

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

Memo

To: Honorable Mayor and City Council
From: Joe Kohlmann, City Administrator
Date: April 24, 2012
Re: Investments

At the February 28th Regular Meeting, Staff notified the Council of the intent to re-vamp the City's Investment procedure and practices. Currently, the City invests through Morgan Stanley which offers CDs and Securities.

Staff is looking to expand investment options to the parameters of Statute 118.A, (*attached*) - specifically G.O. and Revenue Bonds. In addition, per the Auditor's recommendation, Staff will be looking to invest an additional \$500,000 - \$800,000 that has traditionally sat in the 4M fund. Staff is recommending moving this due to the incredibly low yield offered by this Fund.

Staff is recommending transferring the primary "Managed Investments" Account to UBS. All of the dollars currently sitting with Morgan Stanley will be moved to UBS. In addition, Staff wants to expand recommendations to three every time the City is looking to invest. Staff will be soliciting recommendations from UBS, Stifel Nicolaus, and Ehlers Investment Partners. All firms would be paid on a transactional basis (i.e. generally, they remove a portion of the yield off the top prior to show the City's yield on their recommendation).

Staff has attached the State Auditors required Broker Certification forms. Also, Staff has reviewed the account applications and deemed them sufficient. Staying with past practices, the people named on the accounts will be Mayor LaBelle, Joe Kohlmann, and Carol Spoerner.

Attached is Statute 118A.

Attached are the Broker Certification forms

Attached is "Account Protection you can count on" from UBS

Attached is the Financial report with recommendations for investment by Stuart Bonniwell outlined.

Attached an email providing guidelines the City would like to follow on investments sent to the brokers.

Council Action Requested:

Adopt the attached resolution amending the City's 2012 Appointments to include UBS Financial Services, Stifel Nicolaus, and Ehlers Investment Partners.

Motion to allow Mayor and Administrator to open accounts at UBS, Stifel Nicolaus and Ehlers Investment Partners.

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

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

INSTRUCTIONS

In Minnesota, governmental entities must annually obtain from their brokers certain representations regarding future investments. Minnesota Statutes § 118A.04, subd. 9 requires government entities to provide each broker with information regarding the government entity's investment restrictions. Prior to conducting any business with or for the government entity, the broker must acknowledge these investment restrictions and agree to conduct investment transactions in accordance with them. The state auditor has promulgated this uniform notification form to assist government entities in complying with this law.

"Broker" as used in this form is 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.

Send this form to each broker with whom you conduct business annually.
Follow these steps:

1. Fill in the information requested in Section I that is known to you.
2. Fill in Sections II and III (if applicable) and attach copies of your investment policy and any government board resolutions that restrict your investments.
3. Send the form to your broker with instructions to fill in any blanks, sign and return to you.
4. Keep a copy of the form in your files.

Note: *Should you change your investment policy or should your governing body adopt any resolutions affecting future investments, your broker should be notified of the change. To avoid confusion, your broker should receive written notification, and copies of such correspondence should be kept on file with this form.*

**NOTIFICATION TO BROKER AND CERTIFICATION BY BROKER
PURSUANT TO MINN. STAT. § 118A.04**

I. Broker Information

1. Name of Firm: Stifel Nicolaus
2. Address: (Local) 701 E. Lake Street, Suite 200 Wayzata, MN 55391
(National) 501 N. Broadway, St. Louis, MO 63102
3. Telephone Number: Local (952) 404-5968 National (314) 342-2000
4. Primary Representative/Manager/Partner in charge:
Richard F. Crosby II, First Vice President (952) 404-5968
Name and Title Telephone Number

II. Statement of Investment Restrictions:

To: Richard F. Crosby (name of broker)

The investments of City of Tonka Bay (name of government entity)
must complying with the requirements of Minn. Stat §§ 118A.04, 118A.05 and 118A.06.

(signed by official of local government)

(date)

III. Statement of Additional Investment Restrictions: (fill in if applicable).

Further be advised that City of Tonka Bay (name of government entity)
restricts its investments as provided:

- in the attached Investment Policy
 in the attached resolution(s) of the governing body.

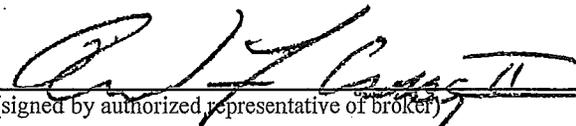
City of Tonka Bay (name of government entity) will provide
to the broker copies of any changes to the Additional Investment Restrictions identified herein.

(signed by official of local government)

(date)

IV. Certification

We agree to conduct your investment transactions in accordance with Minn. Stat §§ 118A.04,
118A.05 and 118A.06 and the provisions of any Additional Restrictions set forth in Section III above.



(signed by authorized representative of broker)

4/12/12

(date)

Prior to completing an initial transaction with a broker, and annually thereafter, this form must be completed.
See instructions.

**NOTIFICATION TO BROKER AND CERTIFICATION BY BROKER
PURSUANT TO MINN. STAT. § 118A.04**

I. Broker Information

1. Name of Firm: Ehlers Investment Partners
2. Address: (Local) 3060 Centre Pointe Drive, Roseville, MN 55113
(National) _____
3. Telephone Number: Local (651) 697-8500 National (262) 796-6164
4. Primary Representative/Manager/Partner in charge:
Kenneth J. Herdeman, President (262) 796-6164
Name and Title Telephone Number

II. Statement of Investment Restrictions:

To: Ehlers Investment Partners (name of broker)
The investments of City of Tonka Bay (name of government entity)
must complying with the requirements of Minn. Stat §§ 118A.04, 118A.05 and 118A.06.

(signed by official of local government) (date)

III. Statement of Additional Investment Restrictions: (fill in if applicable)

Further be advised that City of Tonka Bay (name of government entity)
restricts its investments as provided:
 in the attached Investment Policy
 in the attached resolution(s) of the governing body.

City of Tonka Bay (name of government entity) will provide
to the broker copies of any changes to the Additional Investment Restrictions identified herein.

(signed by official of local government) (date)

IV. Certification

We agree to conduct your investment transactions in accordance with Minn. Stat §§ 118A.04, 118A.05 and 118A.06 and the provisions of any Additional Restrictions set forth in Section III above.

Kenneth J. Herdeman
(signed by authorized representative of broker)

4/16/12
(date)

Prior to completing an initial transaction with a broker, and annually thereafter, this form must be completed. See instructions.

Account protection you can count on

UBS deeply values the trust you place in us and our ability to help you grow and protect your assets. You can feel confident that your UBS Financial Services Inc. account is one of the safest places to hold your assets. Your account is protected in a variety of ways that all work together to give you greater peace of mind, including the:

- Financial strength of our parent company, UBS AG
- Security and stability of UBS Financial Services Inc.¹
- Control policies and procedures we employ to segregate your assets
- Protection provided by the Securities Investor Protection Corporation (SIPC) and our supplemental insurance policy
- Capital strength of UBS Bank USA, where clients' bank deposits are held

We're strong and secure.

So you can feel the same way

For over 150 years, UBS AG's clients have benefited from our ability to demonstrate financial strength through ever-changing economic climates. Even with the events of recent years, UBS AG remains one of the world's best capitalized banks as witnessed by our third quarter 2011 tier 1 capital ratio of 18.4%.

UBS AG owns a number of businesses that offer specialized services for the needs of our clients, while also contributing to our diversification and growth. Wealth management services in the U.S. are primarily provided through UBS Financial Services Inc., an indirect wholly owned subsidiary of UBS AG and a registered broker-dealer. The separation of parent company and subsidiaries helps ensure that assets held at one entity will not be at risk due to the failure or lack of capital at a related entity.

Exceeding net capital requirements set by the SEC

As a registered broker-dealer, UBS Financial Services is subject to oversight by the U.S. Securities and Exchange Commission (SEC), whose "Net Capital" rule is designed to protect you against the risk of a broker-dealer's failure. The Net Capital rule specifies levels of positive net worth below which a firm's net capital may not fall. UBS Financial Services must meet capital requirements

at all times and regulators carefully monitor these levels on a monthly basis. If a firm's net capital were to fall below the required minimum level, that firm would be immediately forced to obtain additional capital, merge with a financially stronger firm or cease all operations as a broker-dealer and return all client property.

UBS Financial Services has an established history of operating in compliance with the SEC's net capital requirements and maintaining regulatory net capital at levels substantially exceeding those required under the Net Capital rule.

As of September 30, 2011, UBS Financial Services Inc.'s net capital was \$1,366,953,577 which exceeded the minimum net capital requirements by \$1,240,690,144.

Rigorous controls that keep your securities safe

A number of rigorous control and segregation requirements help ensure that the securities you hold with us are as safe as those held at other regulated financial institutions.

- **Your securities are legally your property, not part of a broker-dealer's assets or capital.** The SEC imposes a stringent "Customer Protection" rule that governs the custody and use of clients' securities and cash. As a UBS Financial Services client, your securities are not exposed to the claims of the firm's general creditors because, similar to custody accounts with banks and trust companies, clients' securities are not assets of the financial institution.
- **UBS Financial Services may not use your securities without your written consent.** A broker-dealer may not lend (rehypothecate) client securities unless they are held in a margin account and a margin debit balance exists in that account. Strict regulatory limits and protections govern the use of client securities.
- **You benefit from the safety of rigorous security holding practices.** Under the "Customer Protection" rules, clients' fully paid and excess margin securities must be in the broker-dealer's possession or control and must be segregated for the exclusive benefit of

the clients. Broker-dealers are also obligated to establish a "Special Reserve Bank Account" for the exclusive benefit of their clients. They must account for and physically inspect or otherwise verify every security owned by them or by clients or due from broker-dealers, at least once every calendar quarter. The firm regularly balances and reconciles the records of its securities holdings at its depositories.

Your accounts are protected by SIPC²

UBS Financial Services is a broker-dealer, so your securities and cash held in your securities accounts with us are further protected by the Securities Investor Protection Corporation (SIPC) and by supplemental insurance we maintain with a large, independent insurer.

SIPC provides customer protection in the event that one of its member firms fails. SIPC insurance does not come into play unless two conditions are met: (1) A broker-dealer fails and (2) at the time of the failure, client securities held in custody cannot be accounted for. In these unlikely events, SIPC would step in as quickly as possible and work to return clients' cash, stock and other securities.

If no client securities are missing, clients will receive all their securities back. If sufficient assets are not available in the broker-dealer's client accounts (including the Special Reserve Account) to satisfy claims for the net equity value of client accounts, SIPC's reserve funds are used to supplement the distribution, up to a ceiling of \$500,000 per client, including a maximum of \$250,000 for cash claims. These limits apply to each "separate" client. A client who holds accounts in separate capacities (single name, joint tenant, trust accounts) may be entitled to separate protection for those accounts, if SIPC requirements are met. Additional funds may be available to satisfy the remainder of client claims after the cost of liquidating the brokerage firm is taken into account. For more information you may visit sipc.com.

Supplemental protection for greater peace of mind

UBS Financial Services and certain affiliates have purchased supplemental insurance from London Insurers to augment the SIPC protection. The supplemental policy is subject to policy conditions and limitations and has an aggregate policy limit.³ Within this aggregate policy limit, each separate client has up to \$1.9 million in protection for cash held in all of the client's accounts.

The highest capital rating given to a bank

For many clients, available "cash" in their UBS Financial Services Inc. account(s) is "swept" daily to bank deposit accounts held at UBS Bank USA (member FDIC), a wholly owned subsidiary of UBS AG. UBS Bank USA is capitalized separately from UBS Financial Services and is considered "well capitalized"—the highest capital rating given to a bank under federal banking regulations.

FDIC protection

Deposits at UBS Bank USA are not insured by SIPC, but instead are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 for individual accounts and up to \$250,000 per depositor for joint accounts, including principal and accrued interest, in accordance with FDIC rules.

The FDIC, in turn, is backed by the full faith and credit of the United States government. UBS Bank USA's most recent regulatory call report may be found on the FDIC website at fdic.gov.

A series of safeguards that all work together

Rest assured, you can count on UBS to protect your assets through an integrated series of safeguards. Your Financial Advisor is always there to answer your questions, or for more information you can visit ubs.com.

¹ UBS Financial Services refers to UBS Financial Services Inc. and its subsidiaries.

² SIPC and the supplemental insurance do not protect against losses in the market value of investments, and do not apply to certain financial assets held away from the broker-dealer (such as insurance products and UBS Bank USA bank deposits) or assets that are not securities, such as precious metals and other commodities, futures, foreign exchange, fixed annuities and life insurance, and certain investments such as limited partnerships that are not registered with the SEC.

³ The \$500 million aggregate policy limit (as of December 10, 2010) applies to all of the UBS broker-dealers covered by this policy (primary broker-dealers: UBS Financial Services Inc., UBS Securities LLC, and introducing broker-dealer, UBS Financial Services Incorporated of Puerto Rico) as a group, not to each individually. A full copy of the policy wording is available upon request. UBS Financial Services also carries a Stockbrokers Blanket Bond covering customers' securities in our possession (which covers losses due to employee dishonesty, theft, destruction, or other perils) and Excess Vault Insurance (which provides all-risk coverage for the physical loss or damage to securities held by UBS Financial Services Inc.).

**CITY OF TONKA BAY
ITEM NO. 4B**

FINANCIAL REPORT
January 31, 2012

FUND #	FUND NAME	Current interest rate		4M Fund		Managed Investments		Other CD INVESTMENTS	FUND BALANCE
		0.02%	0.05%	0.01%	CD's				
101	General Fund	147,241.94	42,584.96	90,942.54	196,000.00			476,769.44	
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	(31,362.63)	41,855.73					10,493.10	
411	Water/Sewer Reserve Fund	199,299.29	9,845.90	51,282.82	242,000.00			502,428.01	
601	Water Operating Fund	112,455.29						112,455.29	
602	Sewer Operating Fund	113,744.39	205,620.16					319,364.55	
603	Garbage Fund	58,659.01						58,659.01	
609	Liquor Store Fund	9,885.77		226,410.62	75,000.00			311,296.39	
617	Municipal Dock Fund	206,473.62						206,473.62	
651	Storm Water Drainage Fund	65,358.73						65,358.73	
652	Recycling Fund	37,163.82						37,163.82	
653	Antenna Fund	80,380.42						80,380.42	
		<u>1,006,618.35</u>	<u>300,781.52</u>	<u>368,635.98</u>	<u>513,000.00</u>		<u>0.00</u>	<u>2,189,035.85</u>	

Invest \$400,000 - (Depending on Cash flow analysis)
 Invest \$258,000
 Invest -> Reinvest

Joe Kohlmann

From: Joe Kohlmann
Sent: Wednesday, March 14, 2012 10:11 AM
To: Joe Kohlmann
Cc: 'ajmarceau@aol.com'
Subject: Tonka Bay snapshot
Attachments: Cash and Investments_3_14_12.pdf; Statute 118A.pdf

Hello,

As requested, I have attached a snapshot of our Cash and Investments. The first page shows where we have our dollars sitting. I made notations as to the dollar amounts we are looking to invest (estimates right now) at the bottom of the page. The second page will show our current investments with Morgan Stanley as well as a summary of fund balances.

Couple of notes:

- 1) The City had been investing in CDs and Securities that were generally under a 6 month call protection. These have been getting called and we have had a number of maturities in the last few months. The City is looking to follow Statute 118A but expand their investment portfolio beyond CDs and Securities - (general obligation, revenue bonds,).
- 2) Historically, the City would have a large cash balance in their 4M account and our auditor has since recommended that we invest about \$700,000 - \$800,000 of that.
- 3) We also have about \$242,000 maturing in June
- 4) In total - we are looking to invest just over \$1 million in the next month or so.
- 5) As you can see, we have investments laddered out through 2013. We will want to look at filling in the back end of the maturity dates out to about 2017 (5 years).
- 6) We would like to keep our investments in chunks \$50,000 - \$100,000 or so, if possible but I will listen to any recommendations you may have.
- 7) The City would also be interested in annual or semi-annual interest payments.
- 8) As I had discussed with you, the City will be giving 3-4 Brokers the opportunity to make suggestions to the City.
- 9) I will be open to any further suggestions or recommendations you may have in the future.

I hope that after reviewing this you are still interested in working with the City of Tonka Bay. Please contact me after your review and I will send out the "Notification to Broker and Certification by Broker" as required by Statute- if you are interested. Then we can begin the process of investing these funds- hopefully next week.

The City is still determining some cash flow needs for capital improvements but the numbers provided should be fairly close to the actual dollars we will be investing.

Please contact me with any questions.

Thanks,

Joe Kohlmann
City Administrator
City of Tonka Bay
4901 Manitou Road
Tonka Bay, MN 55331
(952) 474-7994
jkohlmann@cityoftonkabay.net

4/20/2012

RESOLUTION 12-

**A RESOLUTION AMENDING RESOLUTION NO. 12-01
OFFICIAL CITY APPOINTMENTS
TO ADD FINANCIAL INSTITUTIONS**

WHEREAS, on January 10, 2012, the Tonka Bay City Council adopted Resolution No. 12-01, which designated the official city appointments for 2012; and

WHEREAS, investment opportunities have necessitated the need to add UBS Financial Services, Inc., Stifel Nicolaus, and Ehlers Investment Partners to the City's official appointment list.

NOW, THEREFORE, BE IT RESOLVED that the City Council of the City of Tonka Bay, Hennepin County, Minnesota, that Resolution 12-01 is hereby amended to read as follows:

13. 4M Fund – ICD Securities, Inc. – Morgan Stanley Smith Barney – RBC Dain Rauscher – US Bank Financial Services - UBS Financial Services Inc. - Stifel Nicolaus - Ehlers Investment Partners – Official depository for checking, savings accounts, certificates, investments, and bond reserve accounts for general fund and all enterprise funds for the city.

PASSED at a regular meeting of the Tonka Bay City Council this 24th day of April, 2012.

Motion introduced by _____ and seconded by _____.

Roll Call Vote: Ayes –
Nays –
Absent –

William LaBelle, Mayor

ATTEST:

Joseph Kohlmann, Clerk/Administrator

