ROSEVILLE

REQUEST FOR COUNCIL ACTION

Date: 10/22/2012
Item No.: 12.c

Department Approval | City Manager Approval

Item Description: Adopt a Resolution Temporarily Amending the City's Investment Policy

BACKGROUND

The City maintains an Investment Policy to direct the investment of available funds in accordance with the City's cash flow needs and Minnesota State Statutes. The Council is asked to approve a temporary amendment to the Policy in recognition of the significant changes made over the past several years in the financial industry - specifically to allow greater flexibility with regard to the City's investment of bond proceeds.

The current Policy requires all investments placed with financial institutions to carry a minimum credit rating of 'AA' – the second highest credit level as classified by national rating agencies such as Moody's, Standard & Poor's, and Fitch. In reaction to the economic downturn and high-profile failures across a number of industries, credit rating agencies have made wholesale changes to their ratings system. As a result, many prominent national financial institutions have had their credit ratings dropped from 'AAA' or 'AA' to 'A', even though their underlying financial results had not changed.

Some of these large institutions that received a credit rating downgrade include:

- JP Chase Morgan
- Wells Fargo
- Us Bank
- Citigroup
- Morgan Stanley

These institutions, while having an 'A' rating are still regarded as high quality and financially strong institutions. There are very few 'AA' or higher rated financial institutions anymore. The current Policy has not yet factored in these changes.

The current Policy also requires a particular investment – repurchase agreements; to be placed with nationally or state-charted financial institutions. Repurchase agreements are ideal for investing bond proceeds and currently are paying interest rates around 0.35% compared to only 0.15% for US treasuries or money markets which are the next best alternatives. However, there are relatively few domestic banks that have remained in the repurchase agreement market. They instead have largely chosen to take a secondary position by pledging collateral on these agreements.
If the City intends to use repurchase agreements for investing bond proceeds, it will need to modify its

Investment Policy to allow investments in banks that have a presence in the United States, but whose parent company might be foreign-based. This is permitted under Minnesota State Statutes. Investing the bond proceeds in repurchase agreements instead of a money market or similar vehicle is expected to garner an additional $40,000 - 45,000 in interest earnings over the next 3 years.

Again, it's important to make the distinction that the collateral (security) pledged against the repurchase agreement would be backed by U.S.- based institutions such as the ones listed above. It should also be noted that all monies held in custodial or trust accounts, including repurchase agreements or the collateral pledged to the repurchase agreement, is off limits to creditors and would remain untouched in bankruptcy proceedings or other institutional reorganizations.

Given these added challenges, Staff is recommending that the Council temporarily, and with specific limitation, amend the Investment Policy by allowing the bond proceeds from the 2011 and 2012 bond sales to be placed with institutions that have a rating of 'A' or better and include collateral pledged by national or state chartered financial institutions.

A copy of the proposed Investment Policy is embedded in *Attachment A* in markup form. City Staff will be available at the meeting to address any Council inquires.

POLICY OBJECTIVE

Maintaining an Investment Policy is consistent with governmental best practices and ensures compliance with all State Statutes. That Policy should maintain an emphasis on security and liquidity but also address the City's cash flow needs.

FINANCIAL IMPACTS

Not applicable.

STAFF RECOMMENDATION

Staff Recommends the Council adopt the revised Investment Policy to allow for greater investment earnings of the the City's bond proceeds, while meeting the City's cash flow needs.

REQUESTED COUNCIL ACTION

Motion to Adopt the attached resolution approving the revised Investment Policy.

Prepared by: Chris Miller, Finance Director
Attachments: A: Resolution to adopt the City's Investment Policy (revised – See Portfolio Management Section)

EXTRACT OF MINUTES OF MEETING OF THE CITY COUNCIL OF THE CITY OF ROSEVILLE

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Pursuant to due call and notice thereof, a regular meeting of the City Council of the City of Roseville, County of Ramsey, Minnesota was duly held on the 22nd day of October 2012 at 6:00 p.m.

The following members were present:
and the following were absent:

Member introduced the following resolution and moved its adoption:

RESOLUTION ______________

RESOLUTION ADOPTING FINANCIAL AND BUDGET POLICIES FOR THE CITY OF ROSEVILLE

WHEREAS, the City Council of the City of Roseville, Minnesota desires to establish budget and financial policies that provide for the sustainability of City programs, services and infrastructure; and

WHEREAS, the City Council of the City of Roseville, Minnesota desires to maintain the City's strong financial condition; and

WHEREAS, the City Council of the City of Roseville, Minnesota desires to provide appropriate fiscal and budgeting controls.

NOW, THEREFORE, BE IT RESOLVED, by the City Council of the City of Roseville, Minnesota, that the following budget and financial policies be adopted and remain in effect until such time that a subsequent policy action is taken.

Investment Policy

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).

<u>Implementation</u>

See Investment and Portfolio procedures.

Investment and Portfolio Procedures

<u>Scope</u>

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 Assessment Funds
- ❑ Internal Service Funds
- ❑ Trust and Agency Funds

<u>Objectives</u>

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.

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.

<u>Delegation of Authority</u>

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.

<u>Prudence</u>

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.

- ❑ Investments made by investment officer
- ❑ Records maintenance by a finance staff member other than 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’. 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.

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.

The motion for the adoption of the foregoing resolution was duly seconded by member and upon a vote being taken thereon, the following voted in favor thereof:

and the following voted against the same:

WHEREUPON, said resolution was declared duly passed and adopted.

State of Minnesota)
) SS
County of Ramsey)

I, undersigned, being the duly qualified City Manager of the City of Roseville, County of Ramsey, State of Minnesota, do hereby certify that I have carefully compared the attached and foregoing extract of minutes of a regular meeting of said City Council held on the 22nd day of October 2012, with the original thereof on file in my office.

WITNESS MY HAND officially as such Manager this 22nd day of October 2012.

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William J. Malinen
City Manager

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