

CITY OF CEDAR RAPIDS, IOWA
INVESTMENT POLICY
EFFECTIVE AUGUST 27, 2003
Revised August 11, 2015

July XX, 2015

Honorable Mayor, City Council, Depositories, Fiduciaries, Auditor and Assisting Third Parties of
or for the City of Cedar Rapids, Iowa

Presented herein is the revised investment policy for the City of Cedar Rapids, Iowa, as required to be adopted by all public entities of the state. This document is meant not only as a working guideline for the City Treasurer, other staff and external auditors, but to communicate with all third parties assisting with facilitating the process of the investment of public funds.

All known statutory requirements of Chapters 12B and 12C of the Code of Iowa have been addressed. It is felt that this investment policy of the City captures both the spirit and the intent of the law and is scheduled to be periodically reviewed and approved.

Respectfully submitted,

Casey Drew

**CITY OF CEDAR RAPIDS, IOWA
INVESTMENT POLICY**

SECTION I – SCOPE OF INVESTMENT POLICY

The investment policy of the City of Cedar Rapids, hereinafter the “City,” shall apply to investment transactions of all operating and reserve funds, bond proceeds and other funds accounted for in the financial statements of the City. Each investment made pursuant to this investment policy must be authorized by applicable law and this written investment policy.

The investment of bond funds or sinking funds shall comply not only with this investment policy, but also be consistent with any applicable bond resolution.

This investment policy is intended to comply with Iowa Code Chapter 12B and 12C.

Upon passage and upon future amendment, if any, copies of this investment policy shall be delivered to all of the following:

1. The Mayor and City Council.
2. All depository institutions or fiduciaries for public funds of the City.
3. The external auditor engaged to perform the audit of any fund of the City.
4. All third parties assisting with or facilitating investments of the funds of the City.

SECTION II – DELEGATION OF AUTHORITY

In accordance with Iowa Code, Section 12B.10 and 12C.11, the responsibility for conducting investment transactions resides with the City Finance Officers appointed by the City Manager to perform city investment duties. Only those individuals authorized by the City Manager may invest public funds.

All contracts or agreements with outside persons investing public funds, advising on the investment of public funds, directing the deposit of investment of public funds or acting in fiduciary capacity for the City, shall require the outside person to notify, in writing, the authorized City Finance Officers, within thirty days of receipt of all communication from the Auditor of the outside person or any regulatory authority, of the existence of a material weakness in internal control structure of the outside person or regulatory orders or sanctions regarding the type of services being provided to the City by the outside person.

The records of investment transactions made by or on behalf of the City are public records and become the property of the City whether in the custody of the City or in the custody of a fiduciary or other third party.

The authorized City Finance Officers shall establish a written system of internal controls and investment practices. The controls shall be designed to prevent losses of public funds, to document those officers and employees of the City responsible for elements of the investment process and to address the capability of investment management. The controls shall provide for receipt and review of the audited financial statement and related report on internal control structure of all outside persons performing any of the following for this public body:

1. Investing public funds
2. Advising on the investment of public funds
3. Directing the deposit or investment of public funds
4. Acting in a fiduciary capacity of this public body

A Bank, Savings and Loan Association or Credit Union providing only depository services shall not be required to provide an audited financial statement and related report on internal control structure.

The authorized City Finance Officers shall be bonded.

SECTION III– OBJECTIVES OF INVESTMENT POLICY

In accordance with Iowa Code Section 12B.10 (2), the primary objectives, in order of priority, of all investment activities involving the financial assets of the City shall be the following:

1. Safety: Safety of principal is the first priority.
2. Liquidity: Maintaining the necessary liquidity to match expected liabilities.
3. Return: Obtaining a reasonable return.

SECTION IV– PRUDENCE

The authorized City Finance Officers when investing or depositing public funds, shall exercise the care, skill, prudence and diligence under the circumstances then prevailing that a person acting in a like capacity and familiar with such matters would use to attain the Section III investment objectives. This standard requires that when making investment decisions, the authorized City Finance Officers shall consider the role that the investment or deposit plays within the portfolio of financial assets of the City and the investment objectives stated in Section III.

SECTION V– INSTRUMENTS ELIGIBLE FOR INVESTMENT

Financial assets of the City may be invested in the following:

Interest bearing savings accounts, interest bearing money market accounts, and interest bearing checking accounts at any bank, savings and loan association or credit union in the State of Iowa. Each financial institution shall be properly declared as a depository by City Council resolution. Deposits in any financial institution shall not exceed the maximum amounts approved by the resolution.

Obligations of the United States government, its agencies and instrumentalities.

Certificates of deposit and other evidences of deposit at federally insured Iowa depository institutions approved pursuant to Chapter 12C.

Prime bankers' acceptances that mature within 270 days of purchase and that are eligible for purchases by a Federal Reserve Bank.

Commercial paper or other short-term corporate debt that matures within 270 days of purchase and is rated within the two highest classifications, established by a least one of the standard rating services approved by the superintendent of banking rules adopted pursuant to Chapter 17A.

Repurchase agreements, provided that the underlying collateral consists of obligations of the United States government, its agencies and instrumentalities and the authorized City Finance Officers take delivery of the collateral either directly or through an authorized custodian. Repurchase agreements do not include reverse repurchase agreements.

An open-end management investment company, organized in trust form, registered with the Securities and Exchange Commission under the federal Investment Company Act of 1940, 15 U.S.C.Section 80(a) and operated in accordance with 17 C.F.R.Section 270.2a-7.

A joint investment trust organized pursuant to Chapter 28E existing in good standing, and rated within the two highest classifications by at least one of the standard rating services approved by the superintendent of banking and operated in accordance with 17 CFR 270.2a-7, or be registered with the federal securities and exchange commission under the federal Investment Company Act of 1940, 15 U.S.C.Section 80(a) and operated in accordance with 17 C.F.R.Section 270.2a-7.

SECTION VI- PROHIBITED INVESTMENTS AND INVESTMENT PRACTICES

Financial assets of the City shall not be invested in the following:

1. Reverse repurchase agreements.
2. Futures and options contracts.

Financial assets of the City shall not be invested pursuant to the following investment practices:

1. Trading of securities for speculation or the realization of short-term trading gains.
2. Pursuant to a contract providing for the compensation of an agent or fiduciary based upon the performance of the invested assets.
3. If a fiduciary or other third party with custody of public investment transaction records of the City fails to produce requested records within a reasonable time, the authorized City Finance Officer shall not renew maturing investments with or through the fiduciary or third party.

SECTION VII- INVESTMENT MATURITY LIMITATIONS

Per 12B.10A, Operating Funds must be identified and distinguished from all other funds available for investment. Operating Funds are defined as those funds which are reasonably expected to be expended during a current budget year or within fifteen months of receipt.

All investments authorized in Section V are further subject to the following investment maturity limitations:

1. Operating Funds may only be invested in instruments authorized in Section V of this investment policy that mature within three hundred ninety-seven (397) days or less.
2. The authorized City Finance Officers may invest funds of the City that are not identified as Operating Funds in investments with maturities longer than three hundred ninety-seven days (397). However, all investments of the City shall have maturities that are consistent with the liquidity needs of the City.

SECTION VIII– DIVERSIFICATION

Certain other instruments if held by the City are subject to the following diversification requirements:

Prime bankers' acceptances:

1. At the time of purchase, no more than ten percent (10%) of the investment portfolio of the City shall be invested in prime bankers' acceptances, and
2. At the time of purchase, no more than five percent (5%) of the investment portfolio of the City shall be invested in the securities of a single issuer, and

Commercial paper or other short-term corporate debt:

1. At the time of purchase, no more than ten percent (10%) of the investment portfolio of the City shall be in commercial paper or other short-term corporate debt,
2. At the time of purchase, no more than five percent (5%) of the investment portfolio of the City shall be invested in the securities of a single issuer, and
3. At the time of purchase, no more than five percent (5%) of all amounts invested in commercial paper and other short-term corporate debt shall be invested in paper and debt rated in the second highest classification.

Where possible, it is the policy of the City to diversify its investment portfolio. Assets shall be diversified to eliminate the risk of loss resulting from overconcentration of assets in a specific maturity, a specific issuer, or a specific class of securities. In establishing specific diversification strategies, the following general policies and constraints shall apply:

1. Portfolio maturities shall be staggered in a way that avoids undue concentration of assets in a specific maturity sector. Maturities shall be selected which provide stability of income and reasonable liquidity.
2. Liquidity practices to ensure that the next disbursement date and payroll date are covered through maturing investments, marketable U.S Treasury bills or cash on hand, shall be used at all times.
3. Risks of market price volatility shall be controlled through maturity diversification so that aggregate price losses on instruments with maturities approaching one year shall not be greater than coupon interest and investment income received from the balance of the portfolio.

SECTION IX– STATE OF IOWA SINKING FUND

Section 12C.25 of the Code of Iowa created the state sinking fund to protect public funds on deposit in Iowa banks, savings associations, and credit unions. This is in addition to Iowa Code, Chapter 12C.22(2) which requires Iowa banks to pledge collateral for public deposits equal to or in excess of the total amount by which the public funds deposits in the bank exceeds the total capital of the bank.

Section 12C.23A describes the procedures that the State Treasurer of would implement if a bank were closed. The following are the levels of protection in order:

The Federal Depository Insurance Corporation (FDIC) insures all public deposits up to a predetermined level and is backed by the full faith and credit of the United States government.

Secondly, assets of the closed bank are liquidated to cover losses.

Next, monies in the state sinking fund are distributed to entities that had deposits with the closed bank.

If the balance in the sinking fund is inadequate to pay the entire loss, then the State Treasurer shall obtain the additional amount needed by making an assessment against other banks whose public funds deposits exceed deposit insurance coverage.

SECTION X– SAFEKEEPING AND CUSTODY

All public funds custodial agreements shall include provisions necessary to prevent loss of public funds set forth in the administrative rules adopted by the State Treasurer (Iowa Administrative Code 781, Chapter 15). Such agreements shall include necessary provisions for compliance with the audit requirements of Section 11.6, Code of Iowa. All agreements providing for the investment of public funds shall be in writing and shall contain a provision requiring that all investments shall be made in accordance with State law.

SECTION XI – AUTHORIZED FINANCIAL DEALERS AND INSTITUTIONS

The authorized City Finance Officers will maintain a list of financial institutions authorized to provide investment services. In accordance with the Code of Iowa, this list will state the maximum authorized amount allowed in each institution and must be approved by City Council. In addition, a list will also be maintained of approved security broker/dealers selected by credit worthiness who are authorized to provide investment services in the State of Iowa. These may include "primary" dealers or regional dealers that qualify under Securities & Exchange Commission Rule 15C3-1 (uniform net capital rule).

All financial institutions and broker/dealers who desire to become qualified bidders for investment transactions must provide the authorized City Finance Officers with the following:

- The firm's most recent audited annual financial report and most recent quarterly report
- Proof of the firm's designation by the Federal Reserve Bank of New York as a primary securities dealer or proof of FDIC coverage
- Proof of sales licenses for individuals servicing the City's account
- Proof of the firm's State of Iowa securities sales license
- The completed broker/dealer questionnaire (in the form attached as Appendix B)
- Certification of having read the City's investment policy

The brokers/dealers must comply with the above by a deadline established by the authorized City Finance Officers in order to continue to have the opportunity to conduct business with the City. Financial institutions and broker/dealers shall not be compensated based on investment performance.

The authorized City Finance Officers will monitor the creditworthiness of financial institutions on an ongoing basis as information becomes publically available.

SECTION XII– ETHICS AND CONFLICT OF INTEREST

The authorized City Finance Officers and all employees of the City 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.

SECTION XIII– REPORTING

The authorized City Finance Officer shall make available a monthly investment report that summarizes investment level by market sectors, average maturity and yield to demonstrate compliance with the major objectives of this investment policy.

SECTION XIV– INVESTMENT POLICY REVIEW AND AMENDMENT

The investment policy of the City shall be reviewed annually by the authorized City Finance Officer and shall be periodically updated and approved by the governing body. Notice of amendments to the investment policy shall be promptly distributed to all parties noted in Section I.

City of Cedar Rapids, Iowa
Internal Procedures, Practices & Controls
For Investment Transactions

Monitoring and Adjusting the Portfolio(s)

The authorized City Finance Officers and qualified employees will routinely monitor the contents of the portfolio(s), the current market conditions, the available markets and the relative values of competing instruments and will make adjustments to the portfolio(s) accordingly.

Daily Cash Balance Determination and Cash Flow Analysis

The authorized City Finance Officers and qualified employees will determine the City's cash position daily and also forecast the probable cash flows to arrive at amounts available to invest at given maturities.

Selection of Investment Instruments

The authorized City Finance Officers or approved designee will follow protocols depending on the investment instrument being purchased. For investment instruments purchased in the secondary market, a competitive bid process will be conducted. If a specific maturity date is required, either for cash flow purposes or for conformance to a maturity guideline, bids will be requested for instruments that meet the maturity requirement. If no specific maturity is required, a yield curve and market analysis will be performed to determine which maturities would be most advantageous. Bids will be requested from financial institutions and other third party facilitators (securities brokers, dealers) for options with regard to term and instrument. The authorized City Finance Officers will accept the bid that provides the highest rate of return, among like securities within the maturity required and within the parameters of these procedures.

Investments purchased on a "when issued" basis through the Treasury, or "at the window" which are new issues of an investment, are not competitively bid.

Records will be kept of the bids offered and the bid accepted along with an analysis of the investment decision.

The authorized City Finance Officers will maintain a list of financial institutions and third party facilitators (securities brokers, dealers) which are approved for investment purposes. Financial Institutions shall provide their most recent Consolidated Report of Condition ("call" report) and security brokers/dealers are required to file a "Public Funds Investment Broker/Dealer Profile and Certification" and the firm's most recent audited financial statement to the authorized Finance Officers which is evaluated annually to determine whether it should remain on the "Qualified Institution" listing.

Custody and Safekeeping

The City utilizes a custody and safekeeping agreement with a local bank for all investments except certain physical, certificated GNMA's which are held in the City's vault. All investment transactions are handled delivery versus payment, which means that the City's agent matches the wire transfer with the securities, which have been delivered to the City's account at the bank. All investments are registered in the name of the City.

The monthly safekeeping report from the bank is reconciled with the records of the City.

Segregation of Duties

Only the authorized City Finance Officers or their designees are authorized to initiate the purchase or the sale of an investment. Other qualified employees complete the paper and wire transactions. Records detailing the transaction begin with an internal investment worksheet or electronic message/transaction, include the confirmation from the dealer and finally the wire transfer documentation outlining the delivery and payment for or receipt of the security. No employee has the ability to perform an investment transaction from origination to delivery and payment acting alone.