VICTOR STAFF REPORT

Work Session Agenda Documentation

PREPARATION DATE: May 1st, 2019
MEETING DATE: May 8th, 2019

SUBMITTING DEPARTMENT: Finance
DEPARTMENT DIRECTOR: Joanna Burkhart, Treasurer
PRESENTER: Joanna Burkhart, Treasurer

SUBJECT: Investment Policy

Re: Applicable Victor Values:

☐Culturally Historic	☐ Sustainable	☐ Connected to Nature
☐ Small Town Feel	☐ Family Friendly	X Administrative Need

STATEMENT/PURPOSE

The purpose of this item is for Council to consider an investment policy that sets forth *HOW* (as opposed to what specific investments are made) the City invests its funds. The policy relates to investment objectives, tolerance for risk, constraints on the investment portfolio and how it will be managed and monitored.

BACKGROUND/ALTERNATIVES

City Council reviewed the attached draft investment policy during its 2019 retreat and asked that it be presented for formal approval, first as a work session. During the retreat, Council provided specific feedback that interest earned from investment of enterprise funds (water, sewer, and irrigation) be deposited back into the enterprise fund least meeting its reserve requirement. In the instance in which all enterprise funds are meeting their respective reserve requirement, interest earned from investment of enterprise funds will be deposited back into the respective enterprise fund.

Governments have a fiduciary responsibility in managing their funds, including the ongoing management and monitoring of investment activity. This policy will serve as a communication tool for staff, elected officials, the public and any other stakeholders on investment guidelines and priorities. It will enhance the quality of decision making and demonstrate a commitment to the fiduciary care of public funds.

Staff specifically requests Council feedback on authorized and suitable investments, section R which states that “bonds, debentures or notes of any corporation organized, controlled and operating within the United States which have, at the time of purchase, an A rating or higher by a commonly known rating service.” Although this provision is allowed under state statute, Council may want to consider limiting the allowance of investing in stocks.

ATTACHMENTS
Draft Investment Policy

FISCAL IMPACT
None. This is simply a financial policy

STAFF IMPACT
Minimal

LEGAL REVIEW
N/A

RECOMMENDATION
Staff recommends that Council direct staff to bring forward the investment policy for final approval as presented.

SUGGESTED MOTION
I move to direct staff to bring forward the investment policy for final approval as presented.

STATEMENT OF INVESTMENT POLICY

POLICY:

The purpose of this document is to provide guidelines for the prudent investment of the City of Victor funds and to outline the policies needed to maximize the efficiency of the City's cash management system.

The Treasurer shall invest idle public funds in a manner that recognizes that safety of principal is the top priority. The primary duty and responsibility of the Treasurer is to protect, preserve and maintain cash and investments placed in his/her trust on behalf of the citizens of the community. The second priority is liquidity. It is the duty of the Treasurer to maintain an adequate percentage of the portfolio in short-term securities, which can be converted to cash if necessary, to meet disbursement requirements. A high yield on investments ranks third in priority in the City's investment strategy. Yield will be considered only after the basic requirements of safety and liquidity have been met. This strategy will be carried out in conformity with state statutes, local laws, and City Council ordinances or resolutions.

SCOPE:

This investment policy applies to the following funds:

1. General Fund
2. Special Revenue Funds
3. Debt Service Funds
4. Proprietary Funds
5. Any new fund created by the Council, unless specifically exempted by the Council.

All monies entrusted to the Treasurer shall be invested in accordance with Idaho Code 50-1013.

POOLING OF FUNDS:

The City of Victor will consolidate cash balances from all funds to maximize investment earning, except for funds classified by the City Council as special or restricted use. Interest earned from investment of enterprise funds (water, sewer, and irrigation) will be deposited back into the enterprise fund least meeting its reserve requirement. In the instance in which all enterprise funds are meeting their respective reserve requirement, interest earned from investment of enterprise funds will be deposited back into the respective enterprise fund.

PRUDENCE:

The Treasurer shall invest public funds in the context of the "prudent person standard" which states, "investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived."

The Treasurer shall adhere to and be evaluated according to the foretasted "prudent person standard" in the performance of his /her duties as the manager of public funds. Additionally, investment officers acting in accordance with written procedures and the investment policy, and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments.

INVESTMENT OBJECTIVE:

The primary objective of the City of Victor’s Treasury is to safeguard government funds while providing for adequate liquidity to meet the City's daily needs. The primary objectives, in priority order of investment activities, shall be:

Safety:

Safety of principal is the foremost objective of the investment program. The Treasurer shall seek to avoid capital losses for all investment transactions made. The portfolio shall be diversified to ensure that potential losses on the individual securities do not exceed the income generated from the remainder of the portfolio. Additionally, the Treasurer shall ensure the safety of invested funds by limiting interest and credit rate risks.

Interest Rate Risk:

Interest rate risk will be mitigated by:

i. Structuring the City's portfolio so that securities mature to meet the City's cash demands for ongoing operations, thereby precluding the need to sell securities on the open market prior to their maturity.

Credit Risk:

Credit risk will be mitigated by:

i. Limiting investments to the types of securities authorized by this policy.
ii. Using pre-qualified financial institutions.
iii. Diversifying the investment portfolio.

Liquidity:

An adequate percentage of the portfolio shall be maintained in liquid short-term securities, which can be converted to cash if necessary, to meet disbursement requirements. No investment shall be made in any security, which at the time of the investment has a remaining term in excess of five years unless the Council has granted express authority to make that investment.

Yield:

Yield should become a consideration only after the basic requirements of safety and liquidity have been met.

Return on Investment:

The investment portfolio shall be designed to attain a market-average rate of return. The City's approach is to buy investment with the intention of holding the investment to maturity. Securities may not be sold prior to maturity with the following exceptions:

1. An investment swap would improve the quality, yield, or target duration in the portfolio.
2. A security with declining credit quality may be sold early to minimize the loss of principal.
3. Liquidity needs of the portfolio require the security to be sold.
4. Direction from City Council.

Legal Requirement:

The City's investment portfolio shall be designed with the objective of meeting all legal requirements set forth by Federal, State and local laws.

DELEGATION OF AUTHORITY:

The responsibility for the investment program rests with the Treasurer. The Treasurer, and/or those person(s) assigned by the Treasurer, will be responsible for all transactions undertaken and has established a system of internal controls and standard operating procedures to regulate the activities of subordinate officers.

INVESTMENT PROCEDURES:

Investment policy procedures as established by the Treasurer for the operation of the investment program shall be consistent with this policy. The procedures include: safekeeping, PSA repurchase agreements, wire transfer agreements, banking service contracts and collateral/depository agreements. Such procedures shall include explicit delegation of authority to persons responsible for investment transactions. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the Treasurer.

INVESTMENT TRAINING:

The Treasurer shall attend at least one training session within twelve months after taking office or being appointed, and at least annually thereafter. The training session should be sponsored by a professional organization, such as, but not limited to: Government Finance Officers Association (GFOA), Idaho City Clerks, Treasurers, and Finance Officers Association (ICCTFOA), or Municipal Treasurers Association of the United States & Canada (MTA, US&C). Training must include some or all of the following components: investment controls, security risks, strategy risks, market risks, and compliance with Federal, State and local laws.

ETHICS AND CONFLICTS OF INTEREST:

The Treasurer shall avoid any transaction that might impair public confidence in the City's ability to govern effectively. Officers and employees involved in the investment process shall refrain from business activity that could conflict with proper execution of the investment program, or which could impair their ability to make impartial investment decisions. Employees and investment officials shall disclose to the Council any material financial interests in financial institutions that conduct business within this jurisdiction, and they shall further disclose any large personal financial investment positions that could be related to the performance of the City's portfolio. Employees and officers shall subordinate their personal investment transactions to those of the City of Victor, particularly with regard to the time of purchase and sales.

INVESTMENT POLICY AGREEMENT:

A copy of the City's Investment Policy shall be provided to each approved financial institution or broker/dealer the City conducts business with. The Treasurer shall maintain a signed agreement from each, agreeing to abide by the City's Investment Policy.

AUTHORIZED AND SUITABLE INVESTMENTS:

The Treasurer and/or those person(s) assigned by the Treasurer shall invest money only in those Investment Instruments allowed by Idaho Code 50-1013. Legal investments for the City are as follows and shall be in U.S. dollar denominations:

(A) Revenue bonds issued pursuant to the Revenue Bond Act.

(B) City coupon bonds provided for under section 50-1019, Idaho Code.

(C) Local improvement district bonds provided under Chapter 17, Title 50, Idaho Code.

(D) Time deposit accounts with public depositories.

(E) Bonds, treasury bills, interest-bearing notes, or other obligations of the United States, or those for which the faith and credit of the United States are pledged for the payment of principle and interest.

(F) General obligation bonds of this state, or those for which the faith and credit of the United States are pledged for the payment of principle and interest.

(G) General obligation bonds of any county, city, metropolitan water district, municipal utility district, school district, or other taxing district of this state.

(H) Notes, bonds, debentures, or other similar obligations issued by the Farm Credit System or institutions forming a part thereof under the Farm Credit Act of 1971 (V.S.C., Title 12, sections 2001-2259) and all Acts of Congress amendatory thereof or supplementary thereto; in bonds or debentures of the Federal Home Loan Bank Act (U.S.C., Title 12, Sections 1421-1449); in bonds, debentures, and other obligations of the Federal National Mortgage Association established under the National Housing Act (U.S.C., Title 12, Sections 1701- 1750g)as amended, and in the bonds of any federal home loan bank established under said act and in other obligations of agencies and instrumentalities of the state of Idaho or the United States.

(I) Bonds, notes, or other similar obligations issued by public corporations of the state of Idaho including, but not limited to, the Idaho state building authority, the Idaho housing authority, and the Idaho water resource board, but such investment shall not extend beyond seven (7) days.

(J) Repurchase agreements covered by any legal investment for the state of Idaho.

(K) Tax anticipation bonds or notes, income and revenue anticipation bonds or notes and registered warrants of the state of Idaho or of taxing districts of the state of Idaho.

(L) Savings account including, but not limited to, accounts on which interest or dividends are paid and upon which negotiable orders of withdrawal may be drawn and similar transaction accounts.

(M) Time deposit accounts and other savings accounts of state or federal savings and loan associations located within the geographical boundaries of the state in amounts not to exceed the insurance provided by the federal savings and loan corporation, including but not limited to accounts on which interest or dividends are paid and upon which negotiable orders of withdrawal may be drawn, and similar transaction accounts.

(N) Share, savings, and deposit accounts of state and federal credit unions located within the geographical boundaries of the state in amounts not to exceed the insurance provided by the national credit union share insurance fund and/or any other authorized share guaranty corporation, including, but not limited to, accounts on which interest or dividends are paid and upon which negotiable orders of withdrawal may be drawn, and similar transaction accounts.

(O) Prime banker's acceptances.

(P) Prime commercial paper.

(Q) Money market funds, mutual funds, or any other similar funds whose portfolios consist of any allowed instrument as specified in this section.

(R) Bonds, debentures or notes of any corporation organized, controlled and operating within the United States which have, at the time of purchase, an A rating or higher by a commonly known rating service.

COLLATERALIZATION:

Collateralization will be required on two types of investments:
(1) Certificates of deposits over the FDIC or NCUA insured limit.
(2) Repurchase agreements. Reverse repurchase agreement investments must have Council approval. Any bank or savings and loan doing business with the City must provide dedicated collateral for any deposits it holds in excess of the maximum Federal Depository Insurance Corporation (FDIC) or National Credit Union Administration (NCUA) insurance coverage. The collateral must consist only of the following securities: U.S. Treasury Bills, Notes, Bonds and federal agency securities, and/or the government-guaranteed portion of certain government securities. Collateral will be marked to market on the day of the transaction or otherwise protected against price deterioration with over-collateralization of a minimum of 105%.

Collateral will always be held by an independent third party with whom the City has a current custodial agreement. A clearly marked evidence of ownership, safekeeping receipt, must be supplied to the City and retained by the Treasurer.

SAFEKEEPING AND CUSTODY:

All securities owned by the City will be held by a third party except the collateral for time deposits in banks and savings and loans. Collateral for time deposits in banks should be held in the City's name in the bank's Trust Department, or alternately in the Federal Reserve Bank. Collateral for time deposits in savings and loans is held by the Federal Home Loan Bank or an approved Agent of Depository.

DIVERSIFICATION:

It is the policy of the City to diversify its investment portfolio to avoid incurring unreasonable and avoidable risks or loss resulting from over-concentration of assets in a specific maturity, specific insurer, or specific class of securities.

MAXIMUM MATURITIES:

To the extent possible, the City will match its investments with anticipated cash flow requirements. The City will not directly invest in securities with a maturity longer than 5 years unless matched to a specific project or with an exemption from City Council.

INTERNAL CONTROL:

The City shall continue to require an annual independent audit of the financial statements. During the course of the audit, the auditor shall perform such reviews of the Treasury's internal controls (those controls designed to prevent loss of public funds arising from fraud, employee error, misrepresentation of third parties, unanticipated changes in financial markets, or imprudent actions by employees and/or officers of the City) as necessary to express an opinion on the financial statements as a whole. This review will test internal control by assuring compliance with the policies and procedures and the adequacy of those policies and procedures.

PERFORMANCE STANDARDS:

As the City’s investment portfolio is designed primarily for principal protection and liquidity; the investment program shall seek to augment income with returns consistent with risk limitations identified herein and prudent investment principles. To the extent possible returns will be compared against market returns of similar duration, type, and quality.

REPORTING:

The Treasurer shall provide such reports as may be required by law, resolution, ordinance, or as may be required by the Mayor, City Council, or City Administrator. In addition, the Treasurer shall provide such reports as may be reasonably requested by departments, boards, or commissions for which the Treasurer is investing funds.

GLOSSARY

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

ASKED: The price at which securities are offered.

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

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

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

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

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

COLLATERAL: Securities, evidence of deposit or other property which a borrower pledges to secure repayment of a loan. Also refers to securities pledged by a bank to secure deposits of public monies.

COUPON: (a) The annual rate of interest that a bond's issuer promises to pay the bondholder on the bond's face value. (b) A certificate attached to a bond evidencing interest due on a payment date.

DEALER: A dealer, as opposed to a broker, acts as a principal in all transactions, buying and selling for his own account.

DEBENTURE: A bond secured only by the general credit of the issuer.

DELIVERY VERSUS PAYMENT: There are two methods of delivery of securities: delivery versus payment and delivery versus receipt. Delivery versus payment is delivery of securities with an exchange of money for the securities. Delivery versus receipt is delivery of securities with an exchange of a signed receipt for the securities.

DERIVATIVES: (1) Financial instruments whose return profile is linked to, or derived from, the movement of one or more underlying index or security, and may include a leveraging factor, or (2) financial contracts based upon notional amounts whose value is derived from an underlying index or security (interest rates, foreign exchange rates, equities or commodities).

DISCOUNT: The difference between the cost price of a security and its maturity when quoted at lower than face value. A security selling below original offering price shortly after sale also is considered to be at a discount.

DISCOUNT SECURITIES: Non-interest bearing money market instruments that are issued a discount and redeemed at maturity for full face value, *e.g.,* U.S. Treasury Bills.

DIVERSIFICATION: Dividing investment funds among a variety of securities offering independent returns.

FEDERAL CREDIT AGENCIES: Agencies of the Federal government set up to supply credit to various classes of institutions and individuals, *e.g.,* S&L's, small business firms, students, farmers, farm cooperatives, and exporters.

FEDERAL DEPOSIT INSURANCE CORPORATION (FDIC): A federal agency that insures bank deposits, currently up to $250,000 per depositor.

FEDERAL FUNDS RATE: The rate of interest at which Fed funds are traded. This rate is currently pegged by the Federal Reserve through open-market operations.

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

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

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

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

LIQUIDITY: A liquid asset is one that can be converted easily and rapidly into cash without a substantial loss of value. In the money market, a security is said to be liquid if the spread between bid and asked prices is narrow and reasonable size can be done at those quotes.

LOCAL GOVERNMENT INVESTMENT POOL (LGIP): The aggregate of all funds from political subdivisions that are placed in the custody of the State Treasurer for investment and reinvestment.

MARKET VALUE: The price at which a security is trading and could presumably be purchased or sold.

MASTER REPURCHASE AGREEMENT: A written contract covering all future transactions between the parties to repurchase-reverse repurchase agreement that establishes each party's rights in the transactions. A master agreement will often specify, among other things, the right of the buyer-lender to liquidate the underlying securities in the event of default by the seller-borrower.

MATURITY: The date upon which the principal or stated value of an investment becomes due and payable.

MONEY MARKET: The market in which short-term debt instruments (bills, commercial paper, bankers' acceptances, etc.) are issued and traded.

OFFER: The price asked by a seller of securities. (When you are buying securities, you ask for an offer.) See Asked and Bid.

PORTFOLIO: Collection of securities held by an investor.

PRIMARY DEALER: A group of government securities dealers who submit daily reports of market activity and positions and monthly financial statements to the Federal Reserve Bank of New York and are subject to its informal oversight. Primary dealers include Securities and Exchange Commission (SEC)-registered securities broker-dealers, banks, and a few unregulated firms.

PRUDENT PERSON RULE: An investment standard. In some states the law requires that a fiduciary, such as a trustee, may invest money only in a list of securities selected by the custody state-the so-called legal list. In other states the trustee may invest in a security if it is one which would be bought by a prudent person of discretion and intelligence who is seeking a reasonable income and preservation of capital.

QUALIFIED PUBLIC DEPOSITORIES: A financial institution which does not claim exemption from the payment of any sales or compensating use or ad valorem taxes under the laws of this state, which has segregated for the benefit of the commission eligible collateral having a value of not less than its maximum liability and which has been approved by the Public Deposit Protection Commission to hold public deposits.

RATE OF RETURN: The yield obtainable on a security based on its purchase price or its current market price. This may be the amortized yield to maturity on a bond the current income return.

REPURCHASE AGREEMENT (RP OR REPO): A holder of securities sells these securities to an investor with an agreement to repurchase them at a fixed price on a fixed date. The security "buyer" in effect lends the "seller" money for the period of the agreement, and the terms of the agreement are structured to compensate him for this. Dealers use RP extensively to finance their positions. Exception: When the Fed is said to be doing RP, it is lending money that is increasing bank reserves.

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

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

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

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

TREASURY BILLS: A non-interest bearing discount security issued by the U.S. Treasury to finance the national debt. Most bills are issued to mature in three months, six months, or one year.

TREASURY BONDS: Long-term coupon-bearing U.S. Treasury securities issued as direct obligations of the U.S. Government and having initial maturities of more than 10 years.

TREASURY NOTES: Medium-term coupon-bearing U.-S. Treasury securities issued as direct obligations of the U.S. Government and having initial maturities from two to 10 years.

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

YIELD: The rate of annual income return on an investment, expressed as a percentage. (a) INCOME YIELD is obtained by dividing the current dollar income by the current market price for the security. (b) NET YIELD or YIELD TO MATURITY is the current income yield minus any premium above par or plus any discount from par in purchase price, with the adjustment spread over the period from the date of purchase to the date of maturity of the bond.