



# County of Kern

# Investment Policy

Effective 12/10/2024



**OFFICE OF THE TREASURER-TAX COLLECTOR  
COUNTY OF KERN**

**TREASURER'S STATEMENT OF INVESTMENT POLICY  
*Approved By the Board of Supervisors December 10, 2024***

**INTRODUCTION AND OVERVIEW:**

The County of Kern is a political subdivision of the State of California organized in 1866, with Bakersfield as the county seat. The County covers an area of approximately 8,160 square miles in the southern end of the California's Central Valley. The County's economy is heavily linked to agriculture and to petroleum extraction. There is also a strong aviation, space, and military presence, such as Edwards Air Force Base, the China Lake Naval Air Weapons Station, and the Mojave Air and Space Port. The County is overseen by the five members of the Board of Supervisors.

**FIDUCIARY RESPONSIBILITY, GOVERNING AUTHORITY, AND PRUDENCE:**

CGC Section 27000.3, declares each Treasurer, or governing body authorized to make investment decisions on behalf of local agencies, to be a fiduciary subject to the prudent investor standard as stated in CGC Section 53600.3:

"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, specifically including, but not limited to, the general economic conditions and the anticipated needs of the agency, that a prudent person 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 investment strategy, investments may be acquired as authorized by law."

**INVESTMENT PROGRAM OVERSIGHT:**

In accordance with the CGC 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:

1. Review the Treasurer's annual Investment Policy Statement and any subsequent changes thereto, prior to its submission to the Board of Supervisors for review and adoption,
2. Review the Treasurer's investment portfolio reports and the portfolio's compliance with law and this Investment Policy,
3. Cause an external annual audit to be conducted on the Treasurer's Pooled Investment portfolio.

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

This Policy shall be reviewed annually by the County's Treasury Oversight Committee and approved by the County Board of Supervisors. The purpose of this Policy is to establish cash management and investment guidelines for the County Treasurer, who is responsible for the management and investment of the County Treasurer's Pool, which consists of pooled monies held on behalf of the County, school districts, community college districts and certain special districts within the County.

**SCOPE:**

The County of Kern's Investment Policy has been prepared in accordance with California Government Code (CGC) sections 53630 et seq. The complete text of California Government Code Section 53630 is set forth on the Internet at [www.leginfo.ca.gov](http://www.leginfo.ca.gov).

This Policy shall apply to all investments held within the County Treasurer's Pool and made on behalf of the County and member agencies of the Pool with the exception of certain bond funds for which the Board of Supervisors may specifically authorize other allowable investments, consistent with State law. Also exempt from this Policy are retirement funds and other post employment benefit (OPEB) funds managed through an external trust. The Treasurer and Treasurer's staff are responsible for the full-time management of the Pool. All investments and activities of the Treasurer and staff are conducted with the understanding that the Treasurer holds a public trust with the citizens of the County, which cannot be compromised.

**POLICY STATEMENT:**

The purpose of this Investment Policy is to establish investment guidelines for the County Treasurer, who is responsible for the stewardship of the County's Investment Program. Each transaction and the entire portfolio must comply with applicable CGC, and this Policy. All investment program activities will be judged by the standards of the Policy and ranking of Primary Investment Objectives. Those activities that violate its spirit and intent will be deemed to be contrary to the Policy. This Policy conforms to customary standards of prudent investment management.

**PRIMARY INVESTMENT OBJECTIVES:**

It is the Policy of the Treasurer to invest public funds in a manner which will preserve the safety and liquidity of all investments within the County Investment Pool while obtaining a reasonable return within established investment guidelines. The portfolio should be actively managed in a manner that is responsive to the public trust and consistent with State law. Accordingly, the County Treasurer's Pool will be guided by the following principles, in order of importance:

- A. Safety of Principal:** Safety of principal is the foremost objective of the County's investment program. Investments by the County Treasurer shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. To attain this objective, diversification of security types, sectors, issuers, and maturities is necessary in order that potential losses on individual securities do not exceed the income generated from the remainder of the portfolio.

**B. Liquidity:** The investment portfolio shall be structured to timely meet expected cash flow needs and associated obligations which might be reasonably anticipated. This objective shall be achieved by matching investment maturities with forecasted cash outflows and maintaining an additional liquidity buffer for unexpected liabilities.

**C. Investment Income:** The investment portfolio shall be designed to earn a market rate of investment income in relation to prevailing budgetary and economic cycles, while taking into account investment risk constraints and liquidity needs of the portfolio.

**PRIMARY INVESTMENT PHILOSOPHY:**

The primary investment philosophy of the County is to match investment maturities with expected cash outflows. Securities shall generally be held until maturity, with the following exceptions:

- A security with declining credit may be sold early to minimize loss of principal.
- Liquidity needs of the portfolio require that the security be sold.
- A security rebalance would improve the quality, yield, or target duration in the portfolio.

**AUTHORIZED INVESTMENTS:**

Investments shall be restricted to those authorized in the CGC 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 stipulated for any type of security or structural maturity range, the limit or maximum allowable is determined by the portfolio size at the close of the date on which the security is settled.

In conjunction with these restrictions, County Treasurer staff shall diversify its investments by security type, issuer and maturity. The purpose of this diversification is to reduce portfolio risk by avoiding an over concentration in any particular maturity sector, asset class or specific issuer. As Agency security holdings are the largest portion of the Pool, diversification among the Agency issuers should be considered to the extent practical when making investments.

**PROHIBITED INVESTMENTS:**

No investment shall be made that is prohibited by 53601.6 as may be from time to time amended.

**STAFF AUTHORIZED TO MAKE INVESTMENTS:**

Only the Treasurer, Assistant Treasurer, and Principal Treasury Investment Officer, when acting as the Investment Officer, are authorized to purchase and order the receipt and delivery of investment securities among custodial security clearance accounts.

**AUTHORIZED BROKER/DEALERS:**

The County Treasurer shall maintain an 'Eligible Broker/Dealer List'. Firms eligible to do business with the County are:

- Primary Broker/Dealers eligible to trade with the New York branch of the Federal Reserve Bank
- Regional Broker/Dealers meeting the minimum capital requirements of the Securities Exchange Commission
- Introducing Brokers meeting the minimum capital requirements of the Securities Exchange Commission
- National or State banks, domestic branches of properly licensed foreign banks, credit unions, savings and loan institutions, thrift associations
- Direct Issuers meeting the appropriate credit criteria for the securities being offered
- Other institutions as authorized by law

All firms with whom the County does business shall comply with the requirements set forth in Schedule IV.

Further, in compliance with CGC Section 27133(c) & (d), no dealer and/or securities firm shall be eligible if they have made a political contribution in excess of the limitations contained in Rule G-37 of the Municipal Securities Rulemaking Board or exceeded the limit on honoraria, gifts, and gratuities set by State law, or by the Fair Political Practices Commission, by County Ordinance or Departmental Policy.

**AUTHORIZED INVESTMENT ADVISORS:**

The County may enter into an agreement with an investment advisor for investment advisory services, and the investment advisor will operate under the direction of the County Treasurer. The investment advisor shall be registered with the Securities and Exchange Commission under the Investment Advisers Act of 1940. The investment advisor shall offer to send on an annual basis to the County Treasurer form ADV Part 1 and form ADV Part 2.

**DUE DILIGENCE:**

County Treasurer staff shall conduct a thorough review and perform due diligence of all firms seeking to do business with the County prior to conducting transactions with those parties and on a continuing basis. This due diligence may include a periodic review of recent news, financial statements and SEC filings related to each entity.

**INTERNAL CONTROL:**

The County Treasurer has established a system of internal control to provide reasonable assurance that the investment objectives are met and to ensure that the assets of the County Treasury Pool are protected from loss, theft or misuse. The concept of reasonable assurance recognizes that the cost of control shall not exceed the benefits likely to be derived and that the valuation of costs and benefits require estimates and judgments by management. The County Treasurer shall develop and maintain written procedures for the operation of the investment

program, which are consistent with this policy. These procedures shall include reference to separation of duties, safekeeping, collateralization, wire transfers and banking related activities.

Except for declared emergencies, the County Treasurer's Office shall observe the following procedures on a daily basis:

1. All investment transactions conducted by the County Treasurer's Office shall be immediately confirmed and entered into the Treasurer's Portfolio Accounting System.
2. A copy of each day's investment transactions shall be filed with the County Auditor-Controller.
3. County investments shall be executed, confirmed, accounted for, and audited by different people.

### **SECURITY CUSTODY & DELIVERIES:**

All securities purchased shall be deposited for safekeeping with the Custodial Bank that has contracted to provide the County Treasurer with custodial security clearance services or with a tri-party custodian bank under a written tri-party custody agreement. These third party trust department arrangements provide the County with a perfected interest in, ownership of and control over the securities held by the bank custodian on the County's behalf, and are intended to protect the County from the bank's own creditors in the event of a bank default and filing for bankruptcy. Securities are not to be held in investment firm/broker dealer accounts. All security holdings shall be reconciled monthly by the County Treasurer and audited at least quarterly by the County Auditor.

All security transactions are to be conducted on a "delivery-versus-payment basis". All trades will be immediately confirmed with the Broker/Dealer and reconfirmed through the Custodian Bank.

### **COMPETITIVE PRICING:**

Investment transactions are to be made at current market prices. Wherever possible, competitive prices should be obtained through obtaining multiple bids or offers. When possible, bids and offers for any investment security shall be taken from a minimum of three security dealers/brokers or banks and awards shall be made to the best bid or offer. The primary source of pricing information and guidance will be that information available through Bloomberg LLP, a world-wide financial news service to which the County subscribes.

### **LIQUIDITY AND MATURITY PARAMETERS:**

The portfolio will maintain a weighted-average maturity of no greater than 2.5 years. To provide sufficient liquidity to meet daily expenditure requirements, the portfolio will maintain at least 30% of its total book value in securities having a maturity of one (1) year or less.

### **PORTFOLIO EVALUATION AND PERFORMANCE:**

The portfolio is monitored and evaluated daily, monthly, and quarterly by the County Treasurer's Office. Monthly market value pricing is provided by a third party. Earned yield is calculated each month. Benchmarks for earned yield and investment performance will be commensurate with the Pool's investment goals, credit limits, and target weighted average maturity and duration.

### **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: (1) credit quality standards issued by Standard & Poor's, Moody's and Fitch's rating services on the credit worthiness of each issuer of securities, (2) limiting the duration of investments to the time frames noted in Schedule I, and (3) 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 Principal Treasury Investment Officer shall report the downgrade to the Treasurer within a maximum of 3 days. In the event of a downgrade below the minimum credit ratings authorized by this policy, the security shall be evaluated on a case-by-case basis to determine whether the security shall be sold or held. Every effort will be made to sell such a security without a 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 including the issuer's default risk, headline risk, and short term vs. long term financial metrics.

### **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 return of the portfolio, securities may be sold prior to maturity either at a profit or loss when economic circumstances or a deterioration in credit worthiness of the issuer warrant a sale of the securities to either enhance overall portfolio return or to minimize loss of investment principal. In measuring a profit or loss, the sale proceeds shall be compared to the original cost 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.

### **PORTFOLIO REPORTS/AUDITING:**

On a monthly basis, the County Treasurer shall prepare and file with the Board of Supervisors, the County Administrative Officer, and County Auditor-Controller, a report consisting of, but not limited to, the following:

1. Monthly investment transactions, investments detailing each by type, issuer, date of maturity, par value and stating the book vs. current market value together with all other portfolio information required by law.
2. Compliance of investments to the existing County Investment Policy.
3. A statement confirming the ability of the Pool to meet anticipated cash requirements for the Pool for the next six months.

### **CALCULATION PARAMETERS:**

Calculations of percentage allocations shall be done at the time of purchase and formulated on book value. Weighted average maturity is calculated using a security's stated final maturity and using the settlement date.

**QUARTERLY DISTRIBUTION OF INVESTMENT EARNINGS:**

All moneys deposited in this Pool by the participants represent an individual interest in all assets and investments in the Pool based upon the amount deposited. Portfolio income shall be reconciled daily against cash receipts, and quarterly prior to the distribution of earnings among those entities sharing in pooled fund investment income. Nonetheless, actual portfolio income and/or losses, net of any reserves, will be distributed quarterly using the accrual basis of accounting, in compliance with the CGC Section 53684, among those participants sharing in pooled investment income. Except for specific investments in which the interest income is to be credited directly to the fund from which the investment was made, all investment income is to be distributed pro-rata based upon each participant's average daily cash balance for the calendar quarter.

**QUARTERLY APPORTIONMENT OF ADMINISTRATIVE COSTS:**

Prior to the quarterly apportionment of pooled fund investment income, the County Treasurer is permitted by CGC Section 53684 to deduct from investment income before the distribution thereof, the actual cost of the investments, auditing, depositing, handling and distribution of such income. Accordingly, the Treasurer shall deduct from pooled fund investment earnings the actual cost incurred for banking and investment related services including but not limited to: wire transfers, custodial safekeeping charges, necessary capital outlays, the costs of investment advisory services, credit ratings, the pro-rata annual cost of the salaries including fringe benefits for the personnel in the Treasurer-Tax Collector's Office engaged in the administration, investment, auditing, cashing, accounting, reporting, remittance processing and depositing of public funds for investment, together with the related computer and office expenses associated with the performance of these functions.

**WITHDRAWAL OF FUNDS:**

The Treasurer's Investment Policy establishes guidelines for unusual or unexpected withdrawal of cash and provides for adequate liquidity to cover day-to-day operations of Pool depositors. On occasion, depositors have need of withdrawals that exceed those normally associated with operations. To accommodate such withdrawals, the Treasurer-Tax Collector's Office has established written notification requirements as set forth below to allow for adjustments to the liquidity position of the Portfolio. The notification required is as follows:

Withdrawals of up to \$10,000,000	24 hours
Withdrawals of \$10,000,001 and more	72 hours

Notification should be by email to [TTC@kerncounty.com](mailto:TTC@kerncounty.com). Failure to adhere to these requirements may result in payment being delayed by the Treasurer-Tax Collector's office.

Pursuant to CGC Section 27136, any local agency, public agency, public entity, or public official that has funds on deposit in the County Treasury Pool and that seeks to withdraw funds for the purpose of investing or depositing those funds outside the County Treasury Pool is required to first submit a request for the withdrawal to the County Treasurer-Tax Collector before withdrawing funds from the County Treasury Pool. Prior to approving such a request, the County Treasurer will find that the withdrawal will not adversely affect other depositors in the County Treasury Pool. Approval of the withdrawal does not constitute approval or endorsement of the investment.

**POLICY CRITERIA FOR AGENCIES SEEKING VOLUNTARY ENTRY INTO COUNTY INVESTMENT POOL:**

The County Treasurer is not soliciting nor accepting any new agency's voluntary entry into the County Treasurer's Pool.

**ETHICS & CONFLICTS OF INTEREST:**

Officers and staff members involved in the investment process shall refrain from any personal business activity that compromises the security and integrity of the County's investment program or impairs their ability to make impartial and prudent investment decisions. The County Treasurer-Tax Collector, Assistant Treasurer-Tax Collector, and Principal Treasury Investment Officer are required to file annually the applicable financial disclosure statements as mandated by the Fair Political Practices Commission (FPPC) and/or by County Ordinance. In addition, the Principal Treasury Investment Officer is required to sign and abide by an Ethics Policy instituted by the Treasurer.

**LIMIT ON RECEIPT OF HONORARIA, GIFTS, AND GRATUITIES:**

Employees responsible for the management of the County's Investment Pool shall not accept honoraria, gifts or gratuities from any advisor, broker, dealer, banker or other person with whom the County Treasurer conducts business, in excess of specifications of CGC in any fiscal year.

**BUSINESS CONTINUITY:**

The County Treasurer has developed a Business Continuity Plan (Plan) describing the County's anticipated response to a range of events that could significantly disrupt its business. Because the timing and impact of disasters, emergencies and other events is unpredictable, flexibility is necessary when responding to actual disruptions as they occur. With that in mind, the goal of the Plan is to resume operations as quickly and smoothly as possible.

The County Treasurer's Plan for responding to a significant business disruption addresses safeguarding of employees' lives and County's property, making a financial and operational assessment, quickly recovering and resuming operations, protecting all of the County's books and records, and allowing the continued ability to manage the investment program and transact business.

**ONGOING TRAINING AND EDUCATION:**

The County strives for professionalism and accountability in the investment of its funds. In order to assure the highest possible professional standards, the personnel involved in the investment function shall complete at least 16 hours per year of continuing education programs or other training in cash and investment management.

**POLICY ADOPTION & AMENDMENTS:**

This policy statement will become effective immediately following adoption by the Board of Supervisors, and will remain in force as long as the delegation of authority to the Treasurer to invest is in effect and until subsequently amended in writing by the County Treasurer, reviewed by the Treasury Oversight Committee and approved by the Board of Supervisors.

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**OFFICE OF THE TREASURER  
COUNTY OF KERN  
STATEMENT OF INVESTMENT POLICY**

Schedule I

**Authorized Investments**

AUTHORIZED INVESTMENTS	MAXIMUM HOLDINGS	PURCHASE RESTRICTIONS	MAXIMUM MATURITY	CREDIT QUALITY (S&P/MOODY'S/FITCH)
Inactive Accounts aka Money Market Accounts	\$50,000,000 per account	Limited to depository's described in CGC 53630.5	Daily	Collateralization requirements per Govt Code section 53652.
U.S. Treasury Obligations	100%	None	5 years	Not Applicable
Notes, participation's or obligations issued by an agency of the Federal Government or U.S. government-sponsored enterprises	75%	Maximum per issuer limit of 40%	5 years	Not Applicable
Bonds, notes, warrants or certificates of indebtedness issued by the State of California	10%	None	5 years	AA by at least 2 of the 3 rating agencies
Cash substitutes issued by the State of California	25%	Applies only to cash substitutes issued by the State during periods of fiscal emergency	5 years	Not Applicable
Bonds, notes, warrants or certificates of indebtedness issued by agencies within the State of California	10%	None	5 years	AAA by at least 2 of the 3 rating agencies
Bonds, notes, warrants or certificates of indebtedness issued by any of the other 49 states	10%	See Note 1	5 years	AAA by at least 2 of the 3 rating agencies
Bankers Acceptances	30%	See Note 1	180 Days	Minimum A-1, P-1 or F1

Commercial paper of U.S. Corps with total assets in excess of \$500 MM	40% total for all Commercial Paper	Max 10% of outstanding paper of any one issuer & max. See Note 1	270 Days	Minimum A-1, P-1 or F1
Asset-backed Commercial Paper	Included in Commercial Paper Requirements	Issuer must have program-wide credit enhancements	270 Days	Minimum A-1, P-1 or F1
Local Agency Investment Fund (LAIF)	Maximum amount permitted by LAIF	LAIF Policies	Daily	Not Applicable
Negotiable CD's issued by US National or State chartered banks or a savings association or a federal association, a state or federal credit union, or by a federally licensed or state licensed branch of a foreign bank	30%	See Note 1	5 years	Minimum A-1, P-1 or F1 for CDs issued with a maturity of one year or less. AA for CDs issued with a maturity of more than one year (must be rated by 2 of the 3 rating agencies)
Collateralized Certificates of Deposit/Deposits	10%	As stipulated in Article 2, Section 53630 et al of the Calif. Government Code	1 year	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 Dealer list
Reverse Repurchase Agreements	10%	See Schedule II	92 days (See Schedule III)	Restricted to Primary Dealers on Eligible Dealer list
Medium Term Notes of corporations organized and operating within the U.S. or by depository institutions licensed by the U.S. or any state and operating within the U.S.	30%	See Note 1	5 years	Minimum rating of AA for maturities exceeding 1 year. A for maturities of one year or less. (must be rated by 2 of the 3 rating agencies)
Money Market Mutual Funds that meet requirements of Calif. Gov't. Code	20%	Registered with SEC. No NAV adjustments. No Front-end loads. No more than 10% per MMF.	Daily	AAAm or equivalent by at least 2 of the 3 rating agencies or advisor requirements

Shares of beneficial interest issued by a JPA aka Local Government Investment Pools (LGIPs)	10%	Max 20% of a JPA pool at time of purchase	Daily	Advisor requirements
Asset-Backed Securities	10%	See Note 1	5 years	AAA by at least 2 of the 3 ratings agencies
Supranationals	10%	International Bank for Reconstruction and Development (IBRD), International Finance Corporation (IFC), or Inter-American Development Bank (IADB) only. Permitted by CGC 53601 (q) and this policy effective January 1, 2015.	5 years	AAA by at least 2 of the 3 rating agencies

Note 1: Maximum investment per issuer across all investment types will not exceed 6% of the total book value of the Pool as of date of settlement.

Note 2: Consistent with the Government Code, rating criteria in this policy do not specify any modifier (+/- or 1/2/3) and it is implied that ratings with a modifier still meet the rating requirements of this policy regardless of modifier.

Note 3: While references to ratings of AAA, AA, A are in S&P's nomenclature, they imply the equivalent ratings by all other rating agencies.

<b>MATURITY STRUCTURE</b>		
Maturity Range	No less Than	No more than
0-366 Days - 0 to 12months	30%	n/a
367- 1097 Days – greater than 1 year to 3 years	n/a	70%
1098-1827 Days – greater than 3 years to 5 years	n/a	30%

The weighted-average maturity of the portfolio will not exceed 2.5 years.

Some securities purchased by the Pool will be callable securities. Callable securities are subject to redemption prior to the final maturity date. For accounting purposes, premiums will be amortized to the next applicable call date, whereas discounts will be accreted to the final maturity date. Callable securities will not exceed 20% of the portfolio.

Some callable securities have coupons that increase at specified periods if the security is not called (step-up notes). Step-up notes will be included in the 20% allocation of callable notes, but will not exceed 10% of the total portfolio.

#### REPURCHASE AGREEMENTS

Repurchase agreements are restricted to primary dealers of the Federal Reserve Bank of New York. All counterparties must sign a PSA Master Repurchase Agreement and for tri-party repurchase agreements a Tri-Party Repurchase Agreement as well before engaging in any repurchase agreement transactions. Collateral for repurchase agreements shall have a market value of at least 102% of the amount invested and must be marked to market by staff or by an independent third-party or custodial bank acting under contract to the County. Collateral for term

repurchase agreements should be marked to market on a regular basis. Repurchase agreements are required to be collateralized by securities authorized under Section 53601 et. seq. of the California Government Code. Confirmations resulting from securities purchased under repurchase agreements should clearly state (A) the exact and complete nomenclature of the underlying securities purchased; (B) that these securities have been sold to the County under a repurchase agreement; and (C) the stipulated date and amount of the resale by the County back to the seller of the securities.

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**SCHEDULE II**

**POLICY STATEMENT ON REVERSE REPURCHASE AGREEMENTS**

The Treasurer hereby institutes the following policies as further safeguards governing investments in Reverse Repurchase Agreements.

The total of Reverse Repurchase Agreement transactions shall not exceed 10 percent of the base value of the portfolio. 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.

1. All loaned securities subject to Reverse Repurchase Agreements shall be properly flagged and immediately accounted for in the Treasurer's financial system.
2. 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.
3. 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 Agreements.
4. Reverse Repurchase Agreements shall only be placed on portfolio securities:
  - (a) intended to be held to maturity
  - (b) fully paid for and held in the portfolio for a minimum of 30 days
5. Reverse Repurchase Agreements shall only be made with the authorized primary dealers of the Federal Reserve.
6. A contractual agreement must be in place prior to entering into a Reverse Repurchase Agreement with any authorized primary dealer.
7. Reverse Repurchase Agreement transactions shall have the approval of the County Treasurer.

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**SCHEDULE III**

**POLICY CRITERIA FOR COLLATERALIZED CERTIFICATE OF DEPOSITS**

1. The issuing 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 to 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 municipal government securities (“muni bonds”) or U.S. Treasury and Agency securities as collateral. The collateral must be held by a separate custodial bank in an account in the name of Kern County. The County must have a perfected interest in the collateral.
  - a. For municipal government securities, the following requirements are listed:
    - i. Securities must be issued by governmental agencies located within the State of California (generally general obligation bonds and revenue bonds only)
    - ii. Securities must be “AAA” rated
    - iii. Maximum maturity of securities is 5 years
    - iv. Collateral must be priced at 110% of the face value of the CD on a daily basis
    - v. Minimum face value of \$5 million per pledged security
  - b. For U.S. Treasuries and Agency securities, the following requirements are listed:
    - i. Maximum maturity of securities is 5 years
    - ii. Collateral must be priced at 110% of the face value of the CD on a daily basis
    - iii. Minimum face value of \$5 million per pledged security

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, deposit amount, issue date, maturity date, name of depositor, interest rate, interest payment terms (monthly, quarterly, etc.)
6. Deposits will only be made with banks and savings and loans having branch office locations within Kern County.

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SCHEDULE IV

**POLICY CRITERIA FOR SELECTION OF BROKER/DEALERS**

1. All financial institutions wishing to be considered for the County of Kern'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 assigned staff members must complete a Brokers Certificate stating in writing their acceptance and understanding of the County Treasurer's written Investment Policy guidelines. *Such Certificate must be renewed annually.* This is critical for the establishment of a stable, long-term relationship.
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 the securities offered for sale.
  - (c) Be willing to purchase securities from our portfolio.
  - (d) Be capable of providing market analysis, economic projections, 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.
10. Repurchase Agreement Counterparty Minimum Requirements:  
Repurchase agreement counterparties will be limited to (i) primary government securities dealers who report daily to the Federal Reserve Bank of New York, or (ii) banks, savings

and loan associations or diversified securities broker-dealers subject to regulation of capital standards by any State or federal regulatory agency.

Counterparties must have:

- (a) short-term credit ratings of at least A-1/P-1; and
- (b) a minimum asset and capital size of \$25 billion in assets and \$350 million in capital for primary dealers

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## **GLOSSARY OF TERMS**

**ACCRUED INTEREST** – Interest that has accumulated but has not yet been received.

**AGENCY ISSUES** – Securities issued by federal agencies, those chartered by the federal government or Government Sponsored Enterprises that are considered to be backed by the federal government. See also Government Sponsored Enterprises.

**AMORTIZED COST** – The original cost of the principal adjusted for the periodic reduction of any discount or premium from the settlement date until a specific future date (also called “Book Value”).

**BANKERS ACCEPTANCE** – Money market instrument created from transactions involving foreign trade. Payment is guaranteed by a shipping manifest and a bank Letter of Credit accepted by the seller’s bank.

**BASIS POINT** – A unit of measurement equal to 1/100 of 1 percent. As an example, the difference between a security yielding 3.25% and one yielding 3.20% is five basis points.

**BENCHMARK** – An index or security used to compare the performance of a portfolio.

**BOND** – A long-term debt instrument of a government or corporation promising payment of the original investment plus periodic interest payments by a specified future date.

**BOOK RETURN** – The sum of all investment income plus changes in the realized gains or losses of a portfolio for a given period.

**BULLET** – A colloquial term for a bond that cannot be redeemed, or called, prior to maturity.

**CALLABLE BOND** – A bond in which all or a portion of its outstanding principal may be redeemed prior to maturity by the issuer under specified conditions.

**COLLATERALIZATION** – Process by which a borrower pledges securities, property or other deposits for the purpose of securing the repayment of a loan and/or security.

**COLLATERALIZED CERTIFICATE OF DEPOSIT** – A non-negotiable instrument representing a deposit into a bank. The interest rate and maturity are specified on the receipt. It is collateralized by the bank with securities at a minimum of 110% of the deposit amount.

**COMMERCIAL PAPER** – An unsecured short-term promissory note of a corporation or special purpose entity issued at a specified rate of return for a specified period of time.

**COUPON** – The stated interest rate on a debt security that an issuer promises to pay.

**CREDIT QUALITY** – An indication of the risk that an issuer of a security will fulfill its obligation.

**CREDIT RATING** – A standardized assessment, expressed in alphanumeric characters, of a company’s credit quality.

**CREDIT RISK** – The risk to an investor that an issuer will default in the payment of interest and/or

principal on a security.

CUSIP – A unique identifier for a security developed by the Committee on Uniform Security Identification Procedures (CUSIP). The identifier is a nine-digit alphanumeric character *string*. The first six characters identify the issuer, the following two identify the issue, and the final character is a Check-digit.

DERIVATIVES – Securities which derive their value from that of another security or an underlying index, currency or other measure. Floating rate notes (also “floaters”) are not considered derivatives.

DISCOUNT INSTRUMENTS – Securities that are sold at a discount to face value.

DIVERSIFICATION – The practice or concept of investing in a range of securities by sector, maturity, asset class or credit quality in order to reduce and spread financial risk.

DOLLAR WEIGHTED AVERAGE MATURITY – The sum of the cost of each security investment multiplied by the number of days to maturity, divided by the total cost of security investments.

EFFECTIVE DURATION – Is a measure of the price volatility of a portfolio that provides an estimate of the projected increase or decrease in the value of that portfolio based upon a decrease or increase in market interest rates. An effective duration of 1.0 means that for every one percent increase in interest rates, the market value of the Portfolio would be expected to decrease by 1.0 percent.

EARNINGS APPORTIONMENT – Is the quarterly interest distribution to the Pool Participants. The actual investment costs incurred by the Treasurer are deducted from the interest earnings of the Pool prior to apportionment.

GOVERNMENT OBLIGATIONS – Securities issued by the U.S. Treasury and Federal Agencies. U.S. Treasuries are direct obligations of the Federal Government. Agencies are not direct obligations of the Federal Government, but involve federal sponsorship or guarantees.

GOVERNMENT SPONSORED ENTERPRISES (GSE’S) – Private, shareholder-owned companies with a relationship with government agencies. These agencies generally are viewed to have an implied guarantee of the U.S. government. These include:

- Federal National Mortgage Association (FNMA)
- Federal Home Loan Bank (FHLB)
- Federal Farm Credit Bank (FFCB)
- Federal Home Loan Mortgage Corporation (FHLMC)

LIQUID – A security that is easily converted to cash because there are many interested buyers and sellers to trade large quantities at a reasonable price.

ILLIQUID – A security that is difficult to buy or sell or has a wide spread between the bid price and offer price in the secondary market. There are few buyers and sellers willing to trade large quantities at a reasonable price.

INTEREST RATE RISK – The risk associated with declines or rises in interest rates which cause an investment in a fixed-income security to increase or decrease in value. It is also called “Market

Risk”.

**INVERSE FLOATERS** – Floating rate notes which pay interest in inverse relationship to an underlying index.

**LOCAL AGENCY OBLIGATION** – An indebtedness issued by a local agency, department, board, or authority within the State of California.

**LONG-TERM** – The term used to describe a security when the maturity is greater than one year.

**MARKET VALUE** – The value of a security at which the principal could be sold from a willing seller to a willing buyer at the date of pricing.

**MEDIUM TERM NOTES** – These are Corporate Notes and Bank Notes that are debt obligations of banks, corporations, and insurance companies. They are issued at a specific rate of return for a specific period of time.

**MONEY MARKET MUTUAL FUND** – A mutual fund with investments directed in short-term money market instruments only, which can be withdrawn daily without penalty.

**NEGOTIABLE CERTIFICATE OF DEPOSIT** – A Money Market instrument representing a receipt from a bank for a deposit at a specified rate of interest for a specified period of time, that is traded in secondary markets.

**PAR** – The stated maturity value, or face value, of a security.

**PASS-THROUGH SECURITIES** – A debt instrument that reflects an interest in a mortgage pool, consumer receivables pool and equipment lease-backed pool that serves as collateral for a bond. Principal and interest are ‘passed through’ to investors at specified intervals.

**POOL** – The pooled monies of different government agencies administered by the County Treasurer. Each pool member owns a fractional interest in the securities held in the Pool.

**PORTFOLIO VALUE** – The total book value amount of all the securities held in the Treasurer’s Pooled Money Fund.

**PRIMARY DEALER** – A dealer or bank that can buy and sell securities directly with the Federal Reserve Bank of New York.

**PRIVATE PLACEMENTS** – Securities that do not have to be registered with the Securities and Exchange Commission because they are offered to a limited number of sophisticated investors. Effective December 8, 2020, Rule 501(a) and Rule 144A of the Securities Act were amended to include government bodies in the definitions of “accredited investor” and “qualified institutional buyer” thereby allowing broker/dealers to sell private placement securities to government entities.

**RANGE NOTES** – Notes which pay interest only if the underlying index upon which it is benchmarked, falls within a certain range.

**REPURCHASE AGREEMENT** – A repurchase agreement consists of two simultaneous transactions. One is the purchase of securities by an investor (i.e., the County), the other is the commitment by the seller (i.e. a broker/dealer) to repurchase the securities at the same price,

plus interest, at some mutually agreed future date.

**REVERSE REPURCHASE AGREEMENT** – The mirror image of Repurchase Agreements. In this instance the County Pool is the seller of securities to an investor (i.e. brokers).

**SAFEKEEPING** – A Custodian Bank’s action to store and protect an investor’s securities by segregating and identifying the securities.

**SETTLEMENT DATE** – The date on which cash and securities are exchanged and the transaction completed.

**SHORT-TERM** – The term used to describe a security when the maturity is one year or less.

**SUPRANATIONAL SECURITIES** – 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 issued by the International Bank for Reconstruction and Development (IBRD or World Bank).

**TOTAL RETURN** – The sum of all investment income plus changes in the capital value of a portfolio for a given period.

**VOLUNTARY PARTICIPANTS** – Local agencies that are not required to deposit their funds with the County Treasurer.

**WEIGHTED AVERAGE MATURITY** – The remaining average maturity of all securities held in a portfolio. See Dollar Weighted Average Maturity.

**WHEN-ISSUED SECURITIES** – A security traded before it is actually *issued*. All Treasury bills, notes and bonds trade in the when-issued market before they are auctioned by the Treasury Department. Agencies and GSE’s also use this method of trading. It serves to establish the initial offering price of the securities.

**YIELD** – The percentage return that an investor derives from a financial asset.

**YIELD TO MATURITY** – The percentage rate of return paid if the security is held to its maturity date. The calculation is based on the coupon rate, length of time to maturity, and market price. It assumes that coupon interest paid over the life of the security is reinvested at the same rate.

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**Jordan Kaufman**  
*Treasurer and Tax Collector*  
**Chase Nunneley**  
*Assistant Treasurer and Tax Collector*

**BROKER/DIRECT ISSUER RECEIPT FOR INVESTMENT POLICY AND  
 CERTIFICATE OF COMPLIANCE**

TO:

Jordan Kaufman, Kern County Treasurer-Tax Collector  
 Aimee Espinoza, Kern County Auditor-Controller-County Clerk  
 1115 Truxtun Avenue  
 Bakersfield, CA 93301

By signing below, I \_\_\_\_\_ of \_\_\_\_\_  
 (Name) (Company)

hereby certify that:

- 1) I have reviewed the Investment Policy governing the Kern County Treasurer’s Pooled Cash Portfolio, and that I understand its content. I am not expected to enforce provisions concerning Average Maturity, Category Limits or Issuer Limits. I am expected to offer only those investments that qualify under the County’s credit requirement as directed in the Policy. The responsibility for overall portfolio structure and composition remains with the County.
- 2) I further certify that I have not made, nor do I intend to make, political contributions to any candidate for any Kern County elective office.

Signed:

\_\_\_\_\_ Date: \_\_\_\_\_