

TO: HONORABLE MAYOR AND CITY COUNCIL
FROM: Lanell Endres, Assistant City Administrator
SUBJECT: Adoption of Revised Investment Policy
DATE: July 16, 2013

BACKGROUND

The Cannon Falls City Council adopted a resolution establishing cash management and investment policies and procedures in February, 1992. Staff has reviewed the section regarding the investment policy and determined that additional information should be included in the policy and that it should be revised. The attached Investment Policy will update the information and requirements as established by Minnesota Statutes Chapter 118A. A resolution approving the policy is also attached.

STAFF RECOMMENDATION

The proposed policy has been reviewed by staff and the city attorney. Staff recommends approving the resolution and adopting the Investment Policy.

RECOMMENDED COUNCIL ACTION

I respectfully request a motion to adopt the Resolution approving the revised Investment Policy.

Attachments:

Resolution Number 2026
Investment Policy

**CITY OF CANNON FALLS
GOODHUE COUNTY, MINNESOTA**

RESOLUTION NUMBER 2026

ADOPTING INVESTMENT POLICY

WHEREAS, effective cash management is essential to good fiscal management,
and

WHEREAS, the extent to which the City can receive investment income reduces
the need for local taxes, and

WHEREAS, the laws of the State of Minnesota prescribe procedures to be
followed in the investment of public funds, and

WHEREAS, it is the City's intent to adhere to these procedures and in some
cases be more restrictive.

NOW THEREFORE BE IT RESOLVED BY THE CITY COUNCIL OF CANNON
FALLS, MINNESOTA:

1. That the investment policy outlined in Resolution 1032 be revised,
2. That the investment policy hereto attached and made a part thereof, is
hereby adopted and replaces the above mentioned policy,
3. That the Assistant City Administrator be instructed to transmit a copy of
the revised Investment Policy to the financial institutions and brokers
as previously designated by the City Council.

Adopted by the Cannon Falls City Council this 16th day of July, 2013.

Lyman Robinson, Mayor

Aaron Reeves, City Administrator

CITY OF CANNON FALLS

INVESTMENT POLICY

I. PURPOSE AND SCOPE

The purpose of this Policy statement is to establish standards governing the investment and deposit of all funds of the City of Cannon Falls (hereinafter, City). In accordance with Minnesota Statutes 118A.02, the City Administrator/Treasurer and Assistant City Administrator/Chief Financial Officer are authorized to invest the City's funds. At all times, investments of the City shall be in accordance with Minnesota Statutes Chapter 118A and amendments thereto.

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 generally accepted accounting principals.

II. OBJECTIVE

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 City. 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 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 FDIC (Federal Insurance) or the SIPC (Securities Investor Protection Corporation). 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.

Custodial Risk: The City will minimize deposit Custodial Risk, which is the risk of loss due to failure of the depository bank, by obtaining collateral or bond for all uninsured amounts on deposit, and by obtaining necessary documentation to show compliance with state law and a perfected security interest under federal law.

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. To minimize this risk, the City will structure 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.

B. Liquidity

The investment portfolio shall remain sufficiently liquid to meet projected disbursement 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. Generally, investments shall have “laddered” maturities so that money becomes available on a regular schedule. A portion of the portfolio may be placed in money market mutual funds or local government investment pools which offer same-day liquidity. Liquid funds will allow the City to meet possible cash emergencies without being penalized on investments.

C. Yield

The investment portfolio shall be designed with the objective of attaining a market rate of return given cash flow characteristics of the portfolio. The core of investments is limited to relatively low risk securities in anticipation of earning a fair return relative to the risk being assumed. 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.

III. STANDARDS OF CARE

A. 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 assets.

B. Delegation of Authority

Authority to manage the investment program is granted to the City Administrator/Treasurer and Assistant City Administrator/Chief Financial Officer, hereinafter referred to as investment officer. Responsibility for the operation of the investment program is hereby delegated to the investment officer by the City Council, who shall act in accordance with established procedures and internal controls for the operation of the investment program consistent with this investment policy. 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. The investment officer may delegate appropriate staff. The authorized individuals, 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.

C. 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 that 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.

IV. 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. Verbal quotations shall be received from local financial institutions with all of them receiving the exact same rate request. Verbal quotations may also be received from all other brokers. If a specific maturity 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 City shall have no obligation to purchase, and may decline on any or all bids received.

The City Administrator or Assistant City Administrator/Finance Director will report periodically to the City Council on the total of all funds invested and the total interest received on all securities year-to-date.

V. AUTHORIZED INVESTMENTS AND COLLATERALIZATION

A. Investments

All City investments and deposits shall be those allowable by Minnesota Statutes Chapter 118A and amendments thereto. This list establishes the maximum investment risk permitted for a Minnesota municipality. Even though MN Statutes 118A provides for more instruments to be used for investing purposes, the following is a list of investments the City will be authorized to invest in:

1. **US Government Securities:** Instruments such as bonds, notes, bills and other securities which are direct obligations of the federal government or its agencies, with the principal fully guaranteed by the US Government or its agencies;
2. **Time Deposits (Certificate of Deposit):** A non-negotiable instrument issued by a commercial bank and fully insured by the Federal Deposit Insurance Corporation (FDIC);
3. **State and Local Securities:** Any security which is a general obligation of any state or local government with taxing power which is rated "A" or better by a national bond rating service;
4. **Repurchase Agreement:** An investment which consists of two simultaneous transactions, where an investor purchases securities from a bank or dealer. At the same time, the selling bank or dealer agrees to repurchase the securities at the same price plus interest at some agreed-upon future date.
5. **Minnesota Joint Powers Investment Trusts:** Statewide investment pools, including the Minnesota Joint Powers Investment Trust (4M Fund), which invest in authorized instruments according to MN Statutes 118A;
6. **Money Market Funds:** Money market funds which invest in authorized instruments according to MN Statutes 118A;
7. **Interest Bearing Deposits:** Interest bearing deposits in authorized depositories must be fully insured by the FDIC or collateralized at a minimum of 110% of face value.

B. Collateralization

In accordance with MN 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 US Government Agencies and Instrumentalities
- General Obligation Securities of State and Local Governments with taxing powers which is rated "A" or better by a national bond rating service, or Revenue Obligation Securities of State and Local Governments with taxing powers with is rated "AA" or better by a national bond rating service
- Time Deposits (Certificate of Deposits fully insured by the federal deposit insurance company or federal agency).

Collateral shall be deposited in the name of the City of Cannon Falls, subject to the release by the City Administrator or Assistant City Administrator. 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.

C. CDARS

Placement of funds in the Certificate of Deposit Account Registry Services (CDARS) program is allowed subject to the requirements of Minnesota Statute 118A. The City must review and approve the list of banking institutions being used for each investment prior to the purchase of that investment. The review will be done to ensure that total amount invested with each banking institution does not exceed the FDIC fully insured amounts.

VI. SAFEKEEPING AND CUSTODY

All invested assets of the City of Cannon Falls including investments, contracts and agreements shall comply with all rules adopted pursuant to Minnesota Statute 118A. All custodial agreements shall be in writing and shall contain a provision that all custodial services are provided in accordance with the laws of the State of Minnesota. The City's ownership of all securities must be evidenced by written acknowledgements identifying the securities by names of:

- Issuers
- Maturity dates
- Interest rates
- CUSIP number or other distinguishing marks.

VI. 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.

VII. BROKER REPRESENTATIONS

Municipalities must obtain from their 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.

VIII. CONCLUSION

The intent of this policy is to ensure the safety of all City funds. The main goal of the City will be to achieve a market rate of return while maintaining the safety of its principal.

Adopted by the City Council on _____.