

# **TOWN OF PARADISE VALLEY**

## **INVESTMENT POLICY**

### **PURPOSE**

The purpose of this Investment Policy is to establish the investment objectives, delegation of authority, standards of prudence, eligible investments and transactions, internal controls, reporting requirements, and safekeeping and custodial procedures necessary for the prudent management of the investment funds of the Town of Paradise Valley.

2006→ This Investment Policy was adopted by the Town Council of Paradise Valley, Arizona on September 14, 2006. It replaces all previous Investment Policies or Resolutions pertaining to the cash management or investment of Town funds.

### **SCOPE**

The provisions of this Policy shall apply to all Town Funds as accounted for in the Town's Comprehensive Annual Financial Report.

There shall be a separate accounting for the following: General Fund; Sewer Fund – Reserves; Sewer Fund – Development Fee. All purchases, sales and investment income shall be accounted for separately.

### **OBJECTIVES**

The principal investment objectives of the Town are:

1. Preservation of capital and protection of investment principal.
2. Maintenance of sufficient liquidity to meet anticipated cash flows.
3. Attainment of a market value rate of return.
4. Diversification to avoid incurring unreasonable market risks.
5. Compliance with the Town Code and with all applicable Arizona statutes and Federal regulations.

## **DELEGATION OF AUTHORITY**

The Council has delegated responsibility for management of the Town's investment program to the Management Services Director. The Management Services Director may delegate the authority to conduct investment transactions and to manage the operation of the investment portfolio to other specifically authorized staff members. The Management Services Director shall maintain a list of persons authorized to conduct investment transactions for the Town. No person may engage in an investment transaction except as expressly provided under the terms of this Investment Policy.

The Management Services Director shall develop written administrative procedures and internal controls, consistent with this Policy, for the operation of the Town's investment program. Such procedures shall be designed to prevent losses of public funds arising from fraud, employee error, misrepresentation by third parties, or imprudent actions by employees of the Town

The Town may engage the support services of outside investment advisors in regard to its investment program, so long as it can be clearly demonstrated that these services produce a net financial advantage or necessary financial protection of the Town's financial resources.

## **PRUDENCE**

The standard of prudence to be used for managing the Town's assets is the "prudent investor rule" set forth in Arizona Revised Statutes (A.R.S.) section 14-7610 which states that investments shall be made "using the judgment and care under the circumstances then prevailing that persons of prudence, discretion and intelligence exercise in the management of their own affairs, not in regard to speculation but in regard to the permanent disposition of their funds, considering the probable income as well as the probable safety of their capital."

The Town's investment program shall be designed and managed with a degree of professionalism that is worthy of the public trust. The Town recognizes that no investment is totally without risk and that the investment activities of the Town are a matter of public record. Accordingly, the Town recognizes that occasional measured losses may be desirable in a diversified portfolio and shall be considered within the context of the overall portfolio's return, provided that adequate diversification has been implemented and that the sale of a security before maturity is in the best long-term interest of the Town.

Personnel acting in accordance with this Investment Policy and written procedures and exercising due diligence shall be relieved of personal responsibility for an individual security's credit, market, and liquidity risks.

## **ETHICS AND CONFLICT OF INTEREST**

Elected officials and Town employees involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the Town's

investment program, or that could create the appearance of an impairment of their ability to make impartial investment decisions. Elected officials and employees shall disclose to the Town Manager any material financial interest they have in financial institutions that conduct business with the Town and they shall subordinate their personal investment transactions to those of the Town.

## **AUTHORIZED INVESTMENTS AND TRANSACTIONS**

All investments for the Town of Paradise Valley shall be made in accordance with A.R.S. Title 35, Public Finances, Sections 35-321 through 35-327. Any revisions or extensions of these statute sections will be assumed to be part of this Investment Policy immediately upon being enacted. Only the following types of securities and transactions shall be eligible for use by the Town:

1. U. S. Treasury Obligations: Treasury Bills, Treasury Notes, Treasury Bonds, and Treasury Strips with a final maturity not exceeding three years from the date of purchase.
2. Federal Agency Securities: Debentures and mortgage-backed securities with a stated final maturity not exceeding three years from the date of purchase issued by the Government National Mortgage Association (GNMA).
3. Federal Instrumentality Securities: Debentures, discount notes, callable, step-up, and stripped principal or coupons with a final maturity not exceeding three years from the date of purchase issued by the following only: Federal Farm Credit Bank (FFCB), Federal Home Loan Bank (FHLB), Federal Home Loan Mortgage Corporation (FHLMC), and Federal National Mortgage Association (FNMA).
4. Repurchase Agreements with a termination date of 180 days or less collateralized by U.S. Treasury obligations, Federal Agency securities, or Federal Instrumentality securities listed above with a final maturity not exceeding five years. The purchased securities shall have a minimum market value including accrued interest of 102 percent of the dollar value of the transaction. With the exception of transactions done with the Town's approved depository banks, collateral shall be held in the Town's third-party custodian bank as safekeeping agent. Without exception, the market value of the collateral securities shall be marked-to-the market daily.

Repurchase Agreements shall be entered into only with primary dealers reporting to the Federal Reserve Bank of New York, or with firms that have a primary dealer within their holding company structure or with Town approved depository banks. Repurchase Agreement counterparties shall execute an approved Master Repurchase Agreement with the Town. Approved repurchase agreement counterparties, if rated, shall have at least a short-term debt rating of A-1 or the equivalent and a long-term debt rating of A or the equivalent. The Management Services Director shall maintain a list of financial institutions that have executed a Master Repurchase Agreement with the Town.

5. Pooled Investment Funds maintained by the State Treasurer pursuant to A.R.S. 35-326. The aggregate investment in Pooled Investment Funds shall not exceed \$7.5 million.
6. Time Certificates of Deposit with a maturity not exceeding one year that have been bid and awarded in accordance with A.R.S. 35-323, Subdivisions B through F, in Town approved depository banks. Certificates of Deposit exceeding FDIC insurance limits shall be collateralized in accordance with A.R.S. 35-323, Subdivisions G through M.

### **INVESTMENT DIVERSIFICATION**

It is the intent of the Town to diversify the investments within its portfolio to avoid unreasonable risks through excess investment in specific instruments, individual financial institutions, or maturities. The asset allocation in the portfolio should, however, be flexible depending upon the outlook for the economy, the securities markets, and the Town's anticipated cash flow needs. The Management Services Director may establish diversification guidelines as market conditions warrant.

### **PORTFOLIO MATURITIES AND LIQUIDITY**

To the extent possible, investments shall be matched to anticipated cash flow requirements. The Management Services Director shall maintain sufficient liquidity in the portfolio to meet anticipated disbursements. Investments shall be limited to maturities not exceeding three years from the date of purchase.

### **SELECTION OF BROKER/DEALERS**

The Management Services Director shall maintain a list of broker/dealers approved for investment purposes, and securities shall be purchased only from those authorized firms. To be eligible for authorization, a firm must:

- a) be recognized as a Primary Dealer by the Federal Reserve Bank of New York or have a Primary Dealer within its holding company structure; or
- b) report voluntarily to the Federal Reserve Bank of New York; or
- c) qualify under Securities and Exchange Commission (SEC) Rule 15c-3-1 (Uniform Net Capital Rule).

Broker/dealers will be selected by the Management Services Director based on their expertise of public cash management and their ability to provide services for the Town's account. Approved broker/dealer representatives and the firms they represent shall be licensed to do business in the State of Arizona and shall be subject to the provisions of A.R.S. Title 44, Chapter 12 relating to sales of securities.

Each authorized broker/dealer must complete and annually update a Town approved Broker/Dealer Information Request form which includes the firm's most recent financial statements. Authorized broker/dealers shall provide written certification that they have received a copy of this Investment Policy.

## **COMPETITIVE TRANSACTIONS**

Each investment transaction shall be competitively conducted with authorized broker/dealers. Whenever possible, at least three broker/dealers or issuers shall be contacted for each transaction and their bid and offering shall be recorded. If the Town is offered a security for which there is no other readily available competitive offering, then quotations on comparable or alternative securities shall be recorded.

## **SELECTION OF BANKS**

The Management Services Director shall maintain a list of banks, authorized for Repurchase Agreements and for the purchase of Time Certificates of Deposits. Authorized banks must qualify as an eligible depository as defined in A.R.S. 35-321. Banks that in the judgment of the Management Services Director no longer offer adequate safety to the Town, shall be removed from the list.

## **SAFEKEEPING AND CUSTODY**

The Town shall approve one or more banks to provide safekeeping and custodial services for the Town. To be eligible, a bank must qualify as an eligible depository as defined in A.R.S. 35-321. The Town shall execute a written Safekeeping Agreement with each custodian bank, prior to utilizing that bank's safekeeping services.

Custodian banks will be selected on the basis of their ability to provide services for the Town's account and the competitive pricing of their safekeeping related services.

Title to all investment securities shall be perfected in the name of the Town. Sufficient evidence to title shall be consistent with modern investment, banking and commercial practices.

All investment securities purchased by the Town will be delivered by either book entry or physical delivery and will be held in third-party safekeeping by a Town approved custodian bank, its correspondent bank or in its Depository Trust Company (DTC) participant account.

All Fed wireable book entry securities shall be held in the Federal Reserve system in a customer account for the custodian bank which will name the Town as "customer."

All DTC eligible securities shall be held in the custodian bank's DTC participant account and the custodian bank shall provide evidence that the securities are held for the Town as "customer."

All non-book entry (physical delivery) securities shall be held by the custodian bank or its correspondent bank and the custodian bank shall provide evidence that the securities are held for the Town as "customer."

## **PORTFOLIO PERFORMANCE**

The Town's investment portfolio shall be designed to attain a market value rate of return throughout budgetary and economic cycles, taking into account prevailing market conditions, risk constraints for eligible securities, and cash flow requirements.

## **REPORTING**

The Management Services Director shall prepare and submit to the Council a report of the Town's purchases of investments. The report shall include the security type, the par value, settlement date, maturity date, yield, and broker utilized.

## **POLICY REVISIONS**

This Investment Policy shall be reviewed periodically by the Management Services Director and may be amended by the Town Council as conditions warrant.