

SESSION 4

Investment Policy and Objectives



Deborah Higgins

President
Higgins Capital Management



John Johnson

*Assistant Auditor-Controller/
Treasurer/Tax Collector*
San Bernardino County

Session Overview

- Identify resources
- Explain the importance of having an investment policy
- Review investment objectives
- Identify best practices for developing your investment policy
- Review legislative changes
- Summarize the CMTA Certification Process
- Identify common IPS mistakes

Resources





CA Government Code CDIAC and CMTA

CA Code
53600 et al

CDIAC

CMTA

Local Agency
Investment
Guidelines
[LAIG](#)

*53600 Starts on
Page 73/147*

[Investment Policy
Certification](#)

[CMTA Program &
Application](#)

Additional Resources

CSMFO
csmfo.org

APT
US & C
aptusc.org

Everything underlined is a link to more information!

GIOA
gioa.us

GFOA
gfoa.org



Investment Policy Statement (IPS)

- Purpose
- Objectives
- Importance
- Who cares?
- Key elements for best practices



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.

Primary Investment Objectives

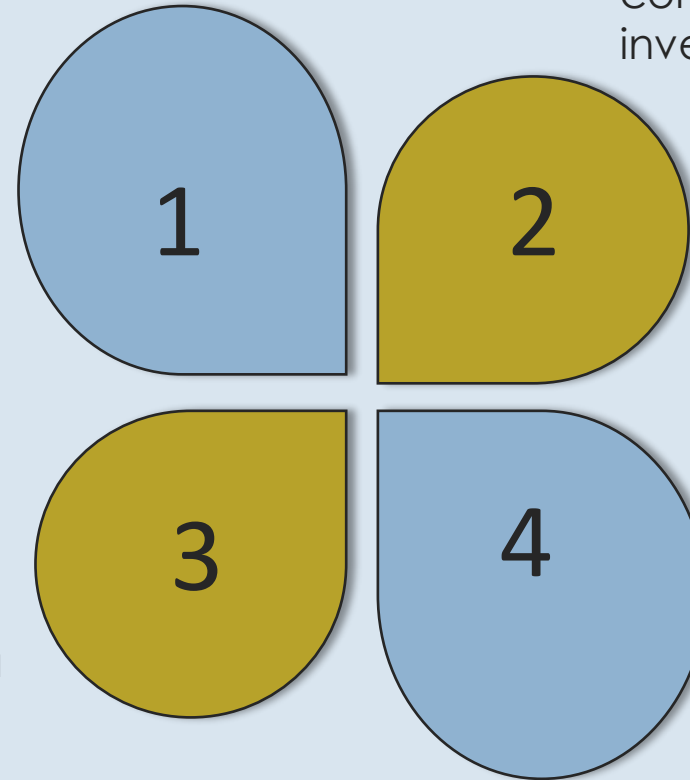
- **Safety:** Safety of principal is the foremost objective of the investment program. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio.
- **Liquidity:** The investment portfolio shall be structured with sufficient liquidity to timely 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.

Investment Policy Importance

Your IPS...

Defines whether your investment policy statement (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



Demonstrates a commitment to the fiduciary care of public funds

Facilitates decision making with emphasis on safety, liquidity, and return on investment



Your IPS is important to...

- Council/Board
- Constituents
- Auditors
- Capital Markets (issuing, buying/selling)
- Rating Agencies

CMTA Best Practices

Policy Certification

- Scope
- Prudence
- Objective
- Delegation of Authority
- Ethics and Conflicts of Interest
- Authorized Financial Dealers & Institutions
- Authorized & 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

Measuring Performance

- **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.

...**Benchmark:** Oxford definition, 1. a standard or point of reference against which things may be compared or assessed

...Audit considerations



Legislative Changes...

- IPS updates & adoption
- SB 882
- SB 1489 & AB 2332



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!

SB 882

(effective 1/1/24)

- SB 882, Local Government Omnibus Act of 2023, amends Government Code 53601 (o) to clarify that Mortgage Backed and Pass-Through Securities issued or guaranteed by an issuer authorized by 53601 (b) or (f), are not subject to the same limitations as privately issued Mortgage Backed and Pass-Through Securities.
- The bill also eliminates Certified Cash Manager in the eligibility for office requirements of Government Code Section 27000.7, since the designation is no longer used by the Association for Finance Professionals (AFP).

SB 1489 & AB 2332
(effective 1/1/23)

- SB 1489, Local Government Omnibus Act of 2022, amended Government Code 53601 to require an investment's term or remaining maturity to be measured from the settlement date to final maturity. In addition, this bill prohibited a security purchased in accordance with section 53601 to have a forward settlement date exceeding 45 days from the time of investment. Government Code Section 53646, applicable to counties, cities, and other agencies, authorizes the treasurer or chief fiscal officer to render a quarterly report regarding specified matters in connection with the deposit of public funds to the chief executive officer, the internal auditor, and the legislative body of the local agency. This bill extended the time within which the report is to be submitted from 30 to 45 days following the end of the quarter covered by the report.

SB 1489 & AB 2332
(effective 1/1/23)
(Continued)

- AB 2332, State funds: investments, made various changes to the list of securities eligible for investment by Pooled Money Investment Account (PMIA). This bill authorized the State Treasurer to invest surplus moneys in bonds, notes, and other obligations of the state of California, rather than bonds, notes, and warrants of the state of California, required that surplus moneys invested in bonds, notes, or other obligations of a local government of California be within the top three ratings of a nationally recognized statistical rating organization, and made additional minor changes to the list of eligible securities.



IPS Creation & Considerations...

- Authorized investments per code
- CMTA certification process
- Mistakes & misunderstandings

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 <100million
8. Commercial Paper-Non-Pooled \geq 100million
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. Options/Futures (53601.1)

CMTA Certification Process

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.



[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



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.



Common Mistakes for CMTA IPS Certification

- Cut and paste, or combine code sections
- Misunderstanding of reporting requirements ([53607](#) & [53646](#))
- Unclear language
- Missing sections
- Not following the CMTA IPS template

LAIG Figure 1

(Pg 18/147)

FIGURE 1

ALLOWABLE
INVESTMENT
INSTRUMENTS PER
STATE
GOVERNMENT
CODE
(AS OF JANUARY 1,
2024)^A APPLICABLE
TO ALL LOCAL
AGENCIES^B

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

INVESTMENT TYPE	MAXIMUM MATURITY ^C	MAXIMUM SPECIFIED % OF PORTFOLIO ^D	MINIMUM QUALITY REQUIREMENTS	GOV'T 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% ^E	None	53601(g)
Commercial Paper—Non-Pooled Funds ^F (under \$100,000,000 of investments)	270 days or less	25% of the agency's money ^G	Highest letter and number rating by an NRSRO ^H	53601(h)(2)(c)
Commercial Paper—Non-Pooled Funds ^I (min. \$100,000,000 of investments)	270 days or less	40% of the agency's money ^G	Highest letter and number rating by an NRSRO ^H	53601(h)(2)(c)
Commercial Paper— Pooled Funds ^J	270 days or less	40% of the agency's money ^G	Highest letter and number rating by an NRSRO ^H	53635(a)(1)
Negotiable Certificates of Deposit	5 years	30% ^K	None	53601(i)
Non-negotiable Certificates of Deposit	5 years	None	None	53630 et seq.
Placement Service Deposits	5 years	L	None	53601.8 and 53635.8
Placement Service Certificates of Deposit	5 years	L	None	53601.8 and 53635.8

LAIG Figure 1

(Pg 18/147)

FIGURE 1
ALLOWABLE INVESTMENT INSTRUMENTS PER STATE GOVERNMENT CODE
(AS OF JANUARY 1, 2024)^A APPLICABLE TO ALL LOCAL AGENCIES^B

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

Repurchase Agreements	1 year	None	None	53601 (j)
Reverse Repurchase Agreements and Securities Lending Agreements	M	20% of the base value of the portfolio	N	53601 (j)
Medium-Term Notes ^o	5 years or less	30%	“A” rating category or its equivalent or better	53601 (k)
Mutual Funds And Money Market Mutual Funds	N/A	P	Q, R	53601 (l) and 53601.6(b)
Collateralized Bank Deposits ^s	5 years	None	None	53630 et seq. and 53601 (n)
Mortgage Pass-Through and Asset-Backed Securities ^t	5 years or less ^t	20%	“AA” rating category or its equivalent or better ^t	53601 (o)
County Pooled Investment Funds	N/A	None	None	27133
Joint Powers Authority Pool	N/A	None	Multiple ^u	53601 (p)
Local Agency Investment Fund (LAIF)	N/A	None	None	16429.1
Voluntary Investment Program Fund ^v	N/A	None	None	16340
Supranational Obligations ^w	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

Combining Code Sections

INVESTMENT TYPE	MAXIMUM MATURITY ^c	MAXIMUM SPECIFIED % OF PORTFOLIO ^d	MINIMUM QUALITY REQUIREMENTS	GOV'T CODE SECTIONS
Commercial Paper—Non-Pooled Funds ^f (under \$100,000,000 of investments)	270 days or less	25% of the agency's money ^g	Highest letter and number rating by an NRSRO ^h	53601 (h)(2)(c)
Medium-Term Notes ^o	5 years or less	30%	"A" rating category or its equivalent or better	53601 (k)

Example language on IPS for Medium Term Notes - **...Securities eligible for investment must have a rating of "A-1" or higher on commercial paper and a rating category of "A" or its equivalent or better by a nationally recognized rating service.**

Added the short-term commercial paper (CP) rating as additional due diligence; **however not all corporations issue short-term CP**

The IPS as written must meet both ratings: 1) must have a "A-1" or higher on commercial paper and 2) rating category of "A" or its equivalent or better, **eliminating any corporation that does not issue CP and therefore can not meet a short-term ratings requirement.**

Missing Additional Code Requirement

INVESTMENT TYPE	MAXIMUM MATURITY ^C	MAXIMUM SPECIFIED % OF PORTFOLIO ^D	MINIMUM QUALITY REQUIREMENTS	GOV'T CODE SECTIONS
Commercial Paper—Non-Pooled Funds (min \$100,000,000 of investment)	270 days or less	40% of the agency's money ^G	Highest letter and number rating by an NRSROH	53601(h)(2)(c)
Medium-Term Notes ^O	5 years or less	30%	"A" rating category or its equivalent or better	53601(k)
Commercial Paper-No more than 5% of any single issuer	270 days or less	40% of the agency's	Highest letter and number rating by an NRSROH	53601(h)(2)(c)
Medium-Term Notes ^O ; No more than 10% of any single issuer	5 years or less	30%	"A" rating category or its equivalent or better	53601(k)



LAIG Table of Notes

(Pg. 19/147)

TABLE OF NOTES FOR FIGURE 1

G Local agencies, other than counties or a city and county, may purchase no more than 10% of the out- standing commercial paper and medium-term notes of any single issuer.

Misunderstanding Code Reporting Requirements

- There are 2 sections in the government code that addresses reporting requirements...
- [Section 53607](#) The authority of the legislative body to invest or to reinvest funds of a local agency, or to sell or exchange securities so purchased, may be delegated for a one-year period by the legislative body to the treasurer of the local agency, who shall thereafter assume full responsibility for those transactions until the delegation of authority is revoked or expires, and shall make a monthly report of those transactions to the legislative body. Subject to review, the legislative body may renew the delegation of authority pursuant to this section each year.
- If the authority to invest has been delegated by the legislative body to a treasurer, finance director, etc. which is almost 100% the case, then a monthly transaction report must be submitted. This is the most overlooked requirement in the Code.
- [Section 53646](#) (b) (1) The treasurer or chief fiscal officer may render a quarterly report to the chief executive officer, the internal auditor, and the legislative body of the local agency. The quarterly report shall be so submitted within 45 days following the end of the quarter covered by the report....

ESG...ESG...

- Governing Body ESG Mandates (reactive)
 - Not control or input on IPS language
 - Changes may be activist influence 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

CMTA's Statement of ESG Policy (optional)

- 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 (Local Agency) 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.
- Provided in CMTA's Certification & Investment Policy Program & App, under the Sample Investment Policy (pg. 11)

Treasury Oversight Committee

GC Sections [27131](#) and 27132 through 27132.4 consider the formation, composition, and role of a county treasury oversight committee. These code sections provide that the function of the treasury oversight committee is to monitor and review the county investment policy by conducting or causing an annual audit and discussing its findings at a public meeting. The rationale behind the creation of an oversight committee is to give local agencies and private sector citizens a say in the policies governing the investment pool. (See [LAIG](#) Chapter IV)



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.

IPS Policy Table

SAN BERNARDINO COUNTY 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 53601(b)	100%	None		5 years and 6 months	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 53601(f)	100%	Senior debt only (Max 10% of portfolio in new issue agency par callable securities)		5 years and 6 months for senior unsecured debt 7 years and 3 months (for agency mortgage-backed securities only)	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 53601(g)	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 San Bernardino County 53601(e)	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 53635(a)(1)	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)*

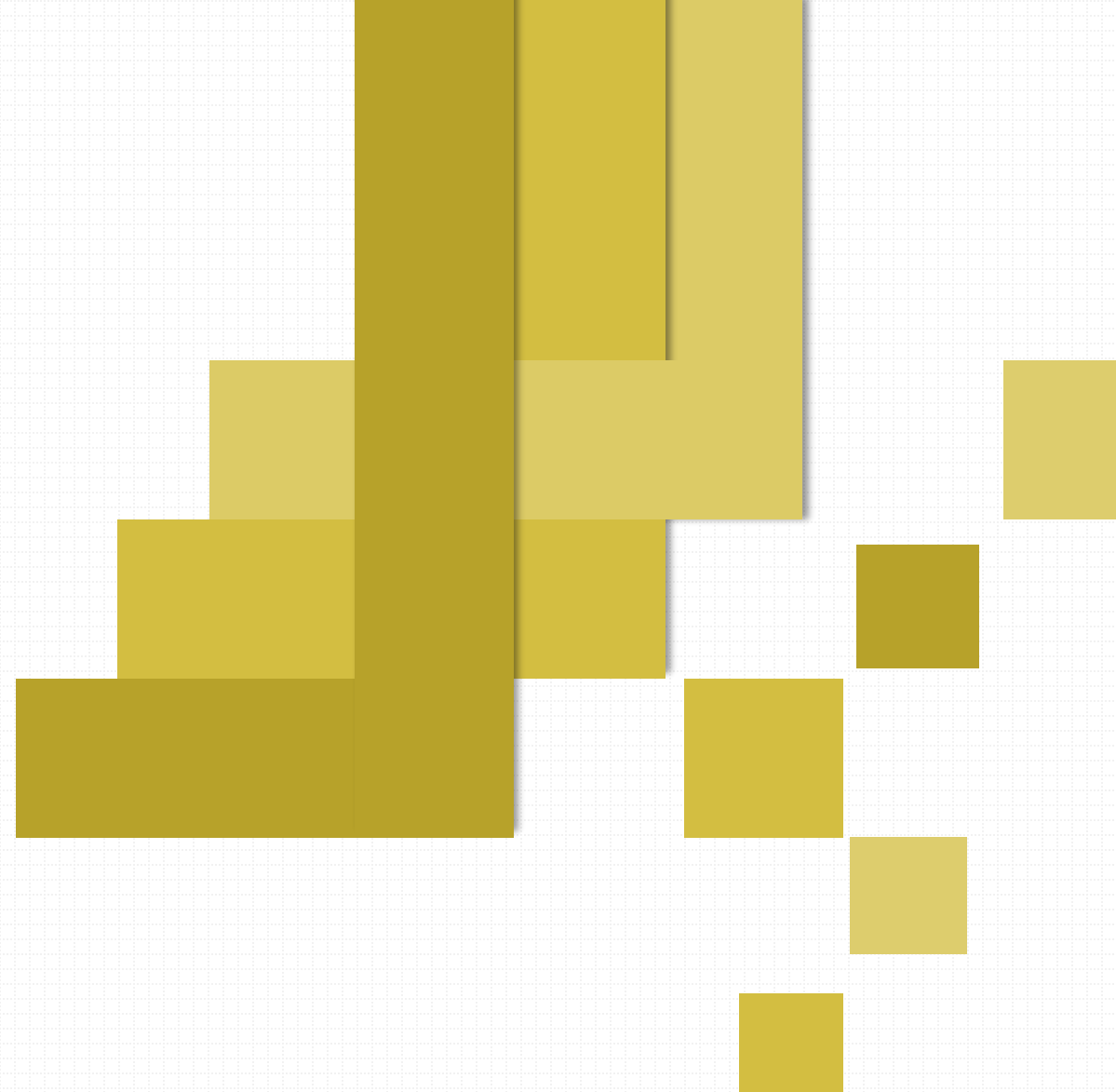
Big Mistakes to avoid IN PRACTICE

- 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.



Other considerations for Your IPS

- Special Attachments for convenience
- 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.

Thank you!

Questions anyone?



Disclosures

- 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

debbie@higginscapital.com



- John Johnson/Asst. Auditor-Controller/Treasurer/Tax Collector

San Bernardino County

john.johnson@sbcountyatc.gov



Resources

- California Debt & Investment Advisory Commission (CDIAC); treasurer.ca.gov/cdiac
- California Municipal Treasurers Association (CMTA); cmta.org
- California Society of Municipal Finance Officers (CSMFO); csmfo.org
- Association of Public Treasurers of the United States and Canada (APT US&C); aptusc.org
- Government Investment Officers Association (GIOA); gioa.us
- Government Finance Officers Association (GFOA); gfoa.org