

RESOLUTION NO.: R-2009-013

Adopting City of Columbia Investment Policy

BE IT RESOLVED this ____ day of _____, 2009, by the Mayor and City Council of the City of Columbia, South Carolina that the investment authority provided by S.C. Code of Laws §6-5-10 (Supp.2008) as amended, is hereby delegated to the City's Chief Financial Officer and City Treasurer pursuant to S.C. Code Ann. §6-5-20 (2004) as amended, until terminated or revoked.

BE IT FURTHER RESOLVED that the exercise of such authority is limited to and shall be in full compliance with state law and the Investment Policy adopted by City Council.

BE IT FURTHER RESOLVED that the City Manager shall be responsible for the supervision of the Chief Financial Officer and City Treasurer in the exercise of such authority and shall insure that the Chief Financial Officer and City Treasurer do not exceed the authority delegated hereby and are at all times in full compliance with the City's Investment Policy.

BE IT FURTHER RESOLVED that in the event Chief Financial Officer or City Treasurer exceed their authority or violate the City's Investment Policy, the City Manager may immediately terminate or revoke the authority of the Chief Financial Officer or City Treasurer delegated hereby. City Council reserves the right to terminate or revoke the authority of the Chief Financial Officer or City Treasurer delegated hereby by subsequent duly enacted resolution at any time and for any reason.

Requested by:

Jeff Palen, Treasurer

Mayor

Approved by:

Interim City Manager

Approved as to form:



City Attorney

Introduced:

Final Reading:

ATTEST:

City Clerk

LEGAL DEPARTMENT DRAFT



INVESTMENT POLICY
FOR
THE CITY OF COLUMBIA
STATE OF SOUTH CAROLINA

May 18, 2009

Investment Policy

I. Scope

This policy applies to the investment of all financial resources of the City of Columbia, managed by the Finance Director, the Treasurer and/or designee or contractual investment managers.

These funds are accounted for by the City's Finance Department as represented in the City of Columbia's Comprehensive Annual Financial Report and include:

- a. General Fund
- b. Special Revenue Funds
- c. Debt Service Funds (unless prohibited by bond indentures)
- d. Capital Project Funds
- e. Enterprise Funds
- f. Internal Service Funds
- g. Agency Funds
- h. Any new Fund created, unless exempted by the City Council

Funds held by the Richland County Treasurer and the Lexington County Treasurer during tax collection periods shall be governed by their County's investment policies, and are not subject to the provisions of this policy.

Except for cash in certain restricted and special funds, the City will consolidate cash balances from all funds to maximize investment earnings. Investment income will be allocated to the various funds based on their respective participation and in accordance with generally accepted accounting principles.

II. General Objectives

The primary objective, in priority order, of investment activities shall be safety, liquidity, and yield:

1. *Safety*
Safety of principal is the foremost objective of the investment policy. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. The objective will be to mitigate credit risk and interest rate risk.
 - a. Credit Risk
The City will minimize credit risk, the risk of loss due to the failure of the security issuer or backer, by:
 - Limiting investments to the safest types of securities.
 - Pre-qualifying the financial institutions, broker/dealers, intermediaries, and advisers with which the City will do business.
 - Diversifying the investment portfolio so that potential losses on individual securities will be minimized.

b. **Interest Rate Risk**

The City will minimize the risk that the market value of securities in the portfolio will fall due to changes in general interest rates, by:

- Structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity.
- Investing operating funds primarily in shorter-term securities, money market mutual funds, or similar investment pools.

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. Since all possible cash demands cannot be anticipated, the portfolio should consist largely of securities with active secondary or resale markets. A portion of the portfolio also may be placed in the money market mutual funds or local government investment pools which offer same-day liquidity for short-term funds.

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. The core of investments is limited to relatively low risk securities in anticipation of earning a fair return relative to the risk being assumed. 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. A security swap would improve the quality, yield, or target duration in the portfolio.
- c. Liquidity needs of the portfolio require that the security be sold.

III. Standards of Care

1. **Care**

The standard of care to be used by investment officers 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.

2. **Ethics and Conflicts of Interest**

Investment officers and employees involved in the investment portfolio shall refrain from personal business activity that could conflict with the proper execution and management of the investment portfolio, or that could impair their ability to make

impartial decisions. Employees and investment officers shall disclose any material interests in financial institutions with which they conduct business. They shall further disclose any personal financial/investment positions that could be related to the performance of the investment portfolio. Employees and investment officers shall refrain from undertaking personal investment transactions with the same individual with whom business is conducted on behalf of the City.

IV. Delegation of Authority

City Council may, pursuant to S.C. Code of Laws §6-5-20 (Supp. 2008)¹, as amended, delegate authority provided for by S.C Code of Laws §6-5-10 (2004)², as amended, to the treasurer or other financial officer or any fiscal agent or corporate trustee charged with custody of the funds of the City of Columbia until such authority terminates or is revoked.

Delegation of investment authority shall be authorized by a duly enacted resolution of Columbia City Council.

Upon delegation of investment authority by Columbia City Council, the investment officers shall assume responsibility for investment transactions as authorized and in strict compliance with the Investment Policy and state law.

V. Safekeeping and Custody

1. *Authorized Financial Dealers and Institutions*

A list will be maintained of financial institutions authorized to provide investment services. In addition, a list also will be maintained of approved security broker/dealers selected by creditworthiness (a minimum capital requirement of \$10,000,000 and at least five years of operation).

All financial institutions and broker/dealers who desire to become qualified for investment transactions must supply the following as appropriate:

- a. Audited financial statements.
- b. Proof of Financial Industry Regulatory Industry (FINRA) registration.
- c. Proof of state registration.
- d. Completed broker/dealer questionnaire.
- e. Certification of having read and understood and agreeing to comply with the City's investment policy.

An annual review of the financial condition and registration of qualified financial institutions and broker/dealers will be conducted by the investment officer and reported to the City Council and City Manager.

The investment officer(s) may invest in financial instruments offered by community financial institutions which do not meet the criteria under paragraph 1. Such investments shall be made subject to prior approval by Columbia City Council.

2. *Internal Controls*

The investment officer is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the City are protected from loss, theft or misuse. The internal control structure shall be designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that (1) the cost of a control should not exceed the benefits likely to be derived and (2) the valuation of costs and benefits requires estimates and judgments by management. Accordingly, the investment officer shall establish a process for an annual independent review by an external auditor to assure compliance with policies and procedures. The internal controls shall address the following points:

- a. Control of collusion
- b. Separation of transaction authority from accounting and recording keeping.
- c. Custodial safekeeping.
- d. Avoidance of physical delivery securities.
- e. Clear delegation of authority to subordinate staff members.
- f. Written confirmation of transactions for investments and wire transfers.

3. *Delivery vs. Payment*

All trades where applicable will be executed by delivery vs. payment (DVP) to ensure that securities are deposited in an eligible financial institution prior to the release of funds. Securities will be held by a third-party custodian as evidenced by safekeeping receipts.

VI. Authorized Investments

1. *Investment Types*

All investments made pursuant to the Investment Policy shall be those authorized or permitted by S.C. Code of Laws §6-5-10 (Supp. 2008)², as amended.

VII. Investment Parameters

1. *Diversification*

The investments shall be diversified by:

- a. Limiting investments to avoid over concentration in securities from a specific issuer or business sector (excluding U.S. Treasury securities). No more than 10% in any single holding or 25% in any one issuer.
- b. Limiting investment in securities that have higher credit risks (see Authorized Investments, Section VI).
- c. Investing in securities with varying maturities.
- d. Continuously investing a portion of the portfolio in readily available funds such as local government investment pools (LGIPs), money market funds or overnight repurchase agreements to ensure that appropriate liquidity is maintained in order to meet ongoing obligations.

2. *Maximum Maturities*

To the fullest extent possible, the City shall 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 seven (7) years from the date of purchase or in accordance with state and local statutes and ordinances. However, the City of Columbia may collateralize its repurchase agreements using longer-dated investments not to exceed twenty (20) years to maturity. At least 20% of the portfolio shall have a maturity of 90 days or less. This is to include LGIPs, money market funds, and overnight repurchase agreements to ensure that appropriate liquidity is maintained to meet ongoing obligations. For purposes of determining maturity, the call date for securities trading on a yield-to-call basis will be used.

Reserve funds and other funds with longer-term investment horizons may be invested in securities exceeding seven (7) years if the maturity of such investments is made to coincide as nearly as practicable with the expected use of funds. Investment in securities with longer maturities shall not be made without prior approval of Columbia City Council.

VIII Reporting

1. *Methods*

The investment officer shall prepare an investment report monthly, including a management summary that provides an analysis of the status of the current investment portfolio and transactions made over the last month. This management summary will be prepared in a manner which will allow the City to ascertain whether investment activities during the reporting period have conformed to the investment policy. The report should be provided to the City Administration and the City Council. The report will include the following:

- a. Listing of individual securities held at the end of the reporting period.
- b. Realized and unrealized gains or losses resulting from appreciation or depreciation by listing the cost and market value of securities over one-year duration that are not intended to be held until maturity (in accordance with Governmental Accounting Standards Board (GASB) requirements).
- c. Listing of investment by maturity date.
- d. Percentage of the total portfolio which each type of investment represents.

2. *Performance Standards*

The investment portfolio will be managed in accordance with the parameters specified within this policy. Within these parameters the portfolio should obtain a market average rate of return during a market/economic environment of stable interest rates. If a contractual investment manager is utilized, a series of appropriate benchmarks shall be established against which portfolio performance shall be compared on a regular basis (i.e. Merrill Lynch 1-5 Year Treasury Index).

3. *Marking to Market*

The market value of the portfolio shall be calculated at least quarterly and a statement of the market value of the portfolio shall be issued at least quarterly. This will ensure that review of the investment portfolio, in terms of value and price volatility, has been performed consistent with the GFOA Recommended Practice on "Mark-to-Market Practices for State and Local Government Investment Portfolios and

Investment Pools.” In defining market value, considerations should be given to the GASB Statement 31 pronouncement.

IX. Policy Considerations

1. Exemptions

Any investment currently held that does not meet the guidelines of this policy shall be exempted from the requirements of this policy unless in violation of state law. At maturity or liquidation, such monies shall be reinvested only as provided by this policy.

2. Amendments

This policy shall be reviewed annually by Columbia City Council prior to the beginning each new fiscal year. Any changes must be approved by City Administration and City Council.

¹ S.C. Code of Laws, §6-5-20. *Delegation of investment authority.*

The governing body may delegate the investment authority provided by Section 6-5-10 to the treasurer or other financial officer or any fiscal agent or corporate trustee charged with custody of the funds of the local government, who shall thereafter assume full responsibility for such investment transaction until the delegation of authority terminates or is revoked.

² S.C. Code of Laws, §6-5-10. *Authorized investments by political subdivisions.*

(a) The governing body of any municipality, county, school district, or other local government unit or political subdivision and county treasurers may invest money subject to their control and jurisdiction in:

(1) Obligations of the United States and its agencies, the principal and interest of which is fully guaranteed by the United States.

(2) Obligations issued by the Federal Financing Bank, Federal Farm Credit Bank, the Bank of Cooperatives, the Federal Intermediate Credit Bank, the Federal Land Banks, the Federal Home Loan Banks, the Federal Home Loan Mortgage Corporation, the Federal National Mortgage Association, the Government National Mortgage Association, the Federal Housing Administration, and the Farmers Home Administration, if, at the time of investment, the obligor has a long-term unenhanced, unsecured debt rating in one of the top two ratings categories, without regard to a refinement or gradation of rating category by numerical modifier or otherwise, issued by at least two nationally recognized credit rating organizations.

(3)(i) General obligations of the State of South Carolina or any of its political units; or (ii) revenue obligations of the State of South Carolina or its political units, if at the time of investment, the obligor has a long-term, unenhanced, unsecured debt rating in one of the top two ratings categories, without regard to a refinement or gradation of rating category by numerical modifier or otherwise, issued by at least two nationally recognized credit rating organizations.

(4) Savings and Loan Associations to the extent that the same are insured by an agency of the federal government.

(5) Certificates of deposit where the certificates are collaterally secured by securities of the type described in (1) and (2) above held by a third party as escrow agent or custodian, of a market value not less than the amount of the certificates of deposit so secured, including interest; provided, however, such collateral shall not be required to the extent the same are insured by an agency of the federal government.

(6) Repurchase agreements when collateralized by securities as set forth in this section.

(7) No load open-end or closed-end management type investment companies or investment trusts registered under the Investment Company Act of 1940, as amended, where the investment is made by a bank or trust company or savings and loan association or other financial institution when acting as trustee or agent for a bond or other debt issue of that local government unit, political subdivision, or county treasurer if the particular portfolio of the investment company or investment trust in which the investment is made (i) is limited to obligations described in items (1), (2), (3), and (6) of this subsection, and (ii) has among its objectives the attempt to maintain a constant net asset value of one dollar a share and to that end, value its assets by the amortized cost method.

(8) A political subdivision receiving Medicaid funds appropriated by the General Assembly in the annual general appropriations act may utilize appropriated funds and other monies generated by hospital operations to participate in principal protected investments in the form of notes, bonds, guaranteed investment contracts, debentures, or other contracts issued by a bank chartered in the United States or agency of a bank if chartered in the United States, financial institution, insurance company, or other entity which provides for full principal payment at the end of a contract term not to exceed twelve years if the issuer has received a rating in one of three highest general rating

categories issued by no fewer than two nationally recognized credit rating organizations. No more than forty percent of the appropriated funds and other monies generated by hospital operations may be invested in the manner provided in this item. Revenue realized pursuant to these investments must be expended on health care services.

