

CHAPTER 2019-1

No. 19 **AN ORDINANCE IN AMENDMENT OF CHAPTER 21 OF THE CODE OF ORDINANCES OF THE CITY OF PROVIDENCE, ENTITLED: "REVENUE AND FINANCE," ADDING SECTION 21-63.1 "CITY OF PROVIDENCE INVESTMENT POLICY"**

Approved January 22, 2019

Be it ordained by the City of Providence:

WHEREAS, The City may wish, from time to time, to invest such sums of money in the general fund of the City as may be deemed in excess of the amount required for the payments of current obligations of the city, pursuant to Chapter 21, Article III, Section 21-63 of the City of Providence Ordinances; and

WHEREAS, The City wishes to establish guidelines for the investment of such sums.

NOW, THEREFORE, The City enacts the following Ordinance:

SECTION 1. Chapter 21, Article III, Division 1 of the Code of Ordinances of the City of Providence is hereby amended to add Section 21-63.1 in its entirety:

SECTION 2. The following shall be "The City of Providence Investment Policy":

(a) Introduction

The City of Providence (the "City") is a political sub-division of the State of Rhode Island governed by a Home Rule Charter (the "Charter"), Rhode Island General Laws, and the City's Ordinances. Pursuant to the Charter, the City's affairs are governed by an elected legislature (the "City Council" or "Council"), and an elected Chief Executive Officer (the "Mayor"). The management of the City's finances is set forth in the Charter, which assigns certain authority to a Treasurer, to be elected by the City Council, and others to the City's Finance Department, the head of which is the Finance Director appointed by the Mayor.

The purpose of this Policy is to establish guidelines for the investment of such sums of money described in the City of Providence Ordinances, Section 21-63, as fully described below.

(b) Governing Authority

In accordance with Article VI of the Charter, the Treasurer has the powers and duties to, among other things, maintain certain records; have custody of all public funds belonging to or under the control of the City; deposit municipal funds in an institution chosen from a list of depositories approved by the Finance Director; and have custody of all investments and invested funds.

Pursuant to Article VIII, Section 813 of the Charter, the Finance Director serves as the chief fiscal officer of the City, responsible to the Mayor for the sound and prudent financial direction of the City. The Finance Director, with the approval of the Board of Investment Commissioners, determines an approved list of financial institutions with which the City's funds may be deposited.

City Ordinance Section 21-63 makes provisions for the City's investment of general funds that are in excess of the amounts required for payment of the City's current obligations. More specifically, Ordinance Section 21-63 states as follows:

“The city treasurer, with the advice and approval of the finance director, is hereby authorized to invest, from time to time, in certificates of indebtedness issued by the United States Government, state and local governments, or agencies thereof, or certificates of indebtedness issued by banks chartered under the laws of the United States or the several states thereof, such sums of money in the general fund of the city as may be deemed in excess of the amount required for the payments of current obligations of the city; provided, however, that any such investment in securities or certificates of indebtedness from said fund, with a maturity in excess of six (6) months, shall be made only with the approval of the city council finance committee.”

(The funds described by Section 21-63 are hereinafter referred to as the “excess general funds.”)

In addition, the Rhode Island General Laws further governs the manner in which its political subdivisions may invest certain funds.

No authority or procedure herein supersedes those established by the Charter, any Rhode Island General Law that applies to investments by cities and towns, or any existing City Ordinance. Rather, this Policy shall be deemed to be consistent with, and to complement, existing laws. The Policy further intends to adopt the State of Rhode Island’s guidelines for the State’s investments of state and/or municipal funds, as reflected in the General Laws, including but not limited to R.I. Gen. Laws § 35-10.1, § 35-10.2, § 35-10-5, and § 35-10-11.

(c) Scope

This Policy shall cover the “excess general funds” provided to the Treasurer in accordance with the Charter and Ordinances, as defined in Section II above and Ordinance Section 21-63. The Policy shall not apply to funds covered by any trust indenture or bond covenants, or pension or retirement funds.

(d) Objectives

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

- A. Legality. Investments shall be made in accordance with applicable laws and this Investment Policy.
- B. Safety. Safety of principal is the foremost objective of investments. The City’s investments shall be undertaken in a manner that seeks to ensure preservation of capital.
- C. Liquidity. The City’s investments will remain sufficiently liquid to enable the City to meet its cash flow requirements. Investments shall be managed and aligned to the City’s long term planning needs.
- D. Return on Investment. The City’s investments shall be made with the objective of attaining a market rate of return on its investments, consistent with the constraints imposed by its safety objective and liquidity considerations.

(e) Investment Officers

In accordance with the Charter and Ordinances, the Treasurer shall coordinate with the City’s Finance Director with respect to the investment of the funds governed by this Policy. The Treasurer and the Finance Director (together the “Investment Officers”) shall abide by any written procedures and internal controls for the operation of any investment program governed by this Policy.

The Investment Officers shall act responsibly as custodians of the public trust, with their primary duty to the City, and in accordance with the standard of care defined by Rhode Island law for a municipal treasurer and finance director, or persons having the duties set forth in the Charter. In performing their roles as Investment Officers, neither the Treasurer nor the Finance Director shall act outside the scope of their respective duties set forth in the Charter, the General Laws or the Ordinances. If the Investment Officers use standard care, they shall be indemnified for all awards and costs against all actions brought against them.

(f) Investment Advisor

The City may engage the services of an Investment Advisor to exercise and implement investment decision-making on behalf of the City. Such Advisor must be registered with, and act in compliance with the provisions of the Investment Advisors Act of 1940. The Investment Advisor shall be required to execute a contract with the City, which shall incorporate this Policy.

No Investment Advisor shall be utilized unless the Investment Officers reasonably believe that an Investment Advisor can realize a net financial gain to the City, after payment of fees and expenses to the investment advisor(s), greater than that which would be realized if the Investment Officers, on behalf of the City, themselves directed the investment of the excess general funds.

If applicable, the award of any contract to engage the services of an Investment Advisor shall be made pursuant to and in accordance with Ordinance Sections 21-26 and/or 21-27 ("Appropriation for Contract" and "Competitive Bidding"), and subject to section VII below.

(g) Ethics and Conflict of Interest

The Investment Officers shall refrain from personal business activities that could conflict with proper execution of the investments, or which could impair their ability to make impartial decisions. The Investment Officers, any City officers and employees involved with the investment decisions and executions, and any and all Investment Advisors shall disclose to the City Ethics Commission any material interests in financial institutions with which they conduct business. Such disclosures shall be made both prior to and during the existence of the investment process. Furthermore, the Investment Officers, and any and all other City officers and employees are subject to the provisions of the Rhode Island Code of Ethics and the City of Providence Code of Ethics (Ordinance Section 17-33), including but not limited to Ordinance Section 17-33(d) relating to persons leaving the employment of the City.

(h) Internal Controls

The City Controller shall establish a set of internal controls which shall be documented in writing. The internal controls will be overseen by the Investment Officers. The goal of the internal controls is to improve the efficiency and effectiveness of financial operations, to contribute to the safeguarding of City assets, and to identify and discourage irregularities, such as questionable or illegal payments and practices, conflict of interest activities and other diversions of the City assets.

(i) Permitted Investments

Pursuant to Rhode Island General Laws § 35-10-11, the Investment Officers are authorized to invest City funds not subject to sinking fund or bond indenture requirements in certain "Authorized Investments." Such authorized investments are limited to instruments explicitly permitted by the Rhode Island General Laws and City Ordinances, including the following:

1. Obligations issued by the U.S. Government and its agencies or instrumentalities which carry the full faith and credit guarantee of the United States of America.
2. Obligations issued by U.S. Government agencies and instrumentalities, including:
 - a. Debt obligations, participations or other instruments issued or fully guaranteed by any U.S. Federal agency, instrumentality or government-sponsored enterprise (GSE).

- b. U.S. dollar denominated debt obligations of a multilateral organization of governments (Supranationals).
 - c. Mortgage-backed securities (MBS), backed by residential, multi-family or commercial mortgages, that are issued or fully guaranteed as to principal and interest, by a U.S. Federal agency or government sponsored enterprise, including pass-throughs, collateralized mortgage obligations (CMOs) and REMICs.
3. Municipal securities issued by a state or political subdivision thereof provided the following conditions are satisfied:
- a. The interest on such securities is exempt from federal income taxation; and
 - b. As required by Rhode Island general Laws §35-10-11(3)(ii)(D), at the time of the investment, the security has a credit rating, as determined by a national rating agency, that is equal to or higher than the most recent credit rating of that same national rating agency applicable to general obligations of the State of Rhode Island.
 - c. However, the investment of any funds governed by this investment Policy in any obligations issued by the City and/or any City related agencies is strictly prohibited without approval of the City Council.
4. Repurchase agreements provided the following conditions are satisfied:
- a. The agreement is fully collateralized by obligations issued by the U.S. Treasury, U.S. Government agencies and instrumentalities, and /or Municipal securities listed in paragraphs (1), (2), and (3) above having a market value at all times of at least one hundred and two percent (102%) of the amount of the contract;
 - b. A Master Repurchase Agreement or specific written Repurchase Agreement governs the transaction;
 - c. The securities are free and clear of any lien and held by an independent third party custodian acting solely as agent for the City, provided such third party is not the seller under the repurchase agreement;
 - d. A perfected first security interest under the Uniform Commercial Code in accordance with book entry procedures prescribed at 31 C.F.R. 306.1 et seq. or 31 C.F.R. 350.0 et seq. in such securities is created for the benefit of the City;
 - e. For Repurchase Agreements with terms to maturity of greater than one (1) day, the collateral securities will be valued daily. If additional collateral is required, then that collateral must be delivered within one business day (if a collateral deficiency is not corrected within this time frame, the collateral securities will be liquidated);
 - f. The counterparty is a:
 - i. Primary government securities dealer who reports daily to the Federal Reserve Bank of New York, or
 - ii. A bank, savings and loan association, or diversified securities broker-dealer having at least \$5 billion in assets and \$500 million in capital and subject to regulation of capital standards by any state or federal regulatory agency; and
 - g. The counterparty meets the following criteria:
 - i. A short-term credit rating of at least A-1 from Standard & Poor's or P-1 from Moody's or the equivalent from a nationally recognized statistical rating organization (NRSRO), and
 - ii. Has been in operation for at least 5 years.
5. Shares of an investment company registered under the Investment Company Act of 1940, whose shares are registered under the Securities Act of 1933, if the only investments of that company are in the authorized investments for City funds listed in paragraphs (1) through (4) above.
6. Local government investment pools, either state-administered or developed through intergovernmental agreement legislation, provided the local government investment pool restricts investments to those listed in paragraphs (1) through (4) above.

7. The Ocean State Investment Pool (“OSIP”) and similar investment pools authorized under and defined in Rhode Island General Laws §35-10.2-1 through §35-10.2-11.
8. Certificates of deposit arranged by and invested through a financial institution as defined in Rhode Island General Laws §19-1-1(8) or chapter 19-1. The certificates of deposit must be provided by a federally insured bank or savings and loan association the principal and accrued interest of which is fully insured by the Federal Deposit Insurance Corporation.
9. Deposits in banks, savings, banks, national banks, or trust companies, loan and investment companies, credit unions and in shares of building-loan associations provided the following conditions are satisfied:
 - a. The institution maintains an office or a deposit-taking facility within the State of Rhode Island.
 - b. Such deposits are insured by the Federal Deposit Insurance Corporation or the Federal Savings and Loan Insurance Fund to the extent that such accounts are so insured;
 - c. To the extent that such deposits described in this paragraph (9) exceed amounts covered by federal deposit insurance, approved collateral shall satisfy the requirements set forth in the Rhode Island Collateralization of Public Deposits Act, as defined in Rhode Island General Laws §35-10.1-1 through §35-10.1-11.
10. Any other investments expressly permitted by State of Rhode Island Law as well as any future amendments to applicable Rhode Island Laws.

Any Authorized Investments shall further be limited by, and subject to, any and all statutes, ordinances, resolutions or similar statements restricting, discouraging or prohibiting investments in certain entities, countries, types of businesses, or the like.

(j) Investment Parameters

Unless otherwise specifically permitted by the City, an investment must also comply with the restrictions listed on Exhibit A, attached hereto and incorporated herein.

(k). Investment of Federally Tax-Exempt Bond Proceeds

The City shall comply with all applicable sections of the Internal Revenue Code as they relate to Arbitrage Rebate and the investment of bond proceeds. The Investment Officers or Investment Advisor shall maintain all investment records to ensure compliance with all regulations.

(l) Safekeeping and Custody

All investment securities purchased with funds governed by this Policy shall be held in the name of the City by a third-party custodial agent that may not otherwise be counterparty to the investment transaction and will be free and clear of any lien. Further, all investment transactions will be conducted on a delivery-vs-payment basis. The custodial agent shall issue a safekeeping receipt to the City listing the specific instrument, rate, maturity, and other pertinent information. On a monthly basis, the custodial agent will provide reports that list all securities held for the City and the value of such securities as of month-end.

City officials and representatives of the custodial agent responsible for, or in any manner involved with, the safekeeping and custody process of the City’s investments, shall be bonded in such a manner as to protect the City from losses from malfeasance and misfeasance.

Original copies of non-negotiable certificates of deposit and confirming copies of all other investment transactions must be delivered to and maintained by the Treasurer.

(m) Reporting Requirements

Investment reports shall be submitted by the Investment Officers in accordance with the Charter and the Ordinances, and at any other time requested by the Finance Department or the City Council. The submitted investment reports must include acknowledgements by the Investment Officers that investments are in compliance with this Policy.

If the City engages an investment advisor to manage the city's funds, the investment advisor shall provide monthly reports to the Investment Officers for all funds under the management of the investment advisor, and certify that all investments are in compliance with this Policy.

(n) Performance Standards

The City's investments shall be managed with the objective of obtaining a market rate of return throughout budgetary and economic cycles, commensurate with the investment risk constraints and cash flow needs of the City's investment portfolios. Investments and/or specific investment portfolios shall be compared to an index of U.S. Treasury securities having a similar duration or other appropriate benchmarks.

(o) Investment Advisors

Any investment advisors contracted by the City shall verify in writing that they have received a copy of this Policy. Such written statement shall indicate that they have read and understand this Policy and all applicable laws relating to the City's investments, and their intent to comply fully with these requirements. Investment Advisors will be required to submit reports in accordance with the terms to be set forth in the contract to be awarded through the City's bidding process.

The City shall require all investment advisors to submit any and all of the following prior to engagement by the City and upon request:

1. Audited financial statements.
2. Proof of Financial Industry Regulatory National Association (FINRA) certification.
3. Proof of state registration.
4. SEC Form ADV Part II (for investment advisors).
5. Any and all other documents requested by a bid or request for proposal duly advertised by the City.

(p) Authorized Financial Institutions, Depositories, and Broker/Dealers

The Investment Officers will maintain a list of approved financial institutions and depositories, which shall be reviewed and updated at least every 24 months.

If the City hires an Investment Advisor, the Investment Advisor will maintain a list of approved security broker/dealers selected, pursuant to the terms set forth in the contract to be awarded through the Ordinance's bidding process. For the purpose of this section, the term "broker" means a broker-dealer, broker, or agent of a government entity, who transfers, purchases, sells, or obtains securities for, or on behalf of, a government entity. These may include primary dealers or regional dealers that qualify under Securities and Exchange Commission (SEC) Rule 15c3-1 (uniform net capital rule).

(q) Amendment and Effective Date

This Investment Policy shall be updated on a continuing basis by incorporation of substantive changes made to applicable laws. Any changes shall be made as soon as practicable, in writing, and submitted for approval by the City Council. Notwithstanding, any substantive changes to applicable laws shall be deemed incorporated herein, effective as of the date of the applicable law.

SECTION 3. This Investment Policy shall be deemed effective upon passage.

IN CITY COUNCIL

DEC 06 2018
FIRST READING
READ AND PASSED

Lou L. Hays
CLERK

IN CITY
COUNCIL

JAN 17 2019
FINAL READING
READ AND PASSED

Sabrina Mats
PRESIDENT
Lou L. Hays
CLERK

I HEREBY APPROVE.

[Signature]

Mayor
Date: 1/22/19