

ITASCA COUNTY INVESTMENT POLICY

SECTION 1 INTRODUCTION

The purpose of this policy is to set forth the investment objectives and parameters for the management of the public funds of Itasca County. This policy is designed to: safeguard funds on behalf of the County, assure the availability of operating and capital funds when needed, ensure compliance with applicable Minnesota statutes and provide a competitive investment return in light of statutory restrictions.

The investment policies and practices of Itasca County are based on state law and prudent money management. All funds will be invested in accordance with the County's Investment Policy and Minnesota Statutes §118A.01 through §118A.08 and §385.071. The investment of debt proceeds will be further restricted by the provisions of relevant bond documents.

SECTION 2 SCOPE

In accordance with accounting standards, financial reporting guidelines, and Minnesota statutes, this investment policy applies to all cash and investments held or controlled by Itasca County. This policy does not apply to funds related to the issuance of debt where there are other indentures in effect for such funds. In addition, any future revenues and proceeds, which have statutory investment requirements conflicting with this investment policy, are not subject to the provisions of this policy.

Except for cash in certain restricted funds, Itasca County will consolidate cash balances from all funds to maximize investment earnings. Investment income will be allocated to the general fund except for those investments that are restricted in accordance with generally accepted accounting principles.

SECTION 3 OBJECTIVES

The primary objectives, in priority order, of the County's investment activities shall be safety, liquidity and yield:

1. **Safety.** The foremost objective of this investment policy is to ensure the safety of the principal of public funds. The County's investments shall be undertaken in a manner that seeks to ensure preservation of capital in the overall portfolio. The objective will be to mitigate credit risk and interest rate risk.

❖ Custodial Credit Risk

Itasca County will minimize investment Custodial Credit Risk which is the risk of loss due to the failure of the security issuer or backer, by permitting brokers/dealers that obtained investments for the county to hold them only to the extent there is SIPC and excess SIPC coverage available, limiting investments to the types of

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securities listed in Section 6 and 9 of this Investment Policy, and obtaining necessary documentation (e.g. broker certification forms and documentation of perfected security interests in pledged collateral) from the financial institutions, broker/dealers, intermediaries and advisors, as applicable, with which the County will do business in accordance with Section 6 of this investment policy.

Itasca County will minimize deposit Custodial Credit Risk, which is the risk of loss due to failure of the financial institution (as defined in section 6), by obtaining collateral or bond for all uninsured amounts on deposit, and obtaining necessary documentation to show compliance with state law and a perfected security interest under federal law.

❖ **Concentration Credit Risk**

Itasca County will minimize concentration of credit risk, which is the risk of loss due to the magnitude of the County's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

❖ **Interest Rate Risk**

Itasca County 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: 1) structuring the investment portfolio 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 and 2) investing operating funds primarily in shorter-term securities, money market mutual funds, or similar investment pools.

❖ **Foreign Currency Risk**

The County is not authorized to invest in investments which have this type of risk.

2. **Liquidity.** Itasca County's investment portfolio will remain sufficiently liquid to enable the County to meet its cash flow requirements.
3. **Yield.** Itasca County's investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints and liquidity needs. It is understood that return on investment is of secondary importance when compared

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to the safety and liquidity objectives described above. Securities may be sold prior to maturity if a security with declining credit is sold early to minimize loss of principal or a security swap would improve the quality, yield, or target duration in the portfolio.

SECTION 4 MANAGEMENT OF INVESTMENTS

The County Auditor-Treasurer is responsible for overseeing the day-to-day management of County investments. The County Auditor-Treasurer shall be responsible for the transferring of appropriate funds to affect investment transactions, for the investment of operating funds and bond proceeds consistent with this policy and actions of the County Board.

SECTION 5 DELEGATION OF AUTHORITY

In accordance with Minnesota Statute §118A.02, subdivision 1, Minnesota Statute § 385.071 and by County Board resolution, the County Auditor-Treasurer has the authority to designate brokers and make investments in accordance with MN Stat. §118A.01 to §188A.06. Furthermore, in accordance with Minnesota Statute § 385.071 and by County Board resolution, the County Board authorizes the use of an electronic wire transfer of county funds where it is deemed appropriate, expeditious and in the best interest of Itasca County.

SECTION 6 AUTHORIZED DEPOSITORIES, INVESTMENT INSTITUTIONS AND DEALERS

Depositories shall be selected by the County Auditor-Treasurer in such a manner as prescribed by Minnesota Statute §118A.01 thru §118A.08. In selecting depositories, the credit-worthiness of institutions shall be considered. Depositories shall include financial institutions and broker/dealers.

Each financial institution used by the County must be one of the following:

- A. a savings association
- B. a commercial bank
- C. a trust company
- D. a credit union
- E. an industrial loan and thrift company

Brokers, investment institutions and dealers shall be selected by the County Auditor-Treasurer within the restrictions prescribed by Minnesota Statute §118A.01, §118A.02 and §118A.04 thru §118A.08. In selecting, the credit-worthiness of institutions shall be considered.

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Certification of Brokers pursuant to §118A.04 subdivision 9 will be done annually and all brokers, dealers and other financial institutions selected by the County Auditor-Treasurer shall be provided with current copies of this investment policy.

SECTION 7 PRUDENCE

Investments shall be made with judgment and care -- under circumstances then prevailing -- which persons of prudence, discretion, and intelligence exercise, not for speculation, but for investment, considering the probable safety of the capital as well as the probable income to be derived.

The standard of prudence to be used by the Auditor-Treasurer shall be the “prudent person” as well as compliance with the County’s Ethics Policy. These standards shall be applied in the context of managing an overall portfolio. The Auditor-Treasurer, acting in accordance with the investment policy and exercising due diligence shall be relieved of personal responsibility for an individual security’s credit risk or market price changes.

SECTION 8 ETHICS AND CONFLICT OF INTEREST

The County Board, County Auditor-Treasurer and anybody else involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment program, or which could impair their ability to make impartial investment decisions. Also, the County Auditor-Treasurer shall disclose to the Board any material financial interests in financial institutions that conduct business with the Board or County, and they shall further disclose any material personal financial/investment positions that could be related to the performance of the County’s investment program.

SECTION 9 AUTHORIZED INVESTMENTS AND PROTFOLIO COMPOSITION

Investments and Depositories are restricted to those complying with the applicable sections of Minnesota Statutes 118A. Listed below are some specific examples:

- ◆ U.S. Government Securities;
- ◆ U.S. Government Agencies;
- ◆ Federal Instrumentalities (U.S. Government-Sponsored Enterprises)
- ◆ In general obligation of a state or local government with taxing powers which was rated “A” or better by a national bond rating service;
- ◆ In revenue obligation of a state or local government with taxing powers which was rated “AA” or better by a national bond rating service;
- ◆ Fully insured or collateralized certificates of deposit at commercial banks and savings and loan associations;

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- ◆ A-1P-1 rated commercial paper secured by an irrevocable line of credit or collateralized by government securities;
- ◆ Bankers' acceptances issued by the 10 largest domestic banks and the 20 largest international banks;
- ◆ Repurchase agreements collateralized by U.S. Treasury securities;
- ◆ Money market mutual funds whose portfolios consist of government securities;
- ◆ Certain Mutual Funds;
- ◆ MAGIC Fund;
- ◆ In its own temporary obligations issued under Minn. Stat. §§ 429.091, subd. 7 (special assessments), 469.178, subd. 5 (tax increment bonds), or 475.61 subd. 6.
- ◆ Any investment allowed by Minnesota Statute §118A.01 to §118a.08.

SECTION 10 REPORTING

- ◆ The County Auditor-Treasurer shall report to the County Board annually a management summary that provides a clear picture of the status of the current investment portfolio.

SECTION 11 DIVERSIFICATION

It is the policy of the government of Itasca County to diversify its investment portfolios. Assets held in the common cash fund and other investment funds shall be diversified to eliminate the risk of loss resulting from over concentration of assets in a specific maturity, a specific issuer or a specific class of securities.

In establishing specific diversification's strategies, the following general policies and constraints shall apply:

- ◆ Portfolio maturities shall be staggered to avoid undue concentration of assets in a specific maturity sector. Maturities selected shall provide for stability of income and reasonable liquidity.
- ◆ Positions in securities having potential default risk (e.g. commercial paper) shall be limited in size so in case of default, the portfolio's annual investment income will exceed a loss on a single issuer's securities.
- ◆ Risks of market price volatility shall be controlled through maturity diversification such that aggregate price losses on instruments with maturities exceeding one year shall not be greater than coupon interest and investment income received from the balance of the portfolio.

SECTION 12 SAFEKEEPING AND CUSTODY

To protect against potential fraud and embezzlement, the assets of the government of Itasca County shall be secured through third party custody and safekeeping procedures.

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The County Auditor-Treasurer shall be bonded to protect the public against possible embezzlement and malfeasance. Unless prevailing practices or economic circumstances dictate otherwise, ownership shall be protected through third party custodial safekeeping. Safekeeping procedures, legality of investments, and the receipting of interest shall be reviewed annually by an independent auditor.

Board Approval: 10/22/1996; 09/28/2010

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ITASCA COUNTY



REQUEST FOR BOARD ACTION

Requested Board Date: 09/28/2010	Originating Department: Auditor/Treasurer
Type of Meeting: County Board	Presenter: Jeff Walker
Item: Investment Policy	Estimated Amount of Time Needed for Discussion: <input checked="" type="checkbox"/> < 5 minutes <input type="checkbox"/> 5 minutes <input type="checkbox"/> 10 minutes <input type="checkbox"/> 15 minutes <input type="checkbox"/> 30 minutes <input type="checkbox"/> > 30 minutes

Board Action Requested:

Approve the updated Investment Policy.

Background:

Supporting Documentation: Attached None

Item Classification for County Board Meeting:

- Consent Agenda
- Regular Agenda
- Refer to
- Table until
- Other

Item History:

09/22/2010 Administrative Division Meeting; Item #15

Date: 09/23/2010

Signature:

Jeffrey T Walker

Board Action:

Approved as Requested: 9/28/2010

Denied _____

Tabled _____

Other: _____

Distribution / Filing Instructions:

9/29/2010 - Administrative Services Assistant for Policy Manual