

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.
- 3.3 Diversification. To attain the City’s objectives, diversification is required in the portfolio composition. Diversification of the portfolio will include diversification by investment type, issuer, maturity and market sector and will include the use of a number of broker/dealers for competitive market coverage.
- 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.
- Authority 4.0 Delegation of Authority:
- 4.1 The Chief Financial Officer (CFO) is designated as the Investment Officer of the City and is responsible for investment of City funds in accordance with Arizona Revised Statutes (A.R.S) Title 35-321 through 35-329 and with this Investment Policy. The CFO may delegate the authority to invest City funds to additional City personnel.
- 4.2 Subject to required procurement procedures, the City may engage the support services of one or more external investment advisers for the management of the City’s investment portfolio. External investment advisors shall comply with A.R.S. and this Investment Policy. Investment advisory firms must be registered with the Securities and Exchange Commission (SEC) and licensed by the State of Arizona.
- 4.3 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, Master Repurchase Agreements, wire transfer agreements, trade document initialization and retention requirements,

collateral/deposit agreements, and banking service and supplemental banking contracts.

- 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 all employees and investment advisors involved in the investment process.

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 judgment 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 and employees, 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 The Investment Officer and employees involved in the investment process shall adhere to the conflict of interest laws set forth in A.R.S. Title 38-501 through 38-511 and shall refrain from personal business activity that could conflict with the proper execution of the investment program or could impair their judgment to make impartial investment decisions. Any material business relationship with financial institutions or counter-parties shall be disclosed to the City Manager. Officers and employees shall refrain from undertaking personal investment transactions with the same individual with whom business is conducted on behalf of the City.

Internal 6.0 Internal Controls:

Control

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 eighteen (18) 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 not to exceed 90 days, with the exception of flexible repurchase agreements associated with specific bond

proceeds which shall be limited to the final draw date of forecasted cashflow expenses. ;

- 7.6 SEC registered money market funds whose portfolios are limited to the foregoing authorized securities;
- 7.7 The State of Arizona's Local Government Investment Pool;
- 7.8 Corporate bonds, debentures and notes that are denominated in United States dollars. The debt must be rated at least "AA" by Standard and Poor's, or "Aa" by Moody's Investor Service, or equivalent rating by a nationally recognized rating agency at the time of purchase with a maximum maturity of two years; and
- 7.9 Bonds, or other evidence of indebtedness of this state or any of the counties or incorporated cities, towns or duly organized school districts which carry a minimum "AA" rating by Standard and Poor's, or "Aa" by Moody's Investor Service, or equivalent rating by a nationally recognized rating agency at the time of purchase. Maturities for these obligations shall not exceed five years.

If the credit rating of a security is subsequently downgraded below the minimum rating requirement, the Investment Officer shall evaluate the downgrade on a case-by-case basis and determine whether the security should be held or sold.

Authorized Dealers 8.0 Authorized Financial Dealers, Investment Advisors and Institutions:

- 8.1 The City shall maintain a list of qualified 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 shall provide their most recent Consolidated Report of Condition ("call" report) on a quarterly basis. Broker/Dealer firms must meet the following minimum criteria:
 - i. Be registered with the Securities and Exchange Commission (SEC)
 - ii. Be registered with the state pursuant to Arizona Revised Statutes Title 44-3101.

- iii. Be registered with the Financial Industry Regulatory Authority (FINRA)
- iv. Provide most recent audited financials
- v. Provide FINRA Focus Report filings

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.
- 8.3 If the City uses an external investment advisor, the investment advisor is authorized to transact with its own approved brokers/dealers on behalf of the City. The investment advisor will perform periodic due diligence review of brokers/dealers on its Approved List. Upon request, the investment advisor will provide the Approved Broker/Dealer List to the City.
- 8.4 Competitive Bidding Requirement. All securities, including certificates of deposit, will be purchased or sold after obtaining competitive bids or offers from a minimum of three (3) separate broker/financial institutions or through the use of a nationally recognized trading platform to verify that the City is receiving fair market value/price for the investment.

Maturities 9.0 Portfolio Diversification and Maturities:

- 9.1 The City will diversify its investment portfolio to avoid incurring unreasonable risks, both credit and interest rate risk inherent in over-investing in specific instruments, individual institutions or maturities. 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>Max. Percent</u>

<u>Security Type</u>	<u>of Portfolio</u>
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%
Corporate Indebtedness	35%
With one issuer	5%
Obligations of the State of AZ and its political subdivisions	25%
With one issuer	5%

* 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.
- 9.5 The dollar-weighted average maturity (WAM) of the City's overall portfolio shall not exceed three (3) years.
- 9.6 Maximum maturities allowed for specific security types are listed under section 7.0 Authorized and Suitable Investments.

Maximum
Maturity

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 shall be designated to hold all securities and collateral. The third-party custodian shall provide monthly safekeeping statements to the City listing the specific instrument, rate, maturity, and other pertinent information; and the statement shall indicate whether the security is owned by, or 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.

Reporting and Performance Evaluation 11.0 Reporting and Performance Evaluation:

- 11.1 The Investment Officer shall submit quarterly and annual reports to the City Manager and City Council showing the make-up of the investment portfolio and return for the period. The report should also contain sufficient information to permit an informed outside reader to evaluate the compliance of the investment program with this policy. 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 City shall comply with Generally Accepted Accounting Principals (GAAP). The accounting principles include pronouncements issued by the Government Accounting Standards Board (GASB), and the American Institute of Certified Public Accountants (AICPA).
- 11.4 The investment portfolio is expected to obtain a market average rate of return during a stable interest rate environment. Carefully selected and appropriate benchmarks shall be established to use as a reference for evaluation of the portfolio's return goals and risk tolerance.

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.