



# California Municipal Treasurers Investment Policy Certification Program and Application

2022 Edition





# California Municipal Treasurers Investment Policy Certification Program and Application Process

Thank you for your interest in the California Municipal Treasurers Association (CMTA) Investment Policy Certification Program. This program has been developed with support from the California Debt and Investment Advisory Commission (CDIAC).<sup>1</sup>

The CMTA Investment Policy Certification Program provides professional guidance and assistance in developing and/or improving investment policies that meets industry best practices for California’s public sector agencies and districts.

The benefits of having your Investment Policy Certified by the California Municipal Treasurers Association are:

- Trust, confidence and verification to your Governing Body that your policy has been reviewed and certified by a professional organization within California
- Your policy has been reviewed by fellow CMTA members, many of which have earned the Certified California Municipal Treasurers (CCMT) designation.
- To show transparency of your Governing Body to the public
- To demonstrate that due diligence was performed on your Investment Policy
- California Government Code sections are included (cited) in policy
- Assist to satisfy auditors when reviewing your Investment Policy
- Eighteen areas of Investment Policies are addressed: 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 Controls, Performance Standards, Reporting, Investment Policy Adoption and Glossary

## TERMS AND CONDITIONS

California agencies/districts may submit their application via email to the CMTA Investment Policy Certification Committee for review. The policy will be reviewed by three CMTA members to determine if the Agency/District’s policy has met investment policy standards and criteria set forth by CMTA. Those local agencies that have met CMTA’s Investment Policy criteria with a passing score of 85 out of 100 will receive CMTA’s Investment Policy Certification, along with the three evaluations for any additional feedback. For those policies that did not meet the criteria with a score that is below 85 will receive the three evaluations with feedback and will have the opportunity to re-submit their policy within 90 days for no additional fee.

The program fee is \$175 for a participating CMTA member or \$270 for a non-CMTA member. A non-member fee includes a new membership to CMTA. Policies that did not meet the criteria with a score of 85 or above can re-submit for no additional charges if done within 90 days of notification.

Payment can be made in one of two ways:

- 1) Once you submit your application and policy via email, CMTA will send a link to a payment portal that will allow you to input your credit card information.
- 2) Call CMTA at 916-231-2144 to provide your credit card information or make arrangements to send a check.

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<sup>1</sup> CDIAC does not play a role in the evaluation of investment policies or the decision to certify a local agency’s investment policy. CDIAC did however, contribute to the development of the criteria used to evaluate policies.







# Sample Investment Policy

The following is sample language for a 'generic' investment policy. An individual entity's investment policy will vary depending on specific circumstances of that entity.

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**FIGURE 1**

**ALLOWABLE INVESTMENT INSTRUMENTS PER STATE GOVERNMENT CODE  
(AS OF JANUARY 1, 2022)<sup>A</sup> APPLICABLE TO ALL LOCAL AGENCIES<sup>B</sup>**

See “Table of Notes for Figure 1” on the next page for footnotes related to this figure.

INVESTMENT TYPE	MAXIMUM REMAINING MATURITY <sup>C</sup>	MAXIMUM SPECIFIED % OF PORTFOLIO <sup>D</sup>	MINIMUM QUALITY REQUIREMENTS	GOVERNMENT CODE SECTIONS
Local Agency Bonds	5 years	None	None	53601(a)
U.S. Treasury Obligations	5 years	None	None	53601(b)
State Obligations: CA and Others	5 years	None	None	53601(c) 53601(d)
CA Local Agency Obligations	5 years	None	None	53601(e)
U.S. Agency Obligations	5 years	None	None	53601(f)
Bankers’ Acceptances	180 days	40% <sup>E</sup>	None	53601(g)
Commercial Paper: Non-pooled Funds <sup>F</sup> (under \$100,000,000 of investments)	270 days or less	25% of the agency’s money <sup>G</sup>	Highest letter and number rating by an NRSRO <sup>H</sup>	53601(h)(2)(C)
Commercial Paper: Non-pooled Funds (min. \$100,000,000 of investments)	270 days or less	40% of the agency’s money <sup>G</sup>	Highest letter and number rating by an NRSRO <sup>H</sup>	53601(h)(2)(C)
Commercial Paper: Pooled Funds <sup>I</sup>	270 days or less	40% of the agency’s money <sup>G</sup>	Highest letter and number rating by an NRSRO <sup>H</sup>	53635(a)(1)
Negotiable Certificates of Deposit	5 years	30% <sup>J</sup>	None	53601(i)
Non-negotiable Certificates of Deposit	5 years	None	None	53630 et seq.
Placement Service Deposits	5 years	50% <sup>K</sup>	None	53601.8 and 53635.8
Placement Service Certificates of Deposit	5 years	50% <sup>K</sup>	None	53601.8 and 53635.8
Repurchase Agreements	1 year	None	None	53601(j)
Reverse Repurchase Agreements and Securities Lending Agreements	92 days <sup>L</sup>	20% of the base value of the portfolio	None <sup>M</sup>	53601(j)
Medium-term Notes <sup>N</sup>	5 years or less	30% <sup>G</sup>	“A” rating category or its equivalent or better	53601(k)
Mutual Funds and Money Market Mutual Funds	N/A	20% <sup>O</sup>	Multiple <sup>P,Q</sup>	53601(l) and 53601.6(b)
Collateralized Bank Deposits <sup>R</sup>	5 years	None	None	53630 et seq. and 53601(n)
Mortgage Pass-through and Asset Backed Securities	5 years or less	20%	“AA” rating category or its equivalent or better	53601(o)
County Pooled Investment Funds	N/A	None	None	27133
Joint Powers Authority Pool	N/A	None	Multiple <sup>S</sup>	53601(p)
Local Agency Investment Fund (LAIF)	N/A	None	None	16429.1
Voluntary Investment Program Fund <sup>T</sup>	N/A	None	None	16340
Supranational Obligations <sup>U</sup>	5 years or less	30%	“AA” rating category or its equivalent or better	53601(q)
Public Bank Obligations	5 years	None	None	53601(r), 53635(c) and 57603

## TABLE OF NOTES FOR FIGURE 1

- A *Sources: Sections 16340, 16429.1, 27133, 53601, 53601.6, 53601.8, 53630 et seq., 53635, 53635.8, and 57603.*
- B *Municipal Utilities Districts have the authority under the Public Utilities Code Section 12871 to invest in certain securities not addressed here.*
- C *Section 53601 provides that the maximum term of any investment authorized under this section, unless otherwise stated, is five years. However, the legislative body may grant express authority to make investments either specifically or as a part of an investment program approved by the legislative body that exceeds this five year remaining maturity limit. Such approval must be issued no less than three months prior to the purchase of any security exceeding the five-year maturity limit.*
- D *Percentages apply to all portfolio investments regardless of source of funds. For instance, cash from a reverse repurchase agreement would be subject to the restrictions.*
- E *No more than 30 percent of the agency's money may be in bankers' acceptances of any one commercial bank.*
- F *Includes agencies defined as a city, a district, or other local agency that do not pool money in deposits or investment with other local agencies, other than local agencies that have the same governing body.*
- G *Local agencies, other than counties or a city and county, may purchase no more than 10 percent of the outstanding commercial paper and medium-term notes of any single issuer.*
- H *Issuing corporation must be organized and operating within the U.S., have assets in excess of \$500 million, and debt other than commercial paper must be in a rating category of "A" or its equivalent or higher by a nationally recognized statistical rating organization, or the issuing corporation must be organized within the U.S. as a special purpose corporation, trust, or LLC, have program wide credit enhancements, and have commercial paper that is rated "A-1" or higher, or the equivalent, by a nationally recognized statistical rating agency.*
- I *Includes agencies defined as a county, a city and county, or other local agency that pools money in deposits or investments with other local agencies, including local agencies that have the same governing body. Local agencies that pool exclusively with other local agencies that have the same governing body must adhere to the limits set forth in Section 53601(h)(2)(C).*
- J *No more than 30 percent of the agency's money may be in negotiable certificates of deposit that are authorized under Section 53601(i).*
- K *Effective January 1, 2020, no more than 50 percent of the agency's money may be invested in deposits, including certificates of deposit, through a placement service as authorized under 53601.8 (excludes negotiable certificates of deposit authorized under Section 53601(i)). On January 1, 2026, the maximum percentage of the portfolio reverts back to 30 percent. Investments made pursuant to 53635.8 remain subject to a maximum of 30 percent of the portfolio.*
- L *Reverse repurchase agreements or securities lending agreements may exceed the 92-day term if the agreement includes a written codicil guaranteeing a minimum earning or spread for the entire period between the sale of a security using a reverse repurchase agreement or securities lending agreement and the final maturity dates of the same security.*
- M *Reverse repurchase agreements must be made with primary dealers of the Federal Reserve Bank of New York or with a nationally or state chartered bank that has a significant relationship with the local agency. The local agency must have held the securities used for the agreements for at least 30 days.*
- N *"Medium-term notes" are defined in Section 53601 as "all corporate and depository institution debt securities with a maximum remaining maturity of five years or less, issued by corporations organized and operating within the United States or by depository institutions licensed by the United States or any state and operating within the United States."*
- O *No more than 10 percent invested in any one mutual fund. This limitation does not apply to money market mutual funds.*
- P *A mutual fund must receive the highest ranking by not less than two nationally recognized rating agencies or the fund must retain an investment advisor who is registered with the SEC (or exempt from registration), has assets under management in excess of \$500 million, and has at least five years' experience investing in instruments authorized by Sections 53601 and 53635.*
- Q *A money market mutual fund must receive the highest ranking by not less than two nationally recognized statistical rating organizations or retain an investment advisor registered with the SEC or exempt from registration and who has not less than five years' experience investing in money market instruments with assets under management in excess of \$500 million.*
- R *Investments in notes, bonds, or other obligations under Section 53601(n) require that collateral be placed into the custody of a trust company or the trust department of a bank that is not affiliated with the issuer of the secured obligation, among other specific collateral requirements.*
- S *A joint powers authority pool must retain an investment advisor who is registered with the SEC (or exempt from registration), has assets under management in excess of \$500 million, and has at least five years' experience investing in instruments authorized by Section 53601, subdivisions (a) to (o).*
- T *Local entities can deposit between \$200 million and \$10 billion into the Voluntary Investment Program Fund, upon approval by their governing bodies. Deposits in the fund will be invested in the Pooled Money Investment Account.*
- U *Only those obligations issued or unconditionally guaranteed by the International Bank for Reconstruction and Development (IBRD), International Finance Corporation (IFC), and Inter-American Development Bank (IADB), with a maximum remaining maturity of five years or less.*

*Note: Below is CMTA's Statement of Environmental, Social and Governance (ESG) policy. It is optional language for your Agency to consider and evaluation points will not be deducted if an Agency chooses not to include in their Investment Policy document.*

## **Environmental, Social and Governance (ESG)**

Investments may be prioritized in entities that support environmental, social, and governance (ESG) factors alongside traditional financial measures in the investment decision-making process, ensuring that investments are financially prudent, and impact driven. Investing in companies that prioritize conservation and sustainable business practices helps protect our environment for future generations, and is commensurate with the \_\_\_\_\_ values. ESG factors may include, but are not limited to:

- Environmental: Carbon Footprint; Energy Consumption; Water/Waste; External Conservation Initiatives; and Sector-Specific Adjustments.
- Social: Labor Rights; Employee Diversity; Corporate Social Responsibility; and Human Rights/Ethics.
- Governance: Leadership Structure; Executive Compensation; Human Capital Management; Transparency/Disclosure; and Shareholder Rights.

### **9.0 Review of Investment Portfolio -- Maximum Points – 5**

The securities held by the \_\_\_\_\_ must be in compliance with Section 8.0 Authorized and Suitable Investments at the time of purchase. Because some securities may not comply with Section 8.0 Authorized and Suitable Investments subsequent to the date of purchase, the \_\_\_\_\_ (*Designated Official – i.e. Treasurer*) should at least annually review the portfolio to identify those securities that do not comply. The \_\_\_\_\_ (*Designated Official – i.e. Treasurer*) should establish procedures to report to the (Local Agency/District's board/council) and to its oversight committee, should one exist, major and critical incidences of noncompliance identified through the review of the portfolio.

### **10.0 Investment Pools / Mutual Funds – Maximum Points - 5**

*Note: If governmental sponsored pools and/or mutual funds are included in Authorized Investments, a section on investigation and due diligence must be included.*

A thorough investigation of the pool/fund is required prior to investing, and on a continual basis. Best efforts will be made to acquire the following information:

1. A description of eligible investment securities, and a written statement of investment policy and objectives.
2. A description of interest calculations and how it is distributed, and how gains and losses are treated.
3. A description of how the securities are safeguarded (including the settlement processes), and how often the securities are priced and the program audited.
4. A description of who may invest in the program, how often, what size deposit and withdrawal are allowed.
5. A schedule for receiving statements and portfolio listings.







**COLLATERAL:** Securities, evidence of deposit or other property, which a borrower pledges to secure repayment of a loan. Also refers to securities pledged by a bank to secure deposits of public monies.

**ANNUAL COMPREHENSIVE FINANCIAL REPORT (ACFR):** The official annual report of the (*entity*). It includes five combined statements for each individual fund and account group prepared in conformity with GAAP. It also includes supporting schedules necessary to demonstrate compliance with finance-related legal and contractual provisions, extensive introductory material, and a detailed Statistical Section.

**COUPON:** (a) The annual rate of interest that a bond's issuer promises to pay the bondholder on the bond's face value. (b) A certificate attached to a bond evidencing interest due on a payment date.

**DEALER:** A dealer, as opposed to a broker, acts as a principal in all transactions, buying and selling for his own account.

**DEBENTURE:** A bond secured only by the general credit of the issuer.

**DELIVERY VERSUS PAYMENT:** There are two methods of delivery of securities: delivery versus payment and delivery versus receipt. Delivery versus payment is delivery of securities with an exchange of money for the securities. Delivery versus receipt is delivery of securities with an exchange of a signed receipt for the securities.

**DERIVATIVES:** (1) Financial instruments whose return profile is linked to, or derived from, the movement of one or more underlying index or security, and may include a leveraging factor, or (2) financial contracts based upon notional amounts whose value is derived from an underlying index or security (interest rates, foreign exchange rates, equities or commodities).

**DISCOUNT:** The difference between the cost price of a security and its maturity when quoted at lower than face value. A security selling below original offering price shortly after sale also is considered to be at a discount.

**DISCOUNT SECURITIES:** Noninterest-bearing money market instruments that are issued at a discount and redeemed at maturity for full face value (*e.g., U.S. Treasury Bills.*)

**DIVERSIFICATION:** Dividing investment funds among a variety of securities offering independent returns.

**DURATION:** A measure of the sensitivity of the price (the value of principal) of a fixed-income investment to a change in interest rates. Duration is expressed as a number of years. Rising interest rates mean falling bond prices, while declining interest rates mean rising bond prices.

**FEDERAL DEPOSIT INSURANCE CORPORATION (FDIC):** A federal agency that insures bank deposits, currently up to \$250,000 per entity.

**FEDERAL FUNDS RATE:** The rate of interest at which Fed funds are traded. This rate is currently pegged by the Federal Reserve through open-market operations.

**LIQUIDITY:** A liquid asset is one that can be converted easily and rapidly into cash without a substantial loss of value. In the money market, a security is said to be liquid if the spread between bid and asked prices is narrow and reasonable size can be done at those quotes. **LOCAL GOVERNMENT INVESTMENT POOL (LGIP):** The aggregate of all funds from political subdivisions that are placed in the custody of the State Treasurer for investment and reinvestment.

**MARKET VALUE:** The price at which a security is trading and could presumably be purchased or sold.

**MASTER REPURCHASE AGREEMENT:** A written contract covering all future transactions between the



derivative-based returns) into their debt structure. Their market performance is impacted by the fluctuation of interest rates, the volatility of the imbedded options and shifts in the shape of the yield curve.

**SUPRANATIONALS:** A supranational organization is formed by a group of countries through an international treaty with specific objectives such as promoting economic development. Supranational organizations also issue debt in the United States. The most commonly recognized supranational debt is the International Bank for Reconstruction and Development (IBRD or World Bank), International Finance Corporation (IFC) and Inter-American Development Bank (IADB).

**TREASURY BILLS:** A noninterest-bearing discount security issued by the U.S. Treasury to finance the national debt. Most bills are issued to mature in three months, six months, or one year.

**TREASURY BONDS:** Long-term coupon-bearing U.S. Treasury securities issued as direct obligations of the U.S. Government and having initial maturities of more than 10 years.

**TREASURY NOTES:** Medium-term coupon-bearing U.S. Treasury securities issued as direct obligations of the U.S. Government and having initial maturities from two to 10 years.

**YIELD:** The rate of annual income return on an investment, expressed as a percentage. (a) **INCOME YIELD** is obtained by dividing the current dollar income by the current market price for the security. (b) **NET YIELD** or **YIELD TO MATURITY** is the current income yield minus any premium above par or plus any discount from par in purchase price, with the adjustment spread over the period from the date of purchase to the date of maturity of the bond.

# CMTA Investment Policy Scorecard

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	
<b>TOTAL</b>		<b>TOTAL</b>	
			<b>GRAND TOTAL</b>
CERTIFIED (85 POINTS OR ABOVE):			
YES	<input checked="" type="radio"/>	NO	<input type="radio"/>
EVALUATOR COMMENTS:			

