Adopted December 28, 1999

INVESTMENT POLICY

CITY OF GALENA, ILLINOIS

I. PURPOSE

The purpose of this policy is to provide simplified yet thorough guidelines for the management of an investment program for the City of Galena. This investment policy applies to all financial assets of the City of Galena, including: General Fund, Special Revenue Funds, Capital Project Funds, Debt Service Funds, Special Assessment Funds, Enterprise Funds, Internal Service Funds and Trust Funds. For the purposes of this policy, public funds are defined as current operating funds, special funds, interest and shrinking funds and funds of any kind or character belonging to or in the custody of the City of Galena.

This policy does not address the management and investment of pension funds. Such management is entrusted by statute to the Illinois Municipal Retirement Fund Board of Trustees.

II. OBJECTIVES

The primary objectives, in order of priority, of the City of Galena investment activities shall be:

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

2. Liquidity: The City of Galena investment portfolio will remain sufficiently liquid to enable the city to meet all operating requirements, which might be reasonably anticipated. The portfolio will be structured 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 shall consist largely of securities with active secondary or resale markets (dynamic liquidity). A portion of the portfolio also may be placed in money market mutual funds or local government investment pools that offer same-day liquidity for short-term funds.

3. Return on Investment: The City of Galena’s investment portfolio shall be designed with the objective of attaining a rate of return throughout budgetary and economic cycles commensurate with the City of Galena’s risk

constraints and the cash flow characteristics of the portfolio. Return on investment is of secondary importance compared to the safety and liquidity objectives described above. The core of investments is limited to relatively low-risk securities in anticipation of earning a fair return relative to the risk being assumed. Securities shall not be sold prior to maturity with the following exceptions:

a. A declining credit security may be sold early to minimize loss of principal.
b. A security swap would improve the quality, yield or target duration of the portfolio.
c. Liquidity needs of the portfolio require that the security be sold.

III. RESPONSIBILITY AND DELEGATION OF AUTHORITY

Management responsibility for the investment program is hereby delegated to the Budget Officer who shall establish written procedures for the operation of the investment program consistent with this investment policy. Procedures shall include reference to safekeeping, wire transfer agreements, banking service contracts and collateral/depository agreements.

Such procedures shall include explicit delegation of authority to persons responsible for investment transactions. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the Budget Officer. The Budget Officer shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials.

The Budget Officer may seek advice on investments from other sources, e.g., local bankers, brokers, and other investment professionals. When selecting investment advisors, the Budget Officer should carefully review the credentials, procedures, and controls of the firms offering the services. All investment decisions must be based upon the objectives as prioritized herein.

IV. COLLATERALIZATION

Money on deposit at each savings institution which exceeds the $250,000 limit insured by the F.D.I.C. shall be collateralized at a minimum of one hundred ten percent (110%) by the institution at which these funds are held. Pledged collateral shall be held in safekeeping by an escrow agency of the pledging institution. The City of Galena shall be presented with quarterly reports of the collateralization certificates on deposit at a third-party custodial bank by the savings institution. Collateralization will be provided through the following types of securities:

1. U.S. Government Securities

2. Obligations of Federal Agencies
3. Obligations of Federal Instrumentalities
4. Obligations of the State of Illinois
5. General Obligation bonds of Illinois Municipalities rated “A” or better.

Because the city’s funds will be fully collateralized by the banking institution, no dollar limitation on the amount of the deposits and investments is required.

V. STATUTORY PROVISIONS

State statute provides that certain criterion be met for the placement of public funds in a bank, savings and loan association or credit union. The requirements are:

1. Investments may be made only in banks which are insured by the Banking Insurance Fund of the FDIC.
2. No bank shall receive any public funds unless it has furnished the corporate authorities of the City of Galena with copies of the last two sworn statements of resources and liabilities which the bank is required to furnish to the Commissioner of Banks and Real Estate or to the Comptroller of the Currency.
3. Investments may be made only in those savings and loan associations which are insured by the Savings Association Insurance Funds of the FDIC.
4. No savings and loan association shall receive public funds unless it has furnished the corporate authorities of the City of Galena with copies of the last two sworn statements of resources and liabilities which the savings and loan association is required to furnish to the Commissioner of Savings and Loan Associations or the Federal Home Loan Bank.
5. Effective January 1, 2022, no public funds may be deposited in a financial institution subject to the federal Community Reinvestment Act of 1977 unless the institution has a current rating of satisfactory or outstanding under the Community Reinvestment Act of 1977. When investing or depositing public funds, the public agency may give preference to financial institutions that have a current rating of outstanding under the federal Community Reinvestment Act of 1977.

All financial institutions and broker/dealers who desire to become qualified bidders for investment transactions must supply the Budget Officer with the following:

a. Audited financial statements;
b. Proof of National Association of Security Dealers certification;
c. Trading resolution;
d. Proof of state registration;
e. Completed broker/dealer questionnaire;
f. Certification of having read the City of Galena’s investment policy; and

g. Depository contracts.

VI. INVESTMENT INSTRUMENTS

The following identifies specific instruments that may be considered for investment purposes:

1. Savings Account. Savings accounts with the first $250,000 insured by the Savings Account Insurance Fund (SAIF) of the Federal Deposit Insurance Corporation (FDIC) to a maximum of $250,000 per depositor over all accounts.

2. Now, Super Now, Savings and Money Market Accounts. These accounts provide alternatives to checking accounts, providing the same basic services while yielding interest. It should be noted, however, that money market accounts have withdrawal restrictions imposed by federal regulation. A minimum balance is usually required, and service fees may be charged. These savings type accounts are insured by the F.D.I.C. to a maximum of $250,000 per deposit.

3. State Treasurer's Investment Pool. The Illinois State Treasurer's Investment Pool (IPTIP) provides a means of investing short-term funds. The pool was created for the sole participation and benefit of Illinois governmental organizations as an addition to their ongoing local banking relationships.

   With the investment pool, no minimum deposit or withdrawal levels exist, although the pool requires prior day notice for transactions. As a member of IPTIP, the city receives daily availability of funds, monthly statements and monthly distribution of interest or reinvestment of interest. Interest income is computed and reinvested daily for the daily compounding of principal and interest. All investments in the pool are fully collateralized time deposits, full-faith and credit securities of the federal government and repurchase agreements secured by securities of the federal government. Securities backing these investments are held by a third-party custodian bank.

4. Certificates of Deposit (CD's) and Time Deposit Open Account (TDOA's). CD's and TDOA's are time deposits made with a financial institution for a fixed maturity ranging from seven days to six years. Interest may be calculated on either a 360- or 365-day basis depending on the financial institution.

5. Treasury Bills. Treasury bills are issued by the U.S. Treasury with maturities no longer than one year and are available in book-entry form only. Bills sell at a discount, and the interest earned by the investor is the difference between the purchase price and the par value. The U.S. Treasury sells bills at auction in minimum denominations of $10,000 and multiples of $5,000 thereafter.

Three- and six-month bills are auctioned every Monday (unless Monday is a holiday, then the auction is usually the preceding Friday). Payment is due on Thursday following the auction which is also the day the outstanding bills mature. Fifty-two-week bills are auctioned once a month. The bills are also payable and due on a Thursday.

An active secondary market exists for treasury bills at most banks. Treasury bill maturities can be selected to watch the cash flow needs.

6. Treasury Notes and Bonds. Treasury Notes and bonds are long-term investments with notes having original maturities of two to ten years and bonds having original maturities of 10 years or longer. Notes and bonds are currently issued in book-entry or registered form by the U.S. Treasury. The Treasury has standardized procedures and timing for selling notes and bonds. However, the Treasury is not irrevocably committed to any schedule and may deviate when it is deemed appropriate. Interest is paid semi-annually on Treasury notes and bonds.

VII. DIVERSIFICATION AND MATURITIES OF INVESTMENTS

Diversification. To help reduce institutional risk in the city's capital and provide competitive bidding benefits, investments should be placed in various financial institutions. A diversification of investment instruments is encouraged to give the city more flexibility and help minimize the impact of market fluctuations. Investment instruments not subject to credit risks, (such as treasury bills and certificates of deposit) need not be subjected to diversification requirements.

Maturities. Staggering maturities on short-term investments provides liquidity and a small amount of interest rate protection. While liquidity can be easily achieved by investing in the short term, the nature of such liquid investment instruments is attractive to all investors and generally produces lower yields as well as providing only minimal control over fluctuation in interest rates. However, investing too large a percentage of funds to take advantage of high interest rates may provide insufficient funds to meet operating needs. A careful analysis of the city's short-, mid- and long-term cash needs should be made when planning maturities.

Up to seventy-five percent (75%) of the city's capital may be invested in short-term securities of less than six months, no more than sixty five percent (65%) of the city's capital may be invested in securities maturing at six (6) months to eighteen (18) months and no more than twenty-five (25%) of the city's capital may be invested in securities maturing over eighteen (18) months.

VIII. FINANCIAL INSTITUTIONS

Location. If a competitive rate is offered by a local banking institution, the city shall deposit their investment funds at the local institution.

Services and Fees. Any financial institution selected shall provide normal banking services including, but not limited to, checking accounts, wire transfers, purchase and sale of investment securities and safekeeping services. Fees for banking services shall be mutually agreed to by an authorized representative of the depository bank and the Budget Officer annually. Fees for services shall be substantiated by a monthly account analysis (and shall be reimbursed by means of compensating balances).

IX. REPORTING

Method. The City Council shall receive a monthly report from the Budget Officer on the state of the investment portfolio. In addition, a comprehensive annual investment report should be prepared. The contents of this report shall provide an opportunity to review the portfolio by focusing on the overall performance of investments during the year as well as a projection of what may be anticipated in the future as compared to results of the past year.

Performance. 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/economic environment of stable interest rates. The portfolio should be compared to the market average rate on a regular basis.

X. INTERNAL CONTROLS

The Budget Officer is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the City of Galena 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 will require estimates and judgements by management.

XI. ETHICS AND CONFLICT OF INTEREST

Officers and employees 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 investment decisions. Employees and investment officials shall disclose to the Budget Officer any material financial interests in financial institutions that conduct business within this jurisdiction, and they shall further disclose any large personal financial/investment positions that could be related to the performance of the City of Galena, particularly regarding the time of purchases and sales.

XII. INDEMNIFICATION

The Budget Officer, who is responsible for the investment program, assumes a unique responsibility for not only realizing an acceptable rate of return on the monies invested, but also safeguarding the monies against loss. The very nature of this responsibility exposes the investment official to certain risks. Accordingly, the Budget Officer shall use the following standards of prudence:

> "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 probable income to be derived."
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> "Material, relevant, and decision-useful sustainability factors have been or are regularly considered by the Budget Officer, within the bounds of financial and fiduciary prudence, in evaluating investment decisions. Such factors include, but are not limited to: (i) corporate governance and leadership factors; (ii) environmental factors; (iii) social capital factors; (iv) human capital factors; and (v) business model and innovation factors, as provided under the Illinois Sustainable Investing Act."

The Budget Officer, acting in accordance with this investment policy, shall be relieved of personal responsibility for an individual security's credit risk or market price changes provided that deviations from expectation are reported in a timely fashion and appropriate action is taken to control adverse developments.

XIII. POLICY CONSIDERATIONS

Exemption. 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.

Amendment. This policy shall be reviewed annually. Any changes must be approved by the Budget Officer and the City Council.

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