Village of Downers Grove
Official Village Policy Approved by Village Council

Description: **Cash Management and Investment Policy**

Res. or Ord. #: **Res. 2018-50** Effective Date: **7/10/18**

Category: **Financial Services**

__New Council Policy

X Amends Previous Policy Dated: **8/4/15;11/18/14; 02/19/08; 5/8/95, 8/23/99; 07-04**

Description of Previous Policy (if different from above):

RESOLUTION NO. 2018-50
A RESOLUTION AMENDING THE VILLAGE COUNCIL CASH MANAGEMENT AND INVESTMENT POLICY

WHEREAS, the Village Council has previously adopted a cash management and investment policy, set forth in Resolution 07-04 adopted 01/16/07, Resolution 99-62 adopted 8/23/99, Resolution 95-19 adopted May 8, 1995, Resolution 08-17 adopted February 19, 2008. Resolution 2014-66 adopted November18, 2014, and most recently in Resolution 2015-54 adopted August 4, 2015; and

WHEREAS, the Village Council has recently reviewed this policy and desires to make certain changes thereto.

NOW, THEREFORE, BE IT RESOLVED by the Village Council of the Village of Downers Grove as follows:

SECTION 1. That the Cash Management and Investment Policy adopted pursuant to Resolution 2015-54 be and is hereby repealed and replaced as provided herein.

SECTION 2. That the Village Council hereby adopts the Village of Downers Grove Cash Management and Investment Policy, attached hereto as Exhibit 1.

SECTION 3. That all resolutions or parts of resolutions in conflict with the provision of this resolution are hereby repealed.

SECTION 4. That this resolution shall be in full force and effect from and after its passage as provided by law.

Martin T. Tully, Mayor

Passed: July 10, 2018
Published: July 11, 2018
Attest:
Village Clerk

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Village of Downers Grove
Exhibit I Investment
Policy as of 7/10/18

The outline of this Policy is as follows:
1.0 Policy Introduction and Scope
2.0 General Objectives
3.0 Standards of Care
4.0 Safekeeping and Custody
5.0 Suitable and Authorized Investments
6.0 Investment Parameters
7.0 Reporting
8.0 Policy Considerations

1.0 POLICY AND SCOPE

1.1 Introduction

The intent of this Policy is to outline a plan for ensuring prudent investments of the Village of Downers Grove (Village) funds and maximizing the efficiency of the Village's cash management procedures. The goal is to invest public funds in a manner that will provide the maximum security and the highest investment return while meeting both the daily cash flow demands of the Village and conforming to all State and local laws governing the investment of public funds, in particular, 30 ILCS 235, the Public Funds Investment Act.

All participants in the Village's investment process shall act responsibly as custodians of the public trust. Investment officials shall recognize that the investment portfolio is subject to public review and evaluation. The overall investment program shall be designed and managed with a degree of professionalism that is worthy of public trust.

1.2 Scope

This Policy applies to all financial assets of the Village under the direct management by the Finance Director/Treasurer, including those of the Downers Grove Library, with the following exceptions:

- The policy for the Village of Downers Grove Police Pension Fund and The Village of Downers Grove Fire Pension Fund will be determined by the appropriate Pension Boards and are not covered by this Policy.
- Funds set aside to decrease Village debt in conjunction with an advance refunding agreement will be invested in accordance with appropriate bond documents and not necessarily in compliance with this Policy.
- Should bond covenants be more restrictive than this Policy, funds will be invested in full compliance with those restrictions.
- Funds set aside for construction/infrastructure improvement generated from a Village bond issue will be invested so as not to create an arbitrage issue for the Village.

1.3 Funds

The financial assets covered by this Policy are accounted for in the Village's annual Comprehensive Annual Financial Report and include:

1.3.1 General Fund
1.3.2 Special Revenue Funds
1.3.3 Capital Project Funds
1.3.4 Enterprise Funds
1.3.5 Trust and Agency Funds
1.3.6 Any new fund created by the Village Council, unless specifically exempted above.

2.0 GENERAL OBJECTIVES

The primary objectives of Village investment activities shall be legality, safety, liquidity and yield.

2.1 Legality

The Village's investment activities will be in compliance with all statutes governing the investment of public funds and will conform to federal, state and other legal requirements.

2.2 Safety
Safety refers to the preservation of capital and protection of investment principal. The protection of investment principal is the foremost objective of the investment program. Village investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio by mitigating credit risk and interest rate risk.

2.2.1 Credit Risk
Credit risk is the risk of loss due to the failure of the security issuer or backer.
The objective will be to minimize credit risk by:

- Limiting investments to the safest type of securities,
- Pre-qualifying the financial institutions, broker/dealers, intermediaries, and advisers with which the Village will do business, and
- Diversifying the investment portfolio so that potential losses on individual securities will be minimized. Diversification reduces the risk that potential losses on individual securities might exceed the income generated from other investments.

2.2.2 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 objective will be to minimize interest rate risk by:

- Structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby minimizing the need to sell securities on the open market prior to maturity, and investing operating funds primarily in shorter-term securities, or cash funds.

2.3 Liquidity
Liquidity is the availability of sufficient funds to meet operating requirements.

The objective will be for the investment portfolio to remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated. The Village will maintain sufficient liquidity by:

- Structuring the portfolio so that securities mature concurrent with the cash needs to meet anticipated demands (static liquidity), and
- Since all possible cash demands cannot be anticipated, the Village portfolio will consist largely of securities with active secondary or resale markets (dynamic liquidity), and
- Utilizing qualifying money market mutual funds or local government investment pools which offer same-day liquidity for short-term investment.

2.4 Yield
Yield is the return on investments. Return on investment is of secondary importance compared to the legality, safety and liquidity objectives described above.

The objective will be to attain a market rate of return over the budgetary and economic cycles, taking into account the investment risk constraints and liquidity needs of the Village. The Village will accomplish this objective by:

- Limiting the core of investments to relatively low risk securities in anticipation of earning a fair return relative to the risk being assumed,
- Holding securities to maturity with the following unusual exceptions:
  1) a declining credit security could be sold early to minimize loss of principal; or 2) a security swap would improve the quality yield, or target duration in the portfolio; or 3) unplanned liquidity needs of the portfolio require that the security be sold.

3.0 STANDARDS OF CARE

3.1 Prudence

Village 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.

3.1.1 Prudent person standard

The standard to be used by investment officials for the Village shall be the **"prudent person"** standard which implies that the investment officials should perform due diligence to ensure that all the investment policies of the Village are adhered to in the context of managing an overall portfolio. The Finance Director/Treasurer acting in accordance with written procedures, 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 appropriate action is taken to control adverse developments.

3.2 Ethics and Conflicts of Interest

The Village shall avoid conflicts of interest by:

- Requiring that both officers and employees, who are involved with the Village investment process, disclose:
  1) any material interests in financial institutions with which the Village conducts business, and
  2) any personal financial/investment positions that could be related to the performance of the investment portfolio.
- Establishing that both officers and employees involved in the Village investment process shall refrain from personal business activity that could conflict with the proper execution and management of the Village's investment program, or that could impair their ability to make impartial decisions.

3.3 Delegation of Authority

The operation of the Village investment program is the responsibility of the Finance Director/Treasurer who shall establish written procedures consistent with this investment policy.

3.3.1 Written Investment Procedures.

The written procedures shall include references to:

- Safekeeping
- Delivery vs. Payment
- Investment accounting
- Wire transfer agreements
- Collateral/depository agreements,
- Banking service contracts
- A definition of Credit Worthiness, (e.g., a minimum capital requirement of $10,000,000 and at least five years of operations) for qualified bidders for investment transactions with the Village.

The 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 established written investment procedures. The Finance Director/Treasurer shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials. The written procedures may be amended from time to time in a manner not inconsistent with this Policy or with state statutes.

4.0 SAFEKEEPING AND CUSTODY

4.1 Authorized Financial Dealers and Institutions

4.1.1 Qualifications of other Financial Institutions and Security Brokers/Dealers

The Finance Director/Treasurer or designee will maintain a list of qualified and approved financial institutions authorized to provide investment services. No public deposit shall be made except to a qualified public depository as established by Illinois State Statutes.

The list of approved security brokers/dealers may include "primary" dealers or regional dealers that qualify under Securities and Exchange Commission (SEC) Rule 15C3-1 (Uniform Net Capital Rule). Furthermore, employees of any firm or financial institution offering securities or investments to the Village are expected to be trained in the precautions appropriate to public-sector investments and are expected to familiarize themselves with the Village's investment objectives, policies, and constraints. These firms and financial institutions are expected to make reasonable efforts to preclude imprudent transactions involving Village funds.

All financial institutions and brokers/dealers who desire to perform investment services for the Village must supply the Finance Director/Treasurer with the following:

- Two years of audited financial statements
- Rating – when applicable
- Two years of call reports for banking institution
- Proof of National Association of Security Dealers (NASD) certification
- Proof of state registration
- Certification of having read, understood and agreeing to comply with the Village's investment policy
- Depository contracts, if appropriate.

4.1.2 Maintenance of Authorized Status
The Finance Director/Treasurer will conduct a periodic review of financial condition and registration of qualified financial institutions and brokers/dealers.

4.2 Internal Controls
The Finance Director/Treasurer is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the Village 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 require estimates and judgments by management.

The internal controls shall address the following:

- Clear delegation of authority to subordinate staff members
- Custodial safekeeping
- Written confirmation of transactions for investments and wire transfers ☐Development of a procedure for making wire transfers

4.3 Delivery vs. Payment (DVP)
Delivery vs. payment is the delivery of securities with an exchange of money, not just a sign receipt, for the securities. All security transactions entered into by the Village shall be conducted on a delivery vs. payment basis to ensure that securities are deposited in an eligible financial institution prior to the release of funds. Purchased securities will be held by a third-party custodian and will be evidenced by safekeeping receipts.

5.0 SUITABLE AND AUTHORIZED INVESTMENTS

5.1 Investment types
The Village is empowered to invest in certain types of securities as detailed in Illinois State Statute 30 ILCS 235/2. This Policy authorizes the Village to invest in the following investment types which are a restricted selection of the State authorized investments:

- **U.S. Treasury and other Government Obligations**
  U.S. Treasury and other government obligations that carry the full faith and credit guarantee of the United States for the payment of principal and interest.

- **Federal Agency Obligations**
  Federal Agency or U.S. Government sponsored (GSE) obligations, participations or instrumentalities that have liquid market with a ready determinable value.

- **Direct obligations of institutions defined in the Illinois Banking Act and insured by the Federal Deposit Insurance Corporation (FDIC)**
  Interest bearing savings accounts, money market accounts, interest bearing certificates of deposit or interest bearing time deposits or any other investment constituting direct obligations of any institution as defined by the Illinois Banking Act and is insured by the FDIC. Any such investment shall not exceed current FDIC insurance limitations including principal and interest. Exceptions are provided in Section 5.2.

- **Commercial Paper**
  Short-term obligations of corporations (commercial paper) organized in the United States with assets exceeding $500 million and rated at the time of purchase at the highest classification established by at least two standard rating services. These must mature within 270 days from the date of purchase. Such purchases may not exceed 10% of the corporation's outstanding obligations and no more than 10% of the Village's funds may be invested in commercial paper.

- **Savings and Loan Institution obligations**
  Shares or other forms of securities legally offered by savings and loan associations incorporated under the laws of this state or any other state or under the laws of the United States. Investments may be made only in those savings and loan associations of which the shares, or investment certificates are insured by the FDIC.

- **Local government investment pools**
  Local government investment pools, either administered by the State of Illinois or through joint powers statutes and other intergovernmental agreement legislation.

- **Municipal Bonds**
  Interest bearing bonds of any state or their political subdivisions. The bonds shall be rated at the time of purchase within the three highest general classifications established by a rating service of nationally recognized expertise in rating bonds of states and their political subdivisions. Such purchases may not exceed 20% of the Village's funds.

- **Government Money Market Funds**
  Money market mutual funds registered under the Investment Company Act of 1940, provided that the portfolio of any such money market mutual fund is limited to investments in obligations of the United States of America or its agencies, or repurchase of such obligations.

5.2 Collateralization
It is the policy of the Village, as recommended by State Statute and Government Finance Officers Association (GFOA) Recommended Practices on the Collateralization of Public Deposits, that Village funds on deposit in excess of FDIC limits be secured by some form of collateral or separate insurance, witnessed by a written agreement and held by an independent third-party institution in the name of the Village. The Village can accept any of the following assets as collateral:

- Government Securities
- Obligations of Federal Agencies
- Obligations of Federal Instrumentalities
- Obligations of any state or municipality
- Separate Insurance through a Triple A rated provider.
- Letters of Credit issued by a Federal Home Loan Bank

The Village reserves the right to accept or reject any form of the above named securities.

The Village also requires that all depositories that hold Village deposits in excess of the FDIC limits must agree to utilize the Village's Collateralization requirements listed below.

The amount of collateral provided will not be less than 110% of the fair market value of the net amount of public funds secured. The ratio of the fair market value of collateral to the amount of funds secured will be reviewed monthly, and additional collateral will be required when the ratio declines below the level required and collateral will be released if the fair market value exceeds the required level.

Pledged collateral will be held in safekeeping, by an independent third-party custodian, or the Federal Reserve Bank, designated by the Village and evidenced by a safekeeping agreement. Each time collateral is changed, it must be approved by the Village Finance Director. Collateral statements will be provided to the Village within fifteen (15) days after the end of the month unless alternative arrangements are agreed upon by the Village Finance Director.

Collateral agreements will preclude the release of the pledged assets without an authorized signature from the Village.

6.0 INVESTMENT PARAMETERS

6.1 Diversification

Diversification related to types of investments, number of institutions invested in, and the length of maturity for investments. It is the policy of the Village to diversify its investments to the best of its ability based on the types of funds invested and the cash flow needs of those funds.

The investment portfolio for the Village shall not exceed the following diversification limits unless specifically authorized by the Village Council:

- No financial institution shall hold more than 40% of the Village's investment portfolio, exclusive of securities in safekeeping.
- Monies deposited at a financial institution shall not exceed 75% of the capital stock and surplus of that institution.
- Commercial paper shall not exceed 10% of the Village's investment portfolio.
- Deposits in any one public investment pool shall not exceed 50% of the Village's investment portfolio, provided, however, that a 3% in excess of 50% deviation may result due to daily volatility, on any given day. In this event, staff shall continue to monitor the balance to ensure that no audit management letter comment should be generated as a result of this allowable deviation.

6.2 Maximum Maturity

To the extent possible, the Village will attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, the Village will not directly invest in securities maturing more than five (5) years with an average weighted investment maturity (duration) of no longer than three and one-half (3 ½) years. No more than 15% of the Village's total portfolio may be invested in the 4-5 year time frame.

7.0 REPORTING

7.1 Methods

The Finance Director/Treasurer shall provide an investment report to the Village Manager on a monthly basis. Said report shall also be presented to the Village Council at a regularly scheduled meeting on a quarterly basis. The nvestment report will include the following:

- A succinct management summary which provides a clear assessment of the status of the current investment portfolio.
- A listing of individual securities held at the end of the reporting period, by maturity date.
- The percentage of the total portfolio which each type of investment represents.
- The average weighted maturity of the portfolio.

8.0 POLICY CONSIDERATIONS

8.1 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.

8.2 Adoption & Amendments
This Policy shall be adopted by resolution of the Village Council and will replace previous investment policies adopted by the Village Council.

In the event that any state or federal legislation or regulation should further restrict instruments, institutions or procedures authorized by this Policy, such restrictions shall be deemed to be immediately incorporated into this Policy. If new legislation or regulation should liberalize the permitted instruments, institutions or procedures, such changes shall be available and included in this Policy only after written notification to the Village Council and their subsequent approval of said changes.

The Finance Director/Treasurer shall review this Policy on a regular basis and the Village Council must approve any modifications made hereto.

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