

# Memo

**To:** Roseville Finance Commission  
**From:** Patrick Trudgeon, City Manager  
**Date:** January 14, 2020  
**Re:** Item #5: Discuss City's Investment Policy

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## **Background**

At the October 8, 2019 Finance Commission meeting, the Commission discussed amending the City's Investment Policy to allow for a portion of the City's investment to be in equities. At the November 12, 2019 reviewed amendments to the Investment Policy and felt that it properly addressed the City ability to invest in equities, but the Commission wanted to take some more time to review that policy before making a recommendation the City Council.

The proposed amendments to the City's Investment Policy is attached as Attachment A.

Prepared by: Patrick Trudgeon, City Manager

Attachments: A: Amended Investment Policy to allow for the City to invest in equities.

## **Investment Policy**

Revised April 10, 2017

### Purpose

The purpose of the Investment Policy is to ensure the most efficient use of the City's idle funds, and to ensure the best return on these funds while making only those investments allowed by law.

### Policy

- The City will make a cash flow analysis of all funds on a regular basis. Disbursement, collection, and deposit of all funds will be scheduled to ensure maximum cash availability.
- When permitted by law, the City will pool cash from several different funds for investment purposes.
- The City will invest 99 percent of its idle cash on a continual basis.
- The City will obtain the best possible return on all cash investments. Such investments will only be those legally permissible under Minnesota law.
- The accounting system will provide regular information concerning cash position and investment performance.
- The City will make arrangements for banking services on a contractual basis for a specified period of three years, with specified fees for each service rendered.
- The City includes interest earnings and investment summaries as part of the Comprehensive Annual Financial Report (CAFR).

### Implementation

See Investment and Portfolio procedures.

### **Investment and Portfolio Procedures**

#### Scope

These investment and portfolio procedures apply to the activities of the City with regard to investing the financial assets of all funds, including the following:

- General Fund
- Special Revenue Funds
- Capital Project Funds
- Debt Service Funds
- Special Service Funds
- Internal Service Funds
- Trust and Agency Funds

### Objectives

Funds of the City will be invested in accordance with Minnesota Statutes, Council-approved fiscal policies and these administrative procedures. The City's investment portfolio shall be managed in a manner to attain a market rate of return throughout budgetary and economic cycles while preserving and protecting capital in the overall portfolio.

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The market rate of return shall be to the same rate as the target portfolio. Investments shall be made based on statutory and policy constraints. Funds held for future capital projects (i.e. bond proceeds) shall be invested to produce enough income to offset increases in construction costs due to inflation. Where possible, prepayment funds for long-term debt service shall be invested to ensure a rate of return at least equal to the interest being paid on the bonds.

### Delegation of Authority

The Finance Director is designated as investment officer of the City and is responsible for investment decisions and activities, under the direction of the City Manager.

### Prudence

The standard of prudence to be applied by the investment officer shall be the "prudent investor" rule. This rule 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 probable income to be derived." The prudent investor rule shall be applied in the context of managing the overall portfolio.

The investment officer, acting in accordance with written procedures and exercising due diligence, shall not be held personally responsible for a specific security's credit risk or market price changes, provided that these deviations are reported immediately and that appropriate action is taken to control adverse developments.

### Monitoring and Adjusting the Portfolio

The investment officer will routinely monitor the contents of the portfolio, the available markets and the relative values of competing instruments and will adjust the portfolio accordingly.

### Internal Controls

The Finance Director shall establish a system of internal controls, which shall be reviewed annually by an independent auditor. The controls shall be designed to prevent loss of public funds due to fraud, error, misrepresentation, unanticipated market changes, or imprudent actions. Investments shall be done on a pooled funds basis with interest allocated on a cash balance method. Those internal controls shall consist of competitive bids on investments, and division of duties among the staff including:

- Investments made by the investment officer
- Records maintenance by a finance staff member other than the investment officer
- Review and reconciliation by the assistant finance director

### Portfolio Management

Under the Council-adopted Fiscal Policies, it shall be the City's procedure to restrict investments to only Repurchase Agreements with national or state chartered banks, U.S. Treasury and U.S. Government Agencies, Guaranteed Investment Contracts, and Bankers Acceptances. All investments shall carry a minimum credit rating of 'AA'.

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So long as the City is a “qualifying government” pursuant to Minnesota Statute 118A, it will have additional investment authority per this policy and Minnesota Statute.

An exception to these restrictions is permitted with regard to the investment of proceeds received from the 2011 and 2012 bonds due to extenuating economic circumstances and their effect on financial institutions. Repurchase Agreements associated with the bonds can be placed with any bank, bank holding company, savings and loan association, trust company or other financial institution including the trustee or any of its affiliates. The financial institution shall carry a credit rating of ‘A’ or better, and is required to pledge collateral from national or state chartered banks.

The procedures shall consist of yield curve analysis and implemented with the appropriate purchase of the above investments.

Maturity scheduling shall be within those investments and in a manner that will maximize yield and liquidity and minimize interest rate risk.

### Competitive Selection of Investment Instruments

Before the City invests any surplus funds, a competitive "bid" process shall be conducted. If a specific maturity date is required, either for cash flow purposes or for conformance to maturity guidelines, bids will be requested for instruments that meet the maturity requirement. If no specific maturity is required, a market trend (yield curve) analysis will be conducted to determine which maturities would be most advantageous. Bids will be requested from financial institutions for various options with regards to term and instrument. The City will accept the bid that provides the highest rate of return within the maturity required and within the parameters of these procedures.

Bids for purchases through the treasury auctions are not required.

Records will be kept of the bids offered, the bids accepted and a brief explanation of the decision that was made regarding the investment.

### Settlement

All settlements of investments shall be on a "Delivery vs. Payment" (DVP) basis. Physical delivery shall be avoided if at all possible, with book entry being the preferred method of safekeeping.

### Safekeeping and Collateralization

All investment securities 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.

### Equity Investments

As long as the City is a qualifying government, it may invest up to 15 percent of the sum of unassigned cash, cash equivalents, deposits, and investments in:

- An index mutual fund based in the United States and indexed to a broad market United States equity index; or

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- With the Minnesota State Board of Investment subject to such terms and minimum amounts as may be adopted by the board. Index mutual fund investments must be made directly with the main sales office of the fund.

Investment in an index fund shall be a broadly based mutual fund. The index fund shall have fees of no more than 1% per year of invested assets, and no more than 15% turnover per year. Once the amount invested reaches 15% of the sum of unassigned cash, cash equivalents, deposits, and investments, no further funds may be invested in equities. However the Finance Director is authorized to manage the funds previously invested in equities even if the total exceeds the investment parameter limitation.

Before investing pursuant to this section, the governing body of the qualifying government must adopt a resolution that includes the following statements:

- The governing body understands that investments have a risk of loss
- The governing body understands the type of funds that are being invested and the specific investment itself
- The governing body certifies that all funds designated for investment through the State Board of Investment meet the requirements of this section and the policies and procedures established by the State Board of Investment.

### Reporting Requirements

The investment officer shall generate daily and monthly reports for management purposes. The annual investment report shall be completed on a time weighted basis and shall be included as part of the Comprehensive Annual Financial Report to the City Council. The target portfolio shall be the U.S. Government Bond Yield Index for the comparable period.