

# **INVESTMENT POLICY**

## **CITY OF SIOUX FALLS SOUTH DAKOTA**

**May 2014**

# **City of Sioux Falls, South Dakota**

## **Investment Policy**

### **1. Policy**

It is the policy of the City of Sioux Falls, South Dakota, to invest idle public funds in a manner which will provide the maximum security, sufficient liquidity, and a competitive investment return to meet the daily cash flow demands of the City.

This policy outlines the broad parameters to ensure the City's investment activities are effective and judicious. The guidelines established within this policy are intended to be broad enough to allow the Director of Finance to function properly within the parameters of responsibility and authority, yet specific enough to adequately safeguard the investment assets of the City.

The pooled cash investment program of the City shall conform with all applicable federal, state, and other legal requirements and procedures governing the investment of public funds.

### **2. Scope**

This policy applies to the investment of short-term operating funds of the City of Sioux Falls within a Pooled Cash Fund. Except for funds held in trust or special funds that are otherwise specifically provided for, this Fund will consolidate the balances from all funds to maximize investment earnings and meet the liquidity requirements of the City subject to the primary objective of providing security of principal. Investment income will be allocated to the various funds based on their respective participation of capital in the overall portfolio in accordance with generally accepted accounting principles.

### **3. Prudence**

The standard of prudence to be used by the Director of Finance shall be the "prudent investor" standard and shall be applied in the context of managing an overall portfolio. The Director of Finance acting in accordance with written procedures and 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 the liquidity and the sale of securities are carried out in accordance with the terms of this policy.

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.

## **4. Objectives**

The primary objectives, in priority order, of the City of Sioux Falls' investment activities shall be:

### **A. Safety of Principal**

Safety of principal is the foremost objective of the investment program. Investments of the City of Sioux Falls shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. To attain this objective, diversification is required in order that potential losses on individual securities do not exceed the income generated from the remainder of the portfolio.

The portfolio shall also be invested to control interest rate risk. Interest rate risk is the risk that the market value of securities in the portfolio will fall due to changes in interest rates. Interest rate risk may be quantified and managed by investing operating funds per the maturity constraints and the average maturity target.

### **B. Liquidity**

The City of Sioux Falls investment portfolio will remain sufficiently liquid to enable the City to meet all operating requirements which might be reasonably anticipated. The portfolio shall be structured 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 except when liquidity needs require.

### **C. Return on Investments**

The City of Sioux Falls' investment portfolio shall be designed with the objective of attaining a competitive rate of return throughout budgetary and economic cycles, commensurate with the City of Sioux Falls' investment risk constraints and the cash flow characteristics of the portfolio.

## **5. Delegation of Authority**

Authority to manage the investment program is granted to the Director of Finance by resolution. Responsibility for the operation of the investment program is hereby delegated to the Director of Finance, who shall carry out established written procedures and internal controls for the operation of the investment program consistent with this investment policy adopted by the City Council.

Procedures or documentation may include references to safekeeping, delivery vs. payment, investment accounting, repurchase agreements, wire transfer agreements, collateral depository agreements, and banking services contracts. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the Director of Finance. The Director of Finance shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate investment employees.

## **6. Ethics and Conflicts of Interest**

City ordinance sets forth prohibitions from and proper disclosure of employee conflicts of interest. The Director of Finance 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.

Investment employees shall disclose any material interests in financial institutions with which they conduct business and any personal financial investment positions that could be related to the performance of the investment portfolio. The Director of Finance and investment employees shall refrain from undertaking personal investment transactions with the same individual with whom business is conducted on behalf of their entity.

The Director of Finance shall immediately report to the Mayor any personal activities that may present a material conflict of interest to the portfolio.

## **7. Authorized Financial Institutions**

Financial institutions will be authorized to provide investment services in an executive order issued by the Mayor designating them as official depositories for municipal funds. All financial institutions who desire to become qualified bidders for investment transactions and/or custody must supply audited financial statements and disclose collateral positions as requested by the City.

All security transactions, including collateral for repurchase agreements, entered into by the City of Sioux Falls shall be conducted on a delivery-versus-payment (DVP) basis. Securities will be held by a third-party custodian designated by the Mayor and evidenced by safekeeping receipts.

If repurchase agreements are utilized, a Master Repurchase Agreement will be signed with the bank or dealer.

## **8. Authorized and Suitable Investments**

The City of Sioux Falls is empowered by state statute to invest in certain governmental or secured investments including:

1. Securities issued by the United States Treasury.
2. Securities issued by governmental agencies or related federal institutions that are guaranteed directly or indirectly by the U.S. Government.
3. Mutual and money market funds that invest in the securities outlined above.
4. Certificates of Deposit (CDs).
5. Repurchase agreements complying with state statute and requirements.
6. Interest-bearing checking or savings accounts.

## **9. Collateralization**

Authorized banks and financial institutions shall comply with all collateral requirements as established by state statute.

## **10. Diversification**

The City of Sioux Falls will diversify its pooled cash funds by security type and institution. With the exception of securities issued by the U.S. Treasury or guaranteed directly or indirectly by the U.S. Government and authorized pools, no more than 20 percent of the City of Sioux Falls' total pooled cash fund will be invested in the deposits of a single financial institution. The City will limit its investment in securities issued by GSEs or federally related institutions that are guaranteed directly or indirectly by the U.S. Government to no greater than 40 percent of the total portfolio.

## **11. Maturity Constraints**

*Maximum Maturity*—To the extent possible, the City of Sioux Falls will attempt to match its investments with anticipated cash flow requirements. The City of Sioux Falls may invest in individual securities with maturities of five (5) years or less from the date of purchase and mutual and money market funds holding securities with maturities of five (5) years or less. Securities shall be redeemable at the option of the City in the open market. Mutual and money market fund investments shall be redeemable at the option of the City.

*Average Maturity*—The average dollar-weighted maturity target of the pooled cash fund shall be established by the Director of Finance but shall not exceed two years. The portfolio shall be reviewed by the Director of Finance for rebalancing if the average maturity moves to greater than two (2) years.

## **12. Internal Controls**

The Director of Finance is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the City of Sioux Falls 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:

- The cost of a control should not exceed the benefits likely to be derived.
- The valuation of costs and benefits requires estimates and judgments by the Director of Finance.

Accordingly, the City Council shall establish a process for annual independent review by an external auditor to assure compliance with policies and procedures.

## **13. Performance Standards**

The investment portfolio shall be designed with the objective of obtaining a competitive rate of return throughout budgetary and economic cycles, commensurate with the investment risk constraints and the cash flow needs.

**Market Yield (Benchmark):** The Director of Finance will establish an appropriate benchmark, which may be revised from time to time, that will determine whether the portfolio is achieving market yields. The benchmark will recognize that the City of Sioux Falls' investment strategy is passive and is not intended to time the market.

**Total Return (Benchmark):** An appropriate benchmark for the total rate of return shall be adopted from time to time by the Director of Finance. The benchmark shall recognize the City's investment strategy of maintaining a short-duration portfolio of secure investments with a high degree of liquidity. The objective of the benchmark is to provide a measure for evaluating the relative effectiveness of the City's investment strategy.

## **14. Reporting**

### **Methods**

The investment portfolio will be managed in accordance with the parameters specified within this policy. The Director of Finance shall prepare an investment report not less than quarterly, including a succinct management summary that provides a clear picture of the status of the current investment portfolio and transactions made over the last quarter. This management summary will be prepared in a manner which will allow the Mayor and City Council to ascertain whether investment activities during the reporting period have conformed to the investment policy. The report shall be provided to the Mayor and City Council. The report will include the following:

- Breakdown by security type (CD, U.S. Treasury, and money market funds).
- Average dollar-weighted maturity and yield of the pooled cash fund.
- A listing, by maturity date, of individual securities held at the end of the reporting period.
- Unrealized gains or losses resulting from appreciation or depreciation by listing the cost and market value.
- The percentage of the total portfolio which each financial institution holds.
- Transaction activity including the following information: type of transaction (purchase/sale), issue, coupon rate, price, gain or loss if sale transaction, maturity date, trade date, and settlement date.

For mutual and money market funds utilized by the City, the Director of Finance shall make available for review:

- The most recent fund prospectus.
- The most recent listing of the fund's holdings.

## **15. Amendment**

This policy shall be reviewed on an annual basis. Any changes must be reviewed by the Director of Finance for recommendation to the Mayor and City Council.