



CALIFORNIA
DEBT AND
INVESTMENT
ADVISORY
COMMISSION



California Municipal Treasurers Investment Policy Certification Program and Application





California Municipal Treasurers Investment Policy Certification Program and Application Process

Developed by the California Municipal Treasurers Association (CMTA) in conjunction with the California Debt and Investment Advisory Commission (CDIAC)

Thank you for your interest in the California Municipal Treasurers Association (CMTA) Investment Policy Certification Program. This program has been developed in conjunction with the California Debt and Investment Advisory Commission (CDIAC).

The CMTA Investment Policy Certification Program provides professional guidance and assistance in developing and/or improving existing investment policies in 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 Certified California Municipal Treasurers
- 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
- Nineteen areas of Investment Policies are addressed: Policy, 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 and Glossary

TERMS AND CONDITIONS

California local agencies/districts may submit their application (along with applicable fee) to the CMTA Investment Policy Certification Committee to review the local Agency/District’s policy to determine if they have met investment policy standards set forth by CMTA. Those local agencies that have conformed with CMTA’s Investment Policy criteria are presented with CMTA’s Investment Policy Certification.

The program fee is \$175 for participating CMTA membership agencies/districts or \$275 for non-CMTA member agencies/districts. (Visa/MasterCard payments will be accepted by calling CMTA at 916-231-2144).



SUBMIT APPLICATION

Submit the application form along with the applicable fee and a hardcopy of the Local Agency's Investment Policy (including glossary) to CMTA:

CMTA Investment Policy Certification Program
1215 K Street, Suite 2290
Sacramento, California 95814

The submitted investment policy documentation will be forwarded to three reviewers who will evaluate the Investment Policy and make any recommendations as to CMTA Certification.

Within six weeks after receipt of submission, the applicant will either receive recommendations from the reviewers and will be asked for re-submission (no charge or fee for re-submission) or the applicant will receive a Certificate of Certification with reviewer's comments.

Disclaimer: *The (Local Agency) understands and agrees that review and certification pursuant to the Program does not constitute any warranty or insurance of the performance of the (Local Agency) investment policy. Accordingly, and pursuant to this agreement, the (Local Agency) agrees as a term and condition of participation in the Program to defend, indemnify, and hold harmless CDIAC, CMTA, the State of California and all successors, assigns, members, officials, directors, employees, and agents of the same (collectively, the "indemnified parties"), against any claims, actions, demands, and penalties, including costs of legal proceedings and reasonable attorneys' fees, that any of the indemnified parties may incur as a result of any action arising from losses, underperformance or failures resulting from any investment made in accordance with the (Local Agency) investment policy.*

Should you have any questions about the application or the sample investment policy, please contact the Chairperson of the CMTA Investment Policy Certification Program.

Shaun L. Farrell
CMTA Investment Policy Program
Certification Chairperson
sfarrell@ci.galt.ca.us



CMTA Investment Policy Application

Please return this application form along with the applicable fee of \$175 (\$275 for non-CMTA members) and the Investment Policy (including glossary) to: CMTA Investment Policy Certification Program, 1215 K Street, Suite 2290, Sacramento, CA 95814. (Visa and MasterCard payments will be accepted by contacting CMTA at 916-231-2144).

NAME OF ENTITY (TO APPEAR ON CERTIFICATE):
MAILING ADDRESS:
ENTITY CONTACT PERSON AND PHONE NUMBER:
MEMBER OF CMTA:
<input type="checkbox"/> YES <input type="checkbox"/> NO
WHAT WAS THE LAST DATE THAT YOUR INVESTMENT POLICY HAS BEEN ADOPTED BY THE APPROPRIATE COUNCIL/BOARD? (NOT REQUIRED PRIOR TO SUBMISSION)
SIZE OF TOTAL PORTFOLIO: (OPTIONAL)
\$
COMPOSITE OF CURRENT PORTFOLIO: (OPTIONAL)
LAIF:
TREASURIES:
AGENCIES (INCLUDING CALLABLES):
CERTIFICATES OF DEPOSIT:
OTHER:

The CMTA Investment Policy Certification Program does not guarantee against loss due to economic conditions, market conditions or human error. CMTA recommends reviewing and/or updating your investment policy on an annual basis.



Sample Investment Policy

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

1.0 Policy

The (Local Agency) shall invest public funds in such a manner as to comply with state and local laws; ensure prudent money management; provide for daily cash flow requirements; and meet the objectives of the Policy, in priority order of Safety, Liquidity and Return on investment.

2.0 Scope – Maximum Points - 5

This investment policy applies to all financial assets of the (Local Agency) . These funds are accounted for in the (Local Agency) Comprehensive Annual Financial Report (CAFR) and include:

- a. General Fund
- b. Special Revenue Funds
- c. Capital Project Funds
- d. Enterprise Funds
- e. Trust and Agency Funds
- f. Bond Funds
- g. Other

3.0 Prudence – Maximum Points – 5 – Reference: CA Govt. Code 53600.3 and 53646

The standard of 'Prudence' to be used by investment officials shall be the "prudent person" and/or "prudent investor" standard and shall be applied in the context of managing an overall portfolio. Investment officers acting in accordance with written procedures and the investment policy and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments.

Investments shall be made with judgment and care – under circumstances then prevailing – which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived. California Government Code provides that a county treasurer or the governing body of a local agency are fiduciaries subject to the prudent investor standard. In California, counties and local agencies or districts may establish a treasury oversight committee to promote the public interest in the investment of public funds. In the case of a county that establishes a treasury oversight committee, the county treasurer shall annually prepare an investment policy that will be reviewed and monitored by the county treasury oversight committee.

The treasurer or chief fiscal officer of a local agency or district may submit an investment policy to his or her governing body and a treasury oversight committee should one exist. The treasurer shall annually prepare or review the investment policy on an annual basis.

Disclaimer: The CMTA Investment Policy Investment Certification Program does not serve as a substitute for a treasury oversight committee or alter the fiduciary responsibilities of treasury officers.





7.0 Authorized Financial Dealers and Institutions – Maximum Points – 5 – Reference: CA Govt. Code 53601.5

The Treasurer (or Chief Financial Officer) will maintain a list of financial institutions authorized to provide investment services. In addition, a list will also be maintained for approved or security broker/dealers selected by credit worthiness that are authorized to provide investment services in the State of California. These may include “primary” dealers or regional dealers that qualify under Securities & Exchange Commission Rule 15C3-1 (uniform net capital rule). *No public deposit shall be made except in a qualified public depository as established by the established state laws.* All financial institutions and broker/dealers who desire to become qualified bidders for investment transactions must supply the Treasurer (or Chief Financial Officer) with the following: *(e.g. audited financial statements, proof of National Association of Security Dealers certification, trading resolution, proof of State of California registration, completed broker/dealer questionnaire, certification of having read the (Local Agency’s) investment policy and depository contracts.)*

An annual review of the financial condition and registrations of qualified financial dealers and institutions will be conducted by the Treasurer (or CFO). A current audited financial statement is required to be on file for each financial institution and broker/dealer in which the (Local Agency) invests.

8.0 Authorized and Suitable Investments – Maximum Points – 10 – Reference: CA Govt. Code 53601 and 53601.6

From the governing body perspective, special care must be taken to ensure that the list of instruments includes only those allowed by law and those that local investment managers are trained and competent to handle.

The (Local Agency) is empowered by statute to invest in the following types of securities: *(List types of investments authorized by California law, ordinance, or charter. Consider appending copies of these specific requirements to the investment policy. In selecting authorized investments, consideration should be given to credit ratings on commercial paper, banker’s acceptance, and collateralization of applicable instruments.)*

If repurchase agreements are legal and authorized by policy, a Master Repurchase Agreement must be signed with the bank or dealer. *(e.g. PSA Master Repurchase Agreement or equivalent).*

9.0 Review of Investment Portfolio -- Maximum Points – 5

The securities held by the (Local Agency) 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) shall at least quarterly review the portfolio to identify those securities that do not comply. The

(Designated Official – i.e. Treasurer) shall establish procedures to report to the (Agency/District’s board/counsel) and to its oversight committee, should one exist, major and critical incidences of noncompliance identified through the review of the portfolio.





15.0 Internal Controls – Maximum Points - 5

The *(Designated Official – i.e. Treasurer)* shall establish an annual process of independent review by an external auditor. This review will provide internal control by assuring compliance with policies and procedures.

16.0 Performance Standards – Maximum Points - 5

The investment portfolio shall be designed with the objective of obtaining a rate of return throughout budgetary and economic cycles, commensurate with the investment risk constraints and the cash flow needs.

The entity's investment strategy is *(passive and/or active)* . Given this strategy, the basis used by the *(Designated Official – i.e. Treasurer)* to determine whether market yields are being achieved shall be to identify a comparable benchmark to your portfolio investment duration. *(i.e. 90-day US Treasury Bill, 6-month US Treasury Bill, Average Fed Funds Rate).*

17.0 Reporting – Maximum Points – 10 – Reference: CA Govt. Code 41004, 53607 and 53646(b.)

Subject to the referenced codes and sections the *(Designated Official – i.e. Treasurer)* shall provide *(the Local Agency's counsel/board)* monthly investment reports which provide a clear picture of the status of the current investment portfolio. The management report should include comments on the fixed income markets and economic conditions, discussions regarding restrictions on percentage of investment by categories, possible changes in the portfolio structure going forward and thoughts on investment strategies. Schedules in the monthly reports should include at a minimum the following:

1. A listing of individual securities held at the end of the reporting period by authorized investment category.
2. Average life and final maturity of all investments listed.
3. Coupon, discount or earnings rate.
4. Par value, Amortized Book Value and Market Value.
5. Percentage of the Portfolio represented by each investment category.

NOTE: Depending on the degree of comprehension of those receiving the reports and their desire, or lack thereof, for detail, you may choose to provide the information in executive summary format.

18.0 Investment Policy Adoption – Maximum Points – 5 – Reference: CA Govt. Code 53646

The *(Local Agency's)* investment policy shall be adopted by resolution of the *(Local Agency's counsel/board)* . The policy shall be reviewed annually by the *(Local Agency's counsel/board)* and any modifications made thereto must be approved by the *(Local Agency's counsel/board)* .

19.0 Glossary – Maximum Points – 5

Because this policy is to be available to the public as well as the governing body, it is important that a glossary of related terminology be part of the policy.

(Note: All words of a technical nature should be included. Following is an example of common treasury terminology.)



Sample Glossary

AGENCIES: Federal agency securities and/or Government-sponsored enterprises.

ASKED: The price at which securities are offered.

BANKERS' ACCEPTANCE (BA): A draft or bill or exchange accepted by a bank or trust company. The accepting institution guarantees payment of the bill, as well as the issuer.

BENCHMARK: A comparative base for measuring the performance or risk tolerance of the investment portfolio. A benchmark should represent a close correlation to the level of risk and the average duration of the portfolio's investments.

BID: The price offered by a buyer of securities. (When you are selling securities, you ask for a bid.) See Offer.

BROKER: A broker brings buyers and sellers together for a commission.

CERTIFICATE OF DEPOSIT (CD): A time deposit with a specific maturity evidenced by a Certificate. Large-denomination CD's are typically negotiable.

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.

COMPREHENSIVE ANNUAL FINANCIAL REPORT (CAFR): 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: Non-interest bearing money market instruments that are issued 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 CREDIT AGENCIES: Agencies of the Federal government set up to supply credit to various classes of institutions and individuals, *e.g., S&L's, small business firms, students, farmers, farm cooperatives, and exporters.*

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.

FEDERAL HOME LOAN BANKS (FHLB): Government sponsored wholesale banks (currently 12 regional banks), which lend funds and provide correspondent banking services to member commercial banks, thrift institutions, credit unions and insurance companies. The mission of the FHLBs is to liquefy the housing related assets of its members who must purchase stock in their district Bank.

FEDERAL NATIONAL MORTGAGE ASSOCIATION (FNMA): FNMA, like GNMA was chartered under the Federal National Mortgage Association Act in 1938. FNMA is a federal corporation working under the auspices of the Department of Housing and Urban Development (HUD). It is the largest single provider of residential mortgage funds in the United States. Fannie Mae, as the corporation is called, is a private stockholder-owned corporation. The corporation's purchases include a variety of adjustable mortgages and second loans, in addition to fixed-rate mortgages. FNMA's securities are also highly liquid and are widely accepted. FNMA assumes and guarantees that all security holders will receive timely payment of principal and interest.

FEDERAL OPEN MARKET COMMITTEE (FOMC): Consists of seven members of the Federal Reserve Board and five of the twelve Federal Reserve Bank Presidents. The President of the New York Federal Reserve Bank is a permanent member, while the other Presidents serve on a rotating basis. The Committee periodically meets to set Federal Reserve guidelines regarding purchases and sales of Government Securities in the open market as a means of influencing the volume of bank credit and money.

FEDERAL RESERVE SYSTEM: The central bank of the United States created by Congress and consisting of a seven member Board of Governors in Washington, D.C., 12 regional banks and about 5,700 commercial banks that are members of the system.

GOVERNMENT NATIONAL MORTGAGE ASSOCIATION (GNMA or Ginnie Mae): Securities influencing the volume of bank credit guaranteed by GNMA and issued by mortgage bankers, commercial banks, savings and loan associations, and other institutions. Security holder is protected by full faith and credit of the U.S. Government. Ginnie Mae securities are backed by the FHA, VA or FHA mortgages. The term "pass-throughs" is often used to describe Ginnie Maes.



REVERSE REPURCHASE AGREEMENT (REVERSE REPO): A reverse-repurchase agreement (reverse repo) involves an investor borrowing cash from a financial institution in exchange for securities. The investor agrees to repurchase the securities at a specified date for the same cash value plus an agreed upon interest rate. Although the transaction is similar to a repo, the purpose of entering into a reverse repo is quite different. While a repo is a straightforward investment of public funds, the reverse repo is a borrowing.

SAFEKEEPING: A service to customers rendered by banks for a fee whereby securities and valuables of all types and descriptions are held in the bank's vaults for protection.

SECONDARY MARKET: A market made for the purchase and sale of outstanding issues following the initial distribution.

SECURITIES & EXCHANGE COMMISSION: Agency created by Congress to protect investors in securities transactions by administering securities legislation.

SEC RULE 15C3-1: See Uniform Net Capital Rule.

STRUCTURED NOTES: Notes issued by Government Sponsored Enterprises (FHLB, FNMA, SLMA, etc.) and Corporations, which have imbedded options (e.g., call features, step-up coupons, floating rate coupons, 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.

TREASURY BILLS: A non-interest 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.

UNIFORM NET CAPITAL RULE: Securities and Exchange Commission requirement that member firms as well as nonmember broker-dealers in securities maintain a maximum ratio of indebtedness to liquid capital of 15 to 1; also called net capital rule and net capital ratio. Indebtedness covers all money owed to a firm, including margin loans and commitments to purchase securities, one reason new public issues are spread among members of underwriting syndicates. Liquid capital includes cash and assets easily converted into cash.

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

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 10 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 5 POINTS	
SECTION 9 - REVIEW OF INVESTMENT PORTFOLIO - MAX 5 POINTS		SECTION 18 - INVESTMENT POLICY ADOPTION - MAX 10 POINTS	
SECTION 10 - INVESTMENT POOLS/MUTUAL FUNDS - MAX 5 POINTS		SECTION 19 - GLOSSARY - MAX 5 POINTS	
TOTAL		TOTAL	
CERTIFIED (85 POINTS OR ABOVE):			
<input type="checkbox"/> YES <input type="checkbox"/> NO			
EVALUATOR COMMENTS:			

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