City of Scottsbluff, Nebraska

Monday, January 4, 2016

Regular Meeting

Item Reports2

Council to take action on the amended investment policy and investment strategy.

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City of Scottsbluff
Investment Policy

A. Objectives

The portfolio shall be designed to conform with all applicable federal, state and city legal requirements. The primary objectives, in priority order, of investment activities shall be safety, liquidity and yield:

1. Safety

   Safety of principal is the foremost objective of the investment program. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. The objective will be to mitigate credit risk and interest rate risk.

   a. Credit risk – This is the loss due to failure of the security issuer or backer. Limiting investments to the safest types of securities; pre-qualifying the financial institutions, broker/dealers, and advisors with which the City will do business; and diversifying the investment portfolio so that potential losses on individual securities will be minimized may mitigate credit risk.

   b. Interest rate risk – This is the risk that the market value of securities in the portfolio will fall due to changes in the general interest rates. Interest rate risk may be mitigated by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity; and by investing operating funds primarily in shorter-term securities.

2. Liquidity

   The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated. This is accomplished by structuring the portfolio so that securities mature concurrent with cash needs to meet anticipated demands. Furthermore, since all possible cash demands cannot be anticipated, the portfolio should have a portion placed in money market or local government investment pools, which offer same-day liquidity, and a portion placed in securities with active secondary or resale markets.

3. Yields

   The investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints and liquidity needs. Return on investment is of lessor importance compared to the safety and liquidity objectives described above. The core of investments are limited to relatively low risk securities in anticipation of earning a fair return relative to the risk being assumed.

B. Standards of care

1. Prudence

The standard of prudence to be used by the investment officer shall be the “prudent investor” rule, which states, “Investments shall be made with judgment and care, under circumstances then prevailing, which a person 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 prudent investor rule shall be applied in the context of managing the overall portfolio.

The investment officer acting in accordance with this investment policy, administrative procedures and exercising due diligence, shall not be held personally responsible for a specific security’s credit risk or market price changes, provided that these deviations from expectations are reported in a timely fashion and that appropriate action is taken to control adverse developments.

2. Leverage

The investment officer shall be prohibited from using securities as collateral to borrow money for investment purposes or leveraging the portfolio.

3. Ethics and conflicts of interest

Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with the proper execution and management of the investment program, or that could impair their ability to make impartial decisions.

4. Delegation of authority

The Finance Director/City Treasurer is designated as the investment officer of the City and is responsible for investment decisions and activities, under the direction of the City Manager. The Finance Director/City Treasurer shall design administrative procedures and internal controls for the operation of the investment program, consistent with this investment policy.

C. Qualified institutions and safekeeping

1. Authorized financial institutions and dealers

The City shall maintain a listing of financial institutions that are approved for investment purposes. The City shall maintain a list of approved broker/dealers who are authorized to provide investment services to the City. These may include “primary” dealers or regional dealers that qualify under Securities & Exchange Commission Rule 15C3-1 (uniform net capital) and that are registered to do business in the State of Nebraska.

2. Collateralization

   Deposit-type securities (i.e. certificates of deposit) shall be collateralized as required by the Public Funds Security Act for any amount exceeding the FDIC coverage. The fair market value of securities pledged must not be less than 102% of the amount on deposit in excess of the $250,000 FDIC coverage.

3. Internal controls

   The City Manager, in conjunction with the Finance Director/City Treasurer, is responsible for establishing and maintaining an internal control structure designed to prevent loss of public funds due to fraud, error, misrepresentation, unanticipated market changes or imprudent actions. The internal control structure shall be designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that recognizes that (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgments by management.

D. Suitable and authorized investments

1. Short-term vs. long-term portfolio

   Limitation on instruments, diversification and maturity scheduling shall depend upon whether the funds being invested are considered short-term or long-term funds. All funds shall generally be considered short-term except those reserved for capital projects (i.e. bond sale proceeds), special assessment prepayments being held for debt retirement and bond reserve funds.

2. Investment types

   The City will invest in accordance with this policy among the following permitted investment instruments:

   a. U.S. government obligations, U.S. government agency obligations, and U.S. government instrumentality obligations, which have a liquid market with a readily determinable market value.
   b. Certificates of deposits and other evidences of deposit at institutions, bankers' acceptances, and commercial paper, rated in the highest tier (i.e. A-1, P-1) by a nationally recognized rating agency.
   c. Investment grade obligations of state and local governments.
   d. Repurchase agreements whose underlying purchased securities consist of the foregoing.
   e. Money market mutual funds regulated by the Securities & Exchange Commission and whose portfolios consist only of dollar-denominated securities and securities as described in a, b, c and d of this section.

f. Local government investment pools, either state-administered or through interlocal agreement legislation, whose portfolios consist of securities as described in a, b, c, and d of this section.

3. Maximum maturities

To the extent possible, maturities for short-term funds shall be scheduled to coincide with projected cash flow needs, taking into account large routine expenditures (payroll, bond payments) as well as considering sizeable blocks of anticipated revenue (property tax, sales tax, franchise fee payments). In general, maturities in this category shall not exceed 5 years in maturity and no investment shall be made that will make the weighted average maturity of the portfolio exceed 3 years.

To the extent possible, maturity scheduling for long-term funds shall be timed according to the anticipated need. For example, investment of capital project funds shall be timed to meet contractor payments, usually for a term not to exceed three bond payment dates. Bond reserve funds may be invested in securities exceeding five years if the maturity of such investments are made to coincide as nearly as practicable with the expected use of funds.

E. Competitive selection of investment instruments

Prior to the City investing surplus funds covered under this policy a request for quotes will be made. This request will be sent to all interested institutions. Interested institutions will be identified by submitting a written request to the City Clerk. Institutions will remain on a contact list until the institution requests to be removed. The City reserves the option to contact institutions who have not submitted a written request to be notified.

F. Policy

This policy shall be reviewed and updated as necessary. Any changes shall be approved by the City Manager and submitted to the Mayor and City Council for their approval.