THE VILLAGE OF HAINESVILLE
LAKE COUNTY, ILLINOIS

ORDINANCE
NUMBER 16-4-220

AN ORDINANCE AMENDING CHAPTER 3.12 OF THE VILLAGE CODE, THE VILLAGE OF HAINESVILLE INVESTMENT POLICY

LINDA SOTO, Mayor
KATHY METZLER, Village Clerk

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Village Board

ORDINANCE NO. 16-4-220

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WHEREAS, Section 235/2.5 of the Illinois Public Funds Investment Act, 30 ILCS 235/2.5, requires municipalities to establish and maintain a written investment policy; and

WHEREAS, the Village Board finds it necessary and desirable to update and revise the Village Investment Policy; and

WHEREAS, the Village Board finds that the Village and its residents will benefit from the approval of this Ordinance.

NOW, THEREFORE, BE IT ORDAINED by the Mayor and Board of Trustees of the Village of Hainesville, Illinois, as follows:

SECTION 1: The above-stated recitals are incorporated by reference.

SECTION 2: Chapter 3.12 of the Village Code is hereby amended to state as follows:

VILLAGE OF HAINESVILLE
INVESTMENT POLICY

1.0 Policy:

It is the policy of the Village of Hainesville to invest public funds in a manner which will provide the highest investment return with the maximum security while meeting the daily cash flow demands of the entity and conforming to all state statutes governing the investment of public funds.

2.0 Scope:

This investment policy applies to all financial assets of the Village of Hainesville. These funds are accounted for in the Village of Hainesville's Comprehensive Annual Financial Report and include:

2.1 Funds:

- 2.1.1 General Fund
- 2.1.2 Special Revenue Funds
- 2.1.3 Capital Project Funds
- 2.1.4 Enterprise Funds
- 2.1.5 Trust and Agency Funds
- 2.1.6 (Any new fund created by the Village Board, unless specifically excluded.)

3.0 **Prudence**:

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.

3.1 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 the 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 appropriate action is taken to control adverse developments.

4.0 **Objective**:

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

4.1 **Safety**:

Safety of principal is the foremost objective of the investment program. Investments of the Village of Hainesville shall be undertaken in a manner that seeks to insure the preservation of capital in the portfolio.

A. **Credit Risk**:

Credit risk is the risk of loss due to failure of the security issuer or backer. Credit risk may be mitigated by:

- Limiting investments to the safest types of securities
- Pre-qualifying the financial institutions, broker/dealers, intermediaries, and advisers with which an entity will do business, and
- Diversifying the investment portfolio so that potential losses on individual securities will be minimized.

B. **Interest Rate Risk**:

Interest rate risk is the risk that the market value of securities in the portfolio will fall due to changes in the general interest rates. Interest rate risk may be mitigated by:

- 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
- By investing operating funds primarily in shorter-term securities.

4.2 **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 consist largely of securities with active secondary or resale markets (dynamic liquidity).

4.3 **Return on Investments**:

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 and liquidity needs. Return on investment is of least 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:

1) a declining credit security could be sold early to minimize loss of principal;
2) a security swap would improve the quality yield, or target duration in the portfolio; or
3) liquidity needs of the portfolio require that the security be sold.

5.0 **Delegation of Authority**:

Authority to manage the Village of Hainesville's investment program is derived from the following:

The establishment of investment policies is the responsibility of the Village Board. Management and administrative responsibility for the investment program is hereby delegated to the Treasurer in consultation with the liaison to Finance Committee who, under the direction of the Mayor and Board of Trustees, shall establish written procedures for the operation of the investment program consistent with the investment policy. Procedures should include references to: safekeeping, delivery vs. payment, investment accounting, repurchase agreements, wire transfer agreements, collateral/depository agreements and banking service contracts. Such procedure 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 Treasurer in consultation with the liaison to Finance Committee. The Treasurer in consultation with the liaison to Finance Committee shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials. The Treasurer in consultation with the liaison to Finance Committee may from time to time amend the written procedure in a manner not inconsistent with this policy or with state statutes.

The Village Treasurer, appointed by the Village President with advice of the Trustees, advises the Village Board on investment policy.

6.0 **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 transaction with the same individual with whom business is conducted on behalf of their entity.

7.0 **Authorized Financial Dealers and Institutions**:

The Treasurer in consultation with the liaison to Finance Committee will maintain a list of financial institutions authorized to provide investment services. In addition, a list will also be maintained of approved security broker/dealers selected by credit worthiness. These may include "primary" dealers or regional dealers that qualify under Securities and Exchange Commission Rule 15C3-1 (uniform net capital rule). No public deposit shall be made except on qualified public depository as established by state statutes.

The Village Board authorizes the Treasurer in consultation with the liaison to Finance Committee to invest up to $250,000.00 in any federally insured financial institution.

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

- audited financial statements
- proof of National Association of Security Dealers (NASD) certification
- proof of state registration
- completed broker/dealer questionnaire
- certification of having read the Village's investment policy
- depository contracts

An annual review of the financial condition and registration of qualified bidders will be conducted by the Treasurer.

A current audited financial statement is required to be on file for each financial institution and broker/dealer in which the Village invests.

8.0 **Authorized and Suitable Investments**:

The Village may invest in any type of security allowed for in Illinois statutes regarding the investment of public funds. Approved investments include:

- Bonds, notes, certificates of indebtedness, treasury bills, treasury strips, or other securities, including obligation of the Governmental National Mortgage Association, which are guaranteed by the full faith and credit of the government of the United States of America, or other similar obligations of the United States of America or its agencies.

- Interest bearing savings accounts, interest bearing certificates of deposit or interest bearing time deposits or any other investment constituting direct obligations of any institution as defined by the Illinois Banking Act and is insured by the Federal Deposit Insurance Corporation.

- Illinois Public Treasurer's Investment Pool.

- Short-term obligations of corporations (commercial paper) organized in the United States with assets exceeding $500 million and rated at the time of purchase at the highest classification established by at least two standard rating services. Must mature within 180 days from the date of purchase. Such purchase may not exceed 10% of the corporation's outstanding obligations and no more than 25% of the Village's funds may be invested in commercial paper.

- Short-term discount obligations of the Federal National Mortgage Association or in shares or other forms of securities legally by savings and loan associations incorporated under the laws of this state or any other state or under the laws of the United States. Investments may be made only in those savings and loan associations of which the shares, or investment certificates are insured by the Federal Deposit Insurance Corporation.

- Consistent with the GFOA Recommended Practice on Use of Derivatives by State and Local Governments, extreme caution should be exercised in the use of derivative instruments.

9.0 **Collateralization**:

It is the policy of the Village of Hainesville and in accordance with GFOA's Recommended Practices on the Collateralization of Public Deposits, the Village requires that funds on deposit in excess of FDIC limits be secured by some form of collateral. The Village will accept any of the following assets as collateral:

- Government Securities
- Obligations of Federal Agencies

- Obligations of Federal Instrumentalities
- Obligations of the State of Illinois

(The Village reserves the right to accept/reject any form of the above named securities.)

The Village also requires that all depositories that hold Village deposits in excess of the FDIC limit must agree to utilize the Village's Security Agreement (Attachment #1)."

The amount of Collateral provided will not be less than the Collateral Ratios enumerated for each form of eligible collateral in the Village's Security Agreement, which meet the requirements established in the Illinois Public Funds Investment Act and are recommended by the Government Finance Officers Association (GFOA) (Attachment #1). The ratio of fair market value of collateral to the amount of funds secured will be reviewed monthly, and additional collateral will be required when the ratio declines below the level required and collateral will be released if the fair market value exceeds the required level. Pledged collateral will be held in safekeeping, by an independent third party depository, or the Federal Reserve Bank of Chicago, designated by the Village of Hainesville and evidenced by a safekeeping agreement. Collateral agreements will preclude the release of the pledged assets without an authorized signature from the Village of Hainesville. The Village of Hainesville realizes that there is a cost factor involved with the collateralization and the Village will pay any reasonable and customary fees related to collateralization.

10.0 **Safekeeping and Custody**:

All security transaction, including collateral for repurchase agreements, entered into by the Village of Hainesville shall be conducted on a delivery-versus-payment (DVP) basis. Securities will be held by a third party custodian designated by the Treasurer and evidenced by safekeeping receipts.

11.0 **Diversification**:

In order to reduce the risk of default, the investment portfolio of the Village of Hainesville shall not exceed the following diversification limits unless specifically authorized by the Board of Trustees:

- No financial institution shall hold more than 55% of the Village's investment portfolio, exclusive of U.S. Treasury securities in safekeeping.

- Monies deposited at a financial institution shall not exceed 75% of the capital stock and surplus of that institution.

- Commercial paper shall not exceed 10% of the Village's investment portfolio.

- Deposits in the Illinois Public Treasurer's Investment Pool shall not exceed 55% of the Village's investment portfolio.

- Brokered certificates of deposit shall not exceed 25% of the Village's investment portfolio.

12.0 **Maximum Maturities**:

To the extent possible, the Village of Hainesville will attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, the Village will not directly invest in securities maturing more than three years from the date of purchase.

Reserve funds may be invested in securities exceeding three years if the maturity of such investments are made to coincide as nearly as practicable with the expected use of the funds. Any investment purchased with a maturity longer than four years must be supported with written documentation explaining the reason for the purchase and must be specifically approved by the Board of Trustees.

13.0 **Internal Controls**:

The Treasurer in consultation with the liaison to Finance Committee is responsible for establishing and maintaining an internal control structure designed to insure that the assets of the Village of Hainesville 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 the control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits require estimates and judgments by management.

Accordingly, the Treasurer in consultation with the liaison to Finance Committee shall establish a process for annual independent review by an external auditor to assure compliance with policies and procedure. The internal controls shall address the following points:

- Control of collusion
- Separation of transaction authority from accounting and record keeping
- Custodial safekeeping
- Avoidance of physical delivery securities
- Clear delegation of authority to subordinate staff members
- Written confirmation of telephone transactions for investments and wire transfers
- Development of a procedure for making wire transfers

14.0 **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 a market/economic environment of stable interest rates. Portfolio performance should be compared to appropriate benchmarks on a regular basis.

14.1 **Market Yield (Benchmark)**:

The Village's investment strategy is passive. Given this strategy, the basis used by the Treasurer to determine whether market yields are being achieved shall be the three-month U.S. Treasury Bill.

15.0 Reporting:

The Treasurer in consultation with the liaison to Finance Committee shall prepare an investment report at least semi-annually, including a succinct management summary that provides a clear picture of the status of the current investment portfolio. This management summary will be prepared in a manner which will allow the entity to ascertain whether investment activities during the reporting period have conformed to the investment policy. The report should be provided to the Mayor. The report will include the following:

- A listing of individual securities held at the end of the reporting period.
- Average weighted yield to maturity of portfolio on Village investment as compared to applicable benchmarks.
- Listing of investments by maturity date.
- The percentage of the total portfolio which each type of investment represents.
- The percentage of the total portfolio which each institution is holding.
- The percentage of the total portfolio broken down by defined maturity periods.
- Principal and type of investment by fund.

15.1 Marking to Market:

A statement of the market value of the portfolio shall be issued at least semi-annually. This will ensure that the minimal amount of review has been performed on the investment portfolio in terms of value and subsequent price volatility. Review should be consistent with the GFOA Recommended Practice on Mark-to-Market Practices for state and Local Government Investment Portfolios and Investment Pools (attachment #2).

16.0 Investment Policy Adoption:

The Village of Hainesville's investment policy shall be adopted by resolution of the Village Board of Trustees. This policy shall be reviewed on an annual basis by the Treasurer and the liaison to Finance Committee and any modifications made thereto must be approved by the Village Board of Trustees.

GLOSSARY

AGENCIES: Federal agency securities.

ASKED: The price at which securities are offered.

BANKERS' ACCEPTANCE: A draft or bill or exchange accepted by a bank or trust company. The accepting institution guarantees payment of the bill, as well as the issuer.

BID: The price offered for securities.

BROKER: A Broker brings buyers and sellers together for a commission paid by the initiator of the transaction or by both sides; he does not position. In the money market, brokers are active in markets in which banks buy and sell money and in inter-dealer markets.

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

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.

COMPREHENSIVE ANNUAL FINANCIAL REPORT (CAFR): The official annual report for the Village of Hainesville. It includes five combined statements and basic financial statements for each individual fund and account group prepared in conformity with GAAP. It also includes supporting schedules necessary to demonstrate compliance with finance-related legal and contractual provisions, extensive introductory material, and a detailed Statistical Section.

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.

DEALER: A dealer, as opposed to a broker, acts as a principal in all transactions, buying and selling for his own account.

DEBENTURE: A bond secured only by the general credit of the issuer.

DELIVERY VERSUS PAYMENT: There are two methods for delivery of securities: delivery versus payment and delivery versus receipt (also called *free)*. Delivery versus payment is delivery of securities with an exchange of money for securities. Delivery versus receipt is delivery of securities with an exchange of sign receipt for the securities.

DISCOUNT: The difference between the cost price of a security and its value at maturity when quoted at lower than face value. A security selling below original offering price shortly after sale also is considered to be at a discount.

DISCOUNT SECURITIES: Non interest bearing money market instruments that are issued at a discount and redeemed at maturity for full face value, e.g., U.S. Treasury bills.

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

FEDERAL CREDIT AGENCIES: Agencies of the Federal Government set up to supply credit to various classes of institutions and individuals, e.g., S & L's, small business firms, students, farmers, farm cooperatives, and exporters.

FEDERAL DEPOSIT OF INSURANCE CORPORATION (FDIC): A federal agency that insures bank deposits, currently up to $250,000 per deposit.

FEDERAL FUNDS RATE: The rate of interest at which Fed funds are traded. This rate is currently pegged by the Federal Reserve through open-market operations.

FEDERAL HOME LOAN BANKS (FHLB): The institutions that regulate and lend to savings and loan associations. The Federal Home Loan Banks play a role analogous to that played by the Federal Reserve Banks vis-à-vis member commercial operations.

FEDERAL NATIONAL MORTGAGE ASSOCIATION (FNMA): FNMA, like GNMA was chartered under the Federal National Mortgage Association Act in 1938. FNMA is a federal corporation working under the auspices of the Department of Housing & Urban Development HUD. It is the largest single provider of residential mortgage funds in the United States. Fannie Mae, as the corporation is called, is a private stockholder-owned corporation. The corporation's purchases include a variety of adjustable mortgages and second loans in addition to fixed rate mortgages. FNMA assumes and guarantees that all security holders will receive timely payment of principal and interest.

FEDERAL OPEN MARKET COMMITTEE (FOMC): Consists of seven members of the Federal Reserve Board and five of the twelve Federal Reserve Bank Presidents. The President of the New York Federal Reserve Bank is a permanent member while the other Presidents serve on a rotation basis. The Committee periodically meets to set Federal Reserve guidelines regarding purchases and sales of Government Securities in the open market as a means of influencing the volume of bank credit and money.

FEDERAL RESERVE SYSTEM: The central bank of the United States created by Congress and consisting of a seven member Board of Governors in Washington, D.C., 12 regional banks and about 5,700 commercial banks that are members of the system.

GOVERNMENT NATIONAL MORTGAGE ASSOCIATION (GNMA OR GINNIE MAE): Securities guaranteed by GNMA and issued by mortgage bankers, commercial banks, savings and loan associations and other institutions. Security holder is protected by full faith and credit of the U.S. Government. Ginnie Mae securities are backed by FHA, VA or FMHM mortgages. The term *passthroughs* is often used to describe Ginnie Maes.

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 VALUE: The price at which a security, if trading, could presumably be purchased or sold.

MASTER REPURCHASE AGREEMENT: A written contract covering all future transactions between the parties to repurchase – reverse repurchase agreements that establish each party's rights in the transactions. A master agreement will often specify, among other things, the right of the buyer-lender to liquidate the underlying securities in the event of default of the seller-borrower.

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, banker's acceptances, etc.) are issued and traded.

OPEN MARKET OPERATIONS: Purchases and sales of government and certain other securities in the open market by the New York Federal Reserve Bank as directed by the FOMC in order to influence the volume of money and credit in the economy. Purchases inject reserves into the bank system and stimulate growth of money and credit; sales have the opposite effect. Open market operations are the Federal Reserve's most important and most flexible monetary policy tool.

PORTFOLIO: Collection of securities held by an investor.

PRIMARY DEALER: A group of government securities dealers that submit daily reports of market activity and positions and monthly financial statements to the Federal Reserve Bank of New York and are subject to its informal oversight. Primary dealers include Securities and Exchange Commission (SEC) - registered securities broker-dealers, banks, and a few unregulated firms.

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 elected by the 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 institutions 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 amortized yield to maturity on a bond or the current income return.

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.

SEC RULE 15C3-1: See Uniform Net Capital Rule.

SECONDARY MARKET: A market made for the purchase and sale of outstanding issues following the initial distribution.

SECURITIES & EXCHANGE COMMISSION: Agency created by Congress to protect investors in securities transactions by administering securities legislation.

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 BOND: Long-term U.S. Treasury securities having initial maturities of more than ten years.

TREASURY NOTES: Intermediate term coupon bearing U.S. Treasury securities having initial maturities of from one to ten years.

UNIFORM NET CAPITAL RULE: Securities and Exchange Commission requirement that member firms as well as non-member broker dealers in securities maintain a maximum ratio of indebtedness to liquid capital of 15 to 1; also called *net capital rule* and *net capital ratio.* Indebtedness covers all money owed to a firm including margin loans and commitments to purchase securities, one reason new public issues are spread among members of underwriting syndicates. *Liquid capital* includes cash and assets easily converted into cash.

YIELD: The rate of annual income return on an investment, expressed as a percentage. (a) *Income Yield* is obtained by dividing the current dollar income by the current market price for the security. (b) *Net Yield or Yield to Maturity* is the current income yield minus any premium above par or plus any discount from par in purchase price, with the adjustment spread over the period from the date of purchase to the date of maturity of the bond.

SECTION 3: All ordinances, resolutions, motions or other actions in conflict herewith are hereby repealed to the extent of such conflict.

SECTION 4: If any part of this Ordinance is found or determined to be invalid, the invalid portion shall be stricken here from and the remainder shall be in full force and effect.

SECTION 5: This ordinance shall be in full force and effect from and after its passage and approval. This ordinance shall be published in pamphlet form.

APPROVED this 12th day of April, 2016.

ADOPTED pursuant to a roll call vote as follows:

	YES	NO	ABSENT	PRESENT
Barrett			X	
Daley	X			X
Derenoski	X			X
Georgeann Duberstein	X			X
George Duberstein	X			X
Hein	X			X
Soto				X
TOTAL	5	0	1	6

APPROVED by the Mayor on April 12th, 2016.

Linda Soto

Linda Soto, Mayor

ATTEST:

Kathy Metzler

Kathy Metzler, Village Clerk