

**City of Carson City
Agenda Report**

Date Submitted: 6/28/11

Agenda Date Requested: 07/07/11

Time requested: ~~Consent Agenda~~ 5 MIN

To: Mayor and Supervisors

From: Al Kramer, Carson City Treasurer

Subject Title: Presentation of city investment policy and action to accept the policy as presented.

Staff Summary: According to the Carson City Charter, Sec. 3.045 2(d), the Treasurer shall establish and maintain a policy for the investment of the surplus money of Carson City. The board of supervisors shall review the policy at least once a year at a public hearing at which public comment is accepted.

Type of Action Requested: (check one)
() Resolution () Ordinance (First Reading)
(X) Formal Action/Motion () Other (State)

Does This Action Require A Business Impact Statement: () Yes (X) No

Recommended Board Action: Make I move to accept the policy as presented.

Explanation for Recommended Board Action: Charter requirement

Applicable Statue, Code, Policy, Rule or Regulation: Charter 3.045 2(d)

Fiscal Impact: To be determined

Explanation of Impact: Annual requirement.

Funding Source: N/A

Alternatives: Modify policy.

Supporting Material: Copy of policy

Prepared By: Alvin P. Kramer, Carson City Treasurer *APK*

Reviewed By: _____
(Finance Director) *Samuel Poulos*

Date: _____

(City Manager)

Date: *6/28/11*

(District Attorney)

Date: *6/28/11*

Board Action Taken:

Motion: _____ 1) _____ Aye/Nay
2) _____

(Vote Recorded By)

**CARSON CITY, NEVADA
A CONSOLIDATED MUNICIPALITY
INVESTMENT AND PORTFOLIO POLICIES**

I. INTRODUCTION

- A. The investment of Carson City, a consolidated municipality (hereinafter referred to as the "City"), funds is a function performed by the City Treasurer following policy acknowledgment by the City Board of Supervisors. The investment program's operation is the responsibility of the City Treasurer.
- B. It is the intent of this policy to establish guidelines for the prudent investment of these City funds.

II. SCOPE

- A. This policy applies to activities of the City with regards to the investing of the financial assets of all funds, including the following:

- General Fund
 - Special Revenue Funds
 - Capital Project Funds
 - Enterprise Funds
 - Debt Service Funds
 - Internal Service Funds
 - Trust and Agency Funds

- 1. Should bond covenants be more restrictive than this policy, funds will be invested in full compliance with those restrictions.

III. OBJECTIVES

- A. **Safety:** Safety of principal is the foremost objective of the City's investment program. Investments by the City Treasurer shall be undertaken in a manner that seeks to ensure the preservation of principal in the overall portfolio.
- B. **Liquidity:** The City's investment portfolio will remain sufficiently liquid to enable the City to meet all operating requirements which might be reasonably anticipated.
- C. **Return on Investment:** The City's portfolio shall be invested with the objective of obtaining an appropriate market rate of return in relation to the prevailing budgetary and economic environments. This would take into account the City's investment risk constraints and the cash flow characteristics of the portfolio.

IV. PERFORMANCE EVALUATION

- A. The Majority of the City's investment strategy is defined as minimally active. The short term portion may be invested in short term treasuries. These treasuries may be enhanced if done in such a manner as to not add risk, that is, trades will be made after interest rates or relative values change, not as such changes are anticipated. Given this strategy, the basis used by the City Treasurer to determine whether competitive market yields are being achieved will be based on multiple bench marks. The short term portfolio

will be marked against the Merrill Lynch 0-1 Treasuries Index. The longer portfolios will be measured against either the Merrill Lynch 1-3 year agency index or the Merrill Lynch 3-5 year agency index.

V. AUTHORIZATION

- A. Funds of the City will be invested in compliance with the provisions of Nevada Revised Statutes, Chapter 355.167 through 355.200, and other applicable statutes including Chapter 350.659. Investments will be in accordance with these policies and written administrative procedures. Investment of any tax exempt borrowing proceeds and of any Debt Service Fund will comply with the 1986 Tax Reform Bill provisions referring to the Internal Revenue Code Section 148 which deals with arbitrage.

VI. PRUDENCE

- A. The standard of prudence to be used by authorized treasury personnel shall be the following "prudent person" standard, as hereafter quoted, and shall be applied while conducting all investment transactions:

"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."

VII. AUTHORIZED INVESTMENTS

The City Treasurer, in accordance with the provisions of NRS 355.170, 355.180, and this investment policy, is authorized to invest in:

- A. United States Treasury Bills, Notes, and Bonds;
- B. United States Government Agency Securities;
1. Federal National Mortgage Association (FNMA - Fannie Mae)
 2. Federal Home Loan Bank
 3. Federal Farm Credit Bank
 4. Federal Home Loan Mortgage Corporation (FHLMC - Freddie Mac)
- C. Negotiable Certificates of Deposit;
1. Issued by commercial banks
 2. Issued by insured savings and loan associations
- D. Bankers' Acceptances;
1. Maximum maturity of 180 days
 2. Aggregate book value may not exceed 20% of the total book value of the portfolio
- E. Commercial Paper;
1. Maximum maturity of 270 days
 2. Rating must be A-1, P-1, or its equivalent or better
 3. Aggregate book value may not exceed 20% of the total book value of the portfolio (See XI Diversification A-2)
- F. Money Market Mutual Funds;

1. Rating must be AAA or equivalent by nationally recognized rating service.
2. Invests only in securities issued by the Federal Government or its agencies or in repurchase agreements fully collateralized by such securities.

G. Repurchase Agreements;

1. Executed with a qualified counterparty designated in advance by the Board of Supervisors.
 - a. Counterparty means a bank which is organized and operating or licensed to operate in the United States under federal or state law or a securities dealer which is a registered broker/dealer, designated by the Federal Reserve Bank of New York as a "primary" dealer in United States government securities, and in full compliance with all applicable capital requirements.
2. A written master repurchase agreement in a form satisfactory to the Board of Supervisors is executed prior to entering into a repurchase agreement
3. Maximum maturity of 90 days
4. Collateral requirements (see IX A)

H. Time Certificates of Deposit;

1. Collateral requirements (see IX B).

VIII. FUNDS INVESTED WITH STATE TREASURER

Funds invested with the State Treasurer in the LGIP or NVEST portfolios may be invested as permitted by NRS.

IX. COLLATERALIZATION

- A. The collateral for repurchase agreements shall be United States Treasury or United States government agency securities with a term of maturity of no more than ten years. The market value of purchased securities must be at least 102% of the repurchase price. At a minimum, the value of the securities must be marked-to-market on a weekly basis.
- B. Uninsured time certificates of deposit with commercial banks and insured savings and loan associations shall be collateralized in the manner prescribed by NRS 356.020 for depositories accepting City investment funds.

X. SAFEKEEPING/CUSTODY AND DELIVERY

- A. Securities purchased by the City Treasurer, as well as collateral for both repurchase agreements and time certificates of deposit over \$100,000, shall be delivered against payment and held in a custodial safekeeping account with the trust department of a bank acting as a third party custodian. (NRS 355.172)
 1. This bank will be designated by the City Treasurer and all transactions will be evidenced by safekeeping receipts.
 2. Time certificates of deposit may be held by the City Treasurer alone or in conjunction with an agency for which the certificate of deposit constitutes a bond deposit.

XI. MATURITIES

- A. Liquidity: To the extent possible, investment maturities must match the anticipated cash flow requirements. Portfolio management procedures will provide for the assessment of net cash flow positions for at least a three month period.
- B. Market Risk: Market risk relates to the continuous price fluctuations of marketable securities that may result in a loss to the City if cash flow requirements force a premature sale.
 - 1. Portfolio maturities must be structured to avoid the forced sale of securities in any but the most severe circumstances. To this end, portfolio management procedures will provide for the projection of a "Minimum Liquidity Requirement" for the City's operating fund.
- C. Minimum Liquidity Requirement: This is defined as the total cash flow needed to pay City obligations for a period of four weeks. All securities to be included in the "Minimum Liquidity Requirement" must mature within 28 days.
- D. Intermediate Market Investment: That portion of City funds remaining after deletion of the "Minimum Liquidity Requirement" may be invested in the intermediate market, defined herein as instruments maturing between zero and ten years.
- E. No US bonds, debentures, bills, notes, agency obligations or securities purchased, including those used as collateral for repurchase agreements, may have a maturity date of more than 10 years from the date of purchase.

XII. DIVERSIFICATION

- A. Assets held in the investment portfolio shall be diversified to eliminate the risk of loss resulting from over-concentration of assets in a specific class of securities. The following diversification limitations shall be imposed on the portfolio:
 - 1. With the exception of United States Treasury and government agency securities, no more than 20% of the total book value of the portfolio will be invested in a single security type.

XIII. AUTHORIZED FINANCIAL DEALERS AND INSTITUTIONS

- A. The City Treasurer will maintain a list of approved broker/dealers and financial institutions which are authorized to provide investment services to the City. Authorized broker/dealers will be limited to "primary" dealers or other dealers that qualify under SEC Rule 15C3-1, the Uniform Net Capital Rule.
 - 1. The City Treasurer shall conduct periodic reviews to identify those firms which offer diverse approaches, access to markets, analysis, and interpretations needed to effectively manage the portfolio. All approved firms are expected to be familiar with the precautions appropriate to public sector investments while also being expected to familiarize themselves with the City's investment objectives, policies, and constraints.

XIV. APPOINTMENT OF FUND MANAGERS

- A. The City Treasurer may contract with investment managers at the discretion of the treasurer. Any such investment manager shall hold the 'Registered Investment Advisor' designation with the SEC. Such managers shall sign contracts affirming their acceptance of fiduciary responsibility for funds under their management and follow the precepts of the City's investment policy and any other written restrictions placed upon them.
- B. Such money managers, once they have been approved by the State Board of Finance, may additionally invest in securities as defined in NRS 355.171.

XV. SECURITIES LENDING

In accordance with NRS 350.178 (which shall include NAC 355) and NRS 355.170, the City may, at its option, enter into securities lending transactions, as long as the investment portfolio has a book value of at least \$50,000,000 and the City has obtained from the State Board of Finance ("Board"):

- a) authority to enter into any securities lending agreement, with such authorization valid for two years, potentially renewable by the Board thereafter for additional two-year periods (NRS.178(5)), and
- b) approval of a written investment policy which sets forth the procedures to be used for such lending (NAC 355.1.1(a)).

After obtaining such approval, the City will be required to use a securities lending agent which shall be:

- a) registered with the Securities and Exchange Commission under the Investment Advisors Act of 1940, or
- b) a bank or trust company organized and either operating or licensed to operate in the U.S. in accordance with federal law or the law of any state (NAC 355.2(a)).

Additionally, such agent shall:

- a) be chosen by the City through a formal process of competitive selection;
- b) enter into a binding contract with the City obligating the agent to abide by the terms of the City's Board-approved written investment policy;
- c) said contract shall include the standard of prudence articulated in Section VI above (NAC 2.(b), (c), and (d)).

The City Treasurer shall submit to the City Manager, or his designee, a monthly report that sets forth the securities that have been lent pursuant to this Section and any other information relating thereto including, without limitation, the terms of each agreement for the lending of those securities.

Additional responsibilities of the agent shall include, but not be limited to:

- A. Monitoring the fair market value of loaned securities on a daily basis.
- B. Monitoring the fair market value of the (cash or securities) collateral provided by the borrowers on a daily basis, which must be at least 102 percent of the value of the City's loaned securities.
- C. Exercising the right and duty to demand additional collateral or the obligation to release collateral as the market value of the City's loaned securities fluctuates.
- D. Maintaining complete records of securities lending transactions and revenue to be submitted on a monthly basis to the Finance Director and City Manager or his/her designee.
- E. Detailing the agreed upon fee arrangement and / or revenue split.
- F. When applicable, monitoring the composition and value of repurchase agreement collateral (as a cash collateral investment), which must be maintained at a minimum 102 percent of the cash collateral invested.
- G. Ensuring that none of the City's securities are lent to any borrower not on the list of borrowers approved by the Board of Supervisors.

The 102% collateral received by the City from borrowers shall be in the form of securities or cash. Cash

collateral investments shall be the responsibility of the agent, however securities received directly by the City as collateral, and/or cash collateral investments shall be limited to:

- a) United States Treasury Bills, Notes, and Bonds and United States Government Agency Securities which conform to the requirements of Section VII part A and VII part B, and Sections X and XI part E of this investment policy;
- b) Repurchase Agreements which conform to the requirements of Sections VII part G, X, and XI part E of this investment policy; and/or
- c) Money Market Mutual Funds which conform to the requirements of Section VII part F of this investment policy.

The agent will use his best efforts to match the maturity of the collateral (if securities are delivered to the City) and/or cash collateral investment (if cash collateral is delivered to the City and invested by the agent) with the maturity of the corresponding lending contract, however:

- a) the 'average weighted maturity' (as defined in NRS 355.178(6)) of all cash collateral investments in the securities lending portfolio as a whole shall not exceed 90 days (NRS 355.178(4));
- b) in no case shall the maturity for the investment assets exceed that of the corresponding lending contract;
- c) the maturity of the investment asset may be less than the maturity of the corresponding lending contract but by no more than 30 days.

XVI. REPORTING

- A. The City Treasurer will make available at any time upon request of the Finance Department or City Manager sufficient information to permit an evaluation of the performance of the investment program. The purpose for these reports will be to formulate suggestions for improved future performance, and to verify that authorized city treasury personnel have acted in accordance with the investment policy and written investment procedures. In addition, the City Treasurer shall report monthly, as directed in part XV, on securities lending activity to the City Manager or his/her designee.

XVII. INTERNAL CONTROLS

- A. The City Treasurer's office is subject to periodic audits by the City's Internal Auditor, including unscheduled cash and securities counts. The investment portfolio will be audited annually by the City's independent auditor.

XVIII. ADOPTION

Adopted by the Carson City Treasurer

Alvin P. Kramer, Carson City Treasurer

Date: ____ June 24, 2011 ____