

**INVESTMENT POLICY**

**FOR**

**CITY OF NORTH ST. PAUL**

Adopted November 20, 2012

## **PURPOSE**

The purpose of this policy is to establish the specific guidelines for the investment of all public funds of City of North St. Paul. This policy is designed to ensure the prudent management of public funds, the availability of operating and capital funds when needed, and an investment return commensurate with the City's investment risk constraints and cash flow characteristics of the portfolio.

## **OBJECTIVES**

The objective of this policy is to establish standards for governing the investment of the funds of the City. These funds will be invested in accordance with this policy and Minnesota Statute 118A. The City has determined that its funds shall be invested based on the following three objectives, listed in priority order:

- **SAFETY OF PRINCIPAL** – Safety of principal is the foremost objective of the City. Investments shall be undertaken in a manner that seeks to ensure preservation of capital in the overall portfolio. Avoiding capital losses shall be the primary objective of each investment transaction.
- **MAINTENANCE OF ADEQUATE LIQUIDITY** – The portfolio will remain sufficiently liquid to enable the City to meet all operating and capital requirements that might be reasonably anticipated. A portion of the portfolio may be placed in money market mutual funds or local government investment pools, which offer same-day liquidity.
- **MAXIMIZATION OF RETURN ON INVESTMENT** – Following the satisfaction of liquidity and maturity needs, the balance of the funds available for investment will be placed with institutions that offer the highest rate of return consistent with preservation of principal.

## **SCOPE**

This policy applies to all financial assets of City of North St. Paul. While separate investment funds are created to accommodate reporting on certain bonded indebtedness, individual investments are purchased using a pooled approach for efficiency and maximum investment opportunity. The City's funds are defined in the City's *Comprehensive Annual Financial Report* and include all Governmental, Enterprise, Internal Service and Agency funds and any new funds created by the City, unless specifically exempted by the City Council through resolution.

**POOLING OF FUNDS:** Except for cash in certain restricted and special funds, the City will consolidate cash balances from all funds 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.

## **STANDARDS OF CARE**

### **1. PRUDENCE**

The prudent person standard shall be applied to the management of the portfolio. This standard states: “Investments shall be made with judgement 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 expected income to be derived.”

Investment officers 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.

### **2. ETHICS AND CONFLICTS OF INTEREST**

Any city official involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment program, or that could impair their ability to make impartial decisions. Investment officials shall disclose any material interests in financial institutions with which they conduct business. Employees and officers shall refrain from undertaking personal investment transactions with the same individual with which business is conducted on behalf of the City.

### **3. DELEGATION OF AUTHORITY**

The City Manager is designated as the Investment Officer of the City and is responsible for investment management decisions and activities. The City Manager through assistance of staff and consultants shall develop and maintain written administrative procedures for the operation of the investment program, monitoring diversification and risk as well as a system of controls to regulate the activities of subordinate officials. Procedures should include references to: safekeeping, investment accounting, repurchase agreements, wire transfer agreements and collateral/depository agreements. No person may engage in an investment transaction except as provided under the terms of this policy and procedures established by the Investment Officer.

North St. Paul does have an Investment Committee consisting of the Mayor, City Manager, and the Finance Director, who provide guidance to the Investment Officer.

### **4. INTERNAL CONTROLS**

The investment officer is responsible for establishing and maintaining an internal control structure designed to ensure that the 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 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 requires estimates and judgments by management.

Accordingly, the investment officer shall establish a process for an annual independent review by an external auditor to assure compliance with policies and procedures. The internal controls shall address the following points:

- Control of collusion
- Separation of transaction authority from accounting and record-keeping

## **STANDARDS OF CARE (CONTINUED)**

- Safekeeping account
- Avoidance of physical delivery securities
- Clear delegation of authority to subordinate staff members
- Written confirmation of transactions for investments and wire transfers
- Development of a wire transfer agreement with the lead bank and third-party custodian

## **FINANCIAL INSTITUTIONS AND SAFEKEEPING**

### **1. AUTHORIZED BROKER/DEALERS AND FINANCIAL INSTITUTIONS**

The City Manager or Designee is authorized, as allowed under State Statute, to designate depositories and broker-dealers for City Funds. The City Manager or Designee will maintain a list of financial institutions authorized to provide investment services to the City. All broker/dealers who desire to become qualified bidders for investment transactions must supply the City Manager or Designee with:

- audited financial statements (a current audited financial statement is required to be on file for each financial institution)
- proof of National Association of Security Dealers (NASD) certification,
- proof of Minnesota registration
- Broker Notification and Certification form required by Minnesota Statutes 118A prior to any investment transactions with the City. The Broker Notification must be updated annually.
- The Official Broker/Dealer Questionnaire must be on file for each broker the City is currently doing business with.
- Authorized institutions must maintain an investment office within the Twin Cities metropolitan area and have other Minnesota local government clients.

The purchase of all investments must be from institutional brokers. An annual review of the financial condition and registration of qualified financial institutions and brokers/dealers will be conducted by the investment officer.

### **2. SAFEKEEPING**

(1) Investments shall be safe kept in the City's name. Certificates will be held at the financial institution in the City's name. All securities should be a risk category one according to the Governmental Accounting Standard No. 3.

## **SUITABLE AND AUTHORIZED INVESTMENTS**

Consistent with Minnesota Statute 118A, the following investments will be permitted by this policy:

- U.S. Treasury Obligations (bills, notes, bonds);
- U.S. Government Agency and Federally Sponsored Agency Securities, excluding mortgage backed securities that fail the FFEIC test;
- General obligations of any state or local government with taxing powers which is rated "A" or better by a national bond rating service, or revenue obligation securities of any state or local government with taxing powers which is rated "AA" or better by a national bond rating service;

## **SUITABLE AND AUTHORIZED INVESTMENTS (CONTINUED)**

- Certificates of deposit with federally insured institutions that are collateralized or insured in excess of the amount provided by the Federal Deposit Insurance Corporation coverage limit;
- Commercial paper issued by United States corporations or their Canadian subsidiaries that is rated in the highest tier (e.g. A-1, P-1, F-1 or D-1 or higher) by at least two nationally recognized rating agencies and matures in 270 days or less;
- Bankers Acceptances that are eligible for purchase by the Federal Reserve;
- Repurchase Agreements which conform to the requirements stated in 118A.05, sub. 2 of the statutes;
- Guaranteed Investment Contracts that meet the requirements of M.S. 118A;
- Local government investment pools, either state-administered or through joint powers statutes and other intergovernmental agreement legislation;
- Shares of an investment company which is registered under the Federal Investment Company Act of 1940 and which holds itself out as a money market fund meeting the conditions of rule 2a-7 of the Securities and Exchange Commission and is rated in one of the two highest rating categories for money market funds by at least one nationally recognized statistical rating organization;
- Shares of an investment company which is registered under the Federal Investment Company Act of 1940, and whose shares are registered under the Federal Securities Act of 1933, as long as the investment company's fund receives the highest credit rating and is rated in one of the two highest risk rating categories by at least one nationally recognized statistical rating organization and is invested in financial instruments with a final maturity no longer than 13 months.

## **INVESTMENT PARAMETERS**

### **1. DIVERSIFICATION**

The investments shall be diversified by:

- Limiting investments to avoid overconcentration in securities from a specific issuer or business sector (excluding U.S. Treasury securities),
- Limiting investment in securities that have higher credit risks,
- Investing in securities with varying maturities, and
- Continuously investing a portion of the portfolio in readily available funds such as local government investment pools, money market funds or overnight repurchase agreements to ensure that appropriate liquidity is maintained in order to meet ongoing obligations.

### **2. MAXIMUM MATURITIES**

To the extent possible, the City should 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 10 years from the date of purchase. The City shall adopt average maturity limitations (which often range from 90 days to 3 years), consistent with the investment objectives.

Reserve funds and other funds with longer-term investment horizons may be invested in securities exceeding 10 years if the maturity of such investments are made to coincide as nearly

## **INVESTMENT PARAMETERS (CONTINUED)**

as practicable with the expected use of funds. The intent to invest in securities with longer maturities shall be disclosed in writing to the governing body.

## **REPORTING**

### **1. METHODS**

The Investment Officer or Designee shall prepare an investment report at least quarterly to the Investment Committee, including a management summary that provides an analysis 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 City to ascertain whether investment activities during the reporting period have conformed to the investment policy. The report will include the following:

- Listing of individual securities held at the end of the reporting period,
- Realized and unrealized gains for losses resulting from appreciation or depreciation by listing the cost and market value of securities over one-year,
- Average yield to maturity of portfolio on investments as compared to applicable benchmarks,
- Listing of investment by maturity date,
- Percentage of the total portfolio which each type of investment represents.

### **2. PERFORMANCE STANDARDS**

The investment portfolio will be managed in accordance with the parameters specified within this policy. The portfolio should obtain a market average rate of return during an economic environment of stable interest rates. A series of appropriate benchmarks shall be established against which portfolio performance shall be compared on a regular basis.

### **3. MARKING TO MARKET**

The market value of this portfolio shall be calculated at least quarterly and a statement of the market value of the portfolio shall be issued at least quarterly. This will ensure that review of the investment portfolio, in terms of value and price volatility, has been performed consistent with the recommended practice.

## **POLICY CONSIDERATIONS**

The City's investment policy shall be adopted by resolution by the City Council and will be reviewed on an annual basis. Any changes must be approved by the investment officer and any other appropriate authority, as well as the individuals charged with maintaining internal controls.

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.

## **STATUTORY AUTHORITY**

Specific investment parameters for the investment of public funds by the City are found in Minnesota Statutes Chapters 118A. Copy attached to this policy.

## **LIST OF ATTACHMENTS**

The following documents, as applicable, are attached to this policy:

- Listing of authorized personnel and listing of authorized broker/dealers and financial institutions;
- Relevant investment statutes and ordinances.

## **INVESTMENT POLICY APPROVAL**

This policy was accepted and approved by the City Council on October XX, 2012.

CITY OF NORTH ST. PAUL, MINNESOTA  
APPENDIX A  
LISTING OF AUTHORIZED BROKER/DEALERS AND FINANCIAL INSTITUTIONS  
AND LIST OF AUTHORIZED PERSONNEL  
AS OF 10/XX/2012

Financial Institution

Wells Fargo Securities, LLC  
608 Second Avenue South  
MAC #N9303-050  
Minneapolis, Minnesota 55402  
Account: 02118560  
Client contact: Lynn R Cornwell 612-667-9874  
E-mail: Lynn.R.Cornwell@wellsfargo.com

RBC Capital Markets  
60 South Sixth Street  
PO Box 1160  
Minneapolis, Minnesota 55402  
Account: 10115857  
Client contact: John Styrbicki 612-371-7845  
E-mail: John.Styrbicki@RBC.com

4M & 4M Plus  
PMA Financial Network, Inc.  
2135 City Gate Lane  
Naperville, Illinois 60563  
Account: 35132-101  
Client contact: 630-657-6400  
E-mail: John.Styrbicki@RBC.com

Anchor Bank, N.A.  
2700 E. 7<sup>th</sup> Avenue  
North St. Paul, Minnesota 55109-3133  
Account: 700015924

US Bank  
PO Box 1800  
St. Paul, Minnesota 55101-0800  
Account: 104790530497

Authorized Personnel

Wally Wysopal, City Manager  
Jeanne Day, Contracted Finance Director  
Pat Strandberg, Accountant/Advanced



CITY OF NORTH ST. PAUL, MINNESOTA  
APPENDIX B  
RELEVANT INVESTMENT STATUTES AND ORDINANCES  
AS OF 10/XX/2012

**118A.01 DEFINITIONS.**

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Subdivision 1. **Application.**

The definitions in this section apply to sections [118A.01](#) to [118A.06](#).

Subd. 2. **Government entity.**

(a) "Government entity" means a county, city, town, school district, hospital district, public authority, public corporation, public commission, special district, any other political subdivision, except an entity whose investment authority is specified under chapter 11A or 356A.

(b) For the purposes of sections [118A.02](#) and [118A.03](#) only, the term includes an American Indian tribal government entity located within a federally recognized American Indian reservation.

Subd. 3. **Financial institution.**

"Financial institution" means a savings association, commercial bank, trust company, credit union, or industrial loan and thrift company.

Subd. 4. **Public funds.**

"Public funds" means all general, special, permanent, trust, and other funds, regardless of source or purpose, held or administered by a government entity, unless otherwise restricted.

**History:**

*[1996 c 399 art 1 s 2](#); [1999 c 151 s 39](#)*

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

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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.

## **118A.02 DEPOSITORIES; INVESTING: SALES, PROCEEDS, IMMUNITY. (CONTINUED)**

### **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\*](#)

## **118A.03 WHEN AND WHAT COLLATERAL REQUIRED.**

### **Subdivision 1. For deposits beyond insurance.**

To the extent that funds on deposit at the close of the financial institution's banking day exceed available federal deposit insurance, the government entity shall require the financial institution to furnish collateral security or a corporate surety bond executed by a company authorized to do business in the state. For the purposes of this section, "banking day" has the meaning given in Federal Reserve Board Regulation CC, Code of Federal Regulations, title 12, section 229.2(f), and incorporates a financial institution's cutoff hour established under section [336.4-108](#).

### **Subd. 2. In lieu of surety bond.**

The following are the allowable forms of collateral in lieu of a corporate surety bond:

- (1) United States government Treasury bills, Treasury notes, Treasury bonds;
- (2) issues of United States government agencies and instrumentalities as quoted by a recognized industry quotation service available to the government entity;
- (3) general obligation securities of any state or local government with taxing powers which is rated "A" or better by a national bond rating service, or revenue obligation securities of any state or local government with taxing powers which is rated "AA" or better by a national bond rating service;
- (4) general obligation securities of a local government with taxing powers may be pledged as collateral against funds deposited by that same local government entity;
- (5) irrevocable standby letters of credit issued by Federal Home Loan Banks to a municipality accompanied by written evidence that the bank's public debt is rated "AA" or better by Moody's Investors Service, Inc., or Standard & Poor's Corporation; and
- (6) time deposits that are fully insured by any federal agency.

## **118A.03 WHEN AND WHAT COLLATERAL REQUIRED. (CONTINUED)**

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### **Subd. 3. Amount.**

The total amount of the collateral computed at its market value shall be at least ten percent more than the amount on deposit at the close of the financial institution's banking day, except that where the collateral is irrevocable standby letters of credit issued by Federal Home Loan Banks, the amount of collateral shall be at least equal to the amount on deposit at the close of the financial institution's banking day. The financial institution may furnish both a surety bond and collateral aggregating the required amount.

### **Subd. 4. Assignment.**

Any collateral pledged shall be accompanied by a written assignment to the government entity from the financial institution. The written assignment shall recite that, upon default, the financial institution shall release to the government entity on demand, free of exchange or any other charges, the collateral pledged. Interest earned on assigned collateral will be remitted to the financial institution so long as it is not in default. The government entity may sell the collateral to recover the amount due. Any surplus from the sale of the collateral shall be payable to the financial institution, its assigns, or both.

### **Subd. 5. Withdrawal of excess collateral.**

A financial institution may withdraw excess collateral or substitute other collateral after giving written notice to the governmental entity and receiving confirmation. The authority to return any delivered and assigned collateral rests with the government entity.

### **Subd. 6. Default.**

For purposes of this section, default on the part of the financial institution includes, but is not limited to, failure to make interest payments when due, failure to promptly deliver upon demand all money on deposit, less any early withdrawal penalty that may be required in connection with the withdrawal of a time deposit, or closure of the depository. If a financial institution closes, all deposits shall be immediately due and payable. It shall not be a default under this subdivision to require prior notice of withdrawal if such notice is required as a condition of withdrawal by applicable federal law or regulation.

### **Subd. 7. Safekeeping.**

All collateral shall be placed in safekeeping in a restricted account at a Federal Reserve bank, or in an account at a trust department of a commercial bank or other financial institution that is not owned or controlled by the financial institution furnishing the collateral. The selection shall be approved by the government entity.

### **History:**

[1996 c 399 art 1 s 4](#); [2003 c 51 s 15, 16](#); [2004 c 151 s 1, 2](#); [2004 c 174 s 2](#); [2007 c 44 s 7](#); [2007 c 57 art 3 s 39](#); [2008 c 154 art 10 s 1](#)

NOTE: The amendments made to subdivisions 1 and 3 by Laws 2004, chapter 151, sections 1 and 2, are effective retroactively from the beginning of a government entity's fiscal year 2003 and apply to each fiscal year thereafter. Laws 2004, chapter 151, section 3.

## **118A.04 INVESTMENTS.**

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### **Subdivision 1. What may be invested.**

Any public funds, not presently needed for other purposes or restricted for other purposes, may be invested in the manner and subject to the conditions provided for in this section.

### **Subd. 2. United States securities.**

Public funds may be invested in governmental bonds, notes, bills, mortgages (excluding high-risk mortgage-backed securities), 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.

### **Subd. 3. State and local securities.**

Funds may be invested in the following:

(1) 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;

(2) 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; and

(3) a general obligation of the Minnesota housing finance agency which is a moral obligation of the state of Minnesota and is rated "A" or better by a national bond rating agency.

### **Subd. 4. Commercial papers.**

Funds may be invested in commercial paper issued by United States corporations or their Canadian subsidiaries that is rated in the highest quality category by at least two nationally recognized rating agencies and matures in 270 days or less.

### **Subd. 5. Time deposits.**

Funds may be invested in time deposits that are fully insured by the Federal Deposit Insurance Corporation or bankers acceptances of United States banks.

### **Subd. 6. High-risk mortgage-backed securities.**

For the purposes of this section and section [118A.05](#), "high-risk mortgage-backed securities" are:

(a) interest-only or principal-only mortgage-backed securities; and

(b) any mortgage derivative security that:

(1) has an expected average life greater than ten years;

(2) has an expected average life that:

(i) will extend by more than four years as the result of an immediate and sustained parallel shift in the yield curve of plus 300 basis points; or

(ii) will shorten by more than six years as the result of an immediate and sustained parallel shift in the yield curve of minus 300 basis points; or

## **118A.04 INVESTMENTS. (CONTINUED)**

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(3) will have an estimated change in price of more than 17 percent as the result of an immediate and sustained parallel shift in the yield curve of plus or minus 300 basis points.

### **Subd. 7. Temporary general obligation bonds.**

Funds may be invested in general obligation temporary bonds of the same governmental entity issued under section [429.091, subdivision 7](#), [469.178, subdivision 5](#), or [475.61, subdivision 6](#).

### **Subd. 8. Debt service funds.**

Funds held in a debt service fund may be used to purchase any obligation, whether general or special, of an issue which is payable from the fund, at such price, which may include a premium, as shall be agreed to by the holder, or may be used to redeem any obligation of such an issue prior to maturity in accordance with its terms. The securities representing any such investment may be sold by the governmental entity at any time, but the money so received remains part of the fund until used for the purpose for which the fund was created. Any obligation held in a debt service fund from which it is payable may be canceled at any time unless otherwise provided in a resolution or other instrument securing obligations payable from the fund.

### **Subd. 9. Broker; statement and receipt.**

(a) For the purpose of this section and section [118A.05](#), the term "broker" means a broker-dealer, broker, or agent of a government entity, who transfers, purchases, sells, or obtains securities for, or on behalf of, a government entity.

(b) Prior to completing an initial transaction with a broker, a government entity shall provide annually to the broker a written statement of investment restrictions which shall include a provision that all future investments are to be made in accordance with Minnesota Statutes governing the investment of public funds.

(c) A broker must acknowledge annually receipt of the statement of investment restrictions in writing and agree to handle the government entity's account in accordance with these restrictions. A government entity may not enter into a transaction with a broker until the broker has provided this written agreement to the government entity.

(d) The state auditor shall prepare uniform notification forms which shall be used by the government entities and the brokers to meet the requirements of this subdivision.

### **History:**

[\*1996 c 399 art 1 s 5\*](#)

## **118A.05 CONTRACTS AND AGREEMENTS.**

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### **Subdivision 1. May enter into.**

In addition to other authority granted in sections [118A.01](#) to [118A.06](#), government entities may enter into contracts and agreements as follows.

## **118A.05 CONTRACTS AND AGREEMENTS. (CONTINUED)**

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### **Subd. 2. Repurchase agreements.**

Repurchase agreements consisting of collateral allowable in section [118A.04](#), and reverse repurchase agreements may be entered into with any of the following entities:

- (1) a financial institution qualified as a "depository" of public funds of the government entity;
- (2) any other financial institution which is a member of the Federal Reserve System and whose combined capital and surplus equals or exceeds \$10,000,000;
- (3) a primary reporting dealer in United States government securities to the Federal Reserve Bank of New York; or
- (4) a securities broker-dealer licensed pursuant to chapter 80A, or an affiliate of it, regulated by the Securities and Exchange Commission and maintaining a combined capital and surplus of \$40,000,000 or more, exclusive of subordinated debt.

Reverse agreements may only be entered into for a period of 90 days or less and only to meet short-term cash flow needs. In no event may reverse repurchase agreements be entered into for the purpose of generating cash for investments, except as stated in subdivision 3.

### **Subd. 3. Securities lending agreements.**

Securities lending agreements, including custody agreements, may be entered into with a financial institution meeting the qualifications of subdivision 2, clause (1) or (2), and having its principal executive office in Minnesota. Securities lending transactions may be entered into with entities meeting the qualifications of subdivision 2 and the collateral for such transactions shall be restricted to the securities described in this section and section [118A.04](#).

### **Subd. 4. Minnesota joint powers investment trust.**

Government entities may enter into agreements or contracts for:

- (1) shares of a Minnesota joint powers investment trust whose investments are restricted to securities described in this section and section [118A.04](#);
- (2) units of a short-term investment fund established and administered pursuant to regulation 9 of the Office of the Comptroller of the Currency, in which investments are restricted to securities described in this section and section [118A.04](#);
- (3) shares of an investment company which is registered under the Federal Investment Company Act of 1940 and which holds itself out as a money market fund meeting the conditions of rule 2a-7 of the Securities and Exchange Commission and is rated in one of the two highest rating categories for money market funds by at least one nationally recognized statistical rating organization; or
- (4) shares of an investment company which is registered under the Federal Investment Company Act of 1940, and whose shares are registered under the Federal Securities Act of 1933, as long as the investment company's fund receives the highest credit rating and is rated in one of the two highest risk rating categories by at least one nationally recognized statistical rating organization and is invested in financial instruments with a final maturity no longer than 13 months.

## **118A.05 CONTRACTS AND AGREEMENTS. (CONTINUED)**

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### **Subd. 5. Guaranteed investment contracts.**

Agreements or contracts for guaranteed investment contracts may be entered into if they are issued or guaranteed by United States commercial banks, domestic branches of foreign banks, United States insurance companies, or their Canadian subsidiaries, or the domestic affiliates of any of the foregoing. The credit quality of the issuer's or guarantor's short- and long-term unsecured debt must be rated in one of the two highest categories by a nationally recognized rating agency. Should the issuer's or guarantor's credit quality be downgraded below "A", the government entity must have withdrawal rights.

#### **History:**

*1996 c 399 art 1 s 6; 1997 c 219 s 1; 2000 c 493 s 1; 2005 c 152 art 1 s 2*

## **118A.06 SAFEKEEPING; ACKNOWLEDGEMENTS.**

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Investments, contracts, and agreements 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 United States government securities to the Federal Reserve Bank of New York; or
- (4) a securities broker-dealer having its principal executive office in Minnesota, licensed under chapter 80A, or an affiliate of it, and regulated by the Securities and Exchange Commission; provided that the government entity's ownership of all securities is evidenced by written acknowledgments identifying the securities by the names of the issuers, maturity dates, interest rates, CUSIP number, or other distinguishing marks.

#### **History:**

*1996 c 399 art 1 s 7*

## **118A.07 ADDITIONAL INVESTMENT AUTHORITY.**

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### **Subdivision 1. Authority provided.**

As used in this section, "governmental entity" means a city with a population in excess of 200,000 or a county that contains a city of that size. If a governmental entity meets the requirements of subdivisions 2 and 3, it may exercise additional investment authority under subdivisions 4, 5, and 6.

### **Subd. 2. Written policies and procedures.**

Prior to exercising any additional authority under subdivisions 4, 5, and 6, the governmental entity must have written investment policies and procedures governing the following:

## **118A.07 ADDITIONAL INVESTMENT AUTHORITY. (CONTINUED)**

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(1) the use of or limitation on mutual bond funds or other securities authorized or permitted investments under law;

(2) specifications for and limitations on the use of derivatives;

(3) the final maturity of any individual security;

(4) the maximum average weighted life of the portfolio;

(5) the use of and limitations on reverse repurchase agreements;

(6) credit standards for financial institutions with which the government entity deals; and

(7) credit standards for investments made by the government entity.

### **Subd. 3. Oversight process.**

Prior to exercising any authority under subdivisions 4, 5, and 6, the governmental entity must establish an oversight process that provides for review of the government entity's investment strategy and the composition of the financial portfolio. This process shall include one or more of the following:

(1) audit reviews;

(2) internal or external investment committee reviews; and

(3) internal management control.

Additionally, the governing body of the governmental entity must, by resolution, authorize its treasurer to utilize the additional authorities under this section within their prescribed limits, and in conformance with the written limitations, policies, and procedures of the governmental entity.

If the governing body of a governmental entity exercises the authority provided in this section, the treasurer of the governmental entity must annually report to the governing body on the findings of the oversight process required under this subdivision. If the governing body intends to continue to exercise the authority provided in this section for the following calendar year, it must adopt a resolution affirming that intention by December 1.

### **Subd. 4. Repurchase agreements.**

A government entity may enter into repurchase agreements as authorized under section [118A.05](#), provided that the exclusion of mortgage-backed securities defined as "high-risk mortgage-backed securities" under section [118A.04, subdivision 6](#), shall not apply to repurchase agreements under this authority if the margin requirement is 101 percent or more.

### **Subd. 5. Reverse repurchase agreements.**

Notwithstanding the limitations contained in section [118A.05, subdivision 2](#), the county may enter into reverse repurchase agreements to:



## **118A.07 ADDITIONAL INVESTMENT AUTHORITY. (CONTINUED)**

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(1) meet cash flow needs; or

(2) generate cash for investments, provided that the total securities owned shall be limited to an amount not to exceed 130 percent of the annual daily average of general investable monies for the fiscal year as disclosed in the most recently available audited financial report. Excluded from this limit are:

(i) securities with maturities of one year or less; and

(ii) securities that have been reversed to maturity.

There shall be no limit on the term of a reverse repurchase agreement. Reverse repurchase agreements shall not be included in computing the net debt of the governmental entity, and may be made without an election or public sale, and the interest payable thereon shall not be subject to the limitation in section [475.55](#). The interest shall not be deducted or excluded from gross income of the recipient for the purpose of state income, corporate franchise, or bank excise taxes, or if so provided by federal law, for the purpose of federal income tax.

### **Subd. 6. Options and futures.**

A government entity may enter into futures contracts, options on futures contracts, and option agreements to buy or sell securities authorized under law as legal investments for counties, but only with respect to securities owned by the governmental entity, including securities that are the subject of reverse repurchase agreements under this section that expire at or before the due date of the option agreement.

### **History:**

[\*1996 c 399 art 1 s 8\*](#)

## **118A.08 NO SUPERSEDING EFFECT.**

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Except as provided in Laws 1996, chapter 399, article 1, section 11, sections [118A.01](#) to [118A.06](#) shall not supersede any general or special law relating to the deposit and investment of public funds.

### **History:**

[\*1996 c 399 art 1 s 9\*](#)