**CITY OF TONKA BAY**
**ITEM NO. 9D**

# Memo

**To:** Honorable Mayor and City Council

**From:** Joe Kohlmann, City Administrator

**Date:** June 26, 2012

**Re:** Investments

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Staff has drafted an Investment Policy outlining the practices that should be followed by the City when investing funds.

Some highlights of the policy include:

1) Objectives- Safety of Principle, Liquidity, and Yield.
2) Annual Review and Approval of Investment Policy by Council.
3) Interest allocations to specific fund the principle originated from (except Liquor- outlined in separate resolution).
4) Exhibit A – additional requirements beyond Statute 118A:
    a. No more than 20% of portfolio to be allocated to one investment issue
    b. No more than 50% of portfolio should be allocated to GO Bonds
    c. No more than 50% of portfolio should be allocated to Revenue Bonds.
    d. CDs and other Federal Securities - no limit on allocations to these investments, however CDs must be FDIC insured (these are the investments the City was and currently is invested in).
    e. ** Note all other investments are included because they may be incidental to investing in the 4M Fund.*

*Attached is the proposed investment policy and Exhibit A*
*Attached are the mock reports showing laddering of investments and where investment funds would come from*
*Attached is Statute 118A*
*Attached is a resolution adopting the investment policy.*

**Council Action Requested:**
Review and discuss. Adopt the attached Resolution establishing the investment policy.

# City of Tonka Bay
## Investment Policy
## June 12, 2012

It is the policy of the City of Tonka Bay to establish guidelines for the investment of all public funds. This policy is designed to ensure the prudent management of public funds, the availability of operating and capital funds when needed and providing the highest investment return with maximum security and minimum risk.

## I. SCOPE

This policy applies to all financial assets of the City of Tonka Bay. While separate investment funds are created to accommodate reporting on certain bonded indebtedness, individual investments are purchased using a pooled approach for efficiency and maximum investment opportunity. The City's funds are defined in the City's Comprehensive Annual Financial Report and include:

- General Fund;
- Special Revenue Funds;
- Capital Project Funds;
- Proprietary Funds;

## II. OBJECTIVES

The primary objectives in priority order of the City's investment activities will be:

A. Safety of Principal
Safety of principal is the foremost objective of the investment program. Investments shall be undertaken in a manner that seeks to ensure preservation of capital in the overall portfolio. The objective will be to mitigate credit risk by purchasing only highly rated securities with adequate collateral and interest rate risk by matching maturities to cash flow needs and holding securities to maturity.

B. Liquidity
The investment portfolio will remain sufficiently liquid to enable the City to meet all operating and capital requirements that might reasonably be anticipated. A portion of the portfolio may be placed in money market mutual funds or local government investment pools which offer same-day liquidity.

C. 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.

## III. STANDARDS OF CARE

The prudent person standard shall be applied to the management of the portfolio. This standard states: "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 expected income to be derived."

Investment officers acting in accordance with written procedures and this 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 the liquidity and the sale of securities are carried out in accordance with the terms of this policy.

## IV. INVESTMENT AUTHORIZATION

The City Administrator is designated as the Investment Officer of the City and is responsible for investment management decisions and activities. The City Administrator shall carryout established written procedures and internal controls for the operation of the investment program consistent with this investment policy. The City Administrator is authorized, as allowed under the State Statute, to designate depositories and broker-dealers for City Funds.

## V. CONFLICT OF INTEREST

Any city official involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment program or which could impair his/her ability to make impartial investment decisions. Employees shall disclose any material interests in financial institutions with which they conduct business. Employees and officers shall refrain from undertaking personal investment transactions with the same individual with which business is conducted on behalf of the City.

## VI. AUTHORIZED FINANCIAL DEALERS AND INSTITUTIONS

The City Administrator will maintain a list of financial institutions authorized to provide investment services to the City. All broker/dealers who desire to become qualified bidders for investment transactions must supply the City Administrator with:

- Proof of National Association of Security Dealers (NASD) certification;
- Proof of Minnesota Registration Broker Notification and Certification form required by Minnesota Statutes 118A prior to any investment transactions with the City. The Broker Notification must be updated annually.
- Certification of having read the City's investment policy and agreement to conduct investment transactions in accordance with the policy and objectives, as well as state statutes.

- Written agreement to disclose potential conflicts of interest or risk to public funds that might arise out of business transactions between the firm and the City.

Authorized institutions must maintain an investment office within the Twin Cities metropolitan area and have other Minnesota local government clients.

## VII. AUTHORIZED INVESTMENTS

The City is authorized, under State Law Chapter 118A and by City Council Resolution to invest the securities listed in Exhibit A.

## VIII. COLLATERALIZATION

Full collateralization will be required on non-negotiable certificates of deposit. All deposits will be insured or collateralized in accordance with Minnesota Statutes Chapter 118.

## IX. SAFEKEEPING

Investments shall be kept at the broker/dealer in the City's name. Certificates will be held at the financial institution in the City's name. All securities should be a risk category one according to the Government Accounting Standard No. 3. The broker/dealer must provide asset protection of $10,000,000 through the Securities Investor Protection Corporation (SIPC)

## X. INVESTMENT PARAMETERS

The City's investments shall be diversified as to specific maturity, issuer and institution in order to minimize the risk to the portfolio. Investments should be purchased to match expected cash flow needs, minimizing the market risk associated with the early sale of the investments.

## XI. REPORTING AND REVIEW

A. The investment portfolio will be managed in accordance with the parameters outlined in this policy. The portfolio will be designed with the objective of obtaining a rate of return throughout budgeting and economic cycles, commensurate with the investment risk constraints and cash flow needs.

B. The City's investment policy shall be adopted by resolution by the City Council. The City's investments shall be reported to the City Council quarterly. The information reported to the City Council should include:
   1. A listing of individual securities held at end of reporting period.
   2. A listing of investments by maturity date.
   3. The percentage of the total portfolio in each type of investment.
   4. Rate of return for quarter.

C. Interest earned on investments shall be allocated to the fund where the principle for the investment originated. The only exception is the Liquor Fund which is determined by separate resolution.

## XII. STATUTORY AUTHORITY

Specific investment parameters for the investment of public funds by the City are found in Minnesota Statutes Chapters 118A.

## XIII. POLICY CONSIDERATIONS

A. Amendments
This policy shall be reviewed on an annual basis. Any changes must be approved by City Council resolution.

EXHIBIT A

| Investment Type | Maximum Per Issue | Maximum Per Investment | Minimum Credit Quality | Maximum Maturity |
|---|---|---|---|---|
| US Treasuries | No more than 20% of Total portfolio. | No Limit. | N/A | 5 years |
| US Governmental Agencies and Federally Sponsored Agency Securities. To Include callables and step-ups. | No more than 20% of Total Portfolio. | No Limit. | N/A | 5 years |
| Commercial Paper | Incidental to 4M Fund investments. | Incidental to 4M Fund investments. | Any two of the national ratings:A1, P1, F1 or D1 | N/A. |
| Repurchase Agreements or Reverse Repurchase Agreements | Incidental to 4M Fund investments. | Incidental to 4M Fund investments. | Provided they are fully collaterized at 102% of market value by US Treasuries or Agencies. | N/A. |
| Bankers Acceptances - Fed eligible United States Banks. | Incidental to 4M Fund investments. | Incidental to 4M Fund investments. | Any two of the national ratings:A1, P1, F1 or D1 | N/A. |
| Certificates of Deposit | No more than 20% of Total portfolio. | No Limit. | Provided it is guaranteed by the FDIC or backed by collateral as required by MN Statute 118A. | 5 years |
| Guaranteed Investment Contracts - issued or guaranteed by United States commercial banks, domestic branches of foreign banks, United States Insurance Companies, or their Canadian subsidiaries. | Incidental to 4M Fund investments. | Incidental to 4M Fund investments. | N/A | N/A. |
| General Obligations of State or Local Government with taxing powers | No more than 20% of Total portfolio. | No more than 50% of the Portfolio. | Rated "A" or better by a national bond rating service. | 7 years. |
| Revenue Obligation of any State or Local government with taxing powers. | No more than 20% of Total portfolio. | No more than 50% of the Portfolio. | Rated "AA" or better by a national bond rating rating service. | 7 years. |
| General Obligations of the Minnesota Housing Finance Agency which is a moral obligation of the State of Minnesota | No more than 20% of Total portfolio. | No more than 50% of the Portfolio. | Rated "A" or better by a national bond rating service. | 7 years. |
| Money Market Mutual Funds | No Limit. | No Limit. | Invested primarily in the securities allowed by this policy. | N/A. |

City of Tonka Bay

ACTUAL REPORT

# FINANCIAL REPORT
April 30, 2012

| FUND # | FUND NAME | 4M Fund CHECKING (0.02%) | 4M Fund SAVINGS (0.05%) | Managed Investments SAVINGS (0.01%) | Managed Investments CD's | Other CD INVESTMENTS | FUND BALANCE |
|---|---|---|---|---|---|---|---|
| 101 | General Fund | (27,880.67) | 42,589.52 (40,000) | 91,280.97 (90,000) | 196,000.00 | | 301,989.82 |
| 301 | Woodpecker Ridge Road Fund | 0.00 | | | | | 0.00 |
| 406 | Southshore Comm Ctr Fund | 3,834.00 | | | | | 3,834.00 |
| 407 | Park Fund | 757.15 | 874.77 | | | | 1,631.92 |
| 408 | Manitou Seawall Fund | 2,727.55 | | | | | 2,727.55 |
| 409 | Capital Improvement Fund | 24,410.57 | 41,860.23 | | | | 66,270.80 |
| 411 | Water/Sewer Reserve Fund | 140,713.29 (100,000) | 9,846.80 | 53,233.65 (50,000) | 242,000.00 | | 445,793.74 |
| 601 | Water Operating Fund | 89,213.18 | | | | | 89,213.18 |
| 602 | Sewer Operating Fund | 109,299.51 | 205,642.75 (200,000) | | | | 314,942.26 |
| 603 | Garbage Fund | 61,532.84 (25,000) | | | | | 61,532.84 |
| 609 | Liquor Store Fund | 9,885.77 | | 227,641.51 (225,000) | 75,000.00 | | 312,527.28 |
| 617 | Municipal Dock Fund | 192,271.44 (125,000) | | | | | 192,271.44 |
| 651 | Storm Water Drainage Fund | 69,156.20 | | | | | 69,156.20 |
| 652 | Recycling Fund | 33,133.65 | | | | | 33,133.65 |
| 653 | Antenna Fund | 37,077.73 | | | | | 37,077.73 |
| | | 746,132.21 | 300,814.07 | 372,156.13 | 513,000.00 | 0.00 | 1,932,102.41 |
| | | ($250,000) | ($240,000) | ($365,000) | = $855,000 | | |

Total to Invest

City of Tonka Bay

MOCK REPORT

# FINANCIAL REPORT
April 30, 2012

| FUND # | FUND NAME | 4M Fund CHECKING (0.02%) | 4M Fund SAVINGS (0.05%) | Managed Investments SAVINGS (0.01%) | Managed Investments CD's | Other CD INVESTMENTS | FUND BALANCE |
|---|---|---|---|---|---|---|---|
| 101 | General Fund | (27,880.67) | ***2,589.52*** | ***1,280.91*** | ***326,000.00*** | | 301,989.76 |
| 301 | Woodpecker Ridge Road Fund | 0.00 | | | | | 0.00 |
| 406 | Southshore Comm Ctr Fund | 3,834.00 | | | | | 3,834.00 |
| 407 | Park Fund | 757.15 | 874.77 | | | | 1,631.92 |
| 408 | Manitou Seawall Fund | 2,727.55 | | | | | 2,727.55 |
| 409 | Capital Improvement Fund | 24,410.57 | 41,860.23 | | | | 66,270.80 |
| 411 | Water/Sewer Reserve Fund | ***40,713.29*** | 9,846.80 | ***3,233.65*** | ***392,000.00*** | | 445,793.74 |
| 601 | Water Operating Fund | 89,213.18 | | | | | 89,213.18 |
| 602 | Sewer Operating Fund | 109,299.51 | ***5,642.75*** | | ***200,000.00*** | | 314,942.26 |
| 603 | Garbage Fund | ***36,532.84*** | | | ***25,000.00*** | | 61,532.84 |
| 609 | Liquor Store Fund | 9,885.77 | | ***2,641.51*** | ***300,000.00*** | | 312,527.28 |
| 617 | Municipal Dock Fund | ***67,271.44*** | | | ***125,000.00*** | | 192,271.44 |
| 651 | Storm Water Drainage Fund | 69,156.20 | | | | | 69,156.20 |
| 652 | Recycling Fund | 33,133.65 | | | | | 33,133.65 |
| 653 | Antenna Fund | 37,077.73 | | | | | 37,077.73 |
| | | **496,132.21** | **60,814.07** | **7,156.07** | **1,368,000.00** | **0.00** | **1,932,102.35** |

MOCK REPORT

# INVESTMENTS
## April 30, 2012

| DUE DATE | FUND | CUSIP | LOCATION | AMOUNT | INTEREST RATE |
|---|---|---|---|---|---|
| Jun 20, 2012 | General Fund-101 | 939379FQ1 | MSSB CD-Washington Mutual | 96,000.00 | 5.35 |
| Jun 20, 2012 | Water/Sewer Reserve-411 | 518038VE1 | MSSB CD-LaSalle Bank | 96,000.00 | 5.25 |
| Jun 20, 2012 | Water/Sewer Reserve-411 | 25467RZH9 | MSSB CD-Discover Bk | 50,000.00 | 5.35 |
| Apr 29,2013 | Water/Sewer Reserve-411 | 795450JM8 | MSSB CD-Sallie Mae | 96,000.00 | 3.35 |
| Apr 29,2013 | Liquor Fund-609 | 140653W77 | MSSB CD-Capmark | 75,000.00 | 3.25 |
| Oct 15,2013 | Gen Fund-101 / Wtr Swr Resv -411 | 02004MW90 | MSSB CD-Ally Bank Utah | 100,000.00 | 1.35 |
| *6/15* | *W/S RESERVE/Dock* | *CD* | *US Bank CD* | *175,000.00* | *1.15* |
| *5/16* | *W/S Reserve/Garbage* | *CD* | *US Bank CD* | *125,000.00* | *1.30* |
| *5/17* | *Sewer Operating* | *CD* | *US Bank CD* | *200,000.00* | *1.90* |
| *1/18* | *General Fund-101* | *MUNI* | *Jefferson County* | *130,000.00* | *3.22* |
| *6/18* | *Liquor Fund-609* | *MUNI* | *Ilinois St.* | *225,000.00* | *3.45* |
| | **Timed Investments** | | | *1,368,000.00* | |
| | General Fund-101 | | Money Market Acct-4MP | *2,589.52* | 0.05 |
| | Park Fund-407 | | Money Market Acct-4MP | 874.77 | 0.05 |
| | Capital Improvement-409 | | Money Market Acct-4MP | 41,860.23 | 0.05 |
| | Water/Sewer Reserve-411 | | Money Market Acct-4MP | 9,846.80 | 0.05 |
| | Sewer Operating-602 | | Money Market Acct-4MP | *5,642.75* | 0.05 |
| | General Fund-101 | | MSSB House Acct | *1,280.97* | 0.01 |
| | Water/Sewer Reserve-411 | | MSSB House Acct | *3,233.65* | 0.01 |
| | Liquor Fund-609 | | MSSB House Acct | *2,641.51* | 0.01 |
| | **Cash available for Investments** | | | 67,970.20 | |
| | **Timed Investments & Cash Total** | | | 1,435,970.20 | |

425,000

**118A.04 INVESTMENTS.**

Subdivision 1. **What may be invested.** Any public funds, not presently needed for other purposes or restricted for other purposes, may be invested in the manner and subject to the conditions provided for in this section.

Subd. 2. **United States securities.** Public funds may be invested in governmental bonds, notes, bills, mortgages (excluding high-risk mortgage-backed securities), 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.

Subd. 3. **State and local securities.** Funds may be invested in the following:

(1) any security which is a general obligation of any state or local government with taxing powers which is rated "A" or better by a national bond rating service;

(2) any security which is a revenue obligation of any state or local government with taxing powers which is rated "AA" or better by a national bond rating service; and

(3) a general obligation of the Minnesota housing finance agency which is a moral obligation of the state of Minnesota and is rated "A" or better by a national bond rating agency.

Subd. 4. **Commercial papers.** Funds may be invested in commercial paper issued by United States corporations or their Canadian subsidiaries that is rated in the highest quality category by at least two nationally recognized rating agencies and matures in 270 days or less.

Subd. 5. **Time deposits.** Funds may be invested in time deposits that are fully insured by the Federal Deposit Insurance Corporation or bankers acceptances of United States banks.

Subd. 6. **High-risk mortgage-backed securities.** For the purposes of this section and section 118A.05, "high-risk mortgage-backed securities" are:

(a) interest-only or principal-only mortgage-backed securities; and

(b) any mortgage derivative security that:

(1) has an expected average life greater than ten years;

(2) 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

(3) 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.

Subd. 7. **Temporary general obligation bonds.** Funds may be invested in general obligation temporary bonds of the same governmental entity issued under section 429.091, subdivision 7, 469.178, subdivision 5, or 475.61, subdivision 6.

Subd. 8. **Debt service funds.** Funds held in a debt service fund may be used to purchase any obligation, whether general or special, of an issue which is payable from the fund, at such price, which may include a premium, as shall be agreed to by the holder, or may be used to redeem any obligation of such an issue prior to maturity in accordance with its terms. The securities

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representing any such investment may be sold by the governmental entity at any time, but the money so received remains part of the fund until used for the purpose for which the fund was created. Any obligation held in a debt service fund from which it is payable may be canceled at any time unless otherwise provided in a resolution or other instrument securing obligations payable from the fund.

Subd. 9. **Broker; statement and receipt.** (a) For the purpose of this section and section 118A.05, the term "broker" means a broker-dealer, broker, or agent of a government entity, who transfers, purchases, sells, or obtains securities for, or on behalf of, a government entity.

(b) Prior to completing an initial transaction with a broker, a government entity shall provide annually to the broker a written statement of investment restrictions which shall include a provision that all future investments are to be made in accordance with Minnesota Statutes governing the investment of public funds.

(c) A broker must acknowledge annually receipt of the statement of investment restrictions in writing and agree to handle the government entity's account in accordance with these restrictions. A government entity may not enter into a transaction with a broker until the broker has provided this written agreement to the government entity.

(d) The state auditor shall prepare uniform notification forms which shall be used by the government entities and the brokers to meet the requirements of this subdivision.

**History:** *1996 c 399 art 1 s 5*

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**RESOLUTION 12-**

**A RESOLUTION ESTABLISHING INVESTMENT PROCEDURES AND INVESTMENT POLICY**

WHEREAS, Minnesota Statute 118A.04, Subd. 1 requires any public funds, not presently needed for other purposes or restricted for other purposes, may be invested in the manner and subject to certain conditions; and

WHEREAS, these conditions outline the types of investments that cities can invest these public funds and include the following:

1. United States securities
2. State and local securities
3. Commercial papers
4. Time deposits
5. High-risk mortgage-backed securities
6. Temporary general obligation bonds
7. Debt service funds; and,

WHEREAS, as shown on "Exhibit A", the City of Tonka Bay intends to require maximum limits per issue on the following investment types:

1. US Treasuries
2. US Governmental Agencies and Federally Sponsored Agency Securities (to include callables and step-ups)
3. Commercial paper
4. Repurchase agreements or reverse repurchase agreements
5. Certificates of deposit
6. Guaranteed investment contracts – issued or guaranteed by United States commercial banks, domestic branches of foreign banks, United States insurance companies, or their Canadian subsidiaries
7. General obligations of state or local government with taxing powers
8. General obligations of the Minnesota Housing Finance Agency which is a moral obligation of the State of Minnesota
9. Money market mutual funds; and

WHEREAS, THE City also intends to adopt an Investment Policy to guide future investment decisions.

NOW, THEREFORE, BE IT RESOLVED that the City Council of the City of Tonka Bay that the attached investment policy is hereby approved.

PASSED at a regular meeting of the Tonka Bay City Council this 12th day of June, 2012.

Motion introduced by _____ and seconded by _____.

Roll Call Vote: Ayes –
Nays –
Absent –

_____
William LaBelle, Mayor

ATTEST:

_____
Joseph Kohlmann, Clerk/Administrator