

3-12 Investment Policy

12.0 Purpose:

This document, in conjunction with the Ohio Revised Code, as amended, will govern the investment activities of the City's Finance Department. It will be reviewed periodically for compliance and to assure the flexibility necessary to effectively manage the City's fund portfolio.

12.1 Policy:

It is the policy of the City of Fairfield to invest public funds in a manner which will provide the highest investment return with the maximum security while meeting the daily cash flow demands of the entity and conforming to state law and local ordinances governing the investment of public funds.

The Finance Department is hereby directed to invest public funds in a manner which will guarantee the maximum security of those funds. The highest return and meeting the cash flow demands of the City, while conforming to Chapter 135 of the Ohio Revised Code, are also of primary importance.

12.2 Scope:

This investment policy applies to all interim funds of the City of Fairfield. These funds are accounted for in the City's **Comprehensive Annual Financial Report** and include:

12.3 Prudence:

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.

- a. The standard of prudence to be used by investment officials shall be the "**prudent person**" standard and shall be applied in the context of managing an overall portfolio. Investment officers acting in accordance with written procedures and the 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 appropriate action is taken to control adverse developments.

12.4 Objective:

The primary objectives, in priority order, of the City's investment activities shall be:

- a. **Safety:** Safety of principal is the foremost objective of the investment program. Safety is herein defined as the certainty of receiving full par value plus accrued interest, at the securities legal final maturity. Investments of the City shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. To attain this objective, **diversification** is required in order that potential losses on individual securities do not exceed the income generated from the remainder of the 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. Portfolio liquidity is defined as the ability to sell security on a short notice near par value of the security.
- c. **Return on investment:** The City's 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 investment risk constraints and the cash flow characteristics of the portfolio.

12.5 Delegation of Authority:

Authority to manage the City's investment program is derived from the following: (e.g. trading resolutions, code citations, ordinances, statutes, etc.) Management responsibility for the investment program is hereby delegated to the Director of Finance, who shall establish written procedures for the operation of the investment program consistent with this investment policy. Procedures should include reference to: safekeeping, repurchase agreements, wire transfer agreements, collateral/depository agreements and banking service contracts. 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 controls to regulate the activities of subordinate officials.

12.6 Ethics and Conflicts of Interest:

Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment program, or which could impair their ability to make impartial investments decisions. Employees and investment officials shall disclose to the City Manager any material financial interests in financial institutions that conduct business within this jurisdiction, 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 officers shall subordinate their personal investment transactions to those of the City, particularly with regard to the time of purchases and sales.

12.7 Authorized Financial Dealers and Institutions:

The Director of Finance will maintain a list of financial institutions authorized to provide investment services. No public deposit shall be made except in a **qualified public depository** as established by state laws and designated by City Ordinance.

All financial institutions who desire to become qualified bidders for investment transactions must supply the Director of Finance with the following: (e.g. audited financial statements, proof of National Association of Security Dealers certification, trading resolution, proof of state/province registration, completed broker/dealer questionnaire, certification of having read entity's investment policy, depository contracts.)

An annual review of the financial condition and registrations of qualified bidders may be conducted by the Director of Finance. A current audited financial statement is required to be on file for each financial institution and broker/dealer in which the City invests.

12.8 Authorized & Suitable Investments:

The Director of Finance is authorized to invest interim funds of the City as described in **Section 135.14 of the Ohio Revised Code (Exhibit A)**. Investments in eligible securities may be made in either coupon or discount instruments. The Director of Finance may invest in the following:

- a. All interest bearing bank accounts, including certificates of deposits and savings accounts.
- b. Bonds, notes or other direct obligations of or guaranteed by the United States or its agencies or instrumentalities or those for which faith and credit of the United States is pledged for payment of principal and interest issued by the:
 - U.S. Treasury
 - Government National Mortgage Association (GNMA)
 - Federal National Mortgage Association (FNMA)
 - Federal Farm Credit Bank (FFCB)
 - Federal Home Loan Bank (FHLB)
 - Federal Home Loan Mortgage Corporation (FHLMC)
- c. Bonds and other Obligations of the State of Ohio and the City of Fairfield.
- d. Repurchase agreements with institutions that have signed a written master repurchase agreement which is on file in the Director of Finance's office and are eligible for investments under Section 135.14 of the ORC.
- e. Shares of the State Treasury Asset Reserve of Ohio (STAR OHIO)

12.9 Collateralization:

Collateralization will be required on two types of investments: certificates of deposit and repurchase agreements. In order to anticipate market changes and provide a level of security for all funds, the collateralization level will be (103%) of market value of principal and accrued interest.

Collateral will always be held by an independent third party with whom the entity has a current custodial agreement. A clearly marked evidence of ownership (safekeeping receipt) must be supplied to the entity and retained.

The right of collateral substitution is granted. In the case of certificates of deposit guaranteed by a surety bond, the City shall maintain a certificate of insurance which represents the principal and interest to be earned on the investment.

12.10 Safekeeping and Custody:

All security transactions, including collateral for repurchase agreements, entered into by the City shall be conducted on a **delivery-versus-payment (DVP)** basis. Securities will be held by a third party custodian designated by the Director of Finance and evidenced by safekeeping receipts.

12.11 Diversification:

The Director of Finance will diversify the City Funds portfolio by security and institution. There shall be no limit set on the amount of funds which may be held in investments as described in Section 132.14B of the ORC, and as listed in Section 12.8 of this policy.

No more than 50% of the total current portfolio shall be invested in shares of the State Treasury Asset Reserve (STAR OHIO).

Further, no more than 10% of the total current portfolio shall be invested in collateralized repurchase agreements and certificate of deposits with any one eligible financial institution.

12.12 Maximum Maturities:

To the extent possible, the City will attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, the City will not directly invest in securities maturing more than three (3) years from the date of purchase. However, the City may collateralize its repurchase agreements using longer-dated investments not to exceed ten (10) years to maturity.

The Director of Finance will not invest more than 50% of the current portfolio in securities exceeding two (2) years in maturity.

12.13 Internal Control:

The development of internal controls remains a management function. A statement of investment policy therefore should avoid specific internal control measures. Instead, policy makers should require that a system of internal controls be established. The policy also can provide for periodic reviews and monitoring of the controls. The review of internal controls might be assigned to a committee or to the independent auditor.

12.14 Performance Standards:

The investment portfolio will be designed to obtain a market average rate of return during

budgetary and economic cycles, taking into account the City investment risk constraints and cash flow needs.

- a. **Market Yield (Benchmark):** The City's investment strategy is active. Given this strategy, the basis used by the City of Fairfield to determine whether market yields are being achieved shall be the rate on a **90 day U.S. Treasury Bill**.

12.15 Reporting:

The Director of Finance is charged with the responsibility of including a report on investment activity and earnings. Reports will include e.g. performance, investment type breakdown, estimated annual earnings, interest earnings, etc.

12.16 Investment Policy Adoption:

The City's investment policy shall be adopted by the investment board. The policy shall be reviewed on an annual basis by the Finance Committee and any modifications made thereto must be approved by the Investment Board.

Review & Questions:

Questions regarding this policy should be directed to the City Manager's Office.

Arthur E. Pizzano

 City Manager

05/23/05

 Date

Supersedes #16, Issued 04/13/95

Exhibit A

Exhibit B

ELIGIBLE FEDERAL AGENCY / INSTRUMENTALITY SECURITIES

FEDERAL HOME ADMINISTRATION

FEDERAL HOUSING ADMINISTRATION

FEDERAL FARM CREDIT BANK

FEDERAL HOME LOAN BANK

FEDERAL HOME LOAN MORTGAGE CORPORATION

FEDERAL NATIONAL MORTGAGE ASSOCIATION