Background:

In any good home budgeting plan it is important to keep money in the bank for expenses you know you will need to make, to build up money to avoid borrowing for expenses you know you will need to make and to have a reserve for unexpected expenditures. If after you have estimated these needs you find that you have excess "money" you might decide that rather than keeping all of your money in a bank, with the current very low-interest rates, to invest that money in either long-term or short-term investments so your money can make you money.

A municipality is no different in that once we have accounted for all of the known and possible expenditures, it is important to assist the taxpayers by using revenues to make money. This should be done very cautiously, using very save investments that are short-term in nature. And a City needs an Investment Policy to guide these decisions.

We believe the City is now in a position to make some safe short-term investments. How did we get here?

The City created and developed a cash management plan where over a three-year period we created budgets that were appropriately funded, thereby reducing the need for short-term borrowing. In addition, the voters approved

- Fiscal Stability Bond for $9 million designed to infuse revenue and lessen the City's reliance on short-term borrowing.

In some of the Enterprise Funds there has been a line called "Depreciation Expense" which is in essence money being carried forward in the Enterprise Fund form year to year which can be safely invested.

What this means is that during limited periods of time the City has revenue that can be invested for a short-term so that money can earn a better return than it sitting in the bank.

Due to all of the steps the City Council and Administration have taken, in FY 2014, the City has not utilized an established Keybank Line of Credit (LOC). The line of credit is $10 million, and the amount used this fiscal year is zero. On August12th, 2013, the cash balance was the highest it has been in over seven years at approximately $20 million. The Clerk Treasurer's Office is requesting approval of a new investment policy. If passed, the new policy would authorize the CAO and Assistant CAO for Finance to invest and deposit up to $5 million of any City Funds.

Why Invest?

The Clerk Treasurer's Office is responsible for the City's cash flow by depositing cash receipts promptly, ensuring that all financial claims are properly disbursed, and maximizing interest revenue by investing excess cash.

The City's credit rating agency, financial advisors, and auditors have all suggested that the City should have an investment policy. The investment policy submitted for approval demonstrates a commitment to stronger financial stability. It shall be the policy of the City of Burlington to preserve principal and maximize income, while maintaining liquidity to meet the City's need for cash. Investment decisions will be guided by the policy and will demonstrate overall transparency.

The interest income from these investments is a revenue stream that will help reduce the burden on taxpayers.

CITY OF BURLINGTON
INVESTMENT POLICY 8/13/13

POLICY:

The purpose of this document is to provide guidelines for the prudent investment of the City of Burlington's funds and to outline the policies needed to maximize the efficiency of the City's cash management system.

SCOPE:

All monies entrusted to the Chief Administrative Officer as directed by the City Council shall be invested in accordance with this document.

AUTHORITY:

The Chief Administrative Officer or Assistant City Chief Administrative Officer (referenced in the remainder of this document as CAO) for the City of Burlington, in accordance with this policy, shall be authorized to invest and reinvest the funds of the City of Burlington.

INVESTMENT OBJECTIVE:

The primary objectives, in priority order, of investment activities shall be safety, maintenance of liquidity, and income.

I. **Safety** – Safety of principal is the foremost objective of the investment program. Investments of the City of Burlington shall be undertaken in a manner that seeks to ensure the preservation of capital

II. **Maintenance of Liquidity** – City of Burlington's investments will remain sufficiently liquid to enable the City to meet all operating and capital requirements, which might be reasonably anticipated.

III. **Return on investment** – City of Burlington's investments shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the City's investment risk constraints and cash flow needs and any applicable transaction costs or other fees.

The City's investment portfolio shall be designed with the objective of meeting all legal requirements set forth by Federal, State, and Local laws.

AUTHORIZED FINANCIAL INSTITUTIONS:

Financial institutions having offices in the city of Burlington and then Vermont Institutions shall, provided all objectives listed above are equal, be given preference when

the City of Burlington invests its funds. All financial institutions must register to do business in the State of Vermont.

ALLOWABLE INVESTMENTS:

The CAO is authorized to invest and deposit any City funds, up to five million dollars ($5,000,000) in any of the following:

1. Certificates of Deposit
2. Money Market Accounts
3. Savings Accounts
4. Now Accounts
5. Checking Accounts
6. U.S. Treasury Bills
7. Treasury Notes or Bonds
8. Municipal and State Bonds

To invest any City funds in an option not listed above, or to invest more than a total of $5,000,000 will require City Council approval. The CAO of the City of Burlington will make decisions regarding the types of collateralization of deposits when needed. The form of collateral may include, but not be limited to, securities of the United States of America. Securities may be held by a third party custodian designated by the CAO and evidenced by safekeeping receipts.

ETHICS AND CONFLICTS OF INTEREST:

The CAO shall avoid any transaction that might impair public confidence in the City's Council's ability to govern effectively. Officers and employees involved in the investment process shall refrain from business activity that could conflict with proper execution of the investment program, or which could impair their ability to make impartial investment decisions. Investment decisions shall follow the requirements laid out in Section 133 of the City Charter (Conflict of Interest). All investments must meet City Ordinances such as Outsourcing and Union Deterrence.

COLLATERALIZATION

Collateralization is required on accounts and deposits and repurchase agreements over the amount guaranteed by the FDIC. The collateral must be in an amount equal to the excess deposit and it may consist only of securities in which municipalities may invest.

DIVERSIFICATION OF THE INVESTMENT PORTFOLIO:

The CAO shall maintain sufficient diversification of investments such that the ability of the City of Burlington to continue to do business on an ongoing basis will not be impaired because of a liquidity crisis occurring in any one institution with which the City

of Burlington has invested. This diversification provision will be considered met if the investments are in federally-supported instruments such as TBills or TNotes.

REVIEW PROCESS:

The CAO will report investment activity at least every 6 months to the Board of Finance unless there is a request by the Board.