

CITY OF DELANO INVESTMENT POLICY

I. Purpose and Need for Policy

It is the policy of the City of Delano to invest public funds in a manner which will provide the highest investment return with the maximum security while meeting the daily cash flow requirements of the City and conforming to all Minnesota statutes governing the investment of public funds. The purpose of this Policy is:

- to develop an overall program for cash and investments, designed and managed with a high degree of professionalism, worthy of the public trust,
- to establish that elected and appointed officials and employees are custodians of a portfolio which shall be subject to public review, and
- to establish cash and investment objectives, delegation of authority, standards of prudence, internal controls, authorized investments, selection process for investments, and broker representations.

II. Scope

This policy applies to the investments and deposits of all funds of the City.

Pooling of Funds – Except for cash in certain restricted and special funds, the City will consolidate cash and reserve balances from all 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 accounting principles generally accepted in the United States of America.

III. Objective

At all times, investments of the City shall be in accordance with Minnesota Statutes Chapter 118A and amendments thereto. The primary objectives of the City's investment activities shall be in the following order of priority:

A. Safety

Safety of principal is the foremost objective of the investment portfolio. 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, interest rate risk, and custodial risk.

Credit Risk – Credit risk is the risk of loss due to failure of the security issuer or backer. Thus designated depositories shall have insurance through the Federal Deposit Insurance Corporation (FDIC) or the Securities Investor Protection Corporation (SIPC). To ensure safety, it is the policy of the City that when considering an investment, all depositories under consideration be cross-checked against existing investments to make certain that funds in excess of insurance limits are not made in the same institution unless

collateralized as outlined below. Furthermore, the City Council will approve all financial institutions, brokers, and advisers with which the City will do business.

Interest Rate Risk – Interest rate risk is the risk that the market value of securities in the portfolio will fall due to changes in general interest rates. The City will minimize interest rate risk 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.

Custodial Risk – The City will minimize deposit custodial risk, which is the risk of loss due to failure of the depository bank (or credit union), by obtaining collateral and/or bond for all uninsured amounts on deposit, and by obtaining necessary documentation to show compliance with Minnesota statutes and a perfected security interest under Federal law.

B. Liquidity

The investment portfolio shall remain sufficiently liquid to meet projected disbursement requirements. This is accomplished by structuring the portfolio so that securities mature concurrent with cash needs to meet anticipated demands. Generally, investments shall have “laddered” maturities so that money becomes available on a regular schedule. Liquid funds will allow the City to meet possible cash emergencies without being penalized on investments.

C. Yield

The investment portfolio shall be designed to manage the funds to maximize returns consistent with items A and B above within the requirements set forth in this Policy. Subject to the requirements of the above objectives, it is the policy of the City to offer financial institutions and companies within the City the opportunity to bid on investments: however, the City will seek the best investment yields.

IV. Delegation of Authority

Responsibility for the investment program is hereby delegated from the City Council to the Finance Director. Authority to conduct actual investment transactions is hereby delegated to the Finance Director, who shall act in accordance with procedures as established with this investment policy. The authorized individual, when acting in accordance with this Policy and exercising due diligence, shall not be held responsible for losses, provided that the losses are reported immediately and that appropriate action is taken to control further losses.

V. Prudence

The standard of prudence to be used by investment officials shall be the “prudent investor”, and shall be applied in the context of managing the investments. All investment transactions shall be made in good faith with the degree of judgment and care, under the circumstances, that a person of prudence, discretion and intelligence would exercise in the management of their own affairs. This standard of prudence shall mean not for speculation, and with consideration of the probable safety of the capital as well as the probable investment return derived from the assets.

VI. Internal Controls

Internal controls are designed to prevent loss of public funds due to fraud, error, misrepresentation, unanticipated market changes, or imprudent actions. Before the City invests any surplus funds, competitive quotations shall be obtained. Written quotations from all financial institutions or brokers shall be obtained via email, fax, or other form of written documentation, with all of them receiving the exact same rate request. If a specific maturity date is required, either for cash flow purposes or for conformance to maturity guidelines, quotations will be requested for instruments that meet the maturity requirement. If no specific maturity is required, a yield analysis will be conducted to determine which maturities would be most advantageous. Quotations will be requested from financial institutions for various options with regard to term and investment type. The City will accept the quotation, which provides the highest rate of return within the maturity required and within the limits of this policy.

The Finance Director will report periodically to the City Council on the total of all funds invested and the total returns recognized on all securities year to date.

VII. Authorized Investments and Collateralization

All City investments and deposits shall be those allowable by Minnesota Statutes Chapter 118A and amendments thereto. In accordance with Minnesota Statutes 118A, collateralization will be required on all demand deposit accounts, including checking, savings, and money market accounts, and non-negotiable certificates of deposit in excess of federal deposit insurance.

State law defines the types of securities that a financial institution may pledge as collateral for public deposits. These securities include:

- United States Treasury Issues,
- Issues of United States Government Agencies and Instrumentalities,
- Obligations of State and Local Governments, and
- Time Deposits (Certificates of Deposits fully insured by the FDIC or federal agency).

Since the amount a public entity has on deposit will vary from time to time, the financial institution needs sufficient amounts of pledged collateral to cover 110% of the uninsured amount on deposit during peak deposit times.

VIII. Diversification

The City will attempt to diversify its investments according to type and maturity. The portfolio, as much as possible, will contain both short-term and long-term investments. The City will attempt to match its investments with anticipated cash flow requirements. Extended maturities may be utilized to take advantage of higher yields.

IX. Conflict 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 that could impair their ability to make impartial decisions. For further details, please refer to the City's policies and ordinances.

X. Broker Representations

The City must obtain from its brokers certain representations regarding future investments. Pursuant to Minnesota Statutes 118A, the City shall provide each broker with the City's investment policy, and the securities broker shall submit a certification annually to the City stating that the officer has reviewed the investment policies and objectives, as well as applicable State law, and agrees to disclose potential conflicts of interest or risk to public funds that might arise out of business transactions between the firm and the City. All financial institutions shall agree to undertake reasonable efforts to preclude imprudent transactions involving the City's funds.