❑ **CMTA's Investment Policy Certification** will provide you with a run-down of the process. CMTA's Investment Policy Certification Program and Application Process was developed by CMTA with support from CDIAC.
- ❑ **The CMTA Certification Program and Application** takes you step by step through the application process
- ❑ The Sample Investment Policy is your “open book” to best practices, presentation and minimum points the committee is looking for to certify your investment policy
- ❑ Independent certification reinforces to your council/board, auditors, constituents, capital markets and rating agencies that you've taken steps towards a sound, quality investment policy
- ❑ Reviewed by Committee members that have extensive public finance experience
- ❑ Certification fee is nominal : \$175 for a participating CMTA member or \$270 for a non-member (which includes a new membership to CMTA). The turn-around time is 6 weeks or sooner; must meet criteria with a score of 85 or above. You can re-submit for no additional charge if done within 90 days of notification.

CMTA BEST PRACTICES FOR IPS CREATION & CERTIFICATION

- ❑ Scope
- ❑ Prudence
- ❑ Objective
- ❑ Delegation of Authority
- ❑ Ethics and Conflicts of Interest
- ❑ Authorized Financial Dealers and Institutions
- ❑ Authorized and Suitable Investments
- ❑ Review of Investment Portfolio
- ❑ Investment Pools/Mutual Funds
- ❑ Collateralization
- ❑ Safekeeping and Custody
- ❑ Diversification
- ❑ Maximum Maturities
- ❑ Internal Control
- ❑ Performance Standards
- ❑ Reporting
- ❑ Investment Policy Adoption
- ❑ Glossary

BIG MISTAKES TO AVOID

- ❑ Having language in your IPS that *forces* you to take a realized loss
- ✘ Being too restrictive/inflexible to respond to market conditions and changes
- ✘ Failing to review every code reference in your IPS and update with new legislative changes on an annual basis (sunset provisions, code nomenclature changes, new code sections, etc.)

LANGUAGE ON LOSSES

- **AUTHORIZED INVESTMENTS:** Investments shall be restricted to those authorized in the California Government Code and as further restricted by this policy statement, with the exception of certain bond funds in which the Board of Supervisors has specifically authorized other allowable investments. All investments shall be further governed by the restrictions shown in Schedule I, which defines the type of investments authorized, maturity limitations, portfolio diversification (maximum percent of portfolio), credit quality standards, and purchase restrictions that apply. Whenever a maximum allowable percentage of the portfolio is stated for any type of security as detailed above, the maximum allowable limit is determined by the portfolio size at the market close of the regular business day prior to the security purchase date. Maximum limits are applicable *at the time of security purchase only unless otherwise noted or defined in Schedule I.*

LANGUAGE ON LOSSES

- MITIGATING MARKET & CREDIT RISKS: Safety of principal is the primary objective of the portfolio. Each investment transaction shall seek to minimize the County's exposure to market and credit risks by giving careful and ongoing attention to the credit ratings issued by Standard & Poor's, Moody's and/or Fitch rating services on the credit worthiness of each issuer of securities, by limiting the duration of investments to the time frames noted in Schedule I, and by maintaining the diversification and liquidity standards expressed within this policy. *In the event of a downgrade of a security held in the portfolio, the Investment Officer shall report the downgrade to the Treasurer promptly. In the event of a downgrade below the minimum credit ratings authorized by this policy, the security shall be evaluated to determine whether the security shall be sold or held. It is preferred to sell such a security if there is no book loss. In the event of a potential loss upon sale, the Treasurer will evaluate whether to hold or sell the security based on the amount of loss, remaining maturity and any other relevant factors.*

LANGUAGE ON LOSSES

- ❑ TRADING & EARLY SALE OF SECURITIES: Securities should be purchased with the intent of holding them until maturity. However, in an effort to minimize market risks, credit risks, and increase the total return of the portfolio, ***securities may be sold prior to maturity, either at a profit or loss, when market conditions or a deterioration in credit worthiness of the issuer warrant a sale of the securities to either enhance overall portfolio yield or to minimize loss of investment principal.*** In measuring a profit or loss, the sale proceeds shall be compared to the original cost as per the County's books of the security plus accrued interest earned and/or any accretion or amortization of principal on the security from the date of purchase or the last coupon date to the date of sale. ***However, the sale of a security at a loss can only be made with the approval of the County Treasurer or his designee.***

OTHER HELPFUL IPS TIPS

- ❑ Plan ahead! Don't rush through the IPS revision process!!
- ❑ Keep a spreadsheet throughout the year, so when issues affecting your investment policy arise, you can make note of them. That way, they won't be overlooked when the time comes to revise your policy.
- ❑
- ❑ Have a robust process in place to proofread your policy changes for clarity and accuracy. There's nothing worse than finding a silly mistake after it's been approved and printed.
- ❑ Once your IPS is approved by your governing body, be sure to upload the new IPS to the public website and send a copy to your stakeholders!! (Broker/Dealers, Financial Advisors, Investment Advisors, Auditors, etc.)
- ❑ Meet with your outside auditors and explain policy changes BEFORE the audit. In the middle of an audit or CAFR preparation IS NOT the best time to do this.

LET'S GET STARTED...WORKSHOP OBJECTIVES

- Engage in the CMTA Investment Policy Certification Application Process as an evaluator to better understand the how and why of Investment Policy creation and certification:

 - CMTA Investment Policy Application

 - Sample Investment Policy Sections and Language

 - ✕ CMTA Investment Policy Scorecard

- Understand how to prepare your Investment Policy for successful CMTA Certification:

 - City of ABC Investment Policy

LET'S GET STARTED (CONT)...TASKS

- ❑ Read the California Municipal Treasurers Investment Policy Certification and Application including the Sample Investment Policy
- ❑ Analyze the City of ABC's Investment Policy submission


CMTA's sample language is *italicized* below each section for ease in comparing City of ABC sections with CMTA's sample language.

- ❑ Apply CMTA's sample policy guidelines as an evaluator to the City of ABC's Investment Policy, examine and grade each section, using the Scorecard to determine whether City of ABC's Investment policy scores high enough to pass certification. Provide comments on your scoring.
- ❑ Compare/Contrast your Scorecard and notes with the Scorecard template.

SCORECARD IS PROVIDED, REVIEW SECTIONS

CMTA Investment Policy Scorecard

Internal use only

NAME OF ENTITY:			
EVALUATOR:			
SECTION 2 – SCOPE – MAX 5 POINTS		SECTION 11 – COLLATERALIZATION – MAX 5 POINTS	
SECTION 3 – PRUDENCE – MAX 5 POINTS		SECTION 12 – SAFEKEEPING AND CUSTODY – MAX 5 POINTS	
SECTION 4 – OBJECTIVE – MAX 5 POINTS		SECTION 13 – DIVERSIFICATION – MAX 5 POINTS	
SECTION 5 – DELEGATION OF AUTHORITY – MAX 5 POINTS		SECTION 14 – MAXIMUM MATURITIES – MAX 5 POINTS	
SECTION 6 – ETHICS AND CONFLICTS OF INTEREST – MAX 5 POINTS		SECTION 15 – INTERNAL CONTROLS – MAX 5 POINTS	
SECTION 7 – AUTHORIZED DEALERS & INSTITUTIONS – MAX 5 POINTS		SECTION 16 – PERFORMING STANDARDS – MAX 5 POINTS	
SECTION 8 – AUTHORIZED & SUITABLE INVESTMENTS – MAX 10 POINTS		SECTION 17 – REPORTING – MAX 10 POINTS	
SECTION 9 – REVIEW OF INVESTMENT PORTFOLIO – MAX 5 POINTS		SECTION 18 – INVESTMENT POLICY ADOPTION – MAX 5 POINTS	
SECTION 10 – INVESTMENT POOLS/MUTUAL FUNDS – MAX 5 POINTS		SECTION 19 – GLOSSARY – MAX 5 POINTS	
TOTAL		TOTAL	
		GRAND TOTAL	
CERTIFIED (85 POINTS OR ABOVE):		CERTIFICATION DATES	
YES	NO 	_____, 20____ THRU _____, 20____	
EVALUATOR COMMENTS:			

CITY OF ABC SCORECARD

CMTA Investment Policy Scorecard

NAME OF ENTITY:			
City of ABC			
EVALUATOR:			
SECTION 2 – SCOPE – MAX 5 POINTS	5	SECTION 11 – COLLATERALIZATION – MAX 5 POINTS	4
SECTION 3 – PRUDENCE – MAX 5 POINTS	5	SECTION 12 – SAFEKEEPING AND CUSTODY – MAX 5 POINTS	5
SECTION 4 – OBJECTIVE – MAX 5 POINTS	4	SECTION 13 – DIVERSIFICATION – MAX 5 POINTS	5
SECTION 5 – DELEGATION OF AUTHORITY – MAX 5 POINTS	3	SECTION 14 – MAXIMUM MATURITIES – MAX 5 POINTS	4
SECTION 6 – ETHICS AND CONFLICTS OF INTEREST – MAX 5 POINTS	5	SECTION 15 – INTERNAL CONTROLS – MAX 5 POINTS	5
SECTION 7 – AUTHORIZED DEALERS & INSTITUTIONS – MAX 5 POINTS	4	SECTION 16 – PERFORMING STANDARDS – MAX 5 POINTS	5
SECTION 8 – AUTHORIZED & SUITABLE INVESTMENTS – MAX 10 POINTS	5	SECTION 17 – REPORTING – MAX 10 POINTS	5
SECTION 9 – REVIEW OF INVESTMENT PORTFOLIO – MAX 5 POINTS	0	SECTION 18 – INVESTMENT POLICY ADOPTION – MAX 5 POINTS	0
SECTION 10 – INVESTMENT POOLS/MUTUAL FUNDS – MAX 5 POINTS	4	SECTION 19 – GLOSSARY – MAX 5 POINTS	4
TOTAL	35	TOTAL	37
GRAND TOTAL			72
CERTIFIED (85 POINTS OR ABOVE):			
YES	<input checked="" type="radio"/> NO		

EVALUATOR COMMENTS & SUGGESTIONS

EVALUATOR COMMENTS:

TOTAL SCORE 72 (MUST SCORE 85 OR HIGHER TO PASS CERTIFICATION)

SECTION 4: OBJECTIVE

-Suggest you review the Safety portion of this section. As currently written, you are forcing a “sell” of a security if downgraded. This would force the City to sell without regard to the new rating, the ongoing credit risk assessment or market value (loss or gain).

SECTION 5: DELEGATION OF AUTHORITY

-Suggest you add the Treasurer has established a system of controls to regulate the activities of subordinate officials and their procedures in the absence of the Treasurer

SECTION 7: AUTHORIZED DEALERS & INSTITUTIONS

-Suggest you add a requirement for audited financials, FINRA certification, etc.

SECTION 9: REVIEW OF INVESTMENT PORTFOLIO

-Suggest you add this to your IP.

SECTION 10: INVESTMENT OF POOLS/MUTUAL FUNDS

-Suggest you add this section to your IP despite being covered under 8.0...In accordance with the requirement set forth...53601, 53601.6.

SECTION 11: COLLATERALIZATION

-Suggest you add the requirement for a signed Master Repurchase Agreement.

SECTION 14: MAXIMUM MATURITIES

-Suggest you add this section to your IP despite being covered under 8.0...In accordance with the requirement set forth...53601, 53601.6...

SECTION 18: INVESTMENT POLICY ADOPTION

-Suggest you add this to your IP.

SECTION 19: GLOSSARY

-Suggest you only use words found in the body of the IP only. Example: Amortization is only found in the Glossary.

OTHER CONSIDERATIONS FOR YOUR IPS

- ✘ Special Attachments for clarification
 - + Reverse Repo and Securities Lending
 - + Collateralized Certificates of Deposit (CDs)
 - + Broker/Dealer Selection Criteria

SPECIAL ATTACHMENTS TO IPS (EXAMPLE)

POLICY STATEMENT ON REVERSE REPURCHASE AGREEMENTS AND SECURITIES LENDING AGREEMENTS

The Treasurer hereby institutes the following policies as further safeguards governing investments in Reverse Repurchase Agreements and Securities Lending Agreements:

1. The total of Reverse Repurchase Agreement and Securities Lending Agreement transactions shall not exceed 10 percent of the base value of the portfolio.
2. The term of such agreements shall not exceed 92 calendar days, unless the agreement includes a written codicil guaranteeing a minimum earning or spread for the entire period between the sale of a security using such an agreement and the final maturity date of the same security.
3. All loaned securities subject to Reverse Repurchase Agreements or Securities Lending Agreements shall be properly flagged and immediately accounted for in the Treasurer's financial system.
4. Investments purchased from the loaned proceeds of the Reverse Repurchase Agreement shall have maturities not exceeding the due date for repayment of the Reverse Repurchase Agreement transaction.
5. Only U.S. Treasury Notes and Federal Agency securities owned, fully paid for, and held in the Treasurer's portfolio for a minimum of 30 days can be subject to Reverse Repurchase Agreement and Securities Lending Agreement transactions.
6. Reverse Repurchase Agreements and Securities Lending Agreements shall only be placed on portfolio securities that are intended to be held to maturity, have been fully paid for, and have been held in the portfolio for a minimum of 30 days.
7. Reverse Repurchase Agreements and Securities Lending Agreements shall only be made with primary dealers of the Federal Reserve Bank of New York.
8. A contractual agreement must be in place prior to entering into a Reverse Repurchase Agreement or Securities Lending Agreement with any authorized primary dealer.
9. Reverse Repurchase Agreement and Securities Lending Agreement transactions shall have the approval of the County Treasurer.

SPECIAL ATTACHMENTS TO IPS (EXAMPLE)

POLICY CRITERIA FOR COLLATERALIZED CERTIFICATE OF DEPOSITS

1. The bank must provide us with an executed copy of the authorization for deposit of moneys.
2. The money-market yield on the certificate of deposit must be competitive with negotiable CD's offered by banks on the county's pre-approved list in the maturities desired by the County. The County Treasurer's Office reserves the right to negotiate higher yields based on market conditions at the time.
3. Collateral Requirements: the County will only accept U.S. Treasury and/or Agency securities as collateral. The collateral must be held by a separate custodial bank in an account in the name of San Bernardino County. The County must have perfected interest in the collateral. The maximum maturity of securities is 5 years, the collateral must be priced at 110% of the face value of the CD on a daily basis, and the minimum face value per pledged security is \$5 million. The County Treasury must receive written confirmation that these securities have been pledged in repayment of the time deposit. Additionally, a statement of the collateral shall be provided on a monthly basis from the custodial bank.
4. The County Treasurer must be given a current audited financial statement for the financial year just ended. The financial reports must both include a statement of financial condition as well as an income statement depicting current and prior year operations.
5. The County Treasurer must receive a certificate of deposit, which specifically expresses the terms governing the transaction, such as: deposit amount, issue date, maturity date, name of depositor, interest rate, interest payment terms (monthly, quarterly, etc.).
6. Notwithstanding the above, the certificate of deposit must meet the requirements of Fitch Ratings Ltd. for the County to maintain its AAA pool rating. These requirements typically include an A-1/P-1 and/or F1 short-term rating. The County may rely on credit ratings of Standard & Poor's, Moody's and Fitch to determine the creditworthiness of an institution and/or may supplement this research with its own financial analysis.
7. Deposits will only be made with banks and savings and loans having branch office locations within San Bernardino County.

SPECIAL ATTACHMENTS TO IPS (EXAMPLE)

POLICY CRITERIA FOR SELECTION OF BROKER/DEALERS

1. All financial institutions wishing to be considered for the County of San Bernardino's Broker/Dealer List must confirm that they are a member of the Financial Industry Regulatory Authority (FINRA), registered with the Securities & Exchange Commission (SEC), and possess all other required licenses.
2. The County Treasurer's intent is to enter into a long-term relationship. Therefore, the integrity of the firm and the personnel assigned to our account is of primary importance.
3. The firm must acknowledge receipt of the County Treasurer's written Investment Policy guidelines.
4. It is important that the firm provide related services that will enhance the account relationship, which could include:
 - (a) An active secondary market for its securities.
 - (b) Internal credit research analysis on commercial paper, bankers' acceptances and other securities it offers for sale.
 - (c) Be willing to purchase securities from our portfolio.
 - (d) Be capable of providing market analysis, economic projections, and newsletters.
5. The firm must provide the County with annual financial statements. All firms with whom the County does business must have a stable financial condition.
6. The County Treasury is prohibited from the establishment of a broker/dealer account for the purpose of holding the County's securities. All securities must be subject to delivery at the County's custodial bank.
7. Without exception, all transactions are to be conducted on a delivery vs. payment (DVP) basis or, for repurchase agreements, on a tri-party basis.
8. The broker/dealer must have been in operation for more than five (5) years.
9. Firms must have adequate financial strength and capital to support the level of trading that is approved. Adequate financial strength will be assessed by a review of the balance sheet and income statement of the dealer. Broker/dealers with less than \$10 million of net capital may be approved for trading that is limited in maturity or amount or may not be approved for extended settlement trades.
10. Repurchase agreement counterparties will be limited to primary government securities dealers who report to the Federal Reserve Bank of New York and meet the following criteria:
 - (a) Counterparties must have a minimum of one short-term credit rating of at least A-1, P-1, and/or F1.
 - (b) Counterparties and/or their parent must have a minimum of \$25 billion in assets and \$350 million in capital.

DISCLOSURES AND RESOURCES

- ❑ *INTENDED FOR INSTITUTIONAL INVESTORS ONLY. The information provided herein is for informational purposes only and should not be construed as a recommendation of any security, strategy or investment product, nor as an offer or solicitation for the purchase or sale of any financial instrument. Any information or data used in presentation was obtained from sources we believe to be reliable, but we do not guarantee its accuracy. This presentation contains the current opinions of the author, which are subject to change without notice. Any statements concerning financial market trends or future forecasts are based on current market conditions, which will fluctuate. Past performance is not Indicative of future results. Member FINRA/SIPC.*

- ❑ Deborah M. Higgins, President, Higgins Capital Management, Inc.
debbie@higginscapital.com



- ❑ John Johnson, Chief Deputy Treasurer, County of San Bernardino,
john.johnson@atc.sbcounty.gov

