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**CITY OF BUFFALO**  
**INVESTMENT POLICY**



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**2014**

# INVESTMENT POLICY

## OF THE

# CITY OF BUFFALO

### **I. SCOPE**

This investment policy applies to all moneys and other financial resources available for deposit and investment by the City of Buffalo on its own behalf or on the behalf of any other entity or individual.

### **II. OBJECTIVES**

The primary objectives of the City of Buffalo's investment activities are, in priority order:

- To conform to all applicable Federal, State and other legal requirements.
- To adequately safeguard principal.
- To provide sufficient liquidity to meet all operating requirements.
- To obtain reasonable rate of return.

### **III. DELEGATION OF AUTHORITY**

The Comptroller as Chief Fiscal Officer for the City of Buffalo is empowered by City Charter Section 7-13 with the responsibility of investing funds not immediately required on behalf of the City. In addition under City Charter Section 7-21 the Investment and Debt Management Officer, under the supervision of the Comptroller, shall too be authorized to invest funds not immediately required on behalf of the City.

### **IV. PRUDENCE**

All participants in the investment process shall seek to act responsibly as custodians of the public trust and shall avoid any transaction that might impair public confidence in the City of Buffalo to govern effectively.

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. 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." Investments will be purchased through a competitive or negotiated process.

All participants involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment program, or which could impair their ability to make impartial investment decisions.

## **V. DIVERSIFICATION**

It is the policy of the City of Buffalo to diversify its deposits and investments, when appropriate and advantageous, by financial institution, by investment instrument, and by maturity scheduling.

## **VI. INTERNAL CONTROLS**

It is the policy for all moneys collected by any officer or employee of the City of Buffalo to deposit those funds with the City Treasury daily unless an agreement exists that specifies otherwise.

The Comptroller and Investment and Debt Management Officer are responsible for establishing and maintaining internal control procedures to provide reasonable, but not absolute, assurance that deposits and investments are safeguarded against loss from unauthorized use or disposition, that transactions are executed in accordance with management's authorization, properly recorded, and managed in compliance with applicable laws and regulations.

## **VII. DESIGNATION OF DEPOSITORIES**

The City will maintain deposits in multiple banks and trust companies, which are required to be located and authorized to do business in New York State. The maximum amount which can be kept on deposit at any time will be determined by the Comptroller or the Investment and Debt Officer, under the Comptroller's supervision who will consider the bank or trust company size and their ability to collateralize the deposits in excess of FDIC insurance.

## **VIII. SECURING DEPOSITS AND INVESTMENTS**

All deposits and investments at a bank or trust company, including all demand deposits, certificates of deposits and special time deposits that are in excess of the amount insured under the provisions of the Federal Deposit Insurance Act shall be secured by:

1. A pledge of "eligible securities" with an aggregate "market value" (as provided by the GML Section 10) that is at least equal to the aggregate amount of deposits by the officers. The following is a listing of eligible securities:
  - (a) Obligations issued or fully insured or guaranteed as to the payment of principal and interest, by the United States of America, an agency thereof or a United States government sponsored corporation. Margin % 102.

2. An “irrevocable letter of credit” issued in favor of the City of Buffalo by a Federal Home Loan Bank of New York whose commercial paper and other unsecured short-term debt obligations are rated in the highest rating category by at least one nationally recognized statistical rating organization, as security for the payment of 100 percent of the aggregate amount of deposits and the agreed-upon interest, if any. Margin % 100.

## **IX. COLLATERALIZATION AND SAFEKEEPING**

Eligible securities used for collateralizing deposits shall be held by the depository and or a third party bank or trust company subject to security and custodial agreements. The Investment and Debt Management Officer of the City of Buffalo shall monitor the collateral no less frequently than monthly.

The security agreement shall provide that eligible securities are being pledged to secure such deposits together with agreed-upon interest, if any, and any costs or expenses arising out of the collection of such deposits upon a default. It shall also provide the conditions under which the securities may be sold, presented for payment, substituted or released and the events which will enable the City of Buffalo to exercise its rights against the pledged securities.

In the event that the pledged securities are not registered or inscribed in the name of the City of Buffalo, such securities shall be delivered in a form suitable for transfer or with an assignment in blank to the City of Buffalo or the custodial bank or trust company. Whenever eligible securities delivered to the custodial bank or trust company are transferred by entries on the books of a federal reserve bank or other book-entry system operated by a federally regulated entity without physical delivery of the evidence of the obligations, then the records of the custodial bank or trust company shall be required to show, at all times, the interest of the government in the securities as set forth in the security agreement.

The custodial agreement shall provide that pledged securities held by the bank or trust company as agent of, and custodian for, the City of Buffalo will be kept separate and apart from the general assets of the custodial bank or trust company and will not be commingled with or become part of the backing of any other deposit or other bank liability. The agreement shall also describe how the custodian shall confirm the receipt, substitution, or release of the collateral and it shall provide for the frequency of revaluation of collateral by the custodial bank or trust company and for the substitution of collateral when a change in the rating of a security causes ineligibility. The security and custodial agreements shall also include all other provisions necessary to provide the City of Buffalo with a perfected security interest in the eligible securities and to otherwise secure interest in the collateral, and may contain other provisions that the City deems necessary.

## **X. PERMITTED INVESTMENTS**

As provided by General Municipal Law Section 11, the Comptroller and the Investment and Debt Officer, under the Comptroller's supervision, are authorized respectively by City Charter Sections 7-13 and 7-21 to invest moneys not required for immediate expenditure in the following types of investments:

- Special time deposit accounts in, or certificates of deposit issued by, a bank or trust company located and authorized to do business in the State of New York not to exceed 4 months.
- Obligations of the United States of America not to exceed 2 years.
- Obligations guaranteed by agencies of the United States of America, where the payment of principal and interest are guaranteed by the United States of America not to exceed 2 years.
- Obligations of the State of New York not to exceed 2 years.
- With the approval of the State Comptroller, obligations issued pursuant to Local Finance Law Section 24.00 or 25.00 (i.e., Tax Anticipation Notes and Revenue Anticipation Notes) by any municipality, school district or district corporation in the State of New York other than the City of Buffalo not to exceed 2 years.
- Obligations of the City of Buffalo, but only with moneys in a reserve fund established pursuant to General Municipal Law Section 6-c, 6-d, 6-e, 6-f, 6-g, 6-h, 6-j, 6-k, 6-l, 6-m, or 6-n.
- Certificates of deposit obtained by a bank or trust company located and authorized to do business in the State of New York that contractually agrees to place the funds in federally insured depository institutions through the Certificate of Deposit Account Registry Service (CDARS) not to exceed 4 months.
- Special time deposit accounts in a bank or trust company located and authorized to do business in the State of New York that contractually agrees to place the funds in federally insured depository institutions through the Insured Cash Sweep service (ICS).

All investment obligations shall be payable or redeemable at the option of the City of Buffalo within such times as the proceeds will be needed to meet expenditures for purposes for which the moneys were provided and, in the case of obligations purchased with the proceeds of bonds or notes, shall be payable or redeemable in any event at the option of the City of Buffalo within two years of the date of purchase. Time deposit accounts and certificates of deposit shall be payable within such times as the proceeds will be needed to meet expenditures for which the moneys were obtained, and shall be secured as provided in Sections VIII and IX herein.

Except as may otherwise be provided in a contract with bondholders or note holders, any moneys of the City of Buffalo authorized to be invested may be commingled for investment purposes, provided that any investment of commingled moneys shall be payable or redeemable at the option of the City of Buffalo within such time as the proceeds shall be needed to meet expenditures for which such moneys were obtained, or as otherwise specifically provided in General Municipal

Law Section 11. The separate identity of the sources of these funds shall be maintained at all times and income received shall be credited on a pro rata basis to the fund or account from which the moneys were invested.

Any obligation that provides for the adjustment of its interest rate on set dates is deemed to be payable or redeemable on the date on which the principal amount can be recovered through demand by the holder.

## **XI. AUTHORIZED FINANCIAL INSTITUTION AND DEALERS**

All financial institutions and dealers with which the City of Buffalo transacts business shall be credit worthy and capable and qualified to transact business with the City of Buffalo. The Comptroller or the Investment and Debt Officer, under the Comptrollers supervision shall evaluate annually the credit worthiness of financial institutions utilized by the City of Buffalo. Recent Reports of Condition and Income (call reports) shall be obtained for proposed banks, and security dealers that are not affiliated with a bank shall be required to be classified as reporting dealers affiliated with the New York Federal Reserve Bank, as primary dealers.

## **XII. PURCHASE OF INVESTMENTS**

The Comptroller and the Investment and Debt Officer, under the Comptrollers supervision, are authorized to contract for the purchase of investments:

1. Directly, from an authorized trading partner
2. By participation in a cooperative investment agreement with other authorized municipal corporations pursuant to Article 5-G of the General Municipal Law and in accordance with Article 3-A of the General Municipal Law.

All purchased obligations, unless registered or inscribed in the name of the City of Buffalo, shall be purchased through, delivered to and held in the custody of a bank or trust company. Such obligations shall be purchased, sold, or presented for redemption or payment by such bank or trust company only in accordance with prior written authorization from the officer authorized to make the investment. All such transactions shall be confirmed in writing to the City of Buffalo by the bank or trust company.

Any obligation held in the custody of a bank or trust company shall be held pursuant to a written custodial agreement as described in General Municipal Law Section 10(3)(a). The agreement shall provide that securities held by the bank or trust company, as agent of, and custodian for, the City of Buffalo will be kept separate and apart from the general assets of the custodial bank or trust company and will not be commingled with or become part of the backing of any other deposit or other bank liability. The agreement shall also describe how the custodian shall confirm the receipt and release of the securities. Such agreement shall include all provisions necessary to secure the local government's perfected interest in the securities.

### **XIII. REPURCHASE AGREEMENTS**

Repurchase Agreements (REPOs) is an agreement with a approved broker/dealer that provides for the sell and simultaneous purchase of an allowable collateral security. The difference in the sales and purchase price is the earning rate of the agreement. REPOs are complex transactions that can expose the City to serious risks. When determining if the use of REPOs is appropriate, the Comptroller and the Investment and Debt Officer, under the Comptrollers supervision must evaluate whether the City has the resources to negotiate and monitor these complex agreements. Legal counsel should review all REPO documents and they should comply with the following:

- Trading partners should be limited to creditworthy banks or trust companies located and authorized to do business in New York State or to registered primary dealers.
- Unless the obligations that are purchased pursuant to the REPO are registered or inscribed in the name of the local government, obligations must be purchased through, delivered to and held in the custody of a bank or trust company located and authorized to do business in New York State.
- The City of Buffalo must enter into a master REPO, outlining basic responsibilities and liabilities of the buyer and seller, and a written agreement with the custodial bank or trust company, outlining the basic responsibilities and liabilities of the buyer, seller, and custodian.
- The custodial agreement should provide that the custodian takes possession and maintains custody of the obligations exclusively for the local government, that the obligations are free of any claims against the trading partner, and that any claims by the custodian are subordinate to the local government's claims or rights to those obligations.
- The obligations must be credited to the local government on the records of the custodial bank or trust company, and the transaction must be confirmed in writing to the City of Buffalo by the custodial bank or trust company.
- The obligations purchased by the local government may only be sold or presented for redemption or payment by the City of Buffalo's custodian upon written instructions of the Comptroller or Investment and Debt Officer of the City of Buffalo.
- The City of Buffalo must obtain a perfected security interest in the obligation.
- Agreements should be for short periods of time (no more than 30 days).
- The City of Buffalo should determine whether to include margin requirements.
- No substitution of obligations is permitted.
- Payment for the purchased obligations should not be made by the custodial bank or trust company until the obligations are actually received.

### **XIV. PERFORMANCE STANDARDS**

The City's cash management portfolio shall be designed with the objective of regularly meeting or exceeding the average return on three-month U.S. Treasury bills. This benchmark is for lower risk investment transactions and therefore comprises a minimum standard for the portfolio's rate of return.