



STAFF REPORT

TO: Mayor Keis and Members of City Council

FROM: Brenda Malinowski, Finance Director

DATE: January 12, 2022

RE: Deposit and Investment of Local Public Funds

REQUESTED ACTION:

Make a motion to designate the following financial institutions as a depository of its funds and to authorize the Finance Director or City Administrator to make investments of funds under MN State Statute section 118A, and the City's Investment Policy.

CHECKING ACCOUNT DEPOSITORY:

US Bank National Association – Little Canada

INVESTMENT DEPOSITORIES:

PMA Financial Network, Inc. (4M Fund)
Royal Credit Union (RCU)
UBS Wealth Management
Wells Fargo Advisors
Morton Capital Markets
US Bank National Association

BACKGROUND:

Minnesota Statutes Chapter 118A.02 requires that the governing body of each government entity to designate one or more financial institutions as a depository for its public funds. The MN State Auditor has recommended that City's do this on an annual or biannual basis. Little Canada has done this annually.

The City of Little Canada has utilized US Bank as its checking account depository for many years. Also included below is a list of financial institutions that the City of Little Canada utilizes for investments. These are the same financial institutions that the City utilized in 2021 for investments.

STAFF RECOMMENDATION:

Staff recommends Council approve a motion to designate the following financial institutions as a depository of its funds and to authorize the Finance Director or City Administrator to make investments of funds under MN State Statute section 118A, and the City's Investment Policy.

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118A.02 DEPOSITORIES; INVESTING; SALES, PROCEEDS, IMMUNITY.

Subdivision 1. **Designation; delegation.** (a) The governing body of each government entity shall designate, as a depository of its funds, one or more financial institutions.

(b) The governing body may authorize the treasurer or chief financial officer to:

- (1) designate depositories of the funds;
- (2) make investments of funds under sections 118A.01 to 118A.06 or other applicable law; or
- (3) both designate depositories and make investments as provided in this subdivision.

Subd. 2. **Sale; proceeds; immunity, if loss.** (a) The treasurer or chief financial officer of a government entity may at any time sell obligations purchased pursuant to this section and the money received from such sale, and the interest and profits or loss on such investment shall be credited or charged, as the case may be, to the fund from which the investment was made.

(b) Neither such official nor government entity, nor any other official responsible for the custody of such funds, shall be personally liable for any loss sustained from the deposit or investment of funds in accordance with the provisions of sections 118A.04 and 118A.05.

History: 1996 c 399 art 1 s 3

SECTION 4 - CITY OF LITTLE CANADA INVESTMENTS

Purpose

The City is committed to managing investments in a manner that protects investment capital, provides liquidity for adequate cash flow, and provides an acceptable rate of return. Investment earnings also generate a predictable source of annual revenue for the City.

Policy

The City will maintain a program for the investment of funds in a manner which maximizes security, provides a maximum return, and meets daily cash flow demands. The investments will conform to all applicable federal and state statutes regarding the investment of public funds. The Finance Director will exercise investment strategy and monitoring, and the investment results shall be presented to the City Council at least quarterly.

Objectives

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

1. Safety

Investments shall be administered 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 will minimize credit risk, which is the risk of loss of all or part of the investment due to the failure of the security issuer or backer, by:

- Limiting investments to the types of investments authorized by Minnesota State Statutes. These investments are listed under Authorized Investments.
- The City will minimize deposit Custodial Credit Risk, which is the risk of loss due to a depository bank failure (or credit union) by obtaining collateral or bonds for all uninsured deposits, and by obtaining necessary documentation to show compliance with state law and federal law.
- The City will eliminate investment Custodial Credit Risk by permitting brokers that obtained investments for the City to hold them only to the extent there is Securities Investment Protection Corporation (SIPC) and excess SIPC coverage available. Securities purchased that exceed available SIPC coverage shall be held in safekeeping.
- 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 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 security maturities match cash requirements for ongoing operations. This will avoid 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.
- A schedule of receipts and disbursements shall be maintained so that investments can be coordinated with expected cash flows.
- The maximum term of investments will be 6 years unless disclosed in writing to the City Council.

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 concurrently 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 (4M Fund) which offer same-day liquidity for operating and short-term funds.

3. Yield

The investment portfolio shall be designed 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 secondary importance compared to the safety and liquidity objectives described above. Securities shall generally be held until maturity.

After the liquidity and scheduled maturity needs are satisfied, the balance of the funds available for the investment will be placed with institutions that offer the greatest safety and highest rate of return. Purchases of investments should be made on the basis of competitive offers and bids when practical.

Standards of Care

1. Delegation of Authority

The Finance Director is designated as the Investment Officer of the City and is responsible for investment management decisions and activities. The Finance Director and City Administrator are authorized to make investments on behalf of the City. The Finance Director shall develop and maintain written administrative procedures for the operation of the investment monitoring, diversification of risk, as well as a system of controls to regulate the activities of the investments.

2. Prudence

The standard of prudence to be used shall be the "Prudent Investor rule" and shall be applied in the context of managing the overall portfolio: "investments shall be made with judgment and care – under prevailing circumstances – 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."

City employees meeting this standard will 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 appropriate action is taken to control adverse developments.

3. Ethics and Conflicts of Interest

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. Employees and officers shall refrain from undertaking personal investment transactions with the same individual with whom business is conducted on behalf of the City.

Authorized Financial Institutions, Depositories, and Broker/Dealers

The Finance Director will maintain a list of financial institutions and depositories authorized to provide investment services. Annually, the Finance Director will obtain the Minnesota Broker Notification and Certification form required by Minnesota Statutes 118A prior to any investment transactions with the City.

Authorized Investments

The City will invest only in securities authorized by Minnesota Statute §118A.04 and §118A.05.

Investment instruments authorized and permitted by this policy are as follows:

1. **United States Securities.** City funds may be invested in governmental bonds, notes, bills, mortgages (excluding high-risk mortgage-backed securities as defined in Minnesota Statute §118A.04) and other securities, which are direct obligations or are guaranteed or insured issues of the United States, its agencies, its instrumentalities, or organizations created by an act of Congress.
2. **State and Local Securities.** City funds may be invested in the following:
 - A. 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 (including Debt issued by the City of Little Canada).
 - B. Any security which is a revenue obligation of any state or local government with taxing powers which is rated “AA” or better by a national bond rating service (including Debt issued by the City of Little Canada).
 - C. A general obligation of the Minnesota Housing Finance Agency which is a moral obligation of the State of Minnesota and rated “A” or better by a national bond rating agency.
3. **Commercial Paper.** City funds may be invested in commercial paper issued by United States Corporations or their Canadian subsidiaries that are rated in the highest quality category by at least two nationally recognized rating agencies and matures in 270 days or less.
4. **Time Deposit.** City funds may be invested in time deposits that are fully insured by the FDIC or bankers acceptances’ of United States banks.

5. **Certificates of Deposit (CD).** City funds may be invested in transferable CDs that are fully insured by the FDIC.
5. **Money Market Mutual Funds.** City funds may be invested in money market mutual funds that meet the criteria of this policy.
6. **Minnesota Joint Powers Investment Trust.** City funds may be invested in agreements or contracts for shares of a Minnesota joint powers investment trust whose investments are restricted to comply with Minnesota Statutes.

Safekeeping and Custody

Investments will be held in safekeeping pursuant to Minnesota Statutes 118A.06. Specifically, investments may be held in safekeeping with:

1. Any Federal Reserve Bank,
2. 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,
3. A primary reporting dealer in the United States government securities to the Federal Reserve Bank of New York, or
4. A securities broker-dealer who is:
 - registered as a broker-dealer pursuant to Minnesota Statutes Chapter 80A or is exempt from the registration requirements,
 - regulated by the Securities and Exchange Commission; and
 - maintains insurance through the Securities Investment Protection Corporation or excess insurance coverage in an amount equal to or greater than the value of the securities held.

The City's ownership of all securities in which the fund is invested should be evidenced by written acknowledgments identifying the securities by:

1. The names of issuers,
2. The maturity dates,
3. The interest rates,
4. Any serial numbers or cusips.

The Finance Director shall establish a system of internal controls, which shall be reviewed with the independent auditor of the City. The controls shall be designed to prevent the loss of public funds arising from fraud, employee error, and misrepresentation by third parties, unanticipated changes in financial markets, or imprudent actions by employees and officers of the City.

Investment Diversification and Constraints

1. Diversification of instruments

It is the policy of the City to diversify its investment portfolios. To eliminate the risk of loss resulting from the overconcentration of assets in a specific maturity, issuer, or class of securities, all cash and cash equivalent assets in all City funds shall be diversified by maturity, issuer, and security type. No more than 5% of the overall portfolio be invested in securities of a single issue, except when backed with collateral.

2. Diversification of maturity dates

At least 5 percent of the City's portfolio shall be kept in investments, which are available on a daily basis without loss of principal. This is to ensure that funds will be available for unexpected expenditures.

3. Maximum Maturities

To the extent possible, the City shall 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 six (6) years from the date of purchase.

Reserve funds and other funds with longer-term investment horizons may be segregated into a long-term "core" investment portfolio and invested in securities exceeding six (6) years if the maturities of such investments are made to coincide with the expected use of funds. The intent to invest in securities with longer maturities shall be disclosed in writing to the City Council.

Reporting

The Finance Director shall prepare an investment report at least quarterly, including a report of the investments held and investment activity.