



TO: Vail Town Council
FROM: Finance Department
DATE: September 6, 2016
SUBJECT: Updates to the Town of Vail Investment Policy

I. SUMMARY

The town's investment policy is documented within the Town Charter (Title 2, Chapter 2 "Investment Policy"). The proposed ordinance will update the policy to slightly broaden categories of investments that the town is allowed to participate in, as well as make administrative changes.

II. DISCUSSION

The purpose of the town's Investment Policy is to establish the investment scope, objectives, delegation of authority, standards of prudence, reporting requirements, internal controls, eligible investments and transactions, diversification requirements, risk tolerance, and safekeeping and custodial procedures for the investment of the funds of the town.

Attached is a "red-lined" draft of the town's current investment policy with all proposed changes clearly highlighted, and Ordinance No 24, Series 2016 recording those changes. There are three main categories of updates to this policy:

1). **Administrative-type changes** such as the updating of position titles and broadening those to allow future organizational changes. Another "clean-up" item is the amount of FDIC insurance on deposits. The outdated insurance amount of \$100,000 limits the town on certificates of deposit. Revising our policy to include not only the current amount of \$250,000 but also broadening the definition to "amount currently insured by the FDIC" will keep the town's policy up-to-date going forward.

2). Updates to the policy to **clarify the "Statement of Purpose"** and the streamlining of definitions under the "Objective" section of the document. These revisions do not change the intent of the original policy.

3). **A broadening of the type of suitable investments to include taxable municipal bonds.** Adding this option will allow the town to further diversify investments, potentially increase investment earnings (although not significantly), and maintain the town's conservative investment parameters.

General highlights of the town's investment policy include the following:

- Primary objectives are safety, liquidity and yield, in that order
- Investments shall be made with judgment and care
- Management responsibility for the investment program is held by the Town Manager and appointed designees
- The types of financial institutions that are qualified to entrust town funds are listed
- Internal controls such as segregation of duties and documentation of transactions are detailed
- A listing of suitable types of investments are provided, as well as the maximum percentage allowable for each type
- Reporting of investments on a quarterly basis, including an annual presentation to Council

III. REQUEST OF COUNCIL

Staff recommends approval of Ordinance No. 24, Series 2016 upon first reading.

Chapter 2

INVESTMENT POLICY

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2-2-1: STATEMENT OF PURPOSE:

2-2-2: SCOPE:

2-2-3: OBJECTIVE:

2-2-4: STANDARDS OF CARE:

2-2-5: SAFEKEEPING AND CUSTODY:

2-2-6: SUITABLE AND AUTHORIZED INVESTMENTS:

2-2-7: INVESTMENT PARAMETERS:

2-2-8: REPORTING:

2-2-9: POLICY:

2-2-1: STATEMENT OF PURPOSE:

The purpose of this Investment Policy is to establish the investment scope, objectives, delegation of authority, standards of prudence, reporting requirements, internal controls, eligible investments and transactions, diversification requirements, risk tolerance, and safekeeping and custodial procedures for the investment of the funds of the Town of Vail, Colorado (hereby referred to as the "Town").

The investment policy of the Vail Town Council for the Town of Vail represents the financial boundaries within which its cash management process will operate. (Ord. 3(1997) § 1)

2-2-2: SCOPE:

The investment policy applies to all financial funds of the Town ~~of Vail (hereby referred to as the "Town")~~, except the Pension Trust Fund. (Ord. 3(1997) § 1)

2-2-3: OBJECTIVE:

The primary objectives, in priority of order, of investment activities shall be:

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. The objective will be to mitigate credit risk and interest rate risk.

1. Credit Risk: Credit risk is the risk of loss due to the failure of the security issuer or backer. Credit risk may be mitigated by restricting the types of securities which may be purchased, their credit ratings, and through diversification to reduce exposure to any one security type or issuer.:-

a. ~~Limiting investments to the safest types of securities;~~

b. ~~Pre-qualifying the financial institutions, brokers/dealers, intermediaries, and advisors with which the Town will do business; and~~

c. ~~Diversifying the investment portfolio so that potential losses on individual securities will be minimized.~~

2. Interest Rate Risk: Interest rate risk is the risk that the market value of securities in the portfolio will fall due to changes in general interest rates. Interest rate risk may be mitigated by holding most investments to their maturity date, by limiting the types and maturities of permitted securities and, when feasible, by selecting maturities of investments to coincide with large cash outflows.:-

a. ~~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, and~~

~~B. By investing operating funds primarily in shorter term securities.~~

B. 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).

C. Yield: After the objectives of safety and liquidity are met, the investment portfolio shall be managed with the objective of attaining a market rate of return throughout interest rate cycles.

~~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 least importance compared to the safety and liquidity objectives described above.~~ The core of investments are limited to relatively low risk securities in anticipation of earning a fair return relative to the risk being assumed.

2. Speculative investments will not be allowed. Speculative investments are those attempting to gain market premium appreciation through short term market volatility resulting in increased risk and loss exposure. The Town will not purchase a security which cannot be held to maturity. This does not mean an investment cannot be sold prior to maturity. (Ord. 3(1997) § 1)

2-2-4: STANDARDS OF CARE:

A. Prudence:

1. 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.
2. 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.

B. 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 interest in financial institutions with which they conduct business. 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 investments transactions with the same individual with whom business is conducted on behalf of their entity.

C. Delegation Of Authority:

1. Management responsibility for the investment program is held by the Town Manager and appointed designees. No employee may engage in an investment transaction except as provided under the terms of this policy and any procedures which may be established by the Town Manager. The Town Manager shall review the quarterly investment report (see Section [2-2-8](#) of this Chapter).
2. There is hereby created an Investment Committee, consisting of the Town Manager, Finance Director, and the Finance Controller or such comparable positions as may exist from time to time. Members of the Committee will meet at least quarterly to determine general strategies and to monitor results. Minutes of the decisions made by the Investment Committee shall be kept on file in the Town Clerk's office. The Committee shall include in its review and deliberations such topics as: potential risks, authorized depositories, rate of return, maturity structure and investment transactions.
3. It shall be the duty of the Finance ~~Controller-Director~~ or his/her appointed designee to manage the day-to-day operations of the portfolio, and place actual purchase/sell orders with institutions. In the absence of the ~~Controller-Finance Director~~, the Finance Director or an appointed designee shall assume these duties. The Finance ~~Controller-Director or his/her appointed designee~~ shall ~~establish a system of written internal controls maintain internal procedures for investing which provide appropriate investment and accounting controls and, which shall be available for~~ reviewed annually by the independent auditor.
4. Management of a portion of the portfolio and placing of buy/sell orders for a portion of the portfolio may be delegated to an independent investment manager designated by the Town Council. The transactions of any selected independent investment manager will be subject to the Town's investment policy and will be reviewed and verified by the Finance Department.
5. The authority for the investment philosophy and selection of investment managers for the Town of Vail Employee Pension Plan and the Town of Vail Police and Fire Employees Pension Plan shall be the responsibility of the "pension plan trustee" as defined in the pension plan document. (Ord. 3(1997) § 1)

2-2-5: SAFEKEEPING AND CUSTODY:

A. Authorized Financial Dealer And Institution:

1. Qualified banks can only be commercial banks and the Town's investment with the bank may be in excess of two hundred and fifty thousand dollars (\$250,000.00) or whatever amount is currently insured by the FDIC. ~~one hundred thousand dollars (\$100,000.00)~~. The Town's Finance ~~Controller-Director or his/her appointed designee~~ shall obtain and review whatever documents are necessary to verify the bank's continued stability including the monthly listing of securities pledged for collateralization to monitor the bank's collateralization of Town deposits.
2. Nonqualified banks can be either commercial banks or savings and loans or savings banks and the Town's investment with the bank will not be in excess of one hundred two hundred and fifty thousand dollars (\$100,000.00)(\$250,000.00) or whatever amount is currently insured by the FDIC. The Finance ~~Controller-Director or his/her appointed designee~~ shall inquire with bank officials and/or review an independent bank evaluation to determine the bank meets the standard selection criteria established by the Investment Committee.
3. The Town ~~shall has~~ selected a primary bank, which bank the Town uses to process daily deposits and checks. ~~It is the responsibility of the Investment Committee to determine that the bank continues to meet the Committee's standard selection criteria. at the~~ At the discretion of the Investment Committee, whether the bank continues to meet the criteria or not, a new bank may be selected as the primary bank. every three (3) to five (5) years. A formal request for proposal should be used in the selection process.
4. The Town shall maintain a list of banks and securities dealers approved for securities transactions initiated by the town, and it shall be the policy of the town to purchase securities only from those authorized firms. Securities dealers not affiliated with a bank shall be required to be classified as reporting dealers affiliated with the New York Federal Reserve Bank, as primary dealers. Broker/dealers which are not primary dealers may be used if they have been approved by the Investment Committee. The Investment committee shall develop and document the methodology for qualifying non-primary broker/dealers.

B. Internal Controls:

1. The Finance ~~Controller and Finance~~ Director ~~are~~ is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the entity are protected from loss, theft, or misuse. The internal control structure shall be designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that: a) the cost of a control should not exceed the benefits likely to be derived; and b) the valuation of costs and benefits requires estimates and judgments by management.
 2. Accordingly, the Finance ~~Controller~~ Director shall establish a process for annual independent review by an external auditor to assure compliance with policies and procedures. The internal controls shall address the following points:
 - a. Control Of Collusion: Collusion is a situation where two (2) or more employees are working in conjunction to defraud their employer.
 - b. Separation Of Transaction Authority From Accounting And Record Keeping: By separating the person who authorizes or performs the transaction from the people who record or otherwise account for the transaction, a separation of duties is achieved.
 - c. Custodial Safekeeping: Securities purchased from any bank or dealer shall be placed with an independent third party designated as primary agent for custodial safekeeping. The primary agent shall issue a safekeeping receipt to the Town listing the specific instrument, rate, maturity, and other information. Securities may be purchased from the primary agent's brokerage department and safekept by the same bank's trust department.
 - d. Avoidance Of Physical Delivery Securities: Book entry securities are much easier to transfer and account for since actual delivery of a document never takes place. Delivered securities must be properly safeguarded against loss or destruction. The potential for fraud and loss increases with physically delivered securities.
 - e. Clear Designation Of Authority To Subordinate Staff Members: Subordinate staff members must have a clear understanding of their authority and responsibilities to avoid improper actions. Clear delegation of authority also preserves the internal control structure that is contingent on the various staff positions and their respective responsibilities.
 3. Written Confirmation Of Telephone Transactions For Investments And Wire Transfers: Due to the potential for error and improprieties arising from telephone transactions, all telephone transactions should be supported by written communications and approved by the appropriate person. Written communications may be via email, fax if on letterhead and the safekeeping institution has a list of authorized signatures.
- C. Delivery Versus Payment: All trades where applicable will be executed by delivery versus payment (DVP). This ensures that securities are deposited in the eligible financial institution prior to release of funds. Securities will be held by a third party custodian as evidenced by safekeeping receipts. (Ord. 3(1997) § 1)

2-2-6: SUITABLE AND AUTHORIZED INVESTMENTS:

A. Types Of Accounts Or Securities: The Town shall invest in the following accounts, or securities:

1. Fully collateralized or insured interest bearing checking accounts, savings accounts, and certificates of deposit at commercial banks with amount not to exceed ~~one hundred two hundred and fifty~~ thousand dollars ~~(\$100,000.00 (\$250,000.00))~~ or the current FDIC limit if the bank is not designated as a qualified institution by the Investment Committee.

A commercial bank may use any securities authorized by the Public Deposit Protection Act as collateral.

2. Certificates of deposit at savings and loan associations insured by the FDIC or other agency of the Federal government with amount not to exceed ~~ninety-nine two hundred fifty~~ thousand dollars ~~(\$250,000.00).~~~~(\$99,000.00) or the current FDIC limit.~~

Deposits with savings banks insured by the FDIC with amount not to exceed ~~ninety-nine two hundred fifty~~ thousand dollars ~~(\$99,000.00).~~~~(\$250,000.00) or the current FDIC limit.~~

3. a. Any security issued by, guaranteed by, or for which the credit of any of the following is pledged for payment: The United States, a Federal Farm Credit Bank, the Federal Land Bank, a Federal Home Loan Bank, the Federal Home Loan Mortgage Corporation, the Federal National Mortgage Association, or the Government National Mortgage Association.
- b. (1) Any security issued by, guaranteed by, or for which the credit of the following is pledged for payment: an entity or organization which is not listed in subsection A3a of this Section but which is created by, or the creation of which is authorized by, legislation enacted by the United States Congress and which is subject to control by the Federal government which is at least as extensive as that which governs an entity or organization listed in subsection A3a of this Section.
- (2) No security may be purchased pursuant to this subsection A3b(2) unless, at the time of purchase, the security is rated in its highest rating category by one or more nationally recognized organizations which regularly rate such obligations.

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4. Colorado Investment Pools: The Town may participate in a Colorado Public Investment Pool, the Colorado Local Government Liquid Asset Trust or other similar local government pools organized in conformity with Colorado Revised Statutes title 24, article 75, part 7, which provides specific authority for pooling of local government funds.

5. Any money market fund that is registered as an investment company under the Federal "Investment Company Act of 1940", as amended, if, at the time the investing public entity invests in such fund:

- a. The investment policies of the fund include seeking to maintain a constant share price;
- b. No sales or load fee is added to the purchase price or deducted from the redemption price of the investments in the fund.

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6. No load mutual funds that invest in mortgage backed securities issued by the Government National Mortgage Association (GNMA) or the Federal National Mortgage Association (FNMA), or the Federal Home Loan Mortgage Corporation (FHLMC).

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7. Repurchase agreements with either qualified commercial banks or a primary securities dealer for which a properly executed master repurchase agreement has been entered into by the Town. Repurchase agreements involving pooled collateral shall be avoided. The securities used as collateral shall be safekept in accordance with Section 2-2-5, "Safekeeping and Custody" of this Chapter.

8. Taxable Municipal Securities: Taxable obligations of political and governmental subdivisions may be purchased. The issue must be rated at least 'AA' by a nationally recognized security rating organization.

B. Criteria For Choice:

1. If a specific maturity date is required for cash flow purposes, bids will be requested for instruments which meet the maturity requirement. If no specific maturity is required, a market trend (yield curve) analysis will be conducted to determine which maturities would be most advantageous. After selecting a type of instrument at least two (2) bids should be obtained from similar institutions. Two (2) bids are not required if treasury bills or notes are purchased at a treasury auction or for overnight or open-term repurchase transactions.

2. The Town may place an investment with a local institution that is not the highest bidder, provided the bid is not more than twenty five (25) basis points below the highest bidder.
3. The rate of interest must be at least equivalent to the average rate of return available in the market place.
4. It is the responsibility of the Finance ~~Controller~~ Director to demonstrate compliance with this Section. A "local institution" is defined as a bank or savings and loan association doing business inside the corporate limits of the Town of Vail and/or Eagle County.

C. Interest Allocation Method: All investments will be in the name of the Town and in most cases it will be a general policy of the Town to pool all available operating cash into a treasury cash management investment portfolio. However, a specific investment purchased by a specific fund shall incur all earnings and expenses to that particular fund. Interest earnings from pooled funds shall be allocated to all participating funds ~~in the following order: based on the average monthly cash balance of each fund included in the common portfolio for the earning period.~~

- ~~1. Payment of interest earnings shall be allocated to designated funds from its specific investments.~~
- ~~2. Payment to the General Fund of an amount equal to the total annual bank service charges as incurred by the General Fund for all operating funds as included in the annual operating budget.~~
- ~~3. Payment to each fund of an amount based on the average monthly cash balance included in the common portfolio for the earning period.~~

D. Funds Borrowing From Pooled Cash Fund: All funds may borrow cash from the pooled cash fund in order to cover shortfalls in their equity in pooled cash. The interest rate charged shall be equal to the interest rate earned on the pool at the time the money is borrowed. (Ord. 3(1997) § 1)

2-2-7: INVESTMENT PARAMETERS:

A. Portfolio Diversification:

1. The Town will diversify use of investment instruments to avoid incurring unreasonable risks inherent in overinvesting in specific instruments, and individual financial institutions.

	Maximum Percent of Portfolio
<u>Diversification By Instrument:</u>	
Money market and interest bearing checking accounts with commercial banks	50%
Money market funds	50%
U.S. Treasury obligations (Bills, notes and bonds)	100%
U.S. government agency	100%

securities (per subsection 2-2-6A3a)	
U.S. government agency securities (per subsection 2-2-6A3b(1))	25%
<u>Taxable Municipal Securities</u>	<u>20%</u>
Repurchase agreements	75%
Certificate of deposit commercial banks or savings banks	100%
Certificate of deposit savings and loan association	25%
Local government investment pool	100%
<u>Diversification By Financial Institution:</u>	
Repurchase agreements No more than 50% of the total investment portfolio shall be secured in repos with any one institution.	
Certificates of deposit _ commercial banks No more than 20% of the total investment portfolio shall be secured in any one commercial bank's CDs.	

2. If the amount of any of the above investments are in excess of the percentage allowed, it is not considered a violation of this policy if the amount is corrected within thirty (30) days.

B. Maturity Scheduling: Investment maturities for operating funds shall be scheduled to coincide with projected cash flow needs, taking into account large routine expenditures (payroll, bond payments) as well as considering sizeable blocks of anticipated revenue (sales tax, property tax). The period from the date of purchase of a security to its maturity date will be five (5) years or less except for transactions initiated by an appointed independent investment manager, or if authorized by the Town Council. (Ord. 3(1997) § 1)

2-2-8: REPORTING:

A. Methods: The Finance ~~Controller-Director~~ or his/her appointed designee will submit a quarterly investment report which discloses investments on the last day of ~~each month~~ the quarter. This report will be distributed to the Town Manager, and Town Councilmembers, ~~and the Finance Director~~. The Finance ~~Controller-Director~~ or designee will present at least annually the investment report to the Town Council.

B. 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. Portfolio performance should be compared to appropriate benchmarks on a regular basis.

C. Marking To Market: A statement of the market value of investments having a remaining maturity exceeding two (2) years shall be issued at least quarterly. This will ensure that the minimal amount of review has been performed on such long-term investments in terms of value and subsequent price volatility.

D. Monitoring And Adjusting Portfolio: The Finance ~~Controller~~ Director or his/her appointed designee will routinely monitor the contents of the portfolio, the available markets and the relative values of competing instruments, and will adjust the portfolio accordingly. (Ord. 3(1997) § 1)

2-2-9: POLICY:

A. Exemption: 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. Policy Review: The investment policy shall be reviewed annually by the Investment Committee. A recommendation will be made ~~annually~~ periodically to the Town Council for any proposed changes to the investment policy. (Ord. 3(1997) § 1)

**ORDINANCE NO. 24
SERIES 2016**

AN ORDINANCE AMENDING SECTIONS 2-2-1, 2-2-2, 2-2-3, 2-2-4, 2-2-5, 2-2-6, 2-2-7, 2-2-8 AND 2-2-9 OF THE VAIL TOWN CODE TO UPDATE THE INVESTMENT POLICY FOR THE TOWN OF VAIL

WHEREAS, the Town Code is currently outdated regarding FDIC insurance limits and organizational titles and

WHEREAS, the Town Council would like to expand the definition of suitable and authorized investments and

WHEREAS, in an effort to clarify the Town's investment purpose and objective statements, the Town Council desires to amend the Town Code effective October 1, 2016 to include the revisions stated below

NOW, THEREFORE, BE IT ORDAINED BY THE TOWN COUNCIL OF THE TOWN OF VAIL, COLORADO, THAT:

Section 1. The "Statement of Purpose" as outlined in Section 2-2-1 of the Vail Town Code is hereby amended to read as follows:

2-2-1: STATEMENT OF PURPOSE:

The purpose of this Investment Policy is to establish the investment scope, objectives, delegation of authority, standards of prudence, reporting requirements, internal controls, eligible investments and transactions, diversification requirements, risk tolerance, and safekeeping and custodial procedures for the investment of the funds of the Town of Vail, Colorado (hereby referred to as the "Town"). The investment policy of the Vail Town Council for the Town of Vail represents the financial boundaries within which its cash management process will operate. (Ord. 3(1997) § 1)

Section 2. The "Scope" as outlined in Section 2-2-2 of the Vail Town Code is hereby amended to read as follows:

2-2-2: SCOPE:

The investment policy applies to all financial funds of the Town, except the Pension Trust Fund. (Ord. 3(1997) § 1)

Section 3. Subpart (A, B and C) of Section 2-2-3 of the Vail Town Code is hereby amended to read as follows:

2-2-3: OBJECTIVE:

The primary objectives, in priority of order, of investment activities shall be:

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. The objective will be to mitigate credit risk and interest rate risk.

1. Credit Risk: Credit risk is the risk of loss due to the failure of the security issuer or backer. Credit risk may be mitigated by restricting the types of securities which may be purchased, their credit ratings, and through diversification to reduce exposure to any one security type or issuer.

2. Interest Rate Risk: Interest rate risk is the risk that the market value of securities in the portfolio will fall due to changes in general interest rates. Interest rate risk may be mitigated by holding most investments to their maturity date, by limiting the types and maturities of permitted securities and, when feasible, by selecting maturities of investments to coincide with large cash outflows.

B. 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).

C. Yield: After the objectives of safety and liquidity are met, the investment portfolio shall be managed with the objective of attaining a market rate of return throughout interest rate cycles.

1. The core of investments are limited to relatively low risk securities in anticipation of earning a fair return relative to the risk being assumed.

2. Speculative investments will not be allowed. Speculative investments are those attempting to gain market premium appreciation through short term market volatility resulting in increased risk and loss exposure. The Town will not purchase a security which cannot be held to maturity. This does not mean an investment cannot be sold prior to maturity. (Ord. 3(1997) § 1)

Section 4. Subpart (C.2 and C.3) of Section 2-2-4 of the Town Code is hereby amended to clarify organizational titles to read as follows:

2-2-4: STANDARDS OF CARE:

C. Delegation Of Authority:

2. There is hereby created an Investment Committee, consisting of the Town Manager, Finance Director, and the Finance Controller or such comparable positions as may exist from time to time. Members of the Committee will meet at least quarterly to determine general strategies and to monitor results. Minutes of the decisions made by the Investment Committee shall be kept on file in the Town Clerk's office. The Committee shall include in its review and deliberations such topics as: potential risks, authorized depositories, rate of return, maturity structure and investment transactions.

3. It shall be the duty of the Finance Director or his/her appointed designee to manage the day-to-day operations of the portfolio, and place actual purchase/sell orders with institutions. In the absence of the Finance Director, an appointed designee shall assume these duties. The Finance Director or his/her appointed designee shall maintain internal procedures for investing which provide appropriate investment and accounting controls and which shall be available for review annually by the independent auditor.

Section 5. Subsection (A) of Section 2-2-5 of the Town Code is hereby amended to read as follows:

2-2-5: SAFEKEEPING AND CUSTODY:

A. Authorized Financial Dealer And Institution:

1. Qualified banks can only be commercial banks and the Town's investment with the bank may be in excess of two hundred and fifty thousand dollars (\$250,000.00) or whatever amount is currently insured by the FDIC. The Town's Finance Director or his/her appointed designee shall obtain and review whatever documents are necessary to verify the bank's continued stability including the monthly listing of securities pledged for collateralization to monitor the bank's collateralization of Town deposits.
2. Nonqualified banks can be either commercial banks or savings and loans or savings banks and the Town's investment with the bank will not be in excess of two hundred and fifty thousand dollars (\$250,000.00) or whatever amount is currently insured by the FDIC. The Finance Director or his/her appointed designee shall inquire with bank officials and/or review an independent bank evaluation to determine the bank meets the standard selection criteria established by the Investment Committee.
3. The Town has selected a primary bank, which bank the Town uses to process daily deposits and checks. It is the responsibility of the Investment Committee to determine that the bank continues to meet the Committee's standard selection criteria. At the discretion of the Investment Committee, whether the bank continues to meet the criteria or not, a new bank may be selected as the primary bank. A formal request for proposal should be used in the selection process.
4. The Town shall maintain a list of banks and securities dealers approved for securities transactions initiated by the town, and it shall be the policy of the town to purchase securities only from those authorized firms. Securities dealers not affiliated with a bank shall be required to be classified as reporting dealers affiliated with the New York Federal Reserve Bank, as primary dealers. Broker/dealers which are not primary dealers may be used if they have been approved by the Investment Committee. The Investment committee shall develop and document the methodology for qualifying non-primary broker/dealers.

Section 6. Subsection (B) of Section 2-2-5 of the Town Code is hereby amended to read as follows:

2-2-5: SAFEKEEPING AND CUSTODY:

B. Internal Controls:

1. The Finance Director is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the entity are protected from loss, theft, or misuse. The internal control structure shall be designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that: a) the cost of a control should not exceed the benefits likely to be derived; and b) the valuation of costs and benefits requires estimates and judgments by management.
2. Accordingly, the Finance Director shall establish a process for annual independent review by an external auditor to assure compliance with policies and procedures. The internal controls shall address the following points:
 - a. Control Of Collusion: Collusion is a situation where two (2) or more employees are working in conjunction to defraud their employer.
 - b. Separation Of Transaction Authority From Accounting And Record Keeping: By separating the person who authorizes or performs the transaction from the people who record or otherwise account for the transaction, a separation of duties is achieved.
 - c. Custodial Safekeeping: Securities purchased from any bank or dealer shall be placed with an independent third party designated as primary agent for custodial safekeeping. The primary agent shall issue a safekeeping receipt to the Town listing the specific instrument, rate, maturity, and other information. Securities may be purchased from the primary agent's brokerage department and safekept by the same bank's trust department.
 - d. Avoidance Of Physical Delivery Securities: Book entry securities are much easier to transfer and account for since actual delivery of a document never takes place. Delivered securities must be properly safeguarded against loss or destruction. The potential for fraud and loss increases with physically delivered securities.
 - e. Clear Designation Of Authority To Subordinate Staff Members: Subordinate staff members must have a clear understanding of their authority and responsibilities to avoid improper actions. Clear delegation of authority also preserves the internal control structure that is contingent on the various staff positions and their respective responsibilities.
 - f. Written Confirmation Of Telephone Transactions For Investments And Wire Transfers: Due to the potential for error and improprieties arising from telephone transactions, all telephone transactions should be supported by written communications and approved by the appropriate person. Written communications may be via email, fax if on letterhead and the safekeeping institution has a list of authorized signatures.

Section 7. Subsection (A) of Section 2-2-6 of the Town Code is hereby amended to read as follows:

2-2-6: SUITABLE AND AUTHORIZED INVESTMENTS:

A. Types Of Accounts Or Securities: The Town shall invest in the following accounts, or securities:

1. Fully collateralized or insured interest bearing checking accounts, savings accounts, and certificates of deposit at commercial banks with amount not to exceed two hundred and fifty thousand dollars (\$250,000.00) or the current FDIC limit if the bank is not designated as a qualified institution by the Investment Committee.

A commercial bank may use any securities authorized by the Public Deposit Protection Act as collateral.

2. Certificates of deposit at savings and loan associations insured by the FDIC or other agency of the Federal government with amount not to exceed two hundred fifty thousand dollars (\$250,000.00) or the current FDIC limit.

Deposits with savings banks insured by the FDIC with amount not to exceed two hundred fifty thousand dollars (\$250,000.00) or the current FDIC limit.

8. Taxable Municipal Securities: Taxable obligations of political and governmental subdivisions may be purchased. The issue must be rated at least 'AA' by a nationally recognized security rating organization.

Section 8. Subsection (B.4) of Section 2-2-6 of the Town Code is hereby amended to read as follows:

2-2-6: SUITABLE AND AUTHORIZED INVESTMENTS:

B. Criteria For Choice:

4. It is the responsibility of the Finance Director to demonstrate compliance with this Section. A "local institution" is defined as a bank or savings and loan association doing business inside the corporate limits of the Town of Vail and/or Eagle County.

Section 9. Subsection (C) of Section 2-2-6 of the Town Code is hereby amended to read as follows:

2-2-6: SUITABLE AND AUTHORIZED INVESTMENTS:

C. Interest Allocation Method: All investments will be in the name of the Town and in most cases it will be a general policy of the Town to pool all available operating cash into a treasury cash management investment portfolio. However, a specific investment purchased by a specific

fund shall incur all earnings and expenses to that particular fund. Interest earnings from pooled funds shall be allocated to all participating funds based on the average monthly cash balance of each fund included in the common portfolio for the earning period.

Section 10. Subsection (A) of Section 2-2-7 of the Town Code is hereby amended to read as follows:

2-2-7: INVESTMENT PARAMETERS:

A. Portfolio Diversification:

1. The Town will diversify use of investment instruments to avoid incurring unreasonable risks inherent in overinvesting in specific instruments, and individual financial institutions.

	Maximum Percent of <u>Portfolio</u>
<u>Diversification By Instrument:</u>	
Money market and interest bearing checking accounts with commercial banks	50%
Money market funds	50%
U.S. Treasury obligations (Bills, notes and bonds)	100%
U.S. government agency securities (per subsection 2-2-6A3a)	100%
U.S. government agency securities (per subsection 2-2-6A3b(1))	25%
Taxable Municipal Securities	20%
Repurchase agreements	75%
Certificate of deposit commercial banks or savings banks	100%
Certificate of deposit savings	25%

and loan association	
Local government investment pool	100%
<u>Diversification By Financial Institution:</u>	
Repurchase agreements No more than 50% of the total investment portfolio shall be secured in repos with any one institution.	
Certificates of deposit _ commercial banks No more than 20% of the total investment portfolio shall be secured in any one commercial bank's CDs.	

Section 11. Subsection (A) of Section 2-2-8 of the Town Code is hereby amended to read as follows:

2-2-8: REPORTING:

A. Methods: The Finance Director or his/her appointed designee will submit a quarterly investment report which discloses investments on the last day of the quarter. This report will be distributed to the Town Manager and Town Council members. The Finance Director or designee will present at least annually the investment report to the Town Council.

Section 12. Subsection (D) of Section 2-2-8 of the Town Code is hereby amended to read as follows:

2-2-8: REPORTING:

D. Monitoring And Adjusting Portfolio: The Finance Director or his/her appointed designee will routinely monitor the contents of the portfolio, the available markets and the relative values of competing instruments, and will adjust the portfolio accordingly. (Ord. 3(1997) § 1)

Section 13. Subsection (B) of Section 2-2-9 of the Town Code is hereby amended to read as follows:

2-2-9: POLICY:

B. Policy Review: The investment policy shall be reviewed annually by the Investment Committee. A recommendation will be made periodically to the Town Council for any proposed changes to the investment policy. (Ord. 3(1997) § 1)

Section 14. If any part, section, subsection, sentence, clause or phrase of this ordinance is for any reason held to be invalid, such decision shall not effect the validity of the remaining portions of this ordinance; and the Town Council hereby declares it would have passed this ordinance, and each part, section, subsection, sentence, clause or phrase thereof, regardless of the fact that any one or more parts, sections, subsections, sentences, clauses or phrases be declared invalid.

Section 15. The Town Council hereby finds, determines and declares that this ordinance is necessary and proper for the health, safety and welfare of the Town of Vail and the inhabitants thereof.

Section 16. The amendment of any provision of the Town Code as provided in this ordinance shall not affect any right which has accrued, any duty imposed, any violation that occurred prior to the effective date hereof, any prosecution commenced, nor any other action or proceeding as commenced under or by virtue of the provision amended. The amendment of any provision hereby shall not revive any provision or any ordinance previously repealed or superseded unless expressly stated herein.

Section 17. All bylaws, orders, resolutions and ordinances, or parts thereof, inconsistent herewith are repealed to the extent only of such inconsistency. This repealer shall not be construed to revise any bylaw, order, resolution or ordinance, or part thereof, theretofore repealed.

INTRODUCED, READ ON FIRST READING, APPROVED, AND ORDERED
PUBLISHED ONCE IN FULL ON FIRST READING this 6th day of September, 2016
and a public hearing for second reading of this Ordinance set for the 20th day of
September, 2016, in the Council Chambers of the Vail Municipal Building, Vail,
Colorado.

Dave Chapin, Mayor

ATTEST:

Patty McKenny, Town Clerk