

## **City of Savage** ***Investment Policy***

### **I. Scope**

This policy applies to the investment of all financial assets of the City of Savage except investments of employees' investment retirement funds.

1. *Pooling of Funds*

Except for cash in certain restricted and special funds, the City of Savage 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 and interest rate risk.

a) **Credit Risk**

The City of Savage 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 will do business as stated in Section IV, Paragraph I.
- Diversifying the investment portfolio so that potential losses on individual securities will be minimized.

b) **Interest Rate Risk**

The City will minimize the risk that the market value of securities in the portfolio will fall due to the 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 anticipated demands. A portion of the portfolio may be placed in money-market mutual funds or local government investment pools which offer same-day liquidity.

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. 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. Standard of Care**

1. *Prudence*

The standard of prudence, meaning not for speculation and with consideration of the probable safety of the capital as well as the probable investment returns, shall be used by investment officials. 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.

2. *Ethics and Conflicts of Interest*

Employees involved in the investment process shall have no 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 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 shall refrain from undertaking personal investment transactions with the same individual with whom business is conducted on behalf of the City.

3. *Delegation of Authority*

Authority to manage the investment program is granted to the Finance Director and derived from the following: Minnesota Statutes, Chapter 118A, 471 and 475. Responsibility for the operation of the investment program is hereby delegated to the Finance Director, who shall act in accordance with established written procedures and internal controls for the operation of the investment program consistent with this investment policy and applicable state statutes. 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 Finance Director. The Finance Director 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. These may include “primary” dealers or regional dealers that qualify under Securities and Exchange Commission (SEC) Rule 15C3-1.

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’s investment policy.

An annual review of the financial condition and registration of qualified financial institutions and broker/dealers will be conducted by the Finance Director.

## 2. *Internal Controls*

The Finance Director is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the City 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 Finance Director 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 recordkeeping.
- 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.

# V. **Suitable and Authorized Investments**

## 1. *Investment Types*

The following investments will be permitted by this policy and are those defined by state and local law where applicable:

- a) U.S. government obligations, U.S. government agency obligations and U.S. government instrumentality obligations which have a liquid market with a readily determinable market value;

- b) Certificates of deposit and other evidences of deposit at financial institutions, bankers' acceptances, and commercial paper, rated in the highest tier (e.g., A-1,P-1, or F-1 or higher) by a nationally recognized rating agency;
- c) Investment-grade obligations of state, local governments and public authorities;
- d) Repurchase agreements whose underlying purchased securities consist of the investment types listed above.
- e) Money market mutual funds regulated by the Securities and Exchange Commission and whose portfolios consist only of dollar-denominated securities; and
- f) Local government investment pools, either state-administered or through joint powers statutes and other intergovernmental agreement legislation.

2. *Collateralization*

Full collateralization will be required on non-negotiable certificates of deposit.

3. *Repurchase Agreements*

Repurchase agreements shall be consistent with GFOA Recommended Practices on Repurchase Agreements.

## **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.

2. *Maximum Maturities*

To the extent possible, the City shall attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, the City will not directly invest in securities maturing, or having average lives, of more than five (5) years from the date of purchase or in accordance with state and local statues and ordinances.

Reserve funds and other funds with longer-term investment horizons may be invested in securities exceeding five (5) years if the maturity of such investments are made to coincide as nearly as practicable with the expected use of funds. The intent to invest in securities with longer maturities shall be disclosed in writing to the legislative body.

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 local government investment pools, money market funds, or overnight repurchase agreements to ensure that appropriate liquidity is maintained to meet ongoing obligations.

## **VII. Reporting**

### *1. Methods*

The Finance Director shall prepare an investment report, including a management summary that provides an analysis of the status of the current investment portfolio and transactions made quarterly. This management summary will be prepared in a manner which will allow the City to ascertain whether investment activities during the reporting period have conformed to the investment policy. The report should be provided to the Mayor, City Council, and City Administrator on a quarterly basis. 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.
- c) Average weighted yield to maturity of portfolio on investments.
- d) Listing of investments 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.

### *3. Marking to Market*

The market value of the portfolio shall be calculated at least quarterly.

## **VIII. Policy Considerations**

### *1. Exemption*

Any investment currently held that does not meet the guidelines of this policy (adopted April 6, 1999) 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 as needed or requested by City Council. Any changes must be approved by the City Council.