City of Marshall **Policy Number: Chapter 1 Section 3 (1-306)**

ADMINISTRATIVE POLICY **Adopted: February 24, 2015**

INVESTMENT POLICY **Revised: February 11, 2020**

I. Background

a. It is the policy of the City of Marshall 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.

II. Scope

a. This investment policy applies to all financial assets of the City of Marshall. These funds are accounted for in the City's annual financial report. These funds include but are not limited to:
   1. General Fund
   2. Special Revenue Funds
   3. Capital Project Funds
   4. Enterprise Funds
   5. Debt Service Funds
   6. Trust and Agency Funds
   7. Any new funds created by the governing body, unless specifically exempted by the governing body.

b. 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. Also, per SEC Rule 15B (Municipal Advisor Rule), the City will keep unspent bond proceeds separate from invested pooled cash to ensure compliance with all regulations. Investment income will be allocated to the various funds based on their respective participation and in accordance with generally accepted accounting principles.

III. Prudence

c. 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.

d. The standard of prudence to be used by investment officials shall be the "prudent person" standard and shall be applied in the context of managing the overall portfolio. Investment officers acting in accordance with written procedures, the investment policy and exercising due diligence shall 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 situations. Investment procedures developed for the City of Marshall must be complied with by those with access to and management responsibilities for City investments.

IV. Objective

The primary objectives of the investment activities for the City of Marshall shall be:

e. *Safety:* Safety of principal is of critical importance to the investment program. The investments of the City 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 interest rate risk.

   1. <u>Credit Risk</u>: The risk of loss due to failure of the security issuer or backer will be minimized by:
      - Limiting investments to the type of securities listed in Section IX) of this policy.
      - Diversifying the investment portfolio so that the impact of potential losses from any type of security or from any one individual issuer will be minimized.

   2. <u>Interest Rate Risk:</u> The risk that the market value of securities in the portfolio will fall due to change in market interest rates, will be minimized by:
      - Structuring the investment portfolio so that the 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 the policy (Section XI)

f. *Liquidity:* The City's investment portfolio will remain sufficiently liquid to enable the City to meet all operating requirements which might be reasonably 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, overnight repo or commercial paper accounts, or local government investment pools which offer same day liquidity for short-term funds.

g. *Return of Investment:* The City's investment portfolio shall be designed with the objective of attaining a market rate of return. throughout budgetary and economic cycles, considering the City's investment risk constraints and cash flow characteristics of the portfolio. 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:
   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.

V. Delegation of Authority

a. The investment program shall be operated in conformance with federal, state and other legal requirements. Authority to manage the City's investment program is derived from the following:
   1. Minnesota Statutes 118A, Municipal Funds
   2. The designations within this Policy as adopted

b. Management responsibility for the investment program is hereby delegated to the Finance Director, who shall establish written procedures for the operations of the Investment Program consistent with this Investment Policy. The Finance Director, with assistance from finance department staff, monitors performance of the investment portfolio; and ensures that proper internal controls are developed to safeguard investments assets. Procedures should include reference to safekeeping, delivery versus payment (DVP), investment accounting, Public Securities Association (PSA) repurchase agreements, wire transfer agreements, collateral/depository agreements and banking service contracts. Such procedures shall include explicit delegation of authority to persons responsible for investment transactions.

c. 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 investment transactions and shall establish a system of controls to regulate the activities of subordinate officials. In the absence of the Finance Director, this responsibility will be assumed by the Director of Administrative Services.

VI. Authorized Institutions and Financial Dealers

a. The selection of banking services shall be made by the Finance Director. The Finance Director shall certify all bank depositories annually or when updates are needed to the City Council. In selecting depositories, the creditworthiness, experience, and past performance shall be considered.

b. The City of Marshall will conduct investment transactions only with authorized broker/dealers that have met the following criteria:
   1. They act as primary or regional dealers that qualify under Securities & Exchange Commission Rule 15C3-1(Uniform Net Capital Rule)
   2. Submit annually to the Finance Director a Minnesota State Auditor Broker Certification Form.

VII. External Investment Managers

a. The City may enter into contracts with third-party investment advisory firms when their services are deemed to be beneficial to the City's Investment Program. The contract must be reviewed and approved by the Director of Administrative Services. The advisor must comply with this Investment Policy. The advisor may have authority to transact investments on behalf of the City and may only act on a non-discretionary basis if they are hired to provide transactional services. The advisor may use a qualified custodian as defined by the Investment Advisors Act of 1940.

VIII. **Ethics and Conflicts of Interest**

a. Officers and employees involved in the investment process shall refrain from personal business activity which could conflict, or give the appearance of a conflict, with the impartial administration of the investment program.

IX. **Authorized and Suitable Investments**

a. Minnesota Statute, Section 118A.04, provides authorization for cities to invest idle public funds in certain specified obligations and to make interest-bearing deposits of such funds in state or national banks, savings and loan association, or credit unions.

b. Permissible investments include:
   1. Direct U.S Government obligations:
      a. Treasury Bills
      b. Certificates of Indebtedness
      c. Treasury Notes
      d. Treasury Bonds
   2. Federal Agency Issues (Not directly guaranteed by the U.S. Government)
      a. Federal Home Loan Banks
      b. Federal National Mortgage Associations
      c. Federal Land Banks
      d. Federal Intermediate Credit Banks
      e. Banks for Cooperatives
      f. Federal Farm Credit System Wide Bonds
   3. General obligation bonds of state or local governments rated A or better by a national bond rating agency.
   4. Bankers' acceptances of United States Banks eligible for purchase by the Federal Reserve System, that mature in 270 days or less. Evaluation of the financial strength of the accepting bank is necessary through purchasing acceptances only from banks with a minimum A (very strong bank) ratings by a nationally recognized rating agency.
   5. Commercial paper issued by United States corporations or their Canadian subsidiaries that has the highest rating (A-1, P-1) or better by at least two nationally recognized rating agencies and matures in 270 days or less.
   6. Savings accounts or Certificates of deposit in designated depositories which are fully insured or collateralized.
   7. Money Market Mutual Funds which are rated Aa or higher, by at least one nationally recognized statistical rating organization, invests in securities with a final maturity no longer than 13 months, are generally government backed and do not have a floating Net Asset Value (NAV)
   8. 4M Fund is a cash management and investment program for Minnesota public funds that was created in 1987 by the League of Minnesota Cities.
   9. Repurchase agreements permissible under Minnesota Statute 118A.05.

X. **Collateralization**

a. Collateralization will be required on the following types of investments:
   1. Certificates of Deposits (Time Deposits) / Demand Deposits > $250,000
   2. Repurchase agreements (for investments held beyond 7 days)
   3. Bank Deposit held over $250,000 in each institution

b. In order to anticipate market changes and provide a level of security for all funds, the collateralization level will be 110% of market value of principal and accrued interest. The underlying securities will be subject to periodic (monthly) market valuations to ensure there is no market exposure.

c. For cash deposits on hand collateral will always be held by an independent third party with whom the entity has a current custodial agreement. Clearly marked evidence of ownership (safekeeping receipt) must be supplied by the entity and retained.

XI. Diversifications and Maturities

a. It is the policy of the City of Marshall to diversify its investment portfolio. Investment funds shall be diversified to eliminate the risk of loss resulting from over concentration of assets in a specific maturity.

b. To the extent possible, the City will 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 more than (5) years from the date of purchase or in accordance with governing legislation. For the purpose of making the maximum amount of funds available for investment, the cash for all City funds is pooled in an investment account.

c. The City's investment portfolio shall be invested in certificates of deposit or other instruments through banks or other financial institutions which are designated depositories by the City Council; provided adequate insurance and conforming pledging is available in conformance with authorized securities. These investments may be scheduled maturities, or they may be part of the investment strategy of securing maximum interest rates for part of the investment portfolio.

d. After the liquidity needs and schedule maturity needs are satisfied, the balance of the funds available for investment may be placed with institutions that offer the greatest safety and highest rate of return consistent with the maturities as determined by the City.

XII. Reporting

a. The Finance Director will submit a report each month to the City Council summarizing the investment activity. This report should contain details relating to all investment transactions for the period including types of investments, institutions in which funds are invested, interest rates and maturity dates.

b. An annual report on the investments shall be presented to the City Council in the annual financial report.

XIII. Designation of Depositories

a. The City Council shall designate depositories at the first regular meeting of January.

Passed and adopted by the Common Council this 11th day of February 2020

THE COMMON COUNCIL	ATTEST:
Mayor of the City of Marshall, MN	City Clerk