

CITY OF MARSHFIELD, WISCONSIN POLICIES AND PROCEDURES

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CHAPTER: Debt Management

SUBJECT: Investments

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Chairman, Finance, Budget & Personnel Committee

DEPARTMENT OF PRIMARY RESPONSIBILITY: Finance Department

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APPROVED BY:

Special Notes: This policy/procedure manual does not in any way constitute an employment contract and the City of Marshfield reserves the right to amend this manual at any time subject only to approval by the Common Council.

I. POLICY STATEMENT

The purpose of this policy is to establish a framework for the investment of City funds. The investment of all City funds shall be administered in accordance with this policy unless superceded by other specific guidelines dictated by the State of Wisconsin, the Federal Government, or another governing body. These guidelines will enhance the quality of decisions, rationalize the decision-making process, identify objectives for staff, and demonstrate a commitment to long-term financial planning.

Except for cash in certain restricted and special funds, the City will pool cash balances from all funds to maximize investment earnings. All investment income from the pooled funds will normally be credited to the general fund except for that portion attributable to the Wastewater Utility, the Economic Development Fund, and certain portions attributable to loan proceeds for specific capital projects that will be allocated to those specific funds.

The Electric and Water Department shall be responsible for determining its own investment policy.

II. OBJECTIVES

A. Safety

Safety of principal is the foremost objective of this policy. Investments and cash deposits shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. The objective will be to mitigate credit risk and interest rate risk.

Credit risk, the risk of loss due to the failure of the security issuer or backer, will be minimized by:

- Limiting investments to the safest types of securities in accordance with State Statute and City Ordinance, and
- Diversifying the investment portfolio so that potential losses on individual securities will be minimized.

Interest rate risk, the risk that the market value of securities in the portfolio will fall due to changes in general market rates, will be minimized by:

- Structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity, and
- Investing operating funds primarily in short-term securities, money market mutual funds or similar investment pools.

B. Liquidity

The investment portfolio shall 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 cash needs to meet anticipated demands. Furthermore, since all possible cash demands cannot be anticipated, the portfolio should consist largely of securities with active secondary or resale markets. A portion of the portfolio also may be placed in local government investment pools or money market mutual funds which offer same-day liquidity for short-term funds.

C. Yield

The investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints and liquidity needs. Return on investment is of secondary importance compared to the safety and liquidity objectives. The core of investments shall be limited to relatively low risk securities in anticipation of earning a fair return relative to the risk being assumed. Securities should not be sold prior to maturity with the following exceptions:

- A security with declining credit may be sold early to minimize loss of Principal,
- A security swap would improve the quality, yield or target duration in the portfolio, or
- Liquidity needs of the portfolio require that the security be sold.

III. Standards of Care

A. Prudence

The standard of prudence to be used by investment officials shall be the "prudent person" standard and shall be applied in the context of managing an overall portfolio. Investment officers acting in accordance with written procedures and this investment policy and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and the sale of securities is carried out in accordance with the terms of this policy.

Investments shall be made with judgement 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.

B. Ethics and Conflicts of Interest

Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with the proper execution and management of the investment program, or that could impair their ability to make impartial decisions. Employees and investment officials shall disclose any material interests in financial institutions with which they conduct business. They shall further disclose any personal financial/investment positions that could be related to the performance of the investment portfolio. Employees and officers shall refrain from undertaking personal investment transactions with the same individual with whom business is conducted on the behalf of the City of Marshfield.

C. Delegation of Authority

Authority to manage the investment program is granted to the Finance Director. The Finance Director is responsible for the operation of the investment program, and shall act in accordance with established written procedures and internal controls for the operation of the investment program consistent with this investment policy. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the Finance Director. The Finance Director shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officers.

IV. Safekeeping and Custody

A. Authorized Financial Dealers and Institutions

Only approved security broker/dealers selected by creditworthiness shall be utilized (a minimum capital requirement of \$10,000,000 and at least five years of operation). These may include "primary" dealers or regional dealers that qualify under Securities and Exchange Commission (SEC) Rule 15C3-1 (uniform net capital rule).

All financial institutions and broker/dealers who desire to become qualified for investment transactions must supply the following as appropriate:

- Audited financial statements,
- Proof of National Association of Securities Dealers certification,
- Proof of state registration,
- Completed broker/dealer questionnaire, and
- Certification of having read and understood and agreeing to comply with the City's investment policy.

An annual review of the financial condition and registration of qualified financial institutions and brokers/dealers will be conducted as a condition of continuing business with said financial institutions and brokers/dealers.

The supervising officer at the securities broker/dealer shall submit a certification that the officer has reviewed the investment policies and objectives of the City, 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 Marshfield. All financial institutions shall agree to undertake reasonable efforts to preclude imprudent transactions involving the City's funds.

B. Delivery vs. Payment

All trades where applicable will be executed by delivery vs. payment to ensure that securities are deposited in an eligible financial institution prior to the release of funds. Securities shall be held by a third-party custodian as evidenced by safekeeping receipts.

C. Collateralization

Collateralization shall be required on two types of investments, Certificates of Deposit and Repurchase Agreements. In order to anticipate market changes and provide a level of security for all funds, the collateralization level will be 110 percent of the market value of principal and accrued interest. When the pledged collateral consists of notes secured by first mortgages, the collateral level will be 140% of the market value of principal and accrued interest. Collateral shall be deposited in the name of the City of Marshfield, subject to release by the City's Finance Director.

Collateralization and/or a bank deposit guaranty bond shall also be required for any public deposits that exceed the amount of insurance provided by the Federal Deposit Insurance Corporation (FDIC). The collateralization level should match the levels outlined in the above paragraph.

V. Suitable and Authorized Investments

A. Investment Types

The following investments shall be permitted by this policy and are those defined by state and local law where applicable:

- U.S. government obligations, U.S. government agency obligations, and U.S. instrumentality obligations with the principal fully guaranteed by the federal government or its agencies, which have a liquid market with a readily determinable market value,
- Certificates of deposit and other evidences of deposit at financial institutions, bankers' acceptances, and commercial paper, rated in the highest tier (e.g. A-1, P-1, F-1, or D-1 or higher) by a nationally recognized rating agency,
- Repurchase agreements whose underlying purchased securities consist of the foregoing,
- Money market mutual funds regulated by the Securities and Exchanges Commission and whose portfolios consist only of dollar-denominated securities, and
- Local government investment pools, either state-administered or through joint powers statutes and other intergovernmental agreement legislation.

B. Maturities and Diversification

To the extent possible, the City shall attempt to match its investments with anticipated cash flow requirement. Unless matched to a specific cash flow, the City will not directly invest in securities maturing more than five years from the date of purchase or in accordance with state and local statutes and ordinances.

Reserve or other funds with longer-term investment horizons may be invested in securities exceeding five years if the maturities of such investments are made to coincide as nearly as practicable with the expected use of funds.

Because of inherent difficulties in accurately forecasting cash flow requirements, a portion of the portfolio shall be continuously invested in readily available funds such as the local government investment pool, money market funds or overnight repurchase agreements to ensure that appropriate liquidity is maintained in order to meet obligations.

Investments shall be diversified by:

- Limiting investments to avoid concentration in securities from a specific issuer or business sector (excluding U.S. Treasury securities),
- Limiting investment in securities that have higher credit risks,
- Investing in securities with varying maturities, and
- Continuously investing a portion of the portfolio in readily available funds such as the local government investment pool, money market funds or overnight repurchase agreements to ensue that appropriate liquidity is maintained in order to meet ongoing obligations.

VI. Reporting

The Finance Director shall prepare an investment report at least quarterly, including a management summary that provides an analysis of the status of the current investment portfolio and transactions made over the last quarter. This management summary shall be prepared in a manner, which will allow the City to ascertain whether investment activities during the reporting period have conformed to the investment policy. The report shall be provided to the Finance, Budget and Personnel Committee. The report shall include the following:

- Listing of individual securities held at the end of the reporting period and their maturity dates,
- Realized and unrealized gains or losses resulting from appreciation or depreciation by listing the cost and market value of securities over one-year duration that are not intended to be held to maturity,
- Average weighted yield to maturity of portfolio on investments as compared to applicable benchmarks, and
- Percentage of the total portfolio which each type of investment represents.

VII. Amendments

This policy shall be reviewed on an annual basis. Any changes must be approved by the Common Council.