THE CITY OF ST. JAMES

FINANCIAL CONTROLS

CASH AND INVESTMENT POLICY

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Effective cash management is essential to good fiscal management. Investment returns on funds not immediately required can provide a significant source of revenue for the City. Investment policies must be well founded and uncompromisingly applied in their legal and administrative aspects in order to protect the City funds being invested.

PURPOSE.

The purpose of this policy is to establish the City's investment objectives and establish specific guidelines that the City will use in the investment of city funds. It will be the responsibility of the City Clerk-Treasurer to invest city funds in order to attain a market rate of return while preserving and protecting the capital of the overall portfolio. Investments will be made, based on statutory constraints, in safe, low risk instruments.

SCOPE.

This policy applies to the investment of all city funds available for investment and not needed for immediate expenditure. The City 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.

DELEGATION OF AUTHORITY.

Authority to manage the investment program is granted to the City Clerk-Treasurer who shall act in accordance with established written procedures and internal controls for the operation of the investment program consistent with this investment policy. 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 City Clerk-Treasurer.

The primary objectives, in priority order, of investment activities shall be safety, liquidity, and yield:

- **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 minimize the risk of market fluctuations, such as credit risk and interest rate risk. Credit risk is the risk that the borrower will be unable to make their debt service payments to the investors. Interest rate risk is the risk that rates will (for example) rise while the investments you hold have lower rates – if the City were to sell their investments prior to maturity in this case, they would have to sell the investments at a loss.

- **Liquidity.** The investment portfolio must remain sufficiently liquid to meet all operating costs that may be reasonably anticipated. The portfolio must be structured so that securities mature concurrent with cash needs to meet anticipated demands. Cash needs will be determined based on cash flow forecasts.
- **Diversification of instruments.** A variety of investment vehicles must be used so as to minimize exposure to risk of loss. The investment portfolio must be diversified by individual financial institutions, government agency, or by corporation (in the case of commercial paper) to reduce the exposure to risk of loss.
- **Diversification of maturity dates.** Investment maturity dates should vary in order to ensure that the city will have money available when needed.
- **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 investment risk constraints and liquidity needs. Return on investment is of secondary importance compared to the safety and liquidity objectives described above.

OVERSIGHT.

The City Manager shall oversee the City's investment program. The City Clerk-Treasurer will maintain a more detailed and comprehensive investment policy based on the principles established by the City Council and consistent with the most current guidelines within the public sector. On at least an annual basis, the City Clerk-Treasurer shall provide a status report to the City Council. Annually, the City Council shall designate depositories for investment purposes.

THE CITY SHALL INVEST IN THE FOLLOWING INSTRUMENTS AS ALLOWED BY MINNESOTA STATUTE §118A.

- **Government Securities.** Direct obligations of the federal government or its agencies, with the principal fully guaranteed by the U.S. Government or its agencies.
- **Certificates of Deposit.** A negotiable nonnegotiable instrument issued by commercial banks and insured up to $250,000, or the amount set, by the Federal Deposit Insurance Corporation (FDIC).
- **Repurchase Agreement.** An investment that 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. The security purchased is the collateral protecting the investment.
- **Prime Commercial Paper.** An investment used by corporations to finance receivables. A short-term (matures in 270 days or less), unsecured promissory note is issued for maturity specified by the purchaser. Corporations market their paper through dealers who in turn market the paper to investors. The City will only purchase commercial paper issued by U.S. corporations or their Canadian subsidiaries that has been rated highest quality (A1, P1 and F1) by two of three rating agencies.

- **State or Local Government Securities.** Any security that is a General Obligation of any state or local government rated "A" or better by a national bond rating service.
- **Statewide Investment Pools.** Statewide investment pools that invest in authorized instruments according to M.S. §118A.04, such as the Minnesota Municipal Money Market (4M) Fund.
- **Money Market Mutual Funds.** Money market mutual funds that invest primarily in U.S. Government and agency issues and repurchase agreements.

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. Employees and investment officials shall disclose any material interest in financial institutions with which they conduct business or that could be related to the performance of the investment portfolio. Employees and officers shall refrain from undertaking personal investment transactions with the same individual with whom business is conducted on behalf of the City.

INTERNAL CONTROLS, AUDITS, EXTERNAL CONTROLS.

The City Clerk-Treasurer 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. Accordingly, compliance with City policies and procedures should be assured by the City Clerk-Treasurer and addressed through the annual audit process.

AUTHORIZED FINANCIAL INSTITUTION AND DEALER.

In accordance with Minnesota Statutes §118.02, the responsibility for conducting investment transactions resides with the City Council. Also, the Council shall be responsible for designating the depositories of the funds. Depositories shall be selected through a banking services procurement process, which shall include a comprehensive review of credit characteristics and financial history by the City Clerk-Treasurer or reliance on selection criteria by an independent third party. In selecting depositories, the creditworthiness of the institutions under consideration shall be examined. The City Council shall designate depositories after a recommendation from staff.

Only approved security broker/dealers authorized in Minnesota Statutes 118A.06 shall be utilized for safekeeping and custody.

All financial institutions and brokers/dealers must supply the following as appropriate:

- Audited financial statements;
- Proof of Financial Industry Regulatory Authority (FINRA) certification;
- Proof of state registration;
- Completed broker/dealer questionnaire for firms who are not major regional or national firms;
- Certification of having read the City's investment policy.

COLLATERALIZATION.

The City funds must be deposited in financial institutions that provide at least $250,000 in government insurance protection. At no time will deposits in any one institution exceed the insured amount unless such excesses are protected by pledged securities. Pledged securities, computed at market value, will be limited to the following:

- United States Treasury bills, notes, or bonds that mature within five years;
- Issues of United States government agencies guaranteed by the United States government;
- General obligation securities of any state or local government with taxing powers rated “A” or better, or revenue obligation securities of any state or local government with taxing powers rated AA or better, provided no single issue exceeds $300,000 with maturities not exceeding five years;
- Irrevocable standby letters of credit issued by Federal Home Loan Banks accompanied by written evidence that the bank’s public debt is rated AA or better;
- Time deposits that are fully insured by any federal agency.

In order to anticipate market changes and provide a level of security for all funds, the collateralization level will be 110 percent (110%) of the market value of principal and accrued interest. Collateral shall be deposited in the name of the City of Maplewood, subject to release by the City Clerk-Treasurer. All certificates of deposit and repurchase agreements purchased by the City shall be held in third-party safekeeping by an institution designated as primary agent. The primary agent shall issue a safekeeping receipt to the City listing the specific instrument rate maturity and other pertinent information. All deposits will be insured or collateralized in accordance with Minnesota Statutes Chapter 118. No other collateral except as designated above will be authorized for use as collateral for City funds.

DIVERSIFICATION.

It is the policy of the City to diversify its investment portfolios to eliminate the risk of loss resulting from the overconcentration of assets in a specific 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. Liquidity is necessary to pay for recurring operations. Maturity should not be extended beyond the dates necessary to meet these projected liquidity needs and should be staggered in such a way that avoids overconcentration in a specific maturity sector. Extended maturity may be utilized to take advantage of higher yields; however, no more than 20% of the total investment portfolio should extend beyond five (5) years and in no circumstance should any extend beyond ten (10) years.

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.

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.

INVESTMENT REPORTING.

The City Clerk-Treasurer 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.

INTEREST EARNINGS.

Interest earnings will be credited to all major funds with a positive cash balance at the end of each month, based on the average cash balances during that month. Market value adjustments will be credited to the source of the money invested monthly based on the average cash balances during that month. The city will use the average yield of the one-year Treasury note as a benchmark for performance comparisons.