

INVESTMENT POLICY STATEMENT

I. PURPOSE AND NEED FOR POLICY

It is the policy of the City of Woodland (the City) to invest public funds in a manner which will provide the highest investment return with the maximum security while meeting the daily cash flow requirements of the City and conforming to all state and local statutes governing the investment of public funds. The purpose of this Policy is to develop an overall program for cash investments, designed and managed with a high degree of professionalism, worthy of the public trust; to establish that elected and appointed officials and employees are custodians of a portfolio which shall be subject to public review; to establish cash investment objectives, delegation of authority, standards of prudence, internal controls, authorized investments, selection process for investments, and broker representations.

II. SCOPE

This Policy applies to the investment and deposits of all funds of the City.

Pooling of Funds

Except for cash in certain restricted and special funds, the City 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. OBJECTIVE

At all times, investments of the City shall be in accordance with Minnesota Statutes Chapter 118A and amendments thereto. The primary objectives of the City's investment activities shall be in the following order of priority:

A. Safety

Safety of principal is the foremost objective of the investment portfolio. 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, interest rate risk, and custodial risk.

Credit Risk: Credit Risk is the risk of loss due to failure of the security issuer or backer. Thus, designated depositories shall have insurance through the FDIC (Federal Insurance) or the SIPC (Securities Investor Protection Corporation). To ensure safety, it is the policy of the City that when considering an investment, all depositories under consideration be cross-checked against existing investments to make certain that funds in

excess of insurance limits are not made in the same institution unless collateralized as outlined below. Furthermore, the City Council will approve all financial institutions, brokers, and investment advisers with which the City will do business.

Interest Rate Risk: Interest Rate Risk is the risk that the market value of securities in the portfolio will fall due to changes in general interest rates. The City will minimize Interest Rate Risk 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.

Custodial Risk: The City will minimize deposit Custodial Risk, which is the risk of loss due to failure of the depository bank (or credit union), by obtaining collateral or bond for all uninsured amounts on deposit, and by obtaining necessary documentation to show compliance with state law and a perfected security interest under federal law.

B. Liquidity

The investment portfolio shall remain sufficiently liquid to meet projected disbursement requirements. This is accomplished by structuring the portfolio so that securities mature concurrent with cash needs to meet anticipated demands. Investment portfolios will be structured so that securities mature concurrent with cash needs to meet anticipated demands. Liquid funds will allow the City to meet possible cash emergencies without being penalized on investments.

C. Yield

The investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary cycles, considering investment risk and liquidity needs. Return on investment is of secondary importance compared to the safety and liquidity objectives described above. Securities shall generally be held until maturity with the following exceptions.

- A security with declining credit quality may be sold prior to maturity to minimize loss of principal.
- Liquidity needs of the City require a security or securities are sold prior to maturity.
- A security swap would improve the safety and yield of the overall portfolio.

IV. DELEGATION OF AUTHORITY

Responsibility for the investment program is hereby delegated from the City Council to the Clerk. Authority to conduct actual investment transactions may be delegated to the Clerk, who shall act in accordance with procedures as established with this investment policy. The authorized individuals, when acting in accordance with this Policy and exercising due diligence, shall not be held responsible for losses, provided that the losses are reported immediately, and that appropriate action is taken to control further losses.

The City may utilize SEC-registered investment advisory/management firms (External Investment Managers) to invest segments of the investment portfolio. The External Investment Manager will operate within the constraints of this investment policy and an executed Investment Advisory Agreement. The External Investment Manager shall have discretion over the assigned segment of the investment portfolio. All External Investment Managers shall purchase and sell securities in accordance with Minnesota Statute 118A, this investment policy statement, and the Investment Advisory Agreement. External Investment Managers must be registered under the Investment Advisers Act of 1940 and be licensed and registered to do business in Minnesota and registered as an investment advisor through IARD (Investment Advisor Registration Depository) in Minnesota.

Authorized Financial Dealers and Institutions:

If the City chooses to engage an investment advisor, that investment advisor may choose to utilize any broker-dealer that it deems prudent. Qualified investment advisors assisting the City in the management of its overall investment portfolio may purchase and sell investment securities in accordance with this investment policy and may utilize their own approved list of broker-dealers and security issuers; however, the list shall fully comply with the criteria maintained in this policy.

If the City chooses not to engage an investment advisor, the City will maintain a list of financial institutions authorized to provide investment services to the City. Prior to any investment transactions with the City, all broker/dealers who desire to become qualified bidders for investment transactions must supply the treasurer with audited financial statements, proof of FINRA registration, proof of Minnesota registration, a certificate of insurance for excess SIPC coverage, and completion of the broker notification and certification form required by Minnesota Statutes 118A.

V. PRUDENCE

The standard of prudence to be used by investment officials shall be the “prudent investor,” and shall be applied in the context of managing the investments. All investment transactions shall be made in good faith with the degree of judgment and care, under the circumstances, that a person of prudence, discretion and intelligence would exercise in the management of their own affairs. This standard of prudence shall mean not for speculation, and with consideration of the probable safety of the capital as well as the probable investment return derived from assets.

VI. INTERNAL CONTROLS

Internal controls are designed to prevent loss of public funds due to fraud, error, misrepresentation, unanticipated market changes, or imprudent actions. Internal controls shall address:

- Separation of transaction authority from accounting and record keeping.
- Clear delegation of authority to subordinate staff members.
- Confirmation of transactions for investments and wire transfers.
- Development of a wire transfer agreement with the lead bank and third-party custodian.
- Investment and interest earnings will be recorded in the City's accounting records based on generally accepted government accounting procedures.
- A periodic summary of all investment transactions will be prepared by the Clerk for review by the City Finance Committee or Council.
- Each year, as part of the annual audit by an external auditing firm, there will be an independent review. This review will provide internal control by assuring compliance with this policy

The Clerk will report periodically to the City Council on the total of all funds invested and the total interest received on all securities year to date.

VII. AUTHORIZED INVESTMENTS AND COLLATERALIZATION

All City investments and deposits shall be those allowable by Minnesota Statutes Chapter 118A and amendments thereto. In accordance with MN Statutes 118A, collateralization will be required on all demand deposit accounts, including checking, savings, and money market accounts, and non-negotiable certificates of deposit in excess of federal deposit insurance.

State law defines the types of collateral that a financial institution may pledge for public deposits.

These types of collateral include:

- United States Government Treasury issues;
- Issues of United States Government Agencies and Instrumentalities;
- Obligations of state and local governments;
- Time Deposits fully insured by the Federal Deposit Insurance Company (FDIC) or any federal agency; and
- Irrevocable standby letters of credit issued by federal home loan banks.

Since the amount a public entity has on deposit will vary from time to time, the financial institution needs sufficient amounts of pledged collateral to cover 110% of the uninsured amount on deposit during peak deposit times.

VIII. SAFEKEEPING AND CUSTODY

All security transactions, including collateral for repurchase agreements, entered by the City shall be conducted on a delivery-versus-payment (DVP) basis. Securities will be held by a third-party custodian designated by the Clerk.

IX. DIVERSIFICATION

The City will attempt to diversify its investments according to type and maturity. The portfolio, as much as possible, will contain both short-term and long-term investments. The City will attempt to match its investments with anticipated cash flow requirements. Extended maturities may be utilized to take advantage of higher yields.

X. CONFLICT 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. For further details, please refer to the City's policies and ordinances.

XI. BROKER REPRESENTATIONS

Municipalities must obtain from their brokers or advisors certain representations regarding future investments. Pursuant to Minnesota Statutes 118A, the City shall provide each broker or advisor with the City's investment policy, and the securities broker or advisor shall submit a certification annually to the City stating that the officer has reviewed the investment policies and objectives, 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. Agents of financial institutions shall agree to undertake reasonable efforts to preclude imprudent transactions involving the City's funds.

XII. PERFORMANCE STANDARDS AND BENCHMARK

The investment portfolio shall be designed with the objective of obtaining a rate of return throughout budgetary and economic cycles, commensurate with the investment risk constraints and the cash flow needs. The basis used by the Clerk to determine whether market yields is being achieved shall be to a comparable benchmark.

e.g., 90-day US Treasury Bill, 6-month US Treasury Bill, Average Fed Funds Rate.

XIII. REPORTING

The Clerk shall present a periodic report on the investment program and investment activity to the City Council. The management summary shall be prepared in a manner that will allow the Governing Body to determine if investment activities during the reporting period conform to this Investment Policy.

XIV. ADOPTION AND APPROVAL

By resolution, the Investment Policy shall be formally approved and adopted by the City Council and reviewed as needed but at least every three years.

Adopted by the Woodland City Council, February 13, 2023