

CITY OF LONGMONT, COLORADO INVESTMENT POLICY

1.0 INTRODUCTION

The purpose of this Investment Policy is to establish the investment scope, objectives, delegation of authority, standards of prudence, reporting requirements, internal controls, eligible investments and transactions, diversification requirements, risk tolerance, and safekeeping and custodial procedures for the investment of the funds of the City.

This Investment Policy has been adopted by the City Council by Resolution 2018-40 on April 10, 2018, and it replaces any previously dated investment policies, guidelines or lists of authorized investments.

2.0 SCOPE

This Investment Policy applies to all investments and term deposits of City funds, with the exception of the Pension Funds. Overnight deposits in Public Deposit Protection Act (PDPA) eligible banks are considered deposits as opposed to investments for the purposes of this policy. Term deposits are treated as investments. These City funds are accounted for in the City's Comprehensive Annual Financial Report and include:

- General Fund
- Special Revenue Funds
- Debt Service Funds
- Capital Projects Fund
- Enterprise Funds
- Internal Service Funds
- Fiduciary Funds

Excess cash from all City funds (exclusive of Pension Funds and cash in certain restricted funds and bond proceed funds) will be pooled for investment purposes. Each fund shall share in the interest income earned by such investments in the proration that their respective balances bear to the total pooled balance. The method of calculating cash balances shall reflect an equitable averaging of the balances, and interest earnings shall be distributed to the individual funds on a monthly basis.

3.0 PRUDENCE

The standard of prudence to be used by investment officials shall be the "uniform prudent investor act" standard and shall be applied in the context of managing an overall portfolio. Investment officers acting in accordance with written procedures and this

investment policy and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and the liquidity and the sale of securities are carried out in accordance with the terms of this policy.

The City's investment program shall be designed and managed with a degree of professionalism that is worthy of the public trust. The City recognizes that no investment is totally without risk and that the investment activities of the City are a matter of public record. Accordingly, the City recognizes that occasional measured losses are inevitable in a diversified portfolio and shall be considered within the context of the overall portfolio's return, provided that adequate diversification has been implemented and that the sale of a security is in the best long-term interest of the City.

The Chief Financial Officer and authorized investment personnel acting in accordance with written procedures and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided that the deviations from expectations are reported in a timely fashion to the City Council and appropriate action is taken to control adverse developments.

4.0 DELEGATION OF AUTHORITY

Authority to manage the City of Longmont's investment program is derived from Article 6.6 of the Charter and the City's Financial Policies adopted by resolution. Management responsibility for the investment program lies with the Chief Financial Officer or his/her delegate. No employee shall engage in any investment transaction except as provided for under the terms of this policy. It shall be the duty of any Delegate to manage the daily operations of the portfolio and handle all transactions pertaining to investments. Selection of any investment managers shall be in accordance with the terms and conditions of this Investment Policy. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the Chief Financial Officer. As hereinafter used in this Investment Policy, the term "Chief Financial Officer" shall mean the Chief Financial Officer and/or his/her delegate.

5.0 ETHICS AND CONFLICTS OF INTEREST

Elected officials and employees involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment program or that could impair their ability to make impartial investment decisions. Employees and investment officials shall disclose to the City Attorney any material financial interest in financial institutions that conduct business within the City, and they shall further disclose any large personal financial/investment positions that could be related to the performance of the City's portfolio. Employees and elected officials shall subordinate their personal investment transactions to those of the City, particularly with regard to the timing of purchases and sales.

6.0 LIABILITY FOR SALE OF UNLAWFUL INVESTMENTS TO PUBLIC ENTITIES

Any person who sells or causes to be sold to a public entity any investment that is not a lawful investment for such public entity pursuant to this policy, and who knew or should have known that said investment was not a lawful investment, shall be liable to such public entity for any loss of investment principal resulting from such investment and, in addition, shall be liable for any reasonably foreseeable costs resulting from such loss, including but not limited to attorney fees and interest on the principal that would have resulted from the investment of said principal on the day the unlawful investment was made in one-year United States treasury bills at the market yield on such bills on such day.

7.0 OBJECTIVES

The City's principal investment objectives are:

1. Safety

Safety of principal is the foremost objective of the City's investment program. Investments shall be undertaken in a manner that seeks the preservation of capital in the overall portfolio. The objective will be to limit credit risk and interest rate risk by adherence to the terms of this policy.

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 (static liquidity). Furthermore, since all possible cash demands cannot be anticipated, the portfolio should consist largely of securities with active secondary or resale markets (dynamic liquidity).

3. Yield

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 secondary importance compared to the safety and liquidity objectives described above.

Securities shall not be sold prior to maturity with the following exceptions:

- a) A security with declining credit may be sold early to minimize loss of principal.
- b) Selling a security and reinvesting the proceeds that would improve the quality, yield, or target duration in the portfolio.
- c) Liquidity needs of the portfolio require that the security be sold.

8.0 INTERNAL CONTROLS

The Chief Financial Officer shall develop written administrative procedures and internal controls, consistent with this Investment Policy, for the operation of the City's investment program. Such procedures and controls shall be designed to prevent loss of public funds

due to fraud, error, misrepresentation, unanticipated market changes or imprudent actions. These internal controls will be reviewed annually by an external auditor.

9.0 AUTHORIZED SECURITIES AND DEPOSITS

All investments subject to this Investment Policy shall be made in accordance with the following:

- CRS 11-10.5-101, et seq. Public Deposit Protection Act
- CRS 11-47-101, et seq. Savings and Loan Association Public Deposit Protection Act
- Longmont Municipal Code Chapter 4.16 – Allowable Investments

Any revisions or extensions of the above shall be assumed to be part of this Investment Policy immediately upon being enacted.

This Investment Policy further restricts the investment of City funds to the following types of securities and term bank deposits:

1. U.S. Treasury Obligations: Treasury Bills, Treasury Notes, Treasury Bonds and Treasury Strips with a final maturity not exceeding five years from the date of trade settlement.
2. Federal Instrumentality Securities: Debentures, discount notes, callable securities, step-up securities and stripped principal or coupons with a final maturity not exceeding five years from the date of trade settlement issued by the following only: Federal Farm Credit Bank (FFCB), Federal Home Loan Bank (FHLB), Federal Home Loan Mortgage Corporation (FHLMC), Federal National Mortgage Association (FNMA), and the Tennessee Valley Authority (TVA). Subordinated debt shall not be purchased.
3. Debentures and mortgage-backed securities with a stated final maturity not exceeding five years from the date of trade settlement issued by the Government National Mortgage Association (GNMA).
4. Repurchase Agreements with a termination date of 397 days or less, or flexible repurchase agreements with an original termination of five years or less, collateralized by U.S. Treasury securities, Federal Agency securities, or Federal Instrumentality securities listed above with a final maturity not exceeding ten years. The purchased securities shall have a minimum market value including accrued interest of 102 percent of the dollar value of the transaction.

Repurchase Agreements shall be entered into only with dealers who have executed a Master Repurchase Agreement with the City and who are recognized as Primary Dealers by the Federal Reserve Bank of New York or have a primary dealer within their holding company structure. Primary Dealers approved as Repurchase Agreement counterparties shall be rated by at least two Nationally Recognized Statistical Rating Organizations (NRSROs) in their highest short-term rating category (sub-category notches may be ignored) at the time of purchase.

The City shall use Tri-Party Repurchase Agreements provided that the City has a perfected interest in the securities used as collateral and a Tri-Party Agreement has been executed with the counterparty financial institution and custodian bank.

5. Commercial Paper and Bankers Acceptances with an original maturity of 397 days or less, rated by at least two NRSROs in their highest short-term rating at the time of purchase. Securities must be denominated in U.S. dollars. If the issue is not directly rated, the issuer rating may be used so long as the security is not in any way subordinated.
6. Senior Debt Obligation of Corporations that are rated by at least two NRSROs and are denominated in U.S. dollars. At the time of purchase, securities may be bought out to 3 years maturity if any two NRSROs rate the security in their A rating category or equivalent.
7. Time Certificates of Deposit with a maturity not exceeding five years in any FDIC insured state bank, national bank, or state or federal savings bank located in Colorado. Certificates of deposit that exceed FDIC insurance limits shall be collateralized as required by the Public Deposit Protection Act or the Savings and Loan Association Public Deposit Protection Act. In addition, at the time of purchase, issuing banks shall meet the credit criteria set forth in the section of this investment policy, "Selection Of Banks."
8. Money Market Funds registered under the Investment Company Act of 1940 that are "no-load" (no commission or fee charged on purchases or sales of shares), have a constant net asset value of \$1.00, have a maximum stated maturity and weighted average maturity in accordance with Rule 2a-7 of the Investment Company Act of 1940, and have a rating of AAAM, Aaa or the equivalent by an NRSRO.
9. Local Government Investment Pools authorized under CRS 24-75-702 that are "no-load" (no commission or fee charged on purchases or sales of shares), limit assets of the fund to those authorized by state statute, and have a credit rating in the highest rating category by any NRSRO.

10.0 DIVERSIFICATION AND LIQUIDITY

It is the intent of the City to diversify the investments by limiting investments to avoid over concentration in securities from a specific issuer or business sector (excluding U.S. Treasury securities); limiting investment in securities that have higher credit risks; investing in securities with varying maturities; and continuously investing a portion of the portfolio in readily available funds such as local government investment pools, money market funds or repurchase agreements to ensure that appropriate liquidity is maintained in order to meet ongoing obligations. The City shall limit investments to a maximum percentage of the portfolio, defined as the market value plus accrued interest of these securities divided by the market value plus accrued interest of all securities under the scope of this policy. These limits are as follows:

Federal Instrumentality Securities: 75% total portfolio, 30% per issuer

Commercial Paper, eligible Bankers Acceptances, and Senior Debt Obligations of Corporations: 50%

Time Certificates of Deposit: 25%

Money Market Funds: 50%

Local Government Investment Pools: 50%

The overall portfolio shall have a weighted average maturity not in excess of 3 years, and 25% of the portfolio shall mature within 1 year. At least 10% of the Portfolio should be invested in pools or money market funds with same or next day liquidity.

11.0 SELECTION OF BROKER/DEALERS

The Chief Financial Officer shall maintain a list of authorized brokers/dealers approved for investment purposes, and it shall be the policy of the City to purchase securities directly from only those authorized firms. Approved security broker/dealers shall be selected by creditworthiness and/or other factors, such as FINRA broker check. All broker/dealers who desire to become qualified for investment transactions must supply the following as appropriate:

1. Audited financial statements demonstrating compliance with state and federal capital adequacy guidelines
2. Proof of Financial Industry Regulatory Authority (FINRA) certification (not applicable to Certificate of Deposit counterparties)
3. Proof of state registration
4. Completed broker/dealer questionnaire (not applicable to Certificate of Deposit counterparties)
5. Certification of having read and understood and agreeing to comply with the City's investment policy.
6. Evidence of adequate insurance coverage.

An annual review of the financial condition and registration of all qualified financial institutions and broker/dealers will be conducted by the Chief Financial Officer.

To be considered as an eligible broker/dealer, a firm must meet at least one of the following criteria:

1. Be recognized as a Primary Dealer by the Federal Reserve Bank of New York or have a primary dealer within its holding company structure; or
2. Report voluntarily to the Federal Reserve Bank of New York; or
3. Be approved by the Chief Financial Officer after a comprehensive credit and capitalization analysis indicates that the firm is adequately financed to conduct business with the City.

Should the City invest through a Registered Investment Advisor with a fiduciary relationship to the City, securities may be purchased by broker/dealers authorized by that Advisor and are not subject to the requirements listed above for the approved broker/dealer list.

12.0 SELECTION OF BANKS

The Chief Financial Officer shall maintain a list of authorized banks approved to provide depository and other banking services for the City. To be eligible for authorization, a bank must be a member of the FDIC, shall qualify as a depository of public funds in Colorado as defined in C.R.S. 24-75-603 and carry a Bankrate rating of 3 stars or better (or an equivalent rating from a similar bank credit service determined by the Chief Financial Officer).

13.0 SAFEKEEPING AND CUSTODY

The Chief Financial Officer shall approve one or more banks to provide safekeeping or custodial services for the City. Safekeeping or Custodian banks shall be selected through competitive bidding in accordance with Chapter 4.12 of the City's Municipal Code. A City-approved Safekeeping or Custodial Agreement shall be executed with each safekeeping or custodian bank prior to using that bank's safekeeping or custodial services. To be eligible for designation as the City's safekeeping or custodian bank, a financial institution shall qualify as a depository of public funds in Colorado as defined in C.R.S. 24-75-603.

The purchase and sale of securities shall be settled on a delivery versus payment basis. Ownership of all securities shall be perfected in the name of the City, and sufficient evidence to title shall be consistent with modern investment, banking and commercial practices.

All investment securities, except certificates of deposit, local government investment pools and money market funds purchased by the City will be delivered by book entry delivery and will be held in third-party safekeeping or custody by the City-approved safekeeping or custodian bank, its correspondent bank or the Depository Trust Company (DTC).

The City's safekeeping or custodial bank will be required to furnish the City monthly reports of holdings of securities as well as a report of monthly account activity.

14.0 PERFORMANCE BENCHMARKS

The Chief Financial Officer shall review on a quarterly basis the portfolio's adherence to appropriate risk levels and compare the portfolio's performance to the established investment objectives and goals. The portfolio shall be benchmarked against the ICE BAML 0-3 Year Treasury & Agency Index. The Chief Financial Officer may change this benchmark index should he or she determine that a different benchmark more accurately reflects the investment philosophy of the investment portfolio and market conditions.

15.0 REPORTING

On a quarterly basis, an investment report shall be prepared and submitted to the Chief Financial Officer, who will provide it to the City Council in a timely manner, listing the investments held by the City, the current market valuation of the investments and performance results. The report shall include a summary of investment earnings during the period. When there is an active market in a security, a record shall be maintained by the City of any alternative bids and offerings for security transactions. New issue securities do not require alternative pricing. Reporting will be at a level of detail sufficient to show compliance with this policy.

16.0 INVESTMENT POLICY ADOPTION

The City's Investment Policy shall be adopted by resolution of the City Council. The policy shall be reviewed periodically by staff and any modifications made thereto must be approved by the City Council.