# Cash Management and Investments

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| **Policy/Procedure Number:** | *05-15* |
| **Effective Date:** | *September 19, 2023* |
| **Responsible Department:** | *Finance* |
| **Modified Date (s):** | |
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| **Next Scheduled Review:** | *September 2028* |

**Objective:** The primary objectives of the County's cash management and investment activities are, in order of priority:

- To conform with all applicable Federal, State and other legal requirements (legality),
- To adequately safeguard principal (safety),
- To provide sufficient liquidity to meet all operating requirements (liquidity), and,
- To obtain a reasonable rate of return (yield).

**Reference:** *(All Applicable Federal, State and Local Laws)* In accordance with the County Charter Article 6.02, responsibility for administration of the cash management and investment program is delegated to the Director of Finance, who shall establish written procedures for cash management consistent with the authorized Cash Management and Investment Policy. Such procedures shall include an internal control structure adequate to provide a satisfactory level of accountability, maintaining records incorporating descriptions and amounts of investments, transaction dates, and other relevant information, and regulating the activities of subordinate employees.

**Legislative Policy Statement:** This cash management and investment policy applies to all money and other financial resources available to the County of Tompkins for deposit and/or investment on its own behalf or on behalf of any other entity or individual, excluding the investment of employees' retirement and Deferred Compensation (457) funds.

**General Information:**

## I. Definitions:

**Collateral -** Securities pledged by a bank to secure deposits of public money.

**Collateralization** - To secure (a loan or a deposit) with collateral. To pledge (property, securities, or other instruments (listed in III.A) as collateral pursuant to a written agreement.

**Diversification** - The act or process of diversifying; state of being diversified. The act or practice of investing in a variety of securities offering independent returns.

**Federal Deposit Insurance Corporation (FDIC)** - A Federal agency that insures bank deposits up to $250,000 for demand accounts (i.e. checking account) and up to $250,000 or time and savings accounts.

**Liquidity** - An asset that can be converted easily and rapidly into cash without a substantial loss of value.

**Maturity** - The date upon which the principle or stated value of an investment becomes due or payable.

**Obligations** - An obligation is the responsibility of a party to meet the terms of a contract or agreement. If an obligation is not met, the legal system often provides recourse for the injured party. Outstanding debt and most forms of payment or financial security represents a financial obligation. Coins, banknotes, shares of stock, and bonds are all promises or obligations that you will be credited with the accepted value of the item or gain certain rights or privileges by holding it.

**Portfolio** - Collection of securities held by an investor.

**Prudence** - The quality or fact of being prudent, or wise in practical affairs, as by providing for the future. Caution with regard to practical matters; discretion.

**Qualified Bank** - One whose commercial paper and other unsecured short-term debt obligations meets the rating requirements of at least one nationally recognized statistical rating organization or by a bank that complies with applicable federal minimum risk-based capital requirements.

**Rate of Return (Yield)** - The rate of annual income return on investment, expressed as a percentage

**Reciprocal Deposit Program/Deposit Placement Program** - A designated depository bank or trust company divides the total deposit into multiple deposits, all under the FDIC limit, and then deposits those into other FDIC insured banks, thereby increasing the available FDIC coverage. At the same time, each of those banks make a reciprocal deposit back into the bank holding the original deposit.

**Repurchase Agreement** - A holder of securities sells these securities to an investor with an agreement to repurchase them at a fixed price or a fixed date.

## II. Policy:

### A. Prudence

1. All participants in the cash management and investment process shall act responsibly as custodians of the public trust and shall avoid any transaction that places County funds at unreasonable risk.

2. Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion, and intelligence would exercise in the management of their own affairs, not for speculation, but for investment, considering the safety of the principal as well as the probable income to be derived.

3. All participants involved in the cash management and investment process shall refrain from personal business activity that could conflict or appear to conflict with the proper execution of the investment program, or which could impair their ability to make impartial investment decisions.

### B. Diversification

1. It is the policy of the County to diversify its deposits and investments by financial institution, by investment instrument, and by maturity scheduling. Except for US Treasury securities and investment pools, no more than 50% of the total investment portfolio will be invested in a single investment type or with a single financial institution.

2. It is the policy of the County to invest with qualified financial institutions domiciled within the County whenever practicable.

3. To the extent possible, the County will attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, the County will not directly invest for maturities more than two (2) years.

**C. Internal Controls**

1. It is the policy of the County that all money collected by any officer or employee of the County be transferred to the Finance Department - Treasury within two (2) business days of receipt, or within the time period specified by law, whichever is shorter.

2. The Finance Director or their designee is responsible for establishing and maintaining an internal control structure to provide reasonable assurance that deposits and investments are safeguarded against loss from unauthorized use or disposition, that transactions are executed in accordance with management's authorization and recorded properly, and that deposits and investments are managed prudently and in compliance with applicable laws and regulations.

**III. Procedure:**

**A. Collateralizing of Deposits**

In accordance with the provisions of General Municipal Law §10, all deposits of the County more than the amount insured under the provisions of the Federal Deposit Insurance Act shall be secured by any one or combination of the following:

1. By a pledge of eligible securities with an aggregate market value equal to the aggregate number of deposits, from the categories designated in Appendix B to this policy.

2. By an eligible letter of credit issued by a qualified bank, other than the bank with the deposits, in favor of the County with an aggregate value equal to 140% of the aggregate amount of deposits and the agreed- upon interest, if any.

3. An "irrevocable letter of credit" issued in favor of the County by a federal home loan bank whose commercial paper and other unsecured short-term debt obligations are rated in the highest rating category by at least one nationally recognized statistical rating organization, for the payment of 100 percent of the aggregate amount of public deposits and investments from the local government and agreed-upon interest, if any.

4. By an eligible surety bond payable to the County for an amount at least equal to 100% of the aggregate number of deposits and the agreed-upon interest, if any, executed by an insurance company authorized to do business in New York State, whose claims - paying ability meets the rating requirements of at least two nationally recognized statistical rating organizations.

5. As provide by General Municipal Law, Amended Sections 10 and 11, the County is authorized to use "reciprocal deposit" programs for their deposits and investments; thereby providing an additional option to obtain coverage from the Federal Deposit Insurance Corporation (FDIC).

**Note:** The market value of total collateral obligations shall not fall below 102% of the amount deposited at any given time; if such an occurrence exists additional obligations will need to be pledged.

**B. Safekeeping of Collateral**

1. Eligible securities used for collateralizing deposits shall be held by the depository bank and/or a third-party bank or trust company, subject to security and custodial agreements satisfactory to the County Attorney.

2. The security agreement shall provide that eligible securities are being pledged to secure the County's deposits together with agreed-upon interest, if any, and any costs or expenses arising out of the collection of such deposits upon default. It shall also provide the conditions under which the securities may be sold, presented for payment, substituted, or released providing collateral values are maintained, and the events that will enable the County to exercise its rights against the pledged securities including failure to meet deposit repayment or collateral terms, or the deposit institution's insolvency. In the event that the securities are not registered or inscribed in the name of the County, such securities shall be delivered in a form suitable for transfer or with an assignment in blank to the County or its custodial bank.

3. The custodial agreement shall provide those securities held by the bank or trust company, as agent of and custodian for the County, will be kept separate and apart from the general assets of the custodial bank or trust company and will not, in any circumstances, be commingled with or become part of the backing for any other deposit or other liabilities. The agreement shall also describe how the custodian shall confirm the receipt, substitution, or release of the securities. The agreement shall provide for the frequency of revaluation of eligible securities and for the substitution of securities when a change in the rating of a security may cause ineligibility. The agreement shall provide that the custodian will exercise the County's rights to security or as instructed by the County. Such agreement shall include all provisions necessary to provide the County with a perfected interest in the securities.

**C. Permitted Investments**

As authorized by General Municipal Law §11, the County authorizes the Finance Director to invest money not required for immediate expenditure for terms not to exceed its projected cash flow needs in the following types of investments:

1. Special time deposit accounts in, or certificates of deposit issued by, a bank or trust company located and authorized to do business in New York State;

2. Through a Deposit Placement Program, certificates of deposit in one or more "banking institutions", as defined in Banking Law Section 9-r;

3. Obligations of the United States of America;

4. Obligations guaranteed by agencies of the United States of America, where the payment of principal and interest are guaranteed by the United States of America;

5. Obligations of the State; With the approval of the State Comptroller, obligations issued pursuant to Local Finance Law Section 24.00 or 25.00 (i.e., Tax Anticipation Notes and Revenue Anticipation Notes) by any municipality, school district or district corporation in the State other than The Entity;

6. General obligation bonds and notes of any state other than this state, provided that such bonds and notes receive the highest rating of at least one

independent rating agency designated by the state comptroller.

7. Obligations of any corporation organized under the laws of any state in the United States maturing within two hundred seventy days, provided that such obligations receive the highest rating of two independent rating services designated by the state comptroller and that the issuer of such obligations has maintained such ratings on similar obligations during the preceding six months, provided, however, that the issuer of such obligations need not have received such rating during the prior six month period if such issuer has received the highest rating of two independent rating services designated by the state comptroller and is the successor or wholly-owned subsidiary of an issuer that has maintained such ratings on similar obligations during the preceding six month period or if the issuer is the product of a merger of two or more issuers, one of which has maintained such ratings on similar obligations during the preceding six month period, provided, however, that no more than two hundred fifty million dollars may be invested in such obligations of any one corporation.

8. Bankers' acceptances maturing within two-hundred seventy (270) days which are eligible for purchase in the open market by federal reserve banks and which have been accepted by a bank or trust company which is organized under the laws of the United States or of any state thereof and which is a member of the federal reserve system and whose short-term obligations meet the criteria outlined in clause (7). Provided, however, that no more than two hundred fifty million dollars may be invested in such bankers' acceptances of any one bank or trust company; or

9. Obligations of, or instruments issued by or fully guaranteed as to principal and interest by, any agency or instrumentality of the United States acting pursuant to a grant of authority from the Congress of the United States, including but not limited to, any Federal home loan bank or banks, the Tennessee valley authority, the Federal national mortgage association, the Federal home loan mortgage corporation and the United States postal service, provided, however, that no more than two-hundred fifty million dollars ($250,000,000) may be invested in such obligations of any one agency.

10. No-load money market mutual funds registered under the Securities Act of 1933, as amended, and operated in accordance with Rule 2a-7 of the Investment Company Act of 1940, as amended, provided that such funds are limited to investments in obligations issued or guaranteed by the United States of America or in obligations of agencies or instrumentalities of the United States of America where the payment of principal and interest are guaranteed by the United States of America (including contracts for the sale and repurchase of any such obligations) and are rated in the highest rating category by at least one nationally recognized statistical rating organization, provided, however, that no more than two-hundred fifty million dollars ($250,000,000) may be invested in such funds.

**Note:** All investment obligations shall be payable, saleable, or redeemable at the option of the County within such times as the proceeds will be needed to meet expenditures for purposes for which the monies were provided and, in the case of obligations purchased with the proceeds of bonds or notes, shall be payable, saleable, or redeemable at the option of the County within two (2) years of the date of purchase.

## D. Authorized Financial Institutions and Dealers

Financial institutions and dealers approved for the purchase and sale of investments must be credit worthy and have an appropriate level of experience, capitalization, size, and other factors that make the financial institution or the dealer capable and qualified to transact business with the County. Banks shall provide their most recent Consolidated Report of Condition (Call Report) at the request of the County. Security dealers not affiliated with a bank shall be required to be classified as reporting dealers affiliated with the New York Federal Reserve Bank, as primary dealers. The Finance Director or their designee is responsible for evaluating the financial position and maintaining a listing of proposed depositories, trading partners, and custodians. Such listing shall be evaluated by the County Legislature at least annually.

**Note:** The Tompkins County Legislature has authorized only banks and trust companies that are located and authorized to do business in New York State to be designated as depositories. See Appendix A for a list of Authorized Depositories.

## E. Purchase of Investments

1. The Finance Director or their designee is authorized to contract for the purchase of investments:

    - Directly, including through a repurchase agreement, from an authorized trading partner.

    - By participation in a cooperative investment program where such program meets all the requirements of the General Municipal Law, Article 5G and Article 3-A.

    - By utilizing an ongoing investment program with an authorized trading partner, pursuant to a contract authorized by the County Legislature.

2. All purchased investments, obligations, or participations unless registered or inscribed in the name of the County shall be purchased through, delivered to, and held in the custody of a bank or trust company. Such obligations shall be purchased, sold, or presented for redemption or payment by such bank or trust company only in accordance with prior written authorization from the County officer authorized to make the investment. All such transactions shall be confirmed in writing to the County by the bank or trust company. Any obligation held in the custody of a bank or trust company shall be held pursuant to a written custodial agreement as described in General Municipal Law §10.

3. The custodial agreement shall provide that securities held by the bank or trust company, as agent of and custodian for the County, will be kept separate and apart from the general assets of the custodial bank or trust company and will not, in any circumstances, be commingled with or become part of the backing for any other deposit or other liabilities. The agreement shall describe how the custodian shall confirm the receipt and release of the securities. Such agreement shall include all provisions necessary to provide the County a perfected interest in the securities.

**F. Repurchase Agreements**

A repurchase agreement (REPO) is a transaction in which the County purchases authorized obligations from a trading partner. Simultaneously, the County agrees to resell, and the trading partner agrees to repurchase the obligations at a future date.

Repurchase agreements are currently not authorized by the County Legislature. Should authorization be approved to invest in Repurchase Agreements, they would be subject to the following restrictions:

1. Trading partners should be limited to creditworthy banks or trust companies located and authorized to do business in New York State or to registered primary dealers.
2. Unless the obligations that are purchased pursuant to the REPO are registered or inscribed in the name of the local government, obligations must be purchased through, delivered to and held in the custody of a bank or trust company located and authorized to do business in New York State (the custodial bank or trust company should not be the seller of the obligations that are the subject of the REPO).
3. The local government must enter into a master REPO, outlining basic responsibilities and liabilities of the buyer and seller and a written agreement with the custodial bank or trust company, outlining the basic responsibilities and liabilities of the buyer, seller and custodian.
4. The custodial agreement should provide that the custodian takes possession and maintains custody of the obligations exclusively for the local government, that the obligations are free of any claims against the trading partner, and that any claims by the custodian are subordinate to the local government's claims or rights to those obligations.
5. The obligations must be credited to the local government on the records of the custodial bank or trust company, and the transaction must be confirmed in writing to the local government by the custodial bank or trust company.
6. The obligations purchased by the local government may only be sold or presented for redemption or payment by the local government's custodian upon written instructions of the investing officer of the local government.
7. The local government must obtain a perfected security interest in the obligation.
8. Agreements should be for short periods of time (no more than 30 days).
9. The local government should determine whether to include margin requirements.
10. No substitution of obligations is permitted.
11. Payment for the purchased obligations should not be made by the custodial bank or trust company until the obligations are actually received (usually done simultaneously).
12. Obligations that are purchased pursuant to a REPO are deemed to be payable or redeemable, for purposes of the GML, on the date on which the purchased obligations are scheduled to be repurchased by the seller.

## G. Periodic Review

This policy shall be reviewed at least once annually.

## Appendix A

## DEPOSITORIES

The following listing of banks and trust companies may be utilized for, but not limited to, the deposit of County money:

- Tompkins Community Bank
- M&T Bank
- Chemung Canal Trust Company
- First National Bank of Groton
- JPMorgan Chase Bank
- First National Bank of Dryden
- Tioga State Bank
- Community Bank N.A.
- Key Bank
- Cayuga Lake National Bank
- NYClass
- NYMuniTrust

## Appendix B

## SCHEDULE OF ELIGIBLE SECURITIES

The type of securities that are considered "eligible securities" for collateralization are:

- Obligations issued by the United States of America, an agency thereof, or a United States government-sponsored corporation, or obligations fully insured or guaranteed as to the payment of principal and interest by the United States of America, an agency thereof, or a United States government-sponsored corporation.
- Obligations partially insured or guaranteed by any agency of the United States of America, at a proportion of the market value of the obligation that represents the amount of the insurance or guaranty.
- Obligations issued or fully insured or guaranteed by New York State, obligations issued by a municipal corporation, school district, or district corporation of New York State, or obligations of any public-benefit corporation that under a specific state statute may be accepted as security for deposit of public moneys.
- Obligations issued by states (other than New York State) of the United States rated in one of the three highest rating categories by at least one nationally recognized statistical rating organization.
- Obligations of counties, cities, and other governmental entities of another state having the power to levy taxes that are backed by the full faith and credit of such governmental entity and rated in one of the three highest rating categories by at least one nationally recognized statistical rating organization.
- Any mortgage-related securities, as defined in the Securities Exchange Act of 1934, as amended, may be purchased by banks under the limitations established by federal bank regulatory agencies.
- Zero-coupon obligations of the United States government marketed as "Treasury STRIPS".
- Obligations issued or fully guaranteed by the International Bank for Reconstruction and Development, the InterAmerican Development Bank, the Asian Development Bank, and the African Development Bank.
- Obligations of domestic corporations rated in one of the two highest rating categories by at least one nationally recognized statistical rating organization.
- Commercial paper and bankers' acceptance issued by a bank, other than the Bank rated in the highest short-term category by at least one nationally recognized statistical rating organization and having maturities of no longer than 60 days from the date they are pledged.
- Municipal Line of Credit issued by a Federal Home Loan Bank of New York as an accepted form of collateralization with a value of at least 102% of the aggregate value of deposits.

There must be diversification of the collateral-securing deposits, except where the deposits aggregate less than $2,000,000 or the security is in the form of obligations of the U.S. Government or State of New York.