Investment Policy
City of Bloomington, Minnesota

Investment Policy -

I. Investment Policy Statement of Purpose

This policy has been developed to serve as a reference point for the management of City assets. It is the policy of the City to invest public funds in a manner which provides for the following in order of importance: Safety; Liquidity; and Yield (return on investment) that conforms to all federal, state and local regulations governing the investment of public funds. All investments purchased by the City are expected to be held until maturity. The City will invest in securities that match the City's operational, short-term and longer term core reserve needs. The City will have two types of portfolios for reporting purposes:

- Short-Term – No less than 85 percent of the total portfolio will be under 5 years to maturity
- Long-Term – No more than 15 percent of the portfolio will be greater than 5 years to maturity

In accordance with this policy, a separate written procedures manual has been developed for the appropriate balance of risk and return for each of the funds under the City's control. The City Manager will approve periodic changes to the procedures manual.

II. Scope

This Investment Policy applies to all financial assets of the City. All cash and investments are pooled together to achieve economies of scale for each entity. These funds are accounted for in the Comprehensive Annual Financial Report and include all City, Port Authority and HRA funds:

- General Fund
- Special Revenue Funds
- Capital Project Funds
- Debt Service Funds
- Enterprise Funds
- Internal Service Funds
- Fiduciary Funds

III. Prudence

Investments shall be made with judgment and care under circumstances existing at the time the investment is made. 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. The prudent person standard requires that a fiduciary exercise discretion and average intelligence in making investments that would be generally acceptable as sound. Investment officers acting in accordance with written procedures and the investment policy and exercising due diligence shall be relieved of personal liability for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse situations. Investment procedures developed for the Finance Department must be complied with by those with access to and management responsibilities for City investments.

IV. Objective

The primary objective of the City of Bloomington's investment activities shall be:

A. Safety - Safety of principal is of critical importance to the investment program. Investments of the City shall be undertaken in a manner that seeks to ensure the preservation of principal in the overall portfolio. The objective will be to mitigate credit risk and interest rate risk.

1. Credit Risk - the risk of loss due to failure of the security issuer or backer will be minimized by:
    - Limiting investments to the types of securities listed in Section IX 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 VIII.
    - 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. Insurance or collateral may be required to ensure return of principal.

2. Interest Rate Risk – the risk that the market value of securities in the portfolio will fall due to changes in market interest rates will be minimized to:
    - Provide for liquidity by reviewing cash flow requirements and make investments to meet the shorter cash flow needs, thereby avoiding the need to sell securities in the open market prior to maturity.
    - Manage the average maturity of the short-term portfolio to be consistent with the risk profile of the City, not to exceed 3.5 years.
    - Manage the average maturity of the long-term portfolio to be consistent with the risk profile of the City, not to exceed 7.5 years. An exception to this average maturity would be any Component Unit bonds purchased by the City with a longer duration.

B. Liquidity - The City's investment portfolio will remain sufficiently liquid to enable the City to meet all operating requirements as reasonably anticipated. The portfolio will be structured so that the liquid component, a minimum of five percent of total investments, of the portfolio will be invested only in short-term securities maturing in less than thirty days. Additionally, since all possible cash demands cannot be anticipated, the portfolio should consist largely of securities with active secondary or resale markets (dynamic liquidity). Furthermore, 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.

C. Yield/Return on Investment - The City's investment portfolio shall be designed with the objective of attaining a market rate of return. The core of investments is limited to low-risk securities in anticipation of earning a fair return relative to the risk being assumed. 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 in the portfolio.
- Liquidity needs of the portfolio require that the security be sold.

V. Delegation of Authority

The investment program shall be operated in conformance with federal, state, and other legal requirements. Authority to manage the City's investment program is derived from the following:

- Minnesota Statutes 118A, Municipal Funds
- Bloomington City Charter Section 7.11, Funds to be Kept

Management responsibility for the investment program is hereby delegated by the City Manager to the Chief Financial Officer (CFO), who shall establish written procedures for the operations of the Investment Program consistent with this Investment Policy. The CFO, with assistance from finance department staff, shall:

- Monitor performance of the investment portfolio;
- Ensure funds are invested in accordance with the policy;
- Analyze, recommend and implement policy and operational procedures that will enhance the City's investment program;
- Ensure that proper internal controls are developed to safeguard investment assets.

Procedures should include reference to: safekeeping [see Procedures 1.D], delivery versus payment (DVP) [see Procedures 4.B.1.e], and investment accounting. Such procedures shall include explicit delegation of authority to persons responsible for investment transactions. No person may engage in an investment transaction except as provided under the terms of this Policy and the procedures established by the CFO. The CFO shall be responsible for all investment transactions and shall establish a system of controls to regulate the activities of subordinates.

VI. Ethics and Conflicts of Interest

The City Manager, CFO, Port Authority, HRA and Finance staff involved in the investment process shall refrain from conducting personal business activity that could conflict with proper execution of the investment program, or which could impair their ability to make impartial investment decisions. Investment staff shall annually disclose to the City Clerk any material financial interests as required by state statute on an annual Statement of Economic Interest form. Investment staff shall subordinate their personal investment transactions to those of the City, particularly with regard to the time of purchases and sales, and shall refrain from undertaking personal investment transactions with the same individual with whom business is conducted on behalf of the City.

VII. Investment Committee

An Investment Committee shall meet at least semi-annually or as needed to review the performance of investments and review the investment strategy. The Investment Committee shall be made up of the following individuals:

Chief Financial Officer

Finance Manager

Assistant Finance Manager (optional)

Cash Management Accountant

Housing and Redevelopment Authority Representative

Port Authority Representative

Notes of the Investment Committee meetings shall be maintained based on the City’s retention schedule and a copy forwarded to the City Manager after each meeting.

VIII. Financial Service Providers

The Investment Committee will maintain a list of financial institutions authorized to provide investment services. Public deposit shall be made in a qualified public depository as established by state laws. The purchase of all investments must be from qualified financial service providers via established bid procedures. The City does not consider information advice from brokers on bond proceeds.

Financial service providers who desire to become qualified bidders for investment transactions must supply the Investment Committee with the following upon request:

- Audited Financial Statements
- Completed Broker/Dealer Certificate
- Certification of Having Read City's Investment Policy
- Depository Contracts
- Credit Report
- Proof of FINRA (Financial Industry Regulatory Authority) membership
- Proof of State Registration
- Evidence of Adequate Insurance Coverage

IX. Authorized and Suitable Investments

Based on the investment objectives as defined in section IV of this policy, the City will limit its investments to the following types of securities:

A. **Money Market Funds** may be held with next day withdrawal capacity to provide for daily liquidity requirements. These money markets must be AA. They may only invest in securities with a final maturity no longer than 13 months and for which the Investment Committee has obtained and reviewed the fund prospectus.

B. **Savings/demand deposits**. A financial institution that is qualified as a "depository" of public funds of government entities. The City may hold balances in qualified bank deposits. Funds may be held in savings accounts at approved depository banks. If balances are greater than the FDIC limit, collateral of 110 percent will be held for the excess balances. Non-interesting bearing deposits will be held at a minimum. However, the interest bearing demand deposit programs that banks provide for next day access to funds will be utilized.

C. **Banker's acceptances. Short term debt instruments issued by firms guaranteed by commercial banks. P**urchased on the secondary market, these should be rated with the highest short-term credit rating of any two Nationally Recognized Statistical Rating Organizations (NRSROs), at the time of purchase. If the banker's acceptance is rated by more than two NRSROs, it must have the highest rating from all the organizations. Maximum maturity will be 270 days.

D. **Commercial paper.** Short term unsecured debt which has been issued by a United States corporation or their Canadian subsidiaries and is not a limited liability corporation (LLC) to fund their day to day operational needs. Maturities typically range from one day to 270 days. The City may only buy paper that meets the Minnesota Statute 118A with the exception that no Asset Backed or Structured Investment Vehicle (SIV) commercial paper is allowed. Only commercial paper with two of the three highest quality ratings of A1, P1, F1 and the underlying issuer of the commercial paper must have a long-term debt rating of AA to be utilized.

E. **U.S. Treasury obligations** including bonds, notes, Treasury bills, or other securities which are direct obligations of the United States. Instruments sold and issued by the U.S. government carry the full faith guarantee of the U.S. government. These instruments provide the highest quality available to purchase and are highly liquid.

F. **U.S. Agency Government Sponsored Enterprises (GSEs)** are instrumentalities, or organizations created by an act of Congress. GSE securities have the implied guarantee of the U.S. government and are privileged to certain access to capital and support of government programs. The issuers are generally considered to have the second highest credit quality in the fixed income markets and provide higher yields than U. S. treasury obligations. The ratings on all the agencies in which the City can invest are the highest available and include the following specific issuers:

1. FHLB: The Federal Home Loan Bank System (FHLB) was created by Congress in 1932 and acts as a source of funds for its nearly 8,000 member banks. FHLB does not purchase home mortgages to the same extent as Freddie Mac and Fannie Mae, but primarily lends money to homeowners through its member financial institutions. FHLB System members include commercial banks, thrifts, credit unions and insurance companies. Each member is a shareholder in one of the 12 regional Federal Home Loan Banks; each regional bank is an individual corporate entity, which must meet strict management and capitalization criteria befitting its GSE status. The FHLB System is regulated by the Federal Housing Finance Board (FHFB) and the Office of Finance (OF).
2. FHLMC: The Federal Home Loan Mortgage Corporation encompasses Freddie Mac; it is housing GSE created by Congress in 1970 to provide liquidity and stability in the home mortgage market, thereby increasing the flow of funds available to mortgage borrowers. In order to accomplish this goal, Freddie Mac does not make individual mortgage loans to consumers. Rather, Freddie Mac purchases mortgages from lenders, thereby allowing them to lend the proceeds to more homebuyers. Freddie Mac is regulated by the Secretary of Housing and Urban Development (HUD) and by the Office of Federal Housing Enterprise Oversight (OFHEO).
3. FFCB: The Federal Farm Credit Bureau is an agency of the Federal government set up to supply credit to various classes of institutions and individuals such as farmers and farm cooperatives.
4. FNMA: The Federal National Mortgage Association chartered under the Federal National Mortgage Association Act in 1938 is a federal corporation working under the auspices of the Department of Housing and Urban Development (HUD). It is the largest single provider of residential mortgage funds in the United States. Fannie Mae, as the corporation is called, is a private stockholder-owned corporation. The corporation’s purchases include a variety of adjustable mortgages and second loans, in addition to fixed-rate mortgages. FNMA’s securities are also highly liquid and are widely accepted. FNMA assumes and guarantees that all security holders will receive timely payment of principal.
5. Other issuers: There are other GSE issuers; however, they issue fewer securities and are less active in the marketplace. Therefore, yields typically are slightly higher but they provide less liquidity. The City may purchase other GSE names but will limit the amount held in the portfolio.

G. **Municipal Securities** are registered securities of state/county/local and other governmental agencies. Bonds of the state/county/local and other governmental agencies which have at the time of investment one of the three highest credit ratings of nationally recognized rating agency are allowable investments. They must have a taxing power rating of A, AA or AAA. The City will typically buy only AA or better to provide for quality investments in the portfolio. Any security which is a general obligation of any state or local government with taxing powers which is rated

"A" or better by a national bond rating service is allowed. Tax exempt or taxable bonds qualify as long as they meet the rating standards.

H. **Repurchase agreements** consisting of collateral allowable in Minnesota Statute, Chapter 118A, and reverse repurchase agreements may be entered into with any of the following entities:
   1. A financial institution qualified as a "depository" of public funds of the government entity;
   2. Any other financial institution which is a member of the Federal Reserve System and whose combined capital and surplus equals or exceeds $10,000,000;
   3. A primary reporting dealer in U.S. government securities to the Federal Reserve Bank of New York; or
   4. A securities broker-dealer licensed pursuant to Minnesota Statute, Chapter 80A, or an affiliate of it, regulated by the Securities and Exchange Commission and maintaining a combined capital and surplus of $40,000,000 or more, exclusive of subordinated debt. Reverse agreements may only be entered into for a period of 90 days or less and only to meet short-term cash flow needs. In no event may reverse repurchase agreements be entered into for the purpose of generating cash for investments, except as stated in Minnesota Statute, Chapter 118A.

I. **Guaranteed investment contracts**. Specific project monies may be invested in agreements or contracts for guaranteed investment contracts may be entered into if they are issued or guaranteed by United States commercial banks, domestic branches of foreign banks, United States insurance companies, or their Canadian subsidiaries, or the domestic affiliates of any of the foregoing. The credit quality of the issuer's or guarantor's short and long-term unsecured debt must be rated in one of the two highest categories by a nationally recognized rating agency. Should the issuer's or guarantor's credit quality be downgraded below "A", the government entity must have withdrawal rights.

Each type of security listed above in Sections E, F and G may have various structures such as non-callable, callable and variable rate debt.

- Non-Callable – A debt instrument issued for the purpose of raising capital by borrowing. They typically pay semi-annual coupons and have a stated final maturity.
- Callable – Debt in which the issuer has the right to redeem prior to its maturity date, under certain conditions.
- Variable – Debt in which the issuer has the right to reset the coupon rate based on specified market conditions and terms.

X. Securities Lending Agreements

Securities lending agreements, including custody agreements, may be entered into with a financial institution meeting the qualifications of Minnesota Statute 118A and further restricted within this investment policy. Securities lending transactions may be entered into with entities meeting the qualifications and the collateral for such transactions and shall be restricted to the securities described in Minnesota Statute 118A. Any future security lending contract would be subject to City Council approval.

XI. Prohibited Investments and Transactions

Prohibited investments include inverse floaters, range notes, interest only strips derived from a pool of mortgages (collateralized mortgage obligations), and any security that could result in zero interest accrual if held to maturity.

Specifically restricts:

A. Obligations whose coupon payments are determined largely or entirely by an embedded range accumulation option. For example, range notes; these securities are used primarily to enhance interest rates when an investor is confident in a forecast.
B. Obligations whose payment represents the principal stream cash flow from underlying mortgage backed securities collateral. For example, Collateralized Mortgage Obligations (CMO).
C. Obligations that the interest rate and principal repayment adjusts opposite to the changes in the market. For example, inverse floaters.
D. Obligations that under certain environments may pay no interest. For example, principal only securities.
E. Obligations that have a maturity that will extend longer than five years under certain rate environments. These include mortgage-backed securities that are defined as high risk or in certificates of deposit secured by letters of credit issued by federal home loan banks.
F. Obligations that are derivatives, financial instruments in which the value depends on, or is derived from, the value of one or more underlying assets, indexes, or asset values. And any other transaction that violates City policy or State law.

XII. Collateralizations

Collateralization will be required on the following types of investments:

- Certificates of Deposit
- Demand Deposits
- Repurchase Agreements (for investments held beyond seven days)

In order to anticipate market changes and provide a level of security for all funds, the collateralization level will be 110% of market value of principal and accrued interest. The underlying securities will be subject to periodic (monthly) market valuations to ensure there is no market exposure.

Collateral is limited to the following U. S. government securities:

<u>Treasury Issues</u>
Treasury Bills
Treasury Notes
Treasury Bonds

<u>Agency Notes, Bonds, and Letters of Credit</u>
Federal National Mortgage Association
Federal Home Loan Bank
Federal Farm Credit Bank
Federal Home Loan Mortgage Corporation

<u>Mortgage-Backed Securities</u>
No mortgage-backed securities are allowed

For cash deposits on hand, clearly marked evidence of ownership (safekeeping receipt) must be supplied and retained. Collateralization shall be in the form of specific securities with an active secondary market for the City held by an independent third party. The only exceptions are Federal Depository Insurance Corporation (FDIC), Securities Investor Protection Corporation (SIPC) and preapproved insurance coverage. The City may collateralize its repurchase agreements using longer-dated investments not to exceed 5 years to maturity.

XIII. Safekeeping and Custody

Securities purchased shall be held in a segregated account for the City's benefit at a third party trustee as safekeeping agent. The investment dealer or bank in which the security is purchased shall issue a confirmation ticket to the City listing the specific instrument, issuer, coupon, maturity, CUSIP number, purchase or sale price, transaction date, and other pertinent information. The financial service provider which executes the transaction on the City's behalf shall deliver all securities on a delivery versus payment method (DVP) to the designated third party. Delivery versus payment (DVP) is a way of controlling the risk to which securities market participants are exposed. Delivery of securities (i.e. the change in their ownership) is done simultaneously with payment. This means that neither the buyer nor the seller is exposed to the risk that the other will default.

Investments, contracts, and agreements may be held in safekeeping with:

- any Federal Reserve bank
- any bank authorized under the laws of the United States or any state to exercise corporate trust powers, including, but not limited to, the bank from which the investment is purchased

The City's ownership of all securities should be evidenced by written acknowledgments identifying the securities by:

- The names of issuers
- The maturity dates
- The interest rates
- Any serial numbers or other distinguishing marks

The City may not invest in securities that are uninsured. Securities will be held in the City's designated accounts under their street names.

XIV. Investment Credit Rating Degradation

Credit updates should be completed on all non-insured general obligations (GOs), bankers acceptances and commercial paper with a credit rating that has declined. Credit analysis is necessary to determine if a particular investment is eligible for the City to own as part of prudent portfolio management, as determined on any date that the security is held within the portfolio. If the credit rating of a security is subsequently downgraded below the minimum rating level for a new investment of that security, the Investment Committee shall evaluate the downgrade on a case-by-case basis in order to determine if the security should be held or sold. The Investment Committee will apply the general objectives of safety, liquidity, and yield to make the decision.

XV. Diversification

The City will substantially reduce the risk of loss resulting from the over-concentration of assets in a specific maturity, issuer, institution, or class of securities.

Diversification strategies will be implemented with the following constraints:

ISSUER TYPE	% of TOTAL PORTFOLIO

Money Market Funds	50%
Savings/Demand deposits	20%
Bankers Acceptances	10%
Commercial Paper	20%
US Treasury Obligations	100%
GSE-Agency Securities	100%
Municipal Securities:	55%
Non Component Units	20%
With Component Units	35%
Repurchase Agreements	10%
Guaranteed Investment Contracts	By Project

Due to fluctuations in the value of the portfolio, maximum percentages for a particular issuer or investment type may be exceeded at a point in time subsequent to the purchase or maturity of a particular security. Securities need not be liquidated to realign the portfolio; however, consideration should be given to this matter when future purchases are made.

Given the smaller portfolio of the Housing and Redevelopment Authority and the Port Authority, the above restrictions will be waived on any portfolio with specific project needs.

XVI. Maximum Maturities

Fund Specific:

- A minimum of five percent of the portfolio will mature under 30 days.
- 85% of total funds will be invested to 5 years and less, and 15% of funds will be laddered out to a maximum of 10 years.
- Total weighted average maturity of total funds will not exceed 3.5 years for the 5 years and less portion.
- Maturities will be diversified to avoid undue concentration of assets in a specific sector.
- An exception to maximum maturity is in reserve funds (per bond indentures), which may be invested to a maturity date that coincides as nearly as practicable with the expected use of the funds.
- Another exception would be the City's purchase of Component Unit bonds with a longer duration, (up to 20 years) with the approval of the City Council.

XVII. Internal Control

The CFO is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the City 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. The internal controls are addressed in the procedures manual.

The City will engage an external auditor for an annual independent review to assure compliance with policies and procedures.

XVIII. Performance Standards

The investment portfolio will be designed to obtain a market average rate of return during budgetary and economic cycles, taking into account the City's investment risk constraints and cash flow needs. The City will have at least 98% of its cash funds earning interest or on deposit to reduce bank fees. The investment portfolio will be structured to meet specific criteria addressing safety, liquidity and yield. The City's reporting system will provide information concerning cash position, investment performance, and percentage of the portfolio that is invested by security issuers and maturity structure.

XIX. Market Yield/Benchmark

The City's investment strategy is conservative. The Investment Committee, based on appropriate current indexes and yields reported by similar entities with similar restrictions on investments, will periodically review whether market yields are being achieved.

XX. Responsibilities of External Investment Managers

The City may enter into contracts with third-party investment advisory firms when their services are deemed to be beneficial to the City. The advisor must comply with this Investment Policy and may have authority to transact investments on behalf of the City. The advisor may only act on a non-discretionary basis if they are hired to provide transactional services on behalf of the City.

XXI. Reporting

The CFO is charged with the responsibility of preparing a periodic investment report. This includes a management summary that provides an analysis of the status of the current investment portfolio, the individual transactions executed over the last period, and a detailed listing of portfolio securities held at the end of the period. The report summarizes data on investments by type, maturity, and call date with associated book values, portfolio percentages, and market values. The report also includes a comparison of City yields to U.S. Treasury benchmarks and other information as requested by the Investment Committee.

XXII. Investment Policy Adoption

The City's Investment Policy shall be adopted by resolution by the City Council, Housing and Redevelopment Authority Board and the Port Authority Board. The Policy shall be reviewed on a bi-annual basis by the Investment Committee and any modifications made thereto must be approved by the City Council. The Investment Policy will be consolidated within the Financial Management Policy.

(Revised 3/3/1997, 1/19/1999, 3/19/2007, 9/14/2009, 12/1/2014)