



Investment Policy Best Practices

Ensuring Fiduciary Responsibility, Legal Compliance, and Financial Safety in Colorado

Presented by:

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Executive Summary & Presentation Objectives

1

What is an Investment Policy?

A governing document dictating how public funds are managed, protected, and invested.

2

Why It Matters

Safeguards taxpayer dollars while maintaining daily operating cash flow.

3

Presentation Goals

This session will help you:

- Understand the fundamental importance of an Investment Policy.
- Review Colorado statutory requirements (C.R.S. § 24-75-601.1).
- Examine the structural pillars: Safety, Liquidity, and Yield.



Why a Local Government Investment Policy is Crucial

1

Protection of Public Trust

Establishes transparency and accountability for elected officials and public finance staff.

2

Fiduciary Duty

Explicitly outlines the “Prudent Person” standard of care required under Colorado law.

3

Mitigation of Risk

Prevents speculative investing or over-concentration in volatile asset classes.

4

Operational Continuity

Ensures cash is available when needed for payroll, infrastructure projects, and emergencies.



Legal Foundation – Colorado Revised Statutes (C.R.S.)

All Colorado public entities must strictly adhere to state statutes governing public fund investments.

1

C.R.S. § 24-75-601.1

Defines the strict list of “Legal Investments” permitted for local governments.

2

Maturity Constraints

Limits standard legal investments to a maximum maturity of five years from the settlement date, unless expressly authorized for longer terms by the governing body, usually a “Home Rule” municipality.

3

Public Deposit Protection Act (PDPA)

Ensures bank deposits exceeding FDIC insurance limits are properly collateralized to protect against bank failures.



The Three Core Pillars of Public Investing

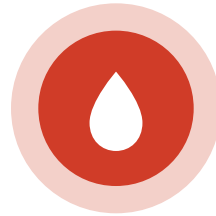
The golden rule of public finance — investments must always be prioritized in this exact order.



PRIORITY 1

Safety

Preservation of capital is the single most critical factor.



PRIORITY 2

Liquidity

The portfolio must remain fluid enough to meet all anticipated operating needs.



PRIORITY 3

Yield

Generating a market rate of return is secondary, pursued only after safety and liquidity are fully guaranteed.

Pillar I – Safety and Risk Mitigation

1

Credit Risk Management

Restricting investments to high-grade securities such as U.S. Treasuries, highly-rated municipal bonds, and AAAM-rated Local Government Investment Pools.

2

Interest Rate Risk

Layering, or “laddering,” maturities to insulate the portfolio from market fluctuations.

3

Diversification

Applying strict policy limits to prevent over-concentration — for example, capping exposure to any single corporate issuer at **5%** of the total portfolio.



Concentration Limits — Local Policy vs. C.R.S.

How this entity’s diversification caps compare to Colorado statutory constraints by asset class.

Asset Class	C.R.S. § 24-75-601.1 Allowable	Local Government Policy Limit - Sample
U.S. Treasury Obligations	No statutory cap; maturity ≤ 5 yrs	Up to 100% — no internal limit
Federal Agency Securities	No statutory cap; maturity ≤ 5 yrs	50% max portfolio
Municipal Bonds (CO / other states)	Rating floor: in-state A-/A3, out-of-state AA-/Aa3	30% max; 5% per issuer
Commercial Paper	Two NRSRO Ratings A1/P1 or above	25% max; 5% per issuer
Corporate Bonds / Notes	Two NRSRO ratings AA-/Aa3; maturity ≤ 3 yrs	30% max; 5% per issuer
Certificates of Deposit	PDPA collateralization; no statutory cap	25% max; 10% per institution
Money Market Funds	AAAm-rated; \$1 NAV; SEC Rule 2a-7 Compliant	50% max portfolio
Local Gov’t Investment Pools	AAAm-rated; no statutory cap	50% max portfolio; 33% per LGIP

5% PER ISSUER CAP | Tightest concentration guardrail — applies to municipal bonds, commercial paper, and corporate notes. Certificates of deposit are held to 10% per institution.

Local limits shown are representative prudent caps — tailor them to your adopted policy. C.R.S. governs eligibility, ratings, and maturity rather than fixed percentages for most classes.

Pillar 2 – Liquidity & Cash Flow Matching

1

Anticipating Demand

Structuring investment maturities to align with known major expenditures such as debt service, seasonal construction, and payroll.

2

Utilizing Colorado LGIPs

Leveraging state-authorized pools for same-day or next-day liquidity to manage unpredictable short-term cash demands.

3

Maintaining a Cash Buffer

Keeping a fixed percentage of the total portfolio in instantly accessible cash equivalents. Common Practice = 10% of overall portfolio.



Pillar 3 – Maximizing Yield Safely

1

Passive vs. Active Benchmarking

Evaluating portfolio performance against standard market indicators, such as the 3-month or 6-month U.S. Treasury Bill index.

2

Low-Risk Instruments

Earning competitive returns through allowable, predictable vehicles:

- U.S. Treasury obligations and Federal Agency securities
- Eligible commercial paper and corporate bonds meeting statutory credit ratings
- Collateralized Certificates of Deposit (CDs)



Governance, Roles, and Delegation

1

Governing Body

The City Council or Board of Trustees retains ultimate authority; it reviews and formally adopts the policy annually.

2

Investment Officer

The Treasurer or CFO handles day-to-day administration, executes trades, and manages the portfolio within policy bounds.

3

Third-Party Oversight

Independent auditors and qualified, SEC-registered investment advisors monitor ongoing compliance.



Reporting, Compliance, and Transparency

1

Regular Reporting

Monthly, quarterly, annual comprehensive investment reports delivered to the governing body and made available for public inspection.

2

Required Disclosure Elements

A detailed inventory of securities held, maturity dates and current market values, and yield-to-maturity tracking against chosen benchmarks.

- GASB 79

3

Policy Exceptions

A clear protocol for addressing and documenting unintentional policy violations, such as credit-rating downgrades of an owned security.



GFOA Best Practice — Recommended Policy Language

The GFOA recommends every government adopt a comprehensive written investment policy, reviewed and updated at least annually and adhering to state law.

“A written investment policy is the single most important element in a public funds investment program.”

— GFOA Best Practice, Creating an Investment Policy

Scope & Objectives

Prioritize safety, liquidity, and preservation of principal; define which funds the policy governs.

Roles & Standards of Care

Apply the prudent person rule, due diligence, ethics, and clear delegation of authority.

Suitable & Authorized Investments

Set types, maturities, credit quality, and collateral; policy may restrict beyond state code.

Risk Management

Address interest-rate, credit, and liquidity risk across the investment program.

Investment Diversification

Mix assets by maturity, sector, and issuer allocation to manage portfolio risk.

Internal Controls & Custody

Separate duties, use third-party safekeeping, and reduce the risk of fraud or loss.

Conclusion & Best Practices

1

A Living Document

The policy should not sit on a shelf; it must be updated to adapt to evolving Colorado statutes and economic cycles.

2

Defensive Posture

Public investing is fundamentally defensive — success is measured by the return of capital rather than the return on capital.

3

Action Item

Schedule an annual policy workshop to align staff, leadership, and state regulations.



Questions & Discussion

Open floor for input, Policy revisions, and specific questions regarding Colorado statutory compliance.

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