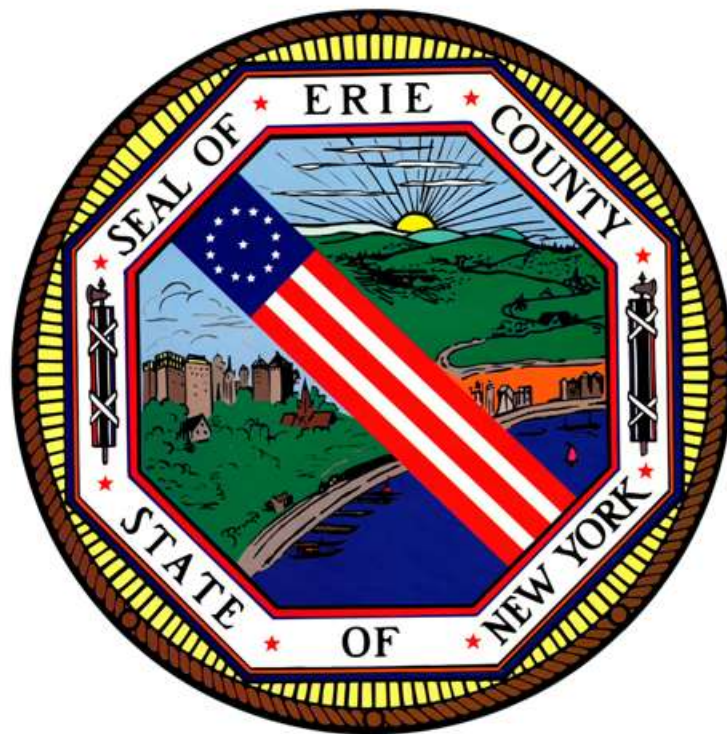


INVESTMENT GUIDELINES



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INTRODUCTION

The purpose of this document is to identify various policies and procedures necessary to assure prudent cash management.

Scope

It is intended that these guidelines cover the cash management activities under the direct authority of the Erie County Comptroller and that they apply to all transactions involving the financial assets of the County of Erie.

Objectives

The primary objectives of the County's investment activity are as follows, in order of importance:

- To comply with all legal requirements
- To adequately safeguard principal
- To provide sufficient liquidity to meet operating requirements
- To obtain a reasonable rate of return

Delegation of Authority

In accordance with the Erie County Charter and Administrative Code, the Comptroller is the chief fiscal officer and is responsible for all activity related to cash management for Erie County.

BANKING POLICIES

Designation of Depositories

Pursuant to the Erie County Charter, Article 3, Section 302(g), the County Executive of the County of Erie shall “[a]nnually designate one or more depositories located within the county for the deposit of all moneys received by the commissioner of finance.” However, Local Law No. 3-2006 amended Erie County’s Charter and as part of those amendments the Department of Finance and office of Commissioner of Finance were abolished and many of the powers of that former department and commissioner were transferred to the office of Comptroller as the Comptroller “[s]hall be the chief fiscal, accounting, reporting and auditing officer of the county, and oversee the fiscal affairs of the county including the sale of all bonds and notes and the investment of proceeds thereof and the investment of agency and trust funds, as well as general and operating fund revenues.” *See* Erie County Charter, Article 4, Section 401 and Erie County Charter, Article 19, Section 1902(a). Said powers include, but are not limited to, the power of the Comptroller to have custody of all county accounts and procure statements from all depositories and reconcile said accounts. *See* Erie County Charter, Article 19, Section 1902(s) and (h), respectively.

The County Executive shall communicate designated depositories in writing to the Erie County Comptroller. Upon receipt of such formal notification, the Comptroller shall evaluate the credit worthiness of the designated depositories. The analysis shall include the following, to the extent that each is deemed necessary:

- a. A review of data obtained from financial institution rating agencies and credit evaluation services.
- b. A review of financial statistics and ratios published by independent third parties.
- c. A review of information obtained directly from financial institutions about their results of operations and financial condition.

The financial statistics and ratios used to evaluate designated depositories will include traditional analytical measures associated with profitability, capitalization, and asset quality.

The Comptroller shall communicate any negative findings to the County Executive.

Before any designated depository can be utilized by the County of Erie, the following documents, at minimum, must be executed by the County and/or designated depository:

- 1. General Resolution, County of Erie.
- 2. Security and Custodial Agreement.
- 3. Signature Cards.

Cash management is significantly influenced by depositories. The County shall utilize depositories which provide efficient and effective services at the lowest possible cost when compared to the rate of return.

Payments for Banking Services

Bank service charges are determined on a fee basis (i.e., per transaction). These charges can be paid directly or by the maintenance of a minimum balance on deposit. The objective is to minimize service charges. Whenever practicable, banking services agreements will be competitively bid.

Generally, the County will pay for banking services directly and not maintain compensating balances. This will allow the County to allocate banking services fairly among funds and taxing jurisdictions. However, the Comptroller may make exceptions to this general rule if the use of compensating balances is in the best interest of the County.

Additionally, the Comptroller shall obtain monthly account analysis statements for all bank accounts. These statements shall be reviewed to verify the accuracy of service charges and volume of transactions. Any unusual items shall be reviewed with the bank.

Other Matters

It is the policy of the County of Erie to presort town tax collection checks upon receipt and deposit them into the bank they were drawn on, and to meet bank cut-off times for immediate availability.

The County recognizes that numerous bank accounts unduly complicate effective control of cash. Excess bank accounts frequently result in numerous interbank transactions, which can be expensive as well as time consuming to control.

Bank accounts shall be consolidated to the extent possible. A minimum number of bank accounts shall be maintained, consistent with accounting and legal requirements.

County moneys may be deposited in either demand accounts or savings accounts at any of the depositories designated by the County Executive. All deposits in excess of the amount insured under the provisions of the Federal Deposit Insurance Act must be secured in the manner specified in Section 10 of the New York State General Municipal Law.

CASH FLOW FORECASTING

It is understood that the overall yield on the investment portfolio is fundamentally tied to the cash flow forecasting process. Consequently, cash flow forecasting requires the cooperation of all departments which impact on the County's cash flow, in order to maximize cash flow to the bottom line.

The Comptroller's Division of Accounting, Investment and Cash Management unit is responsible for the preparation of the County's cash flow statements. These statements are prepared based

upon a comparative analysis of previous year's receipts and disbursements. Additionally, input from various project managers and department heads is utilized to project the estimated cash flow.

The forecasted cash flow statements are updated monthly based upon actual receipts and disbursements, and assumptions used in the forecasting process are reviewed with department heads to determine the reliability of future estimates.

See Appendix A for Cash Flow Forecasting Process.

INVESTMENTS

The objectives of the investment policy of the County of Erie are to minimize risk, to insure that investments mature when the cash is required to finance operations, and to insure a competitive rate of return. In accordance with this policy, the Office of Comptroller is hereby authorized to invest moneys in:

- Certificates of Deposit issued by a bank or trust company located in and authorized to do business in New York State;
- Time Deposit accounts in a bank or trust company located and authorized to do business in New York State;
- Obligations of the United States of America;
- Obligations guaranteed by agencies of the federal government if the payment of principal and interest is guaranteed by the United States of America;
- Obligations of the State of New York;
- A joint or cooperative investment program, as authorized by Article 5-G of New York State General Municipal Law; and
- Any other banks, trust companies or obligations of other municipal entities if said banks, trust companies or obligations of other municipal entities are allowed pursuant to Section 11 of the New York State General Municipal Law, as the said law may be amended from time-to-time.
- 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 of New York other than the County of Erie not to exceed 2 years.

All investments made pursuant to this investment policy shall comply with the following conditions.

Collateral

- a. Certificates of Deposit and special time deposit accounts in the first instance are securable by insurance of the Federal Deposit Insurance Corporation (FDIC). However, since the FDIC insures only up to \$100,000 for time and savings accounts per bank, and up to \$100,000 for demand deposits per bank, amounts in excess of FDIC coverage must be secured by the bank with a letter of credit, a surety bond, or through the pledge of eligible securities as specified in Section 10 of NYS General Municipal Law.

Obligations pledged to secure Certificates of Deposit or special time deposit accounts may be delivered to the County's custodial bank. In accordance with the agreement with the custodial bank, the rights of the custodial bank with respect to the collateral are subordinate to the County's interest.

The County may use a bank's trust department instead of a custodial bank. When utilized by the County, the trust department must segregate all obligations by appropriate book entry, and assure the County that there will be no release or substitution of pledged obligations without the written consent of the County.

The market value of collateral shall at all times equal or exceed the principal amount of the Certificate of Deposit or special time deposit account less any amounts covered by FDIC insurance. Collateral shall be monitored no less frequently than weekly, and market value shall mean the bid or closing price as quoted in The Wall Street Journal or as quoted by another recognized pricing service. The County is responsible for monitoring collateral.

See Appendix B, "Suggested Collateralization Ratios to be Used in a Weekly Mark-To-Market Program."

- b. Securities purchased through a repurchase agreement shall be valued to market at least weekly.
- c. Collateral shall not be required with respect to the direct purchase of obligations. The types of obligations that can be purchased are listed in Section 11 of the New York State General Municipal Law, as said law may be amended from time-to-time.

Delivery of Securities

- a. Repurchase Agreements shall provide for payment to the seller only upon the seller's delivery of obligations of the United States or obligations guaranteed by its agencies if the United States guarantees the debt service to the custodial bank designated by the County, or in the case of a book-entry transaction, when such obligations are credited to the custodian's Federal Reserve bank account.

The seller may, subject to agreement with and acceptance by the County, substitute other securities for any purchased securities. Such substitution shall be made by transfer to the County of such other securities and transfer to the seller of such purchased securities. The other securities shall have a market value at least equal to the market value of the purchased securities for which they are substituted. Repurchase Agreements shall be for periods of 180 days or less. The custodial bank shall confirm all transactions in writing to insure that the County's ownership of these securities is properly reflected on the records of the custodial bank.

- b. Repurchase Agreements shall be authorized using a bank's trust department. When utilized by the County, trust departments shall notify the County when purchased securities have been segregated. Upon notification by the trust departments, payment to the seller shall be authorized.
- c. Payment shall be made by the County for purchased securities upon the delivery thereof to the custodial bank, or in the case of a book-entry transaction, when the purchased securities are credited to the custodial bank's Federal Reserve System account. All transactions shall be confirmed in writing.

Written Contracts

- a. Written contracts shall be required for all Repurchase Agreements. Only credit worthy banks or registered and primary reporting dealers shall be qualified to enter into a Repurchase Agreement with the County. The written contract shall provide that only obligations of the United States or obligations guaranteed by agencies of the federal government if the payment of principal and interest is guaranteed by the United States of America may be purchased, and the County shall make payment upon delivery of the securities or appropriate book-entry of the purchased securities. No specific Repurchase Agreement shall be entered into unless a Master Repurchase Agreement has been executed between the County and the trading partners. While the term of the Master Repurchase Agreement may be for a reasonable length of time, a specific Repurchase Agreement shall not exceed one hundred eighty (180) days.
- b. Written contracts shall not be required for the purchase of all Certificates of Deposit.
- c. A written contract shall be required with the custodial bank.

Designation of Custodial Bank

The Comptroller will select a custodial bank from the list of depositories provided by the County Executive.

Financial Strength of Institutions

All trading partners must be credit worthy. Their financial statements must be reviewed at least annually by the Office of Comptroller to determine satisfactory financial strength, or the Office of Comptroller may use credit rating agencies to determine credit worthiness of trading partners. Concentration of investments in financial institutions should be avoided. The general rule is not to place more than \$200,000,000 of the County's total investment portfolio in overnight investments with any one institution; however, the Office of Comptroller is granted the discretion to do so if market conditions dictate such action.

Investments in Time Deposits and Certificates of Deposit are to be made with banks or trust companies. Their annual reports should be reviewed by the Office of Comptroller to determine satisfactory financial strength.

When purchasing eligible securities, the seller shall be required to deliver the securities to our custodial bank, or segregate securities in the bank's trust department.

Repurchase Agreements shall be entered into only with banks or trust companies or registered and primary reporting dealers in government securities. Sound credit judgments must be made with respect to trading partners in Repurchase Agreements. It is not assumed that inclusion on the primary dealer listing of the Federal Reserve is automatically adequate evidence of credit worthiness. Repurchase Agreements should not be entered into with undercapitalized trading firms.

A margin of 2% or higher of the market value of purchased securities in Repurchase Agreements must be maintained.

Operations, Audit and Reporting

The Comptroller or designated representative shall authorize the purchase and sale of all securities and execute contracts for Repurchase Agreements on behalf of the County. Oral directions concerning the purchase or sale of securities shall be confirmed in writing when practicable. The County shall pay for purchased securities upon the delivery or book-entry thereof.

Erie County shall encourage the purchase and sale of securities and Certificates of Deposit through a competitive or negotiated process involving telephone solicitation of at least three bids for each transaction.

- a. ***Calculation of Cash Available for Investment.*** A review of the cash requirement will be made daily. Cash flow projections, along with County financial accounting system reports, will be reviewed to determine the amount of available cash to be invested. A cash position work sheet shall be utilized to plan each day's investments. The work sheet shall include the following items:
 1. Beginning cash (i.e., collected) balances.
 2. Anticipated cash receipts and disbursements.
 3. Investment maturity.
 4. Cash available for investment.
 5. Compensating balances (if required).

- b. ***Determination of Market Opportunities.*** A review of the yield curve and relative spread between various securities will be conducted. Economic news and Federal Reserve Board activity will be reviewed with bank and dealer representatives. Additionally, in determining the makeup of the portfolio, the risk of exposure of holding excessive investments in any one instrument or maturity shall be considered.

- c. ***Daily Activity.*** Departmental accountants will ascertain current balances and prior day activity each business day before 8:30 a.m. Investments will be obtained as early as possible, but generally before 11:00 a.m. to allow for cash settlement. In order to have delivery versus payment, the custodial bank will be notified before 12:00 pm.

- d. ***Investment Selection Process.*** The Comptroller determines the type of investment to be made within the established guidelines. The advice offered by dealers, analyses of the economy, the financial activities of the Federal Reserve Board, the financing plans of the United States Treasury and Agencies, and the slope of the yield curve enter into the Comptroller's determination.

Numerous decisions are involved in making investments. The Comptroller must consider several general guiding principles, but these change over time as the market changes. The Comptroller must determine the size of the investment and the appropriate security and maturity range. All of these processes are interrelated.

- e. ***Determining the Maturity Range.*** The first decision to be made is to determine the appropriate maturity range for the investment. The anticipated cash needs must be determined and the portfolio reviewed to ascertain when other investments are maturing. The general rule to determine the maturity range is that the investment shall be made to meet anticipated cash needs. The Comptroller, however, may make an investment that matures before cash is needed if the investment is prudent.

- f. **Selecting the Maturity Range.** The Comptroller considers the yield curve at various maturity sectors of the market. Longer maturities historically offer the highest yield. However, the curve may be flat with no increase in yield at longer maturities, or even inverted where yields actually decrease at longer maturities. The Comptroller analyzes the yield curve in conjunction with expected cash needs.

If the Comptroller expects interest rates to fall, a shift to longer maturities may be appropriate. If rates are expected to rise, shorter maturities become more attractive.

The Comptroller targets a maturity range based on this analysis, yet tries to allow flexibility so adjustments can be made as the market changes.

- g. **Availability of Collateral.** U.S. Government securities available for sale under Repurchase Agreements or eligible securities available as collateral for time deposits and certificates of deposit are held in different proportions by banks. Therefore, the availability of appropriate collateral influences the type of investment and the bank in which an investment is placed. Banks receiving property and school tax deposits often are short on appropriate collateral during periods of the year when real property tax proceeds are received. This results in fewer banks being in a position to provide collateral. Registered and primary reporting dealers may be utilized during this period.
- h. **Banks and Securities Dealers: Selection.** In selecting financial institutions for the deposit or investment of County funds, the Comptroller shall consider the credit worthiness of institutions. The Comptroller shall continue to monitor the credit characteristics and financial history of specific financial institutions throughout the period in which County funds are deposited or invested.

Only registered and primary government securities dealers and banks, which report to the New York Federal Reserve, shall be used for the purchase of Repurchase Agreements. It is acknowledged that inclusion on the primary dealer listing of the Federal Reserve Bank of New York is not a guarantee of credit worthiness.

- i. **Depository Investment Concentration.** The County's policy is to generally limit investment concentration in Certificates of Deposit, Time Deposits, and Repurchase Agreements with a financial institution to no more than \$200,000,000 of the County's total investment portfolio; however, the Office of Comptroller is granted the discretion to do so if market conditions dictate such action.
- j. **Internal controls.** The Comptroller shall establish a system of internal controls. Controls shall be designed to prevent losses of public funds arising from fraud, employee error, or imprudent actions by employees and officers of the County.

Controls deemed important include the following: separation of duties, separating transaction authority from accounting and record keeping, custodial safekeeping, clear delegation of authority, written confirmation of telephone transactions, minimizing the number of authorized investment officials, documentation of transactions and strategies, and code of ethics standards.

- k. ***Reporting.*** At the time independent auditors conduct the annual County audit of the accounts and financial affairs of the County, the independent auditors shall review the investments of the County for compliance with the provisions of these Investment Guidelines.

Pursuant to Article 19, Section 1902(i) of the Erie County Charter, following the end of each of the first three quarters of the fiscal year, the Office of Comptroller shall prepare and submit to the County Executive and the County Legislature a quarterly financial report including an investment report.

Within 90 days of the end of the fiscal year, the Office of Comptroller shall prepare and submit to the County Executive and the County Legislature an annual investment report; recommendations for change in these Investment Guidelines, and such other matters as the Office of Comptroller deems appropriate.

Investment Policy – Local Banks

The Comptroller, County Executive and Legislature recognize that banks located in Erie County play a vital role in the local economy. Additionally, local banks provide disbursement and investment services for the County that are vital to day-to-day operations. Notwithstanding the policy stated elsewhere in these guidelines, the County's investment policy for local banks is:

- a. Local banks will be offered the opportunity to bid on daily cash investments.
- b. In those instances in which the local banks cannot provide competitive investment opportunities to the County, the Comptroller has the discretion to utilize financial institutions outside of Erie County.
- c. The Comptroller will provide to local banks as much advance notification as possible of significant changes in cash balances available for investment.
- d. The Comptroller will encourage local banks to participate in an information exchange system. There are times during the year when local banks do not desire County investments due to high levels of investments by the private sector and other governmental entities.

During these infrequent short periods, the County will invest with banks and brokers outside of Erie County. Local banks will also be requested to advise

the Comptroller of those times during the year when they have the greatest need for County investments. Where practicable, the County will schedule short- and long-term borrowings in order to assist local banks.

- e. As a general rule, local banks will not be required to use the County's custodial bank (primarily reserved for investments outside of Erie County). Transfers to the bank's trust department are considered acceptable. If, in the opinion of the Comptroller, the use of the custodial bank for a local investment is in the best interest of the County, the local bank will be so advised. An example of when this may occur would be a large investment (\$50 million or more) invested for fifteen (15) days or more. Additionally, if it is determined that insufficient collateral is being pledged, or collateral is being pledged that the County cannot accept, a specific local bank may be required to use the County's custodial bank pending a review and resolution of this type of problem with the local bank.

CONCLUSION

The guidelines herein described are based on four fundamental criteria: legality, safety, liquidity, and yield. Consistent application of these guidelines will assure a sound cash management program.

APPENDIX A

CASH FLOW FORECASTING PROCESS

Parties Involved

Comptroller
Budget Director
Selected Department Heads¹

Estimate
Cash
Receipts

Primary Objectives

- Source of Cash
- Timing-During the Year
- Budgetary Overlay –
Disparity in Timing
Between Cash and Accrual

Comptroller
Budget Director
Selected Department Heads

Estimate
Cash Disbursement

- Uses of Cash
- Timing-During the Year
- Budgetary Impact –
Disparity Between Cash
and Accrual

Comptroller

Estimate
Cash Flow

- Disparity Between
Estimated Cash Receipts
and Disbursements
- Excess – Short-Term
Investments
- Deficiency – Short-Term
Borrowing

Comptroller
Budget Director

Monitor Cash Flow
Estimates

- Monitor Reasonableness of
Cash Flow Estimations
- Amend Cash Flow
Estimation
- Budgetary Amendments

Comptroller

Compare Actual
Receipts and
Disbursements

- Receipts Over
Disbursement – Amounts
Available to Invest
- Disbursements Over
Receipts – Amounts
Received From Short-
Term Borrowings

APPENDIX B

¹ Cash flow projections required of selected departments with significant receipts and disbursements. For example, the departments of Finance, Social Services and Health.

**SUGGESTED COLLATERALIZATION RATIOS TO BE USED
IN A WEEKLY MARK-TO-MARKET PROGRAM**

The following percentages constitute the minimum market value for collateral instruments that are pledged for public deposits (and accumulated interest thereon), under a program in which collateral is revalued and adjusted weekly.

Lower ratios would be appropriate for collateral systems that mark-to-market more frequently, and higher ratios are necessary if collateral is adjusted less frequently.

<u><i>Security</i></u>	<u><i>Repo Term</i></u>	<u><i>Collateralization Ratio</i></u>
1. Treasuries	overnight – 30 days	102%
	31-59 days	103%
	60+ days	104%
2. Mortgage-Backed Securities	overnight – 30 days	102%
	31-59 days	103%
	60-90 days	104%
	90+ days	105%