

City of Brighton

	Policy	Investment Policy
	Department & Division	Finance Department
	Effective Date	9/7/2022
	Revision Dates	
	Review Date	
	Project Manager	Finance Director

Purpose

The City's formal investment policy is adopted by City Council through the passing of a resolution. That resolution defines high level parameters and goals of the City's investment program and delegates authority of managing the funds to the City Manager or designee. This policy is intended to provide further clarification, definitions, and guidance regarding the management of the City's investment portfolio.

Policy

A. Delegation of Authority

- a. As defined in the Investment Policy Resolution, authority for management of the City's investments resides with the City Manager or their designee.
- b. The City Manager designates the Finance Director as the individual responsible for management of the City's investment portfolio. This authorizes the Finance Director to oversee and approve investment transactions, manage relationships with authorized third parties, and carry out other day to day activities associated with management of the City's investment portfolio.

B. Authorized Parties

- a. The City may engage the services of outside professionals to support the management of the investment portfolio. Such services may include portfolio and investment management, special legal representation, third party custodial services, and appraisals by independent credit rating services.
- b. Services provided from outside professional services shall be procured and contracted in accordance with procurement requirements as defined in Section 3-8 of the Brighton Municipal Code.
- c. The City may engage the services of broker/dealers for the purposes of facilitating investment transactions. In order to be eligible as a broker/dealer, a firm must meet at least one of the following criteria:
 - i. be recognized as a Primary Dealer by the Federal Reserve Bank of New York, or have a Primary Dealer within their holding company structure;

- ii. report voluntarily to the Federal Reserve Bank of New York; or
- iii. qualify under Securities and Exchange Commission (SEC) Rule 15c-3 (Uniform Net Capital Rule).

Approved broker/dealers must renew their eligibility annually with the City and agree in writing to receiving a copy of this policy.

- d. The City may engage the services of one or more professional investment advisory firms to assist in the management of the portfolio. Such investment advisors may purchase and sell investment securities in accordance with this policy and may utilize their own approved list of broker/dealers; however, all transactions shall comply with the criteria listed herein.

C. Authorized and Prohibited Investments

- a. As defined in the Investment Policy Resolution, all investments shall be made in accordance with applicable Colorado Revised Statutes. This section of the policy serves to further clarify the investment criteria.

- b. Prohibited Investments

For the purposes of this Policy, prohibited investments shall include, but are not limited to:

- Purchases on margin or short sales.
- Derivative securities that are in effect a leveraged anticipation of future movements in interest rates or some price indices.
- Collateralized mortgage obligations due to their complexity and prepayment rate uncertainty.
- Lending securities with an agreement to buy them back after a stated period of time.
- Certificates of Deposit in out-of-state banks.

- c. Authorized Investments

Investments authorized by the City must meet criteria to ensure the safety and liquidity of the City's financial resources. The following section outlines criteria for those investments authorized by the City.

- i. Investment Ratings

In order to manage investment risk, the City will only invest in instruments meeting certain rating criteria at the time of the initial investment. The ratings requirements outlined in this section are those as published by Standard & Poor's ("S&P"), a Nationally Recognized Statistical Rating Organization ("NRSRO"). Securities purchased may be rated by Standard & Poor's, Moody's Investors Service, or Fitch Ratings, therefore, the ratings equivalents of those referenced by S&P are included in the summary table on the following page:

<u>Standard & Poor's</u>	<u>Moody's Investors Service</u>	<u>Fitch Ratings</u>
LONG-TERM RATINGS		
AAA	Aaa	AAA
AA+	Aa1	AA+
AA	Aa2	AA
AA-	Aa3	AA-
A+	A1	A+
A	A2	A
A-	A3	A-
SHORT-TERM RATINGS		
A-1+	P-1	F1+
A-1	P-1	F1

ii. **Investment Rating Downgrade**

In the event that a security held by the City is downgraded to a level that is below the minimum ratings required as detailed in this policy, that securities may be sold or held at the City's discretion with consideration for the cost of divesting of the security compared to the risk of hold the security to maturity. The portfolio will be brought back into compliance with the investment policy as soon as is practical.

iii. **Diversification**

It is the intent of the City to diversify the investments within its portfolio to avoid incurring unreasonable risks inherent in over-investing in specific instruments, individual financial institutions, corporations, or maturities. The asset allocation in the portfolio should be flexible depending upon the outlook for the economy, the securities market, and the City's anticipated cash flow needs. Specific diversification requirements are outlined in the list of Authorized Instruments and Investment Types in this policy and are summarized in the Appendix.

iv. **Maturity & Liquidity**

Investments shall be held to maturity unless it is financially and strategically advantageous to trade prior to maturity. Trades prior to maturity can be made at the discretion of the Finance Director.

The investment portfolio shall be managed and structured in a way that matches investment maturities with anticipated cash flow needs.

The maximum term for any investment upon purchase shall be 5 years.

v. **Authorized Instruments and Investment Types**

The following investment types are deemed as eligible investments by the City so long as those investments conform to the portfolio concentration, term, and other requirements defined below. It is the intent of the City that the foregoing list of authorized securities be strictly interpreted. Any deviation from this list must be preapproved by the City Manager in writing.

A summary of authorized investments is included as an appendix to this policy.

1. U.S. Treasury Obligations: Treasury Bills, Treasury Notes, Treasury Bonds and Treasury Strips or those securities for which the full faith and credit of the United States are pledged for the payment of principal and interest with maturities not exceeding five years from the date of trade settlement. 100% of the Portfolio may be invested in U.S. Treasury Obligations.
2. Federal Agency and Instrumentality Securities: Any security issued by, fully guaranteed by, or for which the full credit of the following is pledged for payment: The Federal Farm Credit Bank (FFCB), the Federal Land Bank (FLB), a Federal Home Loan Bank (FHLB), the Federal Home Loan Mortgage Corporation (FHLMC), the Federal National Mortgage Association (FNMA), the Tennessee Valley Authority, the Government National Mortgage Association (GNMA), the World Bank, or an entity or organization that is not listed in this paragraph but that is created by, or the creation of which is authorized by, legislation enacted by the United States congress and that is subject to control by the federal government that is at least as extensive as that which governs an entity or organization listed in this paragraph. Such securities shall be rated at least A- or the equivalent at the time of purchase by at least two NRSROs and have maturities not exceeding five years from the date of trade settlement. No more than 85% of the Portfolio may be invested in Federal agency and instrumentality securities, and no more than 35% may be invested in any one issuer. Subordinated debt may not be purchased.
3. Authorized Federal Instrumentalities include, but may not be limited to:
 - Federal Home Loan Bank
 - Federal Home Loan Mortgage Corporation
 - Federal National Mortgage Association
 - Federal Farm Credit Bank
 - International Bank for Reconstruction and Development (World Bank)
4. Time Certificates of Deposit ("Time CDs"): Time certificates of deposit with maturities not exceeding one year, in FDIC insured state or nationally chartered banks or savings banks located in Colorado that are an eligible public depository as defined in C.R.S. 11-10.5-103. Time CDs exceeding the FDIC insured amount shall be collateralized in accordance with the Colorado Public Deposit Protection Act. No more than 5% of the Portfolio may be invested in Time CDs. No more than 2% of the Portfolio may be invested in CDs of a single institution.
5. Corporate & Bank Security: Corporate or bank securities issued by any bank or corporation which may or may not be organized and operated within the United States. The aggregate exposure to

corporate and bank securities may not exceed 50% of the Portfolio and no more than 5% may be invested with a single corporation. The debt authorized herein must be dollar-denominated and rated at least AA- or the equivalent at the time of purchase by at least two NRSROs. This rating requirement first applies to the security being purchased and second, if the security itself is unrated, to the issuer, provided the security contains no provisions subordinating it from being a senior debt obligation of the issuer. Maximum maturities of such securities shall not exceed three years from the date of trade settlement.

6. Municipal Bonds: General obligations and revenue obligations of state or local governments. Such obligations of Colorado (or any political subdivision, institution, department, agency, instrumentality, or authority of the state) shall be rated at least A- or the equivalent at the time of purchase by at least two NRSROs. Such obligations of any other governmental entity shall be rated at least AA- or the equivalent at the time of purchase by at least two NRSROs.

In addition, certificates of participation or other security evidencing rights in payments to be made by a school district under a lease, lease-purchase agreement, or similar agreement if the security carries at least two ratings by NRSROs and each rating is at least A- or the equivalent at the time of purchase.

For short term or variable rate instruments ("Short Term Municipal Bonds"), the securities must be rated at least A-1, MIG1, or the equivalent, by a NRSRO at the time of purchase.

All municipal bonds, certificates of participation, and short-term municipal bonds shall have a final maturity not exceeding five years from the date of trade settlement. The aggregate exposure to such bonds may not exceed 20% of the Portfolio and no more than 5% of the portfolio may be invested with a single issuer.

Pre-Refunded Municipal Bonds which are secured by an escrow of U.S. Treasury securities or State and Local Government Series securities, shall be rated at least AA+ or the equivalent at the time of purchase by a NRSRO, and shall have a final maturity not exceeding five years from the date of trade settlement. No more than 40% of the Portfolio may be invested in Pre-Refunded Municipal Bonds and no more than 5% may be invested with a single issuer.

7. Commercial Paper: Commercial Paper with maturities not exceeding 270 days from the date of trade settlement and issued by any corporation or bank organized and operating within the United States. Such securities shall be dollar denominated and rated at least A-1 or the equivalent at the time of purchase by at least two NRSROs. Furthermore, the issuer's commercial paper program's size shall exceed \$200 million. Commercial paper may not exceed 30%

of the Portfolio and no more than 5% may be invested with a single issuer.

8. Eligible Bankers Acceptances ("BAs"): Bankers Acceptances with maturities not exceeding 180 days from the date of trade settlement and issued by FDIC insured state or national banks with combined capital and surplus of at least \$250 million. BAs shall be rated at least A-1 or the equivalent at the time of purchase by at least two NRSROs. No more than 20% of the Portfolio may be invested in BAs and no more than 5% may be invested with a single institution.
9. Repurchase Agreements: Repurchase Agreements with maturities of 180 days or less collateralized by U.S. Treasury Obligations and Federal Agency and Instrumentality Securities listed in Items 1 and 2 above with the maturity of the collateral not exceeding 10 years. For the purpose of this section, the term collateral shall mean purchased securities under the terms of the City approved Master Repurchase Agreement. The purchased securities shall have a minimum market value including accrued interest of 102% of the dollar value of the transaction. Collateral shall be held in the City's custodian bank as safekeeping agent, and the market value of the collateral securities shall be marked-to-the-market daily.

Repurchase Agreements shall be entered into only with dealers who have executed a City approved Master Repurchase Agreement with the City and who are recognized as Primary Dealers by the Federal Reserve Bank of New York or have a Primary Dealer within their holding company structure. The Chief Financial Officer shall maintain a copy of the City's approved Master Repurchase Agreement along with a list of the broker/dealers who have an executed Master Repurchase Agreement with the City.

The City may utilize Tri-party Repurchase Agreements provided that the City is satisfied that it has a perfected interest in the securities used as collateral and that the City has a properly executed Tri-party Agreement with both the counterparty and custodian bank.

No more than 50% of the Portfolio may be invested in repurchase agreements and no more than 10% may be invested with a single counterparty.

10. Local Government Investment Pools authorized under CRS 24-75-701 and CRS 24-75-702 that: 1) are "no-load" (i.e. no commission or fee shall be charged on purchases or sales of shares); 2) limit assets of the fund to those authorized by state statute; 3) if constant net asset value funds, possess a maximum weighted average maturity in accordance with Federal Securities Law Regulation 2a-7 and have a rating of AAAM or the equivalent by one or more NRSROs.

11. Money Market Mutual Funds: Money Market Mutual Funds registered under the Investment Company Act of 1940 and authorized under C.R.S. 24-75-601 that 1) are "no-load" (i.e. no commission or fee shall be charged on purchases or sales of shares); 2) seek a constant net asset value per share of \$1.00; 3) invest only in U.S. government securities authorized in sections 1., 2., and 9. above; 4) have a maximum stated maturity and weighted average maturity in accordance with Rule 2a-7 of the Investment Company Act of 1940; and 4) have a rating of AAAM or the equivalent by any NRSRO.

100% of the Portfolio may be invested in money market funds but no single fund may constitute more than 50% of the Portfolio.

vi. Investment of Bond Proceeds

The City recognizes that bond proceeds may, from time to time, be subject to the provisions of the Internal Revenue Code, Federal Arbitrage Regulations, as amended. Due to the legal complexities of arbitrage law and the necessary immunization of yield levels to correspond to anticipated cash flow schedules, the reinvestment of such debt issuance may, upon the advice of Bond Counsel or financial advisors, deviate from the maturity limitation provisions of this Policy with written approval of the Finance Director.

D. Review of this policy

This policy shall be reviewed by the Finance Director and approved by the City Manager annually.

Policy Applies To

All investable assets within all funds under the control of the City, excluding those funds that are governed by specific statutory requirements or contractual agreements.

Roles & Responsibilities

City Manager	Designated by City Council as responsible for oversight and management of the City's investment portfolio.
Finance Director	Designated by the City Manager as responsible for the management of the City's investment portfolio, including carrying out investment transactions, managing relationships with authorized parties, and reporting annually on investment performance.

Attachments & Referenced Forms

Appendix	Summary of Authorized Investments
Investment Policy Resolution	Investment Policy Resolution approved by City Council most recently in September 2022

This Policy supersedes all previous correspondence on this subject.

Approvals

Department Director:

DocuSigned by:
Catrina Asher
ED11341532E344B1

City Manager:

DocuSigned by:
Michael Martinez
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APPENDIX

Authorized Investment Summary

All investments for the City shall be made in accordance with the Colorado Revised Statutes (C.R.S.) as follows: C.R.S. 11-10.5-101, et seq., Public Deposit Protection Act; C.R.S. 24-75-601, et seq., Funds - Legal Investments; C.R.S. 24-75-603, et seq., Depositories; and C.R.S. 24-75-701 and 702, et seq., Investment Funds – Local Government Pooling. Rating requirements are those as published by Nationally Recognized Statistical Rating Organizations (NRSROs) such as Standard & Poor's, Moody's Investors Service, and Fitch Ratings.

The table below provides a summary of the City's authorized investments.

Security Type	Maximum Portfolio %	Maximum Issuer %	Maturity Restrictions	Minimum Rating Requirements
U.S. Treasuries	100%	100%	5 years	N/A
U.S. Agencies and Instrumentalities	100%	35%	5 years	A- by 2 NRSROs
Municipal Bonds	35%*	5%*	5 years	see Auth Sec and Inv
Municipal Bonds, Pre-Refunded	35%*	5%	5 years	AA+ by 1 NRSRO
Corporate & Bank Securities	50%	5%	3 years	AA- by 2 NRSROs
Commercial Paper	35%	5%	270 days	A-1 by 2 NRSROs
Time Deposit/CD	5%	2%	1 year	N/A
Banker Acceptances	20%	5%	180 days	A-1 by 2 NRSROs
Repurchase Agreements	50%	10%	180 days	N/A
Local Government Investment Pools	100%	50%	N/A	AAAm or the equivalent by 1 NRSRO
Money Market Funds	100%	50%	N/A	AAAm or the equivalent by 1 NRSRO

*The aggregate exposure to municipal bonds may not exceed 35% of the Portfolio, and no more than 5% of the Portfolio may be invested with a single issuer.

Note: The Portfolio will be limited to an aggregate exposure of 50% for the following investment types: Corporate and Bank Securities, Commercial Paper, and Bankers Acceptances.