



Agenda Commentary

Item Title/ Subject: Investment Policy for the City of Clinton and all Clinton Municipal Authority Trusts

Staff Source: Debra Blanchard, City Treasurer

History/Background Information: Resolution No. 638, approved January 7, 1997 is the only Investment Policy document for the City of Clinton. It is a very blanket policy which has served us well, but needs to be updated to today's standards. I have included a copy of that document for your review.

Item/Subject Summary: I have been working on a new Investment Policy for several months, to update our existing Policy and Resolution to recognize changes in State Statutes over the last several years, to include O.S. 348.1 thru 348.3. The written policy addresses much more in the area of diversity, liquidity, safety, yield, maturity, etc., rather than the blanket statement of the previous document. It allows us to invest in obligations of the U.S. Government, its agencies and instrumentalities.

The new policy is based off of a sample document developed by Michael Crawford, CPA, who is a leader in Municipal Accounting in the State of Oklahoma and nationally also. I also reviewed the City of Weatherford Investment Policy after discussing it with their long time Clerk/Treasurer Tony Davenport, and reviewed the City of Oklahoma City Policy, which is very in-depth and lengthy.

I sent the draft document to City Attorney Ryan Meacham and our financial consultant Russ Meacham, they recommended a few small changes which have been completed.

Price/Cost: -0-

Recommendation: I would recommend approval of the New Investment Policy, allowing greater diversity in our portfolio and attempting to achieve greater return, while remaining safe, liquid, and diversified.

RESOLUTION NO 638

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF CLINTON, OKLAHOMA, ESTABLISHING AN INVESTMENT POLICY FOR THE CITY OF CLINTON, OKLAHOMA.

WHEREAS, the Oklahoma Statutes, Title 62 OS 84, Supp. Section 348.1 provides that the lawful treasurer of any city or town, when authorized by the appropriate governing body by resolution, shall invest any monies in the custody of the treasurer as limited by law, provided further that said monies cannot then be used for the purpose for which they are to be expended, and

WHEREAS, the Clinton City Council of Clinton, Oklahoma, recognize the necessity of establishing an investment policy to properly transact its investment activities, and

WHEREAS, the Clinton City Council also recognizes the necessity of improving its procedures for investing available funds to earn additional revenue.

NOW, THEREFORE, BE IT RESOLVED by the Clinton City Council of the City of Clinton, Oklahoma:

A. That the City Treasurer shall be an is hereby given blanket authority and directed to invest and reinvest available funds on a continuing basis; provided that the income received from said investments may be placed in the general fund of the governmental subdivision to be used for general governmental operations, the sinking fund, the building fund, or the fund from which the investment was made.

B. That the City Treasurer shall keep records on all investments, showing the amount invested from each fund by type of investment and distribution of interest earned by each fund.

C. This policy shall stay in effect until otherwise changed by City Council.

PASSED AND APPROVED by the City Council of the City of Clinton, Oklahoma on this

7 day of January , 1997.


Don Rodolph, Mayor

ATTEST:


Glendene Goucher, City Clerk

**INVESTMENT POLICY
CITY OF CLINTON OKLAHOMA
CLINTON MUNICIPAL AUTHORITY TRUSTS**

Section 1. General

Any and all references in this document to the "City of Clinton" shall be understood to include all funds of the City of Clinton as well as all funds of the Clinton Municipal Authority Trusts.

Section 2. Policy

It is the policy of the City of Clinton as entered in accordance with 62 Okla. Stat §84 and City of Clinton Resolution 638, to invest all 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 city and conforming to all state and local statutes governing the investment of public funds.

Section 3. Scope

This investment policy applies to all financial assets of the City of Clinton. These funds are accounted for in the City of Clinton's annual audit report and include the following existing funds and are to include any new funds created by the Clinton City Council in the future:

- General Fund
- Special Revenue Funds
- Capital Project Funds
- Enterprise Funds
- Trust and Agency Funds

Section 4. 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.

The standard of prudence to be used by the 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 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.

Section 5. Objective

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

- a. **Safety.** Safety of principal is the foremost objective of the investment program. Investments of the City of Clinton shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. To attain this objective, the City of Clinton will diversify its investments by investing funds among a variety of financial institutions.
- b. **Liquidity.** The City of Clinton's investment portfolio will remain sufficiently liquid to enable the City of Clinton to meet all operating requirements that might be reasonably anticipated.
- c. **Yield.** The City of Clinton'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 of Clinton's investment risk constraints and the cash flow characteristics of the portfolio.

Section 6. Delegation of Authority

The City Treasurer has the authority to manage the City of Clinton's investments as part of the Treasurer duties defined in the Clinton City Charter, Section 4-2 and the City Code 1-7B. In absence of the City Treasurer, the Deputy City Treasurers are authorized and shall perform the duties of the City Treasurer as set forth under the policy guidelines.

Section 7. Investment Procedure

The City Treasurer shall establish written procedures and internal controls for the operation of the investment program consistent with this investment policy. Procedures should include references to: safekeeping, bidding procedures, investment accounting, wire transfer agreements, and collateral/depository agreements. No person may engage in an investment transaction except as provided under the terms of this policy and the established procedures. The City Treasurer shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials. The City of Clinton may utilize a competitive bid process when placing invested monies to ensure the city is receiving the "best" price for each given transaction, but may accept a lower bid in order to enhance liquidity, marketability, or diversity of the aggregate portfolio in order to remain in compliance with the Investment Policy requirements.

Section 8. 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 that could impair their ability to make impartial investment decisions. Employees and investment officials shall disclose any material financial interests in financial institutions with which they conduct business, and they shall further disclose any large personal financial/investment positions that could be related to the performance of the City of Clinton's portfolio.

Section 9. Authorized Financial Institutions

A list will be maintained of financial institutions authorized to provide investment services. No public deposit shall be made except in a qualified public depository as established by the laws of the State of Oklahoma, the Charter and the Code of the City of Clinton.

Section 10. Authorized and Suitable Investments

The City Treasurer is empowered by the City Council to invest in any of the securities authorized in the Oklahoma State Statutes, Title 62, Section 348.1- 348.3.

- a. Obligations of the United States government, its agencies and instrumentalities;
- b. Collateralized or insured certificates of deposit and other evidences of deposit at banks, savings banks, savings and loan associations and credit unions located in this state, or fully insured certificates of deposit at banks, savings banks, savings and loan associations and credit unions located out of state;
- c. Negotiable certificates of deposit issued by a nationally or state-chartered bank, a savings bank, a savings and loan association or a state-licensed branch of a foreign bank. Purchases of negotiable certificates of deposit shall not exceed ten percent (10%) of the surplus funds of the city or county which may be invested pursuant to this section. Not more than one-half (1/2) of the ten percent (10%) limit shall be invested in any one financial institution specified in this paragraph;
- d. Prime bankers' acceptances which are eligible for purchase by the Federal Reserve System and which do not exceed 270 days' maturity. Purchases of prime banker's acceptances shall not exceed ten percent (10%) of the surplus funds of the City or county which may be invested pursuant to this section. Not more than one-half (1/2) of the ten percent (10%) shall be invested in any one commercial bank pursuant to this paragraph;
- e. Prime commercial paper which shall not have a maturity that exceeds one hundred eighty (180) days nor represent more than ten percent (10%) of the outstanding paper of an issuing corporation. Purchases of prime commercial paper shall not exceed seven and one-half (7 ½%) of the surplus funds of the city or county which may be invested pursuant to this section;
- f. Repurchase agreements that have underlying collateral consisting of those items specified in paragraphs a through e of this subsection; and

- g. Money market mutual funds regulated by the Securities and Exchange Commission and which investments consist of those items and those restrictions specified in paragraphs a through f of this subsection.

Section 11. Collateralization

All collateral pledged to secure public funds shall be valued at no more than market value. In order to anticipate market changes and provide a level of security for all funds, the collateralization level will be one hundred five percent (105%) of market value of principal and accrued interest. The City of Clinton chooses to limit collateral to:

- a. U. S. Treasury Securities.
- b. Direct debt obligations of municipalities, counties, and school districts in Oklahoma.
- c. Irrevocable Standby Letters of Credit from the Federal Home Loan Bank of Topeka.

Collateral will be held by the City Treasurer of the City of Clinton or by an independent third party with which the entity has a current custodial agreement. A clearly marked evidence of ownership (safekeeping receipt) must be supplied in either case.

The City Treasurer has the discretion to refuse any collateral.

Section 12. Safekeeping and Custody

All security transactions entered into by the City of Clinton shall be conducted on a delivery-verses-payment (DVP) basis. Securities will be held by the City Treasurer or by a third party custodian designated by the Treasurer and evidenced by safekeeping receipts with a written custodial agreement.

Section 13. Diversification

The City of Clinton will diversify its investments by institution. With the exception of U.S. Treasury securities and authorized pools, no more than fifty percent (50%) of the City's total investment portfolio will be invested in a single financial institution.

Section 14. Maximum Maturities

To the extent possible, the City of Clinton will attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, the City of Clinton will not directly invest in securities maturing more than three years from the date of purchase.

Reserve funds may be invested in securities exceeding three years if the maturity of such investments is made to coincide as nearly as practicable with the expected use of the funds.

Section 15. Internal Control

An Agreed upon Procedures engagement for review of investments made and held will be performed as part of the annual audit of the City of Clinton at the close of each fiscal year.

Section 16. Performance Standards.

The investment portfolio will be designed to obtain a competitive rate throughout budgetary and economic cycles, taking into account the City of Clinton's investment risk constraints and cash flow needs.

Section 17. Reporting

The City Treasurer shall provide the City Council with an investment activity report not less than every quarter. The report shall include listing of individual securities, earnings rate, and maturity schedules.

Section 18. Investment Policy Adoption

The City of Clinton's investment policy shall be adopted by resolution of the City Council of the City of Clinton. The City Treasurer shall review the policy on an annual basis and any modifications made thereto must be approved by the City Council.

GLOSSARY

AGENCIES: Federal agency securities and/or Government-sponsored enterprises.

BANKERS' ACCEPTANCE (BA): A draft or bill or exchange accepted by a bank or trust company. The accepting institution guarantees payment of the bill, as well as the issuer.

CERTIFICATE OF DEPOSIT (CD): A time deposit with a specific maturity evidenced by a certificate. Large-denomination CDs are typically negotiable.

COLLATERAL: Securities, evidence of deposit, or other property that a borrower pledges to secure repayment of a loan. Also refers to securities pledged by a bank to secure deposits of public monies.

DELIVERY VERSUS PAYMENT: There are two methods of delivery of securities: delivery versus payment and delivery versus receipt. Delivery versus payment is delivery of securities with an exchange of money for the securities. Delivery versus receipt is delivery of securities with an exchange of a signed receipt for the securities.

DIVERSIFICATION: Dividing investment funds among a variety of securities offering independent returns.

FEDERAL DEPOSIT INSURANCE CORPORATION (FDIC): A federal agency that insures bank deposits, currently up to \$250,000 per deposit.

FEDERAL FUNDS RATE: The rate of interest at which Federal funds are traded. This rate is currently pegged by the Federal Reserve through open-market operations.

FEDERAL HOME LOAN BANKS (FHLB): Government sponsored wholesale banks (currently 12 regional banks) that lend funds and provide correspondent banking services to member commercial banks, thrift institutions, credit unions and insurance companies. The mission of the Federal Home Loan Bank is to liquefy the housing related assets of its members who must purchase stock in their district Bank.

FEDERAL NATIONAL MORTGAGE ASSOCIATION (FNMA): FNMA, like GNMA was chartered under the Federal National Mortgage Association Act in 1938. FNMA is a Federal corporation working under the auspices of the Department of Housing and Urban Development (HUD). It is the largest single provider of residential mortgage funds in the United States. Fannie Mae, as the corporation is called, is a private stockholder-owned corporation. The corporation's purchases include a variety of adjustable mortgages and second loans, in addition to fixed-rate mortgages. FNMA's securities are also highly liquid and are widely accepted. FNMA assumes and guarantees that all security holders will receive timely payment of principal and interest.

GOVERNMENT NATIONAL MORTGAGE ASSOCIATION (GNMA OR Ginnie Mae): Securities influencing the volume of bank credit guaranteed by GNMA and issued by mortgage

bankers, commercial banks, savings and loan associations, and other institutions. Security holder is protected by full faith and credit of the U.S. Government. Ginnie Mae securities are backed by the FHA, VA, or FmHA mortgages. The term “pass-through” is often used to describe a Ginnie Mae.

LIQUIDITY: A liquid asset is one that can be converted easily and rapidly into cash without a substantial loss of value. In the money market, a security is said to be liquid if the spread between bid and asked prices is narrow and reasonable size can be done at those quotes.

MARKET VALUE: The price at which a security is trading and could presumably be purchased or sold.

MATURITY: The date upon which the principal or stated value of an investment becomes due and payable.

MONEY MARKET: The market in which short-term debt instruments (bills, commercial paper, bankers’ acceptances, etc.) are issued and traded.

PORTFOLIO: Collection of securities held by an investor.

PRUDENT PERSON RULE: An investment standard. In some states the law requires that a fiduciary, such as a trustee, may invest money only in a list of securities selected by the custody state--the so-called legal list. In other states the trustee may invest in a security if it is one which would be bought by a prudent person of discretion and intelligence who is seeking a reasonable income and preservation of capital.

QUALIFIED PUBLIC DEPOSITORIES: A financial institution which does not claim exemption from the payment of any sales or compensating use or ad valorem taxes under the laws of this state, which has segregated for the benefit of the commission eligible collateral having a value of not less than its maximum liability and which has been approved by the Public Deposit Protection Commission to hold public deposits.

RATE OF RETURN: The yield obtainable on a security based on its purchase price or its current market price. This may be the amortized yield to maturity on a bond the current income return.

SAFEKEEPING: A service to customers rendered by banks for a fee whereby securities and valuables of all types and descriptions are held in the bank’s vaults for protection.

TREASURY BILLS: A non-interest bearing discount security issued by the U.S. Treasury to finance the national debt. Most bills are issued to mature in three months, six months, or one year.

TREASURY NOTES: Medium-term coupon bearing U.S. Treasury securities issued as direct obligations of the U.S. Government and having initial maturities from two to 10 years.

YIELD: The rate of annual income return on an investment, expressed as a percentage.

- (a) **INCOME YIELD** is obtained by dividing the current dollar income by the current market price for the security.
- (b) **NET YIELD** or **YIELD TO MATURITY** is the current income yield minus any premium above par or plus any discount from par in purchase price, with the adjustment spread over the period from the date of purchase to the date of maturity of the bond.