



101 Midland Avenue, Basalt, CO 81621

Meeting Date: Wednesday, March 11, 2020

Location: Town Manager's Meeting Room, Town Hall

Time: 5:00 – 6:00 PM

BASALT FINANCE ADVISORY BOARD MEETING

5:00 pm

1. Call to Order
2. Approval of February 26, 2020 meeting minutes
3. Current events
4. Review DRAFT Investment Policy
5. Update on financial advisor search for employee retirement plan and RFP process
6. Next meeting date – April 15

6:00 Adjourn

Finance Advisory Board Minutes
2/26/2020

1. Present at the meeting – Doug MacDonald, Ann Nichols, Simon Dogbe, Cheryl Ruppel. Non-Board – Ryan Mahoney & Christy Hamrick.
2. The meeting was called to order at 5:01
3. Meeting minutes from January 14 were approved.
4. The detailed FAB 2020 calendar was reviewed and discussed with no changes made. The detail was added based upon the feedback from the January 14 meeting. Christy discussed that her goal is each of the FAB members report with her to Council on finance topics during the year. Those topics will include quarterly financial statements, audit, budget, investment policy, RFP/financial advisor for the employee retirement program, and fund balance policy.
5. Christy brought some September 30 quarterly financial statements for review and discussion of formatting. The hope is that the FAB will help to present quarterly financial information to Council.
 - a. Generally, they liked the format of the report.
 - b. Cheryl noted that it would be good to add the prior year to date for comparison. Christy agreed, but also noted that we should add that for the following year due to the addition of the restricted fund and the difficulty of getting prior year data.
 - c. Doug and Ann noted the importance of graphics in the quarterly statement. We reviewed the bucket graphic to see if that could be included on the front of the quarterly financial information. There was a lot of discussion of which numbers would be used, but at the end we landed on budget numbers to be added in the graph. The hope is that the quarterly report will be more readable for the general public if it starts with the bucket graphic.
 - d. They also wanted to add a % Revenues YTD by source pie graph, and % expense YTD by department graph to the right of the basic financials. Additionally, they noted to reduce the level of detail in the report by eliminating smaller revenue accounts and adding an “other” column. We discussed the possibility of only reporting the main.
6. Financial Updates:
 - a. Ryan discussed the potential purchase of a property for Public Works within the Town for \$1.8 million with fund balance reserves. Christy noted that the Town will still be within its current fund balance reserve policy after the purchase. The purchase is currently in the due diligence phase.
 - b. Christy reviewed the sales tax reports briefly for December 2019 and January 2020. We are favorable nearly 4% compared to budget, with a 9.4% increase between years for December. January saw a 23.8% increase between years, mostly due to online sales.
 - c. Christy has been working on a salary and benefit survey, which has taken all of her time. She plans to work again on the RFP for retirement in the next week. The RFP needs to be retooled to be able to start with a financial advisor selection first. This approach will give the Town the most flexibility in selection of a retirement plan. Cheryl asked if the compensation survey will take in to account the new rules for pay equity, which Christy stated that it would.
7. Next Meeting Date – March 11
8. Meeting adjourned at 6:17 pm.

GFOA Sample Investment Policy

NOTE (TOP 2 PARAGRAPHS TO BE DELETED FROM ACTUAL POLICY): The purpose of this sample investment policy is to aid the general membership of the Government Finance Officers Association (GFOA) in the preparation of an investment policy. This sample policy is not intended to supplant an existing policy; rather, it is presented as a model to help investing entities customize a policy to fit their particular needs, constraints and capabilities. In order to accommodate the varying needs of government entities and stimulate conversation at the local level, certain sections of the attached policy include examples of alternative language. These examples may be used *in place of or in addition to* the first paragraph presented for that section, depending on the goals and objectives of the particular investing entity.

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For additional information, please read Chapter Three of *Investing Public Funds*, second edition, a text authored by Girard Miller, with M. Corinne Larson and W. Paul Zorn, and published by the Government Finance Officers Association of the United States and Canada. You are also invited to contact current staff of the GFOA Standing Committee on Treasury & Investment Management for assistance in modifying and/or writing your government's investment policy. Governments should obtain counsel to ensure compliance with state and local laws, regulations, and other policies concerning the investment of public funds.

I. Governing Authority

Legality

The investment program shall be operated in conformance with governing legislation and other legal requirements.

Review

The Finance Advisory Board shall be the "investment committee" outlined in this policy. The Finance Advisory Board and the Town's auditors will periodically review and monitor this policy.

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II. Scope

This policy applies to the investment of all funds, excluding the investment of employees' retirement funds. ~~[NOTE (TO BE DELETED) This section should be modified to specify which assets are excluded from this policy. Any other investments excluded??]~~

1. Pooling of Funds

Except for cash in certain restricted and special funds, the [entity] will consolidate cash and reserve balances from all funds to maximize investment earnings and to increase efficiencies with regard to investment pricing, safekeeping and administration. Also, per SEC Rule 15B (Municipal Advisor Rule), the policy must clearly state whether or not the cash being pooled/invested includes municipal bond proceeds or not.

Investment income will be allocated to the various funds based on their respective participation and in accordance with generally accepted accounting principles. ~~[NOTE: (TO BE DELETED) This paragraph refers to the pooling of funds within a single governmental entity and implies no reference to local government investment pools. This GFOA Sample Investment Policy is not specifically designed for use by local government investment pools, although certain portions of this sample policy may apply.]~~

III. General Objectives

The primary objectives of investment activities shall be safety, liquidity, and return:

1. *Safety*

Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. The objective will be to mitigate credit risk and interest rate risk.

a. Credit Risk

The ~~entity~~Town will minimize credit risk, which is the risk of loss of all or part of the investment due to the failure of the security issuer or backer, by:

- Limiting investments to the types of securities listed in Section VII of this Investment Policy
- Pre-qualifying and conducting ongoing due diligence of the financial institutions, broker/dealers, intermediaries, and advisers with which the [entity] will do business in accordance with Section V
- Diversifying the investment portfolio so that the impact of potential losses from any one type of security or from any one individual issuer will be minimized.

b. Interest Rate Risk

The ~~entity~~Town will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by:

- Structuring the investment portfolio so that security maturities match cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity
- Investing operating funds primarily in shorter-term securities, money market mutual funds, or similar investment pools and limiting individual security maturity as well as the average maturity of the portfolio in accordance with this policy (see section VIII).

2. *Liquidity*

The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated. This is accomplished by structuring the portfolio so that securities mature concurrent with cash needs to meet anticipated demands (static liquidity). Furthermore, since all possible cash demands cannot be anticipated, the portfolio should consist largely of securities with active secondary or resale markets (dynamic liquidity). Alternatively, a portion of the portfolio may be placed in money market mutual funds or local government investment pools which offer same-day liquidity for short-term funds.

3. *Return*

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. The core investments are limited to relatively low risk securities in anticipation of earning a fair return relative to the risk being assumed. Securities shall generally be held until maturity with the following exceptions:

- A security with declining credit may be sold early to minimize loss of principal;
- Selling a security and reinvesting the proceeds that would improve the quality, yield, or target duration in the portfolio may be undertaken;

- Unanticipated liquidity needs of the portfolio require that the security be sold.

Alternative sample language:

The ~~{entity's}~~Town's cash management portfolio shall be designed with the objective of regularly meeting or exceeding an appropriate performance benchmark, which could be the average yield on either three-month U.S. Treasury bills, the state investment pool, a money market mutual fund (specify) or the average rate on Fed funds (I would prefer average yield of three-month US Treasury bills). These indicators are considered benchmarks for lower risk investment transactions and therefore comprise a minimum standard for the portfolio's rate of return. The investment program shall seek to augment returns above this threshold, consistent with risk limitations identified herein and prudent investment principles. (See Section IX on performance standards and selecting a benchmark.)

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IV. Standards of Care

1. Prudence

The standard of prudence to be used by investment officials shall be the "uniform prudent investor act" 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 a timely fashion and the liquidity and the sale of securities are carried out in accordance with the terms of this policy.

2. 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, in accordance with applicable laws. 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 whom business is conducted on behalf of the ~~{entity}~~Town.

3. Delegation of Authority

Authority to manage the investment program is granted to ~~{designated official}~~the Finance Director, hereinafter referred to as investment officer and derived from the following: ~~{insert code citation, ordinances, charters or statutes}~~Section 4-42 of the Town of Basalt Code. Responsibility for the operation of the investment program is hereby delegated to the 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. At a minimum, procedures should include references to the following: safekeeping, delivery vs. payment, investment accounting, repurchase agreements, wire transfer agreements, and collateral/depository agreements. [Please refer to GFOA's Investment Procedures Manual, 2003] TO DO. 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.

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V. Authorized Financial Institutions, Depositories, and Broker/Dealers

1. Authorized Financial Institutions, Depositories, and Broker/Dealers

A list will be maintained of financial institutions and depositories authorized to provide investment services. In addition, a list will be maintained of approved security broker/dealers selected by creditworthiness and/or other factors, such as FINRA broker check.

All financial institutions and broker/dealers who desire to become qualified for investment transactions must supply the following as appropriate:

- Audited financial statements demonstrating compliance with state and federal capital adequacy guidelines
- Proof of Financial Industry Regulatory Authority (FINRA) certification (not applicable to Certificate of Deposit counterparties)
- Proof of state registration
- Completed broker/dealer questionnaire (not applicable to Certificate of Deposit counterparties)
- Certification of having read and understood and agreeing to comply with the ~~entity's~~Town's investment policy.
- Evidence of adequate insurance coverage.

An annual review of the financial condition and registration of all qualified financial institutions and broker/dealers will be conducted by the investment officer. ~~(See Appendix for the GFOA Recommended Practice on "Governmental Relationships with Securities Dealers.")~~

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VI. Safekeeping and Custody

1. Delivery vs. Payment

All trades of marketable securities will be executed by delivery vs. payment (DVP) to ensure that securities are deposited in an eligible custody account prior to the release of funds.

2. Safekeeping

Securities will be held by ~~a centralized~~an independent third-party custodian selected by the entity as with all securities held in the ~~entity's~~Town's name. The safekeeping institution shall annually provide a copy of their most recent report on internal controls (Statement of Auditing Standards No. 70, or SAS 70).

3. Internal Controls

The investment officer shall establish a system of internal controls, which shall be documented in writing. The internal controls shall be reviewed ~~annually as requested~~ by the investment committee, ~~where present,~~ and ~~with~~ the independent auditor. The controls shall be designed to prevent the loss of public funds arising from fraud, employee error, mis-representation by third parties, unanticipated changes in financial markets, or imprudent actions by employees and officers of the ~~entity~~Town.

VII. Suitable and Authorized Investments

1. Investment Types – **Note: Each entity needs to confirm the investment types allowed by statute or authorized by their government.**

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Consistent with the GFOA Policy Statement on State and Local Laws Concerning Investment

Practices¹ and other binding documents, the following investments will be permitted by this policy:

- U.S. Treasury obligations which carry the full faith and credit guarantee of the United States government;
- U.S. government agency and instrumentality obligations that have a liquid market with a readily determinable market value;
- Canadian government obligations (payable in base currency);
- Certificates of deposit and other evidences of deposit at financial institutions,
- Bankers' acceptances;
- Commercial paper, rated in the highest tier (e.g., A-1, P-1, F-1, or D-1 or higher) by a nationally recognized rating agency;
- Corporate Bonds;
- Obligations of state, provincial and local governments and public authorities rated A or better;
- Repurchase agreements whose underlying purchased securities consist of the aforementioned instruments;
- Money market mutual funds regulated by the Securities and Exchange Commission and whose portfolios consist only of dollar-denominated securities; and
- Local government investment pools either state-administered or developed through joint powers statutes and other intergovernmental agreement legislation;
- Other investment types or asset classes as approved by the governing authority.

Investment in derivatives of the above instruments shall require authorization by the appropriate governing authority. (See the GFOA Advisory on "Use of Derivatives by State and Local Governments²," 2010.)

2. Collateralization

Where allowed by governing legislation and in accordance with the GFOA Recommended Practices on the Collateralization of Public Deposits, full collateralization will be required on all demand deposit accounts, including checking accounts and non-negotiable certificates of deposit. (See GFOA Recommended Practices in Appendix.)

3. Repurchase Agreements

Repurchase agreements shall be consistent with GFOA Recommended Practices on Repurchase Agreements. (See GFOA Recommended Practices in Appendix.)

VIII. Investment Diversification & Constraints

1. Diversification

It is the policy of the ~~entity~~Town to diversify its investment portfolios. To eliminate risk of loss resulting from the overconcentration of assets in a specific maturity, issuer, or class of securities, all cash and cash equivalent assets in all ~~entity~~Town funds shall be diversified by maturity, issuer, and security type. Diversification strategies shall be determined and revised periodically by the investment committee/investment officer for all funds except for the employee retirement fund.

In establishing specific diversification strategies, the following general policies and constraints

1 <http://gfoa.org/public-policy-statements-treasury-and-investment-management#investmentpractices>

2 <http://gfoa.org/use-derivatives-and-structured-investments-state-and-local-governments-non-pension-fund-investment>

shall apply: Portfolio maturities shall be staggered to avoid undue concentration of assets in a specific maturity sector. Maturities selected shall provide for stability of income and reasonable liquidity.

- Liquidity shall be assured through practices ensuring that the next disbursement date and payroll date are covered through maturing investments or marketable U.S. Treasury bills.
- Positions in securities having potential default risk (e.g., commercial paper) shall be limited in size so that in case of default, the portfolio's annual investment income will exceed a loss on a single issuer's securities.
- Risks of market price volatility shall be controlled through maturity diversification and duration management.
- The investment committee/investment officer shall establish strategies and guidelines for the percentage of the total portfolio that may be invested in securities other than repurchase agreements, Treasury bills or collateralized certificates of deposit. The committee shall conduct a ~~quarterly-annual~~ review of these guidelines, in conjunction with the review of the audited financial statements, and to evaluate the probability of market and default risk in various investment sectors as part of its considerations.

The following diversification limitations shall be imposed on the portfolio:

- **Maturity:** No more than ~~xx-0~~ percent of the portfolio may be invested beyond ~~xx-12~~ months, and the weighted average maturity of the portfolio shall never exceed ~~xx-3~~ years. Government Pool money market funds are excluded from this requirement, since the majority of their investments are short-term.
- **Default risk:** No more than ~~xx-0~~ percent of the overall portfolio may be invested in the securities of a single issuer, except for securities of the U.S. Treasury. No more than ~~xx-15~~ percent of the portfolio may be invested in each of the following categories of securities:
 - a) Commercial paper,
 - b) Negotiable certificates of deposit,
 - c) Bankers' acceptances,
 - d) Any other obligation that does not bear the full faith and credit of the United States government or which is not fully collateralized or insured and
- **Liquidity risk:** Based on liquidity needs, at least ~~xx-10~~ percent of the overall portfolio shall be invested in overnight instruments or in marketable securities which can be converted to cash within one day.

2. *Maximum Maturities*

To the extent possible, the ~~entity~~Town shall attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, the ~~entity~~Town will not directly invest in securities maturing more than five (5) years from the date of purchase or in accordance with governing legislation. The ~~entity~~Town shall adopt weighted average maturity limitations consistent with the investment objectives.

Reserve funds and other funds with longer-term investment horizons may be segregated into a long-term "core" investment portfolio and invested in securities exceeding five (5) years if the maturities of such investments are made to coincide as nearly as practicable with the expected use of funds. The intent to invest in securities with longer maturities shall be disclosed in writing to the legislative body. (See the GFOA Recommended Practice on "Maturities of Investments in a Portfolio" in Appendix.)

3. *Competitive Bids*

~~The~~In the case that the Town chooses to transact investments on the secondary market, the investment officer shall obtain competitive bids from at least three brokers or financial institutions on all purchases and sales of those investment instruments ~~transacted on the secondary market~~.

IX. Reporting

1. *Methods*

The investment officer shall prepare an investment report at least ~~quarterly~~ ~~for monthly~~ annually, including a management summary that provides an analysis of the status of the current investment portfolio and the individual transactions executed over the last ~~quarter~~ ~~for month~~ year. This management summary will be prepared in a manner which will allow the ~~entity~~ Town to ascertain whether investment activities during the reporting period have conformed to the investment policy. The report should be provided to the entity's ~~chief administrative officer~~ Town Manager, the ~~legislative body~~ Town Council, and the investment committee ~~and any pool participants~~. The report will include the following:

- Listing of individual securities held at the end of the reporting period including type, acquisition cost, book cost, and market value.
- Realized and unrealized gains or losses resulting from appreciation or depreciation by listing the cost and market value of securities over one-year duration that are not intended to be held until maturity (in accordance with Governmental Accounting Standards Board (GASB) requirements).
- Average weighted return on investments as compared to applicable benchmarks.
- Percentage of the total portfolio which each type of investment represents.
- A statement that the investment portfolio is in compliance with the investment policy and is meeting the investment policy objectives

2. *Performance Standards*

The investment portfolio will be managed in accordance with the parameters specified within this policy. The portfolio should obtain a market average rate of return during a market/economic environment of stable interest rates. A series of appropriate benchmarks shall be established against which portfolio performance shall be compared on a regular basis. The benchmarks shall be reflective of the actual securities being purchased and risks undertaken, and the benchmarks shall have a similar weighted average maturity as the portfolio.

3. *Marking to Market*

The market value of the portfolio shall be calculated at least quarterly ~~for monthly~~ and a statement of the market value of the portfolio shall be issued at least ~~quarterly~~ ~~for monthly~~ annually. This will ensure that review of the investment portfolio, in terms of value and price volatility, has been performed consistent with the GFOA Recommended Practice on "Mark-to-Market Practices for State and Local Government Investment Portfolios and Investment Pools." (See GFOA Recommended Practices in Appendix.) In defining market value, considerations should be given to the GASB Statement 31 pronouncement.

X. Policy Considerations

1. *Amendments*

This policy shall be reviewed ~~on an annual basis~~ as requested by the Finance Advisory Board, the

Town Manager, or Town Council. Any changes must be submitted by the investment officer and approved by the investment oversight committee or authoritative body acting in such capacity.

XI. Approval of Investment Policy

The investment policy shall be formally approved and adopted by the governing body of the ~~entity~~ Town and reviewed annually.

XII. List of Attachments

The following documents, as applicable, are attached to this policy:

- ~~• Listing of authorized personnel;~~
- Relevant investment statutes and ~~ordinances~~ Town Ordinances;
- Listing of authorized broker/dealers and financial institutions; (Not applicable as of 3/9/2020)
- ~~• Detailed listing of authorized investment classes, sectors, and types;~~
- Internal Controls;
- ~~• Glossary~~

~~XIII. Other Documentation~~

- ~~• Master Repurchase Agreement, other repurchase agreements and tri-party agreements;~~
- ~~• Broker/Dealer Questionnaire;~~
- ~~• Credit studies for securities purchased and financial institutions used;~~
- ~~• Safekeeping agreements;~~
- ~~• Wire transfer agreements;~~
- ~~• Sample investment reports;~~
- ~~• Methodology for calculating rate of return;~~

Sec. 4-42. - Custody and management of funds.

Moneys in the funds herein created shall be in the custody of and managed by the Finance Director. The Finance Director shall maintain accounting records and account for all of said moneys as provided by law. Moneys in the funds of the Town shall be invested or deposited by the Finance Director in accordance with the provisions of law. All income from the assets of any fund shall become a part of the fund from which derived and shall be used for the purpose for which such fund was created; provided that, except as otherwise provided in this Article or by other ordinances or laws or by this Code, the Town Council may transfer out of any fund any amount at any time to be used for such purpose as the Town Council may direct.

(Ord. 22 §1, 1991; Ord. 33 §B1, 2003)