



# Investment Policy

# City of Lakewood, Colorado

## I. Scope

This policy is to establish guidelines for the efficient management of the City of Lakewood (the “City”) funds and for the purchase and sale of investments.

This investment policy governs the investment activities of the City with the exception of retirement funds, deferred compensation, and Police Duty Death and Disability funds. The financial assets of the other funds, including the General Fund, the Special Revenue Funds, the Capital Projects Funds, the Enterprise Funds, the Debt Service Fund, the Internal Services Funds and other funds that may be created from time to time shall be administered in accordance with the provisions of this policy. Bond proceeds shall be invested in accordance with Colorado State statutes, the terms of the bond indenture, and requirements of rating agencies, bond insurers, and where reasonable, in accordance with this policy.

## II. General Guidelines

The City funds available for investment shall be commingled into a common investment portfolio whenever feasible so that investment activities may be performed as efficiently as possible. The earnings on these investments will be allocated to the various funds according to internal City procedures. It shall be the City’s policy to refrain from making specific investments of amounts less than \$100,000 unless otherwise deemed necessary.

## III. Delegation of Authority

In accordance with Article XII Section 12.16 of the Lakewood City Charter, the responsibility for conducting investment transactions resides with the City Treasurer/Director of Finance. No person may engage in an investment transaction except as provided under the terms of this policy. The City Treasurer/Director of Finance may delegate the authority to the appropriate staff for the day-to-day investment decisions.

## IV. Objectives

The overall objectives of the City’s investment program, in order of priority are first to provide for the safety of principal, second, the provision of liquidity to meet daily cash flow requirements and lastly, attaining a market rate of return.

In order of priority the objectives shall be:

### A. Safety

Protection of principal is the primary objective of City investment activities and is the single most important factor in determining the investment decisions of the authorized investment officer. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. The two most significant risks for the purpose of this policy are:

1. *Credit Risk* is the risk of loss of principal and/or interest due to the failure of the security issuer or backer. Due to limitations on the time, information resources, and expertise of City staff, reliance shall be placed upon nationally recognized credit rating agencies in evaluating the credit risk of obligations not issued by the U. S. government and Federal instrumentality’s (Agencies and Government Sponsored Enterprises). The City’s preference is to utilize the credit rating services of Moody’s or Standard and Poor’s. Credit risk shall be limited by restricting the credit ratings on securities that may be purchased and through diversification to reduce exposure to any one security type or issuer.
2. *Interest Rate Risk* is the risk that the market value of securities in the investment portfolio will increase or decrease due to changes in market interest rates. Since most of the City’s investments are held to their maturity date this is not a major risk to the City. To mitigate this risk, the policy places limits on the type and maturities of permitted securities.
  - a. 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. Diversifying the investment portfolio so that potential losses on individual securities will be minimized.

## **B. Liquidity**

The investment portfolio shall be sufficiently liquid so as to meet all reasonably anticipated operating cash flow needs. Investments shall be managed to avoid, but not prohibit, sale of securities before their maturities to meet foreseeable cash flow requirements. Since all possible cash demands cannot be anticipated, the portfolio should hold a significant quantity of securities with active secondary or resale markets. Ideally, 10% of the portfolio shall be invested in overnight instruments, money market funds, Colorado local government investment pools, or in marketable securities, which can be sold to raise cash within one day's notice.

## **C. Yields**

The investment portfolio shall be managed with the objective of attaining a market rate of return throughout interest rate cycles. Return on investment is of secondary importance compared to the safety and liquidity objectives described above. Core investments are limited to relatively low risk securities in anticipation of earning a fair return relative to the risk being assumed. The benchmark, against which the City's portfolio shall be compared, will be the 1-year US Treasury Constant Maturity Index published by the Federal Reserve Board.

## **V. Standards of Care**

### **A. Prudence**

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 primary objective of safety as well as the secondary objective of earning market rates of return.

The standards 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 officials acting in accordance with procedures and exercising due intelligence shall be relieved of personal responsibility for an individual security's credit risk or market price fluctuations provided that deviations from expectation are reported in a timely manner to the City Treasurer/Director of Finance, and reasonable and appropriate action is taken to control adverse developments.

### **B. 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. Employees and officers shall refrain from undertaking personal investment transactions with the same individual with which business is conducted on behalf of the City of Lakewood

### **C. Delegation of Authority**

Authority to manage the investment program is granted to the City Treasurer/Director of Finance and derived from following the City Charter. Responsibility for the operation of the investment portfolio may be delegated to an investment officer, who shall act in accordance with established written procedures and internal controls for the operation of the investment program consistent with this investment policy. Procedures should include references to: safekeeping, delivery vs. payment, investment accounting, repurchase agreements, wire transfer agreements, and collateral/depository agreements. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the investment officer. The investment officer shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials.



## **VI. Reporting**

The City Treasurer, or designee, must prepare a monthly report on investment activity and yields. Such report shall contain the following:

- A.** A summary of investment holdings and transactions, yields, weighted average yield, dollar amounts at cost and maturity dates.
- B.** Realized gains and losses resulting from the sale of securities in the portfolio.
- C.** A comparison of the weighted average yield to the portfolio's designated benchmark.
- D.** Percentage of the portfolio in which each type of investment is represented.
- E.** A summary of significant cash flows.

## **VII. Suitable and Authorized Investments**

- A.** Authorized investments shall be denominated in U.S. dollars, may have a call provision, may be principal or interest strips, discount and/or interest bearing notes with a fixed or variable rate coupon. Variable rate securities shall be limited to those permitted by Colorado statute. No investment may be purchased with a final maturity of greater than five years. Authorized investments shall consist of:
  - 1. U.S. government obligations, U.S. government agency obligations and U.S. government instrumentality obligations that have a liquid market with a readily determinable market value.
  - 2. Any United States dollar denominated corporate or bank debt issued by a corporation or bank which is organized and operated within the United States and has a net worth in excess of two hundred fifty million dollars; except that the notes evidencing the debt must mature within three years from the date of settlement and, at the time of purchase, the debt must carry at least two credit ratings from any of the nationally recognized credit rating agencies and must not be rated below "AA - or Aa3" by any credit rating agency. These may comprise up to 30% of the book value of the City's investments at the time of purchase, with no more than 5% of the book value concentrated in any single obligor regardless of investment type.
  - 3. Commercial Paper rated A-1, P-1 or their equivalent by any nationally recognized credit rating agencies (the City's preference is to utilize Moody's or Standard and Poor's credit rating services). Commercial paper shall not exceed 50% of the total par value of the City's portfolio with not greater than 7.5% exposure to any single issuer at time of purchase.
  - 4. Bankers Acceptances, the issuers of which are banks organized under U.S. laws or their parent companies, are rated A-1, P-1 or their equivalent by any nationally recognized credit rating agencies. Banker's acceptances shall not exceed 50% of the total par value of the City's portfolio.
  - 5. Repurchase Agreements and Reverse Repurchase Agreements may be done only with approved dealers with whom the City has a signed master agreement governing such transactions, and must mature within ninety days. U.S. Treasury, agency, or instrumentality securities must collateralize transactions, the market value of which shall be at least 102% of the funds invested in the transaction at inception, and not less than 100% of the funds invested during its life. Securities collateralizing such transactions shall be delivered to the purchaser or their securities custodian.
  - 6. General Obligations of any state of the United States, the District of Columbia, or any territorial possession of the United States or of any political subdivision, institution, department, agency, instrumentality, or authority of any such governmental entities. No security may be purchased pursuant to this paragraph unless, at the time of purchase, the security is rated in one of the three highest rating categories by any nationally recognized organization that regularly rates such obligations. General obligations shall not exceed 50% of the total par value of the City's portfolio.
  - 7. Certificates of Deposit as permitted by Colorado statute and in accordance with the Public Depositors' Protection Act or the Savings and Loan Public Depositors' Protection Act.



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8. Money Market Mutual Funds and Local Government Investment Pools as permitted by Colorado statute, provided that such funds are either registered with the SEC or rated AAA by any nationally recognized credit rating agency.

## **B. Collateralization**

To qualify as a depository, financial institutions must be listed as eligible depositories by the State Commissioner of Financial Services or the State Division of Banking and must collateralize deposits in accordance with:

1. C.R.S. Section 11-10.5-101, et seq., The “Public Deposit Protection Act of 1975” or
2. C.R.S. Section 11-47-101, et seq., The “Savings and Loan Association Public Deposit Protection Act”

## **VIII. Investment Limitations**

### **A. Diversification**

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),
2. Limiting investment in securities that have higher credit risks,
3. Investing in securities with varying maturities, and
4. 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.

### **B. Maturity**

To the extent possible, the City of Lakewood shall attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, the City of Lakewood will not directly invest in securities maturing more than three (3) years from the date of purchase or in accordance with state and local statutes and ordinances. The City of Lakewood shall adopt weighted average maturity limitations (which often range from 90 days to 3 years), consistent with the investment objectives.

Because of inherent difficulties in accurately forecasting cash flow requirements, a portion of the portfolio should be continuously invested in readily available funds such as LGIPs, money market funds, or overnight repurchase agreements to ensure that appropriate liquidity is maintained to meet ongoing obligations.

### **C. Sale of investments prior to maturity**

Investments may be sold prior to their maturity date if the investment official determines that it is in the best interest of the City. Sales shall not be made to speculate upon future market trends. It is the intent to purchase and hold securities until maturity; however, from time to time it may become necessary to sell a security at a loss to meet cash flow requirements or certain security exchange advantages.

### **D. Derivatives**

Securities that derive their value from an underlying asset, group of assets, reference rate, or index value will not be permitted investments under this policy.

## **IX. Financial Institutions**

Financial institutions will be required to meet the following criteria in order to receive City funds for investment:


- A. Collateral** – Deposits in excess of \$100,000 insurance limits shall be collateralized by securities or mortgages in the amount equal to at least market value of that amount of funds in accordance with the Public Depositors’ Protection Act and the Savings & Loan Public Depositors’ Protection Act in the Colorado statute.



- B. Disclosure** – Each institution is required to maintain a City file with a municipal authorization confirming that the City Treasurer/Director of Finance is the official custodian of the City’s funds and as such is authorized to deposit monies in an institution. The municipal authorization also serves as a signature card for all future accounts and all financial transactions related to current and future accounts.
- C. Custody and Safekeeping** –To protect against fraud and embezzlement, the City’s investments consisting of direct obligations of the United States Government or its agencies shall be secured through custody and safekeeping procedures. Such procedures shall include that the City’s investments be segregated in separate accounts held at the Federal Reserve Bank by each financial institution. Investment officials at the financial institutions shall be bonded to protect the public against possible embezzlement and malfeasance. It is required, that financial institutions carry insurance in excess of the SIPC insurance limit in such minimum amounts to fully cover the City’s investments maintained at that financial institution.
- D. Wiring of funds limitation** – The maturities and sale proceeds of all investments, except bond proceeds held by a trustee, shall be effected by wire transfer only to the City’s principal depository bank.

**X. Authority**

This policy, as amended, was prepared under the authority of the City Treasurer/Director of Finance. The policy shall become effective immediately for all new investments.

APPROVED:   
Larry Dorr  
City Treasurer  
Director of Finance

DATE: May 5, 2004



## GLOSSARY OF INVESTMENT TERMS

**Agency Securities** – The securities issued by U.S. Government agencies, such as the Federal Home Loan Bank, Federal Home Loan Mortgage Corporation, etc. These securities have high credit ratings but are not backed by the full faith and credit of the U.S. Government.

**Basis Point (bp)** – The smallest measure used in quoting yields or returns. One basis point is 0.01% of yield, 100 basis points equals 1%. A yield that changes from 4.75% to 5.50% has increased by 75 basis points.

**Benchmark** – A standard unit used as the basis of comparison; a universal unit that is identified with sufficient detail so that other similar classifications can be compared as being above, below, or comparable to the benchmark.

**Bid** – the price offered by a buyer of securities.

**Book Entry** – a system of recording securities ownership through electronic accounts.

**Broker** – A broker brings buyers and sellers together for a commission.

**Capital Gain** – Also known as capital appreciation, capital gain measures the increase in value of an asset over time.

**Certificates of Deposit (CD's)** – A debt instrument issued by banks usually paying interest with maturities ranging from seven days to several years.

**Collateral** – Underlying securities that are pledged to secure deposits of public funds. Also used in conjunction with repurchase agreements to protect the entity from default by the counter party.

**Current Yield** – The relationship between the annual coupon interest rate and the market price of a fixed income security. In calculating current yield, only the coupon interest payments are considered; no consideration is given to capital gain/loss or interest on interest.

**Custody** – The service of an organization, usually a financial institution, of holding (and reporting) a customers securities for safekeeping. The financial institution is known as the custodian.

**Dealer** – A dealer, as opposed to a broker, acts as a principal in all transactions, buying and selling for his or her own account.

**Derivative** – A security that derives its face value from an underlying asset, group of assets, reference rate, or an index value. Some derivative instruments can be highly volatile and result in a loss of principal in changing interest rate environments.

**Discount Securities** – Non-interest bearing money market instruments that are issued at a discount and redeemed at maturity for full face value (e.g., U.S. Treasury Bills).

**Discount** – the amount by which a bond sells under its par (face) value.

**Diversification** – dividing investment funds among a variety of securities, offering independent returns, to reduce risk inherent in particular securities.

**Federal Deposit Insurance Corporation (FDIC)** – A federal agency that insures bank deposits – currently up to \$100,000 per depositor.

**Federal Funds Rate** – the interest rate charged by the Federal Reserve district bank to banks needing overnight loans to meet reserve requirements. The federal funds rate is the most sensitive indicator of the direction of interest rates since it is set daily.

**Floating Rate Note** – A fixed principal instrument which has a long or even indefinite life and whose yield is periodically reset relative to a reference index rate to reflect changes in short-or intermediate-term interest rates.



**Liquidity** – A liquid asset is one that can be converted easily and rapidly into cash without a substantial loss of value. In the money market, a security is said to be liquid if the spread between bid and asked prices is narrow and reasonable size can be done at those quotes.

**Market Value** – The price at which buyers and sellers trade similar items in an open marketplace.

**Master Repurchase Agreement** – A written contract covering all future transactions between the parties to repurchase/reverse repurchase agreements that established each party's rights in the transaction. A master agreement will often specify, among other things, the right of the buyer-lender to liquidate the underlying securities in the event of default by the seller-borrower.

**Maturity Date** – the date on which the principal amount of a bond or other debt instrument becomes payable or due.

**Money Market Fund** – An open-ended mutual fund that invests in commercial paper, bankers acceptances, repurchase agreements, government securities, certificate of deposit, and other highly liquid and safe securities and pays money market rates of interest. The funds net asset value remains a constant \$1/share – only the yield goes up or down.

**Money Market** – the market in which short-term debt instruments (bills, commercial paper, bankers acceptances, etc.) are issued and traded.

**Net Asset Value (NAV)** – the total assets minus liabilities, including any gains or losses on investments or currencies, and any accrued income or expense, used in account valuation.

**Offer** – the price asked by a seller of securities.

**Par Value** – the stated or face value of a bond. Specifies the payment amount at maturity.

**Rate of Return** – The amount of income received from an investment, expressed as a percentage. A market rate of return is the yield that an investor can expect to receive in the current interest-rate environment utilizing a buy-and-hold to maturity investment strategy.

**Repurchase Agreements (Repos)** – An agreement to purchase securities from an entity for a specified amount of cash and a simultaneous agreement to resell the securities to the entity at an agreed upon price and time. Repos are widely used as a money market instrument.

**Reverse Repurchase Agreements (Reverse Repos)** – an agreement to sell securities to an entity in return for a specified amount of cash and repurchase the securities at an agreed upon price and time. A reverse repurchase agreement is the sell-side of the repurchase agreement transaction.

## **S & P Ratings** –

AAA – The debt having the highest rating assigned by Standard and Poor's. It has the highest capacity to pay interest and its ability to repay principal is extremely strong.

AA – this debt, which is the lowest rating assignable to investment grade securities, is regarded as having an adequate protection parameters, adverse economic conditions or changing circumstances are more likely to lead to weakened capacity to pay interest and repay principal for debt in this category than in high rated categories. The debt having a very strong capacity to pay interest and repay principal and differs from the high rated issues only in small degrees.

A – This debt has a strong capacity to pay interest and repay principal although it is somewhat more susceptible to the adverse effects of change in circumstances and economic conditions that debt in high rated categories.

BBB – This debt, which is the lowest rating assignable to investment grad securities, is regarded as having an adequate capacity to pay interest and repay principal.



BB, B, CCC, and CC – these ratings are regarded, on balance, as predominately speculative with respect to capacity to pay interest and repay principal in accordance to the terms of the obligation.

C – this is reserved for income bonds on which no interest is paid.

D – this rating is for debt that is in default. No interest or principal payments are being made.

**Safekeeping** – A procedure where securities are held by a third party acting as custodian for a fee.

**Treasury Bill (T-Bill)** – short-term, highly liquid government securities issued at a discount from the face value and returning the face amount at maturity.

**Treasury Bond or Note** – debt obligations of the federal government that make semiannual coupon payments and are sold at or near par value in denominations of \$1,000 or more.

**Variable Rate Note** – Floating rate notes with a coupon rate adjusted at set intervals, such as daily, weekly or monthly based on different interest rate indices, such as LIBOR, Fed Funds, and Treasury Bills.

**Yield** – the rate of annual income return on an investment, expressed as a percentage. Income yield is obtained by dividing the current dollar income by the current market price of the security. Net Yield or Yield to Maturity is the current income yield minus any premium above par or plus any discount from par in purchase price, with the adjustment spread over the period from the date of purchase to the date of maturity of the bond.