



To: MAYOR AND CITY COUNCIL

Agenda Item #: IV. P.

From: Scott H. Neal, City Manager

Action

Discussion

Date: May 19, 2015

Information

Subject: Approve Amendment To Investment Authorization Policy

Action Requested:

Motion to approve proposed amendment of City's Investment Authorization Policy.

Information / Background:

The City Council adopted an Investment Authorization Policy by adopting Resolution 2010-09 on January 5, 2010. Section 12 of the policy authorizes a staff investment advisory committee to conduct a quarterly review of the Finance Director's investment activities. The current policy defines the investment advisory committee to consist of "...City Manager, Assistant City Manager, Assistant Finance Director, and the Park Director...".

The investment advisory committee has kept regular meetings over the years, but schedule conflicts and personnel changes have frequently interfered with its operations. In order to keep the City's commitment to regular and rigorous internal review of the investment policy and activities, I propose the Council amend the relevant part of Section 12 as follows:

Current: The Finance Director and the investment advisory committee made up of the City Manager, Assistant City Manager, the Assistant Finance Director and the Park Director will review the information and make and proposed modifications.

Proposed: *The Finance Director shall report the City's investment performance and activities to an internal investment advisory committee composed of the City Manager, Finance Director and up to five additional City employees appointed by the City Manager for the purposes of internal control and risk management.*



REPORT/RECOMMENDATION

<p>To: Mayor & City Council</p> <p>From: John Wallin Finance Director</p> <p>Date: January 5, 2010</p> <p>Subject: Investment Authorization And Policy</p>	<p style="text-align: center;">Agenda Item # <u>IV.J</u></p> <p style="text-align: center;">Consent <input type="checkbox"/></p> <p style="text-align: center;">Information Only <input type="checkbox"/></p> <p style="text-align: center;">Mgr. Recommends <input type="checkbox"/> To HRA</p> <p style="text-align: center;"><input checked="" type="checkbox"/> To Council</p> <p style="text-align: center;">Action <input type="checkbox"/> Motion</p> <p style="text-align: center;"><input checked="" type="checkbox"/> Resolution</p> <p style="text-align: center;"><input type="checkbox"/> Ordinance</p> <p style="text-align: center;"><input type="checkbox"/> Discussion</p>
--	--

Recommendation:

Adopt Resolution 2010-9 authorizing investment agreement and approve Statement of Investment Policy.

Info/Background:

The City's Resolution Authorizing Investment Agreement is used by banks and brokerages to open new accounts such as each time a new bond construction fund is opened. The last time the City adopted this resolution was August 2005. The attached resolution is the same resolution as the one adopted in 2005 but will update the date to one more recent.

The Statement of Investment Policy has been reviewed by myself and the investment advisory committee and changes made from the last one adopted in 2007. The Government Finance Officers Association (GFOA) members, as presented at the GFOA fall conference, have updated some of their recommended policy wording. The attached policy represents many of those recommendations including the following:

- The policy statement (paragraph 1) was expanded adding the last 4 sentences.
- Paragraphs covering liquidity (paragraph 4.B) and return of investment (paragraph 4.C) were added to the policy. Liquidity is to ensure that the city is always able to meet all operating requirements. Return on investment further defines the investment objective of attaining a market rate of return considering the City's conservative investment portfolio.
- A paragraph concerning ethics and conflicts of interest (paragraph 5) was expanded from a sentence under the standards paragraph.

- The section concerning guaranteed investment contract (paragraph 6.G) was rewritten to update the wording.
- The section on highly sensitive investments that the City will not purchase (paragraph 6.I) was expanded by further defining the types of investments. Two investments included as highly sensitive in the 2007 policy are not part of the latest GFOA highly sensitive investments recommendation and are not considered highly sensitive investments in Governmental Accounting Standards Board Statement 40 where the GFOA recommendation comes from. Index amortizing notes and step-up notes and bonds are often used by cities especially with these ultra low interest rates. As interest rates again head higher these two types of variable rate investments will have interest rates that also go up reducing interest rate risk. These two investments are not highly sensitive and should not have been included under this section.
- A new section was added on internal controls (paragraph 10) and will tie to procedures in the internal control manual.
- A new section was added on performance standards (paragraph 11) to again state the city's objectives addressing safety, liquidity and yield.
- Other more minor changes were made to update other wording of the policy.

RESOLUTION NO. 2010-9
A RESOLUTION AUTHORIZING
INVESTMENT AGREEMENT

BE IT RESOLVED, that Gordon Hughes and/or John Wallin who is/are Officer's of the City of Edina, is/are authorized to enter into agreements or commitments to open, maintain and close accounts with banks, brokers and other financial institutions with which it does business, and are authorized to sign on individual bank and broker accounts and such Officers are further authorized to cancel such authority, and

BE IT FURTHER RESOLVED, that John Wallin and/or Eric Roggeman is/are authorized to purchase or sell any and all securities as authorized by the City of Edina's Investment Policy (as attached), and that the Officer is authorized on behalf of the City of Edina to sign any necessary documentation: to give written or oral instructions with respect to said transactions: to obligate the City for the carrying out of any contract, agreement, or transaction; to pay by check or wire; and to take any and all such actions in the name of and on behalf of said City that would be considered desirable and necessary with respect to said transaction; and

BE IT FURTHER RESOLVED that the bank, broker or other financial institution may rely upon the actions of the Officer as the City of Edina representative that any and all securities purchased are legal and authorized investments under the City's applicable policies and/or statutory requirements. The City of Edina represents that it will provide these applicable policies and/or statutory requirements, and that it will notify the bank, broker or other financial institution of any changes made; and

BE IT FURTHER RESOLVED that the Clerk of the City of Edina is authorized and directed to certify, under the seal of the City of Edina, to you a true copy of these resolutions and specimen signatures of each and every person empowered by these resolutions; and

I FURTHER CERTIFY that said resolutions shall continue in full force and effect, until revoked or modified by the Edina City Council and written notice is received by the bank, broker or other financial institution, such notice setting forth a resolution adopted to effect said revocation or modification and authorizing the new signatory and/or person authorized to obligate the City of Edina securities transaction.

Whereupon said resolution was declared duly passed and adopted. Dated this 5th day of January, 2010.

Attest: _____
Debra A. Mangen, City Clerk

James B. Hovland, Mayor

STATE OF MINNESOTA)
COUNTY OF HENNEPIN) SS
CITY OF EDINA)

CERTIFICATE OF CITY CLERK

I, the undersigned duly appointed and acting City Clerk for the City of Edina do hereby certify that the attached and foregoing Resolution was duly adopted by the Edina City Council at its Regular Meeting of _____ and as recorded in the Minutes of said Regular Meeting.

WITNESS my hand and seal of said City this _____ day of _____, 20____.

City Clerk

CITY OF EDINA

DEPARTMENT OF FINANCE

STATEMENT OF INVESTMENT POLICY

1. POLICY

It is the policy of the City to invest public funds in a manner which will provide the highest investment return with minimum risk while meeting the daily cash flow demands of the City and conforming to all federal, state and local regulations governing the investment of public funds. **Investment portfolio risk will be minimized to ensure that liquidity and marketability are maintained. The City will not invest in instruments that it cannot hold until maturity. Although investments are subject to short-term volatility, it is critical that a long-term investment focus be maintained. The City will invest in securities that match the city's cash flow needs and debt service requirements.**

2. SCOPE

This investment policy applies to all financial assets of the City of Edina and Housing and Redevelopment Authority (the "City") except those (if any) which are governed in another manner by specific reference in federal, state and/or local statutes. All assets to which this policy applies are accounted for in the City's comprehensive annual financial report and include:

- General Fund
- Special Revenue Funds
- Debt Service Funds
- Capital Project Funds
- Enterprise Funds
- Trust and Agency Funds
- Internal Service Funds
- Any other newly created fund

3. STANDARDS

The Finance Director is responsible for implementing these policies. The standard of prudence to be used shall be the "Prudent Investor rule," and will be applied in the context of managing an overall portfolio: "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."

City employees meeting this standard will be relieved of personal responsibility 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 Finance Director and the investment committee shall not knowingly engage in any personal business activities which could impair their ability to make impartial investment decisions.~~

Bonding of the Finance Director shall be required. The City Manager will establish specific bonding levels.

4. INVESTMENT OBJECTIVES

The primary objective of the City of Edina's investment activities shall be:

A. Safety - The preservation of principal shall be the paramount objective of the investment program of the City of Edina. Investments shall be selected in a manner that will attempt to ensure the safety of the City's

capital. This will be accomplished through a program of diversification and maturity limitations for each individual pool or fund of investments. These limitations will be determined by the Finance Director and the investment advisory committee and will be kept on file with the Finance Director. The objective will be to mitigate credit risk and interest rate risk.

a. Credit Risk

The City will minimize credit risk, which is the risk of loss due to the failure of the security issuer or backer by:

- Limiting investments to the types of securities listed in Section 6 of this investment policy
- Pre-qualifying the financial institutions, broker/dealers, intermediaries, and advisors with which the City will do business in accordance with Section 8 of this investment policy.
- Diversifying the investment portfolio so that the impact of potential losses from any one type of security or from any one individual issuer will be minimized in accordance with Section 9 of this investment policy.

b. Interest Rate Risk

The City will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market 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 and limiting the average maturity of the portfolio in accordance with this policy.

B. Liquidity – The City’s investment portfolio will remain sufficiently liquid to enable the city to meet all operating requirements that might reasonably be anticipated. The portfolio will be structured so that securities mature concurrent with cash needs to meet anticipated demands (static liquidity). Furthermore, since all possible cash demands cannot be anticipated, the portfolio should consist largely of securities with active secondary or resale markets (dynamic liquidity). Alternatively, a portion of the portfolio may be placed in money market mutual funds or local government investment pools which offer same day liquidity for short-term funds.

C. Return on Investment - The city’s investment portfolio shall be designed with the objective of attaining a market rate of return. The core of investments is limited to low-risk securities in anticipation of earning a fair return relative to the risk being assumed. Securities shall generally be held until maturity with the following exceptions.

- A security with declining credit may be sold early to minimize loss of principal.
- A security swap would improve the quality, yield, or target duration in the portfolio.
- Liquidity needs of the portfolio require that the security be sold.

5 ETHICS AND CONFLICTS OF INTEREST

Officers and employees involved in the investment process shall refrain from conducting personal business activity that could conflict with proper execution of the investment program, or which could impair their ability to make impartial investment decisions. Investment officials shall annually disclose to the City Clerk any material financial interests as required by state statute on an annual Statement of Economic Interest form. Employees and officers shall subordinate their personal investment transactions to those of the City, particularly with regard to the time of purchases and sales, and shall refrain from undertaking personal investment transactions with the same individual with whom business is conducted on behalf of the City.

6. AUTHORIZED INVESTMENTS

Investment instruments authorized and permitted by this policy are as follows:

- A. Obligations of the United States or its agencies under a repurchase agreement if the margin agreement under the repurchase agreement is 101 percent and with any of the following institutions.
- 1) a bank qualified as depository of public funds,

- 2) any national or state bank in the United States which is a member of the Federal Reserve System and whose combined capital and surplus equals or exceeds \$10,000,000,
 - 3) a primary reporting dealer in the United States government securities to the Federal Reserve Bank of New York,
 - 4) a securities broker--dealer having its principal executive office in Minnesota, licensed pursuant to Chapter 80A, or an affiliate of it, regulated by the Securities and Exchange commission and maintaining a combined capital and surplus of \$40,000,000 or more, exclusive of subordinated debt.
- B. Governmental bonds, notes, bills, mortgages and other securities, which are direct obligations or are guaranteed or insured issues of the United States, its agencies, its instrumentalities, or organizations created by an act of Congress, excluding mortgage-backed securities defined as "high risk" (as defined below) or in certificates of deposit secured by letters of credit issued by federal Home Loan Banks.
- High risk mortgage-backed securities are as follows:
- 1) interest--only or principal-only mortgage-backed securities,
 - 2) any mortgage derivative security that:
 - a) has an expected average life greater than ten years,
 - b) has an expected average life that:
 - i) will extend by more than four years as the result of an immediate and sustained parallel shift in the yield curve of plus 300 basis points: or
 - ii) will shorten by more than six years as the result of an immediate and sustained parallel shift in the yield curve of minus 300 basis points: or
 - c) will have an estimated change in price of more than 17 percent as the result of an immediate and sustained parallel shift in the yield curve of plus or minus 300 basis points.
- C. Shares of an investment company registered under the Federal Investment company Act of 1940, whose shares are registered under the Federal Securities Act of 1933, and whose only investments are in:
- 1) securities described in "B" above,
 - 2) general obligation tax-exempt securities rated AA or better by a national bond rating service, and
 - 3) repurchase or reverse repurchase agreements fully collateralized by securities described above if the agreements are only entered into with an entity which is:
 - a) a primary reporting dealer to the Federal Reserve Bank of New York, or
 - b) one of the 100 largest U.S. commercial banks.
- D. State and local government obligation as follows:
- 1) Any security which is a general obligation of any state or local government with taxing powers which is rated "AA" or better by a national bond rating service.
 - 2) Any security which is a revenue obligation of any state of local government with taxing posers which is rated "AA" or better by a national rating service.
 - 3) A general obligation of the Minnesota Housing Finance Agency which is a moral obligation of the State of Minnesota and is rated "AA" or better by a national rating agency.
- E. Banker's acceptances of United States Corporation or their Canadian subsidiaries that is rated by at least two nationally recognized rating agencies, "A1" by Moody's Investors Service, "P1" by Standard and Poor's Corporation, "F1" by Fitch and matures in 270 days or less.
- F. Commercial paper issued by United States corporations or their Canadian subsidiaries that is rated by at least two nationally recognized rating agencies; "A1" by Moody's Investors Service, "P1" by Standard and Poor's Corporation, "F1" by Fitch, and matures in 270 days or less.
- G. **Guaranteed investment contract. Agreements or contracts for guaranteed investment contracts may be entered into if they are guaranteed by United States commercial banks, domestic branches of foreign banks, United States insurance companies, or their Canadian subsidiaries, or the domestic affiliates of any of the foregoing. The credit quality of the issuer's or guarantor's short and long-term unsecured debt must be rated in one of the highest categories by a nationally recognized rating**

agency. Should the issuer's or guarantor's credit quality be downgraded below "A", the government entity must have withdrawal rights.

~~Guaranteed investment contact (gic) issued or guaranteed by a United States commercial bank or domestic branch of a foreign bank or a United States insurance company or its Canadian or United States subsidiary provided it ranks on a parity with the senior unsecured debt obligations of the issuer or guarantor. And~~

- ~~1) if it is a long-term gic, either:
 - a) the long-term senior unsecured debt of the issuer or guarantor is rated, or obligations backed by letters of credit of the issuer or guarantor if forming the primary basis of a rating of such obligations would be rated, in the highest or next highest rating category of Standard & Poor's Corporation, Moody's Investors Service, Inc., or a similar nationally recognized rating agency, or
 - b) if the issuer is a bank with headquarters in Minnesota, the long-term senior unsecured debt of the issuer is rated, or obligations backed by letters of credit of the issuer if forming the primary basis of a rating of such obligations would be rated in one of the three highest rating categories of Standard & Poor's Corporation, Moody's Investor Service, Inc., or a similar nationally recognized rating agency.~~
- ~~2) if it is a short-term gic, the short-term unsecured debt of the issuer or guarantor is rated, or obligations backed by letters of credit of the issuer or guarantor if forming the primary basis of a rating of such obligations would be rated, in the highest two rating categories of Standard & Poor's corporation, Moody's Investors Service, Inc., or similar nationally recognized rating agency.~~

H. Certificates of deposit at state and federally chartered banks and savings and loan associations. All investments made under this subsection shall be limited to the amount of Federal Deposit Insurance Corporation or the Federal Savings and Loan Insurance Corporation or shall be secured in the manner set forth in Minnesota statute 118.005. The certificate of deposit should be in the form of a discounted security maturing in the amount not to exceed the insurance coverage or in the amount so that at any time the face amount together with any accrued interest does not exceed the insurance coverage.

I. The City will not purchase securities that are considered highly sensitive. A highly sensitive investment is a debt instrument with contract terms that make the investments fair value highly sensitive to interest rate changes. Examples include range notes, index amortizing notes, step-up notes and bonds, variable rate investments with coupon multipliers, and coupons that vary inversely with a benchmark index.

- 1) Obligations whose coupon payments are determined largely or entirely by an embedded range accumulation option. For example, range notes.
- 2) Obligations that the interest rate and principal repayment adjusts opposite to the changes in the market. For example, inverse floaters.
- 3) Obligations that under certain environments may pay no interest. For example, principal only securities.
- 4) Obligations where the variable rate coupon amount enhances or amplifies the effects of interest rate changes by greater than a one-to-one basis. For example variable-rate investment with coupon multipliers.
- 5) Mortgage-backed securities that do not pass the Federal Financial Institution Examination Council (FFIEC) stress test which includes the following:
 - a) has an expected average life greater than ten years,
 - b) has an expected average life that will extend by more than four years as the result of an immediate and sustained parallel shift in the yield curve of plus 300 basis points or will shorten by more than six years as the result of an immediate and sustained parallel shift in the yield curve of minus 300 basis points; or
 - c) will have an estimated change in price of more than 17 percent as the result of an immediate and sustained parallel shift in the yield curve of plus or minus 300 basis points.

J. The City will not purchase securities that could expose the City to foreign currency risk.

K. Proceeds from the issuance of tax-exempt debt securities shall be invested, recorded and reported in the manner set forth by the U.S. Treasury Department and the Internal Revenue Service so as to preserve the tax-exempt status of the debt securities.

7. SAFEKEEPING AND CUSTODY

Investments may be held in safekeeping with:

- A. Any Federal Reserve Bank,
- B. Any bank authorized under the laws of the United States or any state to exercise corporate trust powers, including but not limited to the bank from which the investment is purchased,
- C. A primary reporting dealer in United States government securities to the Federal Reserve Bank of New York, or
- D. A securities broker-dealer having its principal executive office in Minnesota, licensed pursuant to Chapter 80A, or an affiliate of it, regulated by the securities and exchange commission and maintaining a combined capital and surplus of \$40,000,000 or more, exclusive of subordinated debt.

The City's ownership of all securities in which the fund is invested should be evidenced by written acknowledgments identifying the securities by:

- A. The Names of issuers,
- B. The Maturity dates,
- C. The Interest rates,
- D. Any Serial Numbers or other distinguishing marks.

The broker/dealer may not invest in securities that are both uninsured and unregistered and are exposed to custodial credit risk in either the following situations:

- a. Investments are held by the counterparty: or
- b. Investments are held by the counterparty's trust department or agent, but not in the name of the City.

8. SECURITY DEALERS, INSTITUTIONS, AND CONSULTANTS

The Finance Director shall maintain a list of security dealers and financial institutions authorized to provide investment services to the City of Edina. The Finance Director shall develop appropriate criteria, when necessary, for the further evaluation and selection of specific broker-dealers, institutions, consultants and/or external money managers. Prudence, rating services, analysis of current financial statement, key ratios and other statistical data compilation and/or specific other knowledge are expected to be utilized as components of the evaluation and selection criteria. A current financial statement of each broker-dealer, institution, consultant and/or external money manager which the City is using in execution of this policy must be kept on file by the Finance Director. The broker/dealer must sign the Broker Notification and Certification form required by Minnesota Statutes 118A, including this investment policy, prior to any investment transactions with the City. The Broker Notification and Certification must be updated annually.

- A. Qualified broker-dealers will be those security broker-dealers who maintain an office in the state and who are selected according to credit worthiness and approved by the Finance Director and the investment advisory committee. Only broker-dealers who are recognized as "primary dealers" by the Market Reports Division of the Federal Reserve Bank of New York and/or regional dealers that qualify under Securities and Exchange Commission Rule 15C3-1 (uniform net capital rule) may be used for City investment placement.
- B. Qualified institutions will be those banks, savings banks and saving and loans institutions which are generally recognized by applicable federal, state and local statutes as being authorized to receive investments from the City. Approved institutions will be those named generally above, whom also meet further selection criteria developed by the city including maintaining an investment office within the Twin Cities metropolitan area and having other Minnesota local government clients. Approval is to be determined jointly by the Finance Director and the investment advisory committee.
- C. External consultants may be engaged and used when necessary and prudent to further and/or enhance the execution of this policy. A consultant is defined for the purposes of this policy as being an individual or firm having expertise relative to execution of this policy who may be

engaged to serve in an advisory role without the purpose of receiving investment deposits from the City for the further purpose of generating a return on the placement. Approval of a consultant must be given jointly by the Finance Director and the investment advisory committee. No funds are to be placed directly with a consultant.

- D. External money managers may be engaged and used in the execution of this policy as long as the external money manager(s) is limited to investment activities within the confines of this policy. An external money manager must maintain appropriate diversification as noted later in this policy. Any external money manager engaged by the City will be required to provide an accounting and performance report to the Finance Director at a frequency not less than quarterly. External money managers must be approved by the Finance Director and the investment advisory committee.

9. INVESTMENT PARAMETERS

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, money market funds or overnight repurchase agreements to ensure that appropriate liquidity is maintained in order to meet ongoing obligations.

10. INTERNAL CONTROL

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. The internal controls are addressed in the procedures manual.

11. PERFORMANCE STANDARDS

The investment portfolio will be designed to obtain a market rate of return during budgetary and economic cycles, taking into account the City's investment risk constraints and cash flow needs. The investment portfolio will be structured to meet specific criteria addressing safety, liquidity and yield.

12. QUARTERLY REVIEW

This investment policy, the schedule of diversification and maturity limitations by pool or group of investable funds, authorized broker-dealers, authorized investments and all other aspects of these investment policies will be reviewed on a quarterly basis. The Finance Director shall prepare by the 25th of the month following the end of each calendar quarter, a report of investments held, including the market value, interest rate, and maturity date of each security with investment activity by broker and maturity date within each fund holding investments. The report shall also show portfolio investment returns by fund. The Finance Director and the investment advisory committee made up of the City Manager, Assistant City Manager, the Assistant Finance Director, and the Park Director will review the information and make any proposed modifications. The scheduled quarterly process shall not inhibit desirable modifications to the policy at other times during the year.