City of Columbia

Investment Policy

Adopted on December 13, 2018

Exhibit A

CITY OF COLUMBIA, TENNESSEE
INVESTMENT POLICY

1. SCOPE

This policy applies to the investment of all funds of the City of Columbia, Tennessee. Investments of employees' post benefit retirement funds are covered by a separate policy. Except for special funds that are otherwise specifically provided for, the City of Columbia will consolidate the balances from all funds to maximize investment earnings. Investment income will be allocated to the various funds based on their respective participation of capital in the overall portfolio in accordance with generally accepted accounting principles.

2. POLICY

It is the policy of the City of Columbia to invest idle public funds in a manner that is in compliance with Tennessee Code Annotated (T.C.A.) 6-56-106 and meets the daily cash flow demands of the City.

3. OBJECTIVES

The city's investments shall be managed to accomplish the following hierarchy of objectives: a) Safety of Principal b) Maintenance of Liquidity and c) Achieve a Market Return.

A) Safety of Principal

Safety of principal is the single most important objective of the investment program. 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 the following risks:

i. Credit Risk

The City will minimize credit risk, which is the risk of loss due to the failure of the investment issuer or backer, by:

- Limiting the portfolio to the types of investments pursuant to TCA 6-56-106;
- 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.

ii. Interest Rate Risk

The City will minimize interest rate risk, which is the risk that the market value of investments in the portfolio will fall due to changes in market interest rates, by:

- Structuring the portfolio to meet the cash requirements of ongoing operations, thereby mitigating the need to liquidate investments at a loss prior to maturity;
- Investing operating funds primarily in shorter-term investments and limiting the average maturity of the portfolio in accordance with this policy in accordance with T.C.A. 6-56-106.

iii. Concentration Risk

The City will minimize Concentration of Credit Risk, which is the risk of loss due to having a significant portion of resources invested in a single issuer, by diversifying the investment portfolio as described in ***Portfolio Diversification*** section. Diversification so that the impact of potential losses from any one type of security or issuer will be minimized. Investments issued or explicitly guaranteed by the U.S. government or Tennessee Bank Collateral Pool, Tennessee Local Government Investment Pool (LGIP) and any other external investment pools authorized by that are authorized by the State are excluded from this requirement.

iv. Custodial Credit Risk

The City will minimize Custodial Credit Risk for deposits, which is the risk that in the event of the failure of a depository financial institution the deposits or collateralized investments that are in the possession of an outside party would not be able to be recovered. See ***Collateralization*** below.

The City will minimize Custodial Credit Risk for investments, which is the risk that in the event of the failure of the counterparty to a transaction the value or collateralized investments that are in the possession of an outside party would not be able to be recovered. See ***Safekeeping and Custody*** below.

B) Maintenance of Liquidity

The City Portfolio shall be managed in such a manner that assures that funds are available as needed to meet those immediate and/or future operating requirements of the City, including but not limited to payroll, accounts payable, capital projects, debt service and any other payments.

C) Achieve a Market Return

The investment portfolio shall be designed with the objective of achieving a market 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 market return relative to the risk being assumed.

4. STANDARDS OF CARE

A) 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 a timely fashion and the liquidity and the sale of securities are carried out in accordance with the terms of this policy.

The "prudent person" standard states that, "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 City may employ an outside investment manager(s) to assist in managing some or all of the City Portfolio. Such outside investment manager(s) must be registered under the Investment Advisors Act of 1940. While the standard of prudence to be used by the “Investment Officer” who are City officers or employees is the “Prudent Person” standard, any person or firm hired or retained to invest, monitor, or advise concerning these assets shall be held to the higher standard of “Prudent Expert”. The standard shall be that in investing and reinvesting moneys and in acquiring, retaining, managing, and disposing of investments of these funds, the Investment Advisor shall exercise: the judgment, care, skill, prudence, and diligence under the circumstances then prevailing, which persons of prudence, discretion, and intelligence, acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of like character and with like aims by diversifying the investments of the funds, so as to minimize the risk, considering the probable income as well as the probable safety of their capital.

B) Ethics and Conflicts of Interest

City employees involved in the investment process for the City 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. City employees and investment officials shall disclose any material interests in financial institutions with which they conduct business. Further, said employees and officers shall disclose any personal finance or investment positions that could be related to the performance of the City Portfolio. City employees and officers shall refrain from undertaking personal investment transactions with the same individual with whom business is conducted on behalf of the City.

C) Delegation of Authority

Authority to manage the investment program is granted to the city’s Chief Financial Officer (CFO), hereinafter referred to as the *Investment Officer*, appointed by the City Manager pursuant to the Columbia Municipal Charter. The Assistant Finance Director may act in the capacity of Investment Officer as needed day-to-day or on a temporary basis in cases when the CFO is unable to discharge duties.

i. Investments authorized by this policy may be approved by the City Manager, Investment Officer or Assistant Finance Director;

ii. Investments with a maturity date exceeding two years or in an amount exceeding $10,000,000 shall also be approved by either the City Manager or Investment Officer.

The Investment Officer, Assistant Finance Director and City Manager, acting in accordance with this Investment Policy and exercising due diligence, shall be relieved of personal responsibility for the failure of any investment to perform according to expectations, provided that the Investment Officer shall report any deviations from expectations in a timely fashion.

5. AUTHORIZED FINANCIAL INSTITUTIONS

A list will be maintained of financial institutions and depositories authorized to provide investment services. All financial institutions who desire to become qualified for investment transactions must supply the following as appropriate:

A. Audited financial statements demonstrating compliance with state and federal capital adequacy guidelines;
B. Proof of membership in the Tennessee Bank Collateral Pool;
C. Certification of having read and understood and agreeing to comply with the City's Investment Policy.

Nothing in Section No. 5 precludes the City from using a qualified financial advisory/investment firm or investment services, the standard of care to be exercised by such a professional service provider outlined in Section 4(A).

6. AUTHORIZED AND SUITABLE INVESTMENTS

The City of Columbia's Investment Officer, in order to provide a safe temporary medium for investment of idle funds, shall have the authority to purchase and invest prudently as authorized in Appendix A and by TCA 6-56-106 or as it may be amended (Appendix B).

7. COLLATERALIZATION

In accordance with State law T.C.A. 9-4-105 and 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, except when the institution issuing the certificate of deposit belongs to the Tennessee Bank Collateral Pool.

8. REPORTING

The Investment Officer shall prepare an investment report not less than quarterly of the status of the current investments. The report will include the following:

A. Percent invested in each security type (CD, US Treasury, etc.);
B. Listing of investments by maturity date.

9. PORTFOLIO DIVERSIFICATION

It is the policy of the City of Columbia to reduce overall risks while attaining average market rates of return by diversifying its investments.

The investments shall be diversified by:

A. Limiting investments to avoid over concentration in eligible securities from a specific issuer or business sector (excluding U.S. Treasury securities);
B. Investing a portion of the portfolio in readily available funds such as the Tennessee Local Government Investment Pool (LGIP) or collateralized money market funds to ensure that appropriate liquidity is maintained in order to meet ongoing obligations.

C. Portfolio maturities shall be staggered to avoid undue concentration of assets with similar maturity dates.

10. SAFEKEEPING AND CUSTODY

The City Manager shall approve a system of internal controls, which shall be documented in writing. The controls shall be designed to prevent the loss of public funds arising from fraud, employee error, misrepresentation by third parties or unanticipated changes in financial markets.

11. AMENDMENTS

This Investment Policy shall be reviewed at minimum every three years.

Appendix B

Tenn. Code Ann. § 6-56-106

Tennessee Code Annotated

*** Current through the 2018 Regular Session ***

Title 6 Cities And Towns'
Municipal Government Generally
Chapter 56 Fiscal Affairs
Part 1 General Provisions

6-56-106. Authorized investments.

(a) In order to provide a safe temporary medium for investment of idle funds, municipalities are authorized to invest in the following:

(1) Bonds, notes or treasury bills of the United States;

(2) Nonconvertible debt securities of the following federal government sponsored enterprises that are chartered by the United States congress; provided, that such securities are rated in the highest category by at least two (2) nationally recognized rating services:

(A) The federal home loan bank;

(B) The federal national mortgage association;

(C) The federal farm credit bank; and

(D) The federal home loan mortgage corporation;

(3) Any other obligations not listed in subdivisions (a)(1) and (2) that are guaranteed as to principal and interest by the United States or any of its agencies;

(4) Certificates of deposit and other evidences of deposit at state and federally chartered banks, and savings and loan associations. Notwithstanding any other public or private act to the contrary, all investments made pursuant to this subdivision (a)(4) shall be secured by collateral in the same manner and under the same conditions as state deposits under title 9, chapter 4, parts 1 and 4, or as provided in a collateral pool created under title 9, chapter 4, part 5;

(5) Obligations of the United States or its agencies under a repurchase agreement for a shorter time than the maturity date of the security itself if the market value of the security itself is more than the amount of funds invested; provided, that municipalities may invest in repurchase agreements only if the comptroller of the treasury or the comptroller's designee approves repurchase agreements as an authorized investment, and if such investments are made in accordance with procedures established by the state funding board;

(6) The local government investment pool created by title 9, chapter 4, part 7;

(7) (A) Municipalities having a population in excess of one hundred fifty thousand (150,000), according to the 1990 federal census or any subsequent federal census, may also permit investment of idle funds in the following investment instruments:

(i) Prime banker's acceptances that are eligible for purchase by the federal reserve system; and

(ii) Prime commercial paper that is rated at least A1 or equivalent by at least two (2) nationally recognized rating services;

(B) Municipalities having a population of not less than twenty thousand (20,000) nor more than one hundred fifty thousand (150,000), according to the 1990 federal census or any subsequent federal census, may also permit investment of idle funds in prime commercial paper in accordance with the following:

(i) Such paper shall be rated in the highest category by at least two (2) commercial paper rating services; and

(ii) The paper shall have a remaining maturity of ninety (90) days or less;

(C) Investment in the instruments set forth in this subdivision (a)(8) shall first be authorized by the municipality's legislative body, acting by resolution or ordinance. In addition, investment in such instruments shall be prohibited until the legislative body has adopted written policies to govern the use of such instruments, with such policies being no less restrictive than those established by the state funding board to govern state investments in such instruments;

(8) The municipality's own bonds or notes issued in accordance with title 9, chapter 21; and

(9) (A) Investment in the instruments set forth in subdivision (a)(2), (a)(5), (a)(7), or any type of investment authorized pursuant to a municipality's charter that is of a type that is not included in this part shall require the following:

(i) The municipality's legislative body must authorize the investment by ordinance; and

(ii) The legislative body must adopt a written enforceable investment policy by ordinance to govern the use of investments, with the policies being no less restrictive than those established by the state funding board to govern state investments in these types of instruments.

(B) Investment in instruments covered by this subdivision (a)(9) shall be prohibited until the legislative body has adopted written policies to govern the use of the investments or an ordinance has been passed to authorize the investment.

(b) The investments listed in subdivisions (a)(1)-(4) may have a maturity of not greater than four (4) years from the date of investment; however, such investments may have a maturity of greater than four

(4) years from the date of investment if such maturity is approved by the comptroller of the treasury or the comptroller's designee.

(c) (1) Proceeds of bonds, notes and other obligations issued by municipalities, reserves held in connection therewith and the investment income therefrom, may be invested in obligations that:

(A) Are rated in either of the two (2) highest rated categories by a nationally recognized rating agency of such obligation;

(B) Are direct general obligations of a state of the United States, or a political subdivision or instrumentality thereof, having general taxing powers; and

(C) Have a final maturity on the date of investment of not to exceed forty-eight (48) months or that may be tendered by the holder to the issuer thereof, or an agent of the issuer, at not less than forty-eight-month intervals.

(2) Such proceeds and the investment income thereon may also be invested as otherwise set forth in this section.

(d) The investments authorized by this section are in addition to those authorized in any other general law or in any municipality's charter.

History: Acts 1943, ch. 47, § 1; mod. C. Supp. 1950, § 3516.29 (Williams, § 3516.31); T.C.A. (orig. ed.), § 6-805; Acts 1985, ch. 299, § 1; 1988, ch. 632, § 1; 1990, ch. 814, § 1; 1991, ch. 165, § 1; 1992, ch. 592, § 7; 1993, ch. 448, § 3; 1994, ch. 752, § 7; 1994, ch. 794, § 1; 1994, ch. 806, § 2; 2000, ch. 996, §§ 4-6; 2004, ch. 466, §§ 1, 2; 2006, ch. 693, §§ 5-7; 2010, ch. 868, §§ 14, 15.