



# TOWN OF HILLSBOROUGH

## PERSONNEL POLICY

POLICY 410

LAST REVISED 7/14/03

### **SUBJECT: INVESTMENTS**

**PURPOSE:** To provide guidelines for the prudent investment of the Town's temporary idle cash and outline the policies for maximizing the efficacy of the Town's cash management system.

### **STATEMENT OF POLICY:**

#### **Policy**

It is the policy of the Town of Hillsborough to invest public funds in a manner which will provide the highest investment return with the maximum security while meeting the daily cash flow demands of the Town and conforming to all California laws and local statutes governing the investment of public funds.

#### **Scope**

This investment policy applies to all funds and investment activities under the direct authority of the Town of Hillsborough. These fund types are accounted for in the Town's Comprehensive Annual Financial Report and include:

General Funds	Enterprise Funds
Special Revenue Funds	Internal Service Funds
Capital Project Funds	Trust and Agency Funds
Debt Service Funds	

#### **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 probable safety of their capital as well as the probable income to be derived.

The standard of prudence to be used by the Town's investment official 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 the 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 a timely fashion and appropriate action is taken to control adverse developments.

## **Objective**

The primary objectives, in priority order, of the Town of Hillsborough's investment activities shall be:

1. **Safety:** Safety of principal is the foremost objective of the investment program. Investments of the Town of Hillsborough shall be undertaken in a manner that seeks to ensure that capital losses are avoided, whether from securities default, broker-dealer default, or erosion of market value. To attain this objective, diversification is required in order that potential losses on individual securities do not exceed the income generated from the remainder of the portfolio.
2. **Liquidity:** The Town of Hillsborough's investment portfolio will remain sufficiently liquid to enable the Town to meet all operating requirements which might be reasonably anticipated.
3. **Return on Investment:** The Town of Hillsborough's investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the Town's investment risk constraints and the cash flow characteristics of the portfolio.
4. **Reporting of Current Market Value:** Annually, at year end, the Town of Hillsborough shall report and incorporate into the financial records, the current market value of investments held by the Town. The value and the reporting shall be in accordance with the then current reporting requirements of the GASB.

## **Delegation of Authority**

Pursuant to Government Code Section 53607, the Town Finance Director shall have the authority to invest the Town's funds in accordance with this investment policy. The Finance Director shall establish and maintain a written procedure for the operation of the investment program consistent with this investment policy.

Procedures shall include reference to: safekeeping procedures, repurchase agreements, wire transfer agreements, collateral/depository agreements and banking service contracts. All investment transactions shall be authorized in writing on the investment transaction report providing the details of the transaction. Quarterly, an

investment report shall be prepared for the Finance Committee and the Town Council stating the details of all the then current outstanding investments.

No investment transactions are authorized except as provided under the terms of this policy and the procedures established. The designated individuals shall be responsible for all transactions undertaken and shall establish a system of controls to monitor and regulate the activities.

### **Ethics and Conflicts of Interest**

Officers, employees, and elected officials 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 and in the annual disclosure statement, any material financial interests in financial institutions that conduct business within the jurisdiction, and they shall further disclose any large personal financial/investment positions that could be related to the performance of the Town of Hillsborough's portfolio.

Employees and officers shall subordinate their personal investment transactions to those of the Town's, particularly with regard to the time of purchases and sales.

### **Authorized Financial Dealers and Institutions**

Investments shall only be purchased directly from the issuer, from an institution licensed by the State of California as a dealer, from a member of a federally regulated securities exchange, from a national or state chartered bank, federal or state savings institution or from a brokerage firm designated as a primary government dealer by the Federal Reserve Bank.

The Town shall maintain a list of financial institutions authorized to provide Town investment services. In addition, a list will be maintained of approved security dealers and cash managers selected by credit worthiness, who maintain an office in the State of California. "Primary" dealers or regional dealers should qualify under Securities & Exchange Committee Rule 15C3-1 (uniform net capital rule).

All financial institutions, dealers and cash managers who desire to become qualified bidders for investment transactions shall supply the Town with the following: audited financial statements, proof of National Association of Security Dealers certification when applicable, trading resolution, proof of State of California registration when applicable, and certification of having read the Town of Hillsborough's investment policy and depository contracts.

An annual review of the financial condition and registration of qualified bidders will be conducted by the Town Finance Director. Each financial institution must maintain minimum capitalization requirements of \$40 million to insure the safety of funds.

A current audited financial statement is required to be on file for each financial institution and dealer with which the Town invests.

### **Authorized Investments**

The Town is governed by the California Government Code Sections 53600 et seq. Within the context of these limitations, the following investments are authorized for the Town, and further limited herein, and made part of this investment policy:

PERMITTED INVESTMENTS/ DEPOSITS	PERCENTAGES	MAXIMUM MATURITY
Securities of the US Govt.	Unlimited	5 years
US Agency & Instrumentality	5%	5 years
Certificates of Deposits	Unlimited	2 years
Bankers Acceptances	40%	180 days
Commercial Paper	30%	180 days
Local Agency Investment Fund	LAIF Limit(s)	n/a
Repurchase Agreement	--	30 days
Money Market Funds	--	n/a
Mutual Funds	5%	n/a
Corporate Notes (AAA)	5%	5 years
Checking Sweep Account (overnight balances)	Unlimited	7 days

### **Collateral**

Collateral shall be required in accordance with State of California Statutes. Collateral shall always be held by an independent third party with whom the Town has a current custodial agreement. A clearly marked evidence of ownership (safekeeping receipt) must be supplied to the Town of Hillsborough and retained.

All deposits of funds and investments exceeding \$100,000 (Government insured amount) per account, shall be secured by government securities or mortgage backed securities meeting the requirements of investment grade. All collateral shall meet or exceed recommendations of State statute, regulations, and Town policy. (100% of investment for government security collateral and 150% of investment for mortgage collateral)

All collateral shall be assigned to the Town of Hillsborough, and shall be reported in writing by the financial institution to the Town Finance Director at the inception of the investment. Collateral so assigned, may be exchanged upon approval. Failure to comply with any provision of collateral requirements by the Town of Hillsborough shall cause immediate withdrawal of funds, without penalty or interest loss.

## **Safekeeping and Custody**

All securities owned by the Town, including collateral on repurchase agreements, shall be held in safekeeping by the Town's custodian bank or a third party bank trust department, acting as agent for the Town under the terms of a custody or trustee agreement executed by the bank and by the Town. All securities will be received and delivered using standard delivery-versus-payment (DVP) procedures.

## **Diversification**

The Town shall diversify its investments by security type and institution.

## **Maximum Maturity**

To the extent possible, the Town will attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, the Town will not directly invest in securities maturing more than 2 years from the date of purchase.

## **Internal Control**

The Finance Director shall establish a system of written internal controls which shall be reviewed by an independent auditor. This review will determine completeness of internal control, recommend and monitor changes in controls, and assure compliance with policies and procedures.

The controls shall be designed to prevent losses of public funds arising from fraud, employee error, misrepresentation of third parties, unanticipated changes in financial markets, or imprudent actions by the employees and officers of the Town.

Controls deemed most important include: control of collusion, separation of duties, separating transaction authority from accounting and record keeping, clear delegation of authority, specific limitations regarding securities losses and remedial action, written confirmation of all investments, documentation of transactions and strategies, and code of ethics standards.

## **Performance Standards**

The investment portfolio shall be designed to attain a market average rate of return through budgetary and economic cycles, taking into account the investment risk constraints and cash flow needs. The market average rate of return is hereby defined as the average return on 3-month US Treasury Bills.

## **Reporting**

The Town Finance Director and the finance office staff shall generate reports for management purposes. The Financial Advisory Committee and the Town Council will be provided quarterly reports which will include data on investment instruments held, terms of investment, location of all investments, length of investment, security provided (when required), the rate of return on individual investments, market value as of the end of the proceeding month, as well as any narrative necessary for clarification.

### **Investment Manager**

The Financial Advisory Committee is authorized by the City Council to solicit a contract for investment services for all or a portion of the Town's investment portfolio. All investment management service contracts shall be submitted to the City Council for approval. All investments of the contractual investment manager shall require all safeguards as those indicated under this policy, unless specifically authorized by the City Council.

### **Investment Policy Adoption**

The Financial Advisory Committee and the independent auditors shall annually review the Town of Hillsborough's investment policy. Recommendation for changes in the investment policy shall be submitted for adoption by a City Council resolution on an as needed basis.