

RESOLUTION NUMBER 7167

A RESOLUTION OF THE MISSOULA CITY COUNCIL CREATING A DEBT MANAGEMENT POLICY OF THE CITY OF MISSOULA.

WHEREAS a debt management policy is helpful for issuing, administering and managing municipal debt; and

WHEREAS, Title 7, Chapter 7 of the Montana Code Annotated is entitled “Debt Management” for local government; and

WHEREAS, prudent financial management encourages the Missoula City Council to establish a Debt Management Policy to serve as a guideline when the City of Missoula is issuing debt instruments; and

WHEREAS the Missoula City Council considered and adopted the attached municipal debt policy for the City of Missoula at its _____, 2006 meeting; and

NOW, THEREFORE, BE IT RESOLVED, that the attached Policy of the City of Missoula be established as the official debt management policy.

FURTHER BE IT RESOLVED THAT this document shall also be included in the Missoula Administrative Rules and Procedures as Policy No. ___, on file in the Missoula City Clerks’ Office.

PASSED AND ADOPTED this 16th day of October, 2006.

ATTEST: APPROVED:

/s/ Martha L. Rehbein

/s/ John Engen

Martha L. Rehbein, City Clerk

John Engen, Mayor

(Seal)

Debt Management Policy

City of Missoula

Executive Summary

This debt policy for the City of Missoula is designed to provide a clear basis as to the City's policies and practices so that our creditors, elected officials and citizens will understand the basis of debt issuance by the City. This policy formally puts in writing what our past and present debt issuance practices have been.

The policy addresses the following issues:

1. Provides a statement of purpose.
2. Provides general guidelines, definitions and conditions for debt issuance.
3. Discusses the various types of debt issued by the City.
4. Identifies debt structuring characteristics addressing repayment terms, tax exempt status, prepayment provisions, sale to accredited investors and credit ratings.
5. Discusses the three methods for selling the City's debt and the preferred method of sale.
6. Provides a process for underwriter selection for negotiated sales.
7. Provides the basis of award for bond sales.
8. Provides the basic guidelines for the City's debt management:
 - Required Debt service cash flow monitoring.
 - Targeted debt level maximum for voted G.O. debt (66% of statutory debt capacity).
 - Targeted debt level maximum for non-voted General Fund debt (66% of legal debt limit).
 - Targeted debt level maximum for annual appropriation obligations (capital leases) which would be 1% of General fund Expenditures in the preceding year.
 - Basis for issuance of revenue debt (enterprise funds).
 - Criteria for securing the issuance of special improvement district debt and curb & gutter debt.
 - Guidelines for the issuance of tax increment debt.
 - Criteria for the refunding of City debt.
 - Criteria for the use of derivatives (currently illegal for Montana cities).
9. Establishes interim reporting to the Mayor and Council.
10. Other administrative procedures and guidelines for the City Finance office.

This Debt Management Policy is adopted to promote the effective use of debt as a financing tool and to guide decision-making on its application.

Debt Management Policy

I. Statement of Purpose

- A. To preserve the public trust and prudently manage public assets to minimize costs to taxpayers and ensure current decisions positively impact future citizens.
- B. To minimize borrowing costs.
- C. To preserve access to capital markets.
- D. To ensure future financial flexibility in debt financing options.

II. Guidelines for Use of Debt Financing

- A. Debt is a financing tool which should only be judiciously used within the City's legal, financial and debt market capacities.

B. Definitions

1. **Debt.** The creation of debt occurs when a governing body incurs a financial obligation that can not, or will not, be repaid from current fiscal period revenues. Debt may be in the form of bond or note.
2. **Short Term Debt.** For purposes of this policy, Short Term Debt means debt with a repayment term of less than 5 years.
3. **Long term Debt.** For purposes of this Policy, Long Term Debt means debt with repayment terms beyond the term of the Short Term Debt, up to the maximum term allowable by law, generally twenty years.
4. **Cash Flow Financing.** Cash flow financing means tax and revenue anticipation notes (TANS and RANS) that are issued in anticipation of the receipt of the revenues, and tax dollars levied and appropriated and expected to be received in the fiscal year in which the note is issued. Because TANS and RANS are payable from current year revenues they do not constitute debt.

C. General Conditions for the Use of Long-term Debt

Debt will be considered when some or all of the following conditions exist:

1. Estimated future revenues are sufficient to ensure the long-term viability of repayment of the debt obligation;
2. Other financing options have been explored and they are not viable for the timely or economic acquisition or completion of a capital project;
3. A capital project is mandated by federal or state authorities with no other viable funding option available; and
4. The asset useful life lends itself to long term debt financing.

D. Debt Issuance versus Pay-As-You-Go (PAYG) Financing

The City shall seek to appropriately use PAYG financing, when feasible, based on the following criteria:

1. The project can be adequately funded from available current revenues and fund balances;
2. The project can be completed within an acceptable timeframe when funded from current revenues;
3. Additional debt levels could adversely impact credit ratings or capacities to repay existing obligations;
4. Market conditions are such that PAYG presents a favorable option; or
5. The asset's useful life itself is not conducive to long term debt financing.

III. Types of Debt

The City may have choices as to the type of debt which would best meet the needs of the particular financing and its overall objectives. The following is a listing of the types of debt and general guidelines as to their use.

A. General Obligation and Related Debt

1. *General Obligation (G.O.).* General Obligation bonds provide the investor with its most secure City transaction, because of the City's pledge of its unlimited authority to levy ad valorem property taxes for debt service. G.O. bonds require voter approval to be issued. The overall amount of G.O. bonds is limited by statute.
2. *General Fund Bonds.* General Fund bonds are secured by a long-term pledge by the City of General Fund revenues. It differs from a G. O. bond in that it is not a long-term pledge of an unconditional levy of property taxes. The issuance of General Fund bonds has three statutory restrictions: a) no single issue can exceed 10% of the General Fund budget for each of the two preceding years; b) at the time of issuance the total of all such debt service can not exceed 2% of the General Fund's revenues for each of the two preceding years; and c) the maximum term of any issue can not exceed 20 years.
3. *Annual Appropriation Obligations.* These obligations are financial contracts which are secured solely by the City's pledge to annually consider an appropriation for their payment. As this consideration is on an annual basis, the obligations do not provide a legally binding commitment for a long-term pledge of repayment. They are less secure to the investor due to the risk of non-appropriation. The City has the potential to use annual appropriation obligations for either governmental purpose projects or as additional security for economic development projects. The City will consider its use in the latter case only in extreme situations and then only for public improvements having a city-wide benefit. In economic development applications the City will look to the related economic development revenues to provide full payment of all obligations and to have a minimum coverage level of 130%.

B. Revenue Debt

1. *Revenue Bonds* can be issued to fund certain types of revenue producing municipal enterprises, infrastructure systems or in relation to economic development projects. Revenue bonds are secured by the revenues of the particular system or project being financed. Revenue bonds are not secured by general municipal revenues or the general property tax.

2. *Tax Increment Financing (TIF) Debt*; this type of revenue bond is secured by TIF revenues from a TIF district or an individual TIF project. TIF bonds can only fund eligible project costs permitted under the statute. In certain cases TIF bonds may be issued as federally taxable securities due to the nature of expenditures and the special augmented security provided by private parties involved with a development.

C. Special Assessment Debt

1. *Special Improvement District (SID) Debt*; this type of bond is secured by special assessments levied on specific properties for related municipal infrastructure improvements which specially benefit those particular properties. The statute requires a 5% contribution to an overall SID revolving fund, and the provision for up to an additional 5% for the funding of a debt service reserve fund specific to a particular bond issue, if necessary to secure and market the debt.
2. *Curb and Gutter Debt*; this type of bond is secured by special assessments levied on specific properties for these improvements which specially benefit those particular properties. The statute requires a 5% contribution to an overall SID revolving fund.

D. Conduit Bonds

The City may act as an issuer for a private or non-profit party. In these cases the City acts as a 'conduit' issuer of tax-exempt bonds as defined by federal and state law. Conduit bonds are secured solely by revenues of the private or non-profit party, and are not an obligation of the City.

E. Debt Structuring Characteristics

In general the City will seek to structure its debt issues with these terms. The City recognizes that certain debt transactions may require deviations from these terms given the specific financial conditions.

1. *Repayment Term*. The City will structure its debt to comply with all federal and state and local requirements as to repayment terms. The City will seek to repay its debt in an expeditious manner within the City's overall financial objectives and in consideration of the dedicated repayment revenue source(s) and the useful life of the project.
2. *Taxable debt*. The City shall primarily seek to issue and/or guarantee only tax-exempt debt and avoid taxable debt to reduce interest expenses. However, the City recognizes that in certain cases the issuance of taxable debt may be required and/or beneficial to the City in reducing its risk for a particular project. Prior to issuing taxable debt the City will complete an evaluation of the cost and risk differentials.
3. *Prepayment Provisions*. Redemption provisions and call features shall be in compliance with particular statutory provisions by type of issue, and be evaluated in the context of each bond sale to enhance marketability of the bonds; to ensure flexibility related to potential early redemption; to foster future refunding transactions; or in consideration of special conditions of the transaction. Additional cost of call premium and higher interest rates as a result of including a call provision shall also be evaluated.
4. *Sale to Accredited Investors*. Certain issues may be of a highly speculative nature due to the type of project or the revenue structure. The City wants to ensure that all of its issues

are purchased by investors fully knowledgeable of the risks involved with the investment. For highly speculative issues the City will require the purchase by qualified investors, those generally defined by the Securities and Exchange Commission, Regulation D. To ensure these types of investors are maintained both in the primary and secondary bond markets, the City will require either minimum denominations of \$50,000 or that all future investors are accredited.

5. *Credit Ratings.* The City will seek to obtain investment grade credit ratings when possible. Credit ratings provide a standard for proper bond structuring, generally expand the market thereby reducing overall financing costs and provide an independent assessment of overall financial condition.

IV. Bond Sale

A. Method of Sale

Three methods of sale exist for the placement of municipal bonds:

1. *Competitive sale.* Bonds are marketed to a wide audience of investment banking (underwriting) firms. Their bids are submitted at a specified time. The underwriter is selected based on its best bid (lowest true interest cost) for its securities.
2. *Negotiated sale.* The City selects the underwriter or group of underwriters of its securities in advance of the bond sale. The City financing team works with the underwriter to bring the issue to market and negotiates all interest rates and terms of the sale.
3. *Private placement.* The City sells its bonds to a limited number of sophisticated investors, and not the general public. Private placement bonds are often characterized as having higher risk or a specific type of investor base.

B. Preferred Method of Sale

The City will sell their municipal bond issues on a competitive basis unless specific conditions exist which warrant a different manner. Such conditions may include:

1. A bond structure which is not conducive to a competitive bond sale due to its structure;
2. An issue which lacks an investment grade rating or has complex security provisions;
3. An issue with a small principal amount; and
4. A municipal bond market which is experiencing significant volatility.

Regardless of the conditions above, the City must follow the particular statutory provisions for the method of sale for each type of issue. Further, on all sales the City will obtain an opinion from its financial advisor as to the reasonableness of the financing structure and the proposed interest rates.

C. Selection of Underwriter for Negotiated Sales

For negotiated sales, the City will select an underwriter(s) through a competitive process. This process will include a request for proposals from firms considered appropriate for the underwriting of the particular issue. The Director of Finance will set criteria deemed appropriate for the evaluation of underwriter proposals and select the underwriter(s) based on such criteria.

D. Award of Sale

The City and its agencies will award the sale of its bonds on a true interest cost (TIC) basis. A TIC basis considers the time value of money in its calculation.

V. Guidelines for Debt Management

Proactive debt management is a key component to the immediate and long-term success of the City's financial objectives. A successful debt management program begins with comprehensive information on the current debt program status and definition of the future direction of the City's capital financing objectives.

The City recognizes that a negative event relating to the repayment of any of its issues will have significant long term adverse consequences for all future debt obligations regardless of type. The City will seek to incorporate into each of its issues sufficient security provisions to mitigate this risk.

A. Debt Service Cash Flow Monitoring

The City shall maintain a system of debt service revenue forecasting for each of its major debt categories. For revenue only transactions the City will assess the probability of future collections of pledged revenues.

B. Guidelines for Targeted Debt Level Maximums

Maintaining the appropriate levels of debt is important to preserve capacity for future infrastructure investments and to position for high credit quality. Each type of debt has its own appropriate level. The appropriate levels are internally determined based on a variety of factors, such as: infrastructure investment needs of the particular service area, capacity to repay debt from the specific revenue source, and the sector's credit rating objectives. Since these factors can change over time, any debt guideline must be periodically reviewed to reflect evolving City conditions.

1. General Obligation Debt

The sum of all City direct debt by type shall not exceed the lesser of:

Percent of Assessed Valuation	66% of legal debt limit
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2. General Fund Debt

Principal Of Each Debt Issue Not To Exceed : (a) 10% of General Fund Budget each preceding two years, and (b) total debt service for all outstanding debt (66 % of General Fund Legal limit = $66\% \times 2\% \text{ Revenues for each preceding two years} = 1.32\%$ (of General Fund revenues) which is the targeted limit for General Fund debt issuance.

3. Annual Appropriation Obligations (i.e. capital leases)

Percent of General Municipal Expenditures in preceding year: - 1.0 %

4. Revenue (Enterprise) Obligations

Each type of enterprise fund revenue debt has an estimated capacity caused by its financial position, user rate revenue generation capability, and existing and anticipated future debt requirements.

5. Special Improvement District; Curb and Gutter Revenue Bonds;

The City will seek to maintain a security profile which will assist in mitigating any exposure of revenue deficiency draws against the overall revolving fund and funded reserve levels, and where possible obtain investment-grade credit ratings. The City recognizes that having to draw upon the revolving fund, supplemental reserves or a payment default puts at risk the City's ability to efficiently fund all outstanding and future related issues. To maintain appropriate security the City will generally require the following security profile to each of these issues;

- a. Funding of the 5% SID revolving Fund is mandatory,
- b. Financing improvements to properties where at least 50% have structures on the parcels, and
- c. Assessments to Market Value being less than 33%.

If these conditions can not be met and the City still wishes to issue the bonds, then the City may seek one or more of the following additional risk mitigation approaches

- d. Debt Service Reserve equal to an additional 5% may be established for a specific debt issue,
- e. Require the project to be constructed and financed in multiple phases, or
- f. Require supplemental private party guarantees in the form of direct pay letters-of-credits from financial institutions with industry credit ratings of good or higher.

6. Tax Increment Financing Debt;

Where possible the City will seek to have pay-as-you-go TIF debt, wherein the project's private beneficiary receives debt payments over a period of time only from actual revenue collections. Where the project or financing does not lend itself to a PAYG approach, the City will require the individual TIF issues to have a funded debt service reserve, coverage at a minimum of 125%, an executed development contract clearly specifying the developer's requirements as to timing and valuation of development with suitable remedies for the City in the event of non-performance. Where appropriate the City will seek such other security guarantees as are deemed necessary solely by the City, regardless of the tax standing of the particular issue.

7. Defeasance, Prepayment and Refunding

The accelerated retirement and restructuring of debt can be valuable debt management tools. Accelerated retirement occurs through the use of defeasance and the exercise of prepayment provisions. Debt is often restructured through the issuance of refunding bonds.

The federal government has placed significant conditions on the tax-exempt refunding of outstanding issues. Refundings have two general categories:

Current refundings, where the refunding bonds are settled within 90 days of an optional prepayment date; and

Advance refundings, where refundings are settled more than 90 days in advance of an optional prepayment date. The federal restrictions are that any issue can only be advance refunded once on a tax-exempt basis.

On advance refundings the City will seek to obtain a minimum present value savings level of 3% of the present value of refunded debt service.

State law requires a demonstration of savings of 0.5% reduction in the average coupon interest rate between the refunding and refunded bonds.

8. Derivatives

Montana municipalities are not currently authorized to use derivatives. If state law authorizes municipalities to use derivatives, the City would consider their use in conjunction with significant evaluation as to the risks and benefits and with the advice of independent industry professionals. If used, the City would follow the Government Finance Officers Association's Recommended Practice on the use of Derivatives.

VI. Interim Reporting

The Director of Finance will provide the Mayor, City Council and Chief Administrative Officer a summary debt report at minimum at six-month intervals within 30 days of each December 31st and June 30th. While the contents of the summary debt report may vary over time, at minimum it will cover the actual experience to the Guidelines for Targeted Debt Maximums.

VII. Compliance

A. Compliance with Statutory and Code of Ordinances

The authority and manner in which the City issues its bonds are in large part dictated by the conveyed state statutory authority. The statutes provide numerous requirements on the issuance and structuring of City bonds, with variations by type of debt. The City will follow all statutory requirements in the issuance and structuring of its debt obligations, as well as ordinances provisions relative to debt issuance, term of debt, structuring, method of sale, etc.

B. Monitoring of Covenant Compliance

The City's revenue bonds generally have a number of bond covenants requiring ongoing compliance and conditions for future bond issuance on an equal security ('parity') basis. The City will maintain a compliance monitoring system by revenue bond type of all bond covenants. The system will track trends in coverage levels over time and capacity availability under the additional bonds covenants.

C. Federal Arbitrage and Rebate Compliance

1. The City will fully comply with the federal arbitrage and rebate regulations. Concurrent with this policy, the City will take all permitted steps to minimize any rebate liability through proactive management in the structuring and oversight of its individual debt issues.

2. All of the City's tax-exempt issues and obligations are subject to arbitrage compliance regulations. The Finance Department and the requesting departments shall be responsible for the following:
 - a. Using bond proceeds only for the purpose and authority for which the bonds were issued. Tax-exempt bonds will not be issued unless it can be demonstrated that 85% of the proceeds will be expended within the three-year temporary period.
 - b. Performing rebate calculations on certain construction funds as determined by IRS. The City will engage an arbitrage consulting firm to perform annual rebate calculations.
 - c. Performing rebate computations annually, but in no event later than each five-year anniversary date of the issuance and at the final maturity for all bonds. Examining whether the City met the rebate exception calculation rules.
 - d. Maintaining detailed investment records, including purchase prices, sale prices and comparable market prices for all securities.
 - e. Monitoring expenditure of the bond proceeds and exercising best efforts to spend bond proceeds in such a manner that the City shall meet one of the spend-down exemptions from rebate.
 - f. Monitoring the investment of bond proceeds with awareness of rules pertaining to yield restrictions.

To the extent rebate liability exists, the City will report such liability in its comprehensive annual financial report (CAFR).

VIII. Disclosure Compliance

A. Introduction

Disclosure is both a regulatory requirement and a highly advisable means to enhance the marketing of the City's bonds. The Securities and Exchange Commission (SEC) regulates both primary disclosure, the initial marketing of a bond issue, and continuing disclosure, the ongoing information to the market about the status of the issue and issuer. Initial and ongoing disclosure are subject to the anti-fraud provisions of the securities laws, requiring an issuer to provide all material information about a bond issue and the security for the bond issue. In addition to general anti-fraud issues, the SEC regulates the manner in which bond underwriters can underwrite municipal securities. SEC Rule 15c2-12 (the "Rule") requires, among other things, that an underwriter obtain an official statement meeting certain requirements. The Rule also prohibits an underwriter from marketing municipal securities unless the issuer enters into an undertaking to provide continuing disclosure to the market.

Adequate disclosure on both a primary and continuing basis can enhance the marketability of the City's bonds by providing potential investors with current and professional information regarding the City. Timely and accurate completion of these tasks both influences investors' decisions on purchasing the City's bonds and contributes to the competitive audience for the City's bonds.

The City will fully comply with disclosure regulations.

B. Primary

In the preparation of official statements the City will follow professional and market standards in the presentation of disclosure about its bond issues. The City will facilitate the distribution of the official statements in a timely manner to allow investors adequate time to make their investment decisions in an informed manner. The City will disclose all material information about its bond issue and the security for the bond issue

The City will execute continuing disclosure undertakings in a manner to fully comply with regulatory provisions and ensure a full disclosure of appropriate information to the market.

C. Secondary

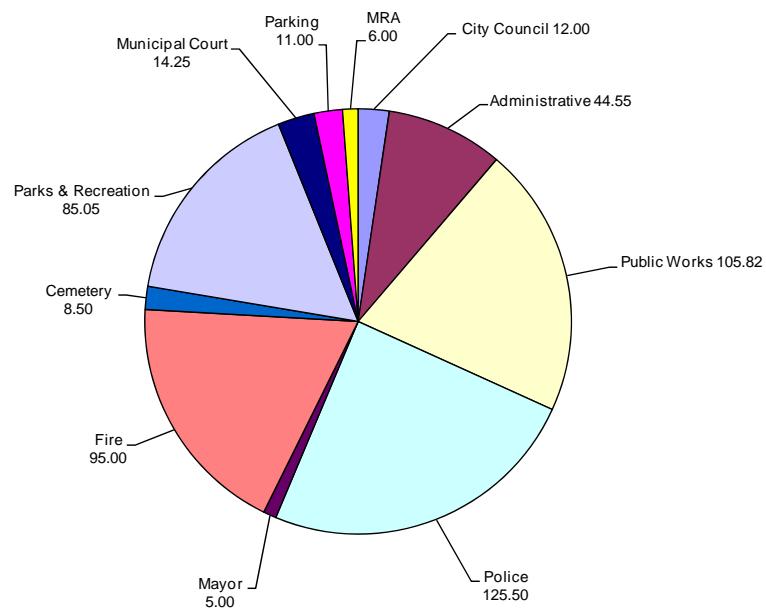
The City will meet all substantive and time requirements in its annual continuing disclosure filings, which include making the City's CAFR available to the public 180-270 days after the fiscal year end. The City will keep current with any changes in both the administrative aspects of its filing requirements and the national repositories responsible for ensuring issuer compliance with the continuing disclosure regulations. In the event a 'material event' occurs requiring immediate disclosure, the City will ensure information flows to the appropriate disclosure notification parties in a timely manner.

Any filing may be made solely by transmitting such filing to the Texas Municipal Advisory Council (the "MAC") as provided at <http://www.disclosureusa.org.>, unless the United States Securities and Exchange Commission has withdrawn the interpretive advice in its letter to the MAC dated September 7, 2004.

5 Year Analysis of Budgeted FTE for the City of Missoula

	2009 # FTE	2008 # FTE	2007 # FTE	2006 # FTE	2005 # FTE	2004 # FTE
<i>City Departments</i>						
City Council	12.00	12.00	12.00	12.00	12.00	12.00
Mayor's Office	5.00	5.00	5.00	4.00	4.00	4.00
Human Resources	4.15	4.15	4.15	4.15	3.90	3.90
Communications	0.00	0.00	0.00	1.00	1.00	1.00
City Clerk	4.50	4.50	4.50	4.00	3.50	3.25
Information Technologies	6.00	6.00	6.00	5.50	5.00	4.50
Municipal Court	14.25	14.25	12.50	10.50	10.50	9.00
Finance/Treasurer	16.00	16.00	16.00	12.75	12.75	13.13
City Attorney	14.90	14.40	14.40	12.40	9.90	9.90
Public Works	30.12	29.82	28.62	28.62	28.12	27.12
Street Division	28.54	28.54	28.54	28.54	28.54	28.29
Vehicle Maintenance	11.00	11.00	11.00	11.00	10.50	10.50
Police Department	125.50	125.50	125.50	119.00	116.00	108.00
Fire Department	95.00	91.00	85.00	78.00	78.00	76.00
City Cemetery	8.92	8.92	8.50	8.50	8.50	8.50
Parks and Recreation	56.27	54.50	55.70	54.02	52.94	49.94
Total General	432.15	425.58	417.41	393.98	385.15	369.03
General Fund % Increase	1.54%	1.96%	5.95%	2.29%	4.37%	
<i>Enterprise Funds</i>						
Aquatics	26.73	30.81	26.36	4.75	-	-
MRA	6.00	6.00	6.00	6.00	6.14	6.14
Building Division	13.00	13.34	15.00	14.34	13.86	13.50
Wastewater	22.20	22.20	22.20	22.20	22.20	20.20
Parking Commission	11.00	11.00	11.00	11.00	11.00	11.00
Total Enterprise	78.93	83.35	80.56	58.29	53.20	50.84
Non-General Fund % Increase	-5.30%	3.46%	38.21%	9.57%	4.64%	
Total for City Departments	511.08	508.93	497.97	452.27	438.35	419.87

City FTE Count - FY 2009



CITY OF MISSOULA INVESTMENT POLICY

Revised February 2000

Modeled After Government Finance Officers Association
Sample Investment Policy
Committee on Cash Management

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I. Scope

This policy applies to the investment of short-term operating funds. Proceeds from certain bond issues will be covered by a separate policy.

1. *Pooling of Funds*

Except for cash in certain restricted and special funds, the City of Missoula will consolidate cash balances from all funds to maximize investment earnings.

Investment income will be allocated to the various funds based on their respective participation and in accordance with generally accepted accounting principles.

II. General 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.

a. Credit Risk

The City of Missoula will minimize credit risk, the risk of loss due to the failure of the security issuer *or* backer, by:

- Limiting investments to the safest types of securities
- Pre-qualifying the financial institutions, broker/dealers, intermediaries, and advisers with which the City of Missoula will do business
- Diversifying the investment portfolio so that potential losses on individual securities will be minimized.

b. Interest Rate Risk

The City of Missoula will minimize the risk that the market value of securities in the portfolio will fall due to changes in general interest rates, by:

- Structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity
 - Investing operating funds primarily in shorter-term securities, money market mutual funds, or similar investment pools.

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). A portion of the portfolio also 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 are limited to relatively low risk securities in anticipation of earning a fair return relative to the risk being assumed. Securities shall not be sold prior to maturity with the following exceptions:

1. A security with declining credit may be sold early to minimize loss of principal.
2. A security swap would improve the quality, yield, or target duration in the portfolio.
3. Liquidity needs of the portfolio require that the security be sold.

III. Standards of Care

1. *Prudence*

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. Investment officers acting in accordance with written procedures and this 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 expectations are reported in a timely fashion and the liquidity and the sale of securities are carried out in accordance with the terms of this policy.

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.

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 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 City of Missoula.

3. *Delegation of Authority*

Authority to manage the investment program is granted to the City's Finance Director/Treasurer, hereinafter referred to as investment officer and derived from the

following: 7-6-201 M.C.A. 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, repurchase agreements, 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.

IV. Safekeeping and Custody

1. Authorized Financial Dealers and Institutions

A list will be maintained of financial institutions authorized to provide investment services. In addition, a list also 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
- Proof of National Association of Securities Dealers (NASD) certification
- Proof of state registration
- Completed broker/dealer questionnaire
- Certification of having read and understood and agreeing to comply with the City of Missoula's investment policy.

An annual review of the financial condition and registration of qualified financial institutions and broker/dealers will be conducted by the investment officer. (See the GFOA Recommended Practice on "Governmental Relationships with Securities Dealers," in Appendix 3.)

From time to time, the investment officer may choose to invest in instruments offered by minority and community financial institutions. In such situations, a waiver to the criteria under Paragraph 1 may be granted. All terms and relationships will be fully disclosed prior to purchase and will be reported to the appropriate entity on a consistent basis and should be consistent with state or local law. These types of investment purchases should be approved by the appropriate legislative or governing body in advance.

2. Internal Controls

The investment officer is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the City of Missoula are protected from loss, theft or misuse. The internal control structure shall be designed

to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that (1) the cost of a control should not exceed the benefits likely to be derived and (2) the valuation of costs and benefits requires estimates and judgments by management.

Accordingly, the investment officer shall establish a process for an annual independent review by an external auditor to assure compliance with policies and procedures. The internal controls shall address the following points:

- Control of collusion
- Separation of transaction authority from accounting and record-keeping
- Custodial safekeeping
- Avoidance of physical delivery securities
- Clear delegation of authority to subordinate staff members
- Written confirmation of transactions for investments and wire transfers
- Development of a wire transfer agreement with the lead bank and third-party custodian

3. *Delivery vs. Payment*

All trades where applicable 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. Securities will be held by a third-party custodian as evidenced by safekeeping receipts.

V. Suitable and Authorized Investments

1. *Investment Types*

Consistent with the 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 (7-6-2 01 M.C.A., 7-6-202 M.C.A., 7-6-206 M.C.A. 17-6-204 M.C.A.) where applicable:

7-6-201. Deposit of public funds in financial institutions. (1) Except as provided in 7-6-202, 7-6-206 or 7-6-2701, it shall be the duty of all county and city treasurers and town clerks to deposit all public money in their possession and under their control in any solvent banks, building and loan associations, savings and loan associations, or credit unions located in the county, city, or town of which such treasurer is an officer, subject to national supervision or state examination as the local governing body may designate, and no other.

(2) Said local governing body is hereby authorized to deposit such public money not necessary for immediate use by such county, city, or town in a savings or time deposit with any bank, building and loan association, savings and loan association, or credit union authorized above or in a repurchase agreement as authorized in 7-6-213.

(3) The treasurer or town clerk shall take from such bank, building and loan association, savings and loan association, or credit union such security as the local governing body may prescribe, approve, and deem fully sufficient and necessary to insure the safety and prompt payment of all such deposits, together with the interest on any time or savings deposits.

(4) All such deposits shall be subject to withdrawal by the treasurer or town clerk in such amounts as may be necessary from time to time. No deposit of funds shall be made or permitted to remain in any bank, building and loan association, savings and loan association, or credit union until the security for such deposits shall have been first approved by the local governing body and delivered to the treasurer or town clerk.

7-6-202. Investment of public money in direct obligations of United States.

(1) A local governing body may invest public money not necessary for immediate use by the county, city, or town in the following eligible securities:

(a) United States government treasury bills, notes, and bonds and in United States treasury obligations, such as state and local government series (SLGS), separate trading of registered interest and principal of securities (STRIPS), or similar United States treasury obligations;

(b) United States treasury receipts in a form evidencing the holder's ownership of future interest or principal payments on specific United States treasury obligations that, in the absence of payment default by the United States, are held in a special custody account by an independent trust company in a certificate or book-entry form with the federal reserve bank of New York; or

(c) obligations of the following agencies of the United States, subject to the limitations in subsection (2):

- (i) federal home loan bank;
- (ii) federal national mortgage association;
- (iii) federal home mortgage corporation; and
- (iv) federal farm credit bank.

(2) An investment in an agency of the United States is authorized under this section if the investment is a general obligation of the agency and has a fixed or zero-coupon rate and does not have prepayments that are based on underlying assets or collateral, including but not limited to residential or commercial mortgages, farm loans, multifamily housing loans, or student loans.

(3) The local governing body may invest in a United States government security money market fund if;

(a) the fund is sold and managed by a management-type investment company or investment trust registered under the Investment Company Act of 1940 (15 U.S.C. 80a-64), as may be amended;

(b) the fund consists only of eligible securities as described in this section;

(c) the use of repurchase agreements is limited to agreements that are fully collateralized by the eligible securities, as described in this section, and the investment company or investment trust takes delivery of the collateral for any repurchase agreement, either directly or through an authorized custodian;

(d) the fund is listed in a national financial publication under the category of "money market mutual funds", showing the fund's average maturity, yield, and asset size; and

(e) the fund's average maturity does not exceed 397 days.

(4) Except as provided in subsection (5), an investment authorized in this part may not have a maturity date exceeding 5 years, except when the investment is used in an escrow account to refund an outstanding bond issue in advance.

(5) An investment of the assets of a local government group self-insurance program established pursuant to 2-9-211 or 39-71-2103 in an investment authorized in this part may not have a maturity date exceeding 10 years, and the average maturity of all those authorized investments of a local government group self-insurance program may not exceed 6 years.

(6) This section may not be construed to prevent the investment of public funds under the state unified investment program established in Title 17, chapter 6, part 2.

7-6-206. Time deposits—repurchase agreement. (1) Public money not necessary for immediate use by a county, city, or town that is not invested as authorized in 7-6-202 may be placed in time or savings deposits with a bank, savings and loan association, or credit union in the state or placed in repurchase agreements as authorized in 7-6-213. Money placed in repurchase agreements is subject to subsection (2).

(2) The local governing body may solicit bids for time or savings deposits from a bank, savings and loan association, or credit union in the state. The local governing body may deposit public money in the institutions unless a local financial institution agrees to pay the same rate of interest bid by a financial institution not located in the county, city, or town. The governing body may solicit bids by notice sent by mail to the investment institutions that have requested that their names be listed for bid notice with the department of administration.

17-6-204. Investment of local government funds. (1) The governing body of any city, county, school district, or other local government unit or political subdivision having funds which are available for investment and are not required by law or by any covenant or agreement with bondholders or others to be segregated and invested in a different manner may direct its treasurer to remit such funds to the state treasurer for investment under the direction of the board of investments as part of the pooled investment fund.

(2) A separate account, designated by name and number for each such participant in the fund, shall be kept to record individual transactions and totals of all investments belonging to each participant. A monthly report shall be furnished to each participant having a beneficial interest in the pooled investment fund, showing the changes in investments made during the preceding month. Details of any investment transaction shall be furnished to any participant upon request.

(3) The principal and accrued income, and any part thereof, of each and every account maintained for a participant in the pooled investment fund shall be subject to payment at any time from the fund upon request. Accumulated income shall be remitted to each participant at least annually.

(4) No order or warrant shall be issued upon any account for a larger amount than the principal and accrued income of the account to which it applies, and if any such order or warrant is issued, the participant receiving it shall reimburse the excess amount to the fund from any funds not otherwise appropriated, and the state treasurer shall be liable under his official bond for any amount not so reimbursed.

Investment in derivatives of the above instruments is not authorized by the City of Missoula's investment policy. (See the GFOA Recommended Practice on "Use of Derivatives by State and Local Governments," 1994.)

2. Collateralization

Where allowed by state law and in accordance with the GFOA Recommended Practices on the Collateralization of Public Deposits, collateralization will be required on non-negotiable certificates of deposit to the extent allowable by state law. (See GFOA Recommended Practices, Appendix 3.) Montana state law (7-6-207 M.C.A. and 7-6-208 M.C.A) establishes the deposit security requirements for City investments:

7-6-207. Deposit security. (1) The local governing body may require security only for that portion of the deposits which is not guaranteed or insured according to law and, as to such unguaranteed or uninsured portion, to the extent of:

(a) 50% of such deposits if the institution in which the deposit is made has a net worth to total assets ratio of 6% or more; or

(b) 100% if the institution in which the deposit is made has a net worth to total assets ratio of 6%. The security shall consist of those enumerated in 17-6-103 or cashier's checks issued to the depository institution by any federal reserve bank.

(2) When negotiable securities are furnished, such securities may be placed in trust. The trustee's receipt may be accepted in lieu of the actual securities when such receipt is in favor of the treasurer or town clerk and his successors. All warrants or other negotiable securities must be properly assigned or endorsed in blank. It is the duty of the appropriate governing body, upon the acceptance and approval of any of the above-mentioned bonds or securities, to make a complete minute entry of the acceptance and approval upon the record of their proceedings, and the bonds and securities shall be reapproved at least quarterly thereafter.

7-6-208. Substitution of deposit security. (1) Any bank, building and loan association, savings and loan association, or credit union pledging securities as provided in 7-6-207, at any time it deems advisable or desirable, may substitute like securities for all or any part of the securities pledged. The collateral so substituted shall be approved by the governing body of the county, city, or town at its next official meeting.

(2) Such securities so substituted shall at the time of substitution be at least equal in principal amount to the securities for which substitution is made. In the event that the securities so substituted are held in trust, the trustee shall, on the same day the substitution is made, forward a receipt by registered or certified mail to the county, city, or town and to the depository bank, building and loan association, savings and loan association, or credit union. The receipt shall specifically describe and identify both the securities so substituted and those released and returned to the depository bank, building and loan association, savings and loan association, or credit union.

Securities eligible for pledging to secure deposits of public funds are enumerated in 17-6-103 M.C.A.

3. *Repurchase Agreements*

Repurchase agreements shall be consistent with GFOA Recommended Practices on Repurchase Agreements, (See GFOA Recommended Practices, Appendix 3.)

VI. Investment Parameters

1. *Diversification*

The investments shall be diversified by:

- limiting investments to avoid over concentration in securities from a specific issuer or business sector (excluding U.S. Treasury securities),
- limiting investment in securities that have higher credit risks, investing in securities with varying maturities, and
- continuously investing a portion of the portfolio in readily available funds such as local government investment pools (LGIPs), money market funds or overnight repurchase agreements to ensure that appropriate liquidity is maintained in order to meet ongoing obligations. (See the GFOA Recommended Practice on "Diversification of Investments in a Portfolio" in Appendix 3.)

2. *Maximum Maturities*

To the extent possible, the City of Missoula shall attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, the City of Missoula will not directly invest in securities maturing more than five (5) years from the date of purchase or in accordance with state and local statutes and ordinances. The City of Missoula shall adopt weighted average maturity limitations (which often range from 90 days to 3 years), consistent with the investment objectives. (See the GFOA Recommended Practice on "Maturities of Investments in a Portfolio" in Appendix 3.)

Because of inherent difficulties in accurately forecasting cash flow requirements, a portion of the portfolio should be continuously invested in readily available funds such as LGIPs, money market funds, or overnight repurchase agreements to ensure that appropriate liquidity is maintained to meet ongoing obligations.

VII. Reporting

1. *Methods*

The investment officer shall prepare an investment report at least quarterly, including a management summary that provides an analysis of the status of the current investment portfolio and transactions made over the last quarter. This management summary will be prepared in a manner, which will allow the City of Missoula to ascertain whether investment activities during the reporting period have conformed to the investment policy. The report should be provided to the investment officer, the legislative body, and any pool participants. The report will include the following:

- a. Listing of individual securities held at the end of the reporting period.
- b. Realized and unrealized gains or losses resulting from appreciation or depreciation by listing the cost and market value of securities over one-year duration that are not intended to be held until maturity (in accordance with Governmental Accounting Standards Board (GASB) requirements).
- c. Average weighted yield to maturity of portfolio on investments as compared to applicable benchmarks.
- d. Listing of investment by maturity date.
- e. Percentage of the total portfolio, which each type of investment represents.

2. *Performance Standards*

The investment portfolio will be managed in accordance with the parameters specified within this policy. The portfolio should obtain a market average rate of return during a market/economic environment of stable interest rates. A series of appropriate benchmarks shall be established against which portfolio performance shall be compared on a regular basis.

3. *Marking to Market*

The market value of the portfolio shall be calculated at least quarterly and a statement of the market value of the portfolio shall be issued at least quarterly. This will ensure that review of the investment portfolio, in terms of value and price volatility, has been performed consistent with the GFOA Recommended Practice on "Mark-to-Market Practices for State and Local Government Investment Portfolios and Investment Pools." (See GFOA Recommended Practices, Appendix 3.) In defining market value, considerations should be given to the GASB Statement 31 pronouncement.

VIII. Policy Considerations

1. *Exemption*

Any investment currently held that does not meet the guidelines of this policy shall be exempted from the requirements of this policy. At maturity or liquidation, such monies shall be reinvested only as provided by this policy.

2. *Amendments*

This policy shall be reviewed on an annual basis. Any changes must be approved by the investment officer and any other appropriate authority, as well as the individual(s) charged with maintaining internal controls.

Appendix 1: Glossary

The following is a glossary of key investing terms, many of which appear in GFOA's Sample Investment Policy.

Accrued Interest — The accumulated interest due on a bond as of the last interest payment made by the issuer.

Agency — A debt security issued by a federal or federally sponsored agency. Federal agencies are backed by the full faith and credit of the U.S. Government. Federally sponsored agencies (FSAs) are backed by each particular agency with a market perception that there is an implicit government guarantee. An example of federal agency is the Government National Mortgage Association (GNMA). An example of a FSA is the Federal National Mortgage Association (FNMA).

Amortization — The systematic reduction of the amount owed on a debt issue through periodic payments of principal.

Average Life — The average length of time that an issue of serial bonds and/or term bonds with a mandatory sinking fund feature is expected to be outstanding.

Basis Point — A unit of measurement used in the valuation of fixed-income securities equal to 1/100 of 1 percent of yield, e.g., "1/4" of 1 percent is equal to 25 basis points.

Bid — The indicated price at which a buyer is willing to purchase a security or commodity.

Book Value — The value at which a security is carried on the inventory lists or other financial records of an investor. The book value may differ significantly from the security's current value in the market.

Callable Bond — A bond issue in which all or part of its outstanding principal amount may be redeemed before maturity by the issuer under specified conditions.

Call Price — The price at which an issuer may redeem a bond prior to maturity. The price is usually at a slight premium to the bond's original issue price to compensate the holder for loss of income and ownership.

Call Risk — The risk to a bondholder that a bond may be redeemed prior to maturity.

Cash Sale/Purchase — A transaction that calls for delivery and payment of securities on the same day that the transaction is initiated.

*This glossary has been adapted from an article, entitled "Investment terms for everyday use," that appeared in the April 5, 1996, issue of *Public Investor*, GFOA's subscription investment newsletter.

Collateralization — Process by which a borrower pledges securities, property, or other deposits for the purpose of securing the repayment of a loan and/or security.

Commercial Paper - An unsecured short-term promissory note issued by corporations, with maturities ranging from 2 to 270 days.

Convexity — A measure of a bond's price sensitivity to changing interest rates. A high convexity indicates greater sensitivity of a bond's price to interest rate changes.

Coupon Rate — The annual rate of interest received by an investor from the issuer of certain types of fixed-income securities. Also known as the "interest rate."

Credit Quality — The measurement of the financial strength of a bond issuer. This measurement helps an investor to understand an issuer's ability to make timely interest payments and repay the loan principal upon maturity. Generally, the higher the credit quality of a bond issuer, the lower the interest rate paid by the issuer because the risk of default is lower. Credit quality ratings are provided by nationally recognized rating agencies.

Credit Risk — The risk to an investor that an issuer will default in the payment of interest and/or principal on a security.

Current Yield (Current Return) — A yield calculation determined by dividing the annual interest received on a security by the current market price of that security.

Delivery Versus Payment (DVP) — A type of securities transaction in which the purchaser pays for the securities when they are delivered either to the purchaser or his/her custodian.

Derivative Security — Financial instrument created from, or whose value depends upon, one or more underlying assets or indexes of asset values.

Discount — The amount by which the par value of a security exceeds the price paid for the security.

Diversification — A process of investing assets among a range of security types by sector, maturity, and quality rating.

Duration — A measure of the timing of the cash flows, such as the interest payments and the principal repayment, to be received from a given fixed-income security. This calculation is based on three variables: term to maturity, coupon rate, and yield to maturity. The duration of a security is a useful indicator of its price volatility for given changes in interest rates.

Fair Value — The amount, at which an investment could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

Federal Funds (Fed Funds) — Funds placed in Federal Reserve banks by depository institutions in excess of current reserve requirements. These depository institutions may lend fed funds to each other overnight or on a longer basis. They may also transfer funds among each

other on a same-day basis through the Federal Reserve banking system. Fed funds are considered to be immediately available funds.

Federal Funds Rate — Interest rate charged by one institution lending federal funds to the other.

Government Securities — An obligation of the U.S. government, backed by the full faith and credit of the government. These securities are regarded as the highest quality of investment securities available in the U.S. securities market. See "Treasury Bills, Notes, and Bonds."

Interest Rate — See "Coupon Rate."

Interest Rate Risk — The risk associated with declines or rises in interest rates, which cause an investment in a fixed-income security to increase or decrease in value.

Internal Controls — An internal control structure designed to ensure that the assets of the entity are protected from loss, theft, or misuse. The internal control structure is designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that 1) the cost of a control should not exceed the benefits likely to be derived and 2) the valuation of costs and benefits require estimates and judgments by management. Internal controls should address the following points:

1. Control of collusion — Collusion is a situation where two or more employees are working in conjunction to defraud their employer.
2. Separation of transaction authority from accounting and record keeping — By separating the person who authorizes or performs the transaction from the people who record or otherwise account for the transaction, a separation of duties is achieved.
3. Custodial safekeeping — Securities purchased from any bank or dealer including appropriate collateral (as defined by state law) shall be placed with an independent third party for custodial safekeeping.
4. Avoidance of physical delivery securities — Book-entry securities are much easier to transfer and account for since actual delivery of a document never takes place. Delivered securities must be properly safeguarded against loss or destruction. The potential for fraud and loss increases with physically delivered securities.
5. Clear delegation of authority to subordinate staff members - Subordinate staff members must have a clear understanding of their authority and responsibilities to avoid improper actions. Clear delegation of authority also preserves the internal control structure that is contingent on the various staff positions and their respective responsibilities.
6. Written confirmation of transactions for investments and wire transfers - Due to the potential for error and improprieties arising from telephone and electronic transactions, all transactions should be supported by written communications and approved by the appropriate person. Written communications may be via fax if on letterhead and if the safekeeping institution has a list of authorized signatures.
7. Development of a wire transfer agreement with the lead bank and third-party custodian - The designated official should ensure that an agreement will be entered into and will address the following points: controls, security provisions, and responsibilities of each party making and receiving wire transfers.

Inverted Yield Curve — A chart formation that illustrates long-term securities having lower yields than short-term securities. This configuration usually occurs during periods of high inflation coupled with low levels of confidence in the economy and a restrictive monetary policy.

Investment Company Act of 1940 — Federal legislation which sets the standards by which investment companies, such as mutual funds, are regulated in the areas of advertising, promotion, performance reporting requirements, and securities valuations.

Investment Policy — A concise and clear statement of the objectives and parameters formulated by an investor or investment manager for a portfolio of investment securities.

Investment-grade Obligations - An investment instrument suitable for purchase by institutional investors under the prudent person rule. Investment-grade is restricted to those obligations rated BBB or higher by a rating agency.

Liquidity — An asset that can be converted easily and quickly into cash.

Local Government Investment Pool (LGIP) — An investment by local governments in which their money is pooled as a method for managing local funds.

Mark-to-market — The process whereby the book value or collateral value of a security is adjusted to reflect its current market value.

Market Risk — The risk that the value of a security will rise or decline as a result of changes in market conditions.

Market Value — Current market price of a security.

Maturity — The date on which payment of a financial obligation is due. The final stated maturity is the date on which the issuer must retire a bond and pay the face value to the bondholder. See "Weighted Average Maturity."

Money Market Mutual Fund — Mutual funds that invest solely in money market instruments (short-term debt instruments, such as Treasury bills, commercial paper, bankers' acceptances, repos and federal funds).

Mutual Fund — An investment company that pools money and can invest in a variety of securities, including fixed-income securities and money market instruments. Mutual funds are regulated by the

Investment Company Act of 1940 and must abide by the following Securities and Exchange Commission (SEC) disclosure guidelines:

1. Report standardized performance calculations.
2. Disseminate timely and accurate information regarding the fund's holdings, performance, management and general investment policy.
3. Have the fund's investment policies and activities supervised by a board of trustees, which are independent of the adviser, administrator or other vendor of the fund.
4. Maintain the daily liquidity of the fund's shares.

5. Value their portfolios on a daily basis.
6. Have all individuals who sell SEC-registered products licensed with a self-regulating organization (SRO) such as the National Association of Securities Dealers (NASD).
7. Have an investment policy governed by a prospectus that is updated and filed by the SEC annually.

Mutual Fund Statistical Services — Companies that track and rate mutual funds, e.g., IBC/Donoghue, Lipper Analytical Services, and Morningstar.

National Association of Securities Dealers (NASD) — A self-regulatory organization (SRO) of brokers and dealers in the over-the-counter securities business. Its regulatory mandate includes authority over firms that distribute mutual fund shares as well as other securities.

Net Asset Value — The market value of one share of an investment company, such as a mutual fund. This figure is calculated by totaling a fund's assets which includes securities, cash, and any accrued earnings, subtracting this from the fund's liabilities and dividing this total by the number of shares outstanding. This is calculated once a day based on the closing price for each security in the fund's portfolio. (See below.)

$$[(\text{Total assets}) - (\text{Liabilities})]/(\text{Number of shares outstanding})$$

No Load Fund — A mutual fund, which does not levy a sales charge on the purchase of its shares.

Nominal Yield — The stated rate of interest that a bond pays its current owner, based on par value of the security. It is also known as the "coupon," "coupon rate," or "interest rate."

Offer — An indicated price at which market participants are willing to sell a security or commodity. Also referred to as the "Ask price."

Par — Face value or principal value of a bond, typically \$1,000 per bond.

Positive Yield Curve — A chart formation that illustrates short-term securities having lower yields than long-term securities.

Premium — The amount by which the price paid for a security exceeds the security's par value.

Prime Rate — A preferred interest rate charged by commercial banks to their most creditworthy customers. Many interest rates are keyed to this rate.

Principal — The face value or par value of a debt instrument. Also may refer to the amount of capital invested in a given security.

Prospectus — A legal document that must be provided to any prospective purchaser of a new securities offering registered with the SEC. This can include information on the issuer, the issuer's business, the proposed use of proceeds, the experience of the issuer's management, and certain certified financial statements.

Prudent Person Rule — An investment standard outlining the fiduciary responsibilities of public funds investors relating to investment practices.

Regular Way Delivery — Securities settlement that calls for delivery and payment on the third business day following the trade date (T+3); payment on a T+1 basis is currently under consideration. Mutual funds are settled on a same day basis; government securities are settled on the next business day.

Reinvestment Risk — The risk that a fixed-income investor will be unable to reinvest income proceeds from a security holding at the same rate of return currently generated by that holding.

Repurchase Agreement (repo or RP) — An agreement of one party to sell securities at a specified price to a second party and a simultaneous agreement of the first party to repurchase the securities at a specified price or at a specified later date.

Reverse Repurchase Agreement (Reverse Repo) — An agreement of one party to purchase securities at a specified price from a second party and a simultaneous agreement by the first party to resell the securities at a specified price to the second party on demand or at a specified date.

Rule 2a-7 of the Investment Company Act — Applies to all money market mutual funds and mandates such funds to maintain certain standards, including a 13- month maturity limit and a 90-day average maturity on investments, to help maintain a constant net asset value of one dollar (\$1.00).

Safekeeping — Holding of assets (e.g., securities) by a financial institution.

Serial Bond — A bond issue, usually of a municipality, with various maturity dates scheduled at regular intervals until the entire issue is retired.

Sinking Fund — Money accumulated on a regular basis in a separate custodial account that is used to redeem debt securities or preferred stock issues.

Swap — Trading one asset for another.

Term Bond — Bonds comprising a large part or all of a particular issue that come due in a single maturity. The issuer usually agrees to make periodic payments into a sinking fund for mandatory redemption of term bonds before maturity.

Total Return — The sum of all investment income plus changes in the capital value of the portfolio. For mutual funds, return on an investment is composed of share price appreciation plus any realized dividends or capital gains. This is calculated by taking the following components during a certain time period.

$$(\text{Price Appreciation}) + (\text{Dividends paid}) + (\text{Capital gains}) = \text{Total Return}$$

Treasury Bills — Short-term U.S. government non-interest bearing debt securities with maturities of no longer than one year and issued in minimum denominations of \$10,000. Auctions of three- and six-month bills are weekly, while auctions of one-year bills are monthly. The yields on these bills are monitored closely in the money markets for signs of interest rate trends.

Treasury Notes — Intermediate U.S. government debt securities with maturities of one to 10 years and issued in denominations ranging from \$1,000 to \$1 million or more.

Treasury Bonds — Long-term U.S. government debt securities with maturities of ten years or longer and issued in minimum denominations of \$1,000. Currently, the longest outstanding maturity for such securities is 30 years.

Uniform Net Capital Rule — SEC Rule 15C3-1 outlining capital requirements for broker/dealers.

Volatility — A degree of fluctuation in the price and valuation of securities.

"Volatility Risk" Rating — A rating system to clearly indicate the level of volatility and other non-credit risks associated with securities and certain bond funds. The ratings for bond funds range from those that have extremely low sensitivity to changing market conditions and offer the greatest stability of the returns ("aaa" by S&P; "V-1" by Fitch) to those that are highly sensitive with currently identifiable market volatility risk ("ccc-" by S&P, "V-10" by Fitch).

Weighted Average Maturity (WAM) — The average maturity of all the securities that comprise a portfolio. According to SEC rule 2a-7, the WAM for SEC registered money market mutual funds may not exceed 90 days and no one security may have a maturity that exceeds 397 days.

When Issued (WI) — A conditional transaction in which an authorized new security has not been issued. All "when issued" transactions are settled when the actual security is issued.

Yield — The current rate of return on an investment security generally expressed as a percentage of the security's current price.

Yield-to-call (YTC) — The rate of return an investor earns from a bond assuming the bond is redeemed (called) prior to its nominal maturity date.

Yield Curve — A graphic representation that depicts the relationship at a given point in time between yields and maturity for bonds that are identical in every way except maturity. A normal yield curve may be alternatively referred to as a positive yield curve.

Yield-to-maturity — The rate of return yielded by a debt security held to maturity when both interest payments and the investor's potential capital gain or loss are included in the calculation of return.

Zero-coupon Securities — Security that is issued at a discount and makes no periodic interest payments. The rate of return consists of a gradual accretion of the principal of the security and is payable at par upon maturity.

Appendix 2: Investment Pools

1. Definition

In most states, there are provisions for the creation and operation of a government investment pool. The purpose of a pool is to allow political subdivisions to pool investable funds in order to achieve a potentially higher yield.

There are basically three (3) types of pools: 1) state-run pools; 2) pools that are operated by a political subdivision where allowed by law and the political subdivision is the trustee; and 3) pools that are operated for profit by third parties. Prior to any political subdivision being involved with any type of pool, a thorough investigation of the pool and its policies and procedures must be reviewed.

2. Pool Questionnaire

Prior to entering a pool, the following questions and issues should be considered:

Securities:

Government pools may invest in a broader range of securities than an entity may invest in. It is important to be aware of, and comfortable with, the securities a pool buys. The following is a list of questions an investment officer may wish to ask a prospective pool:

1. Does the pool provide a written statement of investment policy and objectives?
2. Does the statement contain:
 - a. a description of eligible investment instruments?
 - b. the credit standards for investments?
 - c. the allowable maturity range of investments?
 - d. the maximum allowable dollar weighted average portfolio maturity?
 - e. the limits of portfolio concentration permitted for each type of security?
 - f. the policy on reverse repurchase agreements, options, short sales and futures?
3. Are changes in the policies communicated to the pool participants?
4. Does the pool contain only the types of securities that are permitted by your investment policy?

Interest:

Interest is not reported in a standard format, so it is important to know how interest is quoted, calculated, and distributed in order to make comparisons with other investment alternatives.

Interest Calculations:

1. Does the pool disclose the following about yield calculations:
 - a. the methodology used to calculate interest? (simple maturity, yield to maturity, etc.)
 - b. the frequency of interest payments?
 - c. how interest is paid? (credited to principal at the end of the month, each quarter; mailed?)
 - d. how are gains/losses reported? factored monthly or only when realized?

Reporting:

1. Is the yield reported to participants of the pool monthly? (If not, how often?)
2. Are expenses of the pool deducted before quoting the yield?
3. Is the yield generally in line with the market yields for other investment alternatives?
4. How often does the pool report? What information does that report include? Does it include the market value of securities?

Security:

The following questions are designed to help safeguard funds from loss of principal and loss of market value.

1. Does the pool disclose safekeeping practices?
2. Is the pool subject to audit by an independent auditor at least annually?
3. Is a copy of the audit report available to participants?
4. Who makes the portfolio decisions?
5. How does the manager monitor the credit risk of the securities in the pool?
6. Is the pool monitored by someone on the board of a separate neutral party external to the investment function to ensure compliance with written policies?
7. Does the pool have specific policies with regard to the various investment vehicles?
 - a. What are the different investment alternatives?
 - b. What are the policies for each type of investment?
8. Does the pool mark the portfolio to its market value?
9. Does the pool disclose the following about how portfolio securities are valued:
 - a. the frequency with which the portfolio securities are valued?
 - b. the method used to value the portfolio (cost, current value, or some other method)?

Operations:

The answers to these questions will help determine whether this pool meets the entity's operational requirements:

1. Does the pool limit eligible participants?
2. What entities are permitted to invest in the pool?
3. Does the pool allow multiple accounts and sub-accounts?
4. Is there a minimum or maximum account size?
5. Does the pool limit the number of transactions each month? What is the number?
6. Is there a limit on transaction amounts for withdrawals and deposits?
 - a. What is the minimum and maximum withdrawal amount permitted?
 - b. What is the minimum and maximum deposit amount permitted?
7. How much notice is required for withdrawals/deposits?
8. What is the cutoff time for deposits and withdrawals?
9. Can withdrawals be denied?
10. Are the funds 100 percent withdrawable at anytime?
11. What are the procedures for making deposits and withdrawals?
 - a. What is the paperwork required, if any?
 - b. What is the wiring process?
12. Can an account remain open with a zero balance?
13. Are confirmations sent following each transaction?

Statements:

It is important for (*the designated official*) and the agency's trustee (when applicable), to receive statements monthly so the pool's records of activity and holdings are reconciled by (*the designated official*) and its trustee.

1. Are statements for each account sent to participants?
 - a. What are the fees?
 - b. How often are they passed?
 - c. How are they paid?
 - d. Are there additional fees for wiring funds? (What is the fee?)
2. Are expenses deducted before quoting the yield?

Questions to Consider for Bond Proceeds:

It is important to know (1) whether the pool accepts bond proceeds and (2) whether the pool qualifies with the U.S. Department of the Treasury as an acceptable commingled fund for arbitrage purposes.

1. Does the pool accept bond proceeds subject to arbitrage rebate?
2. Does the pool provide accounting and investment records suitable for proceeds of bond issuance subject to arbitrage rebate?
3. Will the yield calculation reported by the pool be acceptable to the IRS or will it have to be recalculated?
4. Will the pool accept transaction instructions from a trustee?
5. Are separate accounts allowed for each bond issue so that the interest earnings of funds subject to rebate are not commingled with funds not subject to regulations?

Appendix 3: GFOA Recommended Practices and Policy Statements

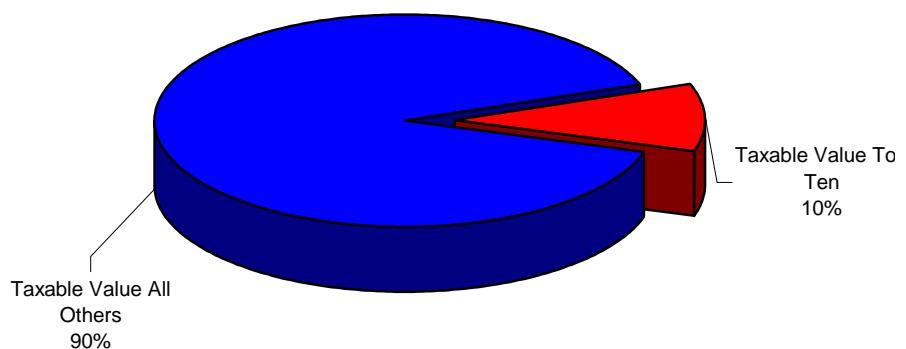
A complete list of the City's adopted investment practices can be found in Resolution #6301.

TOP TEN TAXPAYERS

CITY OF MISSOULA 2006

Taxpayer	Taxable Value
NORTHWESTERN CORPORATION	\$ 3,146,727
QWEST COMMUNICATIONS	1,862,461
MOUNTAIN WATER COMPANY	915,943
SOUTHGATE MALL	842,991
GATEWAY LIMITED PARTNERSHIP	753,039
ST PATRICK HOSPITAL CORP	729,536
WAL- MART	521,507
MOUNTAIN STATES LEASING	472,378
MONTANA RAIL LINK INC	352,772
WOODMONT MISSOULA	308,436
	\$ 9,905,790

TOP TEN TAXPAYERS AS COMPARED TO REMAINING TAXPAYERS



GLOSSARY

Accrual Basis - A basis of accounting in which transactions are recognized at the time they are incurred, as apposed to when cash is received or spent.

Appropriation – An authorization made by the City Council which permits the City to incur obligations to make expenditures for specific purposes.

Assessed Valuation - A value that is established for real and personal property for use as a basis for levying property taxes.

Asset - Resources owned or held by a government which have monetary value.

Available (Undesignated) Fund Balance - Refers to the funds remaining from the prior years which are available for appropriation and expenditure in the current year.

Base Budget Allowances – Funding for ongoing expenditures for personnel, commodities, contractual services and replacement of existing equipment previously authorized. The base budget allowance provides funding to continue previously authorized services and programs.

Bonds – A written promise to pay a sum of money on a specific date at a specified interest rate. The interest payments and the repayment of the principal are detailed in a bond ordinance. The most common types of bonds are general obligation, revenue bonds, and special improvement district bonds. These are most frequently used to finance capital projects.

Bond Rating – An evaluation of a bond issuer's credit quality and perceived ability to pay the principal and interest on time and in full.

Bond Refinancing - The payoff and re-issuance of bonds, to obtain better interest rates and/or bond conditions.

Budget – A plan of financial operation for a specific time period (City of Missoula's budget is for a fiscal year July 1 - June 30). The budget contains the estimated expenditures needed to continue the county's operations for the fiscal year and revenues anticipated to finance them.

Budget Calendar - The schedule of key dates or milestones which the City follows in the preparation, adoption, and administration of the budget.

Budget Message - The opening section of the budget which provides the City Council and the public with a general summary of the most important aspects of the budget, changes from the current and previous fiscal years, and recommendations regarding the financial policy for the upcoming period.

Budgetary Basis - This refers to the form of accounting utilized throughout the budget process. These generally take one of three forms: GAAP, Cash, and Modified Accrual.

Budgetary Control - The control or management of a governmental unit or enterprise in accordance with an approved budget for the purpose of keeping expenditures within the limitations of authorized appropriations and available revenues.

Capital Budget – See Capital Improvement Program

Capital Expenditures – The item has a unit cost over \$5,000, it benefits future periods, it has a normal useful life of 1 year or more, it has an identity that does not change with use (i.e., retains its identity throughout its useful life), and it is identifiable and can be separately accounted for. Improvements to existing assets must add value and life to be included in the value of any Capital item.

Capital Improvements - Expenditures related to the acquisition, expansion or rehabilitation of an element of the government's physical plant; sometimes referred to as infrastructure.

Capital Improvement Program (CIP) – A plan for capital expenditures needed to maintain, replace and expand the City's heavy equipment and public infrastructure (for example, streets, parks, buildings, etc). The CIP projects these capital equipment and infrastructure needs for a set number of years (normally 5) and is updated annually to reflect the latest priorities, cost estimates or changing financial strategies. The first year of the adopted Capital Improvement Program becomes the Annual Capital Budget.

Capital Outlay – Items that cost more than \$5,000 and have a useful life of more than one year.

Capital Project – New facility, technology system, land acquisition or equipment acquisition, or improvements to existing facilities beyond routine maintenance. Capital projects are included in the Capital Improvement Program and become fixed assets.

Cash Basis - A basis of accounting in which transactions are recognized only when cash is increased or decreased.

CDBG – Community Development Block Grant.

CIP – See Capital Improvement Program

Contingency - A budgetary reserve set aside for emergencies or unforeseen expenditures not otherwise budgeted.

GLOSSARY

Contractual Services – Expenditures for services performed by firms, individuals or other city departments.

Debt Ratios - Ratios which provide a method of assessing debt load and the ability to repay debt which plays a part in the determination of credit ratings. They are also used to evaluate the City's debt position over time and against its own standards and policies.

Debt Service – Payment of principal and interest on an obligation resulting from the issuance of bonds.

Debt Service Fund - Debt Service Funds are set up to receive dedicated revenues used to make principal and interest payments on City debt. They are used to account for the accumulation of resources for, and the payment of, general obligation and special assessment debt principal, interest and related costs.

Debt Service Fund Requirements - The amounts of revenue which must be provided for a Debt Service Fund so that all principal and interest payments can be made in full on schedule.

Deficit -The excess of an entity's liabilities over its assets or the excess of expenditures over revenues during a single accounting period.

Department - A major administrative division of the City which indicates overall management responsibility for an operation or a group of related operations within a functional area.

Depreciation - Expiration in the service life of capital assets attributable to wear and tear, deterioration, action of the physical elements, inadequacy, or obsolescence.

Distinguished Budget Presentation Awards Program - A voluntary awards program administered by the Government Finance Officers Association to encourage governments to prepare effective budget documents.

Division - A group of homogeneous cost centers within a department, i.e. Administration, Engineering, Signing & Striping, Traffic Sign Maintenance, Communications Maintenance, Street Lighting, Bike-Ped Program and Weed Cutting all make up the Engineering Division within the Public Works Department.

Enterprise Funds – Funds that are accounted for in a manner similar to a private business. Enterprise funds usually recover their costs (including depreciation) through user fees. The City has one such self-supporting fund in its primary governmental reporting unit: Wastewater Treatment Fund.

Estimate – The most recent prediction of current year revenue and expenditures. Estimates are based upon many months of actual expenditure and revenue information and are prepared to consider the impact of unanticipated costs or other economic changes.

Estimated Revenue - The amount of projected revenue to be collected during the fiscal year.

Fixed Assets - Assets of long-term character which are intended to continue to be held or used, such as land, buildings, machinery, furniture and other equipment.

FTE – See Full-Time Equivalent

Full Faith and Credit - A pledge of a government's taxing power to repay debt obligations.

Full-Time Equivalent (FTE) – A position converted to the decimal equivalent of a full-time position based on 2,080 hours per year. For example, a part-time clerk working for 20 hours per week would be equivalent to one-half of a full-time position or 0.5 FTE.

Fund – An independent governmental accounting entity with a self-balancing group of accounts including assets, liabilities and fund balance, which record all financial transactions for specific activities of government functions.

Fund Balance – As used in the budget, the excess of resources over expenditures. The beginning fund balance is the residual funds brought forward from the previous fiscal year.

GAAP – See Generally Accepted Accounting Principles

General Obligation Bonds (G.O. Bonds) – Bonds that require voter approval and finance a variety of public capital projects such as roads, buildings, parks and improvements. The bonds are backed by the “full faith and credit” of the issuing government.

Goal – A statement of broad direction, purpose or intent based on the needs of the community. A goal is general and timeless; that is, it is not concerned with a specific achievement in a given time period.

G. O. Bonds – See General Obligation Bonds

Grant – A contribution by one government unit or funding source to another. The contribution is usually made to aid in the support of a specified function (e.g., public safety or drug enforcement, but it is sometimes for general purposes).

GLOSSARY

Infrastructure – Facilities that support the daily life and growth of the city, for example, streets, public buildings, wastewater treatment and parks.

Improvement Districts – Special assessment districts formed by property owners who desire and are willing to pay for mutually enjoyed improvements such as roads or maintenance districts.

Intergovernmental Revenue - Funds received from federal, state and other local government sources in the form of grants, shared revenues, and payments in lieu of taxes.

Levy – See Tax Levy

Line-Item Budget - A budget that lists each expenditure category (salary, materials, telephone service, travel, etc.) separately, along with the dollar amount budgeted for each specified category.

Mandate – Legislation passed by the state or federal government requiring action or provision of services and/or programs. Examples include the Americans with Disabilities Act, which requires actions such as physical facility improvements and provision of specialized transportation services.

NVRA – National Voter Registration Act.

Objective – A desired output-oriented accomplishment that can be measured and achieved within a given time frame, and advances the activity and organization toward a corresponding goal.

Operating Budget - The portion of the budget that pertains to daily operations that provide basic governmental services. The operating budget contains appropriations for such expenditures as personnel; supplies, utilities, materials, travel, and fuel.

Operating Funds – Resources derived from continuing revenue sources used to finance ongoing operating expenditures and “pay-as-you-go” capital projects.

Ordinance – A formal legislative enactment by the City Council. If it is not in conflict with any higher form of law, such as a state statute or constitutional provision, it has the full force and effect of law within the boundaries of the city.

Outstanding Bonds – Bonds not yet retired through principal and interest payments.

Overlapping Debt - The City's proportionate share of the debt of other local governmental units which either overlap it or underlie it. The debt is generally apportioned based on relative assessed value.

Pay-As-You-Go Capital Projects – Capital projects whose funding comes from day-to-day City operating revenue sources.

Performance Budget - A budget that focuses upon departmental goals and objectives rather than line items, programs, or funds. Workload and unit cost data are collected in order to assess the effectiveness and efficiency of services.

Personal Services – All costs related to compensating City employees including employee benefits costs such as contributions for retirement, social security, and health and workers' compensation insurance. It also includes fees paid to elected officials, jurors, and election judges and clerks. It does not include fees for professional or other services.

PILT - Payment in Lieu of Taxes from another government or non-profit entity.

Program Budget - A budget that focuses upon broad functions or activities of an agency or jurisdiction rather than upon its organizational budget units or object classes of expenditure.

Property Tax – A levy upon each \$100 of assessed valuation of property within the City of Missoula.

Resolution - A special or temporary order of a legislative body (City Council) requiring less legal formality than an ordinance or statute.

Resources – Total amounts available for appropriation including estimated revenues, fund transfers and beginning fund balances.

Restricted Funds – See Special Revenue Fund.

Revenue - Funds that the government receives as income. It includes such items as tax payments, fees from specific services, receipts from other governments, fines, forfeitures, grants, shared revenues and interest income.

Revenue Bonds – Bonds usually sold for constructing a project that will produce revenue for the government. That revenue is pledged to pay the principal and interest of the bond.

Risk Management - An organized attempt to protect a government's assets against accidental loss in the most economical method.

Salary Savings – Budget savings realized through normal employee turnover.

Special Revenue Fund – A fund used to account for receipts from revenue sources that have been earmarked for specific activities and related expenditures. Examples include funds such as

GLOSSARY

Cemetery Perpetual Care, Drug Forfeiture and Law Enforcement Block Grant .

State-Shared Revenues – Revenues levied and collected by the state but shared with local governments as determined by state government each year. Entitlement funds received by the City from the state is the largest of such shared revenues.

Taxes - Compulsory charges levied by a government for the purpose of financing services performed for the common benefit of the people. This term does not include specific charges made against particular persons or property for current or permanent benefit, such as special assessments.

Tax Levy - The resultant product when the tax rate per one hundred dollars is multiplied by the tax base.

Transfers In/Out - Amounts transferred from one fund to another to assist in financing the services for the recipient fund.

Unreserved Fund Balance - The portion of a fund's balance that is not restricted for a specific purpose and is available for general appropriation.

User Fees or User Charges – A fee paid for a public service or use of a public facility by the individual or organization benefiting from the service.

Workload Indicator - A unit of work to be done (e.g., number of permit applications received or the number of burglaries to be investigated).