City of Stoughton, Wisconsin
Investment Policy

Introduction

The timely deposit and investment of public funds is an important and integral part of any cash management program. In order to maximize cash available for investments, all city departments shall remit funds at least weekly to the Finance Department's office.

This Investment Policy is intended for the use and guidance of the designated officials with investment authority.

Delegation of Authority

Pursuant to Section 66.0603(2), the Common Council has the authority to delegate investment authority to invest and reinvest money of the city, to sell or exchange securities so purchased and to provide for the safekeeping of such securities. Responsibility for the operation of the investment program is hereby delegated to the Investment Team, which consists of the Director of Finance/Comptroller, City Treasurer and Utilities Finance Manager, and shall act in accordance with established written procedures and internal controls for the operation of the investment program consistent with this investment policy.

At least two of the three members of the team must agree before any decision can be made.

This policy shall be reviewed annually by the Finance Committee, and recommendations to amend the existing ordinance shall be presented to the Common Council for its consideration.

Statement of Purpose

The purpose of this Investment Policy is to establish guidelines for investments which are broad enough to allow the Investment Team to function properly within the parameters of its responsibility and authority. It is also intended to be specific enough to establish a prudent set of basic procedures to assure that investment assets are adequately safeguarded. It assures that the fundamental principle concerning any investment program involving public moneys has four basic ingredients: legality, safety, liquidity and yield.

General Objectives

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

1. **Safety** – The 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 goal will be to mitigate
    - credit risk (risk of loss due to the failure of the security issuer or backer), and
    - interest rate risk (risk that the market value of securities in the portfolio will fail due to change in the market interest rates).
2. **Liquidity** -- The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated.
3. **Return** -- The investment portfolio shall be designed with the objective of attaining a market rate of return through budgetary and economic cycles, taking into account the investment risk constraints of safety and liquidity needs.

Standards of Care

1. **Prudence** - The standard of prudence to be used by investment officials shall be the "prudent person rule" standard and shall be applied in the context of managing an overall portfolio.

    a. Prudent Person Rule-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.

2. **Ethics and Conflicts of Interest** -- Investment officials and employee 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.

    a. Investment Officials and employees involved in the investment process shall further disclose and personal financial/investment positions that could be related to the performance of the investment portfolio.

3. **Relief of liability** -- Notwithstanding any other provisions of law, the Investment Team members who deposits public money in any authorized public depository, in compliance with Wisconsin Statutes Sec. 34.05 is, under the provisions of Wisconsin Statutes Sec. 34.06, relieved of any liability for any loss of public monies which results from the failure of any public depository to repay the public depository the full amount of its deposits, thus causing a loss as defined in Wisconsin Statutes Sec. 34.01(2).

Overall Responsibility for Cash Management and Investments

Effective cash management involves controlling cash from the time it is received until it is disbursed. It requires the availability of accurate information on a timely basis. Both the City Treasurer and the Utilities Finance Manager shall be delegated the day-to-day responsibility for the overall financial operation to determine cash availability and needs.

1. **Internal Controls --** The investment team shall establish a system of internal controls which shall be reviewed by the independent auditor on an annual basis. The controls shall be designed to prevent loss of public funds due to fraud, error and misrepresentation by another party or imprudent actions by an employee or employees of the City.
2. **Investment --** The Investment Team may purchase securities that are permissible investments from money in the Investment Team's custody, which is not required for the immediate needs of the City, as the Investment Team deems wise and expedient. The investment activity of Wisconsin public funds is governed by Section 66.0603(1m) and other sections of the Wisconsin Statutes as follows: "A county, city, village, town, school district, drainage district, technical college district or other governing board other than a local professional football stadium district board created under subch. IV of ch. 229, may invest any of its funds . . ." in accordance with Section 66.0603(lm).
3. **Reporting** -- The Finance Committee and Utilities Committee shall consult quarterly with the Investment Team regarding such investments. The Investment Team shall provide the Committee with a quarterly detailed list of all the investment portfolio holdings.

    The Investment Team shall communicate with financial institutions and/or investment advisors and avail itself of other financial information on current or pending market

conditions in making its decision on rates and maturities as well as the securities to be purchased. In making all investment decisions, the Investment Team shall endeavor to achieve the overall investment objectives of the City.

4. **Redemption** -- The Investment Team shall periodically redeem the securities in which City money has been invested pursuant to section (2) Investment so that the proceeds may be applied to the purpose for which the original purchase money was designated or placed in the City Treasury.
5. **Deposits** -- Any federal or state-chartered bank or credit union approved by the Common Council at their annual organizational meeting shall be the working financial institutions. The Director of Finance/Comptroller and Utilities Finance Manager have the authority to add working financial institutions with notice to the Finance Committee within 30 days after adding such institution
6. **Investment Advisors** -- The Investment Team may utilize investment advisors/brokers as approved by the City of Stoughton Finance Committee or Utilities Committee.
7. **Safekeeping** -- For portfolios with outside investment advisors, the City will use an independent third-party custodian, in order to segregate the functions of choosing investments from physical custody and record-keeping. The custodian shall keep possession of all funds and securities; collect income and the proceeds of sales, maturities and redemptions; transact purchases; and distribute funds as directed by the City.
8. **Post issue debt compliance** – This policy is not to conflict with either the terms of the debt obligation or Internal Revenue Service arbitrage rules for borrowed money proceeds.

Accounts and Records

It shall be the responsibility of the designated Investment Team to establish sufficient records and accounts to: detail each investment as to purchase date, cost, maturity date, yield and market value,

- provide any necessary internal controls,
- any other records that may be required to accurately reflect all investment transactions.

Collateralization of Funds

With the passage of Wisconsin Act 25, effective August 1, 1985, there is no longer the overall guarantee of public funds by the State. In effect, Act 25 abolished the state deposit guarantee fund. It will continue to pledge general purpose revenues under Wis. Stats., 20.144(1)(a), for the payment of losses of public deposits until the balance of the appropriation is exhausted. However, no payment for a loss in excess of $400,000 for any one public depositor in any individual public depository may be made above current FDIC (Federal Deposit Insurance Corporation) levels for deposits in any one institution.

Chapter 34.07 as amended provides that a surety bond or other security may be required of a given public depository for any public deposit that exceeds the $400,000 amount guaranteed by the State of Wisconsin.

The City of Stoughton requires collateralization of any deposits exceeding the amounts guaranteed by the State of Wisconsin and the FDIC for the primary checking accounts for both the City of Stoughton and Stoughton Utilities as well as the payroll checking account during the months of December through February due to the large of amounts of fiduciary property tax collection during those months.

For collateralization, Certificates of Deposits or other investments exceeding the amounts currently insured by the State and the FDIC shall be fully secured by obligations of the United States Government or its agencies. Such securities shall be delivered to the City or held by an independent third party chosen by the City. Substitution of collateral by the independent third party shall only be allowed with the written approval of the City's Investment Team. The market value of the collateral shall at all times equal or exceed the principal amount of the certificate of deposit. Value of the collateral shall be monitored and market value shall be at or near the bid or closing price of the security as quoted in the Wall Street Journal or other recognized pricing source. The Investment Team shall be authorized to sign agreements with the Custodial Bank and sign for the receipt of any pledged securities.

The City of Stoughton shall not require this collateral for any deposit that exceeds the amounts guaranteed by the State and the F.D.I.C for the other months of the year. The rationale for not requiring collateralization shall be to either maximize investment returns and/or reduce bank fees. The Finance Committee shall periodically review the need for collateralization.

Responsibility for the administration of the foregoing rests with the Investment Team.

Custodial Related Risks

1. Custodial credit risk for deposits, when collateralization is required.
    a. Definition: Risk that in the event of the failure of a depository financial institution, the City will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party.
    b. Related Policy: For those institutions which the City holds deposits and investments:
        i. Ensure that security interest in collateral pledged to secure deposits and investments are enforceable against the receiver of a failed financial institution via:
            1. An agreement in writing
            2. An agreement that was approved by the board of directors of the depository or its loan committee, and
            3. An agreement that has been continuously kept as an official record of the depository institution since the time of execution.

        ii. All pledged collateral shall be held at an independent third-party institution, and evidenced by a written agreement in an effort to satisfy the Uniform Commercial Code (UCC) requirement for control.

2. Custodial credit risk
    a. Definition: Risk that in the event of the failure of a party to a transaction, the City will not be able to recover the value of investment or collateral securities that are in the possession of an outside party.
    b. Related Policy: Accomplished through same policy as Custodial Credit Risk for Deposits as above.

Eligible Investments

a. Authorized Investments. Subject to restrictions as may be imposed by law (Section

66.0603(1m) of Wisconsin State Statutes), funds will only be invested in the following securities:

1. U.S. Treasury Obligations and Government Agency Securities -- Obligations of the United States of America, its agencies and instrumentalities, provided that the payment of the principal and interest is fully guaranteed by the issuer.

2. Certificates of Deposit -- Certificates of Deposit and other evidences of deposits from credit unions, banks, savings banks, trust companies or savings and loan associations which are authorized to transact business in the state, which time deposits mature in not more than one year. Any Certificate of Deposit invested in excess of the Federal Deposit Insurance Corporation and State Deposit Guaranteed Fund insured amount of $500,000, whichever is less, are to be fully collateralized under the specific requirements above

3. General Obligation Bonds or Securities -- General obligation bonds or securities of any county, city, drainage district, vocational, technical and adult education district, village, town or school district of the state.

4. Local Government Investment Pool (LGIP) funds administered by the State of Wisconsin Investment Board.

5. Wisconsin Investment Series Cooperative (WISC) funds administered by PMA Financial Network, LLC.

6. Repurchase Agreements -- Investment agreements pursuant to which a federal or state credit union, federal or state savings and loan association, state bank, savings and trust company, mutual savings bank, or national bank in the State of Wisconsin agrees to repay funds advanced to it by the issuer, plus interest. Repurchase Agreements are to be secured by investment securities fully guaranteed by the U.S. Government.

7. Open Ended Money Market Funds -- Restricted to investments permitted by Wisconsin Statute Section 66.0603(1m)(a)5, limited to a maximum average maturity of 120 days or less. This limit will not apply to either LGIP or WISC pool investments.

8. Highly Rated Commercial Paper -- Commercial paper which may be tendered for a purchase at the option of the holder within not more than 270 days of the date acquired as permitted by Wisconsin Statute Section 66.0603(1m)(a)4. These securities must be rated in the highest or second highest rating category assigned by Standard & Poor's Corporation, Moody's Investors Service, Inc., or other similar nationally recognized rating agency or senior to or on parity with a security of the same issuer which has such a rating. No more than five percent (5%) of the investment portfolio may be commercial paper from a single issuer.

9. Out of State General Obligation Bonds or Securities -- General obligation bonds or securities of any county, city, drainage district, vocational, technical and adult education district, village, town or school district, if the bond or security has a maturity of seven years or less from the date on which it was acquired and, if the bond or security is rated in one of the two highest rating categories assigned by Standard & Poor's Corporation, Moody's Investors Service, Inc., or other similar nationally recognized rating agency.

10. Corporate Bonds or Securities. Any bond or security issued by a corporation which has a maturity of 7 years or less on the date on which it is acquired, and if that bond or security has a rating which is in the highest or 2nd highest rating category assigned by Standard & Poor's Corporation, Moody's Investors Service or other similar nationally recognized rating agency. No more than five percent (5%) of the investment portfolio shall be corporate securities from a single issuer.

    IMPORTANT NOTE: If the credit rating of a security is subsequently downgraded below the minimum rating level for a new investment of that security, the Investment Team shall evaluate the downgrade on a case-by-case basis, and if applicable, shall obtain the recommendation(s) of the assigned Investment Advisor in order to determine if the security should be held or sold. The Investment Team will apply the general objectives of safety, liquidity, yield and legality in order to make its decision.

Firefighter's Pension Fund – Fiduciary Trust Fund

The City of Stoughton established a pension plan in 1911 for its volunteer firefighters. As such, the irrevocable fiduciary trust for the Firefighter's Pension Fund should have a long-term focus.

According to the 2021/2022 actuarial report, the deferred inflows and deferred outflows have been amortized from 2017 through 2022 between 7.24 and 7.40 years. Based upon the restrictions of the Wisconsin statutes, investments cannot exceed seven (7) years.

Although annual revenue for fire dues from the State of Wisconsin covers the majority of expenditures, the Firefighter's Pension Board requests maintaining two years of expenditures in cash and cash equivalents. This amount is approximately $50,000 each year.

In addition to the above allowed securities, the Firefighter's Pension Fund shall strive to:

a) Retain $100,000 in checking, LGIP pool accounts and/or WISC pool accounts.
b) Invest 10% of the remaining available balance in eligible investments with maturities between 12 and 36 months from the purchase date.
c) Invest 20% of the remaining available balance in eligible investments with maturities between 36 months and 60 months from the purchase date.
d) Invest 70% of the remaining available balance in eligible investments with the maturities between 60 and 84 months from the purchase date.

Performance Standards/Evaluation

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 a market environment of stable interest rates. A series of appropriate benchmarks shall be established against which portfolio performance shall be compared on a regular basis. The benchmarks shall be reflective of the actual securities being purchased and risks undertaken and the benchmarks shall have a similar duration and credit profile as the portfolio. In order to manage interest rate risk, the investment portfolio(s) shall be required to keep an effective duration, which is defined as the present value of the lifetime cash flows of the City of Stoughton's investments, in close proximity to the assigned benchmark or less if economic conditions merit.

Reports

The Investment Team shall provide the Finance Committee and Utilities Committee monthly written reports on the general condition of the City's cash and investments.

The Investment Advisor shall provide a twelve-month (August 1 – July 31) written report to the

Finance Committee and Utilities Committee on the City's investment activity for the reporting period and recommendations for improvement to the City's investment strategy for the next reporting period. The report shall be presented at the regular Finance Committee and Utilities Committee meetings in August to aid in the subsequent year budget preparation.

Adopted INSERT DATE HERE – INSERT RESOLUTION NUMBER HERE

Amended: