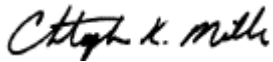


  
**REQUEST FOR COUNCIL ACTION**

Date: 01/23/2012  
Item No.: 12 . C

Department Approval



City Manager Approval



Item Description: Adopt a Resolution 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. Generally speaking, the current Investment Policy is designed to ensure that the City has funds on hand to pay both short and long-term obligations. As such, the City holds monies in short-term vehicles such as a checking account and money market account to pay for day-to-day obligations that are fairly regular in nature.

In addition, the City also has non-recurring obligations like debt payments that occur once a year. These types of payments are oftentimes very large and require advance planning to ensure monies are available. To accommodate these types of obligations, the City invests in longer-term vehicles such as federal government securities, or certificates of deposit.

Historically, the City's Investment Policy has placed greater emphasis on security and liquidity and has therefore identified investment opportunities that provide investment earnings that carry low-risk. While this approach has proven successful, the Policy does have one limitation that creates a missed opportunity when it comes to intermediate-term type investments. Intermediate-term investments are ideal for managing bond proceeds.

Unlike day-to-day or long-term debt needs, bond proceeds are used to finance a specific project. Typically those improvements are made at a consistent pace over a 12-24 month period. To match those cash flow needs, the City needs to have an investment vehicle that can provide relatively good earnings while allowing for regular cash withdrawals to make contractor payments.

Two investments in particular; Guaranteed Investment Contracts (GIC's) and Banker's Acceptances, are well suited for this purpose and are allowed under State Statute. However, they are not allowed under the current Investment Policy. Staff would like the Council to consider adding these to the list of allowable investments. Both are described in greater detail below.

## **Guaranteed Investment Contracts**

Guaranteed Investment Contracts (“GIC’s”) are unsecured promissory notes used by financial institutions as a vehicle to borrow money. Initially a tool used by insurance companies to attract pension fund investments, GIC’s have been emulated in recent years by other financial institutions (banks, finance companies, *etc.*) as an alternative to corporate bonds, commercial paper, or bank loans.

A GIC is a contract between the investor and the financial institution borrowing the money. The contract contains the terms of the investment (interest rates, maturity dates, withdrawal provisions, *etc.*). The contract also contains information on security and the credit quality of the borrower and typically contains protection for the investor against a credit problem of the borrower. For example, if a borrower is downgraded from a strong credit rating of ‘AA’, to a weaker credit rating of ‘A’, contract terms can require the borrower to post collateral or allow the funds to be redeemed at par.

GIC’s issued by high credit quality (AA or better) institutions, and containing downgrade protection (see above) are very safe, yield higher than comparable term government securities such as U.S. Treasuries, and can be designed to meet specific investment cash flow needs.

## **Bankers Acceptances**

A banker’s acceptance is a promised future payment which is accepted and guaranteed by a bank and drawn on a deposit at the bank. The banker’s acceptance outlines the amount of money, the date, and the person to which the payment is owed. The Acceptance becomes an unconditional liability of the bank.

A banker’s acceptance typically covers a period of 12 months or less. They work similar to a post-dated check. However, with the bank guarantee it’s more analogous to a post-dated check drawn on a deposit with over-draft protection. Like GIC’s, Bankers Acceptances would only be used with high credit quality (AA or better) 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 inquiries.

## **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**

\* \* \* \* \*

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 23rd day of January 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**

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**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 Assessment 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.

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.

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

172

### 173 Monitoring and Adjusting the Portfolio

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

176

### 177 Internal Controls

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

183

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

187

### 188 Portfolio Management

189 Under the Council-adopted Fiscal Policies, it shall be the City's procedure to restrict investments to only  
190 Repurchase Agreements with national or state chartered banks, U.S. Treasury and U.S. Government  
191 Agencies, Guaranteed Investment Contracts, and Banker's Acceptances.

192

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

195

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

198

### 199 Competitive Selection of Investment Instruments

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

207

208 Bids for purchases through the treasury auctions are not required.

209

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

212

213

214 Settlement

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

217

218 Safekeeping and Collateralization

219 All investment securities purchased by the City shall be held in third-party safekeeping by an institution  
220 designated as primary agent. The primary agent shall issue a safekeeping receipt to the City listing the  
221 specific instrument, rate, maturity and other pertinent information.

222

223 Reporting Requirements

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

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229

230

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

233

234 and the following voted against the same:

235

236 WHEREUPON, said resolution was declared duly passed and adopted.

237

238 State of Minnesota)

239 ) SS

240 County of Ramsey)

241

242 I, undersigned, being the duly qualified City Manager of the City of Roseville, County of Ramsey, State of  
243 Minnesota, do hereby certify that I have carefully compared the attached and foregoing extract of minutes  
244 of a regular meeting of said City Council held on the 23rd day of January 2012, with the original thereof on  
245 file in my office.

246

247 WITNESS MY HAND officially as such Manager this 23rd day of January 2012.

248

249

250

251 \_\_\_\_\_  
252 William J. Malinen  
253 City Manager

254

255 Seal

256

257

