City of Dublin

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Memo

To: Members of Dublin City Council

From: Marsha I. Grigsby, City Manager

Date: October 10, 2013

Initiated By: Angel L. Mumma, Director of Finance

Re: Amendments to the City's Investment Policy

Summary

During the October 14, 2013 Finance Committee meeting, staff, along with Mr. Dennis Yacobozzi, President of United American Capital Corporation (UACC), the City's investment advisor, will present recommended modifications to the City's Investment Policy. A strikethrough version of the policy is attached for your review.

The majority of the changes are within Section V. Authorized Investments (Itemized). A summarization of the changes is as follows:

- Updates language and terms so that it is consistent in today's market. The statement that "All federal agency obligations shall be direct issuances of federal government agencies or instrumentalities" is deemed unnecessary based on other language in this section.

- Student Loan Marketing Association (SLMA) is struck as this agency no longer issues securities on its own.

- Modifies the amount that certificates of deposit in excess of the amount insured by the Federal Deposit Insurance Corporate must be collateralized with from 10% to a minimum of 5% with the caveat that the City may elect to require a higher percentage of excess market value in pledged collateral to secure all deposits.

- Provides for investment in commercial paper offered by companies rated in the highest category by two nationally recognized rating agencies. This modification is more restrictive than the City's current policy, which permits investment in companies rated A1+, A1 or A2 by Standard & Poor's and P1 or P2 by Moody's.

- Although bankers acceptances are generally not available today, the proposed change indicates that the bank must have a long term credit rating of A, or the equivalent, by a nationally recognized rating agency. This is more restrictive than the City's current policy, which does not stipulate a rating.

- Language is struck that limits the investment in commercial paper to 10% of the average portfolio and 10% in bankers acceptances of the average portfolio. However, language was added that provides that the combined total of commercial paper and bankers acceptances shall not exceed 25% of the average portfolio. This is consistent with current ORC law and provides more flexibility based on market conditions.

- Changes to language regarding the amount of the portfolio that can be invested in corporate medium term notes are made so that there cannot be any critique from outside parties on the calculation of the 15% limit.

- Provides that no more than 5% of the total average portfolio can be invested in a single issuer. This is a change from the $1 million that the current policy states. It is believed that 5% is more appropriate in today's environment.

- Adds language that permits the City to invest in other programs offered to Ohio political subdivisions by the Treasurer of the State of Ohio. Furthermore, it allows the City to purchase bonds and other obligations of the State of Ohio and other Ohio political subdivisions, including the City of Dublin, provided they have a minimum credit rating of AA, or the equivalent, by a nationally recognized rating agency at the time of the purchase.

- Expands the determination of eligibility in determining derivatives.

- Provides that assets of the City will be held in safekeeping by a custodian bank where the custodian bank and the City have entered into a custodian agreement. This prevents broker/dealer firms used by the City from holding onto City assets.

- Clarifies that any brokers or broker/dealer firms will not act as an investment advisor or a similar capacity if they are participating in transaction business (the purchase or sale of securities). This prevents any conflict of interest that might exist.

Other modifications are made to provide further clarity to the policy and reflect changes that are appropriate in today's market.

Recommendation

After addressing any questions or concerns at the October 14, 2013 Finance Committee meeting, staff will bring forward an Ordinance modifying the City's Investment Policy for introduction/first reading on October 28, 2013 and second reading/public hearing on November 4, 2013.

CITY OF DUBLIN, OHIO
INVESTMENT POLICY

I. Introduction

The purpose of this investment policy is to establish the definition(s) of eligible investments of the City of Dublin, Ohio (hereinafter referred to as the "City"), including guidelines and parameters regarding the investment management of the City's investment funds [hereinafter referred to as the "Portfolio"]. This investment policy, as approved by City Council, shall serve to define authorized investments and eligible investment transactions of the City. Such eligible investments may be derived from, or based upon Chapter 135.14 ORC, and/or include certain other investments not authorized or defined under 135.14 ORC. Investments not defined under 135.14 ORC, but authorized pursuant to this investment policy, are considered as authorized investments of the City. That this Ordinance shall take effect and be in force in accordance with Section 4.04 (b) of the Dublin City Charter. This policy includes [totally or partially] sections of the statute in order to describe certain eligible investments. In some sections, the policy places further limits upon the use eligible investments or investment transactions.

II. Scope

This policy applies to all financial assets of the City of Dublin. Such funds are accounted for in the City's Comprehensive Annual Financial Report (CAFR), and includes all funds of the reporting entity.

III. INVESTMENT OBJECTIVES

The investment objectives of the City, in priority order, include:

A. *Safety of principal*

Safety of principal is the foremost objective of the investment program. The investment of City funds shall be conducted in a manner that seeks to ensure the preservation of capital within the context of the following criteria:

- Market risk (interest rate risk)

  The market value of securities in the City's portfolio will increase ordecrease based upon changes in the general level of interest rates. The effects of market value fluctuations will be minimized by (1) maintaining adequate liquidity so that current obligations can be met without a sale of securities;(2) diversification of maturities; (3) diversification of assets.

- Credit Risk

  Credit risk is the risk of loss due to the failure of a security issuer to pay principal or interest, or the failure of the issuer to make timely payments of principal or interest. Eligible investments affected by credit risk include certificates of deposit, commercial paper, bankers acceptances, and corporate medium term notes. Credit risk will be minimized by (1) diversifying assets by issuer; (2) ensuring that required, minimum credit quality ratings exist prior to the purchase of commercial paper, bankers acceptances, and corporate medium term notes; and (3) maintaining adequate collateralization of certificates of deposit.

B. *Liquidity*

The portfolio shall remain sufficiently liquid to meet all current obligations of the City. Minimum liquidity levels [as a percentage of average investable funds] may be established in order to meet all current obligations. The portfolio may also be structured so that securities mature concurrently with cash needs.

C. *Yield/Return*

The portfolio shall be managed to consistently attain a market rate of return throughout budgetary and economic cycles. Whenever possible, and consistent with risk limitations and prudent investment management, the City will seek to augment returns above the market average rate of return through the implementation of active portfolio management strategies.

IV. Standards of Care

A. *Prudence*

Investments shall be made with the exercise of that degree of ~~judgement~~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.

The standard of prudence to be used by investments officials shall be the "prudent person" standard and shall be applied within the context of managing an overall portfolio. Investment officers or registered investment advisors, acting in accordance with established procedures and the approved investment policy, and exercising due diligence, shall be relieved of responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments.

B. *Delegation of Authority*

Management responsibility for the investment program is hereby delegated to the Director of Finance pursuant to the City Charter. The Director of Finance shall establish written procedures for the operation of the investment program consistent with this investment policy. Such procedures shall include explicit delegation of authority to persons responsible for investment transactions. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the Director of Finance. The Director of Finance shall be responsible for all transactions undertaken and shall establish a system of internal controls to regulate the activities of subordinate officials.

C. 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 of the investment program, or which could impair their ability to make impartial investment decisions. Employees and investment officials shall disclose to the City Manager any material financial interests in financial institutions with which they conduct business. They shall further disclose any personal financial or investment positions that could be related to the performance of the investment portfolio. Employees and officers shall refrain from undertaking personal investment transactions with the same individual with whom business is conducted on behalf of the City.

V. **Authorized Investments (itemized)**

-U.S. Treasury Bills, Notes, and Bonds; various federal agency obligations ~~securities~~ including, but not limited it, ~~issues~~ obligations of Federal National Mortgage ~~Assn.~~Association (FNMA), Federal Home Loan Mortgage ~~Corp.~~Corporation (FHLMC), Federal Home Loan Bank (FHLB), Federal Farm Credit Bank (FFCB), ~~Student Loan Marketing Assn. (SLMA),~~ Government National Mortgage Association (GNMA), and other agencies or instrumentalities of the United States. GNMA mortgage-backed, pass-through securities are considered as eligible investments of the City and are not subject to the definition of derivative securities, as defined under various sections of the Ohio Revised Code (ORC)~~135.14(C)~~. Collateralized mortgage obligations (CMOs) of any kind are expressly prohibited. Eligible investments include securities that may be "called" ~~[~~by the issuer~~]~~ prior to the final maturity date. Any eligible investment may be purchased at a premium or a discount. ~~All federal agency securities shall be direct issuances of federal government agencies or instrumentalities.~~

-Interim deposits in the eligible institutions applying for interim moneys as provided in Section 135.08 and 135.12 of the ORC. Certificates of deposit in excess of the amount insured by the Federal Deposit Insurance Corporation (FDIC) must be collateralized with at least a five percent excess market value amount to secure such certificates of deposit. ~~10% market value cushion.~~ The City may elect to use ~~Either~~ either 135.18 of the ORC (individual assignment method) or 135.181 of the ORC (pooling method) when requiring the pledge of eligible collateral to secure certificates of deposit or other deposits of the City. ~~shall apply regarding the collateralization of City deposits.~~ The City may elect to require a higher percentage of excess market value in pledged collateral to secure all deposits.

-No-load money market mutual funds, as defined in 135.14(B)(5), rated in the highest category by at least one nationally recognized rating agency, investing exclusively in the same types of eligible securities as defined in Division B(1) or B(2) under 135.14 ORC, and repurchase agreements secured by such obligations. Eligible money market funds shall comply with 135.01 ORC, regarding limitations and restrictions.

-Commercial paper issues of companies incorporated under the laws of the United States, rated in the highest category by two nationally recognized rating agencies~~A1+, A1 or A2 by Standard & Poor's and P1 or P2 by Moody's~~. The maximum maturity of commercial paper shall be 270 days from the date of purchase. ~~Investments in commercial paper shall not exceed 10% of the average portfolio, based upon the calculation methodology approved by the Finance Director.~~

-Bankers acceptances issued by any bank domiciled in the State of Ohio or bankers acceptances issued by any domestic bank, provided that such bank has a long term credit rating of A, or the equivalent, by a nationally recognized rating agency at the time of purchase. ~~rated in the highest category by one of two nationally recognized rating agencies. Investments in bankers acceptances shall not exceed 10% of the average portfolio, based upon the calculation methodology approved by the Finance Director.~~

=The combined total of commercial paper and bankers acceptances shall not exceed 25% of the average portfolio, based upon the calculation methodology approved by the Finance Director.

-Repurchase agreements with any eligible institution mentioned in section 135.03 ORC, or any eligible securities dealer pursuant to (M) of 135.14 ORC of this section, except that such eligible securities dealers shall be *restricted to primary government securities dealers.* Repurchase agreements will settle on a delivery vs. payment basis with ~~repo~~ collateral held at a qualified custodian or agent, designated by the City. Eligible repo collateral is restricted to securities listed in division (B)(1) or (B)(2) under 135.14 ORC. The market value of securities subject to an overnight written repurchase agreement must exceed the principal value of the overnight repurchase agreement by at least two per cent. A written repurchase agreement shall not exceed thirty days and the market value of securities subject to a written repurchase agreement must exceed the principal value of the written repurchase agreement by at least two percent and be market to market daily. ~~of the repo amount by at least 2%.~~ Prior to the execution of any repo transaction, a master repurchase agreement will be signed by the City and the eligible parties.

-Medium term notes issued by a domestic corporation having assets in excess of $500 million, provided that such medium term notes have a maximum maturity of five years and are rated [at the time of purchase] by Standard & Poor's or Moody's under the following limitations:

Standard & Poor's		Moody's	
A+	(2-yr max maturity)	A1	(2-yr max maturity)
A	(2-yr max maturity)	A2	(2-yr max maturity)
A-	(2-yr max maturity)	A3	(2-yr max maturity)
AA+	(3-yr max maturity)	Aa1	(3-yr max maturity)
AA	(3-yr max maturity)	Aa2	(3-yr max maturity)

AA-	(3-yr max maturity)	Aa3	(3-yr max maturity)
AAA	(maturities > 3 years)	Aaa	(maturities > 3 years)

If a security has a split rating, the higher of the two ratings shall be used to determine the eligibility for investment purposes. In no event shall a corporate security [at the time of purchase] be rated less than A- by Standard & Poor's or less than an A3 by Moody's.

The aggregate total of all corporate medium term notes shall not exceed 15% of the total average portfolio, as determined and calculated by the Director of Finance~~based upon purchase cost or book value~~. ~~The average portfolio calculation methodology shall be approved by the Director of Finance.~~ Commercial paper and bankers acceptances shall not be included when calculating the fifteen percent maximum limit. No more than ~~$1 million (par value)~~five percent of the total average portfolio shall be invested in a single issuer. Commercial paper and bankers acceptances shall ~~not~~ be considered when calculating the maximum holdings in any single issuer.

-The state treasurer's investment pool [STAR OHIO], pursuant to Section 135.45 ORC, or any other investment option offered to Ohio political subdivisions by the Treasuere of the State of Ohio.~~-~~

-Bonds and other obligations of the State of Ohio, various issuances of the agencies of the State of Ohio, and obligations or debt issuances of any Ohio political subdivision, including the City of Dublin, Ohio. Except for obligations of the City of Dublin, Ohio, all such debt issuances will have a minimum credit rating of AA, or the equivalent, by a nationally recognized rating agency, at the time of purchase. Except for obligations of the City, obligations of th State of Ohio or obligations of any agency of the State of Ohio, or obligations of any Ohio political subdivision may not be purchased as private placements.

-The use of derivative securities, as defined in 135.14 (C), is expressly prohibited except where certain exemptions to the definition of derivative securities is defined in this investment policy. Such exemptions to the definition of derivative securities include stripped principal or interest obligations of the United States Treasury or stripped principal or interest obligations of any federal agency, obligations of the Government National Mortgage Association (GNMA) mortgage-backed securities, or asset-backed commercial paper shall not be considered as derivative investments..

-All eligible investments will mature within five years from the date of settlement, unless the investment is matched to a specific obligation or debt of the City, and the investment is specifically approved by the Director of Finance.

VI. Safekeeping and Custody

Securities purchased for the City will be held in safekeeping by a qualified trustee [hereinafter referred to as the "Custodian"), as provided in Section 135.37 ORC. Securities held in safekeeping by the custodian will be evidenced by a monthly statement describing such securities. The custodian may safekeep the City's securities in (1) Federal Reserve Bank book entry form; (2) Depository Trust Company (DTC) book entry form in the account of the custodian or the custodian's correspondent bank; or (3) Non-book entry (physical) securities held by the custodian or the

custodian's correspondent bank. All securities transactions will settle using standard delivery-vs-payment (DVP) procedures. The records of the custodian shall identify such securities in the name of the City. Broker/dealer firms used by the City or broker/dealer firms used by the City's designated investment advisor to purchase or sell investment assets shall not hold any such investment assets in safekeeping. All investment assets of the City will be held in safekeeping by a custodian bank where such custodian bank and the City have entered into a custodian agreement.

VII. Director of Finance and an Investment Advisory Committee

The City may establish an investment advisory committee which shall meet quarterly to review the investment portfolio of the City. Specific areas of review include the investment inventory, transactions for the period, and realized income.

Any amended policy that has been approved by the City Council shall be filed with the Auditor of State.

VIII. Internal Controls

The Director of Finance is responsible for establishing and maintaining an internal control structure designed to reasonably ensure that the investment assets of the City are protected from loss, theft or misuse. The internal control structure shall be designed to provide reasonable assurances that these objectives are met. The concept of reasonable assurance recognizes that (1) the cost of a control should not exceed teh benefits likely to be derived and, (2) the valuation of costs and benefits requires estimates and judgements by management.

The Director of Finance shall establish a process for annual independent review by an external auditor. This review will provide internal control by assuring compliance with policies and procedures.

IX. Pooling of Funds

The Director of Finance is authorized to pool cash balances from the several different funds of the City for investment purposes. Interest and other portfolio income will be credited to the fund proportionate to the amount invested.

X. Investment Accounting and Portfolio Reporting

The City shall maintain an inventory of all portfolio assets. A description of each security will include security type, issue/issuer, cost [original purchase cost or current book value], par value [maturity value], maturity date, settlement date [delivery versus payment date of purchased or sold securities], and any coupon [interest] rate. The investment report will also include a record of all

security purchases and sales. Regularly issued reports will include a monthly portfolio report and a quarterly portfolio report to the Director of Finance, detailing the *current* inventory of all securities, all investment transactions, any income received [maturities, interest payments, and sales], and any expenses paid. The report will also include the purchase yield of each security, the average-weighted yield and average-weighted maturity of the portfolio. The portfolio report shall state the name(s) of any persons or entity effecting transactions on behalf of the City. Any premium paid over par may be amortized equally during the life of the investment as a deduction from semi-annual or annual interest payment(s) received each year, or such premium paid may be amortized at the final maturity date of the investment. Any discount from par will be recognized at the final maturity date of the investment.

XI. INVESTMENT ADVISORS, QUALIFIED DEALERS AND FINANCIAL INSTITUTIONS

The City may retain the services of a registered investment advisor. The investment advisor will manage the City's portfolio, or a portion thereof, and will be responsible for the investment and reinvestment of City's investment assets, including the execution of investment transactions. Upon the request of the Director of Finance, the investment advisor will attend meetings and/or City Council meetings to discuss all aspects of the City's portfolio, including market conditions affecting the value of the City's investments. The investment advisor will be required to issue monthly and quarterly portfolio reports as defined under section VIII of this investment policy ["Portfolio Reporting"].

The investment advisor may transact business (execute the purchase and/or sale of securities) with eligible Ohio financial institutions, primary securities dealers regularly reporting to the New York Federal Reserve Bank, and regional securities firms or broker dealers licensed with the Ohio Department of Commerce, Division of Securities, to transact business in the State of Ohio.

~~The Finance Director may, at any time, add or delete broker/dealers or eligible financial institutions. Additions or deletions to the list of approved broker/dealers or financial institutions may be made by the Finance Director based upon recommendations of the City's investment advisor. All such broker~~Broker/dealers and financial institutions transacting investment business with the City are required to sign the approved investment policy as an acknowledgment and understanding of the contents of said policy.

Under no circumstance will brokers or broker/dealer firms act as an investment advisor or in a similar capacity as an investment advisor, either directly or indirectly, if such broker/dealers participate in transaction business (purchase and sale of securities) with the City of the City's designated investment advisor.

XII. Sale of Securities Prior to Maturity

Portfolio assets may be liquidated or sold prior to maturity under the following conditions:

(1) To meet additional liquidity needs
(2) To purchase another security to increase yield or current income
(3) To ~~purchase another security to~~ lengthen or shorten the portfolio's average maturity
(4) To realize any capital gains and/or income
(5) To adjust the portfolio's asset allocation ~~increase investment quality~~

Such transactions may be referred to as a "sale and purchase" or a "bond swap". For purposes of this section, redeemed shall also mean "called" in the case of a callable security.

XIII. Procedures for the Purchase and Sale of Securities

Securities will be purchased or sold through approved broker/dealers on a "best price and execution" basis. All such investment transactions, executed by the City's designated investment advisor, will be communicated electronically or by facsimile transmission to the Director of Finance or to an authorized representative, designated by the Director of Finance. A purchase or sale of securities will be represented by transaction advices issued by the City's investment advisor which will describe the transaction, including par value, coupon (if any), maturity date, and cost. A facsimile transmission or electronic advice will also be sent to the City's designated custodian bank and will serve as an authorization to ~~said~~ such custodian to receive or deliver securities versus payment. Confirmation advices, representing the purchase or sale of securities, will be issued by the eligible broker/dealer and sent to the investing authority. Copies of such advices will be sent to the City's investment advisor.

XIV. Statements of Compliance

This investment policy has been approved by the investing authority and the governing board and filed with the Auditor of State, pursuant to 135.14 (N)(1) ORC.

The investment portfolio will be managed in accordance with the parameters specified within this policy. Performance of the portfolio will be periodically monitored and compared to an appropriate benchmark.

All brokers, dealers, and financial institutions executing transactions initiated by the City or the City's investment advisor have signed the approved investment policy. Investment policies [signed by such brokers, dealers, and financial institutions] have been filed with the City. The City's investment advisor is registered with the Securities and Exchange Commission and possesses public funds investment management experience, specifically in the area of state and local government investment portfolios. The investment advisor has additionally signed the approved investment policy and the signed policy is filed with the Director of Finance.

The Director of Finance will be responsible for providing regular reports to City Council. Such reports will accurately describe all portfolio assets, including transaction activity for the period. The City's investment policy shall be adopted by Ordinance and modifications must be approved by City Council.

Any amendments to this policy will be filed with the Auditor of State [Attn: Clerk of the Bureau, P.O. Box 1140, Columbus, OH, 43216-1140] within fifteen days of the effective date of the amendment.

The following broker/dealer [or financial institution] has signed, herein, this approved investment policy, having read the policy's contents thereby acknowledging comprehension and receipt:

_____ _____

Name of Registered Representative Date
Financial Institution Representative
Registered Investment Advisor

For: _____
(Name of Organization)