

CITY OF ROSWELL

INVESTMENT POLICY

Draft - August 2011

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DRAFT

**RESOLUTION TO ADOPT
CITY OF ROSWELL
INVESTMENT POLICY**

MISSION

It is the policy of the City of Roswell, Georgia, to invest public funds in a manner which will provide the maximum security with the best investment return, while meeting the daily cash flow demands of the City and conforming to all state and local statutes governing the investment of public funds.

PURPOSE

The purpose of this policy is to insure that the City of Roswell conducts its investment activity in a responsible manner, fully in compliance with regulations and within the authority granted by the Mayor and Council.

SCOPE

This investment policy applies to all funds under the control of the City of Roswell which are eligible to be invested, exclusive of pension obligations. These funds are accounted for the City's Comprehensive Annual Financial Report.

PRUDENCE

Investments shall be made with judgement and care, under the 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 standard of prudence to be used by investment officials shall be the "prudent person" and/or "prudent investor" standard and shall be applied in the context of managing an overall portfolio. 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.

OBJECTIVE

The City of Roswell's investment objectives, in order of priority are:

Safety: To insure that losses are avoided to the principal of the City's investments and deposits

Compliance: To conform to the requirements of Federal and State Law.

Liquidity: To generate sufficient cash to meet all operating requirements and pay obligations as they become due.

Income: To maximize the amount of interest income within the constraints of the objectives.

DELEGATION OF AUTHORITY

The City Administrator or his designee shall have the responsibilities for investment decisions and activities. The City Administrator or his designee shall develop and maintain written procedures for the operation of the investment program consistent with these policies.

INVESTMENT INSTRUMENTS

The terms “debt instrument” and security may be used interchangeably herein and refer to bonds, bills, notes or other instruments which evidence the debt of the issuer, ~~which evidence the debt of the issuer~~ which issuer is required to pay interest thereon, whether the interest is fixed or floating. The instruments may be callable prior to maturity date, however, the issuer is required to pay the face amount of the instrument and all the interest accrued thereon.

INVESTMENT PROCEDURES

The City Administrator or his designee shall establish a separate written investment procedure for the operation of the investment program consistent with this policy. The procedures should include reference to safekeeping, repurchase agreements, wire transfer agreements, banking service contracts, cash flow forecasting 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 City Administrator or his designee.

COMPETITIVE BIDS

Before the City invests any surplus funds (see exception, following paragraph) in the purchase of Securities, Certificates of Deposits or Collateralized Repurchase Agreements with a maturity date greater than 30 days, a competitive “bid” process shall be conducted. Bids will be requested from financial institutions on a rotation basis for various options with regard to term and instrument. The City will accept the bid that provides the highest rate of return within the maturity required and within the guidelines of these policies.

From time to time, various government agencies announce the issue of new securities to the financial markets. Since all new issues are sold at par, the City would not realize any benefit by purchasing these securities through the competitive bid process. If a new issue or “To Be Announced” (“TBA”) security falls within the portfolio diversification and maturity requirements of the City, the City Administrator or his designee may at his/her discretion place the investment with the bank or broker who initiated the contact on the investment opportunity.

Records will be kept of the bids offered, to include the names of the institutions invited to bid and the rates quoted by them. Should a bid be accepted that does not provide the highest yield, an explanation must be included in these records.

ETHICS AND CONFLICTS OF INTEREST

Officers and employees involved in the investment process shall be prohibited from personal business activities that could conflict with the proper execution and management of the investment program or that could impair their ability to make impartial decisions. They shall disclose any interest they have with financial institutions with which they conduct the City's business. Officers and employees shall be prohibited from undertaking personal investment transactions with the same individual with whom business is conducted on behalf of the City.

AUTHORIZED FINANCIAL DEALERS AND INSTITUTIONS

The City shall maintain a list of qualified financial institutions from which to solicit investment bids. The City Administrator or his designee will review the audited Financial Statements of any institution that wishes to be included on such list and make a bona fide, good faith effort to ensure that the City deal only with reputable banks and broker/dealers not in financial trouble. All financial institutions and broker/dealers for investment transactions must submit proof of National Association of Security Dealers certification and a letter certifying that the entity has read the investment policy and depository contracts and agrees to abide by them. The City Administrator or his designee may remove, at any time, with or without just cause and without notification, any financial institution or broker/dealer from the list of qualified financial institutions. On an annual basis the list of qualified financial institutions and broker/dealers will be presented to the Administration/Finance and Recreation and Parks Committee.

An annual review of the financial condition registrations of qualified financial institutions and broker/dealers will be conducted by the City Administrator or his designee. A current audited financial statement is required to be on file for each financial institution and broker/dealer in which the City invests. The City will maintain a list of not more than 15 qualified institutions from which investments may be purchased.

AUTHORIZED AND PERMITTED INVESTMENTS

From the governing body perspective, special care must be taken to ensure that the list of instruments includes only those allowed by law and those that the City Administrator or his designee are trained and competent to handle.

- (A) U.S. Treasury obligations guaranteed by the United States government, bills, notes, and bonds whose maturity does not exceed ~~three~~ **five (5)** years from the purchase date. An exception can be made in regard to the maturity if it can be shown that the funds to be invested are intended to relieve an obligation that will not come due for more than ~~three~~ **five (5)** years and the security's maturity date is on or before the due date of the City's obligation.
- (B) Approved obligations of the United States government or agencies limited to the following:
 - (1) Federal Farm Credit Banks (FFCB)
 - (2) Federal Home Loan Bank (FHLB)
 - (3) Federal Home Loan Mortgage Corporation (FHLMC)
 - (4) Federal National Mortgage Association (FMNA)
 - (5) Government National Mortgage Association (GNMA)

Notes, bonds or mortgage-backed securities of said agencies and collateralized mortgage obligations, whether fixed or floating, are required to have a maturity date which does not exceed ~~three~~ **five (5)** years from the date of purchase unless it can be shown that the funds to be invested are intended to relieve an obligation that will not come due until after the maturity date.

- (C) Collateralized repurchase contracts, that is repurchase contracts of U.S. Treasury obligations or obligations of approved United States government agencies, which are collateralized by obligations of the United States government with a maturity not to exceed six (6) months. A Master Repurchase Agreement signed with the bank or dealer shall be on file prior to any such purchases.
- (D) Certificates of deposit shall have a term not to exceed three years unless it can be shown that the funds to be invested are intended to relieve an obligation that will not come due until after the maturity date.
- (E) Interest bearing bank accounts have no time limitation because of the high liquidity of such accounts.
- (F) O.C.GA 36-83-1 to -8 authorizes Georgia local governments to invest funds through the local government investment pool. Investments in pools managed by the State of Georgia shall have no time limit because of the high liquidity afforded by the pools.

REPURCHASE AGREEMENTS

The City shall be authorized to purchase repurchase agreements only to the extent that such are collateralized by permitted investments with a market value equal to 110% of the investment, and to the extent that such collateral is held by a third-party custodian approved by the City. A master repurchase agreement must be signed with each bank or dealer from whom the City buys repurchase agreements.

LIMITATION ON MATURITY AND LIQUIDITY

To the extent possible the City shall try to match its investments with anticipated cash flow requirements. Unless matched with a specific cash flow, the City shall not purchase any bond, note, certificate of deposit or other instrument whose maturity date is greater than ~~three~~ **five (5)** years from the date of purchase **with the investment portfolio having an average maturity of three (3) years consistent with the investment objectives.** ~~If the funds invested are held to pay an expense required to be paid in less than three years, the maturity shall not exceed the date said funds are committed.~~

Reserve funds and other funds with longer-term investment horizons may be 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.

Because of inherent difficulties in accurately forecasting cash flow requirements, a portion of the portfolio should be continuously invested in readily available funds such as Georgia Fund 1, money market funds, or overnight repurchase agreements to ensure that appropriate liquidity is maintained for ongoing obligations.

“Maturity” shall mean the date upon which the entire principal and accrued interest of the debt instrument is due and payable in full, including any right of extension.

PROHIBITIONS

The purchase of any investment in any security or debt instrument of any type which has any of the characteristics contained in the section is prohibited. Such characteristics are: (1) any security which is a component of or derivative of another security, which purchase involves less than the entire principal and interest of the original debt instrument. (Purchase of an undivided interest in an approved debt instrument, i.e., as in a repurchase agreement so long as the undivided interest is in the entire principal and interest and the debt instrument meets the other qualification contained herein; and, collateralized mortgage obligations are permitted.) (2) any debt instrument involving the right to receive interest and pay principal based on any rate other than the face rate of the bond or the face rate as dictated by the applicable market rate for the

security as a whole; (3) any debt instrument whose value at maturity may be less than its face value and (4) any security whose value is portion of another security or whose rate depends directly upon another; however, this shall not prevent the purchase of any security which meets the other qualifications contained herein, which is a floating interest rate based directly upon the London Interbank Offered Rates (LIBOR) rate, or the Treasury Bills rate, and floats in accordance thereto.

PROHIBITED SECURITIES

In accordance with the foregoing, certain types of securities are strictly prohibited. They are reverse purchase agreements, Z tranche securities and mutual funds.

MARGIN TRANSACTIONS PROHIBITED

No security owned by the City shall be allowed to be used as security for the purchase of another security, and the City shall be prohibited from borrowing other than in the normal course of business for the purchase of any debt securities.

COLLATERALIZATION

In accordance with O.C.GA 45-8-12 collateralization will be required on certificates of deposits, money market bank accounts and repurchase agreements.

Collateral will be held by an independent third party. Clear evidence of ownership must be supplied to the City and retained by the City Administrator or his designee.

SAFEKEEPING AND CUSTODY

All security transactions, including collateral for repurchase agreements, entered into by the City of Roswell shall be conducted on a delivery-versus-payment (DVP) basis. Securities will be held by a third party custodian designated by the City Administrator or his designee and evidenced by safekeeping receipts with a written custodial agreement.

DIVERSIFICATION

To avoid incurring unreasonable risks the City will diversify its investment instruments and financial institutions holding highly liquid investment vehicles.

<i>By Instrument</i>	Maximum % of Portfolio
U. S. Treasury Obligations	100%
Obligations of approved U.S. Government Agencies	100%
Repurchase Agreements Collateralized by U.S. Government securities	25%
Certificates of Deposit	75%
Money Market bank accounts	100%
State sponsored local government investment pools (e.g. the Georgia One Fund)	50%

<i>By Institution</i>	Maximum % of Portfolio
U. S. Treasury	100%
A single U.S. Government Agency	75%
A single commercial bank – combined Certificates of Deposit and Money Market bank accounts	50%
State sponsored local government investment pools	50%

REPORTING

On a monthly basis the City Administrator or his designee will prepare an investment report that summarizes the portfolio in terms of invested securities, original cost, face value, maturities, returns and other features and submit it to the Administration/Finance Committee.

INTERNAL CONTROL

The City shall establish an annual process of independent review by an external auditor. This review will provide internal control by assuring compliance with the provisions of the Investment Policy, Generally Accepted Accounting Principles (GAAP), and segregation of duties among individuals responsible for the investment of City funds.

PERFORMANCE STANDARDS

The investment portfolio shall be designed with the objective of obtaining a rate of return throughout budgetary and economic cycles, commensurate with the investment risk constraints and cash flow needs.

The basis used to by the City Administrator or his designee to determine whether market yields are being achieved shall be to compare the city's results with the one year treasury bill or any other appropriate industry standard benchmark.

GENERAL PURPOSE FOR ENACTING RESOLUTION

The City's intent in this Resolution is to enable the City to receive the highest interest rate available while reducing the credit and interest rate risk to its principal investment. These restrictions are not intended to make any current investment "ultra vires", but to set forth its investment policy. This Resolution is intended to prevent the purchase of speculative or potentially uncreditworthy investments whose value is interest rate driven and have a potential of diminishing the original amount paid.

This resolution is not intended to prevent the purchase of permitted investments in such manner as to take advantage of interest rate changes so as to maximize the amount of interest income to the City during such period as the City Administrator or his designee shall deem appropriate. That is to say, the City Administrator or his designee within such confines may purchase or take a position in such securities, certificates of deposit, money market bank accounts or other permitted investments which in his/her best judgement is beneficial to the City, including the purchase and sale of permitted securities, bonds, certificates of deposit, taking a cash position or other permitted actions.

Although this resolution is intended to prevent the City from taking what is considered a "short position on any security", it is also intended to permit the purchase of, within the above-described parameters, debt obligations which are at a fixed or floating rate,

REVISIONS TO POLICY

Revisions to this policy require an affirmative vote of the City Council.

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