

THE CITY OF SIDNEY
INVESTMENT and DEPOSIT POLICY
March 8, 2004

I. Policy Statement

It is the policy of the City of Sidney to invest all public funds in a manner which will provide maximum safety and preservation of principal, while meeting all liquidity and operating demands. The City of Sidney will strive to achieve a market rate of return that is consistent with the limited risk tolerance of the portfolio. All investment activities must conform to all applicable local, state and federal statutes governing the investment of public funds.

II. Scope

This investment policy applies to all financial assets of the City of Sidney.

A. Pooling of Funds

The City will consolidate cash balances from all funds to maximize investment earnings. Investment income will be allocated to various funds in accordance with generally accepted accounting principles and the City of Sidney's Statement of Financial Policy.

III. Objectives

The primary objectives of investment activities, in order of priority, shall be safety, liquidity and yield:

A. Safety

Safety of principal is the foremost objective of the investment program. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio.

1. Limiting investments to the securities authorized by this policy
2. Pre-qualifying the financial institutions, broker/dealers, and advisors with which the City of Sidney will do business
3. Diversifying the investment portfolio so that potential losses on individual securities will not significantly affect the safety of the portfolio
4. 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
5. Committing to a staggered-maturity ("laddered") portfolio to provide an opportunity to regularly reinvest as well as to enhance liquidity.

B. Liquidity

The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated. This is accomplished by:

1. Structuring the portfolio so that securities mature concurrent with cash needs to meet anticipated demands.
2. The portfolio should consist largely of securities with active secondary or resale markets.

3. A portion of the portfolio should be placed in money market funds or local government pools (Star Ohio) which offer same-day liquidity for short-term funds.

C. Yield

The investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints and liquidity needs. Return on investment is of secondary importance compared to the safety and liquidity objectives described above.

IV. Standards of Care

A. Delegation of Authority

Authority to manage the investment program is hereby delegated to the Finance 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. The Finance Officer shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the Finance Officer.

B. Prudence

The standard 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 officers acting in accordance with written procedures and this investment policy and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported in timely fashion and the actions of the investment officer are in accordance with this policy.

C. 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. Investment officials shall disclose any material interest in financial institutions with which they conduct business on behalf of the City of Sidney. They shall further disclose any personal financial/investment positions that could be related to the performance of the investment portfolio.

V. Authorized Financial Institutions and Dealers

Any financial institution, as defined by O.R.C. 135.03, is eligible to serve as an approved depository and/or investment provider. Eligible securities dealers and brokers must be members of the National Association of Securities Dealers (NASD), meet a minimum capital requirement of \$10,000,000, and have been in operation for at least five years. These may include "primary" dealers or regional dealers that qualify under the Securities and Exchange Commission (SEC) Rule 15C3-1 (uniform net capital rule). An investment advisor must be an eligible financial institution as defined by O.R.C. 135.03, or an advisor that is registered with the Securities and Exchange Commission.

All financial institutions and broker/dealers who desire to become qualified bidders for investment transactions must supply the Finance Officer with the following when requested, if applicable:

- A. Audited financial statements
- B. Proof of NASD certification
- C. Proof of state registration
- D. Completed broker/dealer questionnaire
- E. Certification of having received and understood the City of Sidney's Investment Policy, and agreeing to comply with the policy
- F. Depository Agreement
- G. Other relevant information as requested.

The Finance Officer will conduct a review of the financial condition and registration of qualified bidders at least once every five years.

The Finance Officer will maintain a list of authorized institutions and dealers. The Finance Officer:

- A. May make additions to the authorized list when investment and deposit policy requirements are met;
- B. Shall make deletions from the list (i) if and as directed by ordinance of City Council, (ii) upon failure of the financial institution to meet the requirement of this policy, or (iii) upon request of the financial institution or dealer; and
- C. May make deletions from the list based on the following:
 - 1. Perceived financial difficulties of the financial institution or dealer;
 - 2. Consistent lack of competitiveness by the financial institution or dealer;
 - 3. Lack of experience or familiarity of the account representative in providing service to large institutional accounts; or
 - 4. When deemed in the best interest of the City.

VI. Central Depository

City checking and cash management services will be concentrated in no more than two (2) depositories.

To ensure the City of Sidney will receive the best service possible, and that financial institutions will have an equal opportunity to participate, the City will competitively seek quotes for a central depository bank(s) through a request for proposals at least every five (5) years.

The central depository bank(s) will have the same opportunity as other eligible financial institutions to provide quotes on the investment of the City's excess funds.

VII. Authorized Investments

The Finance Officer may invest on behalf of and in the name of the City in the following instruments at a price not exceeding their fair market value:

- A. *U.S. Government Securities*
Direct obligations of the Department of Treasury of the United States of America (bills, bonds and notes)
- B. *U.S. Government Agency Securities and U.S. Government Instrumentality Securities*

Bonds, notes, debentures or other obligations or securities issued by any U.S. government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, or the Small Business Administration. All federal agency or instrumentality securities must be direct issuances of the federal agency or instrumentality.

C. *Interest-Bearing Certificates of Deposit*

Eligible certificates of deposit of any financial institution eligible to become a public depository in accordance with Section 135.03 of the Ohio Revised Code.

D. *Commercial Paper*

Commercial paper which is rated at the time of purchase in the single highest classification by Moody's or Standard & Poor's.

E. *Bankers Acceptances*

Bankers acceptances which are eligible for purchase by the Federal Reserve System and which are issued by institutions which are ranked nationally as being in the top fifty in asset and deposit size within their industry.

F. *Repurchase Agreements*

Repurchase agreements of a bank or savings and loan association organized under the laws of the U.S. or State of Ohio for negotiable direct obligations of the United States or U.S. federal agencies. If any repurchase agreement obligations do not have the backing of the full faith and credit of the United States, any such investments shall be secured by collateral as provided in Section X herein.

G. *Money Market Funds*

Money market funds whose portfolios consist of the foregoing (A-F).

H. *State Treasury Asset Reserve of Ohio*

The State Treasury Asset Reserve of Ohio ("Star Ohio") is a statewide investment pool managed by the Treasurer of the State of Ohio similar in concept to a money market fund. It is available exclusively to political subdivisions of Ohio.

I. *NOW Accounts*

NOW Accounts, Super-NOW Accounts, or any similar account authorized by the Federal Reserve's Depository Institutions' Deregulation Committee.

VIII. Derivatives

Investment in derivatives is strictly forbidden. A derivative is defined in ORC 135 as a financial instrument, contract or obligation whose value is based upon or linked to another asset or index or both, separate from the financial instrument, contract or obligation itself.

IX. Investment Parameters

A. *Diversification*

The investment portfolio shall be diversified by:

1. Avoiding over-concentration in securities from a specific issuer or business sector (excluding securities issued by the United States government, or an agency or instrumentality thereof). The following maximum allocations are established:
 - a. Certificates of Deposit – no more that 40% of the total market value of the portfolio;
 - b. Commercial Paper and Bankers Acceptances – no more that 25% of the total market value of the portfolio may be committed to these two classifications combined;
 - c. Repurchase agreements, money market funds, STAR Ohio, and NOW accounts – no more that 50% of the total market value of the portfolio may be committed to these classifications combined;
2. Investing in securities with varying maturities; and
3. Continuously investing a portion of the portfolio in readily available funds such as money market funds, overnight repurchase agreements or local government investment pools to ensure appropriate liquidity is maintained in order to meet ongoing obligations.

B. Maximum Maturities

To the extent possible, the City will attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow requirement, the City will not directly invest in securities maturing more than five (5) years from the date of purchase. The weighted average maturity of the portfolio may not exceed two (2) years.

X. Security for Repayment of Public Deposits

All public depositories shall comply with the Ohio Revised Code, including sections 135.18 and 135.181, with respect to collateralized security for the deposits of the City of Sidney. Failure of an institution to abide by any of the provisions of this section is cause for immediate suspension of the institution as a qualified depository for any City funds.

XI. Competitive Quotes

The purpose of seeking competitive quotes is to strengthen the investment program in terms of the level and consistency of performance. Unless otherwise directed by this policy, all sales of securities will be quoted competitively. To the extent practical, all investments will be placed with financial institutions yielding the highest returns to the City. The right is reserved to reject the quote yielding the highest return of interest on any investment if inconsistent with the City's investment strategy, i.e. maturity, risk, liquidity, etc.

Price and rate quotations on all trades may be obtained from sources within and outside the City. In the case of the sale of securities or the purchase of securities where all other factors are considered by the Finance Officer to be equal, the financial institution selected for placement will be determined by the following criteria and order of priority: 1) the financial institution situated within the City, or 2) the financial institution with the lesser amount of City funds on deposit at the time of the purchase of the security.

The Finance Officer may deposit up to 5% of the investment portfolio without competitive quotes in public depositories located within the city's corporate boundaries. These deposits shall be equally distributed among all depositories that qualify.

XII. Safekeeping and Custody

All security transactions, including collateral pledges, except for "pooled collateral" arrangements, shall be conducted on a delivery versus payment basis. Securities will be held by a third party custodian designated by the Finance Officer and evidenced by safekeeping receipts.

XIII. Reporting

A. The Finance Officer will be responsible to provide regular reports (at least quarterly) to the City Manager and City Council about the City's investment activities. The report should include, at a minimum, the market value and book value of the portfolio, information on the allocation of the portfolio by type of investment security, and yield of the portfolio compared to relevant benchmarks (see section B below). At least quarterly, the Finance Officer shall provide to the City Manager a detailed report with a description of each security on hand and the financial institution from which it was purchased.

B. The quarterly reports required by Section A above must provide a comparison of the weighted average yield of the City's portfolio compared to the current yield on one-year and two-year U.S. Treasury securities.

XIV. Policy Considerations

A. Any investment currently held that does not meet the guidelines of this policy shall be exempted from the requirements of this policy. At maturity or liquidation, such monies shall be reinvested only as provided by this policy.

B. This policy shall be reviewed on an annual basis. The policies as stated herein may be changed only with the approval of City Council.

9/20/01

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