

## CITY OF ROCHELLE

**CATEGORY: FINANCE**

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**TITLE: INVESTMENT POLICY**

**EFFECTIVE: May 25, 2020**

### 1.01 Policy

It is the policy of the City of Rochelle (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 demands of the City and conforming to all state and local statutes governing the investment of public funds.

### 1.02 Scope

This policy covers all funds governed by the City Council. It does not include IMRF, Police Pension Funds, or Fire Pension Funds, which are governed by other policies. Cash balances from various funds, which are not restricted or special use, may be pooled to maximize investment earnings. Investment income will be allocated to the various funds based on their respective participation and in accordance with generally accepted accounting principles.

### 1.03 Objective

The primary objective, in order of priority, shall be:

- **Legality:** Conformance with federal, state and other legal requirements.
- **Safety:** Preservation of capital and protection of investment principal.
- **Liquidity:** Maintenance of sufficient liquidity to meet operating requirements.
- **Yield:** Attainment of market rates of return.

Local Considerations:

While the City desires to achieve a return at least equal to the Illinois Funds Money Market rate it recognizes the benefits of retaining money within the community for future growth and economic well-being. The estimated value of these benefits is either 10 % of the Illinois Funds Money Market rate or .25

% (25 basis points) whichever is the smaller amount as of the close of the last business day of the week.

The portfolio shall be reviewed quarterly as to its effectiveness in meeting the City's needs for safety, liquidity, rate of return, diversification and its general performance.

#### 1.04 Standards of Care

##### 1. Prudence

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 safety of their capital, as well as the probable income to be derived. 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 Treasurer and Finance Director or his designees, acting in accordance with this policy and any other written procedures pertaining to the administration and management of City assets and exercising due diligence, shall be relieved of personal responsibility, if any, for credit risk or market price changes of a particular security, provided that deviations from expectations are timely noted and appropriate action is taken to control and prevent further adverse developments.

##### 2. Ethics and Conflicts 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. Such individuals shall disclose to the Treasurer and Finance Director any material financial interests in financial institutions that conduct business within the City, and they shall further disclose any personal financial investment positions that could be related to the performance of the investment portfolio. In addition, such individuals shall subordinate their personal investment transactions to those of the investment portfolio, particularly regarding the time of purchases and sales.

##### 3. Delegation of Authority

The investment policy shall be administered in accordance with the Public Funds Investment Act (30 ILCS 235) and all applicable State of Illinois statutes as well as relevant city codes and ordinances. Oversight of the investment policy is delegated to the Treasurer and Finance Director. Day-to-Day management and administrative responsibility for the investment policy is hereby delegated the staff of the Treasurer and Finance Director.

#### 1.05 Authorized Financial Dealers and Institutions

The Treasurer and Finance Director shall maintain a list of local financial institutions authorized to provide investment services and provide them with a copy of the City's Investment Policy. All authorized financial dealers and institutions shall, prior to receiving City funds, provide the Treasurer and Finance Director with an affirmative statement that they have read the City's investment policy and agree to conform to its requirements. These institutions shall comply with all qualifications and requirements as set forth in Illinois Compiled Statutes (30 ILCS 235/6) as well as any and all other laws, statutes, and fiduciary responsibilities not mentioned within this policy.

With the exception of the Illinois Funds Money Market Fund and Prime Fund, financial institutions shall have a local presence within the City, unless they are specifically approved by the City Council. Temporary interim deposits in outside institutions, which also require Council approval, may be permitted to establish bond issues and similar accounts.

#### 1.06 Safekeeping and Custody

##### 1. Security

All security transactions, including collateral for repurchase agreements, entered into by the City, shall be conducted on a delivery-versus-payment (DVP) basis. Securities will be held by an independent third party custodian and evidenced by safekeeping receipts and governed by a written custodial agreement. Funds invested in Repurchase Agreements shall comply with all governing laws including Illinois Compiled Statutes 30 ILCS 235/2 (g-h).

##### 2. Internal Control

The Treasurer and Finance Director is responsible for establishing and maintaining an internal control structure designed to insure that the invested 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 controls shall be designed to prevent the loss of public funds arising from fraud, employee error, misrepresentation by third parties, unanticipated changes in financial markets and imprudent actions by authorized investment officers. The system of internal controls and operational procedures shall be documented in writing and made available to individuals authorized to invest funds on behalf of the City.

In addition, an annual independent review by an external auditor will be performed.

The internal controls shall address the following points.

- Control of collusion
- Separation of transaction authority from accounting
- Custodial safekeeping
- Written confirmation of telephone transactions for investments and wire transfers

#### 1.07 Authorized and Suitable Investments

Investments may be made in savings, checking, money market accounts, certificates of deposit and the Illinois Funds Money Marker Fund and Prime Fund. Any other type of investment will require City Council approval. Investments shall be made that reflect the cash flow needs of the fund type being invested. All investments shall be as authorized in the Illinois Compiled Statutes (30 ILCS 235/2 sec 2) regarding the investment of public funds.

#### 1.08 Investment Parameters

##### 1. Collateralization

Funds on deposit (checking account, certificates of deposit, etc.) in excess of FDIC limits shall be secured by the deposit of marketable U.S. government or other approved securities or surety bonds issued by top-rated insurers, having a value of at least 110% of the deposits. Collateral is required as security whenever deposits exceed the insurance limits of the FDIC. The collateral required to secure City funds must be held in safekeeping and pursuant to written collateral agreements, which would prohibit the release or substitution of pledged assets without proper written notification and authorization of the City Treasurer and Finance Director. Repurchase agreements must also be collateralized in an amount of 105% of market value of principal and accrued interest. Collateral shall be held at an independent – third party institution in the name of the City. The third-party institution shall comply with all qualifications and requirements as set forth in the Illinois Compiled Statutes 30 ILCS 235/6.

All changes in collateral shall be sent to the City Treasurer and Finance Director.

## 2. Diversification

A variety of financial instruments and maturities, properly balanced, will help to ensure liquidity and reduce risk or interest rate volatility and loss of principal. Diversifying instruments and maturities will avoid incurring unreasonable risks in the investment portfolio regarding specific security types, issuers or individual financial institutions. The City shall diversify its investments to the best of its ability based on the type of funds invested and the cash flow needs of those funds. Diversification can be by type of investment, number of institutions invested in, or length of maturity.

## 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 of Rochelle will not directly invest in securities maturing more than five years from the date of purchase. Reserve funds may be invested in securities exceeding five years if the maturity of such investments is made to coincide as nearly as practicable with the expected use of the funds.

### 1.09 Reporting

#### 1. Financial Dealers and Institutions

Monthly reports shall be provided to the City including: Account #'s, investment description, face value, purchase price, % yield on investment (net of fees), purchase dates, maturity date, custodian, and collateralization. In addition, a rate summary of the entire portfolio shall be provided on a quarterly and annual basis and compared to a benchmark of the Illinois Funds Money Market rates or other appropriate benchmark such as the average three (3) month U.S. Treasury Bill return, to determine whether market average yields are being achieved.

2. The Treasurer and Finance Director shall prepare a monthly report to the City Manager. The report shall be in a format suitable for review by the public. An annual report shall be provided to the Council.

### 1.10 Sustainable Investing Principles

The Treasurer and Finance Director will consider material, relevant, and decision-useful sustaining factors, within the bounds of financial and fiduciary prudence, in evaluating investment decisions. Such factors include but are not

limited to : (1) corporate governance and leadership factors; (2) environmental factors; (3) social capital factors; (4) human capital factors; and (5) business model and innovation factors as provided under the Illinois Sustainable Investing Act.

1.11 Performance Standards

1. This investment portfolio shall be managed in accordance with the parameters specified within this policy. The portfolio shall obtain a comparable rate of return during a market/economic environment of stable interest rates. Portfolio performance shall be compared to the current Illinois Funds Money Market rate, or other appropriate benchmark such as the average three (3) month U.S. Treasury Bill return, to determine whether market average yields are being achieved.

2. Marking to Market

A statement of the market value of the portfolio shall be issued to the City Council quarterly.

1.12 Investment Policy Adoption

The investment policy shall be adopted by the City Council. The Treasurer and Finance Director shall review the policy annually and any modifications made thereto must be approved by the City Council.

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Above referenced statutes may be accessed at:

<http://www.legis.state.il.us/legislation/ilcs/ilcs.asp>