



MARANA TOWN COUNCIL
STUDY SESSION
NOTICE AND AGENDA
11555 W. Civic Center Drive, Marana, Arizona 85653
Council Chambers, September 10, 2019, at or after 6:00 PM

Ed Honea, Mayor
Jon Post, Vice Mayor
David Bowen, Council Member
Patti Comerford, Council Member
Herb Kai, Council Member
John Officer, Council Member
Roxanne Ziegler, Council Member

Pursuant to A.R.S. § 38-431.02, notice is hereby given to the members of the Marana Town Council and to the general public that the Town Council will hold a meeting open to the public on September 10, 2019, at or after 6:00 PM located in the Council Chambers of the Marana Municipal Complex, 11555 W. Civic Center Drive, Marana, Arizona.

ACTION MAY BE TAKEN BY THE COUNCIL ON ANY ITEM LISTED ON THIS AGENDA. Revisions to the agenda can occur up to 24 hours prior to the meeting. Revised agenda items appear in *italics*.

The Council Chambers are wheelchair and handicapped accessible. Persons with a disability may request a reasonable accommodation, such as a sign language interpreter, by contacting the Town Clerk at (520) 382-1999. Requests should be made as early as possible to arrange the accommodation.

This Notice and Agenda posted no later than 24 hours prior to the meeting at the Marana Municipal Complex, 11555 W. Civic Center Drive, the Marana Operations Center, 5100 W. Ina Road, and at www.maranaaz.gov under Agendas and Minutes.

CALL TO ORDER AND ROLL CALL

PLEDGE OF ALLEGIANCE/INVOCATION/MOMENT OF SILENCE

APPROVAL OF AGENDA

DISCUSSION/DIRECTION/POSSIBLE ACTION

- D1 Relating to Finance; presentation, discussion, and possible direction regarding a proposed update to the Town's Investment Policy (Yiannis Kalaitzidis)
- D2 Relating to Development; presentation, discussion, and possible direction regarding the Town's subdivision requirements for private, common on-site recreation areas (Jason Angell)

EXECUTIVE SESSIONS

Pursuant to A.R.S. § 38-431.03, the Town Council may vote to go into executive session, which will not be open to the public, to discuss certain matters.

- E1 Executive Session pursuant to A.R.S. §38-431.03 (A), Council may ask for discussion or consideration, or consultation with designated Town representatives, or consultation for legal advice with the Town Attorney, concerning any matter listed on this agenda for any of the reasons listed in A.R.S. §38-431.03 (A).

FUTURE AGENDA ITEMS

Notwithstanding the mayor's discretion regarding the items to be placed on the agenda, if three or more Council members request that an item be placed on the agenda, it must be placed on the agenda for the second regular Town Council meeting after the date of the request, pursuant to Marana Town Code Section 2-4-2(B).

ADJOURNMENT



Council-Study Session

D1

Meeting Date: 09/10/2019

To: Mayor and Council

From: Yiannis Kalaitzidis, Finance Director

Date: September 10, 2019

Strategic Plan Focus Area:

Community, Progress & Innovation, Not Applicable

Strategic Plan Focus Area Additional Info:

Principle Statement 1: We will maintain a safe and well-managed community.

Principle Statement 3: We will support an efficient and effective business model focused on service delivery by aligning our organizations culture and internal processes and procedures to reflect industry best practices.

Subject: Relating to Finance; presentation, discussion, and possible direction regarding a proposed update to the Town's Investment Policy (Yiannis Kalaitzidis)

Discussion:

Staff is proposing an update to the Town's Investment policy to modernize language, clarify requirements, and to better align the Town's policy with Arizona Revised Statutes (A.R.S.), peer Cities and Towns, and the Government Finance Officers Association (GFOA) best practices. Proposed changes will also enhance the portfolio's diversification and yield.

If approved, this will be the first update to the Town's Investment Policy since February 15, 2000. State law has changed since the last update to include additional allowable investment types such as Corporate bonds and notes and Commercial paper.

The proposed policy maintains the Town's existing investment philosophy and objectives while expanding and updating several topics including standards of care, delegation of authority, authorized financial institutions, brokers/dealers and depositories, suitable and authorized investments and investment parameters, and reporting. To attain the Town's objectives, the policy allows only certain fixed income securities, recommends diversification in the portfolio composition, and imposes maturity limitations.

The following are the essential areas covered in the recommended policy update:

- Investment philosophy and objectives– design and manage an investment portfolio with the objective of attaining a market rate of return while safeguarding the Town’s funds through an appropriate level of diversification and allowing for sufficient liquidity to meet all ongoing cash requirements.
- Investment Authority – Town Council maintains responsibility for the investment policy and the portfolio and authorizes the Finance Director to manage the investment program under the direction of the Town Manager
- Authorized investments – list of authorized investments is updated to allow for inclusion of all investment types allowed under state statute
- Investment Guidelines and Compliance – established to mitigate credit risk and market risk in the Town’s portfolio
- Reporting- establishes periodic reporting to Council and Town Management

The policy applies to all activities with regard to investing the Town’s financial assets of all funds, including those of the newly created Self-Insurance Trust funds for medical and dental benefits.

The Town’s investment advisor, PFM, is in support of the recommended policy update as described above.

A copy of the current policy, a draft of the proposed update to the policy, and a sample quarterly report are attached for Council’s information. Following tonight's presentation and any feedback from Council, staff intends to bring the revised Investment Policy back to Council at a future meeting for adoption.

Staff Recommendation:

Staff seeks direction from Council regarding the proposed Investment Policy.

Suggested Motion:

Presentation only.

Attachments

Current Investment Policy
Proposed Investment Policy Draft
Presentation

MARANA RESOLUTION NO. 2000-17

A RESOLUTION OF THE MAYOR AND TOWN COUNCIL OF THE TOWN OF MARANA, ARIZONA, ADOPTING AN INVESTMENT POLICY FOR THE TOWN'S IDLE CASH RESERVES.

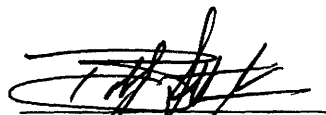
WHEREAS, the Town of Marana has generated a surplus in its general fund balance; and

WHEREAS, the Town seeks to manage its resources more judiciously and prudently; and

WHEREAS, the investment policy sets forth the strategy and parameters that will guide the Town as it seeks to maximize its earning potential.

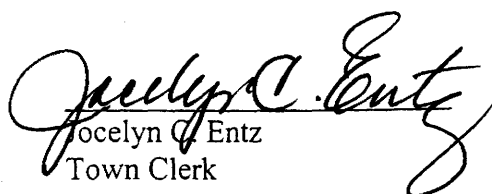
NOW, THEREFORE, BE IT RESOLVED by the Mayor and Council of the Town of Marana, Arizona, that the investment policy attached hereto shall be adopted by the Town Council.

PASSED AND ADOPTED by the Mayor and Council of the Town of Marana, Arizona, this 15th day of February, 2000.

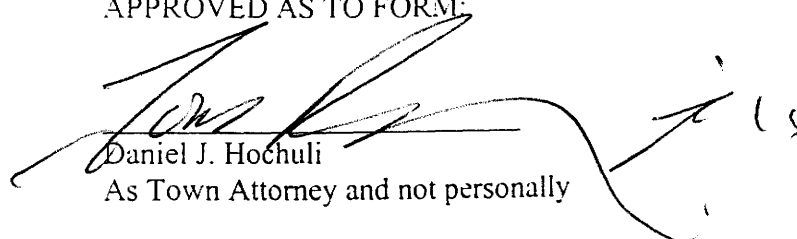


Mayor Bobby Sutton, Jr.

ATTEST:


Jocelyn C. Entz
Town Clerk

APPROVED AS TO FORM:


Daniel J. Hochuli
As Town Attorney and not personally

TOWN OF MARANA INVESTMENT POLICY

1. POLICY STATEMENT

It is the policy of the Town of Marana to invest public funds in a manner which will provide the highest investment return with the maximum security while meeting the daily cash flow demands of the Town. All investments shall conform to all applicable federal, state and local regulations, governing the investment of public funds.

2. SCOPE

This policy applies to all investments of public funds held by the Town of Marana. These funds are defined in the Town's Annual Comprehensive Financial Report and include:

- a) General Fund
- b) Special Revenue Fund
- c) Capital Projects Fund
- d) Enterprise Fund
- e) Any new fund created

3. OBJECTIVE

The primary objectives, in order of priority, of the Town's investment activities shall be:

- a) Security of Principal Investment
Safety of principal is the foremost objective of the investment program. Investments of the Town of Marana shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. To attain this objective, diversification of the investments is required.
- b) Liquidity of Funds
The Town of Marana's investment portfolio must remain sufficiently liquid to enable the Town to meet all operating requirements that might be reasonably anticipated.
- c) Return on Investment
The Town of Marana's investment portfolio shall be designed with the objective of attaining the highest possible yield at the lowest risk commensurate with the cash flow characteristics of the portfolio.

4. DELEGATION OF AUTHORITY

The Town Manager shall be responsible for investment management decisions and shall monitor, report and recommend investment activities and provide periodic reports to the Mayor and Council. The Town Manager may designate this duty to an appropriate official for implementation who shall be referred to as the Investment Officer.

The Investment Officer shall develop and maintain written administrative procedures for the operation of the investment program which are consistent with this policy. Procedures will include reference to safekeeping, wire transfer agreements, collateral deposit agreements, banking service contracts, and other investment related activities.

No officer of the Town shall engage in an investment transaction except the Town Manager or Investment Officer, acting in accordance with this policy. In the absence of the appointed or designated officer, the Finance Director shall invest in accordance with this policy.

5. PRUDENCE

Investments shall be made with judgement and care, under circumstances then prevailing, which investors 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.

TOWN OF MARANA INVESTMENT POLICY

The standard of prudence to be used by investment officials shall be the "prudent investor" standard and shall be applied in the context of managing the overall portfolio. The Town Manager or designated Investment Officer, acting in accordance with written procedures and this policy, shall not be held personally liable for specific security's credit risk or market price changes. The Town Manager or designated Investment Officer shall be liable for losses resulting from a departure from this policy and written administrative procedures, including fraudulent and criminal activity that result in a loss of principal funds.

6. INTERNAL CONTROLS

The Town Manager or designated Investment Officer shall establish a system of written internal controls that will be reviewed annually by the Town's independent auditor. The controls shall be designed to prevent loss of funds due to fraud, employee error, misrepresentation by third parties, unanticipated market changes, or imprudent actions.

7. AUTHORIZED INVESTMENTS

The Town of Marana is empowered by state statute to invest in any of the following instruments:

- a) Obligations of the U.S. Government, its agencies, and instrumentalities that carry the full backing of the U.S. Government or by any agency or instrumentality of the United States.
- b) Fully insured or collateralized Certificates of Deposit in accordance with the bidding procedures of ARS 35-323.B
- c) State of Arizona Local Government Investment Pool (LGIP)

The Town Manager or Investment Officer may not invest in any other security without prior approval from the Town Council and a change in this policy to approve such investment. Public funds not otherwise invested shall be placed in an interest bearing account pursuant to ARS 35-323.A.2 or the Town's operating account.

8. PROHIBITED TRANSACTIONS

The following transactions are prohibited by this investment policy.

- a) Borrowing for investment purposes ("Leverage")
- b) Investment in any instrument which is commonly referred to as a "derivative"
- c) Inverse floaters
- d) Interest only securities

9. ETHICS AND CONFLICTS OF INTEREST

Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment program, or which could impair their ability to make impartial investment decisions. Employees and investment officials shall report to the Town Manager any gifts received from any financial institution, employee of any financial institution, or on behalf of any financial institution.

10. AUTHORIZED FINANCIAL DEALERS AND INSTITUTIONS

The Investment Officer will maintain a list of financial institutions authorized to provide investment services. In addition, a list will also be maintained of approved security broker/dealers selected by credit worthiness. These may include "primary" dealers or regional dealer that qualify under SEC Rule 15C3-1.

TOWN OF MARANA INVESTMENT POLICY

11. DIVERSIFICATION AND MATURITY LIMITATIONS

The policy of the Town of Marana is to diversify its investment portfolio. Invested funds shall be diversified to minimize risk of loss. All investments and deposits shall be made in eligible depositories as that term is used in ARS 35-323.G.

The maturity date on the investments shall also be diversified. The Investment Officer shall attempt to match investments with cash flow requirements. No security shall be invested for more than three years.

12. SAFEKEEPING AND COLLATERALIZATION

All security transactions entered into by the Town of Marana shall be conducted on a delivery-versus-trade basis. If the security is purchased through a broker-dealer firm, the Town must be given a Safekeeping Receipt from the broker.

All securities or receipts shall be held in a safe deposit box at a local bank. The Town Manager and the Investment Officer shall keep a log of the Town securities showing rate, maturity, and other pertinent information. Collateralization shall be required for all Certificates of Deposit investments in excess of the amount covered by the FDIC insurance.

To anticipate market changes and provide a level of additional security for all funds, the collateralization level will be 103% of market value of principal and accrued interest.

13. PERFORMANCE EVALUATION

The Town Manager or Investment Officer shall submit quarterly reports to the Mayor and Council. The report shall contain sufficient information to permit an informed outside reader to evaluate the performance of the investments. The report should contain, at a minimum, the following information:

- a) A list of the securities held at the end of the reporting period, by type and maturity date.
- b) A marking to market of all securities in the portfolio.
- c) A summary of the return on the portfolio.
- d) The percentage of the total portfolio which each type of investment represents.
- e) Comparison of the portfolio returns against a predetermined benchmark.

14. INVESTMENT POLICY ADOPTION

The Town of Marana's Investment Policy shall be adopted by the Town Council. The policy shall be reviewed annually by the Finance Committee and the Town Council thereto must approve any changes.

TOWN OF MARANA ADMINISTRATIVE INVESTMENT PROCEDURES

The primary objective of these procedures and controls is to provide investment procedures for all the public funds of the Town.

1. All investments must have written authorization from the Council and Manager.
2. All investment certificates or receipts of safekeeping must be held in a Town-owned safety deposit box.
3. The safety deposit box must be held at the same financial institution as the Town operating accounts.
4. Quarterly investment reports must be prepared and signed by the Investment Officer and presented to the Manager and Council.
5. All funds to purchase investment instruments must be transferred to and from the Town operating account via electronic wire transfer.
6. Money from various Town funds may be pooled into one investment to maximize overall yield.
7. Investments may be made through primary or secondary dealers and must be conducted on a delivery-versus-payment basis. Safekeeping receipts will be accepted from brokers in place of the original certificate.
8. All investments must be FDIC insured, or collateralized at 103% of market value of principal and accrued interest, backed by the full faith and credit of the U.S. Government or be considered acceptable investments as defined by ARS 35-323,324,328.



Investment Policy

9/3/2019

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TOWN OF MARANA INVESTMENT POLICY

I. Introduction

The intent of the Investment Policy of the Town of Marana is to define the parameters within which funds are to be managed. In methods, procedures, and practices, the policy formalizes the framework for the Town of Marana investment activities that must be exercised to ensure effective and judicious fiscal and investment management of the Town of Marana funds. The guidelines are intended to be broad enough to allow the Investment Officer to function properly within the parameters of responsibility and authority, yet specific enough to adequately safeguard the investment assets.

II. Governing Authority

The investment program shall be operated in conformance with federal, state, and other legal requirements, including those outlined in Arizona Revised Statutes Title 35, Chapter 2, Article 2.1.

III. Scope

This policy applies to activities of the Town of Marana, including funds held in Trust by the Town, such as the Self-Insurance Trust funds, with regard to investing the financial assets of all funds. In addition, funds held by trustees or fiscal agents are excluded from these rules; however, all funds are subject to regulations established by the state of Arizona. The covered funds, and any new funds created by the Town of Marana, unless specifically exempted by the Town Council of the Town of Marana and this policy, are defined in the Town of Marana Comprehensive Annual Financial Report.

Except for funds in certain restricted and special funds, the Town of Marana commingles its funds to maximize investment earnings and to increase efficiencies with regard to investment pricing, safekeeping, and administration. Investment income will be allocated to the various funds based on their respective participation and in accordance with generally accepted accounting principles.

IV. General Objectives

The primary objectives, in priority order, of investment activities shall be:

A. 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 goal will be to mitigate credit risk and interest rate risk through diversification of security types, issuers, and maturity dates.

B. Liquidity

The investment portfolio shall remain sufficiently liquid to meet all operating cash requirements that may be reasonably anticipated.

C. 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 of safety and liquidity needs.

V. Standards of Care

A. 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 liability for an individual security’s credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments.

The “prudent person” standard states that,

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

B. Ethics and Conflicts of Interest

Officers and employees involved in the investment process shall adhere to the conflict of interest law set forth in A.R.S. Title §38-501 through §38-511 and shall refrain from personal activity that could conflict with the proper execution and management of the investment program, or that could impair their ability to make impartial investment decisions. Employees and investment officials shall disclose any material interests in financial institutions with which they conduct business. Disclosure shall be made to the governing body. 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 any personal investment transactions with the same individual with whom business is conducted on behalf of the Town of Marana.

C. Delegation of Authority and Responsibilities

1. Governing Body

The governing body (Town Council) will retain ultimate fiduciary responsibility for the portfolios. The governing body will receive quarterly reports, designate Investment Officers, and periodically review the Investment Policy, making any changes necessary by adoption.

2. **Investment Officers**

Authority to manage the investment program is granted to the Finance Director under the direction of the Town Manager, hereinafter referred to as Investment Officer, and gives the Investment Officer the right to delegate all or part of this investment authority.

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. Officers will prepare investment reports and other special reports as may be deemed necessary.

All participants in the investment process shall seek to act responsibly as custodians of the public trust. No officer or designee may engage in an investment transaction except as provided under the terms of this policy and supporting procedures.

3. **Investment Adviser**

The Town of Marana may engage the services of one or more external investment managers to assist in the management of the Town's investment portfolio in a manner consistent with the Town's objectives. Such external managers may be granted discretion to purchase and sell investment securities in accordance with this Investment Policy and to use their own approved broker dealer list. Such managers must be registered under the Investment Advisers Act of 1940.

VI. Authorized Financial Institutions, Broker/Dealers, and Depositories

A list will be maintained of financial institutions and depositories authorized to provide investment services. In addition, a list will be maintained of approved security broker/dealers selected by conducting a process of due diligence. These may include "primary" dealers or regional dealers that qualify under Securities and Exchange Commission (SEC) Rule 15C3-1 (uniform net capital rule).

A. Authorized Financial Institutions

The Investment Officer shall determine which financial institutions are authorized to provide investment services to the Town of Marana. Institutions eligible to transact investment business with the Town of Marana include:

1. Primary government dealers as designated by the Federal Reserve Bank;
2. Nationally or state-chartered banks;
3. The Federal Reserve Bank; and,
4. Direct issuers of securities eligible for purchase.

Selection of financial institutions and broker/dealers authorized to engage in transactions with the Town of Marana shall be at the sole discretion of the Town of Marana.

A periodic review of the financial condition and registration of all qualified financial institutions and broker/dealers will be conducted by the Investment Officer.

B. Broker/Dealers

All broker/dealers who desire to become qualified for investment transactions must supply the following:

1. Audited financial statements demonstrating compliance with state and federal capital adequacy guidelines
2. Proof of FINRA certification
3. Proof of state registration
4. Completed broker/dealer questionnaire (not applicable to Certificate of Deposit counterparties)
5. Certification of having read and understood and agreeing to comply with the Town of Marana Investment Policy.
6. Evidence of adequate insurance coverage.

If the Town of Marana uses the services of an investment advisor, then the advisor's approved broker/dealer list and process for monitoring may be used in place of the list above.

C. Depositories

All financial institutions who desire to become depositories must supply the following:

1. Audited financial statements demonstrating compliance with state and federal capital adequacy guidelines
2. Proof of state registration
3. Evidence of adequate insurance coverage

D. Competitive Transactions

1. The Investment Officer shall obtain competitive bid information on all purchases of investment instruments purchased on the secondary market. A competitive bid can be executed through a bidding process involving at least three separate brokers/financial institutions or through the use of a nationally recognized trading platform.
2. If the Town is offered a security for which there is no readily available competitive offering on the same specific issue, then the Investment Officer shall document quotations for comparable or alternative securities. When purchasing original issue instrumentality securities, no competitive offerings will be required as all dealers in the selling group offer those securities at the same original issue price.
3. If the Town hires an investment adviser to provide investment management services, the adviser must provide documentation of competitive pricing execution on each transaction. The investment adviser will retain documentation and provide upon request.

VII. Safekeeping and Custody

A. Delivery versus Payment

All trades of marketable securities will be executed (cleared and settled) on a delivery versus payment (DVP) basis to ensure that securities are deposited in the Town of Marana safekeeping institution prior to the release of funds.

B. Third-Party Safekeeping

Securities will be held by an independent third-party safekeeping institution selected by the Town of Marana. All securities will be evidenced by safekeeping receipts in the Town of Marana name. The safekeeping institution shall annually provide a copy of its most recent report on internal controls—Service Organization Control Reports (formerly 70, or SAS 70) prepared in accordance with the Statement on Standards for Attestation Engagements (SSAE) No. 16.

C. Internal Controls

Management is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the Town of Marana 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 the cost of a control should not exceed the benefits likely to be derived and the valuation of costs and benefits requires estimates and judgments by management. The internal controls shall address the following points at a minimum:

1. Control of collusion;
2. Separation of transaction authority from accounting and recordkeeping;
3. Custodial safekeeping;
4. Clear delegation of authority to subordinate staff members;
5. Written confirmation of transactions for investments and wire transfers;
6. Dual authorizations of wire transfers;
7. Staff training; and,
8. Review, maintenance and monitoring of security procedures both manual and automated.

The external auditor shall provide an annual independent review to assure compliance with state law, policies, and procedures.

VIII. Suitable and Authorized Investments

A. Investment Types and Credit Guidelines

The following investments will be permitted by this policy and are those defined by state and local law where applicable. If additional types of securities are approved for investment by public funds by state statute, they will not be eligible for investment by the Town of Marana until this Policy has been amended and the amended version adopted by the governing body. Permitted securities include:

1. **U.S. Treasury and other government obligations** that carry the full faith and credit guarantee of the United States for the payment of principal and interest;
2. **Federal Agency or U.S. government sponsored enterprises (GSE) obligations**, participations, or other instruments;
3. **Bankers' acceptances** eligible as collateral for borrowing from the Federal Reserve, of U.S. banks whose short-term obligations are rated "AA" or better by two nationally recognized statistical rating organizations (NRSRO);
4. **Federally insured time deposits (Non-negotiable certificates of deposit)** in state or federally chartered banks, savings and loans, or credit unions, provided that the amount per institution is limited to the maximum covered under federal insurance;
5. **Time deposits (Non-negotiable certificates of deposit)** in state or federally chartered banks, savings and loans, or credit unions in excess of insured amounts which are fully collateralized with securities in accordance with state law;
6. **Negotiable certificates of deposit (NCDs)** issued by a nationally or state chartered bank or savings and loan association. Securities must be rated in the highest short-term or three highest long-term ratings categories by a NRSRO: A-1/P-1, A/A3, or equivalent;
7. **Commercial paper** rated in the highest tier (e.g., A1, P1, F1, or higher) by a NRSRO. All commercial paper must be issued by corporations organized and doing business in the United States;
8. **Fully collateralized repurchase agreements** collateralized in compliance with this Policy, governed by a SIFMA Master Repurchase Agreement, and with a maximum maturity. Capital project funds may be invested in a single flex repurchase agreement with a maximum stated maturity that shall be matched to the expenditure plan;
9. **Bonds, debentures, notes or other evidences of indebtedness** that are denominated in United States dollars and carry at a minimum an "AA" the equivalent or better rating, at the time of purchase, from at least two NRSROs.
10. **Bonds or other evidences of indebtedness** of this state, county or incorporated cities, towns, or school districts which carry as a minimum "AA" rating or its equivalent by a NRSRO;
11. **SEC registered money market mutual funds, Funds must have the highest fund rating by all NRSROs who rate the fund (e.g., AAAm/Aaa-mf, or the equivalent);** and,
12. **Local government investment pools established by the state treasurer pursuant to A.R.S §35-326.**

B. Investment Downgrade

If the credit rating of a security is subsequently downgraded below the minimum rating level for a new investment of that security, the Investment Officer shall evaluate the downgrade on a case-by-case basis in order to determine if the security should be held or sold. The Investment Officer will apply the general objectives of safety, liquidity, yield, and legality to make the decision.

C. Collateralization

Where allowed or required by state law and in accordance with state law, full collateralization will be required on all demand deposit accounts, including checking accounts and negotiable and non-negotiable certificates of deposit.

1. **Authorized Collateral**

Acceptable collateral for bank deposits and repurchase agreements shall include only:

- a) A bond executed by a surety company that is approved by the treasury department of the United States and authorized to do business in this state. The bond shall be approved as to form by the legal advisor of the treasurer.
- b) Securities or instruments of the following character:
 - (1) Obligations of the U.S. Government, its agencies and GSEs,
 - (2) Obligations of any state, city, county, or authority rated at least “AA” by two nationally recognized statistical rating organizations.

2. **Required Collateral**

Per the statutory requirements of ARS § 35-323, collateral of at least 102% of the deposit amount in excess of federally insured limits must be delivered to the Collateral Agent prior to the settlement of funds.

IX. Investment Parameters

A. Mitigating Credit Risk in the Portfolio

Credit risk is the risk that a security or a portfolio will lose some or all of its value due to a real or perceived change in the ability of the issuer to repay its debt. The Town of Marana shall mitigate credit risk by adopting the following:

1. **Diversification**

It is the policy of the Town of Marana to diversify its investment portfolios. To eliminate risk of loss resulting from the over-concentration of assets in a specific maturity, issuer, or class of securities, assets in all Town of Marana funds shall be diversified by maturity, issuer, and class of security. Diversification strategies shall be determined and revised periodically by the Investment Officer for all funds.

Sector	Quality Criteria	Maturity Limit	Asset Class Limit	Portfolio Issuer Limit
U.S. Treasury and other government obligations	Full faith and credit of U.S.	Up to 60 months	100%	Unlimited
Federal Agency or U.S. government sponsored enterprises (GSE) obligations	S&P: AA MDY: Aa Fitch: AA	Up to 60 months	100%	Up to 25%
Bankers' acceptances	S&P: A1 MDY: P1	Up to 270 days	20%	Lesser of 5% or \$5mm

Sector	Quality Criteria	Maturity Limit	Asset Class Limit	Portfolio Issuer Limit
Federally insured time deposits	Within the current FDIC insurance limit	Up to 60 months	100%	Within the current FDIC insurance limit
Time deposits	S&P: A MDY: A Fitch: A	Up to 30 months	100%	Lesser of 5% or \$5mm
Negotiable certificates of deposit	S&P: A MDY: A Fitch: A	Up to 30 months	50%	Lesser of 5% or \$5mm
Commercial paper	S&P: A1 MDY: P1	Up to 270 days	50%	Lesser of 5% or \$5mm
Fully collateralized repurchase agreements	Collateralized by US Treasury Agencies and Agency MBS	Up to 180 Days	25%	Up to 20%
Bonds, debentures, notes or other evidences of indebtedness that are denominated in US dollar	S&P: AA MDY: Aa Fitch: AA	Up to 60 months	40%	Lesser of 5% or \$5mm
Bonds or other evidences of indebtedness of this State or political subdivisions	S&P: A1 MDY: P1	Up to 60 months	25%	Lesser of 5% or \$5mm
Money market mutual funds	S&P: AAAM MDY: Aaa Fitch: AAAMmf	Up to 90 days WAM	20%	10%
Local government investment pools	N/A	Up to 90 days WAM	100%	Unlimited

Due to fluctuations in the aggregate surplus funds balance, maximum percentages for a particular issuer or investment type may be exceeded at a point in time subsequent to the purchase of a particular issuer or investment type. Securities need not be liquidated to realign the portfolio; however, consideration should be given to this matter when future purchases are made to ensure that appropriate diversification is maintained.

B. Mitigating Market Risk in the Portfolio

Market risk is the risk that the portfolio value will fluctuate due to changes in the general level of interest rates. The Town of Marana recognizes that, over time, longer-term/core portfolios have the potential to achieve higher returns. On the other hand, longer-term portfolios have higher volatility of return. The Town of Marana shall mitigate market risk by providing adequate liquidity for short-term cash needs, and by making longer-term investments only with funds that are not needed for current cash flow purposes. The Town of Marana further recognizes that certain types of securities, including variable rate

securities, securities with principal pay downs prior to maturity, and securities with embedded options, will affect the market risk profile of the portfolio differently in different interest rate environments. The Town of Marana, therefore, adopts the following strategies to control and mitigate its exposure to market risk:

1. The Town of Marana shall maintain a minimum of three months of budgeted operating expenditures in short-term investments to provide sufficient liquidity for expected disbursements;
 2. The maximum percent of callable securities in the portfolio shall be 15%;
 3. The maximum stated final maturity of individual securities in the portfolio shall be five years;
 4. Liquidity funds will be held in the State Pool or in money market instruments maturing one year and shorter;
 5. Longer term/Core funds will be defined as the funds in excess of liquidity requirements. The investments in this portion of the portfolio will have maturities between one day and five years and will be only be invested in higher quality and liquid securities; and,
 6. The duration of the portfolio shall at all times be approximately equal to the duration (plus or minus 10%) of a Market Benchmark Index selected by the Town of Marana based on the Town of Marana investment objectives, constraints and risk tolerances. The Town's current Benchmark shall be documented in an agreement.
- i) Due to fluctuations in the aggregate surplus funds balance, maximum percentages for a particular issuer or investment type may be exceeded at a point in time subsequent to the purchase of a particular issuer or investment type. Securities need not be liquidated to realign the portfolio; however, consideration should be given to this matter when future purchases are made.

X. Performance Evaluation

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. The benchmarks shall be reflective of the actual securities being purchased and risks undertaken and the benchmarks shall have a similar weighted average maturity and credit profile as the portfolio. Return comparisons of the portfolio to the market benchmark will be calculated on a monthly basis. When comparing the performance of the Town's portfolio, all fees and expenses involved with managing the portfolio shall be included in the computation of the portfolio's rate of return.

XI. Reporting

A. Quarterly & Annual Report

The Investment Officer shall submit quarterly and annual reports to the Town Manager and Town Council showing the make-up of the investment portfolio and return for the period. The report should also contain sufficient information to permit an informed outside reader to evaluate the compliance of the investment program with this policy. Internal investment reports will be produced on a monthly basis

B. Annual Audit

Management shall establish an annual process of independent review by the external auditor to assure compliance with internal controls. Such audit will include tests deemed appropriate by the auditor.

XII. Policy Considerations

A. Approval of Investment Policy

The Investment Policy and any modifications to the policy shall be formally approved and adopted by the Town Council of the Town of Marana

B. Exemption

Any investment currently held that does not meet the guidelines of this policy shall be temporarily exempted from the requirements of this policy. Investments must come in conformance with the policy within six months of the policy's adoption or the governing body must be presented with a plan through which investments will come into conformance.

C. Annual Policy Review

The Investment Policy shall be reviewed at least annually within 120 days of the end of the fiscal year to ensure its consistency with the overall objectives of preservation of principal, liquidity, and yield, and its relevance to current law and financial and economic trends.

D. Amendments

Any changes to this policy must be approved by the Investment Officer and any other appropriate authority, as well as the individuals charged with maintaining internal controls.

XIII. Glossary

US Treasury Obligation Direct obligations of the United States Treasury whose payment is guaranteed by the United States. (State Statute Note)

GSE – Agency Obligations US Government Agencies, Government Sponsored Enterprises (*GSEs*), Corporations or Instrumentalities of the US Government—Federal Instrumentality Securities include, but are not limited to, Federal National Mortgage Association (*FNMA*), the Federal Home Loan Mortgage Corporation (*FHLMC*), Federal Home Loan Banks (*FHLB*), and the Federal Farm Credit Bureau (*FFCB*). (State Statute)

Commercial Paper Commercial Paper that is rated A1/P1 and has long-term bonds which have a minimum rating of AA- by Standard and Poor's and Aa3 by Moody's.

Bankers' Acceptances Bankers' acceptances, if the bankers' acceptances are: (i) Guaranteed by, and carried on the books of, a qualified financial institution; (ii) Eligible for discount by the Federal Reserve System; and (iii) Issued by a qualified financial institution whose short-term letter of credit rating is rated in the highest category by one or more nationally recognized statistical rating organizations.

For the purposes of this paragraph, "qualified financial institution" means:

(i) A financial institution that is located and licensed to do banking business in the State; or (ii) A financial institution that is wholly owned by a financial holding company or a bank holding company that owns a financial institution that is located and licensed to do banking business in the State of Arizona.

Repurchase Agreements An agreement with an approved broker/dealer that provides for sell and simultaneous purchase of an allowable collateral security. The difference in the sales and purchase price is the earning rate on the agreement. A master repurchase agreement must be in place with the approved broker/dealer.

Corporate Indebtedness Corporate Indebtedness that has a minimum long-term debt rating of A- rated by Standard and Poor's and a A3 rating by Moody's or equivalent rating by any nationally recognized statistical rating organization.

Local Government Investment Pool State treasurer's local short-term investment fund up to the statutory limit per state statute

Certificates of Deposit/Bank Deposit/Savings Accounts

Time deposit open accounts, certificates of deposit, and savings accounts in insured institutions as defined in State Statute, in credit unions as defined in State statute or in federal credit unions, if the institution or credit union maintains a head office or a branch in this state. [State Statute lawfully issued debt obligations of the agencies and instrumentalities of the State of Arizona and its political subdivisions that have a long-term rating of A or an equivalent rating or better or are rated on the settlement date in the highest category for short-term municipal debt by a nationally recognized statistical rating organization.]



Town of Marana

Investment Policy Study Session

Presented by:

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Luke Schneider, CFA, Director

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Summary

- ◆ Proposed policy changes
- ◆ Sector overview
- ◆ Conclusion



Proposed Policy Changes



Investment Policy Update

- Modernize language, clarify requirements, and align the policy with A.R.S. and best practices
- Last updated February 2000
- Proposed changes enhance the portfolio's diversification and total return
- Essential areas covered in the proposed policy:
 - Investment philosophy and objectives
 - Investment authority
 - Authorized investments
 - Investment guidelines and Compliance
 - Reporting



Investment Policy Update

Current Policy

- Objectives: Safety, Liquidity & Return
- Investments **only** include: U.S. treasuries & agencies, State LGIP funds
- Invests money in all of Town's funds
- Town Manager responsible for investment decisions



Proposed Policy

- Objectives: Safety, Liquidity & Return (No Change)
- Investments include: Match Arizona Revised Statute 35-323
- Invests money in all of Town's funds, including newly created Self-Insurance Trust funds
- Finance Director is responsible for program under direction of Town Manager



Investment Policy Recommendations

State Statute			Current Policy			Recommended Policy		
Allowable Investments	Max Maturity	Sector Limit	Allowable	Max Maturity	Sector Limit	Allowable	Max Maturity	Sector Limit
U.S. Treasury	5 years	100%	√	5 years	100%	√	5 years	100%
Federal agency	5 years	100%	√	5 years	100%	√	5 years	100%
Bankers' acceptances	270 days	100%	-	-	-	√	270 days	100%
Federally insured time deposits	5 years	100%	-	-	-	√	5 years	100%
Time deposits	5 years	100%	-	-	-	√	5 years	100%
Negotiable certificates of deposit	5 years	100%	-	-	-	√	5 years	50%
Commercial paper	270 days	100%	-	-	-	√	270 days	50%
Fully collateralized repurchase agreements	180 days	100%	-	-	-	√	180 days	25%
Corporate Notes	5 years	100%	-	-	-	√	5 years	50%
Municipal bonds	5 years	100%	-	-	-	√	5 years	25%
Money market mutual funds	-	100%	-	-	-	√	90 days	20%
Local government investment pools	-	100%	√	-	100%	√	90 days	100%



Sector Overview



Risks of Investing in Corporate Securities

◆ Credit/Default Risk

- Risk that an issuer will be unable to meet its financial obligations

◆ Market Value Risks

- Credit spread: risk of financial loss resulting from changes in credit spreads used in the mark-to-market of a fixed income product
- Downgrade: risk that a bond's price will decline due to a downgrade in its credit rating

Risks can be managed with the appropriate procedures, policies, and limitations in place



Historical Default Rates

Annual Corporate Default Rates by Letter Rating 2006 – 2017

Year	Aaa	Aa	A	Baa	Ba	B	Caa-C
2006	-	-	-	-	0.2%	1.1%	5.9%
2007	-	-	-	-	-	-	5.0%
2008	-	0.5%	0.4%	1.0%	2.3%	4.0%	10.7%
2009	-	-	0.2%	0.9%	1.8%	7.2%	25.9%
2010	-	-	0.2%	0.1%	-	0.4%	8.5%
2011	-	0.2%	-	0.4%	0.2%	0.3%	5.9%
2012	-	-	-	0.1%	0.1%	0.5%	7.8%
2013	-	-	0.1%	0.1%	0.6%	0.9%	6.2%
2014	-	-	0.1%	-	0.1%	0.5%	4.6%
2015	-	-	-	-	0.3%	2.2%	6.8%
2016	-	-	-	-	0.1%	1.5%	9.1%
2017	-	-	-	-	0.2%	0.3%	6.4%

Source: Moody's 2017 Annual Default Study: Corporate Default and Recovery Rates.

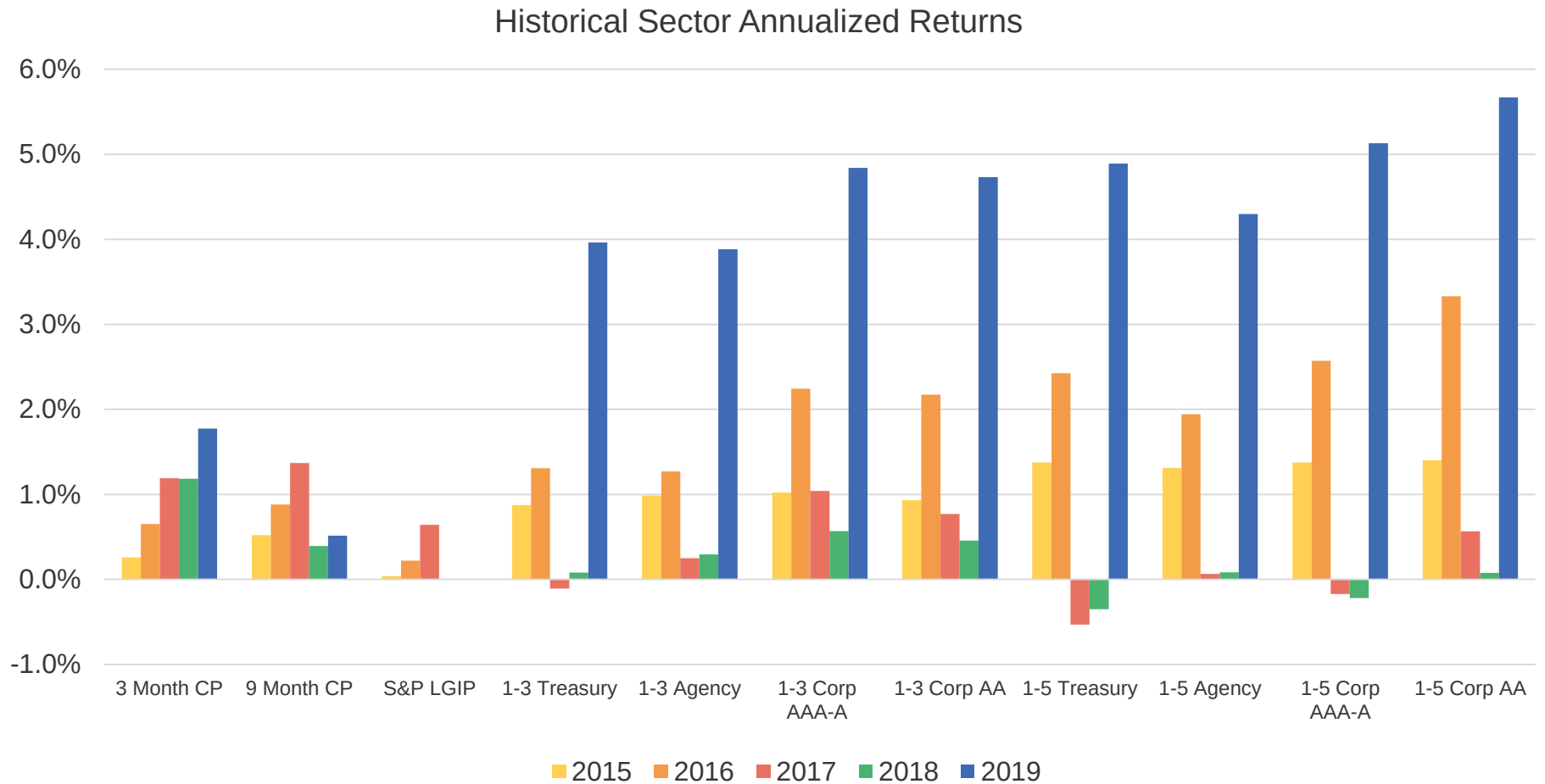


Going Beyond Credit Ratings

Issuer Analysis	Macro Analysis
<ul style="list-style-type: none">• Balance sheet analysis• Earnings: actual and projections• Asset quality and impairments• Corporate governance• Price movement of fixed income and equity securities• Monitor credit default swap levels• Trading volume• Analysts' recommendations	<ul style="list-style-type: none">• Industry trends• Competitive environment• Business cycle• Regulatory environment• Rating agency actions• Sovereign credit developments



Sector Returns



Source: Bloomberg as of 6/30/2019. Three and nine month commercial paper yields, rated A-1+.



Conclusion

Proposed policy update allows for:

- More investment sectors
- Enhanced portfolio diversification
- Greater level of analysis to manage risk
- Potential for greater rate of return
- Opportunity to modernize language, clarify requirements, and align the policy with A.R.S. and best practices.



Disclosures

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Council-Study Session

D2

Meeting Date: 09/10/2019

To: Mayor and Council

Submitted For: Jason Angell, Development Services Director

From: Steven Cheslak, Principal Planner

Date: September 10, 2019

Strategic Plan Focus Area:
Not Applicable

Subject: Relating to Development; presentation, discussion, and possible direction regarding the Town's subdivision requirements for private, common on-site recreation areas (Jason Angell)

Discussion:

In the past few years, there has been a trend towards a more dense and compact residential neighborhood with smaller lots that are longer and narrower. As the national home builders in the region adjust their product type to respond to ever changing market forces, it has been recognized that the subdivision standards of the Town must be examined to ensure the Town provides quality residential places. As a part of that review, the consideration of a subdivision, active recreation area requirements needs to be discussed.

In order to facilitate an active discussion and possible direction for future action, staff will provide an overview of the subdivision, on-site recreation area requirements of the Town and other comparable jurisdictions as well as methods of calculating recreational area in subdivisions.

Staff Recommendation:

Council's pleasure.

Suggested Motion:

Council's pleasure.

Attachments



Private, Common On-site Recreation Areas

Jason Angell, Development Service Director
September 10, 2019

Presentation Overview

- Background
- Existing Code requirements
- How we compare to others
- Different ways of calculating recreation areas
- Council direction and next steps



Private, Common On-site Recreation Areas

- Concerns with proposed recreation areas of development applications
- Comments for an assessment of current requirements
- Tour of Phoenix area of master planned communities

Private, Common On-site Recreation Area in Marana

Residential project requirement:

- Density greater than or equal to 3 RAC gross, and
- 50 dwelling units or more

Area requirement per unit:

- Apartment or condominium: 100 sq. ft.
- Town home or patio home: 140 sq. ft.
- Single-family residential: 185 sq. ft.
- Fee in-lieu

Limitation:

- Unsuitable land - Peaks, ridges, land fragments
- Lands determined unusable by Parks & Recreation and Development Services





Private parks - Marana vs Other Jurisdictions

	<i>Minimum Area Requirement (per single family unit)</i>	<i>LDC Park Standards</i>	<i>Standards in Parks/Rec Design Manual</i>	<i>Drainage Area – Park Design Requirements</i>	<i>Trail Requirements</i>
Marana	185 sq. ft.	Yes	No	No	No
Oro Valley	512 sq. ft.	Yes	No (Parks & Rec Advisory Board)	Yes	Yes
City of Tucson	269 sq. ft.	No	No	Yes	Yes
Sahuarita	436 sq. ft.	Yes	Yes	Yes	Yes
Pima County	436 sq. ft.	Yes	Yes	Yes	Yes
Queen Creek	Open Space - 20% net, 30% active	Yes	No	Yes	Yes
Buckeye	Open Space - 20-25% gross, 5%-8% active	No	No	Yes	Yes
City of Maricopa	Open Space - 1 to 99 lots (20% net) 100+ lots (22% net)	No	No	Yes	Yes

Recreational Area in Acres - 100 lot subdivision



Methods of Calculating Recreational Area

Square Foot Per Lot Ratio

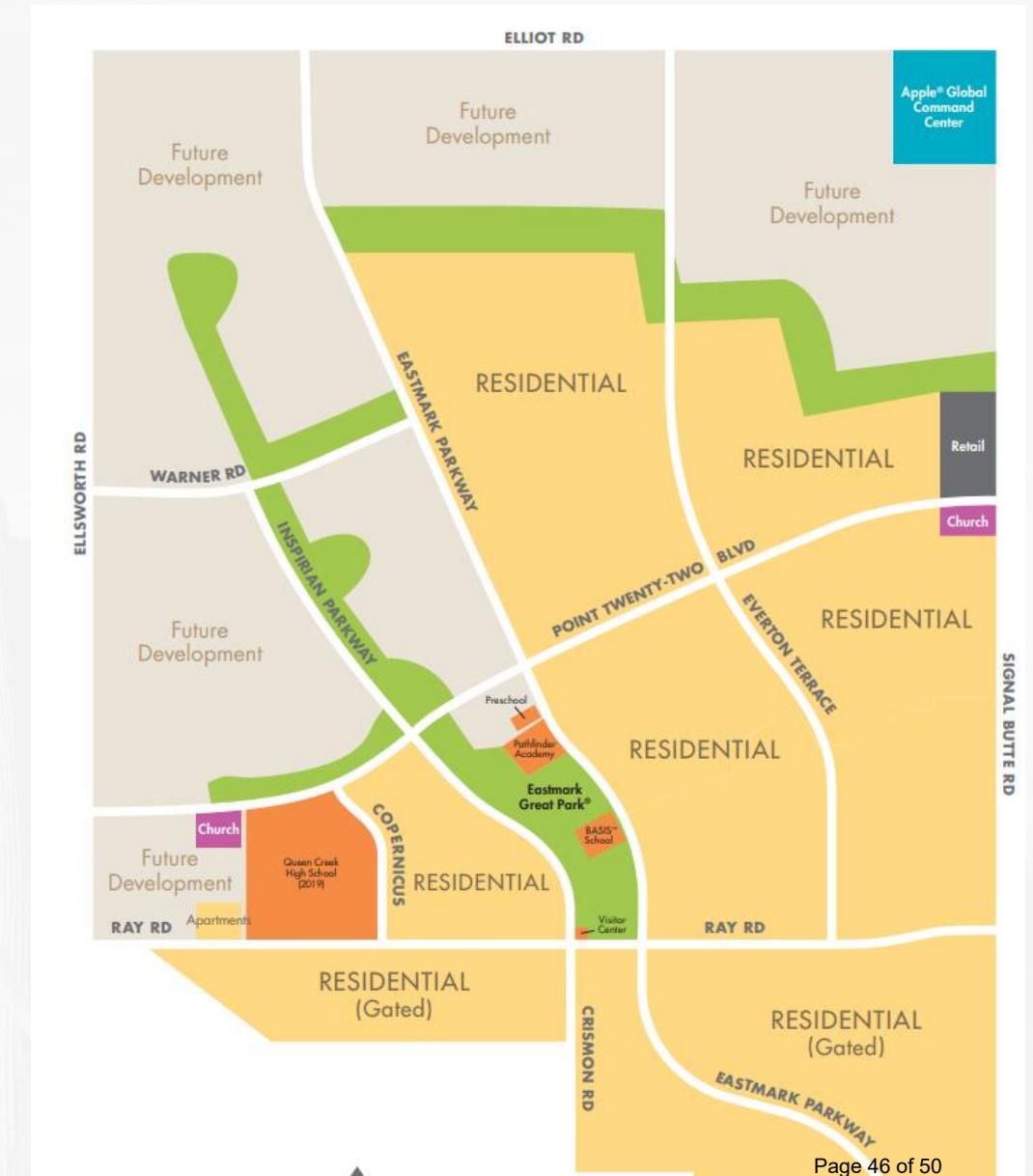
- Adjustment to existing requirement
- Sliding scale - based on density of overall development



Methods of Calculating Recreational Area

Percentage of Development Area

- Gross vs Net— area of the parcel before or after dedications
- Active recreation - percentage of overall required open space



Scoring System

- Points assigned per amenity type
- Active recreation vs passive uses

Methods of Calculating Recreational Area



Methods of Calculating Recreational Area

Fee In-lieu

- Used if proximity to town parks, environmental conditions, unusual unit count
- Developer pays fee equivalent to park land and recreational facilities required
- Exists in current code



Methods of Calculating Recreational Area

Create a Design Manual

- Quality vs quantity
- Drainage area standards



Next Steps

- Council direction
 - Update current calculation method?
 - New calculation method?
 - Create design standards?
- Staff to prepare draft recommendations
 - Additional Council discussion
- Public engagement
 - Proposed changes presented to stakeholders
 - Council discussion and direction

