FINANCE MEMORANDUM
#11-02

DATE: February 24, 2011

TO: Honorable Mayor Joyce Downing and City Council Members

FROM: Bill Simmons, City Manager WMS
Shawn Cordsen, Director of Finance SC

SUBJECT: Resolution CR-27 – Cash Management and Investment Policy

BACKGROUND:

The investment policy currently in use by the City was developed and approved by City Council in 1997 (Resolution 97-23). The policy guides and directs the investment and cash management activities associated with all public funds held by the City.

UPDATE:

At the February 17th Study Session, an updated investment policy as proposed by the Finance Committee was presented to City Council. The investment environment has undergone significant changes since the current policy was approved almost fourteen years ago. As such, the proposed policy document represents a complete re-write while incorporating the use of current language, regulations, references, and best practices. As discussed during the February 17th Study Session, the proposed policy maintains the basic functional elements, investment objectives, and low risk tolerance established in the current 1997 version.

The Finance Committee is collectively bringing the proposed investment policy forward for approval and adoption. A copy of the proposed policy and approving resolution has been attached.

PROS/CONS:

The revisions as proposed recognize the changing investment industry and environment over the past 14 years and are in align with State statutes regarding the investment of public funds.

The proposed policies do not result in a budgetary impact.

STAFF REFERENCE:

Contact Shawn Cordsen at scordsen@northglenn.org or at 303-450-8719.

SPONSORED BY: COUNCIL MEMBERS BROWN, CLYNE & WIENEKE

COUNCILMAN'S RESOLUTION RESOLUTION NO.

No. CR-27 ______________________________
Series of 2011 Series of 2011

A RESOLUTION ADOPTING A CASH MANAGEMENT AND INVESTMENT POLICY FOR THE CITY OF NORTHGLENN, COLORADO

BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF NORTHGLENN, COLORADO, THAT:

Section 1. The Cash Management and Investment Policy, attached hereto as Exhibit A, is hereby approved by the City Council of the City of Northglenn, Colorado. All previous cash management and investment policies approved by resolution or otherwise are hereby repealed.

DATED, at Northglenn, Colorado, this ________ day of ______________________ 2011.

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JOYCE DOWNING
Mayor

ATTEST:

____
JOHANNA SMALL, CMC
City Clerk

APPROVED AS TO FORM:

____
COREY Y. HOFFMANN
City Attorney

EXHIBIT A

PROPOSED

City of Northglenn
Investment Policy

POLICY

It is the policy of the City of Northglenn ("the City") to invest public funds in a manner that will provide preservation of capital, meet the daily liquidity needs of the City, diversify the City's investments, conform to all local and state statutes governing the investment of public funds, and generate market rates of return.

This Investment Policy addresses the methods, procedures and practices which must be exercised to ensure effective and judicious fiscal and investment management of the City's funds. It replaces any previous investment policy or investment procedures of the City.

SCOPE

This Investment Policy shall apply to all funds accounted for in the City's Comprehensive Annual Financial Report.

All cash shall be pooled for investment purposes. The investment income derived from the pooled investment account shall be allocated to the contributing funds based upon the proportion of the respective ending monthly balances relative to the total pooled balance in the investment portfolio.

INVESTMENT OBJECTIVES

The City's principal investment objectives are:

- Preservation of capital and protection of investment principal.
- Maintenance of sufficient liquidity to meet anticipated cash flows.
- Attainment of a market value rate of return.
- Diversification to avoid incurring unreasonable market risks.
- Conformance with all applicable City policies, State statutes and Federal regulations.

DELEGATION OF AUTHORITY

The Finance Director is vested with responsibility for managing the City's investment program and for implementing this Investment Policy. The Finance Director may delegate the authority to conduct investment transactions and to manage the operation of the investment portfolio to other specifically authorized staff members. No person may engage in an investment transaction except as expressly provided under the terms of this Investment Policy.

The Finance Director shall establish written procedures and internal controls for the operation of the City's investment program, designed to prevent loss of public funds due to fraud, error, misrepresentation and imprudent actions.

The City may engage the support services of outside investment advisors in regard to its investment program, so long as it can be demonstrated that these services produce a net financial advantage or necessary financial protection of the City's financial resources. If engaged, the role of such advisor shall include investment analysis, broker/dealer evaluation and recommendation, market and portfolio assessment, and general reporting. The role of outside investment advisors will be limited to non-discretionary investment activity whereby each transaction must be authorized by the Finance Director or designee and shall adhere to the policies set forth herein.

PRUDENCE

The standard of prudence, as defined by the Colorado Revised Statutes, to be used for managing the City's assets is the "prudent investor" standard applicable to a fiduciary, which states that a prudent investor "shall exercise the judgment and care, under circumstances then prevailing, which men of prudence, discretion, and intelligence exercise in the management of the property of another, not in regard to speculation but in regard to the permanent disposition of funds, considering the probable income as well as the probable safety of capital." (Colorado Revised Statutes 15-1-304, Standard for Investments.)

The City's overall investment program shall be designed and managed with a degree of professionalism that is worthy of the public trust. The City recognizes that no investment is totally riskless and that the investment activities of the City are a matter of public record. Accordingly, the City recognizes that occasional measured losses may be desirable in a diversified portfolio and shall be considered within the context of the overall portfolio's return, provided that adequate diversification has been implemented and that the sale of a security is in the best long-term interest of the City.

The Finance Director and other authorized persons acting in accordance with written procedures 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 to the City Council and appropriate action is taken to control adverse developments.

ETHICS AND CONFLICTS OF INTEREST

City employees involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the City's investment program or that could impair or create the appearance of an impairment of their ability to make impartial investment decisions. Employees shall disclose to the Finance Director any material financial interest they have in financial institutions that conduct business with the City, and they shall subordinate their personal investment transactions to those of the City.

AUTHORIZED SECURITIES AND TRANSACTIONS

All investments will be made in accordance with the Colorado Revised Statutes (C.R.S.) as follows: C.R.S. 11-10.5-101, et seq. Public Deposit Protection Act; C.R.S. 11-47-101, et seq. Savings and Loan Association Public Deposit Protection Act; C.R.S. 24-75-601, et. seq. Funds - Legal Investments; C.R.S. 24-75-603, et seq. Depositories; and C.R.S. 24-75-701and 702, Investment Funds - Local Government Pooling. Any revisions or extensions of these sections of the statutes will be assumed to be part of this Investment Policy immediately upon being enacted.

This Investment Policy further restricts the investment of City funds to the following types of securities and transactions:

1. U.S. Treasury Obligations: Treasury bills, Treasury notes, Treasury bonds and Treasury STRIPS with maturities not exceeding five years from the date of trade settlement.

2. Federal Instrumentality Securities: Debentures, discount notes, callable securities, step-up securities and stripped principal or coupons with maturities not exceeding five years from the date of trade settlement issued by the following only: Federal National Mortgage Association (FNMA), Federal Farm Credit Banks (FFCB), Federal Home Loan Banks (FHLB) and Federal Home Loan Mortgage Corporation (FHLMC).

3. Commercial Paper with an original maturity of 180 days or less that is rated by at least two Nationally Recognized Statistical Rating Organizations (NRSROs) and shall be rated at least A1+, P-1 or the equivalent at the time of purchase by all NRSROs that rate the commercial paper. If the commercial paper issuer has senior debt outstanding, it must be rated, at the time of purchase at least AA-, Aa3 or the equivalent by each NRSRO that rates the issuer. Not more than 5% of the City's portfolio may be invested in the commercial paper of any one issuer, and the aggregate investment in commercial paper shall not exceed 30% of the City's total portfolio.

4. Eligible Bankers Acceptances with maturities not exceeding 180 days, issued by FDIC insured state or national banks with combined capital and surplus of at least $250 million. Bankers Acceptances shall be rated by at least two NRSROs and shall be rated at least A-1+, P-1 or the equivalent by all NRSROs that rate them at the time of purchase. If the issuing bank has senior long-term debt outstanding, it must be rated, at the time of purchase AA-, Aa3 or the equivalent by each NRSRO that rates the bank. Not more than 5% of the City's portfolio may be invested in the bankers acceptances of any one bank, and the aggregate investment in bankers acceptances shall not exceed 30% of the City's total portfolio.

5. Repurchase Agreements with a termination date of 180 days or less collateralized by U.S. Treasury obligations or Federal Instrumentality securities listed in 1. and 2. above with a final maturity not exceeding ten years. The purchased securities shall have a minimum market value including accrued interest of 102 percent of the dollar value of the transaction. Collateral shall be held by the City's third-party custodian

bank, and the market value of the collateral securities shall be marked-to-the market daily.

Repurchase Agreements shall be entered into only with broker/dealers recognized as primary dealers by the Federal Reserve Bank of New York, or with firms that have a primary dealer within their holding company structure. Approved Repurchase Agreement counterparties shall have a short-term credit rating of at least A-1 or the equivalent and a long-term credit rating of at least A or the equivalent by a NRSRO. Repurchase agreement counterparties shall execute a City approved Master Repurchase Agreement with the City. The Finance Director shall maintain a copy of the City's approved Master Repurchase Agreement along with a list of broker/dealers who have executed same.

6. Local Government Investment Pools authorized under C.R.S. 24-75-702 that: 1) are "no-load" (no commission or fee shall be charged on purchases or sales of shares); 2) have a constant net asset value of $1.00 per share; 3) limit assets of the fund to those securities authorized by State Statute; 4) have a maximum stated maturity and weighted average maturity in accordance with Rule 2a-7 of the Investment Company Act of 1940; and 5) have a rating of AAA or the equivalent by one or more NRSROs. The aggregate investment in local government investment pools shall not exceed 35% of the City's total portfolio unless dictated otherwise by significant cash flow requirements. Furthermore, funds shall be allocated amongst the various local government investment pools as appropriate in order to support diversification of investments.

7. Non-negotiable Certificates of Deposit with a maturity not exceeding one year in any FDIC insured state or national bank, or state or federal savings bank located in Colorado that is a state approved depository per C.R.S. 24-75-603. Certificates of deposit must meet FDIC insurance limits or be collateralized as required by the Public Deposit Protection Act.

8. Money Market Mutual Funds registered under the Investment Company Act of 1940 that: 1) are "no-load" (no commission or fee shall be charged on purchases or sales of shares); 2) have a constant net asset value of $1.00 per share; 3) limit assets of the fund to those securities authorized by State Statute; 4) have a maximum stated maturity and weighted average maturity in accordance with Rule 2a-7 of the Investment Company Act of 1940; and 5) have a rating of AAA or the equivalent by one or more NRSROs.

It is the intent of the City that the foregoing list of authorized securities be strictly interpreted. Any deviation from this list must be pre-approved by the City Council.

INVESTMENT DIVERSIFICATION

It is the intent of the City to diversify the investments within the portfolio to avoid incurring unreasonable risks inherent in over-investing in specific instruments, individual financial institutions or maturities. The asset allocation in the portfolio should be flexible depending upon the outlook for the economy, the securities markets and the City's anticipated cash flow needs.

INVESTMENT MATURITY AND LIQUIDITY

The portfolio shall remain sufficiently liquid to meet all cash requirements that may be reasonably anticipated. To the extent possible, investments shall be matched with anticipated cash flows and known future liabilities as identified by management and policy makers as outlined in adopted budgets and/or long-range financial plans and implemented by staff. Investments shall be limited to maturities not exceeding five years from the date of trade settlement.

COMPETITIVE TRANSACTIONS

Each investment transaction shall be competitively transacted with authorized broker/dealers. At least three broker/dealers shall be contacted for each transaction and their bid and offering prices shall be recorded.

If the City is offered a security for which there is no other readily available competitive offering, quotations for comparable or alternative securities will be documented.

SELECTION OF BROKER/DEALERS

The Finance Director shall maintain a list of broker/dealers approved for investment purposes, and it shall be the policy of the City to purchase securities only from those authorized firms.

To be eligible, a firm must meet at least one of the following criteria:

1. Be recognized as a primary dealer by the Federal Reserve Bank of New York or have a primary dealer within its holding company structure,
2. Report voluntarily to the Federal Reserve Bank of New York,
3. Qualify under Securities and Exchange Commission (SEC) Rule 15c3-1 (Uniform Net Capital Rule).

Broker/dealers will be selected by the Finance Director on the basis of their expertise in public cash management and their ability to provide service to the City's account. Each authorized broker/dealer shall be required to submit and annually update a City approved Broker/Dealer Information Request Form that includes the firm's most recent financial statements. Broker/dealers shall attest in writing that they have received and reviewed a copy of this Investment Policy.

The City may purchase commercial paper from direct issuers even though they are not on the approved broker/dealer list as long as they meet the criteria outlined in item 3 of the Authorized Securities and Transactions section of this Investment Policy.

PROPOSED

SAFEKEEPING AND CUSTODY

The Finance Director shall approve one or more banks to provide safekeeping and custodial services for the City. A City approved safekeeping agreement shall be executed with each custodian bank. To be eligible, a financial institution shall qualify as a depository of public funds in Colorado as defined in C.R.S. 24-75-603.

The purchase and sale of securities and repurchase agreement transactions shall be settled on a delivery versus payment basis. Ownership of all securities shall be perfected in the name of the City. Sufficient evidence to title shall be consistent with modern investment, banking and commercial practices.

All investment securities, except non-negotiable Certificates of Deposit, Local Government Investment Pools and Money Market Mutual Funds, purchased by the City will be delivered by either book entry or physical delivery and will be held in third-party safekeeping by the City approved custodian bank, its correspondent bank or the Depository Trust Company (DTC).

All Fed wireable book entry securities shall be evidenced by a safekeeping receipt or a customer confirmation issued to the City by the custodian bank stating that the securities are held in the Federal Reserve System in a Customer Account for the custodian bank which will name the City as "customer."

All DTC eligible securities shall be held in the custodian bank's Depository Trust Company (DTC) participant account and the custodian bank shall issue a safekeeping receipt evidencing that the securities are held for the City as "customer."

All non-book entry (physical delivery) securities shall be held by the custodian bank or its correspondent bank and the custodian bank shall provide evidence that the securities are held for the City as "customer."

The City's custodian will be required to furnish the City monthly reports of holdings of custodied securities as well as a report of monthly safekeeping activity.

PERFORMANCE BENCHMARKS

The City's investment portfolio shall be designed to attain a market rate of return throughout budgetary and economic cycles, taking into account prevailing market conditions, risk constraints for eligible securities, and cash flow requirements. The performance of the portfolio shall be compared to the average yield on the U.S. Treasury security that most closely corresponds to the portfolio's weighted average effective maturity. When comparing the performance of the City's portfolio, all fees involved with managing the portfolio shall be included in the computation of the portfolio's rate of return net of fees.

PROPOSED

REPORTING

As part of the monthly financial reports, the Finance Director shall submit to the City Council an investment report listing the investments held by the City, the current market value of the investments and performance results. The report shall include a summary of investment earnings during the period.

POLICY REVISIONS

This Investment Policy shall be reviewed during even numbered years by the Finance Director and may be amended by the City Council as conditions warrant.

GLOSSARY

Accrued Interest: The accumulated interest due on a bond as of the last interest payment made by the issuer.

Agency: A debt security issued by a federal or federally sponsored agency (i.e. FFCB, FHLB, FHLMC, FNMA).

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.

Basis Point: A unit of measurement used in the valuation of fixed-income securities equal to 1/100 of 1 percent of yield (i.e. ¼ of 1 percent is equal to 25 basis points, 0.0025 or 0.25%).

Bid: The price offered for securities.

Book Value: The value at which a security is carried on the inventory lists or other financial records of an investor. The book value may differ significantly from the security's current value in the market.

Broker: A broker brings buyers and sellers together for a commission paid by the initiator of the transaction or by both sides; the broker does not position. In the money market, brokers are active in markets in which banks buy and sell money and in inter-dealer markets.

Callable Bond: A bond issue in which all or part of its outstanding principal amount may be redeemed before maturity by the issuer under specified conditions.

Certificate of Deposit: A time deposit with a specific maturity evidenced by a certificate. Large denomination CDs are typically negotiable.

Collateral: Securities, property, or other deposits pledged for the purpose of securing the repayment of a loan and/or security.

Commercial Paper: An unsecured short-term promissory note issued by corporations, with a fixed maturity ranging from 2 to 270 days. Commercial paper is normally sold at a discount from face value.

Coupon Rate: The annual rate of interest that a bond's issuer promises to pay the bondholder on certain types of fixed-income securities. Also known as Interest Rate.

Credit Quality Rating: The measurement, provided by nationally recognized rating agencies, of the financial strength of a bond issuer to help investors understand the issuer's ability to make timely interest payments and repay the principal upon maturity.

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

Delivery Versus Payment: A type of securities transaction in which the purchaser pays for the securities when they are delivered either to the purchaser or the purchaser's custodian.

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

Discount: The amount by which the par value of a security exceeds the price paid for the security.

Discount Securities: Non-interest bearing instruments that are issued at a discount and redeemed at maturity for full face value, e.g. U.S. Treasury bills.

Diversification: A process of investing assets among a range of security types by sector, maturity, and quality rating.

Fair Value: The amount at which an investment could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

Federal Deposit Insurance Corporation (FDIC): A public corporation, established in 1933, that insures, up to a specified amount, all demand deposits of member banks.

Federal Farm Credit Bank (FFCB) Security: Government-Sponsored Enterprise (GSE) Agency securities issued to provide credit-related services to the agricultural and farming sectors of the economy.

Federal Home Loan Bank (FHLB) Security: Government-Sponsored Enterprise (GSE) Agency securities issued to increase funds available for lending institutions who provide mortgages and similar loan agreements to individuals for affordable housing and community development projects.

Federal Home Loan Mortgage Corp (FHLMC) (aka Freddie Mac) Security: Government-Sponsored Enterprise (GSE) Agency securities issued to increase funds available for mortgage lenders in support of homeownership and rental housing.

Federal National Mortgage Association (FNMA) (aka Fannie Mae): Government-Sponsored Enterprise (GSE) Agency securities issued to increase the availability and affordability of homeownership for low-, moderate-, and middle-income Americans.

Federal Reserve System (aka The Fed): The central bank of the United States, composed of a central government agency known as the Board of Governors and twelve regional Federal Reserve Banks in major cities throughout the U.S. that regulates the U.S. monetary and financial system.

Federal Reserve Bank of New York: The largest of the twelve Reserve Banks in the Federal Reserve System in terms of asset value. The president of the Federal Reserve Bank of New York, along with presidents of four other Federal Reserve Banks who serve on a rotating basis, serve on the Federal Open Market Committee which sets and implements monetary policy.

Fed Wire: A funds transfer system for individual, small- or large-value, real-time and continuous settlement operated by the Federal Reserve. Funds are transferred immediately between financial institutions using Federal Reserve accounts.

Fixed-Income Security: An investment that provides a return in the form of fixed period payments and the eventual return of principal at maturity. Unlike a variable-income security, where payments change based on some underlying measure such as short-term interest rates, the payments of a fixed-income security are known in advance.

Interest Rate: See Coupon Rate.

Internal Controls: A structure designed to provide reasonable assurance that the assets of the entity are protected from loss, theft, or misuse.

Investment: a monetary asset purchased with the idea that the asset will provide income in the future or appreciate and be sold at a higher price.

Investment Company Act of 1940: The Federal law regulating advisors that is enforced and interpreted by the Securities and Exchange Commission (SEC). The Act is designed to protect the public from fraud or misrepresentation by investment advisers.

Investment Policy: A concise and clear statement of the objectives and parameters formulated by an investor or investment manager for a portfolio of investment securities.

Liquidity: An asset that can be converted easily and quickly into cash.

Local Government Investment Pool: An investment by local governments in which their money is pooled as a method for managing local funds.

Mark-to-Market: The process whereby the book value or collateral value of a security is adjusted to reflect its current market value.

Market Value: The price at which a security is currently trading and could presumably be purchased or sold.

Master Repurchase Agreement: A written agreement covering all future transactions between the parties to repurchase/reverse repurchase agreements that establish 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 Mutual Fund: A mutual fund that limits its investments to some or all types of money market instruments (short-term debt instruments such as Treasury bills, commercial paper, repos and federal funds).

Mutual Funds: A fund operated by an investment company that pools money and can invest it in a variety of securities, including fixed-income securities and money market instruments.

Net Asset Value: The market value of one share of an investment company, such as a mutual fund. This is calculated once a day based on the closing price for each security in the fund's portfolio,
(Total Assets – Liabilities) / Number of Shares Outstanding

No Load Fund: A mutual fund which does not levy a sales charge on the purchase of its shares.

Par Value: Face value or principal value of a bond.

Portfolio: Collection of securities held by an investor.

Premium: The amount by which the price paid for a security exceeds the security's par value.

Primary Dealer: A pre-approved bank, broker/dealer or other financial institution that is able to make business deals with the U.S. Federal Reserve. These dealers must meet certain liquidity and quality requirements as well as provide a valuable flow of information to the Fed about the state of the worldwide markets.

Principal: The face value or par value of a debt instrument.

Prudent Investor Rule: An investment standard outlining the fiduciary responsibilities of public funds investors relating to investment practices. The standard states that 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.

Public Deposit Protection Act (PDPA): Colorado legislation that establishes standards and procedures to ensure the preservation and protection of all public funds held on deposit by a bank that are either not insured by or are in excess of the insured limits of federal deposit insurance, and to ensure the expedited repayment of such funds in the event of default and subsequent liquidation of a bank which holds such deposits. The Act states that no bank shall hold any public funds unless such bank has been designated as an eligible public depository pursuant to the provisions of this article.

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 or the current income return.

Ratings: An evaluation of an issuer of securities by Moody's, Standard & Poor's, Fitch, or other rating services of a security's credit worthiness.

Repurchase Agreement (Repo): A holder of securities sells these securities to an investor with an agreement to repurchase them at a fixed price on a specified later date. The investor "buyer" in effect lends the "seller" money for the period of the agreement, and the terms of the agreement are structured to compensate the investor.

Rule 2a-7 of the Investment Company Act: Mandates all money market mutual funds maintain certain standards, including a 13-month maturity limit and a 90-day average maturity on investments, to help maintain a constant net asset value of one dollar ($1.00).

Safekeeping: Holding of assets, such as securities, by a financial institution.

Treasury Bills: Short-term U.S. government non-interest bearing debt securities issued at a discount with maturities of no longer than one year.

Treasury Bonds: Interest bearing long-term U.S. government debt securities having initial maturities of ten years or longer.

Treasury Notes: Interest bearing intermediate U.S. government debt securities having initial maturities of from one to ten years.

Weighted Average Maturity (WAM): The average maturity of all the securities that comprise a portfolio.

Weighted Average Life (WAL): A measure that summarizes the maturity characteristics of a pass through security using prepayment assumptions.

Yield: The rate of annual income return on an investment security, expressed as a percentage.

Yield-to-Call (YTC): The rate of return an investor earns from a bond assuming the bond is redeemed (called) prior to its scheduled maturity date.

Zero Coupon Security: Security that is issued at a discount and makes no period interest payments. The rate of return consists of a gradual accretion of the principal of the security and is payable at par upon maturity.