



VILLAGE OF LOMBARD

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Legistar #190084

To: Finance & Administration Committee
From: Timothy Sexton, Director of Finance
Date: January 16, 2019
Subject: **Investment Policy Update Discussion**

The Village's account representative from Wintrust notified us that Wintrust is now a member of the Promontory Interfinancial Network of banks, and can provide the Village close to \$80M in additional FDIC insurance coverage through the Insured Cash Sweep (ICS) account. The account is paying a higher rate than both IL Funds and IMET and may be a good place to put some longer term reserve funds, but still have them be liquid.

After further consideration of the ICS account program, staff reviewed the Village's Investment Policy and would like to propose the changes noted in red in the attached draft investment policy.

Summary of Changes

- Page 3, add language that Finance Director will maintain a list of financial institutions authorized to provide investment services
- Page 4, change Diversification and Maturities language
- Page 6, changes to Reporting information

Staff requests the Finance & Administration Committee review the proposed changes and provide a recommendation for the Village Board.

DRAFT INVESTMENT POLICY - Adopted December 3, 1987; Revised December 5, 1996 & December 2, 1999; Revised May 1, 2003; Revised May 3, 2007

This Investment Policy applies to the investment activities of all funds of the Village of Lombard, except for the Police Pension Fund and the Firefighters' Pension Fund, which are subject to the order of the Board of Trustees of each respective fund.

The purpose of the Investment Policy of the Village of Lombard is to establish cash management and investment guidelines for Village officials responsible for the stewardship of public funds.

Specific objectives include:

Safety: Safety of principal is the foremost objective of the Investment Policy of the Village of Lombard. Each investment transaction shall seek to first ensure that capital losses are avoided, whether they are from securities defaults or erosion of market value.

Diversity: The Village shall diversify its investments to avoid incurring unreasonable risks regarding specific security types and/or individual institutions.

Liquidity: The Village's investment portfolio shall remain sufficiently liquid to enable the Village to meet all operating requirements that may be reasonably anticipated in any Village fund.

Return on Investments: The investment portfolio of the Village shall be designed with the objective of regularly exceeding the average return of three (3) month U.S. Treasury Bills. The investment program shall seek to augment returns above this threshold, consistent with risk limitations identified herein and prudent investment principles.

Prudence

In managing its investment portfolio, Village officials shall avoid any transaction that might impair public confidence in the Village of Lombard. 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.

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.

Responsibility for the Investment Program

Management responsibility for the investment program of the Village of Lombard is hereby delegated to the Director of Finance, who shall establish written procedures for the operation of the Investment Program consistent with this Policy. Such procedures shall include explicit delegation of authority to persons responsible for investment transactions. The Director of Finance shall be responsible for all transactions undertaken, and shall establish a system of controls to regulate the activities of subordinate officials.

The responsibility for investment activities of the Police and Firefighters' Pension Funds rests with the respective Board of Trustees of each fund.

Ethics and Conflicts of Interest

Officers and employees involved in the investment process shall refrain from personal business activities that could conflict with proper execution of the investment program, or could impair their ability to make impartial investment decisions. Employees and investment officials shall disclose to the Village Manager any material financial interest in financial institutions that conduct business with this jurisdiction, and they shall further disclose any large personal financial/investment positions that could be related to the performance of this jurisdiction's portfolio. Employees and officers shall subordinate their personal investment transactions to those of this jurisdiction, particularly with regard to the timing of purchases and sales.

Cash Management

The Village's Policy regarding cash management is based upon the realization that there is a time-value to money. Temporarily idle cash may be invested for a period of one (1) day to an excess of one (1) year depending upon when the money is needed. Accordingly, the Director of Finance shall prepare written cash management procedures, which shall include, but not be limited to, the following:

Receipts: All monies due the Village shall be collected as promptly as possible and deposited in an interest-bearing fund. Monies that are received shall be deposited in an approved financial institution no later than the next business day after receipt by the Finance Department. Amounts that remain uncollected after a reasonable length of time shall be subject to any available legal means of collection.

Disbursements: Any disbursement to suppliers of goods and/or services or to employees for salaries and wages shall be contingent upon an available budget appropriation.

Pooling of Cash

Except for cash in certain restricted and special accounts, the Village will pool the cash of various funds to maximize investment earnings. Investment income will be allocated to the various funds based upon their respective participation. Beginning June 1, 2003, any funds with negative cash balances or interfund loans will be charged interest expense.

Accounting

The Village of Lombard maintains its accounting records on the basis of funds and account groups, each of which is considered a separate accounting entity. All investment transactions shall be recorded in the various funds of the Village in accordance with generally accepted accounting principals as established by the Governmental Accounting Standards Board (GASB).

Financial Institutions

The Finance Director will maintain a list of financial institutions authorized to provide investment services. It shall be the policy of the Village of Lombard to select financial institutions on the following basis:

Security: The Village will maintain funds only in financial institutions that are members of the FDIC system. Furthermore, the Village of Lombard will maintain funds only in financial institutions willing or capable of posting required collateral for funds in excess of the FDIC insurable limits.

Size: The Village of Lombard will select as depositories, only financial institutions in which the Village funds on deposit will not exceed fifty percent (50%) of the institution's capital stock and surplus.

Statement of Condition: The Village of Lombard will maintain for public and managerial inspection current statements of condition for each financial institution named as depository. If, for any reason the information furnished is considered by the Director of Finance to be insufficient, the Village may request additional data. The refusal of an institution to provide such data upon request may serve as sufficient cause for the withdrawal of Village funds.

Services and Fees. Fees for services shall be mutually agreed to by an authorized representative of the depository bank and the Director of Finance.

Dealer Brokers

A list will be maintained of approved security broker/dealers selected by credit worthiness who are authorized to provide investment services in the State of

Illinois. These may include “primary” dealers or regional dealers that qualify under Securities & Exchange Commission Rule 15C3-1 (uniform net capital rule).

Investment Selection

The Village of Lombard may invest in any type of security allowed by state law (30 ILCS 235/2).

The Village will specifically avoid any purchase of financial forwards or futures, any leveraged investments, lending securities or reverse repurchase agreements. Repurchase agreements will only be purchased if specific securities are under the control of the Village of Lombard or its agent depository.

Diversification and Maturities

In order to reduce the risk of default, the investment portfolio of the Village of Lombard shall be diversified by:

- Limiting investments to avoid over-concentration in securities from a specific issuer or business sector (U.S. Treasury and Agency securities),
 - Commercial paper and bonds shall not exceed 15% of the Village’s investment portfolio.
 - Brokered certificates of deposit shall not exceed 33% of the Village’s investment portfolio.
- Investing in securities with varying maturities, and
- Continuously investing a portion of the portfolio in readily available funds such as local government investment pools (LGIPs), money market funds, overnight repurchase agreements or insured cash sweeps to ensure that appropriate liquidity is maintained in order to meet ongoing obligations.

~~To reduce the risk of default and attain market average rates of return, the investment portfolio of the Village shall use the following diversification limits as guidelines:~~

~~No financial institution shall hold more than twenty percent (20%) of the Village of Lombard’s investment portfolio, exclusive of U.S. Treasury securities and collateralized investments held in safekeeping.~~

~~Commercial paper shall not exceed ten percent (10%) of the Village’s investment portfolio.~~

~~The target allocation for the Illinois Public Treasurer’s Investment Pool is twenty-five percent (25%) of the investment portfolio.~~

~~The target allocation for the Illinois Metropolitan Investment Trust is thirty-five percent (35%) of the investment portfolio.~~

~~The above allocations to the Illinois Public Treasurer's Investment Pool and the Illinois Metropolitan Investment Trust may be increased at the discretion of the Finance Director, if market conditions exist that make this beneficial to the Village.~~

Maturities of investments of the various funds of the Village shall be determined to enable the Village to have available sufficient cash for all operating purposes. Investment maturities in all Funds shall be limited to a maximum maturity of sixty (60) months from the date of purchase. Investments in other funds may be purchased with maturities to match future projected liability requirements. However, any investment purchased with a maturity longer than sixty (60) months must be supported by written documentation explaining the reason for the purchase and must be specifically pre-authorized by the Finance Committee.

Notwithstanding the provisions of the above paragraph, no investment in any fund shall have a maturity date greater than the period allowed by Illinois Compiled Statutes, by Village Ordinance or by other standards of this policy.

Collateral

It is the policy of the Village of Lombard to require 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:

U.S. Government Securities

Obligations of Federal Agencies

Obligations of Federal Instrumentalities

Obligations of the State of Illinois

Obligations of the Village of Lombard

General Obligation Municipal Bonds Rated "A" or better

Any other collateral identified in Illinois Compiled Statutes as acceptable for use by the Treasurer of the State of Illinois.

The amount of collateral provided will be not less than one-hundred-ten percent (110%) of the fair market value of the net amount of public funds secured. Pledged collateral will be held by the Village of Lombard or in safekeeping and evidenced by a safekeeping agreement. If collateral is held in safekeeping, it may be held by a third party or by an escrow agent of the pledging institution. Collateral agreements will preclude the release of the pledged assets without an authorized signature from the Village of Lombard, but they will allow for an exchange of collateral of like value.

Internal Controls

The Director of Finance shall establish a system of internal controls, which shall be documented in writing. The internal controls shall be reviewed by an independent certified public accountant in conjunction with the annual examination of the financial statements of the Village. The controls shall be designed to prevent losses of public funds arising from fraud, employee error, misrepresentation by third parties, or imprudent actions by employees and officers of the Village.

Reporting

The Director of Finance shall submit a ~~bi-monthly~~ **monthly** investment report that provides the following information:

- ~~Principal and type of investments~~
- ~~Book value~~
- Earnings by fund for the current month and year to date
- Breakdown of cash and investments
- Percentage of the Portfolio represented by each investment category

From time to time the Director of Finance shall suggest policies and improvements that might be made in the investment program.

Indemnification

The standard of prudence to be used by investment officials of the Village of Lombard shall be the "prudent person" standard which states:

Investments shall be made with judgment and care, under circumstances then prevailing, which persons or 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 possible income to be derived.

The above standard is established as the standard for professional responsibility and shall be applied in the context of managing the Village's overall portfolio. Investment Officers of the Village of Lombard acting in accordance with this Investment Policy and written procedures as may be established and exercising due diligence 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 development.

Amendment

This Policy shall be reviewed from time to time and any changes shall be presented to the Board of Trustees for their approval.