

RESOLUTION NO. 31460

A RESOLUTION TO APPROVE THE CITY INVESTMENT
POLICY DATED FEBRUARY 2023 PRACTICES.

BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF CHATTANOOGA,
TENNESSEE, That it is hereby approving the City Investment Policy dated February 2023
practices.

Tennessee Code Annotated authorizes and empowers the City to invest or deposit funds.
The objective of the policy is to invest public funds in a manner that provides maximum security
and return on investment while meeting the City's daily cash flow demands. The City Treasurer
is responsible for the City's Investment Program.

ADOPTED: February 14, 2023

/mem

Investment Policy



City of Chattanooga, TN

(Revised February 2023)

Investment Policy

City of Chattanooga, TN

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1 Overview

1.1 Introduction

It is the policy of the City of Chattanooga (“City”) to invest public funds in a manner that provides maximum security and return on investment while meeting the City’s daily cash flow demands and conforming to all applicable federal, state and/or local statutes governing the investment of public funds.

Tennessee Code Annotated (T.C.A.) 9-1-107(a) (1) authorizes and empowers the City to invest or deposit funds. The City Treasurer holds responsibility for the City’s investment program.

1.2 Delegation of Authority

The Treasurer is responsible for all securities transactions undertaken but may delegate and train other personnel to assist in the day-to-day placement and sale of investments. The Treasurer will develop procedures, which establish, monitor, and evaluate the operation of the investment program consistent with this investment policy.

Procedures should include safekeeping, wire transfer agreements, banking service contracts and collateral/depository agreements. Such procedures shall include explicit delegation of authority to persons responsible for investment transactions.

1.3 Scope

This investment policy applies to all financial resources of the City of Chattanooga, except the following:

- The City of Chattanooga General Pension Trust Fund;
- The City of Chattanooga Fire and Police Pension Trust Fund;
- Other Post-Employment Benefits Trust Fund;
- Deferred Compensation Plans;
- And funds excluded by law or bond indenture.

1.4 Prudence

The standard of prudence to be used by investment officials shall be that of a “prudent person” which imposes a fiduciary obligation for investments to be made with the degree of judgment and care a person exercises with their own affairs, not for speculation but considering the safety of their capital as well as the probable income to be derived.

1.5 Internal controls

The Treasurer shall follow the City’s internal control procedures. Controls should 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.

Controls deemed most important include: control of collusion; separation of duties; separating transaction authority from accounting and record keeping; custodial safekeeping; clear delegation of authority; minimizing the number of authorized investment personnel; documentation of transaction strategies; and adhering to the City’s code of ethics.

Investments are subject to periodic internal audits and the annual external audit.

1.6 Conflicts of Interest

All City officials and/or employees who are involved in the investment process, by position or by delegation, shall refrain from personal and/or business activity that could potentially conflict with proper execution of the City's investment program, or which could impair or create the appearance of impairment of their ability to make impartial investment decisions worthy of public trust.

Investment staff shall disclose family members that are employed by a broker/dealer or other entity in which City funds might be invested or in which investment transactions might be processed. Potential conflict of interests shall be disclosed to the Mayor and City's Chief Financial Officer.

Bonding of all staff authorized to place orders to purchase or sell investment instruments shall be required.

2 Objectives

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

2.1 Safety

Safety of principal is the foremost objective of the City. Investments shall be undertaken in a manner that seeks to ensure the preservation and protection of capital in the overall portfolio. Investment decisions should not incur unreasonable investment risks in order to obtain current investment income.

The City's policy to attain this objective is to diversify the investment portfolio in a way that will limit over-concentration of assets in a specific maturity, specific issuers, or a specific class of securities.

2.2 Liquidity

The City's investment portfolio will remain sufficiently liquid to meet anticipated cash requirements. Forecasting of receipts and disbursements should be developed to facilitate knowledge of liquidity needs. The investment portfolio should be laddered with staggered maturities to ensure that adequate resources are available to meet cash flow requirements without forced liquidation of investments.

2.3 Return on Investment

The City's investment portfolio shall be designed with the objective of attaining a competitive rate of return throughout budgetary and economic cycles, taking into account the City's investment risk constraints and the cash flow characteristics of the portfolio.

The City shall utilize a benchmark rate in making performance comparisons. The market rate of return objective will be a band between the yield of the ninety-day Treasury bill and the 2-year Treasury note for the period of time being evaluated. The goal is for the portfolio to generally perform within or above the band.

3 Investments

3.1 Authorized Investments

Except for funds listed in section 1.3 of this policy, the following investment instruments are authorized pursuant to T.C.A. 6-56-106, in order to provide a safe investment medium for idle funds:

- A. Bonds, notes or treasury bills of the United States.
- B. 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:
 - The Federal Home Loan Bank;
 - The Federal National Mortgage Association;
 - The Federal Farm Credit Bank; and
 - The Federal Home Mortgage Loan.
- C. Any other obligations not listed in sections A and B above that are guaranteed as to principal and interest by the United States or any of its agencies.
- D. Certificates of deposit and other evidences of deposit at state and federal chartered banks and savings and loan associations.
- E. Obligations of the United States or its agencies under a repurchase agreement if approved by the Comptroller of the Treasury as an authorized investment for the City. The City of Chattanooga currently does not utilize repurchase agreements.
- F. The Local Government Investment Pool (LGIP) created by Title 9, Chapter 4, Part 7.
- G. The following instruments are also allowed:
 - Prime banker's acceptances that are eligible for purchase by the Federal Reserve System; and
 - Prime commercial paper that is rated in the highest category by at least two (2) nationally recognized commercial paper rating services.

The City does not deem it necessary to leverage or hedge, therefore, the use of derivative type securities is inappropriate. This prohibition includes futures, contractual swaps, options, and exotic derivatives. Equity investments of all kinds are prohibited.

3.2 Collateralization

The State of Tennessee requires local governments with bank deposits (including checking accounts and non-negotiable Certificates of Deposit) that are in excess of the amount covered by FDIC insurance must either maintain the deposit with a bank that is a member of the bank collateral pool or collateralize the deposit in accordance with State statutes.

- A. The list of banks participating in the Bank Collateral Pool can be found at <https://comptroller.tn.gov/office-functions/lgf/resources/investments>.
- B. Collateralization must be equal to one hundred five percent (105%) of market value as set by T.C.A. 9-4-105. Eligible collateral must be in accordance with T.C.A. 9-4-103.

3.3 Term of Investments

The City will attempt to match its investments with anticipated cash flow requirements. All investments of current operating funds shall have a maturity of not greater than four (4) years in compliance with T.C.A. 6-56-106 (b) for investments included in sections 3.1 A through D in this policy. Please note, this four (4) year limit does not apply to the investment of bond proceeds or related reserves.

3.4 Authorized Financial Dealers

The Treasurer will maintain a list of authorized broker/dealers and financial institutions that are approved to provide investment services. Security broker/dealers will be selected by creditworthiness and/or other factors, such as FINRA broker status.

All financial institutions and broker/dealers who desire to become qualified for investment transactions must complete the certification form located in Appendix A.

The Treasurer will maintain a file of the most recent questionnaire.

3.5 Competitive Selection

The Treasurer shall contact at least three authorized financial dealers for each security purchase whenever feasible.

3.6 Safekeeping

All trades of marketable securities will be executed by delivery vs. payment (DVP) to ensure that securities are deposited in an eligible custody account prior to the release of funds. Securities of the City will be held by an independent third party custodian selected by the City and held in the City's name.

The Treasurer shall approve one or more financial institutions to provide safekeeping and custodial services. The custodian bank(s) shall be selected on the basis of ability to provide service to the City's account. A safekeeping agreement shall be executed with each custodian bank prior to that bank engaging in safekeeping services. To be eligible, the financial institution shall qualify as a depository of public funds in the State of Tennessee and be a Federal Reserve member financial institution.

4 Reporting

The Treasurer shall prepare a quarterly investment report for the Mayor, City Council and the City's Chief Financial Officer. This investment report should include sufficient detail to provide an accurate and meaningful representation of the portfolio, showing its performance in relation to established benchmarks and compliance with this investment policy.

5 Investment Policy Adoption and Review

5.1 Policy Adoption

This investment policy was adopted by Council pursuant to Government Finance Officers Association (GFOA) best practices [insert Resolution number and date]. The policy may only be changed by subsequent similar action of the Council.

5.2 Policy Review

The Treasurer shall review this investment policy annually in its entirety. Any modifications shall be proposed to the Council. The scheduled annual review process shall not preclude needed modifications to the policy at other times during the year.

Appendix A - Broker/Dealer Certification Form

The City of Chattanooga has adopted a written Investment Policy to regulate activities for a portfolio primarily comprised of US Treasury and US Agency obligations. The City maintains relationships with qualified members of the broker/dealer community who, in the City's opinion, understand the needs, constraints, and goals of the city. Only a broker/dealer meeting the following requirements should complete the questionnaire:

1. Currently registered as a dealer under the Securities Exchange Act of 1934, as amended;
2. Currently maintain total equity of not less than \$10,000,000;
3. A member of the Financial Industry Regulatory authority, Inc. (FINRA);
4. Currently registered to sell securities in Tennessee.

If approved, Broker/Dealers will be notified by the City after all required documentation is received. The City solicits competitive quotes on transaction in accordance with the Policy. Each broker/dealer conducting business on behalf of the City has a duty to obtain best execution for trades placed by the City. All securities will be delivered to the custodian named by the City.

Please provide all information requested below:

- Audited financial statements demonstrating compliance with state and federal capital adequacy guidelines for the most current year.
- Proof of Financial Industry Regulatory Authority, Inc. (FINRA) certification (not applicable for Certificates of Deposit counterparties).
- Proof of state registration.
- Amount of total equity for your firm _____
- Two client references requiring services similar to those required by the City of Chattanooga:

Reference 1

Client Name: _____

Address: _____

Contact Person: _____

Telephone Number: _____

Email: _____

Length of Relationship: _____

Reference 2

Client Name: _____

Address: _____

Contact Person: _____

Telephone Number: _____

Email: _____

Length of Relationship: _____

I have received and read the City of Chattanooga Investment Policy and will comply with it (please initial).

Yes _____ No _____

The undersigned hereby certifies that (i) the information set forth above is true and correct to the best of the undersigned's knowledge, (ii) the firm named below is in compliance with the requirements set forth in the Investment Policy, and (iii) the undersigned is authorized to execute this document on behalf of the firm listed below.

Name of Firm: _____

Signature: _____

Printed Name: _____

Title: _____

Date: _____

Telephone Number: _____

Email: _____

Reviewed and Accepted by the City

Signature: _____

Printed Name: _____

Title: _____

Date: _____