

Item #18B

City of Carson City
Agenda Report

Date Submitted: 04/07/09

Agenda Date Requested: 04/16/09

Time requested: 5 Minutes

To: Mayor and Supervisors

From: Al Kramer, Carson City Treasurer

Subject Title: Presentation of updated city investment policy.

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)
 Formal Action/Motion Other (State)

Does This Action Require A Business Impact Statement: Yes No

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

Explanation for Recommended Board Action: In addition to a required annual review, policy has been changed to specify the measuring benchmarks and to require securities lending counterparties to be approved by the Board.

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

Fiscal Impact: To be determined

Explanation of Impact: Better clarification of policy.

Funding Source: N/A

Alternatives: Modify policy.

Supporting Material: Copy of policy

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

Reviewed By: *Ulrich Skowhrt*

(Finance Director)

Date: *4/7/09*

(City Manager)

Date: *4-7-09*

Melanie Burkett

(District Attorney)

Date: *4-7-09*

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)
 5. Student Loan Marketing Association (SLMA - Sallie Mae)
- 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.
 - 2. The City Treasurer shall encourage all financial institutions doing business within the State of Nevada, those owned by women, minorities, and/or the physically

impaired, to make bids or offers for securities contemplated for sale or purchase by the City. Consideration will be given to such institutions when their markets are identical to national firms, while also establishing that equivalent risk, liquidity, maturity, quality, service, and convenience exists between competing firms.

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.

XV. SECURITIES LENDING

In accordance with NRS 350.659 the City may, when authorized by the State Board of Finance, lend securities from its portfolio. The City must have approved of such contract and such contract must be presented to the State Board of Finance for its approval. The City Treasurer shall submit to the City Manager 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. The responsibilities of the securities lending agent will include, but are not limited to:

- A. Monitoring the fair market value of loaned securities on a daily basis.
- B. Monitoring the value of collateral provided by borrowers on a daily basis, which must represent at least 102 percent of the value of the securities borrowed.
- C. Exercising the right and duty to demand additional collateral or the obligation to release collateral as market values fluctuate.
- 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. Authorized investments for cash collateral must be in accordance with parts VII G of this document.
- G. The average weighted maturity of cash collateral investment shall not exceed 90 days. The term 'average weighted maturity' shall have the meaning noted in NRS 355.178 paragraph 6.
- H. Ensuring that no securities are lent to any borrower not on the list of borrowers approved by the Board of Supervisors.

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: ____April 1, 2009____