

RESOLUTION NO. 11071

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF MESA, MARICOPA COUNTY, ARIZONA, ADOPTING AND APPROVING UPDATES TO THE FINANCIAL POLICIES FOR THE CITY OF MESA AND THE INVESTMENT POLICY CITY OF MESA, ARIZONA.

WHEREAS, the City Council passed and adopted Resolution Number 9263 on May 19, 2008 approving the “Financial Policies for the City of Mesa”;

WHEREAS, the “Investment Policy City of Mesa, Arizona” governing the investment of City funds has been in place since July 1, 1995; and

WHEREAS, the City Council has determined that it is appropriate and necessary to update the “Financial Policies for the City of Mesa” and the “Investment Policy City of Mesa, Arizona” to bring the policies in line with current financial practices, procedures, and strategies of the City by replacing, as of the date of this Resolution, such policies with the documents attached hereto as *Exhibit A* (“Financial Policies”) and *Exhibit B* (“Investment Policy”).

NOW THEREFORE, BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF MESA, MARICOPA COUNTY, AS FOLLOWS:

Section 1: The City Council adopts and approves the Financial Policies and Investment Policy.

Section 2: The City Manager or his designee is authorized to take action, provide guidance, and create procedures to ensure the Financial Policies and Investment Policy authorized by this Resolution are implemented.

PASSED AND ADOPTED by the Mayor and City Council of the City of Mesa, Maricopa County, Arizona, this 4th day of December, 2017.



APPROVED:


Mayor

ATTEST:



City Clerk



mesa·az Financial Policies

Preface

The following is a series of financial policies of the City of Mesa, Arizona.

These are intended to serve as guidelines for the City Council and City staff alike in the decision-making processes related to the City's financial operations, and the development of financial forecasts, annual budget, and capital plans.

The City Council will serve as the overseeing body of these financial policies, and changes or updates to the policies will be completed per request of the City Council's Audit, Finance, and Enterprise Committee as well as per request of City staff.

Financial Policy 1 – The Annual Budget

Arizona law (Title 42 Arizona Revised Statutes) requires the City Council to annually adopt a balanced budget by purpose of public expense.

- 1.1 In accordance with Arizona law, the Mesa City Council shall annually adopt a balanced budget, where budgeted expenditures are equal to or less than anticipated resources.
- 1.2 The City will budget revenues and expenditures on the basis of a fiscal year which begins on July 1 and ends on the following June 30.
- 1.3 The status of the budget will be monitored throughout the fiscal year to ensure expenditures remain within the adopted budget.
- 1.4 Financial and performance systems will be maintained in a manner that allows for monitoring of expenditures, revenues, and operational performance plans on an ongoing basis.
- 1.5 The City of Mesa will establish funds and other accounting structures as needed to effectively manage City resources and report financial and performance information.
- 1.6 City staff will update City management and the City Council on a quarterly basis.

- 1.7 Departments will develop an annual operational performance plan that includes a description of each of their business objectives and core business processes. Each description will include a mission statement, desired outcomes, and a set of performance measures with targets.
- 1.8 The City shall aim to achieve and maintain a structurally balanced budget where recurring revenues are equal to or exceed recurring expenditures in the adopted budget.
- 1.9 The State of Arizona limits expenditures by local jurisdictions. The City will comply with these expenditures limitations and will submit the necessary documents as required by the Uniform Expenditure Reporting System (A.R.S. Section 41-1279.07) to the State Auditor General each year.
- 1.10 The City may pursue, through public vote, adjustments to its expenditure limitation as it deems necessary through either alternative expenditure limitation (Home Rule) or a permanent base adjustment (Article IX, Section 20, Subsections 9 & 6, Arizona State Constitution).
- 1.11 The City will follow State statute regarding Council meetings, public hearings, and public notice.
- 1.12 Mesa's annual budget will include contingency appropriations sufficient to provide for the financing of unforeseen expenditures.
- 1.13 The City Manager (or designee) may institute changes to the adopted budget during the fiscal year related to City operations including, but not limited to: position changes, programmatic changes, or capital equipment purchases.

Financial Policy 2 – Unrestricted Reserve Balances

The economy's cyclical nature creates a need for a comprehensive unrestricted reserve balance policy for the General Governmental and Enterprise funds in order to ensure stable service delivery. Bond rating agencies incorporate reserve balance levels into bond rating determinations.

- 2.1 The General Governmental and Enterprise funds will be adopted with unrestricted reserve balances of at least 8% -10% of the following fiscal year's anticipated expenditures. Reserve balance levels shall be maintained throughout the forecast period.
- 2.2 City Council may adopt a budget with an anticipated reserve balance lower than 8%. The decision to set the anticipated reserve balance lower than 8% will be determined during the annual budget cycle.

- 2.3 If a reserve balance level falls below 8%, the City will develop a plan to restore the balance within one to three years.

Financial Policy 3 – Other Reserve Balances

The City will establish reserve balances as needed to effectively manage resources over time and mitigate the impact of expenses that may vary significantly from year to year. Reserves may be utilized as needed to reasonably address substantial annual cost increases.

- 3.1 Ongoing reserve balances will be established and maintained for:
- a) Employee and retiree medical plans/other benefits
 - b) Legal liability
 - c) Worker’s compensation
 - d) Pension stabilization
 - e) Other purposes, as needed
- 3.2 The decision to decrease or increase a reserve balance over the forecast period will be determined annually as part of the City’s normal budget process.
- 3.3 The City intends to contribute the amount needed to fully fund Police and Fire and Medical Public Safety Personnel Retirement System (PSPRS) unfunded liability by FY 2041-42 (25-year amortization period) rather than by FY 2046-47 (30-year amortization period); however, a decision to contribute less funds can be considered by the City Council during the annual budget process.

Financial Policy 4 – Charges for Services

The City collects revenues in the form of sales of and charges for services from the customers who utilize those services. They can be categorized into two basic groups: 1) utility rates for services such as water, wastewater, solid waste and recycling, electric, natural gas and; 2) fees and charges for services such as entrance to venues, events and classes, museums, park activities, and sports. These types of charges also include licenses, permits, and other miscellaneous fees.

The City operates a portfolio of utilities. Each is operated as a separate business center. Policies related to utility rates help ensure financial stability.

- 4.1 Utility rates will be examined annually to cover the cost of service while maintaining a reasonable rate of return. Factors considered include, but are not limited to, operations and maintenance, demand for services, and costs of capital.
- 4.2 Utility rate adjustments will be smoothed over many years to avoid large rate increases to customers in any single year.

- 4.3 The City shall comply with all state legal requirements regarding public notice and public hearings for enterprise charges or utility rate changes.

Policies on fees and charges aid in the consistent provision of public services and help ensure financial stability.

- 4.5 Fees and charges will be examined annually to consider the cost of service and appropriateness.
- 4.6 Cost recovery for fee-supported services will be taken into consideration when adjusting fees and charges.
- 4.7 The City shall comply with all state legal requirements regarding public notice and public hearings for changes to fees and charges.

Financial Policy 5 - Debt Issuance and Management

Debt service requirements impact the City's financial condition and can limit flexibility in responding to changes in service priorities and availability of funding. When debt is issued, it obligates the City to regular payments for a number of years.

- 5.1 The City will approve a secondary property tax levy annually at a rate sufficient to fund General Obligation bond debt service payments.
- 5.2 Long-term debt will not be issued to finance current operations.
- 5.3 The debt repayment period should not exceed the expected useful life of the capital assets being financed.
- 5.4 General Obligation and Utility Systems Revenue bond debt service payments should be structured, considering all revenue sources, to have a consistent financial impact from year-to-year.
- 5.5 The City shall comply with the State of Arizona Constitution requirements that bonded debt not exceed the 20% and 6% limitations of the total full cash net assessed valuation of property in the City.
- 5.6 To ensure that bond refundings produce anticipated savings, refunding bonds should have a net present value savings exceeding 3% of the debt service amount of the bonds being refunded, unless the refunding was initiated for purposes other than debt service savings.

- 5.7 The City shall comply will all Post Bond-Issuance Compliance requirements which include U.S Internal Revenue Service arbitrage yield restrictions and rebate requirements, filing Annual Continuing Disclosures on the Municipal Securities Rulemaking Board's (MSRB's) Electronic Municipal Market Access (EMMA) website, and filing notices of any material "listed events" as required by Securities and Exchange Commission Rule 15c2-12.
- 5.8 The City shall comply with all legal requirements regarding the issuance of debt.

Financial Policy 6 - Capital Improvement Program (CIP) & Asset Replacement

The Capital Improvement Program (CIP) and the Asset Replacement Program provide a multi-year projection of the City's capital needs. These programs identify financial requirements as part of the overall financial forecast. City staff will incorporate the following practices throughout the planning process:

- Active communication with executive staff, Office of Management and Budget, and stakeholders
 - Consideration of a project's impact on the operating budget
 - Recognition of the City's environmental responsibility
 - Utilization of master planning efforts when appropriate
 - Encouragement of citizen engagement
 - Promotion of process transparency
- 6.1 Pursuant to the City Charter requirement outlined in Article VI, Section 605, prior to the beginning of each fiscal year, the City Manager will submit to the City Council a five-year capital program.
- 6.2 Capital development and replacement will be coordinated with the annual operating budget and multi-year forecast to ensure adequate funding for planned projects.
- 6.3 Both programs will be adjusted to ensure that adequate resources are available for capital project costs.
- 6.4 Sufficient resources will be identified for future operating, maintenance, and replacement costs associated with new capital improvements.

Financial Policy 7 – Investments & Cash Equivalentents

The investment of City resources will be made so as to meet the City's primary objectives of safety, liquidity, and return on investments.

- 7.1 In accordance with Article VI, Section 611 of the City Charter, the City Council may authorize the investment of any money subject to its control in any security authorized by the laws of the State of Arizona as delegated in Title 1, Chapter 18 of the Mesa City Code.
- 7.2 The City of Mesa's investments shall comply with the approved Investment Policy that is reviewed periodically by the City Council's Audit, Finance, and Enterprise Committee.
- 7.3 The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated and meet the City's cash flow needs.
- 7.4 All City investment/bank accounts shall be reconciled and reviewed on a monthly basis.
- 7.5 Investment performance will be reported to City Management monthly, and provided to the City Council quarterly.

Financial Policy 8 - Financial Reporting

Reporting of the City's finances should be done in such a way as to satisfy both the management and transparency needs of government. Reports should provide information on the value of the portfolio frequently enough to give an accurate picture of the funds available to provide services, and should provide the necessary detail for oversight bodies to determine that staff meet the government's policy goals.

- 8.1 Staff will ensure that the City's accounting and financial reporting systems will be maintained in conformance with all state and federal laws, generally accepted accounting principles (GAAP), standards of the Governmental Accounting Standards Board (GASB), and the Government Finance Officers Association (GFOA).
- 8.2 An annual audit will be performed by an independent public accounting firm, with the audit opinion included as part of the City's published Comprehensive Annual Financial Report (CAFR).

- 8.3 The CAFR will be submitted to the GFOA Certification of Achievement for Excellence in Financial Reporting Program. The financial report should be in conformity with GAAP, demonstrate compliance with finance related legal and contractual provisions, disclose thoroughness and detail sufficiency, and minimize ambiguities and potentials for misleading inference.
- 8.4 The Annual Executive Budget Plan will be consistent with the criteria for GFOA Distinguished Budget Presentation Program and serve as: a financial and programmatic policy statement, a comprehensive financial plan, an operations guide for all organizational units, and as a communications device for all significant budgetary issues, trends and resource choices.
- 8.5 Managerial financial reports for the major operating funds will be available to the City Council quarterly.
- 8.6 To achieve financial transparency, the City will provide access to on-line information pertaining to revenues received and expenditures made.

Financial Policy 9 - Long Range Planning and Forecasting

Long range financial planning incorporates trends such as population, labor markets, and general financial conditions to forecast future revenues and expenditures over a multi-year period. Accurate assessment of future finances will allow the City to adjust resource allocation as necessary.

- 9.1 The City shall develop and utilize short and long range forecasts.
 - a) Short range forecasts shall look at a range of 2 to 3 years
 - b) The long range forecast shall look at a range of 4 to 10 years
- 9.2 Forecast models will allow for operational changes within the City, such as:
 - a) Costs to maintain the current level of staffing
 - b) Cost of providing expanded, new, or reduced levels of staffing
 - c) Debt service costs for existing and anticipated debt
 - d) Construction, purchased capital, and operations and maintenance costs associated with capital projects and asset replacement

- 9.3 Forecast models will allow for changes in the economic climate, such as:
- a) Revenue sources and levels
 - b) Indicators including consumer price index, disposable income, and salary growth
 - c) Population growth rates
 - d) Demand for service
- 9.4 The forecast will serve as the basis for budget development and ongoing financial decision making by City staff, City management, and the City Council.

Financial Policy 10 - Risk Management

Risk management is a responsibility of every City department to protect against losses that would affect City assets and the ability to provide ongoing services. Risk management should seek realistic risk avoidance, risk reduction, and risk transfer strategies.

- 10.1 City staff works to prevent or mitigate the loss of City assets and to reduce the City's exposure to liability through training, safety, risk financing and the transfer of risk when cost effective.
- 10.2 The City Attorney's Office works to reduce the financial exposure arising from claims and lawsuits brought against the City by defending claims and lawsuits with City staff, or by retaining outside counsel.
- 10.3 The City shall manage its exposure to risk through self-insurance (the Public Property and Liability Trust Fund), liability insurance and property insurance.
- 10.4 The Public Property and Liability Trust Fund balance and any liability insurance shall be maintained at a level that will protect the City's assets and its elected officials, officers, directors and employees against loss.
- 10.5 The Office of Management and Budget shall conduct reviews of historical loss data as a basis for evaluating the appropriate balance for the Public Property and Liability Trust Fund balance self-insurance reserves.
- 10.6 The City may further control its exposure to risk through the use of indemnity and hold harmless agreements in City contracts and by requiring contractors to carry liability insurance that names the City as an additional insured.
- 10.7 The City will identify and disclose any material issues regarding contingent liabilities in the City's Comprehensive Annual Financial Report (CAFR).

INVESTMENT POLICY
CITY OF MESA, ARIZONA

I. INTRODUCTION

The intent of the Investment Policy of the City of Mesa, Arizona (“the City”) is to define the parameters within which funds are to be managed. In methods, procedures and practices, the policy formalizes the framework for the City’s investment activities that must be exercised to ensure effective and judicious fiscal and investment management of the City’s funds. The guidelines are intended to be broad enough to allow the Chief Financial Officer and Finance Director to function properly within their parameters of responsibility and authority, yet specific enough to adequately safeguard the investment assets.

II. GOVERNING AUTHORITY

The investment program shall be operated in conformance with federal, state, and other legal requirements, including Arizona Revised Statutes §35-323 and the laws of the City of Mesa, Arizona.

III. SCOPE

This Investment Policy applies to all monies invested by the City.

IV. OBJECTIVES

The primary objectives, in order of priority, of the City’s investment activities shall be:

- A. **Safety.** Safety of principal is the foremost objective of the investment programs. Investments shall be undertaken in a manner that seeks to ensure preservation of principal in the overall portfolio.
- B. **Liquidity.** The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated.
- C. **Return on Investment.** 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 of safety and liquidity needs.

V. 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, this Investment Policy, and exercising due diligence shall be relieved of personal liability 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.

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.”

B. Ethics and Conflicts of Interest

Officers and employees involved in the investment process shall refrain from personal activity that could conflict with the proper execution and management of the investment program, or that could impair their ability to make impartial investment decisions. Employees and investment officials shall disclose any material interests in financial institutions with which they conduct business. Disclosure shall be made to the City Auditor. 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 any personal investment transactions with the same individual with whom business is conducted on behalf of the City.

C. Delegation of Authority and Responsibilities

1. Governing Body

The Council will retain ultimate fiduciary responsibility for the investment program. The governing body will receive quarterly reports, and consider ongoing recommendations for improvement.

2. Investment Officers

Authority to manage the investment program is granted to the Chief Financial Officer (CFO) and Finance Director (collectively "Investment Officer(s)") under the general direction of the City Manager and the Council. The CFO and Finance Director who shall act in accordance with established written procedures and internal controls for the operation of the investment program consistent with this Investment Policy.

All participants in the investment process shall seek to act responsibly as custodians of the public trust. No officer or designee may engage in an investment transaction except as provided under the terms of this policy and supporting procedures.

3. Investment Committee

The City may seek to establish an investment committee to provide guidance to Investment Officers.

4. Investment Manager (Adviser)

The City may engage the services of an external investment manager to assist in the management of the City's investment portfolio in a manner consistent with the entity's objectives. Investment managers may be granted discretion to purchase and sell investment securities in accordance with this Investment Policy. Such managers must be registered under the Investment Advisers Act of 1940.

VI. AUTHORIZED FINANCIAL INSTITUTIONS, DEPOSITORIES, AND BROKER DEALERS

A. 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 conducting a process of due diligence. These may include "primary" dealers or regional dealers that qualify under Securities and Exchange Commission (SEC) Rule 15C3-1 (uniform net capital rule).

1. The Investment Officers shall determine which financial institutions are authorized to provide investment services to the City. Institutions eligible to transact investment business with the City include:

- Primary government dealers as designated by the Federal Reserve Bank
- Nationally or state-chartered banks
- The Federal Reserve Bank
- Direct issuers of securities eligible for purchase

2. Selection of financial institutions and broker/dealers authorized to engage in transactions with the City shall be at the sole discretion of the City.

3. All 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 FINRA certification
- 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 City's Investment Policy
- Evidence of adequate insurance coverage

4. All financial institutions who desire to become depositories must supply the following (as appropriate):

- Audited financial statements demonstrating compliance with state and federal capital adequacy guidelines

- Proof of state registration
 - Evidence of adequate insurance coverage
5. A periodic review of the financial condition and registration of all qualified financial institutions and broker/dealers will be conducted by the Investment Officer.
 6. External investment managers may also use their own list of internally approved broker-dealers subject to approval by the City and its Investment Officer.
- B. Minority, Emerging and Community Financial Institutions.
- From time to time, the Investment Officers may choose to invest in instruments offered by minority, emerging and community financial institutions. All terms and relationships will be fully disclosed prior to purchase and will be reported to the appropriate entity on a consistent basis and should be consistent with state or local law.
- C. Competitive Transactions
1. The Investment Officers shall obtain competitive bid information on all purchases of investment instruments purchased on the secondary market. A competitive bid can be executed through a bidding process involving at least three separate brokers/financial institutions or through the use of a nationally recognized trading platform.
 2. If the City is offered a security for which there is no readily available competitive offering on the same specific issue, then the Investment Officers shall document quotations for comparable or alternative securities. When purchasing original issue instrumentality securities, no competitive offerings will be required as all dealers in the selling group offer those securities as the same original issue price.
 3. If the City hires an investment manager to provide investment management services, the adviser must provide documentation of competitive pricing execution on each transaction. The investment manager will retain documentation and provide upon request.

VII. SAFEKEEPING AND CUSTODY

A. Delivery vs. Payment

All trades of marketable securities will be executed (cleared and settled) on a delivery vs. payment (DVP) basis to ensure that securities are deposited in the City's safekeeping institution prior to the release of funds.

B. Third-Party Safekeeping

Securities will be held by an independent third-party safekeeping institution selected by the City. All securities will be evidenced by safekeeping receipts in the City's name. The safekeeping institution shall annually provide a copy of its most recent report on internal controls - Service Organization Control Reports (formerly 70, or SAS 70) prepared in

accordance with the Statement on Standards for Attestation Engagements (SSAE) No. 16 (effective June 15, 2011).

C. Internal Controls

Management shall establish 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, and misrepresentation by third parties, unanticipated changes in financial markets, or imprudent actions by employees and officers of the City.

VIII. SUITABLE AND AUTHORIZED INVESTMENTS

A. The City's eligible investments are governed by Arizona Revised Statutes §35-323 *et seq.* Within the context of these limitations, the investments listed below are authorized. Furthermore, those investments not identified in Arizona Revised Statutes §35-323 *et seq.* are considered to be ineligible. Credit criteria and maximum percentages listed in this section are calculated at the time the security is purchased.

The following investments are permitted:

1. Insured or collateralized certificates of deposit in eligible depositories. Investments in insured or collateralized CDs shall not exceed 30% of the portfolio.
2. Deposits in one or more federally insured banks or savings and loan associations placed in accordance with the procedures prescribed in Arizona Revised Statutes §35-323.01. Investments in Certificate of Deposit Account Registry Services shall not exceed 20% of the portfolio.
3. Interest bearing savings accounts in banks and savings and loan institutions doing business in this state whose accounts are insured by federal deposit insurance for their industry, but only if deposits in excess of the insured amount are secured by the eligible depository to the same extent and in the same manner as required under Arizona Revised Statutes §35-323.
4. Repurchase agreements with a maximum maturity of one hundred eighty days.
5. The pooled investment funds established by the state treasurer pursuant to section §35-326.
6. Obligations issued or guaranteed by the United States or any of the senior debt of its agencies, sponsored agencies, corporations, sponsored corporations or instrumentalities.
7. Bonds, notes or other evidences of indebtedness of this state or any of its counties, incorporated cities or towns, school districts or special taxing districts, including registered warrants that shall bear interest pursuant to Arizona Revised Statutes §11-635.

Eligibility shall be limited to those obligations that maintain a long-term rating of A or a short-term rating in the highest category by a Nationally Recognized Statistical Rating Organization (NRSRO).

Investments in Arizona municipal securities shall not exceed 10% of the portfolio.

8. Bonds, notes or evidences of indebtedness of any county, municipal district, municipal utility or special taxing district of any state that are payable from revenues, earnings or a special tax specifically pledged for the payment of the principal and interest on the obligations, and for the payment of which a lawful sinking fund or reserve fund has been established and is being maintained, but only if no default in payment on principal or interest on the obligations to be purchased has occurred within five years of the date of investment, or, if such obligations were issued less than five years before the date of investment, no default in payment of principal or interest has occurred on the obligations to be purchased nor any other obligations of the issuer within five years of the investment.

Eligibility shall be limited to those obligations that maintain a long-term rating of A or a short-term rating in the highest category by a NRSRO.

Investments in municipal securities shall not exceed 10% of the portfolio.

9. Bonds, notes or evidences of indebtedness issued by any county improvement district or municipal improvement district of any state to finance local improvements authorized by law, if the principal and interest of the obligations are payable from assessments on real property within the improvement district. An investment shall not be made if:
 - a. The face value of all such obligations, and similar obligations outstanding, exceeds fifty per cent of the market value of the real property, and if improvements on which the bonds or the assessments for the payment of principal and interest on the bonds are liens inferior only to the liens for general ad valorem taxes.
 - b. A default in payment of principal or interest on the obligations to be purchased has occurred within five years of the date of investment, or, if the obligations were issued less than five years before the date of investment, a default in the payment of principal or interest has occurred on the obligations to be purchased or on any other obligation of the issuer within five years of the investment.

Eligibility shall be limited to those obligations that maintain a long-term rating of A or a short-term rating in the highest category by a NRSRO.

Investments in municipal securities shall not exceed 10% of the portfolio.

10. Commercial paper of prime quality that is rated within the top two ratings by a NRSRO. All commercial paper must be issued by corporations organized and doing business in the United States.

Investments in commercial paper securities shall not exceed 30% of the portfolio.

11. Bonds, debentures, notes or other evidences of indebtedness that are denominated in United States dollars and that carry at a minimum an "A" or better rating, at the time of purchase, from at least two NRSROs.

Investments in corporate securities shall not exceed 30% of the portfolio.

12. Negotiable or brokered certificates of deposit issued by a nationally or state chartered bank or savings and loan association.

Eligibility shall be limited to those obligations that maintain a long-term rating of A or a short-term rating in the highest category by a NRSRO.

Investments in negotiable or brokered CDs shall not exceed 30% of the portfolio.

13. Securities of or any other interests in any open-end or closed-end management type investment company or investment trust, including exchange traded funds whose underlying investments are invested in securities allowed by state law, registered under the investment company act of 1940 (54 Stat. 789; 15 United States Code sections 80a-1 through 80a-64), as amended.

B. Maximum Maturity. Unless otherwise stated in section VIII(A) above, the maximum maturity of any security is 5 years from the date of purchase.

C. Diversification. It is the policy of the City to diversify the investment portfolio so as to protect City monies from material losses due to issuer defaults, market price changes, non-earning assets, technical complications leading to temporary lack of liquidity, risks resulting from an over-concentration of assets in a specific maturity, a specific issuer, a specific geographical distribution, or a specific class of securities. Regardless of sector, no more than 5% of the portfolio may be invested in any one issuer (excluding obligations issued or guaranteed by the United States or any of the senior debt of its agencies, sponsored agencies, corporations, sponsored corporations or instrumentalities).

D. If the credit rating of a security is subsequently downgraded below the minimum rating level specified in this policy, the CFO shall evaluate the downgrade on a case-by-case basis in order to determine if the security should be held or sold. The CFO will apply the general objectives of safety, liquidity, yield and legality to make the decision.

IX. COLLATERALIZATION

A. Where allowed by state, law full collateralization is required on all demand deposit accounts, including checking accounts and non-negotiable certificates of deposit. The

State requires all depositories holding public funds to participate in the State managed pooled collateral program. The State will monitor collateral for public funds to ensure the proper level of collateral is maintained by participant depositories. The City will check to ensure that any depository it utilizes is a State collateral pool participant.

B. Acceptable collateral for repurchase agreements shall include only:

1. Obligations issued or guaranteed by the United States or any of the senior debt of its agencies, sponsored agencies, corporations, sponsored corporations or instrumentalities.
2. Obligations of the State of Arizona and any of its cities, counties, or authorities rated at least AA by two NRSROs.

X. 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 and credit profile as the portfolio.

XI. REPORTING

A. Monthly Performance Analysis

The following report shall be provided in the monthly report to the CFO:

1. Month-end Investment Summary
The month-end investments will be summarized by type of investment. The report will include a summary of book and market values of the holdings of the City. The report will summarize:
 - a. Earned investment yield for the period and comparison to prior year.
 - b. Interest earned for period, year to date and comparison to the prior year.
 - c. Investments by fund and investment diversification.

B. Annual Reporting

The annual audited financial report shall be submitted to the Council and the City Manager pursuant to Section 607 of the City Charter.

XII. POLICY CONSIDERATIONS

- A. Any deviation from the preceding policy shall require the prior specific written authorization of the City Manager or CFO.

- B. The Investment Policy shall be reviewed on an annual basis by the City Manager or CFO who will have the authority to make any changes or modification to the policy.