

Investment Policy

Policy Number: 01-08

Date: January 9, 2017

Purpose:

1.01 Policy

It is the policy of the City of DeKalb to invest public funds in a manner that will conform to state statute, maximize security, meet daily cash flow demands, and attempt to attain a market rate of _____ return.

1.02 Scope

This policy includes all funds governed by the City Council and, except for cash in certain restricted funds, the City of DeKalb will consolidate cash balances to maximize investment earnings. Investment income will be allocated to the various individual funds based on their respective participation. Interest income derived from non-fund specific consolidated bank accounts will be attributed to the General Fund.

1.03 Objectives

The primary objectives of the City of DeKalb's investment activities are, in order of priority:

- A. **Safety of principal** Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio, while mitigating credit and interest rate risks, as defined below:
 - 1. **Credit Risk**, that is, the risk of loss due to the failure of the security issuer or backer. It may be mitigated by:
 - Limiting investments to the safest types of securities;
 - Pre-qualifying the financial institutions, broker/dealers, intermediaries, and advisors with which the City will do business; and
 - Diversifying the investment portfolio so that potential losses on individual securities will be minimized.
 - 2. **Interest Rate Risk**, that is, the risk that the market value of securities in the portfolio will fail due to changes in general interest rates. It may be mitigated 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
 - By investing operating funds primarily in shorter-term securities

- B. **Liquidity**, so as to meet all operating requirements that may be reasonably anticipated, the portfolio shall consist largely of securities with active secondary or resale markets (dynamic liquidity).
- C. **Yield**, 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 least importance compared to the safety and liquidity objectives described above. 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 shall not be sold prior to maturity with the following exceptions:
1. a declining credit security could be sold early to avoid loss of principal;
 2. a security swap would improve the quality, yield, or target duration in the portfolio; or,
 3. liquidity needs of the portfolio require that the security be sold.

1.04 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 and employees of the City of DeKalb, while acting in good faith in accordance with this investment policy and any written procedures as might be established, shall be relieved of personal liability for an individual security's credit risk or market price changes.

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

City of DeKalb 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. They 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 shall refrain from undertaking personal investment transactions with the same individual with whom business is conducted on behalf of their entity.

C. Delegation of Authority

Authority to manage the investment program is granted to the authorized municipal official described in Chapter 54 of the DeKalb Municipal Code. Responsibility for the operation of the investment program is hereby delegated to the Finance Director or his/her designee, who shall carry out established written procedures and internal controls for the operation of the investment program consistent with this investment policy. These procedures shall include references to: safekeeping, delivery vs. payment, investment accounting, repurchase agreements, wire transfer agreements collateral/depository agreements and banking services

contracts. All investments shall follow the investment plan designed and approved by the Finance Director or his/her designee prior to execution.

No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the DeKalb City Council. The Finance Director, as Chief Financial Officer, shall be accountable for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials.

1.05 Safekeeping and Custody

All trades where applicable will be executed by Delivery vs. Payment (DVP). This shall ensure that securities are deposited in the eligible financial institution prior to the release of funds. Securities will be held by a third party custodian as evidenced by safekeeping receipts.

1.06 Authorized Financial Dealers and Institutions

A list shall be maintained of financial institutions authorized to provide investment services to the City of DeKalb, as well as a list of approved security broker/dealers (or their respective custodial clearing firm) selected for creditworthiness (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 rule 15C3-1 (uniform net capital rule).

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

1. audited financial statements
2. proof of National Association of Securities Dealers (NASD) certification
3. proof of state registration
4. completed broker/dealer questionnaire
5. certification of having read the City of DeKalb's investment policy and that all investments will comply with the policy

An annual review of the financial condition and registration of qualified bidders will be conducted by the Finance Director or his/her designee.

1.07 Internal Controls

The Finance Director or his/her designee is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the entity 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.

Accordingly, the Finance Director or his/her designee shall establish a process for an annual independent review by an external auditor to assure compliance with policies and procedures. The internal controls shall address the following points:

1. Prevention of collusion
2. Separation of transaction authority from accounting and record keeping.
3. Custodial safekeeping (Securities purchased from any bank or dealer including appropriate collateral, as defined by State Law, shall be placed with an independent third party for custodial safekeeping).
4. Avoidance of physical delivery securities.
5. Clear delegation of authority to subordinate staff members.
6. Written confirmation of telephone transactions for investments and wire transfers (may be via fax if on letterhead and the safekeeping institution has a list of authorized signatures).
7. Development of a wire transfer agreement with the lead bank or third party custodian, which shall outline the various controls, security provisions, and delineate responsibilities of each party making and receiving wire transfers.

1.08 Suitable and Authorized Investments

Investment Types

Consistent with the GFOA Recommended Practice on State Statutes Concerning Investment Practices, the following investments will be permitted by this policy and are those defined by state law where applicable:

1. U.S. Government obligations, U.S. Government agency obligations, and U.S. Government instrumentality obligations
2. Repurchase agreements
3. Certificates of deposit
4. Savings and loan association deposits
5. Investment-grade obligations of state, provincial and local governments and public authorities
6. Money market mutual funds regulated by the Securities and Exchange Commission and whose portfolios consist only of domestic securities
7. Statewide investment pools

Use of repurchase agreements should be consistent with GFOA Recommended Practices on Repurchase Agreements (see attached "GFOA Recommended Practices").

Consistent with the GFOA Recommended Practice on Use of Derivatives by State and Local Governments, extreme caution shall be exercised in the use of derivative instruments (see attached "GFOA Recommended Practices").

From time to time, the City may choose to invest in instruments offered by minority and community financial institutions. These financial institutions may not meet all the criteria under this section. All terms and relationships will be fully disclosed and authorized by the City Manager prior to purchase and shall be consistent with state or local law.

1.09 Collateralization

Funds on deposit (checking accounts, certificates of deposit, etc.) in excess of FDIC or SIPC limits, excluding interest, must be secured by some form of collateral, witnessed by a written agreement

(see the attached "GFOA Recommended Practices"). Pledged collateral shall be held in safekeeping by the Federal Reserve Bank of Chicago (or other independent third party designated by the Finance Director or his/her designee) in the name of the municipality. In addition, the value of the pledged collateral must be marked to market monthly, or more frequently depending on the volatility of the collateral pledged. Last, the City requires that the amount of collateral pledged equal 110% of the uninsured amount on deposit.

1.10 Diversification

The City of DeKalb shall attempt to diversify its investments appropriate to the nature of the funds, the purpose for the funds, and the amount available to invest. Diversification can be by type of investment, number of institutions invested in, and length of maturity.

1.11 Maximum Maturities

To the extent practicable, the City of DeKalb shall attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, the City of DeKalb will not directly invest in securities maturing more than 3-years from the date of purchase.

Reserve funds may be invested in securities exceeding 3-years if the maturity of such investments is made to coincide as nearly as practicable with the expected use of the funds.

Regardless of the foregoing, no funds may be invested in securities maturing in excess of 7-years from the date of purchase unless authorized by the City Council.

1.12 Reporting

The Finance Director or his/her designee shall prepare a monthly investment and bank balance report for City Council that provides:

1. Cash balances held at the end of the month;
2. A listing of individual securities and corresponding maturities held at the end of the reporting period;
3. The percentage of the total portfolio which each type of investment represents;
4. Inception-to-date yields for each individual security;
5. Average weighted inception-to-date yield to maturity of the entire portfolio as compared to applicable benchmarks.

1.13 Performance Standards

This investment portfolio will be managed in accordance with the parameters specified within this policy. The portfolio should attempt to obtain a comparable rate of return during a market/economic environment of stable interest rates. The portfolio performance should be benchmarked to the return of the 90-day Treasury bill.

1.14 Investment Policy Adoption

The investment policy shall be adopted by the City Council.

1.15 Policy Exemption and Amendment

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.

Amendment

This policy shall be reviewed on an annual basis. Any changes must be approved by the City Manager and any other appropriate authority, as well as the individual(s) charged with maintaining internal controls.