

**CITY OF PEORIA, ARIZONA
COUNCIL COMMUNICATION**

CC: 160-50
Amend No. _____

Date Prepared: May 12, 2005

Council Meeting Date: May 24, 2005

TO: Terry Ellis, City Manager

FROM: John F. Wenderski, Chief Financial Officer 

SUBJECT: Investment and Portfolio Policies Revision

RECOMMENDATION:

That Mayor and Council adopt Res. No. 05 - 68; approving revisions of the City of Peoria, Arizona, Investment and Portfolio Policies to incorporate language regarding recent changes to Government Accounting Standards Board (GASB) reporting requirements.

SUMMARY:

Council adopted the City's Investment and Portfolio Policies in January 1992 and approved revisions to the policy in September 2003. The Investment and Portfolio Policies document directs the City's investment and trading activities. Since that time, the Government Accounting Standards Board (GASB) has issued new standards that impact and further clarify reporting of investment activity in the City's Annual Comprehensive Annual Financial Report (CAFR).

GASB Statement No. 3 requires disclosure of credit and custodial risk and GASB Statement No. 31 requires the reporting of investments at fair value in the balance sheet of a governmental entity's annual financial report. The City currently complies with these two requirements as part of our annual financial reporting process. However, GASB Statement No. 40, which goes into effect after June 15, 2005, requires further disclosure of investment risk through the identification of interest rate risk, credit risk and concentration of credit risk. GASB Statement No. 40 also requires governmental entities to include a statement of compliance within their investment policies.

In order to comply with the new GASB standard this fiscal year, the City must include additional compliance language within its investment policy. The required language has been added to Sections 11.3 and 11.4 of the City's Investment and Portfolio Policies, which has been included as Exhibit A.

CITY CLERK USE ONLY:

- Consent Agenda
- Carry Over to Date: _____
- Approved
- Unfinished Business (Date heard previous: _____)
- New Business

ORD. # _____ RES. # 05-68
LCON# _____ LIC. # _____
Action Date: _____

Staff is requesting that the Mayor and Council approve the proposed modifications to the Investment and Portfolio Policies by resolution. The resolution has been reviewed and approved as to form by the City Attorney's Office.

ATTACHMENTS:

1. Resolution 05 - 68
Exhibit A - Investment and Portfolio Policies

Dc:/H:/GASB changes to investment policy_cc.doc

RESOLUTION NO. 05 - 68

A RESOLUTION OF THE MAYOR AND COUNCIL OF THE CITY OF PEORIA, MARICOPA COUNTY, ARIZONA ADOPTING POLICIES GOVERNING THE INVESTMENT OF PUBLIC MONIES AND TO ESTABLISH GUIDELINES FOR THE MANAGEMENT OF CITY FUNDS; AND PROVIDING FOR AN EFFECTIVE DATE.

WHEREAS, the Mayor and Council of the City of Peoria is granted the authority to provide for the investment of public monies and the management of City funds pursuant to Title 35, Arizona Revised Statutes and the Peoria City Charter; and

WHEREAS, the Mayor and Council of the City of Peoria determine that is in the public interest to provide for clear definitions of appropriate investments and to establish standards for reporting on City Investments.

WHEREAS, the Chief Financial Officer exercises the day to day authority over the investment and management of public monies held by the City.

THEREFORE, it is resolved by the Mayor and Council of the City of Peoria, Maricopa County, Arizona as follows:

SECTION 1. ADOPTION OF THE INVESTMENT AND PORTFOLIO POLICIES.

That the Mayor and Council adopt and approve the investment and portfolio policies attached as Exhibit "A" as the official guidelines for the investment and management of all public monies held by the City of Peoria.

SECTION 2. RESPONSIBILITY OF THE CHIEF FINANCIAL OFFICER

That the Chief Financial Officer is authorized and directed to invest and manage all public monies held by the City of Peoria in accordance with these adopted investment and portfolio policies.

SECTION 3. EFFECTIVE DATE.

This resolution shall become effective in the manner provided by law.

PASSED AND ADOPTED by the Mayor and Council of the City of Peoria,
Arizona, this 24th day of May , 2005.

John C. Keegan, Mayor

ATTEST:

Mary Jo Kief, City Clerk

APPROVED AS TO FORM:

Stephen M. Kemp, City Attorney

City of Peoria, Arizona
Investment and Portfolio Policies

- Policy 1.0 Policy:
- It is the policy of the City of Peoria to invest public funds with maximum security in a manner which will provide the highest reasonable investment return while meeting the daily cash flow demands of the City and conforming to all applicable State and Local statutes governing the investment of public funds.
- Scope 2.0 Scope:
- This investment policy applies to all financial assets and funds held by the City of Peoria. These funds are accounted for in the City of Peoria, Arizona, Comprehensive Annual Financial Report and include:
- 2.1 Funds:
- 2.1.1 General Funds
 - 2.1.2 Special Revenue Funds
 - 2.1.3 Capital Project Funds
 - 2.1.4 Enterprise Funds
 - 2.1.5 Debt Service Funds
 - 2.1.6 Trust and Agency Funds
 - 2.1.7 Any new funds created by the City, unless specifically exempted.
- Objectives 3.0 Objectives:
- The primary objective, in priority order, of the City of Peoria investment activities shall be:
- Safety 3.1 Safety. Safety of principal is the foremost objective of the City of Peoria. Investments of the City shall be undertaken in a manner that seeks to insure the preservation of capital in the overall portfolio.

Liquidity

- 3.2 Liquidity. The City of Peoria investment portfolio will remain sufficiently liquid to enable the City to meet all operating requirements which might be reasonably anticipated. The liquidity requirements will be based on regularly updated cash flow analysis.
- 3.3 Diversification. To attain the City's objectives, diversification is required in the portfolio composition. Diversification of the portfolio will include diversification by maturity and market sector and will include the use of a number of broker/dealers for competitive market coverage. Competitive bidding will be used on each sale and purchase.

Yield

- 3.4 Yield. The City of Peoria investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the City's very strict risk constraints and based on regularly updated cash flow characteristics of the portfolio.

4.0 Delegation of Authority:

- 4.1 The Chief Financial Officer is designated as Investment Officer of the City and is responsible for investment decisions and activities, under the direction of the City Manager. The Deputy Director of Management Services, Revenue Manager, Treasury Manager and Accountant are hereby designated Deputy Investment Officers. Investment advisers contracted by the City serve as designated Investment Officers. All designated Officers will comply with provisions of the Policy.
- 4.2 The Chief Financial Officer shall develop and maintain written administrative procedures for the operation of the investment program, consistent with this Policy. These written procedures are to be reviewed and verified annually. The procedures should include the following areas: safekeeping procedures, Public Security Association Master Repurchase Agreements, wire transfer agreements, trade document initialization and retention requirements, collateral/deposit agreements, and banking service and supplemental banking contracts.

- 4.3. No officer or adviser may engage in an investment transaction except as provided under the terms of this Policy and the procedures established by the Chief Financial Officer and approved by the City Manager.
- 4.4 The Chief Financial Officer shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials.

Prudence

5.0 Prudence:

- 5.1 The standard of prudence to be used by all Investment Officers shall be the "prudent person" standard and shall be applied in the context of management of the overall portfolio. The "prudent person" standard states that: *Investments shall be made with judgement and care, under circumstances then prevailing, that 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.*
- 5.2 The Investment Officer, acting in accordance with written policies and procedures and exercising due diligence, shall not be held personally liable for a specific security's credit risk or market price changes, provided that any deviations are reported in a timely manner and that appropriate action is taken to control adverse developments.
- 5.3 Investment Officers shall refrain from personal business activity that could conflict with the proper execution of the investment program or could impair their judgement to make impartial investment decisions. Any material business relationship with financial institutions or counter-parties shall be disclosed to the City Manager.

Internal
Control

6.0 Internal Controls:

All written administrative and internal controls will be reviewed annually with the independent auditor. The controls shall be designed to prevent loss of public funds due to fraud, employee error, misrepresentation by third parties, unanticipated market changes or imprudent actions of employees of the City of Peoria or investment counter-parties.

Effective cash management is recognized as essential to good fiscal management. Cash management is defined as the process of managing monies in order to ensure maximum cash availability. The City shall maintain a comprehensive cash management program that includes collection of accounts receivable, prudent investment of its assets, disbursement of payments in accordance with invoice terms and the management of banking services.

Authorized
Investments

7.0 Authorized and Suitable Investments:

City funds may be invested in:

- 7.1 Obligations of the United States Government, its agencies and instrumentalities with a maximum maturity of five years;
- 7.2 Fully insured or collateralized certificates of deposit and other evidence of deposit at banks and savings institutions doing business within Arizona with a maximum maturity of six months;
- 7.3 Banker's Acceptances eligible as collateral for borrowing from the Federal Reserve, of U.S. banks whose short-term obligations are rated Aa or better by two nationally recognized rating agencies, and with a maximum maturity of 180 days;
- 7.4 Commercial paper rated A-1/P-1 or the equivalent by two nationally recognized rating firms and with a maximum maturity of 270 days;
- 7.5 Repurchase agreements, whose underlying collateral consist of securities in section 7.1 of this Policy and executed with an Arizona bank or primary dealer, under the provisions of and with a maximum maturity of five years;
- 7.6 SEC registered money market funds whose portfolios are limited to the foregoing authorized securities; and
- 7.7 The State of Arizona's Local Government Investment Pool.

7.8 Competitive Bidding Requirement:

All securities, including certificates of deposit, will be purchased or sold after a minimum of two (2) offers/bids are taken to verify that the City is receiving fair market value/price for the investment.

Authorized Dealers 8.0

Authorized Financial Dealers and Institutions:

- 8.1 The City shall maintain a list of financial dealers and institutions, including full information on the firm and broker and annual financial statements, authorized to provide investment services. Banks and savings banks ~~and loans~~ shall provide their most recent Consolidated Report of Condition ("call" report) on a quarterly basis. At a minimum, the City shall conduct an annual evaluation of each firm and each bank's creditworthiness to determine whether it should be on the "Qualified Institution" listing.
- 8.2 Securities dealers not affiliated with a bank shall be required to be classified as reporting dealers affiliated with the New York Federal Reserve Banks, as primary dealers or, meet certain other criteria as set forth by the City.

Maturities 9.0

Portfolio Diversification and Maturities:

- 9.1 It is the policy of the City to diversify its investment portfolio by security type and institution in accordance with the following diversification limitations:

<u>Security Type</u>	<u>Max. Percent of Portfolio</u>
U.S. Treasury Obligations	80%
U.S. Agency Obligations	80%
With one agency	40%
U.S. Instrumentality Obligations	80%
With one instrumentality	40%
Certificates of Deposit	20%
With one financial institution	10%
Bankers Acceptances	20%
Commercial Paper	35%
With one issuer	10%
Repurchase Agreements	75%

With one counter-party	20%*
Money Market Funds	35%
Arizona Investment Pool	35%

* Excluding bond funds in which a flex repurchase agreement is utilized for the entire bond issue's proceeds.

- 9.2 The Investment Officer will attempt to match investment maturities to known or projected cash flow requirements. If not matched to a specific cash flow requirement, funds will be invested with an emphasis on liquidity until such time as an expenditure date can be determined. Core funds with no anticipated cash requirements may be invested without regard to liquidity.
- 9.3 To control risks of liquidity, a minimum of 35 percent of the total portfolio shall be invested in permitted investments with a maturity of one year or less.
- 9.4 The Investment Officer will insure that no more than 20 percent of the investment portfolio may be invested for a period greater than three years.

Maxium Maturityies

- 9.5 The dollar-weighted average maturity (WAM) of the City's overall portfolio shall not exceed one (1) year.
- 9.6 The performance benchmark for evaluating the performance and measuring the risk of the City's investment portfolio shall be the one year Treasury Bill yield for the same period which closely matches the portfolio's projected average maturity and reflects the portfolio's target composition.

Safekeeping 10.0 Safekeeping and Collateralization:

- 10.1 All security transactions, including collateral for repurchase agreements, entered into by the City shall be conducted on a delivery versus payment basis (DVP).
- 10.2 A City approved independent third party custodian ~~designated~~ shall be designated to hold all securities and collateral. The third party custodian shall issue an original safekeeping receipt to the City listing the specific instrument, rate, maturity, and other pertinent

information; and the receipt shall indicate that the security is pledged to the City of Peoria.

- 10.3 Collateralization will be required on two types of investments: Certificates of Deposit and Repurchase Agreements.
- 10.4 In order to anticipate market changes and provide a level of security for all funds, the acceptable collateralization level of certificates of deposit shall be that which is established and enforced by the State of Arizona Banking Commission. This level is currently 110 percent. For repurchase agreements, the collateralization level will be 102 percent of the market value of principal and accrued interest. All collateral on repurchase agreements shall be priced daily. The bank or counterparty will be responsible for monitoring and maintaining the margin requirements at all times.

Performance 11.0 Performance Evaluation:
Evaluation

- 11.1 The Investment Officer shall submit quarterly and annual reports to the City Manager and City Council containing sufficient information to permit an informed outside reader to evaluate the performance of the investment program. Internal investment reports will be produced on a monthly basis.
- 11.2 The Investment Officer shall maintain complete and accurate reports on daily investment transactions and shall prepare monthly reports to be retained in the Finance Department. Reports are to include inventory reports, transaction reports and performance reports.
- 11.3 The Investment Officer shall include a report on investment activity and returns in the City's Comprehensive Annual Financial Report including information required by GASB Statements 3, 31 and 40 which report safekeeping and collateral risk, fair value calculations and security market risks respectively.
- 11.4 The performance benchmark for evaluating the performance and measuring the risk of the City's investment portfolio shall be the one year Treasury Bill yield for the same period which closely matches the portfolio's projected average maturity and reflects the portfolio's target composition.

~~11.4 The Investment Officer shall establish an appropriate performance benchmark for evaluating the performance of the City's investment portfolio. The benchmark selected shall be one which closely matches the portfolio's average maturity and composition.~~

Adoption 12.0 Investment Policy Adoption:

The City's investment policy shall be adopted by resolution of the City Council. The Policy shall be reviewed on an annual basis by the City Manager and any significant or material modifications thereto must be approved by the City Council and reflected on the approving resolution.