Resolution 17-003

City of Brookings Investment Policy
Amended: January 10, 2017

Objective: The purpose of "The City of Brookings Investment Policy" is to set investment objectives, policies, establish guidelines, and define responsibilities for the investment of funds for the City of Brookings.

Policy: City of Brookings Investment Policy

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1.0 PURPOSE

The purpose of "The City of Brookings Investment Policy" is to set investment objectives, policies, establish guidelines, and define responsibilities for the investment of funds for the City of Brookings.

2.0 POLICY

The policy of the City of Brookings is to invest idle public funds in a manner based upon state law, that will provide the maximum security, sufficient liquidity, and competitive investment return to meet the daily cash flow demands of the City. The primary goals are:

A. To ensure compliance with all Federal, State, and local laws governing the investment of public funds under the control of the City Manager.
B. To protect the principal monies entrusted to the City's Finance Department.
C. Achieve a reasonable rate of return within the parameters of prudent risk management while minimizing the potential for capital losses arising from market changes or issuer default.

3.0 SCOPE

This policy applies to the investment of all funds of Brookings, South Dakota. Except for funds held in trust or special funds that are otherwise specifically provided for, the city will consolidate the balances from all funds to maximize investment

3.1 Pooling of Funds

Except for cash in certain restricted and special funds the City of Brookings will consolidate cash balances from all funds, including utilities and hospital, 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.

4.0 OBJECTIVE

Pursuant to South Dakota Codified Law, Chapter 4-5-8 it is the policy of the City of Brookings to invest funds in a manner to meet the daily cash flow demands of the City. The primary objectives, in priority order, being: a) Safety of Principal b) Liquidity c) Return on Investments:

A) Safety of Principal
Safety of principal is the foremost objective of the investment program. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. The objective will be to mitigate the following risks.

1. Credit Risk
The City of Brookings will minimize credit risk, which is the risk of loss due to the failure of the investment issuer or backer, by limiting the portfolio to the types of investments listed in section8. Authorized and Suitable Investments of this policy and diversifying the investment portfolio to diminish the impact of potential losses from any one type of investment or from any one individual issuer.

2. Interest Rate Risk
The City of Brookings 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 portfolio to meet the cash requirements of ongoing operations, thereby mitigating the need to liquidate securities at a loss prior to maturity.

3. Concentration Risk
The City of Brookings will minimize Concentration of Credit Risk, which is the risk of loss due to having a significant portion of resources invested in a single issuer, by diversifying the investment portfolio as described in section11. Diversification so the impact of potential losses from any one type of security or issuer will be minimized. Investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools, and other pooled investments are excluded from this requirement.

4. Custodial Credit Risk
The City of Brookings will minimize Custodial Credit Risk for deposits, which is the risk that in the event of the failure of a depository financial institution the deposits or collateral securities that are in the possession of an outside party would not be able to be recovered, as addressed in section10. Collateralization.

The City of Brookings will minimize Custodial Credit Risk for investments, which is the risk that in the event of the failure of the counterparty to a transaction the value or collateral securities that are in the possession of an outside party would not be able to be recovered, as addressed in section9. Safekeeping and Custody.

B) 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 concurrent with cash needs to meet anticipated demands (static liquidity). Furthermore, since all possible cash demands cannot be anticipated, the portfolio should include 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 which offer same-day liquidity for short-term funds.

C) Return on Investments
The portfolio shall be designed to obtain a reasonable rate of return throughout budgetary and economic cycles. The return on investments is to be accorded secondary importance compared to the safety and liquidity objectives described above. The core of investments will focus on relatively low risk securities with an expectation of earning a reasonable return relative to the risk being assumed. Securities shall not be sold prior to maturity, with the following exceptions:

- A security with declining value may be sold early to minimize loss of principal.
- A security may be exchanged to improve the quality, yield, or target duration in the portfolio.
- A security may be sold in order to satisfy liquidity requirements.

When selling a security prior to maturity, the City Manager shall provide an explanation for any gains or losses.

Policy compliance does not provide a benchmark to meet or exceed, but is a model to follow. The City will benchmark its portfolio performance to the appropriate "treasuries constant maturity" rate based on portfolio maturities of the investment plan.

5.0 Standard of Care

5.1 Prudence

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. 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.

The "prudent person" standard states that "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."

5.2 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. Employees and investment officials shall disclose any material interests in financial institutions with which they conduct business. 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 of Brookings.

The City Investment program shall be managed in a professional and prudent manner worthy of the public trust and review.

6.0 Authority and Responsibility

6.1 Authority

In accordance with the City of Brookings, the responsibility for conducting investment transactions resides with the City Manager. The Finance Director, under the general direction of the City Manager, shall be responsible for all transactions undertaken and shall establish a system of controls to regulate activities.

6.2 Responsibility

Parties shall refrain from personal business activity that could impair his/her ability to make impartial decisions. The Finance Director acting in accordance with this investment policy and exercising due diligence shall be relieved of personal responsibility for an individual investment's credit risk or market price changes, provided deviations form expectations are reported in a timely fashion and the liquidity and the sale of investments 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 probably income to be derived.

7.0 Authorized Financial Dealers and Institutions

7.1 Selection Process

A list of financial institutions authorized to provide investment services to the City of Brookings will be maintained.

In addition, a list of broker/dealers will be maintained. This list may include both primary and regional dealers. Dealers will be approved by the Finance Director on the following:

- Credit worthiness
- License to conduct business in South Dakota
- Qualification under Securities and Exchange Commission (SEC) Rule 15C3-1 (uniform net capital rule)

8.0 Authorized & Suitable Investments

The City of Brookings is empowered by statue to invest in the following types of securities:

- Interest bearing checking accounts
- Savings accounts
- United States Treasury bills, bonds and notes (SDCL 4-5-6)
- United States Government Agencies (SDCL 4-5-6)
  Securities issued by government-sponsored enterprises (GSEs) or federally related institutions that are guaranteed directly or indirectly by the US Government. Securities issued by the Government National Mortgage Association (GNMA or Ginnie Mae) are an example of securities directly guaranteed by the government. Securities issued by other GSEs may be allowable. Interest bearing checking accounts
- Certificates of Deposit (CDs) (SDCL 9-22(municipalities), Certificates of Deposit (CDs) purchased through CDARS® (Certificate of Deposit Account Registry Service) (SDCL 4-5-6.1)*
- Money Market Mutual Funds - open-end, no-load (SDCL 4-5-6)
  Mutual and money market funds that invest in US Treasury securities or securities issued by GSEs or federally related institutions that are guaranteed directly or indirectly by the US Government.
- Repurchase Agreements fully collateralized by allowable securities (SDCL 4-5-6)
- South Dakota Public Funds Investment Trust (SD FIT) Local Government Investment Pool

When investing in Certificates of Deposit (CDs) public funds will be invested at the highest rate of interest possible.

The above listed authorized deposits will be kept in banks in South Dakota as required by SDCL 9-22-6.

9.0 Safekeeping and Custody

-9.1 Delivery vs. Payment

All trades of marketable securities, where applicable, will be executed by delivery vs. payment (DVP) to ensure that securities are deposited in an eligible financial institution prior to the release of funds. Securities will be held by a third party custodian as evidenced by safekeeping receipts.

9.2 Safekeeping

Securities will be held by a centralized custodian selected by the city as evidenced by safekeeping receipts in the City's name as per SDCL 4-5-9.

9.3 Internal Controls

The Finance Director is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the City of Brookings are protected from loss, theft, or misuse.
The internal controls shall address the following points:

- Control of collusion
- Separation of transaction authority from accounting and recordkeeping
- Custodial safekeeping
- Delivery versus payment
- Clear delegation of authority
- Confirmation of transactions for investments and wire transfers

10.0 Collateralization

In accordance with the SDCL 4-6A and 51A-10-9 Qualified Public Depositories will furnish collateral in the sum equal to one hundred percent (100%) of the public deposit account that exceed deposit insurance. The Finance Director will review semi-annually the Under-Collateralized Bank Accounts report found on the SD Department of Legislative Audit website, to ascertain compliance by financial institutions of adequate collateral coverage.

SDCL 4-6A-3 requires that collateral be segregated by each depository in such manner as approved by the South Dakota Deposit Protection Commission.

11.0 Diversification

The purpose of diversification is to reduce overall portfolio risk while attaining market rates of return and to enable the City of Brookings to meet all anticipated cash requirements.
The investments shall be diversified by:

- Limiting investments to avoid over-concentration in securities of a specific issuer (excluding treasury bills).
- Limiting investment in securities that have higher credit risks.
- Investing in securities with varying maturities.

12.0 Maximum Maturities

To the extent possible, the City of Brookings will attempt to match its investments with anticipated cash flow requirements. The City of Brookings will keep investments for duration not to exceed five (5) years

13.0 Reporting

13.1 Methods

The Finance Director shall prepare an investment report quarterly for the City Council. This report will include the following:

- List of individual securities held at the end of the reporting period further broken down by issuer, purchase date, maturity date, coupon rate, par value, and yield to maturity.

13.2 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 cash flow needs.

14.0 Policy Control

14.1 Exemption

Any investment currently held that does not meet the guidelines of this policy shall be exempted from the requirements of this policy as long as it was in compliance with State of South Dakota Law and the City's investment policy in effect at the time of purchase. At maturity or liquidation, such monies shall be reinvested only as provided by this policy.

14.2 Amendments

This policy shall be reviewed to ensure consistency to overall objectives of safety, liquidity, yield, compliance to current law, and economic trends.

14.3 Requirements

This investment policy is required by SDCL 4-5-8 and approved by the city council.

Approved on July 24, 2000
Revised on March 26, 2001
Revised on July 27, 2004
Revised on January 25, 2011
Revised on January 10, 2017

City of Brookings

Scott Munsterman, Mayor

ATTEST:

Shari Thornes, City Clerk

GLOSSARY

AGENCY: A debt security issued by a federal or federally sponsored agency. Federal agencies are backed by the full faith and credit of the U. S. Government. Federally sponsored agencies (FSAs) are backed by each particular agency with a market perception that there is an implicit government guarantee. An example of a federal agency is the Government National Mortgage Association (GNMA). An example of an FSA is the Federal National Mortgage Association (FNMA).

BENCHMARK: A comparative base for measuring the performance or risk tolerance of the investment portfolio. A benchmark should represent a close correlation to the level of risk and the average duration of the portfolio's investment.

BROKER: A broker brings buyers and sellers together for a commission.

CERTIFICATE OF DEPOSIT (CD): A time deposit with a specific maturity evidenced by a certificate. Large-denomination CDs are typically negotiable.

CERTIFICATE OF DEPOSIT ACCOUNT REGISTRY SERVICE (CDARS): A program with an approved depository that removes the need for collateral by providing full FDIC insurance for certificates of deposit.

COLLATERAL: Securities, evidence of deposit or other property which a borrower pledges to secure repayment of a loan. Also refers to securities pledged by a bank to secure deposits of public monies.

COUPON: (a) The annual rate of interest that a bond's issuer promises to pay the bondholder on the bond's face value. (b) A certificate attached to a bond evidencing interest due on a payment date.

CREDIT RISK: The risk to an investor that an issuer will default in the payment of interest and/or principal on a security.

DELIVERY VERSUS PAYMENT: There are two methods of delivery of securities: delivery versus payment and delivery versus receipt. Delivery versus payment is delivery of securities with an exchange of money for the securities. Delivery versus receipt is delivery of securities with an exchange of a signed receipt for the securities.

DIVERSIFICATION: Dividing investment funds among a variety of securities offering independent returns.

DURATION: A measure of the timing of the cash flows, such as the interest payments and the principal repayment, to be received from a given fixed-income security. This calculation is based on three variables; term to maturity, coupon rate, and yield to maturity. The duration of a security is a useful indicator of its price volatility for given changes in interest rates.

FEDERAL DEPOSIT INSURANCE CORPORATION (FDIC): A federal agency that insures bank deposits, currently up to $100,000 per deposit.

FIDUCIARY: Person, company, or association holding assets in trust of a beneficiary.

INVESTMENT POLICY: A concise and clear statement of the objectives and parameters formulated by an investor or investment manager for a portfolio of investment securities.

LIQUIDITY: A liquid asset is one that can be converted easily and rapidly into cash without a substantial loss of value. In the money market, a security is said to be liquid if the spread between bid and asked prices is narrow and reasonable size can be done at those quotes.

LOCAL GOVERNMENT INVESTMENT POOL (LGIP): The aggregate of all funds from political subdivisions that are placed in the custody of the State Treasurer for investment and reinvestment.

MARKET RISK: The risk that the value of a security will rise or decline as a result of changes in market conditions.

MARKET VALUE: The price at which a security is trading and could presumably be purchased or sold.

MATURITY: The date upon which the principal or stated value of an investment becomes due and payable.

MONEY MARKET: The market in which short-term debt instruments (bills, commercial paper, bankers' acceptances, etc.) are issued and traded.

PORTFOLIO: Collection of securities held by an investor.

PRUDENT PERSON RULE: An investment standard. In some states the law requires that a fiduciary, such as a trustee, may invest money only in a list of securities selected by the custody state---the so-called legal list. In other states the trustee may invest in a security if it is one which would be bought by a prudent person of discretion and intelligence who is seeking a reasonable income and preservation of capital.

QUALIFIED PUBLIC DEPOSITORIES: A financial institution which does not claim exemption from the payment of any sales or compensating use or ad valorem taxes under the laws of this state, which has segregated for the benefit of the commission eligible collateral having a value of not less than its maximum liability and which has been approved by the Public Deposit Protection Commission to hold public deposits.

RATE OF RETURN: The yield obtainable on a security based on its purchase price or its current market price. This may be the amortized yield to maturity.

REPURCHASE AGREEMENT (RP OR REPO): A holder of securities sells these securities to an investor with an agreement to repurchase them at a fixed price on a fixed date. The security "buyer" in effect lends the "seller" money for the period of the agreement, and the terms of the agreement are structured to compensate him for this. Dealers use RP extensively to finance their positions. Exception: When the Fed is said to be doing RP, it is lending money that is, increasing bank reserves.

SAFEKEEPING: A service to customers rendered by banks for a fee whereby securities and valuables of all types and descriptions are held in the bank's vaults for protection.

SPECULATION: Assumption of risk in anticipation of gain but recognizing a higher than average possibility of loss.

TREASURY BILLS: A non-interest bearing discount security issued by the U. S. Treasury to finance the national debt. Most bills are issued to mature in three months, six months, or one year.

TREASURY BONDS: Long-term coupon-bearing U. S. Treasury securities issued as direct obligations of the U. S. Government and having initial maturities of more than ten years.

TREASURY NOTES: Medium-term coupon-bearing U. S. Treasury securities issued as direct obligations of the U. S. Government and having initial maturities from two to ten years.

VOLATILITY: A degree of fluctuation in the price and valuation of securities.

YIELD: The rate of annual income return on an investment, expressed as a percentage.