

ADMINISTRATIVE ORDER

NO. 15

INVESTMENT POLICY OF THE CITY OF BILLINGS

## SCOPE

This Investment Policy applies to all financial assets of the City of Billings. These funds are accounted for in the City's annual financial report and include:

- A. General Fund
- B. Special Revenue Funds
- C. Capital Projects Funds
- D. Enterprise Funds (Water, Sewer, Sanitation, Airport and Transit)
- E. Trust and Agency Funds
- F. Intra-governmental Services Funds
- G. Debt Service Funds
- H. Special Assessments

## Objectives

### A. Safety of Capital

- 1. Safety of Principal is the foremost objective of the City of Billings. Each investment transaction shall seek to first ensure that capital losses are avoided whether they be from securities defaults or erosion of market value.
- 2. The investment portfolio for the City shall be designed to attain a market average rate of return throughout budgetary and economic cycles, taking into account the government's investment risk constraints and the cash flow characteristics of the portfolio.
- 3. Funds held for future capital projects shall be invested in securities that reasonably can be expected to produce enough income to offset inflationary construction cost increases.

### B. Local Considerations

- 1. The City seeks to attain market rates of return on its investments consistent with constraints imposed by its safety objective, cash flow considerations and state laws that restrict the placement of certain public funds.

### C. Maintaining the Public Trust

- 1. All participants in the investments process shall seek to act responsibly as custodians of the public trust. Investment officials shall avoid any transaction that might impair public confidence in the City's ability to govern effectively.

#### Delegation of Authority

The Finance Director is designated as investment officer of the City and is responsible for investment decisions and activities, under the direction of the City Administrator. The Finance Director shall develop and maintain procedures for the operation of the investment program consistent with these policies.

#### Prudence

The Standard of Prudence to be used by investment official shall be the prudent person and shall be applied in the context of managing an overall portfolio. Investment officer 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 change, provided deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments.

#### 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 investment decisions. Employees and investment officials shall disclose to the City Administrator 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 this jurisdiction's portfolio.

#### Internal Controls

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The Finance Director shall establish a system of internal controls. The internal controls shall be reviewed with the independent auditors. The controls shall be designed to prevent loss of public funds arising from fraud, employee error, misrepresentation by third parties, unanticipated changes in financial markets, or imprudent actions by employees and officers of the City.

#### Reporting--Quarterly

The Finance Director shall submit quarterly an investment report that reflects the trends of the interest rates for the past three months and anticipated investment conditions, and describe the

portfolio in terms of investment securities, maturities, risk characteristics and other features.

#### Short-Term Versus Long-Term Portfolio

Limitations on investment, diversification and maturity scheduling shall depend upon whether the funds being invested are considered short-term or long-term funds. All funds shall be considered short term except those reserved for capital projects (ie., bond sale proceeds), trust and agency funds, Cemetery and Library.

#### Short-term Portfolio Diversification

The City will diversify use of investment instruments to avoid incurring unreasonable risks inherent in overinvesting in specific instruments, individual financial institutions or maturities.

#### Diversification by Instrument

	<u>Maximum Percent of Portfolio</u>
-- U.S. Treasury obligations (bills, notes, bonds)	100 %
-- U.S. Government agency securities and instrumentalities of government sponsored corporations	100 %
-- Repurchase agreements (Repos)	25 %
-- Certificates of Deposit (CDs), Commercial Bank	50 %
-- Certificates of Deposit, Savings and Loan Assoc.	5 %
-- Certificates of Deposit, Credit Union	1 %

#### Diversification by Financial Institution

- Repurchase agreements, repos, no more than 5 million;
- Certificates of deposit, commercial banks, no more than 30 percent of the total portfolio with any one institution, must be member of FDIC;
- Certificates of deposit, savings and loans associations, no more than 100,000 including interest with any one institution, must be member of FDIC;
- Certificates of deposit, credit union, no more than they are covered under the FDIC;

-- Financial institution, no more than 40 percent of the total portfolio with any one.

Listed below are the financial institutions that the City will have on their bid list for investments.

#### **Maturity Scheduling**

Investment maturities for operating funds shall be scheduled to coincide with projected cash flow needs, taking into account large routine expenditures (payroll, bond payments) as well as considering sizable blocks of anticipated revenue (tax turnover, fee payments). Maturities in this category shall be timed to comply with the following guidelines.

under 30 days	10% minimum
under 90 days	25% minimum
under 270 days	50% minimum
under 1 year	90% minimum
under 2 years	100% minimum

#### **Long-Term Portfolio Diversification**

Instruments and diversification for the long term portfolio shall be the same as for the short-term portfolio. Maturity scheduling shall be timed according to anticipated need for example, investment of capital project funds shall be timed to meet contractor payments, usually for a term not to exceed three years.

#### **Competitive Selection of Investment Instruments**

Before the City invests any surplus funds, a competitive "bid" process shall be conducted. If a specific maturity date is required, either for cash flow purposes or for conformance to maturity guidelines, bids will be requested for instruments which meet the maturity requirement. If no specific maturity is required, a market trend (yield curve) analysis will be conducted to determine which would be most advantageous.

Bids will be requested from financial institutions and brokerage/dealers for various options with regards to term and instrument. The City will accept the bid which provides the higher rate of return within the maturity required and within the perimeters of these policies.

Records will be kept of the bids offered, the bids accepted and a brief explanation of the decision which was made regarding the investment.

#### Qualified Institutions

The City shall maintain a listing of local financial institutions and securities dealers which are approved for investment purposes financial institutions which are approved for investment purposes based on the State requirement stated in Montana statutes. Securities dealers not affiliated with a bank shall be required to be classified as reported dealers affiliated with the New York Federal Reserve Bank, as primary dealers.

#### Safekeeping and Collateralization

All investment securities purchased by the City shall be in third party safekeeping by an institution designated as primary agent. The primary agent shall issue a safekeeping receipt to the City listing the specific instrument, rate, maturity, and other pertinent information.

Deposit type securities (i.e., certificates of deposit) shall be collateralized according to Montana State Law section 7-6-207. Other investments shall be collateralized by the actual security held in safekeeping by the primary agent. Listed below are acceptable security as stated in State Law under Section 17-6-103:

- (1) direct obligations of the United States;
- (2) securities as to which the payment of principal and interest is guaranteed by the United States;
- (3) securities issued or fully guaranteed by the United States or their successors, whether or not guaranteed by the United States:
  - (a) commodity credit corporation;
  - (b) federal intermediate credit banks;
  - (c) federal land bank;
  - (d) bank for cooperatives;
  - (e) federal home loan banks;
  - (f) federal national mortgage association;
  - (g) government national mortgage association;
  - (h) small business administration;
  - (i) federal housing administration; and
  - (j) federal home loan mortgage corporation.

- (4) general obligation bonds of the state or of any county, city, school district or other political subdivision of the state.