

**Town of Fairfax**  
**Investment Policy**  
Adopted by the Fairfax Town Council on May 6, 2015

**I. Policy**

It is the policy of the Town of Fairfax (Town) to invest public funds in a manner which will provide the highest investment return with maximum security while meeting the daily cash flow demands of the Town and conforming to all state and local statutes governing the investment of public funds. The Town's policy is to invest public funds in a manner which also support social and environmental sustainability principles.

Except for cash in certain restricted and special funds, the Town will consolidate cash and reserve balances from all funds to maximize investment earnings and to increase efficiencies with regard to investment pricing, safekeeping and administration. Investment income will be allocated to the various funds based on their respective participation and in accordance with generally accepted accounting principles.

**II. Scope**

This policy applies to the investment of all financial assets of the Town. These funds are accounted for the town's financial system and include:

- General Funds
- Special Revenue Funds
- Debt Service Funds
- Capital Project Funds
- Fiduciary Funds

This policy does not apply to Bond Proceeds or Deferred Compensation Funds. California Government Code §5922(d) authorizes bond, certificates of participation notes and other debt issue proceeds to be invested in accordance with the related offering documentation. These Code sections recognize the unique needs and objectives of such proceeds. Likewise, Deferred Compensation Plans are covered under California Government Code.

**III. Objectives**

The primary objectives, in priority order, of investment activities shall be safety, liquidity, and yield:

1. *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.

## 2. *Liquidity*

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

## 3. *Yield*

The investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints and liquidity needs. Return on investment is of secondary importance compared to the safety and liquidity objectives described above. The core of investments is limited to relatively low risk securities in anticipation of earning a fair return relative to the risk being assumed. Securities shall generally be held until maturity.

## 4. *Social and Environmental Responsibility*

The investment portfolio shall be designed to meet these objectives as outlined in Section VIII, "Investment Parameters" (item 2).

# IV. Standards of Care

## 1. *Prudence*

Investments shall be made with judgment and care – under circumstances then prevailing – which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived.

The standard of **prudence** to be used by investment officials shall be the "prudent person" and/or "prudent investor" standard and shall be applied in the context of managing an overall portfolio. Investment officers acting in accordance with written procedures and the 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 the expectations are reported in a timely fashion and appropriate action is taken to control adverse developments.

## 2. *Ethics and Conflicts of Interest*

Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with the proper execution and management of the investment program, or that could impair their ability to make impartial decisions. Employees and investment officials shall disclose any material interests in financial institutions with which they conduct business. They shall further disclose any personal financial/investment positions that could be related to the performance of the investment portfolio. Employees and officers shall refrain from undertaking personal investment transactions with the same individual with whom business is conducted on behalf of the Town.

### 3. *Delegation of Authority*

Authority to manage the investment program is granted to the Finance Director or his/her authorized designee, hereinafter referred to as investment officer. Responsibility for the operation of the investment program is hereby delegated to the investment officer, who shall act in accordance with established written procedures and internal controls for the operation of the investment program consistent with this investment policy. Procedures should include references to: safekeeping, delivery vs. payment, investment accounting, wire transfer agreements, and collateral/depository agreements. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the investment officer. The investment officer shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials.

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

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

The Town currently invests in the State of California Local Agency Investment Fund and the Bank of Marin.

If authorization is granted to invest in other financial investments (see Section VII) than a list will be maintained of financial institutions and depositories authorized to provide investment services. In addition, a list will be maintained of approved security broker/dealers selected by creditworthiness (e.g., a minimum capital requirement of \$10,000,000 and at least five years of operation). These may include "primary" dealers or regional dealers that qualify under Securities and Exchange Commission (SEC) Rule 15C3-1 (uniform net capital rule).

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

- Audited financial statements demonstrating compliance with state and federal capital adequacy guidelines
- Proof of National Association of Securities Dealers (NASD) certification (not applicable to Certificate of Deposit counterparties)
- Proof of state registration
- Completed broker/dealer questionnaire (not applicable to Certificate of Deposit counterparties)
- Certification of having read and understood and agreeing to comply with the [entity's] investment policy.
- Evidence of adequate insurance coverage.

An annual review of the financial condition and registration of all qualified financial institutions and broker/dealers will be conducted by the investment officer.

## **VI. Safekeeping and Custody**

### *1. Delivery vs. Payment*

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

### *2. Safekeeping*

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

### *3. Internal Controls*

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

## **VII. Suitable and Authorized Investments**

### *1. Investment Types*

Consistent with the Objectives of this Investment Policy and the Government Finance Officers Association (GFOA) Policy Statement on State and Local Laws Concerning Investment Practices, the following investments will be permitted by this policy and are those defined by state and local law where applicable:

- Local government investment pools either state-administered (LAIF) or developed through joint powers statutes and other intergovernmental agreement legislation.
- Certificates of deposit and other evidences of deposit at financial institutions carrying FDIC (Federal Deposit Insurance Corp) bank deposit insurance of \$250,000 or as may set by the FDIC.

The following investments may be permitted with prior authorization by the Town Council:

- U.S. Treasury obligations which carry the full faith and credit guarantee of the United States government and are considered to be the most secure instruments available;
- U.S. government agency and instrumentality obligations that have a liquid market with a readily determinable market value;
- Bankers' acceptances;
- Commercial paper, rated in the highest tier (e.g., A-1, P-1, F-1, or D-1 or higher) by a nationally recognized rating agency;
- Investment-grade obligations of state, local governments and public authorities;
- Money market mutual funds regulated by the Securities and Exchange Commission and whose portfolios consist only of dollar-denominated securities.

Investment in derivatives of the above instruments shall not be permitted.

## 2. *Collateralization*

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

## 3. *Repurchase Agreements*

Repurchase agreements shall not be permitted.

# VIII. Investment Parameters

## 1. *Diversification*

The investments shall be diversified by:

- Continuously investing a portion of the portfolio in readily available funds such as LAIF, or money market funds to ensure that appropriate liquidity is maintained in order to meet ongoing obligations. limiting investments to avoid overconcentration in securities from a specific issuer or business sector (excluding U.S. Treasury securities);
- Limiting investment in securities that have higher credit risks; and
- Investing in securities with varying maturities.

## 2. *Social and Environmental Responsibility*

The Town will seek to invest in a manner which promotes its social and environmental responsibility objectives:

- Consistent with Town Resolution 14-45, investments directly held or commingled shall not include holdings in fossil fuel public equities or corporate bonds.
- ,To the extent feasible, investments shall support the following principles:
  - Fair labor practices;
  - Sound environmental practices;
  - Health and Safety;
  - Responsible contracting; and
  - Diversity

# IX. Reporting

The Treasurer may annually render a statement of investment policy to the Town Council. The policy shall also be reviewed by the Town's Finance Committee prior to the statement being presented. (Gov. Code §53646(a)).

The Town Treasurer or his/her authorized designee may render investment reports at least quarterly to the Town Manager and the Town Council within 30 days of the period covered by the report. (Gov. Code § 53646(b)(1)). The investment report shall include: the type of investment, issuer, date of maturity, par and dollar amount invested in all securities, investments and moneys held by the local agency. If the Town has all of its investments in LAIF or in FDIC insured accounts in a bank or savings and loan, in a county investment pool or any combination

of these investments, the investment officer may supply the most recent statements received from these institutions in lieu of the specific investment information required in the quarterly report. (Gov. Code §53646(e)).

The report shall state compliance with the investment policy or the manner in which the investment portfolio is not in compliance (Gov. Code §53646(b)(2)).

The report shall state the ability of the Town to meet its expenditure requirements for the next six months or provide an explanation of why sufficient funds shall or may not be available (Gov. Code §53646(b)(3)).

**X. Approval of Investment Policy**

The Investment Policy shall be formally approved and adopted by the Town Council and reviewed as needed by the Town's Finance Committee with recommendations made to the Town Council.