City of Bethel
Finance Committee Agenda
Monday April 22, 2019 – 6:30 p.m.
Council Chambers, City Hall-300 State Highway

Cecilia Franko
Finance Committee Chair
Term Ends 2019

Perry Barr
City Council Representative
Term Ends 20

Dave Trantham, Jr.
Finance Committee Member
Term Ends 2021

Vacant
Finance Committee Vice-Chair
Term Ends 2019

Jason Brown
Finance Committee Member
Term Ends 2019

Mark Taylor
Term Ends 20

Vacant
Term, End 2020

Vacant
Alternate Committee Member

Vacant
Alternate Committee Member

Jim Sharpe
Contracted Finance Director
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Cynthia Sharp
Assistant Finance Director
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Christine Amos
Recorder
543-1380
camos@cityofbethel.net

I. **CALL TO ORDER**

II. **ROLL CALL**

III. **PEOPLE TO BE HEARD** Ten minutes per person

IV. **APPROVAL OF AGENDA**

V. **APPROVAL OF MINUTES**

a) 01/28/2019 meeting minutes

VI. **UNFINISHED BUSINESS**

a.) Review the FY19 Budget

b.) Hold elections for committee

NEW BUSINESS

a.)Review the City's Investment Policy

b.) Finance Director's report

VII. **COUNCIL REP. COMMENTS**

VIII. **FINANCE COMMITTEE MEMBER COMMENTS**

IX. **ADJOURNMENT**

Posted on 04/15/2019 at City Office, AC, Swanson's, & Post Office

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Christine Amos, Recorder

City of Bethel, Alaska
Finance Committee Minutes

March 25, 2019	Regular Meeting	Bethel, Alaska

I. CALL TO ORDER

A regular meeting of the Finance Committee was scheduled on March 25, 2019 at 6:30 p.m. in City Council Chambers.

II. ROLL CALL

Comprising a quorum of the Committee, the following were **present**:

Cindy Sharp – ex officio

Christine Amos – recorder

Quorum of the body could not be established and the meeting was adjourned.

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Chair

ATTEST:

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Christine Amos, Recorder

The City of Bethel Investment Policy November 2018

I. Governing Authority

Legality

The investment program shall be operated in conformance with governing legislation and other legal requirements.

II. Scope

This policy applies to the investment of all funds, excluding the investment of employees' retirement funds

III. General Objectives

The primary objectives of investment activities shall be safety, liquidity, and return:

1. *Safety*

Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. The objective will be to mitigate credit risk and interest rate risk.

a. Credit Risk

The City of Bethel will minimize credit risk, which is the risk of loss of all or part of the investment due to the failure of the security issuer or backer, by:

- Limiting investments to the types of securities listed in Section VII of this Investment Policy
- Pre-qualifying and conducting ongoing due diligence of the financial institutions, broker/dealers, intermediaries, and advisers with which the City of Bethel will do business in accordance with Section V
- Diversifying the investment portfolio so that the impact of potential losses from any one type of security or from any one individual issuer will be minimized.

b. Interest Rate Risk

The City of Bethel will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by:

- Structuring the investment portfolio so that security maturities match cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity
- Investing operating funds primarily in shorter-term securities, money market mutual funds, or similar investment pools and limiting individual security maturity as well as the average maturity of the portfolio in accordance with this policy (see section VIII).

2. *Liquidity*

The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated. This is accomplished by structuring the portfolio so that securities mature concurrent with cash needs to meet anticipated demands (static liquidity). Furthermore, since all possible cash demands cannot be anticipated, the portfolio should consist largely of securities with active secondary or resale markets (dynamic liquidity). Alternatively, a portion of the portfolio may be placed in money market mutual funds or local government investment pools which offer same-day liquidity for short-term funds.

3. Return
The investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints and liquidity needs. Return on investment is of secondary importance compared to the safety and liquidity objectives described above. The core investments are limited to relatively low risk securities in anticipation of earning a fair return relative to the risk being assumed. 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;
- Selling a security and reinvesting the proceeds that would improve the quality, yield, or target duration in the portfolio may be undertaken;
- Unanticipated liquidity needs of the portfolio require that the security be sold.

IV. Standards of Care

1. *Prudence*
The standard of prudence to be used by investment officials shall be the "uniform prudent investor act" standard and shall be applied in the context of managing an overall portfolio. Investment officers acting in accordance with written procedures and this 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 the liquidity and the sale of securities are carried out in accordance with the terms of this policy.

2. *Ethics and Conflicts of Interest*
Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with the proper execution and management of the investment program, or that could impair their ability to make impartial decisions. Employees and investment officials shall disclose any material interests in financial institutions with which they conduct business, in accordance with applicable laws. They shall further disclose any personal financial/investment positions that could be related to the performance of the investment portfolio. Employees and officers shall refrain from undertaking personal investment transactions with the same individual with whom business is conducted on behalf of the City of Bethel.

3. *Delegation of Authority*
Authority to manage the investment program is granted to [designated official, hereinafter referred to as investment officer] and derived from the following: [insert code citation, ordinances, charters or statutes]. Responsibility for the operation of the investment program is hereby delegated to the investment officer, who shall act in accordance with established written procedures and internal controls for the operation of the investment program consistent with this investment policy. At a minimum, procedures should include references to the following: safekeeping, delivery vs. payment, investment accounting, repurchase agreements, wire transfer agreements, and collateral/depository agreements. [Please refer to GFOA's Investment Procedures Manual, 2003.] No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the investment officer. The investment officer shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials.

V. Authorized Financial Institutions, Depositories, and Broker/Dealers

1. *Authorized Financial Institutions, Depositories, and Broker/Dealers*
A list will be maintained of financial institutions and depositories authorized to provide investment services. In addition, a list will be maintained of approved security broker/dealers selected by creditworthiness and/or other factors, such as FINRA broker check.

All financial institutions and broker/dealers who desire to become qualified for investment transactions must supply the following as appropriate:

- Audited financial statements demonstrating compliance with state and federal capital adequacy guidelines
- Proof of Financial Industry Regulatory Authority (FINRA)certification (not applicable to Certificate of Deposit counterparties)
- Proof of state registration
- Certification of having read and understood and agreeing to comply with the [entity's] investment policy.
- Evidence of adequate insurance coverage.

An annual review of the financial condition and registration of all qualified financial institutions and broker/dealers will be conducted by the investment officer. (See Appendix for the GFOA Recommended Practice on "Governmental Relationships with Securities Dealers.")

VI. Safekeeping and Custody

1. *Delivery vs. Payment*
All trades of marketable securities will be executed by delivery vs. payment (DVP) to ensure that securities are deposited in an eligible custody account prior to the release of funds.

2. *Safekeeping*
Securities will be held by a [centralized] independent third-party custodian selected by the entity as with all securities held in the City of Bethel's name. The safekeeping institution shall annually provide a copy of their most recent report on internal controls (Statement of Auditing Standards No. 70, or SAS 70).

3. *Internal Controls*
The investment officer shall establish a system of internal controls, which shall be documented in writing. The internal controls shall be reviewed annually by the investment committee, where present, and with the independent auditor. The controls shall be designed to prevent the loss of public funds arising from fraud, employee error, mis-representation by third parties, unanticipated changes in financial markets, or imprudent actions by employees and officers of the City of Bethel.

VII. Suitable and Authorized Investments

1. *Investment Types* – The following investments will be permitted by this policy:
- U.S. Treasury obligations which carry the full faith and credit guarantee of the United States government;
- U.S. government agency and instrumentality obligations that have a liquid market with a readily determinable market value;
- Money market mutual funds regulated by the Securities and Exchange Commission and whose

portfolios consist only of dollar-denominated securities; and whose underlying securities are only those allowed in this section of the investment policy.

- Certificates of Deposit fully insured by the FDIC.

VIII. Investment Diversification & Constraints

1. *Diversification*

It is the policy of the City of Bethel to diversify its investment portfolios. To eliminate risk of loss resulting from the overconcentration of assets in a specific maturity, issuer, or class of securities, all cash and cash equivalent assets in all City of Bethel funds shall be diversified by maturity, issuer unless US government or US Agency backed, and security type. Diversification strategies shall be determined and revised periodically by the investment committee/investment officer for all funds except for the employee retirement fund.

In establishing specific diversification strategies, the following general policies and constraints shall apply: Portfolio maturities shall be staggered to avoid undue concentration of assets in a specific maturity sector. Maturities selected shall provide for stability of income and reasonable liquidity.

- Liquidity shall be assured through practices ensuring that the next disbursement date and payroll date are covered through maturing investments or marketable U.S. Treasury bills.
- Risks of market price volatility shall be controlled through maturity diversification and duration management.
- The investment committee/investment officer shall establish strategies and guidelines for the percentage of the total portfolio that may be invested in securities other than Treasury bills, US Government Agencies or insured certificates of deposit. The committee shall conduct a quarterly review of these guidelines and evaluate the probability of market and default risk in various investment sectors as part of its considerations.

The following diversification limitations shall be imposed on the portfolio:

- **Maturity:** No more than 75_percent of the portfolio may be invested beyond 12_ months, and the weighted average maturity of the portfolio shall never exceed 4 years.
- **Default risk:** No more than 25 percent of the overall portfolio may be invested in the securities of a single issuer, except for securities of the U.S. Treasury, US Government Agency bonds and Federally insured CDs.
- **Liquidity risk:** Based on liquidity needs, at least 10 percent of the overall portfolio shall be invested in overnight instruments or in marketable securities which can be converted to cash within one day.

2. *Maximum Maturities*

To the extent possible, the City of Bethel shall attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, the City of Bethel will not directly invest in securities maturing more than five (5) years from the date of purchase or in accordance with governing legislation. The City of Bethel shall adopt weighted average maturity limitations consistent with the investment objectives.

3. *Competitive Bids*
The investment officer should obtain competitive bids when practical_from at least three brokers or financial institutions on all purchases and sales of investment instruments transacted on the secondary market.

IX. Reporting

1. *Methods*
The investment officer shall prepare an investment report at least quarterly ~~[or monthly]~~, including a management summary that provides an analysis of the status of the current investment portfolio and the individual transactions executed over the last quarter ~~[or month]~~. This management summary will be prepared in a manner which will allow the City of Bethel to ascertain whether investment activities during the reporting period have conformed to the investment policy. The report should be provided to the entity's chief administrative officer, the legislative body, the investment committee and any pool participants. The report will include the following:

- Listing of individual securities held at the end of the reporting period including type, acquisition cost, book cost, and market value.
- Realized and unrealized gains or losses resulting from appreciation or depreciation by listing the cost and market value of securities over one-year duration that are not intended to be held until maturity (in accordance with Governmental Accounting Standards Board (GASB) requirements).
- Average weighted return on investments as compared to applicable benchmarks.
- Percentage of the total portfolio which each type of investment represents.
- A statement that the investment portfolio is in compliance with the investment policy and is meeting the investment policy objectives

2. *Performance Standards*
The investment portfolio will be managed in accordance with the parameters specified within this policy. The portfolio should obtain a market average rate of return during a market/economic environment of stable interest rates. A series of appropriate benchmarks shall be established against which portfolio performance shall be compared on a regular basis. The benchmarks shall be reflective of the actual securities being purchased and risks undertaken, and the benchmarks shall have a similar weighted average maturity as the portfolio.

3. *Marking to Market*
The market value of the portfolio shall be calculated at least quarterly ~~[or monthly]~~ and a statement of the market value of the portfolio shall be issued at least quarterly ~~[or monthly]~~. This will ensure that review of the investment portfolio, in terms of value and price volatility, has been performed consistent with the GFOA Recommended Practice on "Mark-to-Market Practices for State and Local Government Investment Portfolios and Investment Pools." (See GFOA Recommended Practices in Appendix.) In defining market value, considerations should be given to the GASB Statement 31 pronouncement.

X. Policy Considerations

1. *Amendments*
This policy shall be reviewed on an annual basis. Any changes must be submitted by the

investment officer and approved by the investment oversight committee or authoritative body acting in such capacity.

VI. Approval of Investment Policy

The investment policy shall be formally approved and adopted by the governing body of the City of Bethel and reviewed annually.

VII. List of Attachments

The following documents, as applicable, are attached to this policy:

- Listing of authorized personnel;
- Relevant investment statutes and ordinances;
- Listing of authorized broker/dealers and financial institutions;
- Detailed listing of authorized investment classes, sectors, and types;
- Internal Controls;
- Glossary

XIII. Other Documentation

- Safekeeping agreements,
- Wire transfer agreements,
- Sample investment reports.

GLOSSARY

ACCRUED INTEREST - The interest accumulated on a bond since issue date or the last coupon payment. The buyer of the bond pays the market price and accrued interest, which is payable to the seller.
AGENCY - A debt security issued by a federal or federally sponsored agency. Federal agencies are backed by the full faith and credit of the U.S. Government. Federally Sponsored Agencies (FSAs) are backed by each particular agency with a market perception that there is an implicit government guarantee. (Also see FEDERAL AGENCY SECURITIES and GOVERNMENT SECURITY)
AMORTIZATION - In portfolio accounting, periodic charges made against interest income on premium bonds in anticipation of receipt of the call price at call or of par value at maturity.
ASSET - Available property, as for payment of debts
AVERAGE MATURITY - A weighted average of the expiration dates for a portfolio of debt securities. An income fund's volatility can be managed by shortening or lengthening the average maturity of its portfolio.
BANK WIRE - A virtually instantaneous electronic transfer of funds between two financial institutions. **BANKERS ACCEPTANCES (BAs)** - Bankers Acceptances generally are created based on a letter of credit issued in a foreign trade transaction. They are used to finance the shipment of commodities between countries as well as the shipment of some specific goods within the United States. BAs are short-term,non- interest bearing notes sold at a discount and redeemed by the accepting bank at maturity for full face value. These notes trade at a rate equal to or slightly higher than Certificates of Deposit (CDs), depending on market supply and demand.
Bankers Acceptances are sold in amounts that vary from $100,000 to $5,000,000, or more, with

maturities ranging from 30 - 270 days. They offer liquidity to the investor as it is possible to sell BAs prior to maturity at the current market price.

BASIS POINT - A measure of an interest rate, i.e., 1/100 of 1 percent, or .0001.

BID - The indicated price at which a buyer is willing to purchase a security or commodity. When selling a security a bid is obtained. (See Offer)

BOND - A long-term debt security, or IOU, issued by a government or corporation that generally pays a stated rate of interest and returns the face value on the maturity date.

BOOK ENTRY SECURITIES - U.S. government and federal agency securities that do not exist in definitive (paper) form; they exist only in computerized files maintained by the Federal Reserve Bank.

BOOK VALUE - The amount at which an asset is carried on the books of the owner. The book value of an asset does not necessarily have a significant relationship to market value.

BROKER - A broker brings buyers and sellers together for a commission paid by the initiator of the transaction or by both sides.

CERTIFICATES OF DEPOSIT - Certificates of Deposit, familiarly known as CDs, are certificates issued against funds deposited in a bank for a definite period of time and earning a specified rate of return. Certificates of Deposit bear rates of interest in line with money market rates current at the time of issuance. **COLLATERAL:** Property (as securities) pledged by a borrower to protect the interest of the lender.

COMPETITIVE BID PROCESS - A process by which three or more institutions are contacted via the telephone to obtain interest rates for specific securities.

CREDIT QUALITY - The measurement of the financial strength of a bond issuer. This measurement helps an investor to understand an issuer's ability to make timely interest payments and repay the loan principal upon maturity. Generally, the higher the credit quality of a bond issuer, the lower the interest rate paid by the issuer because the risk of default is lower. Credit quality ratings are provided by nationally recognized rating agencies.

CREDIT RISK - The risk that another party to an investment transaction will not fulfill its obligations. Credit risk can be associated with the issuer of a security, a financial institution holding the entity's deposit, or a third party holding securities or collateral. Credit risk exposure can be affected by a concentration of deposits or investments in any one investment type or with any one party.

CUSTODIAN - An independent third party (usually bank or trust company) that holds securities in safekeeping as an agent for the county.

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

DEFEASE - To discharge the lien of an ordinance, resolution, or indenture relating to a bond issue, and in the process, render inoperative restrictions under which the issuer has been obliged to operate. Comment: Ordinarily an issuer may defease an indenture requirement by depositing with a trustee an amount sufficient to fully pay all amounts under a bond contract as they become due.

DELIVERY - The providing of a security in an acceptable form to the County or to an agent acting on behalf of the County and independent of the seller. Acceptable forms can be physical securities or the transfer of book entry securities. The important distinction is that the transfer accomplishes absolute ownership control by the County

DELIVERY VS PAYMENT - There are two methods of delivery of securities: Delivery vs. payment and delivery vs. receipt (also called free). Delivery vs. payment is delivery of securities with an exchange of money for the securities. Delivery vs. receipt is delivery of securities with an exchange of a signed receipt for the securities.

DEPOSITARY - A person to whom something is entrusted, a depository.

DEPOSITORY BANK - A local bank used as the point of deposit for cash receipts.

DEPOSITORY INSURANCE - Insurance on deposits with financial institutions. For purposes of this policy statement, depository insurance includes: a) Federal depository insurance funds, such as those maintained by the Federal Deposit Insurance Corporation (FDIC) AND Federal Savings and Loan

Insurance Corporation (FSLIC); and b) Public Deposit Protection Commission.
DISCOUNT - 1. (n.) selling below par; e.g., a $1000 bond selling for $900. 2. (v.) anticipating the effects of news on a security's value; e.g., "The market had already discounted the effect of the labor strike by bidding the company's stock down."
DIVERSIFICATION - Dividing available funds among a variety of securities and institutions so as to minimize market risk.
EFFECTIVE RATE - The yield you would receive on a debt security over a period of time taking into account any compounding effect.
FACE VALUE - The value of a bond stated on the bond certificate; thus, the redemption value at maturity. Most bonds have a face value, or par, of $1,000.
FEDERAL AGENCY SECURITIES - Several government-sponsored agencies, in recent years, have issued short and long-term notes. Such notes typically are issued through dealers, mostly investment banking houses. These Federal government-sponsored agencies were established by the U.S. Congress to undertake various types of financing without tapping the public treasury. In order to do so, the agencies have been given the power to borrow money by issuing securities, generally under the authority of an act of Congress. These securities are highly acceptable and marketable for several reasons, mainly because they are exempt from state, municipal and local income taxes. Furthermore, agency securities must offer a higher yield than direct Treasury debt of the same maturity to find investors, partly because these securities are not direct obligations of the Treasury.
The main agency borrowing institutions are the Federal National Mortgage Association (FNMA), the Federal Home Loan Bank System (FHLB), and the Federal Farm Credit System (FFCS).

FNMA - FEDERAL NATIONAL MORTGAGE ASSOCIATION - issues notes tailored to the maturity needs of the investor. Maturities range from 30 days up to 30 years. These notes are made attractive by their denominations from $5,000 to $1 million.
FHLB - FEDERAL HOME LOAN BANK SYSTEM - consists of twelve Federal Home Loan Banks, issues, in addition to long-term bonds, coupon notes with maturities of up to one year. Their attractiveness stems from their investment denominations of $10,000 to $1 million.
FEDERAL DEPOSIT INSURANCE (FDIC) - A Federal institution that insures bank deposits. The current limit is up to $100,000 per depository account.
FEDERAL FUNDS RATE - The rate of interest at which Fed Funds are traded between banks. Fed Funds are excess reserves held by banks that desire to invest or lend them to banks needing reserves. The particular rate is heavily influenced through the open market operations of the Federal Reserve Board. Also referred to as the "Fed Funds rate."
FEDERAL HOME LOAN BANKS (FHLB) - The institutions that regulate and lend to savings and loan associations.
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 which has regulated credit in the economy since its inception in 1913. Includes the Federal Reserve Bank, 14 district banks and the member banks of the Federal Reserve, and is governed by the Federal Board.
FINANCIAL INSTITUTIONS - Establishments that include the circulation of money, the granting of credit, the making of investments, and the provision of banking facilities.
FISCAL AGENCY - A financial institution that handles certain bond and coupon redemptions on

behalf of Whatcom County.

GINNIE MAES (GNMAs) - Mortgage securities issued and guarantied, as to timely interest and principal payments, by the Government National Mortgage, an agency within the Department of Housing and Urban Development (HUD).

GOVERNMENT SECURITY - Any debt obligation issued by the U.S. government, its agencies or instrumentalities. Certain securities, such as Treasury bonds and Ginnie Maes, are backed by the government as to both principal and interest payments. Other securities, such as those issued by the Federal Home Loan Mortgage Corporation, or Freddie Mac, are backed by the issuing agency.

HAIRCUT - This term describes the way brokers and clients protect themselves from market risk in doing repos. An entity wanting to finance the purchase of $100 million in Treasury bonds may borrow just $98 million of the money. The two percent difference between the amount of securities purchased and the amount of money borrowed is the haircut. Similarly, an entity looking to borrow $100 million may need to provide, as collateral, Treasury securities with a market price equal to $102 million.

LIQUIDATION - Conversion into cash.

LIQUIDITY - Refers to the ease and speed with which an asset can be converted into cash without a substantial loss in value.

LOSS - The excess of the cost or book value of an asset over selling price.

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

MARK-TO-MARKET - An adjustment in the valuation of a securities portfolio to reflect the current market values of the respective securities in the portfolio. This process is also used to ensure that margin accounts are in compliance with maintenance.

MARKETABILITY - Ability to sell large blocks of money market instruments quickly and at competitive prices.

MARKET 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. The risk that the market value of an investment, collateral protecting a deposit, or securities underlying a repurchase agreement will decline.

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

MASTER REPURCHASE AGREEMENT - An agreement between the investor and the dealer or financial institute. This agreement defines the nature of the transactions, identifies the relationship between the parties, establishes normal practices regarding ownership and custody of the collateral securities during the term of the investment, provides for remedies in the event of a default by either party and otherwise clarifies issues of ownership.

MATURITY - The time when a security becomes due and at which time the principal and interest or final coupon payment is paid to the investor.

NET WORTH - A financial institutions available funds after their total liabilities have been deducted from their total assets.

OFFER - The indicated price at which a seller is willing to sell a security or commodity. (See BID) When buying a security an offer is obtained.

PAR VALUE - The nominal or face value of a debt security; that is, the value at maturity.

PORTFOLIO - Collection of securities held by an investor.

PREMIUM - The amount by which a bond sells above its par value.

PRIMARY DEALERS - A pre-approved bank, broker/dealer or other financial institution that is able to make business deals with the U.S. Federal Reserve, such as underwriting new government debt. These dealers must meet certain liquidity requirements as well as provide a valuable flow of information to the Fed about the state of the worldwide markets.

PRIME RATE - The interest rate a bank charges on loans to its most credit worthy customers. Frequently cited as a standard for general interest rate levels in the economy.

PRINCIPAL - An invested amount on which interest is charged or earned.
PRUDENCE - The ability to govern and discipline oneself by the use of reason. Shrewdness in the management of affairs. Able to use skill and good judgment in the use of resources.
QUALIFIED PUBLIC DEPOSITORY - 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. **REGISTERED SECURITY** - A security that has the name of the owner written on its face. A registered security cannot be negotiated except by the endorsement of the owner.
REPURCHASE AGREEMENT (REPO) - The Repo is a contractual transaction between an investor and an issuing financial institution (not a secured loan). The investor exchanges cash for temporary ownership of specific securities, with an agreement between the parties that on a future date, the financial institution will repurchase the securities at a prearranged price. An "Open Repo" does not have a specified repurchase date and the repurchase price is established by a formula computation.
REPRICING - The revaluation of the market value of securities.

REVERSE REPOs - The opposite of the transaction undertaken through a regular repurchase agreement. In a "reverse" the City/County initially owns securities and the bank or dealer temporarily exchanges cash for this collateral. This is, in effect, temporarily borrowing cash at a high interest rate and is also known as securities lending. Most typically, a Repo is initiated by the lender of funds. Reverses are used by dealers to borrow securities they have shorted.
SAFEKEEPING - A service to customers rendered by banks for a fee whereby all securities and valuables of all types and descriptions are held in the bank's vaults for protection, or in the case of book entry securities, are held and recorded in the customer's name and are inaccessible to anyone else.
SALLIE MAES - Pooling of student loans guaranteed by the Student Loan Mortgage Association (SLMA) to increase the availability of education loans. The SLMA purchases the loans after buying them on the secondary market from lenders. SLMA stock is publicly traded.
SECURITIES - Bonds, notes, mortgages, or other forms of negotiable or non-negotiable instruments.
SETTLEMENT DATES - The day on which payment is due for a securities purchase. For stocks and mutual funds bought through an investment dealer, settlement is normally five business days after the trade date. Bonds and options normally settle one business day after the trade date mutual fund shares purchased directly by mail or wire settle on the day payment is received.
SPREAD - (a) Difference between the best buying price and the best selling price for any given security.
(b) Difference between yields on or prices of two securities of differing quality or differing maturities.
(c) In underwriting, difference between price realized by the issuer and price paid by the investor.
STRIPPED TREASURIES - U.S. Treasury debt obligations in which coupons are removed by brokerage houses, creating zero-coupon bonds.
TRIPARTITE CUSTODIAN AGREEMENT - An agreement that occurs when a third party or custodian becomes a direct participant in a repurchase transaction. The custodian ensures that the exchange occurs simultaneously and that appropriate safeguards are in place to protect the investor's interest in the underlying collateral.
THIRD-PARTY SAFEKEEPING - A safekeeping arrangement whereby the investor has full control over the securities being held and the dealer or bank investment department has no access to the securities being held.
TIME DEPOSIT - Interest-bearing deposit at a savings institution that has a specific maturity.
TREASURY BILLS - Treasury bills are short-term debt obligations of the U.S. Government. They offer maximum safety of principal since they are backed by the full faith and credit of the United States Government. Treasury bills, commonly called "T-Bills," account for the bulk of government financing, and are the major vehicle used by the Federal Reserve System in the money market to implement national monetary policy. T-Bills are sold in three, six, nine, and twelve-month bills. Because treasury

bills are considered "risk-free," these instruments generally yield the lowest returns in the major money market instruments.

TREASURY NOTES AND BONDS - While T-Bills are sold at a discount rate that establishes the yield to maturity, all other marketable treasury obligations are coupon issued. These include Treasury Notes with maturities from one to ten years and Treasury Bonds with maturities of 10-30 years. The instruments are typically held by banks and savings and loan associations. Since Bills, Notes and Bonds are general obligations of the U.S. Government, and since the Federal Government has the lowest credit risk of all participants in the money market, its obligations generally offer a lower yield to the investor than do other securities of comparable maturities.

UNDERLYING SECURITIES - Securities transferred in accordance with a repurchase agreement.

VENDOR - A business or individual who provides a service or product at a cost.

WHEN-ISSUED TRADES - Typically, there is a lag between the time a new bond is announced and sold

and the time it is actually issued. During this interval, the security trades "wi," "when, as, and if issued."

Wi - When, as, and if issued. See When-issued trades.

YIELD - The rate at which an investment pays out interest or dividend income, expressed in percentage terms and calculated by dividing the amount paid by the price of the security and annualizing the result.

YIELD BASIS - Stated in terms of yield as opposed to price. As yield increases for a traded issue, price decreases and vice versa. Charts prepared on a yield basis appear exactly opposite of those prepared on a price basis.

YIELD SPREAD - The variation between yields on different types of debt securities; generally a function of supply and demand, credit quality and expected interest rate fluctuations. Treasury bonds, for example, because they are so safe, will normally yield less than corporate bonds. Yields may also differ on similar securities with different maturities. Long-term debt, for example, carries more risk of market changes and issuer defaults than short-term debt and thus usually yields more.

ZERO-COUPON BONDS - Securities that do not pay interest but are instead sold at a deep discount from face value. They rise in price as the maturity da

GFOA Sample Investment Policy

The purpose of this sample investment policy is to aid the general membership of the Government Finance Officers Association (GFOA) in the preparation of an investment policy. This sample policy is not intended to supplant an existing policy; rather, it is presented as a model to help investing entities customize a policy to fit their particular needs, constraints and capabilities. In order to accommodate the varying needs of government entities and stimulate conversation at the local level, certain sections of the attached policy include examples of alternative language. These examples may be used *in place of or in addition to* the first paragraph presented for that section, depending on the goals and objectives of the particular investing entity.

For additional information, please read Chapter Three of *Investing Public Funds*, second edition, a text authored by Girard Miller, with M. Corinne Larson and W. Paul Zorn, and published by the Government Finance Officers Association of the United States and Canada. You are also invited to contact current staff of the GFOA Standing Committee on Treasury & Investment Management for assistance in modifying and/or writing your government's investment policy. Governments should obtain counsel to ensure compliance with state and local laws, regulations, and other policies concerning the investment of public funds.

I. Governing Authority

Legality
The investment program shall be operated in conformance with governing legislation and other legal requirements.

II. Scope

This policy applies to the investment of all funds, excluding the investment of employees' retirement funds. *[This section should be modified to specify which assets are excluded from this policy.]*

1. *Pooling of Funds*
Except for cash in certain restricted and special funds, the [entity] will consolidate cash and reserve balances from all funds to maximize investment earnings and to increase efficiencies with regard to investment pricing, safekeeping and administration. Also, per SEC Rule 15B (Municipal Advisor Rule), the policy must clearly state whether or not the cash being pooled/invested includes municipal bond proceeds or not.

Investment income will be allocated to the various funds based on their respective participation and in accordance with generally accepted accounting principles. *[This paragraph refers to the pooling of funds within a single governmental entity and implies no reference to local government investment pools. This GFOA Sample Investment Policy is not specifically designed for use by local government investment pools, although certain portions of this sample policy may apply.]*

III. General Objectives

The primary objectives of investment activities shall be safety, liquidity, and return:

1. *Safety*

Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. The objective will be to mitigate credit risk and interest rate risk.

a. Credit Risk

The [entity] will minimize credit risk, which is the risk of loss of all or part of the investment due to the failure of the security issuer or backer, by:

- Limiting investments to the types of securities listed in Section VII of this Investment Policy
- Pre-qualifying and conducting ongoing due diligence of the financial institutions, broker/dealers, intermediaries, and advisers with which the [entity] will do business in accordance with Section V
- Diversifying the investment portfolio so that the impact of potential losses from any one type of security or from any one individual issuer will be minimized.

b. Interest Rate Risk

The [entity] will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by:

- Structuring the investment portfolio so that security maturities match cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity
- Investing operating funds primarily in shorter-term securities, money market mutual funds, or similar investment pools and limiting individual security maturity as well as the average maturity of the portfolio in accordance with this policy (see section VIII).

2. *Liquidity*

The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated. This is accomplished by structuring the portfolio so that securities mature concurrent with cash needs to meet anticipated demands (static liquidity). Furthermore, since all possible cash demands cannot be anticipated, the portfolio should consist largely of securities with active secondary or resale markets (dynamic liquidity). Alternatively, a portion of the portfolio may be placed in money market mutual funds or local government investment pools which offer same-day liquidity for short-term funds.

3. Return

The investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints and liquidity needs. Return on investment is of secondary importance compared to the safety and liquidity objectives described above. The core investments are limited to relatively low risk securities in anticipation of earning a fair return relative to the risk being assumed. 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;
- Selling a security and reinvesting the proceeds that would improve the quality, yield, or target duration in the portfolio may be undertaken;
- Unanticipated liquidity needs of the portfolio require that the security be sold.

Alternative sample language:

The [entity's] cash management portfolio shall be designed with the objective of regularly meeting or exceeding an appropriate performance benchmark, which could be the average yield on either three-month U.S. Treasury bills, the state investment pool, a money market mutual fund (specify) or the average rate on Fed funds. These indicators are considered benchmarks for lower risk investment transactions and therefore comprise a minimum standard for the portfolio's rate of return. The investment program shall seek to augment returns above this threshold, consistent with risk limitations identified herein and prudent investment principles. (See Section IX on performance standards and selecting a benchmark.)

IV. Standards of Care

1. *Prudence*

The standard of prudence to be used by investment officials shall be the "uniform prudent investor act" standard and shall be applied in the context of managing an overall portfolio. Investment officers acting in accordance with written procedures and this 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 the liquidity and the sale of securities are carried out in accordance with the terms of this policy.

2. *Ethics and Conflicts of Interest*

Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with the proper execution and management of the investment program, or that could impair their ability to make impartial decisions. Employees and investment officials shall disclose any material interests in financial institutions with which they conduct business, in accordance with applicable laws. They shall further disclose any personal financial/investment positions that could be related to the performance of the investment portfolio. Employees and officers shall refrain from undertaking personal investment transactions with the same individual with whom business is conducted on behalf of the [entity].

3. *Delegation of Authority*

Authority to manage the investment program is granted to [designated official, hereinafter referred to as investment officer] and derived from the following: [insert code citation, ordinances, charters or statutes]. Responsibility for the operation of the investment program is hereby delegated to the investment officer, who shall act in accordance with established written procedures and internal controls for the operation of the investment program consistent with this investment policy. At a minimum, procedures should include references to the following: safekeeping, delivery vs. payment, investment accounting, repurchase agreements, wire transfer agreements, and collateral/depository agreements. *[Please refer to GFOA's Investment Procedures Manual, 2003.]* No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the investment officer. The investment officer shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials.

V. Authorized Financial Institutions, Depositories, and Broker/Dealers

1. *Authorized Financial Institutions, Depositories, and Broker/Dealers*

A list will be maintained of financial institutions and depositories authorized to provide investment services. In addition, a list will be maintained of approved security broker/dealers selected by creditworthiness and/or other factors, such as FINRA broker check.

All financial institutions and broker/dealers who desire to become qualified for investment transactions must supply the following as appropriate:

- Audited financial statements demonstrating compliance with state and federal capital adequacy guidelines
- Proof of Financial Industry Regulatory Authority (FINRA)certification (not applicable to Certificate of Deposit counterparties)
- Proof of state registration
- Completed broker/dealer questionnaire (not applicable to Certificate of Deposit counterparties)
- Certification of having read and understood and agreeing to comply with the [entity's] investment policy.
- Evidence of adequate insurance coverage.

An annual review of the financial condition and registration of all qualified financial institutions and broker/dealers will be conducted by the investment officer. (See Appendix for the GFOA Recommended Practice on "Governmental Relationships with Securities Dealers.")

VI. Safekeeping and Custody

1. *Delivery vs. Payment*

All trades of marketable securities will be executed by delivery vs. payment (DVP) to ensure that securities are deposited in an eligible custody account prior to the release of funds.

2. *Safekeeping*

Securities will be held by a [centralized] independent third-party custodian selected by the entity as with all securities held in the [entity's] name. The safekeeping institution shall annually provide a copy of their most recent report on internal controls (Statement of Auditing Standards No. 70, or SAS 70).

3. *Internal Controls*

The investment officer shall establish a system of internal controls, which shall be documented in writing. The internal controls shall be reviewed annually by the investment committee, where present, and with the independent auditor. The controls shall be designed to prevent the loss of public funds arising from fraud, employee error, mis-representation by third parties, unanticipated changes in financial markets, or imprudent actions by employees and officers of the [entity.]

VII. Suitable and Authorized Investments

1. *Investment Types* – ***Note: Each entity needs to confirm the investment types allowed by statute or authorized by their government.***

Consistent with the GFOA Policy Statement on State and Local Laws Concerning Investment Practices[1] and other binding documents, the following investments will be permitted by this policy:

- U.S. Treasury obligations which carry the full faith and credit guarantee of the United States government;
- U.S. government agency and instrumentality obligations that have a liquid market with a readily determinable market value;
- Canadian government obligations (payable in base currency);

1 http://gfoa.org/public-policy-statements-treasury-and-investment-management#investmentpractices

- Certificates of deposit and other evidences of deposit at financial institutions,
- Bankers' acceptances;
- Commercial paper, rated in the highest tier (e.g., A-1, P-1, F-1, or D-1 or higher) by a nationally recognized rating agency;
- Corporate Bonds;
- Obligations of state, provincial and local governments and public authorities rated A or better;
- Repurchase agreements whose underlying purchased securities consist of the aforementioned instruments;
- Money market mutual funds regulated by the Securities and Exchange Commission and whose portfolios consist only of dollar-denominated securities; and
- Local government investment pools either state-administered or developed through joint powers statutes and other intergovernmental agreement legislation;
- Other investment types or asset classes as approved by the governing authority.

Investment in derivatives of the above instruments shall require authorization by the appropriate governing authority. (See the GFOA Advisory on "Use of Derivatives by State and Local Governments[2]," 2010.)

2. *Collateralization*
Where allowed by governing legislation and in accordance with the GFOA Recommended Practices on the Collateralization of Public Deposits, full collateralization will be required on all demand deposit accounts, including checking accounts and non-negotiable certificates of deposit. (See GFOA Recommended Practices in Appendix.)

3. *Repurchase Agreements*
Repurchase agreements shall be consistent with GFOA Recommended Practices on Repurchase Agreements. (See GFOA Recommended Practices in Appendix.)

VIII. Investment Diversification & Constraints

1. *Diversification*
It is the policy of the [entity] to diversify its investment portfolios. To eliminate risk of loss resulting from the overconcentration of assets in a specific maturity, issuer, or class of securities, all cash and cash equivalent assets in all [entity] funds shall be diversified by maturity, issuer, and security type. Diversification strategies shall be determined and revised periodically by the investment committee/investment officer for all funds except for the employee retirement fund.

In establishing specific diversification strategies, the following general policies and constraints shall apply: Portfolio maturities shall be staggered to avoid undue concentration of assets in a specific maturity sector. Maturities selected shall provide for stability of income and reasonable liquidity.

   - Liquidity shall be assured through practices ensuring that the next disbursement date and payroll date are covered through maturing investments or marketable U.S. Treasury bills.

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2 http://gfoa.org/use-derivatives-and-structured-investments-state-and-local-governments-non-pension-fund-investment

- Positions in securities having potential default risk (e.g., commercial paper) shall be limited in size so that in case of default, the portfolio's annual investment income will exceed a loss on a single issuer's securities.
- Risks of market price volatility shall be controlled through maturity diversification and duration management.
- The investment committee/investment officer shall establish strategies and guidelines for the percentage of the total portfolio that may be invested in securities other than repurchase agreements, Treasury bills or collateralized certificates of deposit. The committee shall conduct a quarterly review of these guidelines and evaluate the probability of market and default risk in various investment sectors as part of its considerations.

The following diversification limitations shall be imposed on the portfolio:

- **Maturity:** No more than xx percent of the portfolio may be invested beyond xx months, and the weighted average maturity of the portfolio shall never exceed xx years.
- **Default risk:** No more than xx percent of the overall portfolio may be invested in the securities of a single issuer, except for securities of the U.S. Treasury. No more than xx percent of the portfolio may be invested in each of the following categories of securities:
  a) Commercial paper,
  b) Negotiable certificates of deposit,
  c) Bankers' acceptances,
  d) Any other obligation that does not bear the full faith and credit of the United States government or which is not fully collateralized or insured and
- **Liquidity risk:** Based on liquidity needs, at least xx percent of the overall portfolio shall be invested in overnight instruments or in marketable securities which can be converted to cash within one day.

2. *Maximum Maturities*

To the extent possible, the [entity] shall attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, the [entity] will not directly invest in securities maturing more than five (5) years from the date of purchase or in accordance with governing legislation. The [entity] shall adopt weighted average maturity limitations consistent with the investment objectives.

Reserve funds and other funds with longer-term investment horizons may be segregated into a long-term "core" investment portfolio and invested in securities exceeding five (5) years if the maturities of such investments are made to coincide as nearly as practicable with the expected use of funds. The intent to invest in securities with longer maturities shall be disclosed in writing to the legislative body. (See the GFOA Recommended Practice on "Maturities of Investments in a Portfolio" in Appendix.)

3. *Competitive Bids*

The investment officer shall obtain competitive bids from at least three brokers or financial institutions on all purchases and sales of investment instruments transacted on the secondary market.

IX. Reporting

1. *Methods*
The investment officer shall prepare an investment report at least quarterly *[or monthly]*, including a management summary that provides an analysis of the status of the current investment portfolio and the individual transactions executed over the last quarter *[or month]*. This management summary will be prepared in a manner which will allow the [entity] to ascertain whether investment activities during the reporting period have conformed to the investment policy. The report should be provided to the entity's chief administrative officer, the legislative body, the investment committee and any pool participants. The report will include the following:

- Listing of individual securities held at the end of the reporting period including type, acquisition cost, book cost, and market value.
- Realized and unrealized gains or losses resulting from appreciation or depreciation by listing the cost and market value of securities over one-year duration that are not intended to be held until maturity (in accordance with Governmental Accounting Standards Board (GASB) requirements).
- Average weighted return on investments as compared to applicable benchmarks.
- Percentage of the total portfolio which each type of investment represents.
- A statement that the investment portfolio is in compliance with the investment policy and is meeting the investment policy objectives

2. *Performance Standards*
The investment portfolio will be managed in accordance with the parameters specified within this policy. The portfolio should obtain a market average rate of return during a market/economic environment of stable interest rates. A series of appropriate benchmarks shall be established against which portfolio performance shall be compared on a regular basis. The benchmarks shall be reflective of the actual securities being purchased and risks undertaken, and the benchmarks shall have a similar weighted average maturity as the portfolio.

3. *Marking to Market*
The market value of the portfolio shall be calculated at least quarterly *[or monthly]* and a statement of the market value of the portfolio shall be issued at least quarterly *[or monthly]*. This will ensure that review of the investment portfolio, in terms of value and price volatility, has been performed consistent with the GFOA Recommended Practice on "Mark-to-Market Practices for State and Local Government Investment Portfolios and Investment Pools." (See GFOA Recommended Practices in Appendix.) In defining market value, considerations should be given to the GASB Statement 31 pronouncement.

X. Policy Considerations

1. *Amendments*
This policy shall be reviewed on an annual basis. Any changes must be submitted by the investment officer and approved by the investment oversight committee or authoritative body acting in such capacity.

VI. Approval of Investment Policy

The investment policy shall be formally approved and adopted by the governing body of the [entity] and reviewed annually.

VII. List of Attachments

The following documents, as applicable, are attached to this policy:

- Listing of authorized personnel;
- Relevant investment statutes and ordinances;
- Listing of authorized broker/dealers and financial institutions;
- Detailed listing of authorized investment classes, sectors, and types;
- Internal Controls;
- Glossary

XIII. Other Documentation

- Master Repurchase Agreement, other repurchase agreements and tri-party agreements,
- Broker/Dealer Questionnaire,
- Credit studies for securities purchased and financial institutions used,
- Safekeeping agreements,
- Wire transfer agreements,
- Sample investment reports,
- Methodology for calculating rate of return,