

City of Duluth Investment Policy



CITY OF DULUTH INVESTMENT POLICY

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CITY OF DULUTH INVESTMENT POLICY

I. Governing Authority

The City of Duluth's investment program shall be operated in conformance with federal, state, and other legal requirements. The Appendix section includes the legal requirements that are referenced throughout this policy.

II. Scope

It is the policy of the City of Duluth to invest its public funds in a manner which will provide safety of principal, liquidity to meet cash flow requirements, and a market rate of return. As a general rule, except for certain restricted cash accounts specifically required and/or approved by the Investment Committee, the City of Duluth will consolidate cash from all funds into a single common investment portfolio to maximize earnings and increase efficiencies with regard to investment pricing, safekeeping, and administration.

The City of Duluth will pool all public funds over which it has control as defined in Minnesota Statute 118A.01. Additionally, state laws designate the City Treasurer as custodian of all Duluth Airport Authority, Duluth Transit Authority, Duluth Entertainment and Convention Center, Duluth Economic Development Authority, and Spirit Mountain Recreation Area Authority money, defines this money as public funds, and provides for their inclusion in the City's Cash Management Investment Pool. All of the policies herein listed by the City of Duluth and those defined by State Laws of Minnesota apply equally and in every respect to these pool participants.

This policy recognizes that the City Authorities are separate entities and that they may, at the City Treasurer's discretion, have specific cash and investment accounts outside of the City's pooled portfolio to meet their investment needs. In addition, the City Authorities, at the City Treasurer and Investment Committee's discretion, may participate in the City's pooled portfolio and be paid a rate of return approved by the Investment Committee.

Except for the Community Investment Trust Fund, the Community Investment Trust Fund invested through the State Board of Investment, and Other Post Employment Benefits directed to the Public Employees Retirement Association and invested through the State Board of Investment, which are included as separate sections of this policy for their own specific needs, this policy applies to all operating funds of the City of Duluth. These funds are accounted for in the City's Comprehensive Annual Financial Report and include the General Fund, Special Revenue Funds, Debt Service Funds, Capital Projects Funds, Enterprise Funds, Internal Service Funds, and Agency Funds. Investment income will be allocated to the various funds based on their respective participation, City policy, and in accordance with generally accepted accounting principles.

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A copy of this statement will be provided to all investment dealers and investment managers doing business with the City of Duluth and to any other interested party on request.

III. Objectives

The primary objectives, in priority order, of investment activities shall be safety, liquidity, and yield.

A. Safety

Safety of principal is the foremost objective of the City's investment program. Investments shall be undertaken in a manner that seeks to protect and preserve the capital of the overall portfolio. The objective will be to mitigate credit risk and interest rate risk.

1. Credit Risk

The City will minimize credit risk, which is the risk of loss due to the failure of the security issuer or backer, by:

- Limiting investments to the types of securities listed in Section VII of this Investment Policy.
- Pre-qualifying the financial institutions, broker/dealers, intermediaries, and advisors with which the City will do business in accordance with Section V of this Investment Policy.
- Diversifying the investment portfolio so that the impact of potential losses from any one type of security or from any one individual issuer will be minimized.

2. Interest Rate Risk

The City will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by:

- Structuring the investment portfolio so that securities mature to meet cash requirements for on-going operations, thereby avoiding the need to sell securities on the open market prior to maturity.
- By investing operating funds primarily in shorter-term securities, money market funds, or similar investment pools and limiting the average maturity of the portfolio in accordance with this policy (see Section VIII).

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B. Liquidity

The City's 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 (static liquidity). Furthermore, since all possible cash demands cannot be anticipated, the portfolio will consist largely of securities with active secondary or resale markets (dynamic liquidity).

C. Yield

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

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

D. Local Considerations

At times, funds may be invested with community financial institutions or invested for the betterment of the local economy. The City may accept a proposal from an eligible institution at a reduced rate of interest provided that such institution qualifies to do business with the City (see section V).

IV. Standards of Care

A. Prudence

The standard of prudence to be used by City investment officials shall be the "prudent person" standard and shall be applied in the context of managing an overall portfolio. The City Treasurer and Treasury staff, acting in accordance with written procedures, 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 liquidity and the sale of securities are carried out in accordance with the terms of this policy.

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The “prudent person” standard states that, “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.”

B. Ethics and Conflicts of Interest

The City Treasurer and Treasury staff 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. City 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 behalf of the City.

C. Delegation of Authority

Authority to manage the City of Duluth’s investment program is granted to the City Treasurer and derived from Sec. 25 of the Charter of the City of Duluth, Sec. 2-5.2 of the Duluth City Code and Resolution #87-101 adopted by the City Council and included herein as Appendix D and Appendix E.

The City Treasurer 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 City Treasurer. The City Treasurer shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials.

D. Investment Committee

The Investment Committee, comprised of the Chief Administrative Officer, Director, City Auditor, City Treasurer, and the Assistant City Treasurer, will meet as necessary to determine general strategies, monitor results, and implement changes to this policy. Minutes of each meeting will be maintained and kept on file.

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V. Authorized Financial Institutions, Depositories, and Brokers/Dealers

A list will be maintained of financial institutions authorized to provide investment services. In addition, a list will also be maintained of approved security broker/dealers selected by credit worthiness (minimum capital requirement \$10,000,000 and at least five years of operation). These may include “primary” dealers or regional dealers that qualify under Securities and Exchange Commissions 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 (NASD) certification.
- Proof of state registration.
- Certification of having read the City’s investment policy.
- Evidence of adequate insurance coverage.

An annual review of the financial condition and registration of qualified bidders will be conducted by the City Treasurers Office.

VI. Safekeeping and Custody

A. Safekeeping

All security transactions may be held by the selling institution’s independent third-party custodian or by an independent trustee engaged and designated by the City.

B. Internal Controls

The City Treasurer is responsible for establishing an internal control structure designed to insure that the assets of the City under the City Treasurer’s control are protected from loss, theft, or misuse. The internal control structure shall be designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that (1) the cost of a control should not exceed the benefits likely to be derived; and, (2) the valuation of costs and benefits requires estimates and judgments by management. The internal controls established by the City Treasurer will cover the following points:

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1. Control of collusion. Segregation of duties, secondary authorizations, and a review/approval process will be used to minimize chances of collusion.
2. Separation of transaction authority from accounting and record keeping. All investment transactions will be approved by the Treasurer as documented on the daily cash report for conformance with bid specifications and to achieve separation of duties.
3. Custodial safekeeping. All security transactions, including collateral for repurchase agreements, entered into by the City of Duluth shall be safekept by the selling institutions third party custodian or by an independent trustee engaged and designated by the City to perform the custodial function.
4. Avoidance of physical delivery securities. Book entry securities are much easier to transfer and account for since actual delivery of the security never takes place. Delivered securities must be properly safeguarded against loss or destruction. The potential for fraud and loss increase with physically delivered securities.
5. Clear delegation of authority to Treasury staff members. Treasury procedures shall include explicit delegation of authority to persons responsible for investment transactions. No person may engage in an investment transaction except as provided by the City Treasurer. The City Treasurer shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of Treasury staff.
6. Written confirmation of transactions for investments and wire transfers. All transactions for investing and wire transfers will be supported by investment and wire transfer confirmations.
7. Maintenance of a wire transfer agreement with the City's designated depository will be kept on file in the Treasury. The agreement defines the various controls, security provisions, and delineates responsibilities of each party making and receiving wire transfers.

Accordingly, the City Auditor shall establish a process for an annual independent review by an external auditor with investment activities included in that review.

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VII. Suitable and Authorized Investments

A. Investment Types

The City of Duluth is authorized by State Statute to invest only in certain types of securities. Permissible investments for the City of Duluth are contained in Minnesota Statutes Sections 118A.04 and 118A.05. The State authorized investments are incorporated into this section of the City of Duluth investment policy and thereby made the same and included herein in Appendix A.

B. Collateralization

Collateralization of all City depository accounts, certificates of deposit, and repurchase agreements, to the extent that those funds exceed available federal deposit insurance, will be obtained as required by Minnesota State Statute Section 118A.03 (see Appendix A).

VIII. Investment Parameters

A. Diversification

The City of Duluth will diversify its investments by:

- Limiting investments to avoid overconcentration in securities from a specific issuer or business sector (excluding U.S. Treasury securities, agencies, and instrumentalities).
- Limiting commercial paper holdings to a maximum of \$5,000,000 per issuer.
- Investing in securities with varying maturities.
- Investing a portion of the portfolio in readily available funds in order to meet ongoing obligations.

B. Maximum Maturities

To the extent possible, 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 seven (7) years from the date of purchase. However, the City may collateralize its repurchase agreements using longer dated investments but not to exceed forty years to maturity.

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C. Competitive Bids

All investment transactions will be based on competitive bids received from at least two qualified brokers or financial institutions, given that the benefits derived from the competitive bidding process exceed the costs.

D. Investment Earnings

All earnings derived from the investment of pool principle will be, upon maturity and receipt, placed in a single common investment earnings fund for distribution to Cash Management Investment Pool participants at months end. These earnings will then be distributed to qualified participants in accordance with Federal Law, State Law, City Charter or City Ordinance as they so require. In the event that earnings distributions participation has not been qualified or defined by these several jurisdictions, participation in the distribution of earnings will then be determined by the Investment Committee. A listing of all funds qualified to participate in the earnings distribution will be reviewed and approved by the Investment Committee. Any residual earnings remaining in this single common earnings fund after monthly participant distributions will be transferred to the General Fund of the City of Duluth.

IX. Reporting

A. Methods

The Treasurer shall prepare a periodic investment report, including a management summary that provides a clear picture of the status for the current investment portfolio and transactions made over the reporting period. The report shall be provided to the Investment Committee. The report will include the following:

- A listing of individual securities held at the end of the reporting period.
- Unrealized gains or losses resulting from appreciation or depreciation by listing the cost and market value of securities over one-year duration.
- Average weighted yield to maturity of portfolio on investments, average portfolio amount, and weighted portfolio life.
- Semi-annually, the Director will present a summary report to the City Council regarding the performance of the investment portfolio.

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B. Performance Standards

The investment portfolio will be managed in accordance with the parameters specified within this policy. The portfolio should obtain a market average rate of return during a market/economic environment of stable interest rates. A series of appropriate benchmarks shall be established against which portfolio performance shall be compared on a regular basis.

X. Community Investment Trust

A. Description of Community Investment Trust

The citizens of the City of Duluth mandated by popular vote, in the Fall of 1995, the establishment of a Trust Fund for revenues received from the Fond du Luth Casino. The investment of these funds is separate from those in the City of Duluth's Investment Pool. Authority for the fund and its activities are provided for in Sec. 54(e) of the Charter of the City of Duluth and included herein as Appendix F.

Minnesota Statute 11A.235, included as Appendix B of this policy, gives the City the authority to invest Community Investment Trust Fund dollars with the State Board of Investment.

B. Specific Community Investment Trust Fund Investment Policies (For funds not invested with the State Board of Investment)

Any and all of the sections of the City of Duluth investment policy apply to the Trust Fund investments except those that are expressly modified as follows:

1. Maximum Maturities

The Community Investment Trust Fund will not directly invest in securities maturing more than 10 years from the date of purchase. However, the Fund may collateralize its repurchase agreements using longer dated investments but not to exceed forty years to maturity.

C. Specific Community Investment Trust Fund Investment Policies (For funds invested with the State Board of Investment)

1. Investing with the State Board of Investment

The Investment Committee will meet on a regular basis to determine the amount to invest with the State Board of Investment. Amounts invested will be rounded to even hundred thousand dollar increments. The Investment

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Committee will determine how the investments should be allocated between the investment options available through the State Board of Investment.

2. *Monitoring*

The Investment Committee will meet on a regular basis to monitor the performance of the Community Investment Trust Fund dollars invested with the State Board of Investment. Annually each June, the Investment Committee will determine if a re-balancing of the portfolio is necessary based on the May statement.

3. *Reporting*

Semi-annually, the Director will present a summary report to the City Council regarding the performance of the funds invested with the State Board of Investment. The report will show the activity for the prior six months, including amounts invested and fair value gain/(loss).

XI. Other Post-employment Benefits

A. Description of Other Post-employment Benefits (OPEB) Investments

Minnesota Statute 353.95, included as Appendix C of this policy, establishes an irrevocable trust fund with the Public Employees Retirement Association (PERA) for the purpose of funding the City's OPEB liability as it relates to Statement 45 of the Governmental Accounting Standards Board.

Funds directed to PERA will be invested with the State Board of Investment. The source of funds to be invested for OPEB will be determined by City Council resolution.

B. Specific OPEB Investment Policies

1. Investing with the State Board of Investment

The Investment Committee will meet on a regular basis to determine the amount to invest with the State Board of Investment. Amounts invested will be based on available funds and rounded to even hundred thousand dollar increments. The Investment Committee will determine how the investments should be allocated between the investment options available through the State Board of Investment.

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2. *Monitoring*

The Investment Committee will meet on a regular basis to monitor the performance of the OPEB dollars invested with the State Board of Investment. Annually each June, the Investment Committee will determine if a re-balancing of the portfolio is necessary based on the May statement.

3. *Reporting*

Semi-annually, the Director will present a summary report to the City Council regarding the performance of the funds invested with the State Board of Investment. The report will show the activity for the prior six months, including amounts invested and fair value gain/(loss).

XII. Policy Considerations

A. Exemption

Any investment currently held that does not meet the guidelines of this policy shall be exempted from the requirements of this policy. At maturity or liquidation, such monies shall be reinvested only as provided by this policy.

B. Amendments

This policy shall be reviewed on an annual basis. Any changes must be approved by the Investment Committee and then approved by City Council resolution. All approved changes will be supplied to participating cash management investment pool entities, as well as to those individual(s) charged with maintaining internal control.

XIII. Approval of Investment Policy

The City's Investment Policy shall be formally approved and adopted by the City Council. The resolution is included as Appendix G of this policy.