

City of Baraboo Investment Policy

Adopted 02-26-08

I. Governing Authority

Legality

The investment program shall be operated in conformance with federal, state, and other legal requirements, including *Wisconsin statutes section 66.0603 (see excerpt attached as Exhibit A)*.

II. Scope

This policy applies to the investment of all funds (Including the Alma Waite Fund) other than proceeds from certain bond issues.

1. *Pooling of Funds*

Except for cash in certain restricted and special funds or unless prohibited by law or contract, the City of Baraboo will consolidate cash and reserve balances from all funds to maximize investment earnings and to increase efficiencies with regard to investment pricing, safekeeping and administration. Investment income will be allocated to the various funds based on their respective participation and in accordance with generally accepted accounting principles.

III. General Objectives

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

1. *Safety*

Safety of principal is the foremost objective of the investment program. Investments 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.

a. Credit Risk

The City of Baraboo 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 advisers with which the City of Baraboo will do business in accordance with Section V
- 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.

b. Interest Rate Risk

The City of Baraboo 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 ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity.
- Investing operating funds primarily in shorter-term securities, money market mutual funds, or similar investment pools and limiting the average maturity of the portfolio in accordance with this policy (see section VIII).

2. *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 (static liquidity). Furthermore, since all possible cash demands cannot be anticipated, the portfolio should consist largely of securities with active secondary or resale markets (dynamic liquidity). Alternatively, a portion of the portfolio may be placed in money market mutual funds or local government investment pools which offer same-day liquidity for short-term funds.

3. *Yield*

The City's cash management portfolio shall be designed with the objective of regularly meeting or exceeding a performance benchmark, which could be the average six-month return on any of the following: U.S. Treasury bills, the state investment pool, a money market mutual fund as approved by the City or the average rate on Fed funds, whichever is higher. These indices are considered benchmarks for lower risk investment transactions and therefore comprise a minimum standard for the portfolio's rate of return. The investment program shall seek to augment returns above this threshold, consistent with risk limitations identified herein and prudent investment principles. (See Section IX on performance standards and selecting a benchmark.)

Securities shall generally be held until 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 of the portfolio.
- Liquidity needs of the portfolio require that the security be sold.

4. *Local Considerations*

Where possible, funds may be invested for the betterment of the local economy or that of local entities within the State. The City of Baraboo may accept a proposal from an eligible institution which provides for a reduced rate of interest provided that such institution documents the use of deposited funds for community development projects.

IV. Standards of Care

1. *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. Treasurers 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 liquidity and the sale of securities are carried out in accordance with the terms of this policy.

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."

2. *Ethics and Conflicts of Interest*

City 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. They shall further disclose any personal financial/investment positions that could be related to the performance of the investment portfolio.

3. *Delegation of Authority*

Authority to manage the investment program is granted to the City Treasurer or their designee and derived from the following: Sec. 62.09 (9) Wisconsin Statutes. Responsibility for the operation of the investment program is hereby delegated to the Treasurer, who shall act in accordance with established written procedures and internal controls for the operation of the investment program consistent with this investment policy. Procedures should include references to: safekeeping, delivery vs. payment, investment accounting, repurchase agreements, wire transfer agreements, and collateral/depository agreements. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the Treasurer. The Treasurer shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials.

V. **Authorized Financial Institutions, Depositories, Broker/Dealers and Investment Advisors**

1. *Authorized Financial Institutions, Depositories, Broker/Dealers and Investment Advisors*

A list will be maintained of financial institutions, depositories and investment advisors authorized to provide investment services. In addition, a list will be maintained of approved security broker/dealers selected by creditworthiness (e.g., 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 demonstrating compliance with state and federal capital adequacy guidelines or opinion letter.
- Proof of National Association of Securities Dealers (NASD) certification (not applicable to Certificate of Deposit counterparties)
- Proof of state registration
- Completed broker/dealer questionnaire (not applicable to Certificate of Deposit counterparties)
- Certification of having read and understood and agreeing to comply with the [entity's] investment policy.
- Evidence of adequate insurance coverage.

An annual review of the financial condition and registration of all qualified financial institutions and broker/dealers will be conducted by the Treasurer. The Treasurer shall use a nationally recognized financial institution rating service to conduct the annual review of each financial institution's credit worthiness. In order for a financial institution to be on the approved investment list, they must be in the upper 30 percentile as rated by the rating service. This review may be done more often as deemed appropriate by the Treasurer.

2. *Minority and Community Financial Institutions*

From time to time, the Treasurer may choose to invest in instruments offered by minority and community financial institutions. In such situations, a waiver to certain parts of the criteria under Paragraph 1 may be granted. All terms and relationships will be fully disclosed prior to purchase and will be reported to the appropriate entity on a consistent basis and should be consistent with state or local law. These types of

investment purchases should be approved by the appropriate legislative or City Council in advance.

VI. Safekeeping and Custody

1. Delivery vs. Payment

All trades of marketable securities will be executed by delivery vs. payment (DVP) to ensure that securities are deposited in an eligible financial institution prior to the release of funds.

2. Safekeeping

Securities will be held by a independent third-party custodian selected by the entity as evidenced by safekeeping receipts in the [entity's] name. The safekeeping institution shall annually provide a copy of their most recent report on internal controls (Statement of Auditing Standards No. 70, or SAS 70).

3. Internal Controls

The Finance Director is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the City of Baraboo are protected from loss, theft or misuse. Details of the internal controls system shall be documented in an investment procedures manual and shall be reviewed and updated annually. 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 structure shall address the following points:

- Control of collusion
- Separation of transaction authority from accounting and recordkeeping
- Custodial safekeeping
- Avoidance of physical delivery securities
- Clear delegation of authority to subordinate staff members
- Written confirmation of transactions for investments and wire transfers
- Dual authorizations of wire transfers
- Development of a wire transfer agreement with the lead bank and third-party custodian

Compliance with the policies set forth herein shall be reviewed annually through the City's annual independent audit process.

VII. Suitable and Authorized Investments

1. Investment Types

Consistent with the GFOA Policy Statement on State and Local Laws Concerning Investment Practices, the following investments will be permitted by this policy and are those defined by state law:

- U.S. Treasury obligations which carry the full faith and credit guarantee of the United States government and are considered to be the most secure instruments available;
- U.S. government agency and instrumentality obligations that have a liquid market with a readily

- determinable market value;
- Certificates of deposit and other evidences of deposit at financial institutions,
 - Bankers' acceptances;
 - 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;
 - Investment-grade obligations of state, and local governments and public authorities;
 - Repurchase agreements whose underlying purchased securities consist of the aforementioned instruments;
 - Money market mutual funds regulated by the Securities and Exchange Commission and whose portfolios consist only of dollar-denominated securities; and
 - Local government investment pools either state-administered or developed through joint powers statutes and other intergovernmental agreement legislation.

A thorough investigation of the pool fund is required prior to investing, and on a continual basis. There shall be a questionnaire developed which will answer the following general questions:

- (a) A description of eligible investment securities, and a written statement of investment policy objectives.
- (b) A description of interest calculations and how it is distributed, and how gains and losses are treated.
- (c) A description of how the securities are safeguarded (including the settlement processes), and how often the securities are priced and the program audited.
- (d) A description of who may invest in the program, how often, what size deposit and withdrawal.
- (e) A schedule for receiving statements and portfolio listings.
- (f) A fee schedule, and when and how it is assessed.
- (g) Is the pool/fund eligible for bond proceeds and/ or will it accept proceeds.

Investment in derivatives of the above instruments shall require separate authorization by the City Council.

2. Collateralization

The Federal Deposit Insurance Corporation (FDIC) protects deposits up to \$100,000. In addition, public deposits are protected against losses by Wisconsin general-purpose revenues under Statutes 20.144(1)(a) and 34.08 (2) up to \$400,000 for any one public depositor in any individual public depository. The City will seek to collateralize certificates of deposit or any other time deposit in an amount equal 100% of the investment less the amount (\$500,000) insured by the State of Wisconsin and the FDIC with appropriate collateral instruments and at levels per recommended practices of the GFOA. Where practicable, collateral shall be held by the City or an independent third party custodian with whom the City has a current custodial agreement. Where this is not practicable, verifiable evidence of specific pledged securities must be supplied to the City.

The City will seek to protect its interests in all other securities purchased by the City via appropriate insurance coverage from broker/dealers or via the use of a third party custodian approved by the Treasurer and evidenced by safekeeping receipts.

3. Repurchase Agreements

Repurchase agreements shall be consistent with GFOA Recommended Practices on Repurchase Agreements.

VIII. Investment Parameters

1. *Diversification*

The investments shall be diversified by:

- limiting investments to avoid overconcentration 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 local government investment pools (LGIPs), money market funds or overnight repurchase agreements to ensure that appropriate liquidity is maintained in order to meet ongoing obligations.

2. *Maximum Maturities*

To the extent possible, the City of Baraboo shall attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, the City of Baraboo will not directly invest in securities maturing more than five (5) years from the date of purchase or in accordance with state and local statutes and ordinances. The City of Baraboo shall adopt weighted average maturity limitations (which often range from 90 days to 3 years), consistent with the investment objectives.

Reserve funds and other funds with longer-term investment horizons may be invested in securities exceeding five (5) years if the maturities of such investments are made to coincide as nearly as practicable with the expected use of funds. The intent to invest in securities with longer maturities shall be disclosed in writing to the City Council. (See the GFOA Recommended Practice on "Maturities of Investments in a Portfolio" in Appendix.)

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

3. *Competitive Bids*

The Treasurer shall obtain competitive bids from at least two brokers or financial institutions on all purchases of investment instruments purchased on the secondary market.

IX. Reporting

1. *Methods*

The Treasurer shall prepare an investment report at least *monthly*, including a management summary that provides an analysis of the status of the current investment portfolio and the individual transactions executed over the last *month*. This management summary will be prepared in a manner which will allow the City of Baraboo to ascertain whether investment activities during the reporting period have conformed to the investment policy. The report should be provided to the entity's chief administrative officer, the City Council, the investment committee and any pool participants. The report will include the following:

- Listing of individual securities held at the end of the reporting period.

- 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 until maturity (in accordance with Governmental Accounting Standards Board (GASB) requirements).
- Average weighted yield to maturity of portfolio on investments as compared to applicable benchmarks.
- Listing of investment by maturity date.
- Percentage of the total portfolio which each type of investment represents.
- Interest earnings,
- Statement relating the report to the objectives of the investment policy.
- Statement of compliance of the portfolio with the investment policy or manner in which the portfolio is out of compliance.
- Explanation of any GASB requirements on the financial reporting specifically GASB 40 risk disclosures as it relates to the City's portfolio and investments.
- Comments on the fixed income markets and economic conditions.
- Update on any change in rating for each financial institution.

2. *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. The benchmarks shall be reflective of the actual securities being purchased and risks undertaken, and the benchmarks shall have a similar weighted average maturity as the portfolio. See III 3.

3. *Marking to Market*

The market value of the portfolio shall be calculated at least monthly and a statement of the market value of the portfolio shall be issued at least monthly. This will ensure that review of the investment portfolio, in terms of value and price volatility, has been performed consistent with the GFOA Recommended Practice on "Mark-to-Market Practices for State and Local Government Investment Portfolios and Investment Pools." In defining market value, considerations should be given to the GASB Statement 31 pronouncement.

X. Policy Considerations

1. *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.

2. *Amendments*

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

Director and Treasurer and any other appropriate authority, as well as the individuals charged with maintaining internal controls.

XI. Approval of Investment Policy

The investment policy shall be formally approved and adopted by the City Council of the City of Baraboo and reviewed annually.

XII. List of Attachments

The following documents, as applicable, are attached to this policy:

- Listing of authorized personnel,
- Relevant investment statutes and ordinances,
- Listing of authorized broker/dealers and financial institutions,
- Internal Controls