

# **THE CITY OF ARVADA, COLORADO**

## **INVESTMENT POLICY**

**August 2, 2021**

Article XX of the Constitution of the State of Colorado provides the City of Arvada (the "City") with the legal authority to promulgate and implement reasonable standards for its cash management and investment operations. Under the provisions granted by that legal authority, the City Council (the "Council") has adopted specific cash management policies and procedures in accordance with Section 2-121 of the Code of the City of Arvada (the "Code"), and has authorized the City Manager and/or his designee(s) to implement reasonable rules and regulations relating to the cash management and investment activities of the City.

As designated by the City Manager, the Director of Finance shall be committed to the overall success of the City's cash management programs and may establish an advisory committee to review and recommend practices on a number of cash management issues, including, but not limited to, the following:

- A. The design and implementation of reliable and effective cash-flow forecasting methodologies which will assist the City's accounting personnel in determining the amounts of cash available for investment; the time period for which the funds may reasonably be invested; and the volatility of specific forecasts, which will allow viable determination of the required liquidity which must characterize the specific investments.
- B. The design and implementation of appropriate revenue acceleration programs, to enhance the speed at which monies are collected, deposited, and invested.
- C. Controlled disbursement programs, to ensure that City expenses are paid on time without jeopardizing the potential earning capability of the City's cash management program.
- D. The use of state-of-the-art techniques for the physical movement of money, taking advantage of the technological and operational procedures which have evolved in recent years.
- E. The design and implementation of investment policies and procedures which allow the City to maximize its interest earnings, and ensure the safety of all funds entrusted to the care and control of City personnel.
- F. The design and implementation of relationships with bank and investment advisors (if applicable) which are both favorable to the City and responsive to the day-to-day requirements of the City's complex financial operations.

## **SCOPE AND PURPOSE**

This Investment Policy addresses the methods, procedures and practices which must be exercised to ensure effective and judicious fiscal and investment management of the City's funds. It was adopted by the City Council on August 2, 2021 and replaces any previous investment policy or investment procedures of the City.

This Investment Policy applies to all City funds, except defined contribution/benefit pension and retirement funds, deferred compensation funds, funds of the Arvada Urban Renewal Authority, and the self-insured medical fund.

Except for cash in certain restricted and special funds, cash shall be pooled for investment purposes. The investment income derived from any pooled investment account shall be allocated to the contributing funds based upon the proportion of the respective ending balance of the prior month relative to the total pooled balance in each investment portfolio.

## **INVESTMENT OBJECTIVES**

The City's funds shall be invested in accordance with all applicable City policies, Colorado statutes, and Federal regulations, and in a manner designed to accomplish the following objectives, which are listed in priority order:

- Preservation of capital and protection of investment principal
- Maintenance of sufficient liquidity to meet anticipated cash flows
- Attainment of a market rate of return
- Diversification to avoid incurring unreasonable market risks

## **DELEGATION OF AUTHORITY**

The Director of Finance and/or his/her designee(s) is vested with responsibility for managing the City's investment program and for implementing this Investment Policy. The Director of Finance may designate the authority to administer investment transactions and the operation of each investment portfolio to other specifically authorized staff members. No person may engage in an investment transaction except as expressly provided under the terms of this Investment Policy.

The Director of Finance shall establish procedures and internal controls for the operation of the City's investment program, designed to prevent loss of public funds due to fraud, error, misrepresentation and imprudent actions.

The City may engage the support services of outside investment advisors in regard to its investment program, so long as it can be demonstrated that these services produce a net financial advantage or necessary financial protection of the City's financial resources.

It is imperative that any investment advisor who provides support services serve in a fiduciary capacity to the City, be highly qualified, and demonstrably independent. Furthermore, a prospective advisor should be able to provide clear evidence of his/her capabilities on behalf of clients similar to the City. An investment advisor may be selected by the City through a competitive Request for Proposal process.

The City has established strict guidelines regarding the approval of such investment advisors to ensure that such support services are consistent with the City's established policies and procedures. These guidelines include, but are not limited to, the following:

- a. Any investment advisor selected shall be a "Registered Investment Advisor" as defined and regulated by the U.S. Securities and Exchange Commission (the "SEC").
- b. Any such investment advisor shall be completely independent of any financial institution or securities brokerage firm, and shall not participate in any commissions, or soft-dollar payments as a result of its relationship to the City.
- c. Any such investment advisor shall not take possession of any City monies or investment securities, nor have access to or control over such monies and/or securities. Procedures for delivery, possession, and safekeeping are established in the Safekeeping and Custody section of this investment policy. Such procedures shall remain the same, regardless of the City's relationship with an investment advisor.
- d. Pursuant to the terms of the Investment Advisory Agreement, the selected investment advisor may be granted discretionary or non-discretionary authority on behalf of the City.
- e. Any such investment advisor shall provide the City with periodic reports regarding the accounting treatment and performance level of the City's investment portfolio(s). Such reports shall be verifiable within the definition of generally accepted accounting principles (GAAP).
- f. Fees for investment advisory services shall be fixed monthly charges or a fee based upon the dollar amount of the portfolio(s) as opposed to "performance-based" fees.

## **INVESTMENT MANAGEMENT STANDARDS**

The standard to be used for managing the City's assets is the "prudent investor" standard applicable to a fiduciary, which states that a prudent investor "shall exercise the judgment and care, under circumstances then prevailing, which men of prudence, discretion, and intelligence exercise in the management of the property of another, not in regard to speculation but in regard to the permanent disposition of funds, considering the probable income as well as the probable safety of capital." (Colorado Revised Statutes 15-1-304, Standard for Investments.)

The City's overall 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 risk-free and that its investment activities are a matter of public record. Accordingly, the City recognizes that occasional realized losses may occur in any diversified portfolio and shall be considered within the context of each portfolio's return, provided that adequate diversification has been implemented and the recommended retention or sale of a security is in the best long-term interest of the City.

The Director of Finance and other authorized persons acting in accordance with established procedures 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 to the City Council and appropriate action is taken to control adverse developments.

## **ETHICS AND CONFLICTS OF INTEREST**

City employees involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the City's investment program or that could impair or create the appearance of an impairment of their ability to make impartial investment decisions. Employees approved to engage in any investment decisions shall disclose to the Director of Finance any material financial interest they have in financial institutions that conduct business with the City, and they shall subordinate their personal investment transactions to those of the City.

## **AUTHORIZED SECURITIES AND TRANSACTIONS**

All investments will be made in accordance with the Colorado Revised Statutes including without limitation the following: C.R.S. 11-10.5-101, et seq. Public Deposit Protection Act; C.R.S. 24-75-601, et. seq. Funds - Legal Investments; C.R.S. 24-75-603, Depositories; C.R.S. 24-75-701, et. seq., Local governments – authority to pool surplus funds, C.R.S. 30-10-701, et. seq. Any revisions or extensions of these sections of the statutes will be assumed to be part of this Investment Policy immediately upon being enacted.

For the purposes of this policy, the diversification requirements are applicable to the overall portfolio holdings (the "Portfolio") of the City, not based on an individual portfolio. References to rating category includes modifiers. For example, the A rating category includes A-, A and A+ (or the equivalent). All rating requirements are as of the time of purchase.

The ratings requirements outlined in this section are those as published by Standard & Poor's ("S&P"), a Nationally Recognized Statistical Rating Organization ("NRSRO"). Securities purchased may be rated by Standard & Poor's, Moody's Investors Service, or Fitch Ratings, therefore, the ratings equivalents of those referenced by S&P are listed below:

LONG-TERM RATINGS		
Standard & Poor's	Moody's Investors Service	Fitch Ratings
AAA	Aaa	AAA
AA+	Aa1	AA+
AA	Aa2	AA
AA-	Aa3	AA-
A+	A1	A+
A	A2	A
A-	A3	A-

SHORT-TERM RATINGS		
Standard & Poor's	Moody's Investors Service	Fitch Ratings
A-1+	P-1	F1+
A-1	P-1	F1

Sources: Standard & Poor's Corporation, Moody's Investors Service, Fitch Ratings

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

1. U.S. Treasury Obligations: Any security issued by, fully guaranteed by, or for which the full credit of the United States Treasury is pledged for payment including, but not limited to, Treasury bills, Treasury notes, Treasury bonds and Treasury STRIPS with maturities not exceeding 10 years from the date of trade settlement. 100% of the Portfolio may be invested in U.S. Treasury Obligations.
2. Federal Agency and Instrumentality Securities: Any security issued by, fully guaranteed by, or for which the full credit of the following is pledged for payment: The federal farm credit bank, the federal land bank, a federal home loan bank, the federal agricultural mortgage corporation, the federal home loan mortgage corporation, the federal national mortgage association, the export-import bank, the Tennessee Valley Authority, the government national mortgage association, the world bank, or an entity or organization that is not listed in this paragraph but that is created by, or the creation of which is authorized by, legislation enacted by the United States congress and that is subject to control by the federal government that is at least as extensive as that which governs an entity or organization listed in this paragraph. With the exception of the federal agricultural mortgage corporation such securities shall be rated in the AA category or the equivalent at the time of purchase by at least two NRSROs. Such securities shall have maturities not exceeding five years from the date of trade settlement. 100% of the Portfolio may be invested in Federal Agency and Instrumentality Securities. Subordinated debt may not be purchased.
3. Repurchase Agreements with a termination date of 180 days or less collateralized by U.S. Treasury Obligations or Federal Agency and Instrumentality securities listed in 1. and 2. above with a final maturity not exceeding 10 years. The purchased securities shall have a minimum market value including accrued interest of 102% of the dollar value of the transaction. Collateral shall be held by the City's third-party custodian bank, and the market value of the collateral securities shall be marked-to-the market daily.

Repurchase Agreements shall be entered into only with broker/dealers recognized as Primary Dealers by the Federal Reserve Bank of New York, or with firms that have a Primary Dealer within their holding company structure. Approved Repurchase Agreement counterparties shall have a short-term credit rating of at least A-1 or the equivalent and a long-term credit rating of at least A or the equivalent by a NRSRO.

No more than 100% of the Portfolio may be invested in repurchase agreements and no more than 10% may be invested with a single counterparty.

4. Commercial Paper with an original maturity of 270 days or less issued by any corporation or bank. Such securities must be U.S. dollar-denominated and rated A-1 or the equivalent at the time of purchase by at least two NRSROs. No more than 35% of the Portfolio may be invested in commercial paper, and no more than 5% may be invested in the obligations of any one issuer.

5. Eligible Banker's Acceptances with maturities not exceeding 180 days, issued by FDIC insured state or national banks with combined capital and surplus of at least \$250 million. Banker's Acceptances shall be rated A-1 or the equivalent by at least two NRSROs. No more than 35% of the Portfolio may be invested in banker's acceptances, and no more than 5% may be invested in the obligations of any one issuer.
6. Corporate Debt with a maturity not exceeding five years from the date of trade settlement and issued by any corporation or bank. Such securities must be U.S. dollar-denominated and rated in the A category or the equivalent at the time of purchase by at least two NRSROs. No more than 35% of the Portfolio may be invested in corporate debt and no more than 20% of the Portfolio will be invested in securities of all types rated in the A category or the equivalent. No more than 5% may be invested in the obligations of any one issuer.
7. Municipal Bonds. Obligations of any state or local government with maturities not exceeding five years from the date of trade settlement. Such obligations shall be rated in the A category or the equivalent by at least two NRSROs.

No more than 35% of the Portfolio may be invested in municipal bonds and no more than 20% of the Portfolio will be invested in securities of all types rated in the A category or the equivalent. No more than 5% may be invested in obligations of a single issuer.

8. Negotiable Certificates of Deposit ("Negotiable CDs") with a maturity not exceeding three years from the date of trade settlement and issued by any bank. Negotiable CDs must be U.S. dollar-denominated and must, at the time of purchase, have either a) a long-term rating in the A category or the equivalent by at least two NRSROs, or b) short-term ratings of A-1 or the equivalent by two NRSROs. No more than 35% of the Portfolio may be invested in Negotiable CDs and no more than 20% of the Portfolio will be invested in securities of all types rated in the A category or the equivalent and no more than 5% may be invested in a single issuer.
9. Non-negotiable Certificates of Deposit ("Time CDs") with a maturity not exceeding three years in any FDIC insured state or national bank located in Colorado that is an eligible public depository as defined in C.R.S. 11-10.5-103. Certificates of deposit that exceed FDIC insurance limits shall be collateralized as required by the Public Deposit Protection Act. No more than 20% of the Portfolio may be invested in Time CDs, and no more than 10% may be invested in a single issuer.
10. Local Government Investment Pools ("LGIPs") LGIPs authorized under CRS 24-75-701 et seq. which: 1) seek to maintain a constant daily net asset value per share; 2) limit assets of the fund to securities authorized by CRS 24-75-601 et seq.; and 3) have a rating in the highest category by any NRSRO. 100% of the Portfolio may be invested in LGIPs but no single LGIP may constitute more than 50% of the Portfolio. These diversification limits are not applicable to portfolios funded with bond proceeds.
11. Money Market Mutual Funds registered under the Investment Company Act of 1940 that: 1) are "no-load" (no commission or fee shall be charged on purchases or sales of shares); 2) seek a constant net asset value per share; 3) have a maximum stated

maturity and weighted average maturity in accordance with Rule 2a-7 of the Investment Company Act of 1940; and 4) have a rating in the highest category by any NRSRO. 100% of the Portfolio may be invested in money market mutual funds but no single fund may constitute more than 50% of the Portfolio.

12. Securities of the City of Arvada or taxing unit of the City, or certificates of participation may be purchased upon recommendation of the Director or Finance.

The Portfolio shall be limited to an aggregate exposure of 50% for the following investment types: Commercial Paper, Bankers Acceptances, Corporate Bonds and Negotiable Certificates of Deposit.

The foregoing list of authorized securities and transactions shall be strictly interpreted.

Securities in which the City has already invested that are downgraded to a level that is below the minimum ratings described herein may be sold or held at the discretion of the Director of Finance. The relevant portfolio will be brought back into compliance with Investment Policy guidelines as soon as is practical.

Should the financial markets experience severe turmoil, the Director of Finance and/or designee, upon approval of the City Manager, may make decisions regarding investments outside of the parameters of this policy on a temporary basis to ensure the City's primary objectives of legality, safety, liquidity and yield are upheld.

The City may, from time to time issue bonds, the proceeds of which must be invested to meet specific cash flow requirements. In such circumstances and notwithstanding the paragraph immediately above, the reinvestment of debt issuance or related reserve funds may, upon the advice of Bond Counsel or financial advisors, deviate from the provisions of this Investment Policy with the written approval of the Director of Finance.

## **INVESTMENT DIVERSIFICATION**

The City shall diversify its investments to avoid incurring unreasonable risks inherent in over-investing in specific instruments, individual financial institutions or maturities. Nevertheless, the asset allocation in the Portfolio should be flexible depending upon the outlook for the economy, the securities markets and the City's anticipated cash flow needs.

## **INVESTMENT LIQUIDITY**

The Portfolio shall remain sufficiently liquid to meet all cash requirements that may be reasonably anticipated. To the extent possible, investments shall be matched with anticipated cash flows and known future liabilities.

## **COMPETITIVE TRANSACTIONS**

All investment transactions shall be conducted competitively with authorized broker/dealers. At least three broker/dealers shall be contacted for each transaction and their bid or offering prices shall be recorded. If the City is offered a security for which there is no other readily available competitive offering, quotations for comparable or alternative

securities will be documented. The competitive transaction requirement is not applicable for new issue security offerings or direct purchases from an issuer.

## **SELECTION OF BROKER/DEALERS**

It shall be the policy of the City to purchase securities only from authorized broker/dealers.

To be eligible, 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,
2. Report voluntarily to the Federal Reserve Bank of New York,
3. Qualify under Securities and Exchange Commission (SEC) Rule 15c3-1 (Uniform Net Capital Rule).

Broker/dealers will be selected on the basis of their expertise in public cash management and their ability to provide service to the City's account.

If the City engages the services of a professional investment advisory firm to assist in the management of investment portfolios in accordance with this Investment Policy, the firm shall be authorized to utilize its own approved list of broker/dealers. Such approved broker/dealers shall still comply with the Broker/Dealer Criteria listed above.

The City may purchase commercial paper from direct issuers even though they are not on the approved broker/dealer list as long as they meet the criteria outlined in item 4 of the Authorized Securities and Transactions section of this Investment Policy.

## **SAFEKEEPING AND CUSTODY**

The Director of Finance shall approve one or more banks to provide safekeeping and custodial services for the City. A City approved safekeeping agreement shall be executed with each custodian bank. The City's safekeeping banks shall qualify as eligible public depositories as defined in C.R.S. 11-10.5-103 and be a Federal Reserve member financial institution.

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

All investment securities, except non-negotiable Certificates of Deposit, Local Government Investment Pools and Money Market Mutual Funds, purchased by the City will be delivered by book entry and will be held in third-party safekeeping by the City approved custodian bank, its correspondent bank or the Depository Trust Company (DTC).

All Fed wireable book entry securities shall be evidenced by a safekeeping receipt or a customer confirmation issued to the City by the custodian bank stating that the securities are held in the Federal Reserve system in a Customer Account for the custodian bank which will name the City as "customer."



All DTC eligible securities shall be held in the custodian bank's Depository Trust Company (DTC) participant account and the custodian bank shall issue a safekeeping receipt evidencing that the securities are held for the City as "customer."

The City's custodian will be required to furnish the City a monthly report of safekeeping activity, including a list of month-end holdings and market values.

## **PERFORMANCE BENCHMARKS**

Each portfolio shall be designed to attain a market rate of return throughout budgetary and economic cycles, taking into account prevailing market conditions, risk constraints for eligible securities, and cash flow requirements. If applicable, the performance of each investment portfolio may be compared to a total return index that meets the duration target of each portfolio. When analyzing the performance of each investment portfolio, all fees involved with managing it shall be included in the computation of its rate of return.

## **REPORTING**

The Director of Finance and/or designee(s) involved in the investment process shall prepare an investment report to the City Council and City Manager at least quarterly. This report shall summarize the investment earnings and performance results of each investment portfolio. The report shall include a summary of all City investments, their book value or par value, interest earnings for the period, and any realized gains or losses. The report shall also include the portfolio's sector allocation, credit ratings, maturity distribution, weighted average maturity, yield to cost, yield to maturity, and comparative benchmark returns, where relevant.

## **POLICY REVISIONS**

This Investment Policy shall be reviewed on a periodic basis by the Director of Finance. If amendments are required, they shall be submitted to the City Council for approval.

## SUMMARY OF ELIGIBLE INVESTMENTS AND TRANSACTIONS

The ratings requirements outlined in this summary grid of eligible investments and transactions are those as published by Standard & Poor's ("S&P"), a Nationally Recognized Statistical Rating Organization ("NRSRO"). Securities purchased may be rated by Standard & Poor's, Moody's Investors Service, or Fitch Ratings, therefore, the ratings equivalents of those referenced by S&P are outlined in Authorized Securities and Transactions of this policy.

Security Type	Maximum Portfolio %	Maximum Issuer %	Maturity Restrictions	Minimum Rating Requirements
U.S. Treasuries	100%	100%	10 years	N/A
Federal Agencies and Instrumentalities	100%	100%	5 years	AA by 2 NRSROs <sup>1</sup>
Corporate Debt	35%	5%	5 years	A- by 2 NRSROs
Municipal Bonds	35%*	5%*	5 years	A- by 2 NRSROs
Commercial Paper	35%	5%	270 days	A-1 by 2 NRSROs
Bankers Acceptances	35%	5%	180 days	A-1 by 2 NRSROs
Repurchase Agreements	100%	10%	180 days	N/A
Non-negotiable Certificates of Deposits ("Time CDs")	20%	10%	3 years	N/A
Negotiable Certificates of Deposit ("Negotiable CD's")	35%	5%	3 years	A- or A-1 by 2 NRSROs
Local Government Investment Pools	100%	50%	N/A	Highest rating category by any NRSRO
Money Market Mutual Funds	100%	50%	N/A	Highest rating category by any NRSRO

**Note:** The Portfolio shall be limited to an aggregate exposure of 50% for the following investment types: Commercial Paper, Bankers Acceptances, Corporate Bonds and Negotiable Certificates of Deposit. A 20% limit of the Portfolio shall be applicable for securities of all types in the A rating category. For details see Authorized Securities and Transactions.

1. A credit rating is not required for the federal agricultural mortgage corporation