

CITY OF GRAND JUNCTION, COLORADO

INVESTMENT POLICY

SCOPE:

This investment policy shall govern the investment activities and practices for all cash and investments that from time to time come under the control and protection of the City Administrative Services and Finance Director (defacto City Treasurer); whether the resources are trust funds, operating funds, debt service funds, or debt proceeds.

OBJECTIVES:

All funds will be invested in accordance with the City of Grand Junction Charter, Article IX paragraph 72, and The Colorado Revised Statutes 24-75-601 to 605 unless superseded by this written policy. Any conflicts between this policy and Colorado Revised Statutes shall be decided in favor of this policy. The standard of due diligence and prudence to be applied to the investment activities shall be in accordance with the "prudent investor" rule, which states: "Investments shall be made with judgement 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 policy specifically authorizes the investment in U.S. Government Securities with a final maturity beyond five (5) years.

The policy also authorizes the investment in Collateralized Mortgage Obligation (C.M.O.s) with maturities beyond five years, as well as shorter, under certain conditions as indicated in item 11.

The policy item 10 authorizes the use of Mutual Funds composed of U.S. Government obligations without regard to final maturity of the instruments.

These three variations from State Statutes provides the City with higher yield opportunities; no additional safety risk; and with only a very modest increase in liquidity concerns that are mitigated by our significant short portfolio of 30% to 50% overall.

The priorities in making investment decisions will be:

First: Safety of principal of investments will be considered to minimize downside market potential.

Second: Liquidity, to insure that adequate funds are available at all times to meet the City's financial obligations.

Third: Yield, to earn a rate equal to the market average for such investments consistent with the Safety and Liquidity objectives.

INVESTMENT OFFICER:

Besides the Administrative Services and Finance Director, other officers and employees may be appointed from time to time to be involved in the investment process. It is specifically understood and agreed that the City Controller is an additionally authorized investment officer. Investment officers, exercising due diligence, shall not be held personally liable for adverse financial impact related to specific risk or market price changes.

ETHICS AND CONFLICTS OF INTEREST:

Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment program, or which could impair their ability to make impartial investment decisions. Employees and investment officials shall disclose to the City Manager any material financial interest in financial institutions that conduct business within this jurisdiction, and they shall further disclose any large personal financial/investment positions that could be related to the performance of the City's portfolio.

INTERNAL CONTROLS AND REPORTING:

There shall be established a system of written internal controls, which shall be reviewed annually by the independent auditors as part of their annual audit and review of all internal control procedures. The controls shall be designed to reasonably prevent loss of public funds due to fraud, employee error, misrepresentation by third parties, unanticipated market changes or imprudent actions by employees and officers of the city.

No less than quarterly the Administrative Services and Finance Director shall cause to be prepared reports including portfolio status and results obtained (quarterly earnings on accrued basis), and distributed to the City Manager, Mayor, and City Council, Department Directors and the Investment Advisory Committee.

PERMITTED INVESTMENTS:

One of the important ways to control risk within the City's investment portfolio is through diversification of investments. Therefore, the following, extensive list of authorized investment instruments has been developed.

1. U.S. Government Securities - either U.S. Treasury obligations or obligations of federal agencies which carry the highest rating of at least one national rating service. These investments are specifically authorized for maturities in excess of five years, as well as shorter.
2. U.S. Treasury State and Local Government Series obligations, "SLGS".
3. Repurchase agreements with primary dealers in U.S. Government securities, defined as an agreement to simultaneously buy and sell a U.S. Government security at prices and dates certain. All securities involved will be held by an independent third party or in a joint custody account at the Federal Reserve Bank.
4. Bank and Savings and Loan Investment Agreements, such as time certificates and other accounts, of State and National Banks and chartered Savings and Loan Associations located in Colorado and insured by FDIC or other federal agency, and which are approved as public fund depositories by the State of Colorado. Deposits exceeding the insured amount shall be collateralized as required by the Public Deposit Protection Act.

5. G.I.C.s - insurance company Guaranteed Investment Contracts, separate accounts, or funding agreements, provided the company is rated in the two highest rating categories by two national rating agencies, and the contract requires collateralizing or redemption at par in the event either rating is reduced below this level.
6. Commercial Paper with the highest rating by one of the national rating agencies A-1, P-1, with maturity not exceeding 270 days.
7. B.A.s - Banker Acceptances issued by banks authorized to do business in Colorado.
8. Shares of local government surplus funds, trust funds created under the provisions of 24-75-701, C.R.S. as amended.
9. S.E.C. regulated money market mutual funds which comply with Colorado law.
10. S.E.C. regulated mutual funds composed of U.S. Treasury obligations or agencies of the U.S. Government regardless of maturity which comply with Colorado law.
11. C.M.O.s (Collateralized Mortgage Obligations) reflect a wide variety of mortgage backed securities. Only those rated AAA by a nationally recognized rating service and fully collateralized by U.S. Government Securities or insured are authorized. These securities are specifically authorized for maturities in excess of five years, as well as shorter. Stress testing results must be obtained and evaluated before any purchase is approved. Any direct purchase of I.O.s (Interest only) or P.O.s (Principal only) is hereby limited to a maximum maturity of two years.
12. Other securities not fitting the above criteria that may from time to time be donated to the City, including stock, and are authorized to be held pending final sale or other disposition.
13. Nothing contained within this policy is to prevent the long term loaning of resources from one City fund to another at an appropriate interest rate. The City may also from time to time finance Special Improvement Districts with its own resources rather than selling bonds.

COMPETITIVE BIDDING:

A competitive bidding process shall take place that ensures at least three bids for all marketable security investments for over 90 days and \$100,000.

SAFEKEEPING:

- A. All investments shall be made in the name of the City of Grand Junction.
- B. Institutions issuing nonnegotiable certificates of deposit shall keep the CDs in safekeeping while sending the City a safe keeping receipt.
- C. Marketable securities shall be deposited in a safe keeping account with an independent third party state or national bank having an office in Colorado. U.S. Treasury obligations shall be held in a customer account at the Federal Reserve Bank in the name of the safekeeping agent for the City of Grand Junction.

INVESTMENT STRATEGY:

A written investment strategy has been created to meet the policy objectives of the above investment policy guidelines. The investment strategy will address and govern the specific processes used day to day in managing the investment portfolio. Adjustments to the strategy are to be made as appropriate in view of changes in the City's finances, in market conditions, and in available funds. Included below is the current strategy and statement of our starting position.

One of the most important overall strategies is the establishment of practices and procedures to insure that all cash resources are invested at all times. We accomplish this through a pooled investment program that minimizes the actual number of bank accounts needed while combining for investment purposes the cash resources in all individual funds of the City. The other key area is achieved through a banking contract that provides for the automatic payment of all cleared checks, while simultaneously investing at favorable rates all resources in excess of negotiated compensating balances. Our current banking arrangement provides for the daily payment of interest at the weekly auction coupon rate of the Federal Reserve for the 13-week Treasury Bills plus 10 basis points. Daily they invest for us all collected funds at these rates without any action required on our part.

For purposes of measuring our investment yield performance we have selected two different indices or benchmarks. First, for short term investments of overnight to one year in length, we use the weekly averages of the 91 day Treasury Bill auctions, averaged monthly, and the averages of those months for year to date purposes. Second, for our long portfolio, all investments maturing over one year, we compare our average yields to the Shearson Lehman Treasury Bond Index as reported for Fridays. Again, the weekly indices are averaged to obtain the monthly index.

We believe these are very aggressive standards of performance for a municipal portfolio. With tough banking negotiations and careful management, we feel that we can achieve these standards but not in all markets. For example for all of 1990 the 13-week Treasury Bill Index averaged 7.78% and we earned 7.85% while the long bond index averaged 8.75% and we earned 9.01%.

The following describes our current strategy for addressing the three tenants of our investment policy: safety, liquidity, and yield.

Safety: This is well achieved by the types of instruments in which we invest as authorized on the list of securities: 1) Insured 2) U.S. Government backed 3) Collateralized, or 4) The highest rated available in the market place. No equities or corporate bonds are authorized in this policy. Our safe keeping practices and diversification as outlined, enhance the safety of our investment portfolio.

Liquidity: This also is achieved through the highly marketable types of securities in which we invest. Bank Time Certificates of Deposit and Guaranteed Investment Contracts are less liquid but we have in the past and intend to continue investing very little in these instruments. Most important is our policy to keep no less than \$5 million or more than \$10 million in our short portfolio, with a minimum of \$3 million of this amount in the City's overnight account and Colorado authorized government trust funds offering daily liquidity without return suffering. As an example, at 12/31/90 the City had approximately \$9 million in short investments and \$15 million in our long portfolio by this definition.

Yield:

Short Term Strategy

1. Banking agreements that invest all resources above the compensating balance, including float, overnight at 90 day treasury rates.
2. Use of higher yielding trust funds versus Treasury Bills or bank C.D.s.
3. Use of commercial paper especially on the very short end, out to 90 days, where an inverse yield curve usually exists, with yields at times from 50 to 150 basis points higher than comparable Treasury Bill yields.

Long-term Strategy

1. Buy and hold a significant number of mortgage backed securities or Small Business Administration pools that pay principal and interest monthly at or below current market interest rates, versus above market coupon pools for mortgages at the time of purchase. No more than 50% of our total portfolio will be invested in these securities at any time. Although very liquid, many have an average life of up to twelve years and we do not want to be forced to sell these securities if the market rates have moved upward away from our original purchase coupon yield levels. These securities provide excellent downside market protection within a short range. If too far off the market we will be paid back very fast forcing us to look elsewhere for reinvestment opportunities.
2. From time to time it may be appropriate to buy straight Treasuries paying interest every six months with less price volatility and no early payment downside. This portion of our portfolio should average no more than 5 years in maturity. Two and three year instruments at the peak of the yield curve will be more common.
3. Zero Treasury and Agency (which are not mortgage backed) Instruments and those backed by treasuries and offered by primary dealers will be utilized to lock in highly favorable yields when government market rates are at historical highs. Yields and profit opportunities on these securities are extremely favorable.

This investment strategy is expected to change from time to time and include other instruments that are currently authorized but not utilized. Securities will be sold from time to time although it is not our overall policy to actively trade securities in any of the markets.