

**City of Excelsior
Investment Policy
Adopted – January 18, 2011**

I. Policy

The City of Excelsior will consolidate cash balances from all funds and invest in a manner that will provide the highest investment return with minimum risk while meeting the daily cash flow demands and conforming to all federal, state and local regulations governing the investment of public funds. Investment income will be allocated to the various funds based on their respective participation and according to generally accepted accounting principles.

II. General Objectives

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

1. **Safety** - Safety of principal is the foremost objective of the investment program. Investments will be undertaken in a way that seeks to ensure the preservation of capital in the overall portfolio.
2. **Liquidity** - The Investment portfolio will remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated. This is accomplished by structuring the portfolio so that securities mature concurrent with anticipated cash needs.
3. **Yield** - The investment portfolio will be managed with the objective of attaining a market rate of return throughout budgetary and economic cycles. Return on investment is of secondary importance compared with the safety and liquidity objectives described above.

III. Standards of Care

1. **Prudence** - The standard of prudence to be used by investment officials shall be the "prudent investor", and shall be applied in the context of managing the 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."*

Investment officers acting in accordance with this policy and with MN Statute 118A, and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided that reasonable action is taken to control adverse developments and unexpected deviations are reported in a timely manner.

2. **Conflict of Interest** - Any City official (elected or appointed) involved in the investment process shall refrain from personal business activity that could conflict with the proper execution of the investment program or which could impair his/her ability to make impartial investment decisions.
3. **Delegation of Authority** - Authority to manage the investment program is granted to the City Finance Director and City Manager and is derived from Minnesota Statutes 118A. 2, Investment of Public Funds. The Finance Director shall establish procedures for the operation of the investment program consistent with this investment policy.

IV. Safekeeping and Custody

1. **Authorized Financial Dealers and Institutions** – All financial institutions and broker/dealers who want to become qualified for investment transactions must supply the following as appropriate:

- Audited financial statements
- Proof of National Association of Securities Dealers (NASD) certification
- Proof of state registration
- Completed broker/dealer certification
- Depository contracts

The purchase of all investments must be from institutional brokers.

2. **Broker Representations** – Brokers must provide certain representations regarding future investments. State Statutes 118A, Sub. 6, requires municipalities to provide each broker with information regarding the City's investment restrictions. Before engaging in investment transactions with the City of Excelsior the supervising officer at the securities broker/dealer shall submit a certification annually according to State Statute 118A.05. This document will state that the officer has reviewed the investment policies and objectives, as well as applicable state law, and agrees to disclose potential conflicts of interest or risk to public funds that might arise out of business transactions between the firm and the City of Excelsior. All financial institutions shall agree to undertake reasonable efforts to preclude imprudent transactions involving the City's funds.

V. Suitable and Authorized Investments

1. **Investment Types** – all investments made by the City of Excelsior will be in accordance with Minnesota Statutes. Authorized investments include but are not limited to:

Government securities: Instruments such as bonds, notes, bills, mortgages and other securities which are 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 or nonnegotiable instrument issued by commercial banks and insured up to \$250,000 by the Federal Deposit Insurance Corporation (FDIC).

Repurchase Agreement: An investment which 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 a maturity specified by the purchaser. Corporations market their paper through dealers who, in turn, market the paper to investors.

Securities: Any security which is a general obligation of the State of Minnesota or any of its municipalities.

Statewide Investment Pools which invest in authorized instruments according to Minnesota Statutes 118A.

Money Market Mutual Funds which invest in authorized instruments for public funds.

2. **Collateralization** - To the extent that funds deposited are in excess of available federal deposit insurance, the City will require the financial institution to furnish collateral security or a corporate surety bond executed by a company authorized to do business in the state. The amount of collateral computed at its market value will be at least (10) percent more than the amount on deposit plus accrued interest at the close of the business day.

VI. Investment Parameters

1. **Diversification** - The Investments will be diversified by:
 1. Limiting investment to avoid over concentration in securities from a specific issuer or business sector (excluding U.S. Treasury securities).
 2. Investing in securities with varying maturities.
 3. Investing a portion of the portfolio in readily available funds to ensure that appropriate liquidity is maintained in order to meet ongoing obligations.
2. **Maximum Maturities** - 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 ten (10) years from the date of purchase. Reserve funds and other funds with longer-term investment horizons may be invested in securities exceeding ten (10) years if the maturities of such investments are made to coincide as nearly as practicable with the expected use of funds. Extended maturities may be utilized to take advantage of higher yields; however, no more than fifty (50) percent of the total investments should extend beyond five (5) years and under no circumstance should any extend beyond fifteen (15) years.

VII. Reporting

The Finance Director will prepare an investment report quarterly. The report will be provided to the City Manager and the City Council. The report will include the following:

- Listing of individual securities held at the end of the reporting period.
- Listing of investment by maturity date.
- Percent of the total portfolio that each type of investment represents.

VIII. Conclusion

The intent of this policy is to ensure the safety of all City funds. The investment goal of the City will be to achieve a market rate of return while maintaining the safety of its principal.