



Item: City of Great Falls Investment Policy
From: Fiscal Services Department
Initiated By: City of Great Falls Investment Committee
Presented By: Melissa Kinzler, Fiscal Services Director
Action Requested: Approve the City of Great Falls Investment Policy

Suggested Motion:

1. Commissioner moves:

“I move that the City Commission (approve/deny) the City of Great Falls Investment Policy.”

2. Mayor calls for a second, discussion, public comment, and calls the vote.

Staff Recommendation: Staff recommends the City Commission approve the City of Great Falls Investment Policy.

Background:

The City of Great Falls Investment Committee comprised of the Fiscal Services Director, the Deputy City Manager, the Fiscal Admin Assist/Budget Tech and the Staff Accountant, has updated the City's Investment Policy to reflect current Government Finance Officers Association (GFOA) current Recommended Practices.

The Investment Policy was first created and presented to the City Commission on December 20, 1994. A revised and updated policy was presented to the City Commission on June 18, 2002. For the first time per GFOA recommendation, the Investment Policy and Procedures have been separated into two separate documents, the Investment Policy and the Investment Procedures. The Investment Policy defines the guidelines within which funds are to be managed and formalizes the framework for the City's investment activities that must be exercised to ensure effective and prudent fiscal and investment management of the City's funds. Any future changes to the Investment Policy will be approved and adopted by the City Commission. The Investment Procedures were developed and consists of guidelines of how to implement the Investment Policy. The Investment Procedures will be reviewed and updated periodically by the Investment Committee. The Investment Procedures document is attached for reference and does not require commission action.

Attachments/Exhibits:

1. City of Great Falls Investment Policy
2. City of Great Falls Investment Procedures



Investment Policy

City of Great Falls, Montana

1) Introduction

The intent of the Investment Policy of the City of Great Falls, Montana (the City) is to define the guidelines within which funds are to be managed. The policy formalizes the framework for the City's investment activities that must be exercised to ensure effective and prudent fiscal and investment management of the City's funds. The guidelines are intended to be broad enough to allow the investment committee to function properly within the guidelines of responsibility and authority, yet specific enough to adequately safeguard the City's funds. This policy is intended to be used in conjunction with the City of Great Falls Investment Procedures.

- a) The Investment Policy will be approved and adopted by the City of Great Falls Commission. Any changes to the Investment Policy also will be approved and adopted by the Great Falls City Commission.
- b) The City Investment Procedures will consist of guidelines of how to implement the Investment Policy and do not need to be approved and adopted by the City Commission. They will be reviewed and updated periodically by the Investment Committee.

2) Governing Authority

The City's investment program shall be operated in conformance with federal, state, and other legal requirements, including MCA Title 7, Chapter 6, Part 2 and OCCOGF 2.16.045.

3) Scope

- a) This policy applies to activities of the City with regard to investing the financial assets of all funds. In addition, funds held by trustees or fiscal agents are excluded from these rules; however, all funds are subject to regulations established by the State of Montana. The covered funds, or any new funds created by the City, unless specifically exempted by statute, the investment committee, and this policy, are defined in the City's Comprehensive Annual Financial Report.
- b) Investments of employees' vested retirement funds are not controlled by the City and therefore are not covered under this policy.

4) Pooling of Funds

- a) Except for cash in specified restricted and special revenue funds, the City will consolidate cash and reserve balances from all funds to maximize investment earnings and to increase efficiencies with regard to investment pricing, safekeeping and administration. Investment income will be allocated to the various funds based on their respective participation and in accordance with generally accepted accounting principles.

- b) Pooling cash assets eliminates the need to maintain uninvested contingency cash for each fund. Instead, cash flow needs can be anticipated for the City as a whole. The fluctuations in cash needs for the individual funds tend to "net out" when combined needs are considered. The total uninvested cash balance for contingencies can be greatly reduced.

5) **General Objectives**

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

- a) **Safety** - Safety of principal is the foremost objective of the investment program. 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.
 - i) **Credit Risk** - The City will minimize credit risk, which is the risk of loss due to the failure of the security issuer or backer, by:
 - (1) Limiting investments to the safest types of securities as described in MCA 7-6-202.
 - (2) Pre-qualifying the financial institutions, broker/dealers, intermediaries, and advisers with which the City will do business.
 - (3) Diversifying the investment portfolio so that the impact of potential losses from any one type of security or from any one individual issuer will be minimized.
 - ii) **Interest Rate Risk**
The City will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market 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.
- b) **Liquidity** - The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated.
- c) **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 are 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:
 - i) A security with declining credit may be sold early to minimize loss of principal.
 - ii) Liquidity needs of the portfolio require that the security be sold.

6) **Standards of Care**

- a) **Delegation of Authority and Responsibilities**
 - i) **City Commission**
The city commission will retain ultimate fiduciary responsibility for the portfolios. The city commission will designate investment officers and review the investment policy

making any changes necessary by adoption. The city manager will receive monthly reports on the portfolio.

ii) **Investment Officers**

Authority to manage the investment program is granted to the Fiscal Services Director hereinafter referred to as investment officer as designated by OCCOGF 2.16.045 City Ordinance 2825.

Responsibility for the operation of the investment program is given to the Investment Committee who shall act in accordance with established written procedures and internal controls for the operation of the investment program consistent with this investment policy. Officers will prepare monthly investment reports and other special reports as may be deemed necessary.

All participants in the investment process shall seek to act responsibly as custodians of the public trust. No officer or designee may engage in an investment transaction except as provided under the terms of this policy and supporting procedures.

iii) **Investment Committee**

The management of the investment portfolio and investment policy shall be the responsibility of the City's Investment Committee. Specifics for the Investment Committee shall be documented in the Investment Procedures manual.

iv) **Investment Adviser**

The City may engage the services of one or more external investment managers to assist in the management of the City's investment portfolio in a manner consistent with the City's objectives. Such external managers may be granted discretion to purchase and sell investment securities in accordance with this investment policy.

Such managers must be registered under the Investment Advisers Act of 1940.

- b) **Prudence** - 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 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.

- i) The "prudent person" standard states that, "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."

- c) **Ethics and Conflicts of Interest** - Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with the proper execution and management of the investment program, or that could impair their ability to make impartial decisions. Employees and investment officials 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.

7) Authorized Financial Institutions, Depositories, and Broker/Dealers

- a) The City will pre-qualify the financial institutions, broker/dealers, intermediaries, and advisers with which the City will do business. Specifics for pre-qualification shall be documented in the Investment Procedures manual.
- b) Competitive Transactions
 - i) The investment officer shall obtain competitive bid information on all purchases of investment instruments purchased on the secondary market. A competitive bid can be executed through a bidding process involving at least three separate brokers/financial institutions or through the use of a nationally recognized trading platform.
 - ii) If the City is offered a security for which there is no readily available competitive offering on the same specific issue, then the Investment Officer shall document quotations for comparable or alternative securities. When purchasing original issue instrumentality securities, no complete offerings will be required as all dealers in the selling group offer those securities as the same original issue price.
 - iii) If the City hires an investment adviser to provide investment management services, the adviser must provide documentation of competitive pricing execution on each transaction. The investment adviser will retain documentation and provide upon request.

8) Authorized Investments and Interest Bearing Deposits

- a) It is the policy of the City of Great Falls to limit investments to those authorized by MCA Title 7 Chapter 6 Part 2. Typical types of securities include (as limited by MCA Title 7 Chapter 6 Part 2):
 - i) United States government treasury bills, notes, and bonds and in United States treasury obligations, such as state and local government series (SLGS), separate trading of registered interest and principal of securities (STRIPS), or similar United States treasury obligations;
 - ii) Obligations of the following agencies of the United States:
 - (1) federal home loan bank
 - (2) federal national mortgage association
 - (3) federal home mortgage corporation
 - (4) federal farm credit bank
 - iii) Time deposits with a bank, savings and loan association, or credit union.
 - iv) Repurchase agreements
 - v) State of Montana investment pool
 - vi) Interest bearing accounts.
- b) Collateralization - The City of Great Falls restricts acceptable collateral for deposits and repurchase agreements further than the statutory restrictions. All deposits over FDIC or FSLIC insured amount are required to be secured with collateral having a market value of at least 100% of the deposit balance (which is further than discussed in MCA 7-6-205)

- 208). Specifics for collateralization shall be documented in the Investment Procedures manual.

- i) Collateral for time deposits must be:
 - (1) U.S. Treasury bills, Bonds, Notes or Certificates of Indebtedness backed by the pledged full faith and credit of the U.S. Government or
 - (2) Obligations of agencies or instrumentalities of the U.S. Government such as the Federal Home Loan Banks, the Federal Land Banks, the Federal Intermediate Credit Banks or the Banks of Cooperatives.

9) Investment Parameters

a) Diversification

It is the policy of the City to diversify its investment portfolios. To eliminate risk of loss resulting from the over-concentrations of assets in a specific maturity, issuer, or class of securities, assets in all City of Great Falls funds shall be diversified by maturity, issuer, and class of security. Diversification strategies shall be determined and revised periodically by the investment committee/investment officer for all funds.

Diversification Constraints on Total Holdings

Issuer category	Minimum %	Maximum %
Master, savings, and ICS accounts	20% combined	100%
State STIP's		100%
Money Market/Repurchase Agreements		100%
Treasury Notes and Bills	0%	80%
Direct Obligations	0%	80%
Obligations of agencies of the U.S.	0%	30%

- b) Mitigating market risk in the portfolio - Market risk is the risk that the portfolio value will fluctuate due to changes in the general level of interest rates. The City recognizes that, over time, longer-term/core portfolios have the potential to achieve higher returns. On the other hand, longer-term portfolios have higher volatility of return. The City shall mitigate market risk by providing adequate liquidity for short-term cash needs, and by making longer-term investments only with funds that are not needed for current cash flow purposes. The City, therefore, adopts the following strategies to control and mitigate its exposure to market risk:
 - i) Maximum Maturities - To the extent possible, the City of Great Falls shall attempt to match its investments with anticipated cash flow requirements. The City will not directly invest in securities maturing more than five (5) years if the maturity of such investments are made to coincide as nearly as practicable with the expected use of funds.
 - ii) Buy & Hold Philosophy - Consistent with our General Standards Ranking - Safety and Liquidity above yield, to the extent possible, the City shall attempt to keep all investments to maturity.
- c) Centralized Banking - An accounting system involves keeping accurate, internal records for all funds and accounts. Banking capabilities, such as deposit clearing, warrant/check processing, temporary deposit imbalances, and investment capacity, can best be handled through centralized banking in a minimum of bank accounts. Accordingly,

uninvested cash balances should be maintained in the fewest depository accounts possible.

10) Performance Standards/Evaluation

- a) The investment portfolio will be managed in accordance with the parameters specified within this policy. A series of appropriate benchmarks shall be established against which portfolio performance shall be compared on a regular basis.
- b) 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 annually. This will ensure that review of the investment portfolio, in terms of value and price volatility, has been performed.

11) Safekeeping and Custody

- a) Delivery vs. Payment - All trades of marketable securities will be executed by delivery vs. payment (DVP) basis to ensure that securities are deposited in an eligible financial institution prior to the release of funds.
- b) Third-Party Safekeeping - Securities will be held by a third party custodian as evidenced by safekeeping receipts in the City's name.
- c) Internal Controls - The Fiscal Services Director is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the City of Great Falls are protected from loss, theft or misuse. Specifics for the internal controls shall be documented in the Investment Procedures that shall be reviewed and updated periodically by the Investment Committee.

12) Interest Revenue, Interest Receivable, and Mark to Market Distribution

- a) Interest revenue shall be distributed to funds participating in the pooled cash periodically. Funds with a negative cash balance will be considered to have borrowed the cash from other funds to cover the negative cash balance. These funds will pay the other funds interest at the current Montana Board of Investments STIP Program interest rate. The different interest rates will be charged because those are the rates the City would have to pay to borrow the cash to cover the negative balances.
- b) Interest receivable shall be distributed to funds participating in the pooled cash periodically. Funds with a negative cash balance will not receive any interest receivable. The cash balances used will be point in time and not an average.
- c) A mark to market adjustment shall be distributed to funds participating in the pooled cash periodically. The cash balances used will be point in time and not an average.

13) Reporting

An investment report shall be prepared at least quarterly, including a management summary that provides an analysis of the status of the current investment portfolio and transactions made over the last quarter. 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 will be provided to the City Manager, Fiscal Services Director and Investment Committee.

14) Policy Considerations

- a) Exemption - Any investment currently held that does not meet the guidelines of this policy shall be exempted from the requirements of this policy. At maturity, or liquidation, such monies shall be reinvested only as provided in this policy.

- b) Amendments - This policy shall be reviewed on an annual basis. Any changes must be approved by the Great Falls City Commission and any other appropriate authority, as well as the individual(s) charged with maintaining internal controls.



Investment Procedures

City of Great Falls, Montana

1) Introduction

The intent of the Investment Procedures of the City of Great Falls, Montana (the City) is to define the procedures within which funds are to be managed. In methods, the procedures formalize the day to day framework for the City's investment activities that must be exercised to ensure effective and prudent fiscal and investment management of the City's funds. The guidelines are intended to be broad enough to allow the investment committee to function properly within the guidelines of responsibility and authority, yet specific enough to adequately safeguard the City's funds. These procedures are intended to be used in conjunction with the City of Great Falls Investment Policy.

- a) The Investment Policy will be approved and adopted by the City of Great Falls Commission. Any changes to the Investment Policy also will be approved and adopted by the City of Great Falls Commission.
- b) The City Investment Procedures will consist of guidelines of how to implement the Investment Policy and do not need to be approved and adopted by the City Commission. They will be reviewed and updated periodically by the Investment Committee.

2) City of Great Falls Investment Committee

The City's Investment Committee shall consist of the Fiscal Services Director Melissa Kinzler, Deputy City Manager Jenn Reichelt, Admin Assist/Budget Tech Krista Artis and Staff Accountant Cheryl Lucas.

3) Pooling of Funds

- a) The funds not included in pooled cash are:
 - i) Federal Block Grant
 - ii) Home Grant
 - iii) Port Authority
 - iv) Court Agency
 - v) Flex 1 Plans
 - vi) Reserve cash for debt services

4) Authorized Financial Institutions, Depositories, and Broker/Dealers

- a) A list will be maintained of financial institutions authorized to provide investment services. In addition, a list will be maintained of approved security broker/dealers selected by conducting a process of due diligence. These may include "primary" dealers or regional dealers that qualify under Securities and Exchange Commission (SEC) Rule 15C3-1 (uniform net capital rule).

- i) The investment committee shall determine which financial institutions are authorized to provide investment services to the City. Institutions eligible to transact investment business with the City include:
 - (1) Primary government dealers as designated by the Federal Reserve bank
 - (2) Nationally or state-chartered banks
 - (3) The Federal Reserve Bank
 - (4) Direct issuers of securities eligible for purchase
 - ii) Selection of financial institutions and broker/dealers authorized to engage in transactions with the City shall be at the sole discretion of the Investment Committee.
 - iii) All financial institutions and broker/dealers who desire to become qualified for investment transactions must supply the following as appropriate:
 - (1) Audited financial statements demonstrating compliance with state and federal capital adequacy guidelines
 - (2) Proof of FINRA certification
 - (3) Proof of state registration
 - (4) Completed broker/dealer questionnaire
 - (5) Certification of having read and understood and agreeing to comply with the City of Great Falls' Investment Policy.
 - (6) Have FDIC or FSLIC or evidence of comparable adequate insurance coverage
 - iv) All financial institutions who desire to become depositories must supply the following (as appropriate):
 - (1) Audited financial statements demonstrating compliance with state and federal capital adequacy guidelines
 - (2) Proof of state registration
 - (3) Evidence of adequate insurance coverage
 - v) A periodic review of the financial condition and registration of all qualified financial institutions and broker/dealers will be conducted by the Investment Committee.
- b) Broker/Dealer
- A Broker/Dealer Questionnaire will be sent to all prospective broker/dealers wishing to do business with the City. These questionnaires will then be reviewed by the Investment Committee for approval. If approved, the broker/dealer will be placed on the approved list of broker/dealers for the City. No broker/dealer will be considered before filling out this questionnaire.
- i) Information expected from questionnaire:
 - 1. Firm Name
 - 2. Regional Address
 - 3. Headquarters Address
 - 4. Telephone Numbers
 - 5. Contact personnel - all personnel who will be trading with or quoting securities to the City.
 - 6. References - contact information of at least four comparable clients with whom any of the contact personnel has an established relationship. Include length of relationship.
 - 7. Authorization for contact personnel to be account representative(s) for the City.

8. Immediate supervisor of the account representative(s).
 9. Firm is a member of FINRA.
 10. Which regulatory agency that firm is examined by and/or subject to its rules and regulations.
 11. Whether licensed in the State of Montana.
 12. Type of instruments that firm both buy and sell as active market.
 13. Whether firm specializes in any of the instruments.
 14. Firm's total dollar volume in U.S. Government and agency securities trading in the last year.
 15. Is firm a primary dealer as recognized by the Federal Reserve Bank.
 16. Is firm a non-primary dealer qualified under U.S. Securities and Exchange Commission Rule 15c3-1 and the Uniform New Capital Rule.
 17. How many and what percentage of firm wide U.S. Government and agency securities transactions failed in the last month and last year.
 18. Firm's most recent audited financial statement. If representing a parent corporation or a subsidiary of another corporation, furnish audited financials of corporate parent as well as of subsidiary.
 19. Any outstanding litigation which would materially affect financial stability.
 20. Any pending litigation with public-sector clients, or any within the last five years.
 21. Any regulatory, state, or federal agency investigation for alleged improper, fraudulent, disreputable, or unfair activities related to the sale of government securities or money market instruments.
 22. Any fixed income research and economic commentary services.
 23. Precautions taken to protect the interests of the public when dealing with a local public entity.
 24. Reports, transaction confirmations, and paper trail the City will receive.
 25. Portfolio information preferred from clients.
 26. A complete schedule of fees and charges for various transactions.
- ii) The criteria will be as follows:
- (1) The number of broker/dealers on the approved list will be determined by the City's Investment Committee. The limit shall be determined by the number of broker/dealers that staff can efficiently work with for investment purposes. In the event an Investment Advisor Agreement is in effect, the broker/dealer approved list will be limited to three.
 - (2) Qualification
 - (a) The acceptance of responses to questionnaire by the City's Investment Committee.
 - (b) From those accepted, preference shall be given as follows:
 - (i) 1st - Local
 - (ii) 2nd - State
 - (iii) 3rd - Regional
 - (iv) 4th - National
- c) Authorized Investment Advisors.

- i) Investment Advisors who desire to manage the City's portfolio for the government operating and capital funds (non-pension funds) must supply the following as appropriate:
 - (1) An understanding of the City's overall investment program and the investment objectives and constraints unique to the City.
 - (2) Experience, resources, and qualifications of the firm and individuals assigned to this account.
 - (3) Firm must be registered in the State of Montana.
 - (4) Experience of the firm in managing state/local government operating funds. In evaluating the firm's experience, past performance data will be evaluated in the context of portfolio objectives and constraints, as well as risks.
 - (5) Recommended approach to management of the City's portfolio.
 - (6) Additional investment or financial services offered or available through affiliation.
 - (7) Fees, relative to services.
 - (8) At a minimum, an annual review of the financial condition and registration of the qualified investment advisor will be conducted by the Investment Committee.
- ii) Request for Proposals (RFP) for Investment Advisory Firms. An RFP will be sent to all prospective investment advisory firms wishing to do business with the City. These RFP's will then be reviewed by the Investment Committee for approval. If approved, the investment advisory firm will be required to sign an Investment Advisory Agreement.

5) Authorized Investments and Interest Bearing Deposits

- a) It is the policy of the City of Great Falls to limit investments to those authorized by MCA Title 7 Chapter 6 Part 2.
- b) An investment in an agency of the United States is authorized under this section if the investment is a general obligation of the agency and has a fixed or zero-coupon rate and does not have prepayments that are based on underlying assets or collateral, including but not limited to residential or commercial mortgages, farm loans, multifamily housing loans, or student loans.
- c) Time deposits - repurchase agreement.
 - i) City funds not necessary for immediate use may be placed in time or savings deposits with a bank, savings and loan association, or credit union in Montana or placed in repurchase agreements as authorized by MCA Title 7 Chapter 6 Part 2.
 - ii) The City may solicit bids for time or savings deposits from a bank, savings and loan association, or credit union in Montana. The City may deposit funds in the institutions unless a local financial institution agrees to pay the same rate of interest bid by a financial institution not located in the city. The City may solicit bids by notice sent by mail to the investment institutions that have requested that their names be listed for bid notice with Fiscal Services.
 - iii) City funds not necessary for immediate use may be invested in accordance with the following conditions:
 - (1) the money is initially invested through a federally insured financial institution in Montana selected by the City;

- (2) the selected in-state financial institution arranges for the deposit of the funds in an account of the city in one or more federally insured financial institutions, regardless of location;
 - (3) the full amount of principal and accrued interest on each deposit is covered by federal deposit insurance; and
 - (4) the selected in-state financial institution acts as the custodian for the city with respect to the deposit issued for its account.
- d) Repurchase agreements - bidding
- i) After qualifying as provided in the Authorized Financial Institutions, Depositories, and Broker/Dealers section, a financial institution may contract with the City to establish one or more repurchase agreements, including daily repurchase agreements.
 - ii) A repurchase agreement is a contract that specifies the minimum and maximum of funds that the City will invest under the contract in securities that the financial institution will sell to the City and that the financial institution will repurchase on mutually agreeable terms.
 - iii) A repurchase agreement is not a demand account.
 - iv) The City may maintain in the same financial institution contracting for the repurchase agreement a demand account into which each business day shall be deposited a sum equal to the day's disbursements, and that deposit will be the proceeds of the redemption by the financial institution of securities previously purchased by the City under the provisions of the repurchase agreement, so that the balance of the demand account at the close of each day's business will be zero.
 - v) The City shall call for bids as provided by statute to contract for a repurchase agreement from all financial institutions chartered to do business in the state of Montana which are authorized to accept demand deposits and to buy and sell securities. The call for bids shall specify the minimum acceptable rate of interest, effective date of the repurchase agreement and the period of duration and range of funds to be invested.
- e) Interest bearing accounts
- i) The City will deposit public funds only in solvent banks, building and loan associations, savings and loan associations, or credit unions, subject to national supervision or state examination.
 - ii) The City may deposit public funds not necessary for immediate use by the City in a savings or time deposit with any bank, building and loan association, savings and loan association or credit union authorized as above.
 - iii) The City shall take from the bank, building and loan association, savings and loan association, or credit union security that the City may prescribe, approve, and consider fully sufficient and necessary to ensure the safety and prompt payment of all deposits, together with the interest on any time or savings deposits.
 - iv) All deposits must be subject to withdrawal by the City in amounts that may be necessary from time to time. A deposit of funds may not be made or permitted to remain in any bank, building and loan association, savings and loan association, or credit union until the security for the deposit has been first approved by the City and delivered to the City.

- v) The bank account for the Community Development funds must be interest bearing.
- f) Collateralization
 - i) The City criteria for deposit collateral is to only permit collateral with a readily verifiable market value and established marketability.
 - ii) Collateral deposit conditions
 - (1) Collateral deposits shall be accompanied by an assignment thereof to the City. The assignment shall require the depository to pay on demand, free of exchange or any other charges, except for early withdrawal penalties on time deposits, all moneys deposited therein and shall pay the interest thereon when due at the agreed rate; and that, in case of any depository default, the City Controller may sell the collateral to realize the full amount due to the City.
 - (2) A depository may withdraw excess collateral or substitute collateral on receipt by the City of written notice from the depository.
 - iii) Interest on collateral shall be paid to the depository so long as it is not in default.
 - iv) All collateral shall be deposited with the City Controller or placed in safekeeping for the City in a financial institution approved by the City Controller. The collateral shall not be redeposited in the depository furnishing it.

6) Investment Parameters

- a) Diversification
 - i) The investments shall be diversified by:
 - (1) Limiting investments to avoid over-concentration in securities from a specific issuer or business sector (excluding U.S. Treasury securities), and
 - (2) Investing in securities with varying maturities.
 - (3) Continuously investing a portion of the portfolio in readily available funds such as local government investment pools, money market funds or overnight repurchase agreements to ensure that appropriate liquidity is maintained in order to meet ongoing obligations.
 - (4) Due to fluctuations in the aggregate surplus funds balance, maximum percentages for a particular issuer or investment type may be exceeded at a point in time subsequent to the purchase of a particular issuer or investment type. Securities need not be liquidated to realign the portfolio; however, consideration should be given to this matter when future purchases are made to ensure that appropriate diversification is maintained.
- b) Maximum Maturities

The City will directly invest in securities with the majority of investments being three years or less.
- c) Bond Reserve Required Funds

Bond reserve required funds will be invested in State of Montana STIP's to ensure compliance with SEC rules and regulations.
- d) All purchases, maturities, and calls will be documented on the attached City of Great Falls, Montana Investment Trade Form and initialed by the Fiscal Services Director.

7) Performance Standards/Evaluation

- a) Benchmarks
 - i) The benchmark to be used for the interest rates for investments in categories 1, 2, 3 and 4 above will be the S&P rated local government investment pool index 30 day yield.
 - ii) The benchmark to be used for the interest rates for investments in categories 5 and 6 above will be the two year treasury note interest rate.
 - iii) The benchmarks may be found in Government Finance Officers' Association Treasury Management Newsletter received monthly by email.
- b) Mark to market
 - i) The market value of all securities in the portfolio will be determined on a monthly basis.
 - ii) These values will be disclosed to the City Manager, Fiscal Services Director and Investment Committee in a written report.

8) Safekeeping and Custody

- a) Safekeeping - By using a third-party safekeeping agreement, the City will arrange for a firm other than the party that sold the investment to provide for the transfer and safekeeping of the securities. To accomplish this, the City will:
 - i) Have safekeeping/custodial agreements reviewed by the City's legal counsel prior to execution.
 - ii) Evidence the safekeeping or custodial relationship with a signed, written security agreement that is reviewed by counsel and establishes the firm as the City's agent.
 - iii) Execute all investment transactions on a delivery-versus-payment basis.
 - iv) Designate the Master demand deposit account as the clearing account in conjunction with the safekeeping or custodial account.
 - v) Require that the independent third-party safekeeping agent or custodian mark the portfolio to market at least monthly.
 - vi) Require reports and monthly statements to be received directly by the City from the agent.
 - vii) Have electronic access to the safekeeping or custody account for monitoring and reporting purposes, if possible and cost effective.
 - viii) Require safekeeping or custodial agents to be insured for error and omissions.
- b) Internal Controls - The internal control structure shall be designed to prevent the loss of public funds arising from fraud, employee error, and misrepresentation by third parties, unanticipated changes in financial markets, or imprudent actions by employees and officers of the City.

9) Interest Revenue, Interest Receivable, Mark to Market Distributions Accounting

- a) Interest revenue from securities, investments, savings accounts and bank accounts will be distributed to funds participating in the pooled cash monthly.
 - i) The distribution will be based proportionately on the fund's average cash balance based on the cash balance of the last day of one month to the next month, (for example the average of the two cash balances of December 31 and January 31).
 - ii) The following funds interest will be distributed to the General Fund:

- (1) Housing Authority (2989)
- (2) Payroll (7910)
- iii) All street lighting district funds (8402 - 8450) and the city lighting construction fund (4501) interest will be distributed to the street lighting district master fund (8401).
- iv) If a fund has a negative average cash balance, the fund will be considered to have borrowed the cash from other funds. The borrowing fund will pay the other funds interest at a rate equal to the Montana Board of Investments STIP interest rate.
- v) Interest from the Community Development bank account will be credited to the Federal Block Grant fund.
- vi) Interest from the State of Montana STIP's will be distributed proportionately to the bond reserve accounts. The bond reserve accounts will receive no other interest.
- b) Interest receivable will be distributed annually at the end of the fiscal year.
 - i) The amount of the interest receivable will be the amount of interest accrued on the investment from the purchase date or the last date of interest received, whichever is latest to June 30.
 - ii) The following funds interest receivable will be distributed to the General Fund:
 - (1) Housing Authority (2989)
 - (2) Payroll (7910)
 - iii) All street lighting district funds (8402 - 8450) and the city lighting construction fund (4501) interest receivable will be distributed to the street lighting district master fund (8401).
 - iv) If a fund has a negative cash balance, no interest receivable will be distributed to that fund.
 - v) If a fund has interest receivable balance from previous fiscal year's but a negative cash balance in the current fiscal year, the interest receivable balance will be distributed to the other funds to make that fund's interest receivable zero for the current fiscal year.
 - vi) The amount to be distributed will be the difference from the previous fiscal year's balance and the new balance.
 - vii) The distribution will be based on the cash balances of the participating funds at the time of the distribution.
 - viii) There will be no interest receivable from the savings accounts and bank accounts. Therefore, funds or accounts that receive interest only from these sources will have no interest receivable.
 - ix) Only accounts with a balance over \$500,000 will receive interest receivable.
- c) Mark to market adjustment will be distributed annually.
 - i) The amount of the market adjustment will be the amount of difference between the market value and the purchase price of the investment. Savings accounts, bank accounts, and the State of Montana STIP's account have a market value equal to their book value since those accounts are liquid.
 - ii) The following funds market adjustment will be distributed to the General Fund:
 - (1) Housing Authority (2989)
 - (2) Payroll (7910)
 - (3) All Upper Lower River Road funds (7375 - 7390)

- iii) All street lighting district funds (8402 - 8450) and the city lighting construction fund (4501) market adjustment will be distributed to the street lighting district master fund (8401).
- iv) If a fund has a negative cash balance, no market adjustment will be distributed to that fund.
- v) If a fund has market adjustment balance from previous fiscal year's but a negative cash balance in the current fiscal year, the market adjustment balance will be distributed to the other funds to make that fund's market adjustment zero for the current fiscal year.
- vi) The amount to be distributed will be the amount of difference between the previous fiscal year's and the new balance.
- vii) The distribution will be based on the cash balances of the participating funds at the time of the distribution.
- viii) There will be no market adjustment from the savings accounts, bank accounts, and State of Montana STIP's account. Therefore, funds or accounts that receive interest only from these sources will have no market adjustment.
- ix) Only accounts with a balance over \$500,000 will have a mark to market adjustment.

10) Reporting

- a) An investment report shall be prepared monthly, including a management summary that provides an analysis of the status of the current investment portfolio and transactions. The report will be provided to the City Manager, Fiscal Services Director and Investment Committee. The report will include the following:
 - i) Listing of individual securities held at the end of the reporting period, by maturity date, showing cost and market value of each security, type of investment, issuer and interest rate.
 - ii) Realized and unrealized gains or losses resulting from appreciation or depreciation by listing the cost and market value of securities.
 - iii) Average weighted yield to maturity of portfolio on investments as compared to applicable benchmarks.
 - iv) Percentage of the total portfolio which each type of investment represents.

11) Procedure Considerations

- a) Exemption - Any investment currently held that does not meet the guidelines of these procedures shall be exempted from the requirements of these procedures. At maturity, or liquidation, such monies shall be reinvested only as provided in this procedures.
- b) Amendments - These procedures shall be reviewed on an annual basis. Any changes must be approved by the City of Great Falls Investment Committee and any other appropriate authority, as well as the individual(s) charged with maintaining internal controls.