

STATE OF WISCONSIN : CITY OF FRANKLIN : MILWAUKEE COUNTY

RESOLUTION NO. 2012-6789

A RESOLUTION TO AMEND THE CITY OF FRANKLIN  
INVESTMENT POLICY STATEMENT – RESERVE & LIQUIDITY INVESTMENTS

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WHEREAS, the City of Franklin has last issued an investment policy statement on March 1, 2011 for reserve and liquidity investments; and

WHEREAS, it is desirable to modify parts of that investment policy; and

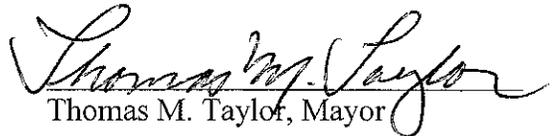
WHEREAS, the Common Council has reviewed the Investment Policy Statement dated March 6, 2012 presented by the Director of Finance & Treasurer and reviewed by the Finance Committee.

NOW, THEREFORE, BE IT RESOLVED, by the Mayor and Common Council of the City of Franklin that the Investment Policy Statement dated March 6, 2012 is approved.

Introduced at a regular meeting of the Common Council of the City of Franklin this 6th day of March, 2012.

Passed and adopted at a regular meeting of the Common Council of the City of Franklin this 6th day of March, 2012.

APPROVED:

  
Thomas M. Taylor, Mayor

ATTEST:

  
Sandra L. Wesolowski, City Clerk

AYES 6 NOES 0 ABSENT 0



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## M E M O R A N D U M

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**DATE:** January 26, 2012

**TO:** Finance Committee

**FROM:** Cal Patterson, Director of Finance and Treasurer

**RE:** 2011 Investment Results and recommended Investment Policy changes for the City of Franklin General investments

### **Investment Results**

The investment portfolio detail at December 31, 2011 managed by ICM and an overall cash and investments report is attached. The investment return of the ICM assets in 2011 was 1.99% compared to a 3.36% return for the Merrill Lynch 1-5 year index. The reason for the difference in return is the duration of our portfolio is shorted than the index.

### **Investment Policy Changes**

Our investment policy contemplates an annual review of our investment policy each year. A redlined version of our current policy with 2012 recommended changes is attached. The major changes are as follows:

- a redefinition of the term portfolio to allow for the movements of funds back and forth between the reserve and the liquidity investments
- changing the relationship between the City and the investment manager from a discretionary to a non-discretionary basis. The reason for the change is that discretionary is inconsistent with WI Statute 66.0603(2) only allows the discretionary basis for banks or trust companies. We have been working on a non-discretionary basis for the last couple of years.
- Extending the final maturity from 5 to 7 years for treasury and agency issues as many issues of 5 to 7 years are being used with callable issues for short term purposes and then called 9 to 12 months later

## CITY OF FRANKLIN INVESTMENT POLICY STATEMENT

All City of Franklin investible funds excluding those under management by Principal Financial Advisors for the DPW Pension program or the Principal Defined Contribution Plan and those OPEB Funds managed by a trust set up for that purpose are subject to this investment policy statement. The portfolio of investments for this policy are the classified as either reserve and or liquidity investments except for those associated with fiduciary and water utility funds.

### RESERVE INVESTMENTS

#### 1. SCOPE

2011 / This investment policy applies to all funds that are not needed during an annual operating cycle. The determination as to the funds applicable to this category will be made by the Director of Finance & Treasurer based upon the projected cash flow needs of the City of Franklin from time to time. The Director of Finance & Treasurer will authorize transfers between the various investment types. Investment decisions for funds under management will be made for the City by the Investment Manager under the terms of this policy on a non-discretionary basis. A non-discretionary basis allows the investment manager to make investment decisions on behalf of the City after without specific investment approval in advance of each investment transaction. City input and approval on investment decisions will be through overall investment strategy and input and approval provided by the Director of Finance & Treasurer or the Deputy Treasurer. In the event they are not available the Accounting Supervisor may provide the investment decision.

#### 2. INVESTMENT OBJECTIVE

-The investment objective is to generate current income, consistent with safety and reasonable risk as defined under the "Prudent Person Rule". Because these funds represent operating reserves, quality of the issues, liquidity, and maturity structure of the portfolio are most important.

#### 3. DIVERSIFICATION REQUIREMENTS

Total holdings of any one issuer may not exceed 10% of the market value of the portfolio under management at time of purchase. Total holdings of any one asset class may not exceed 50% of the market value of the portfolio under management at time of purchase. However not more than 30% of the market value of that asset class can have maturities of eighteen months or more to their stated maturities. Exception to the diversification requirements are made for:

- U.S. Government Treasury issues
- U.S. Government Agency issues (excluding mortgage backed securities)
- Issues that are rated AAA and have the full faith guarantee of the U.S. Government.

#### 4. MATURITIES

Maturities of portfolio additions are to be selected consistent with the City's anticipated cash flow needs. ~~The investment manager shall stay up to date as to those needs.~~ For purposes of this Policy Statement, "maturity" is defined as final

payment in the case of conventional debt securities, or "average life" in the case of securities that have periodic principal pay downs throughout the life of the security.

- A. The maximum cash reserve shall not exceed \$500,000 without specific approval of the Director of Finance & Treasurer.
- B. The portfolio, at all times, shall have a minimum of \$500,000, inclusive of cash reserves, maturities within 60 days and securities that can be sold at 99.5% of par.
- C. The average maturity of the portfolio shall not exceed 2 1/2 years with no individual issue maturity exceeding 5 years (7 years for treasury and agency issues) from date of purchase.
- D. Floating rate securities, the coupons of which adjust to market interest rates with a minimum frequency of four times annually, shall not be subject to the maturity constraint outlined above.
- E. The portfolio investment manager shall strive to maintain a laddered maturity structure in line with the City's cash flow needs.

#### 5. LIQUIDITY

Liquidity and marketability should be prime considerations in the selection of individual securities.

#### 6. ACCEPTABLE INVESTMENTS (Subject to WI Statutes Sec 66.0603 and Diversification Requirements)

- A. Securities of the U.S. Government or agencies thereof.
- B. Fixed income securities that carry a minimum rating of AA by either Moody's or Standard & Poor's at date of purchase.
- C. Investments in commercial paper and variable rate demand notes are restricted to corporations rated A-1 or P-1, or if unrated, restricted to those issuers whose long-term debt is rated AA or higher by one of the major rating agencies.
- D. Investments in Certificates of Deposit and Bankers Acceptances are restricted to Banks with a short-term debt rating of A-1 or P-1 and long-term debt ratings of AA or Aa by one of the major rating agencies.
- E. Government repurchase agreements with a minimum of 100% or more collateralization with respect to its estimated market value plus accrued interest in direct U.S. Government securities and guaranteed Small Business Administration securities (pools and loans).
- F. Money market funds adhering to the quality guidelines described above are acceptable.
- G. Mortgage backed and asset backed securities that carry a final maturity not more than seven (7) years

#### 7. RESTRICTIONS

- A. No security restricted in WI Statutes Sec 66.0603 will be purchased. For any security that has a rating decline to A by both Moody's and Standard and Poor's the investment manager on a case by case basis must either sell the investment or recommend to the Finance Committee at their next meeting the rationale for retention of the investment.
- B. No derivative type investments such as collateralized mortgage obligations, strips, mortgage backed, asset backed, etc. that carry a final maturity greater than seven (7) years
- C. No foreign-denominated securities will be purchased.

- D. No Certificate of Deposits, Bankers Acceptances or other securities issued by corporations affiliated with the Investment Manager are to be purchased.
- E. No investment will be purchased outside of the range of 98% to 102% of par value without approval of the Director of Finance & Treasurer or the Deputy Treasurer.

8. POLICY AND PERFORMANCE REVIEW AND PERFORMANCE MEASUREMENT

This investment policy and the performance of the funds under management shall be reviewed each year during the first quarter. The management benchmark for comparing portfolio performance shall be the Merrill Lynch 1-5 year Government index with the understanding that priority will be given to matching portfolio maturities to anticipated cash flow needs.

**LIQUIDITY INVESTMENTS**

9. SCOPE

2011 | — This investment policy applies to all funds that are needed during an annual operating cycle and other funds invested on a short term basis. The determination as to the funds applicable to this category will be made by the Director of Finance & Treasurer based upon the projected cash flow needs of the City of Franklin. The Director of Finance & Treasurer will authorize any transfers between the reserve and liquidity investment types. Investment decisions for liquidity funds for the City will be made by the Director of Finance & Treasurer or the Deputy Treasurer.

10. INVESTMENT OBJECTIVE

The investment objective is to generate current income. Because these funds represent liquidity reserves, quality of the issues and liquidity of the portfolio are most important.

11. DIVERSIFICATION REQUIREMENTS

2011 | — Investments with greater than daily availability are subject to a diversification requirement of not exceeding 10% per institution and 20% per investment type of the reserve portfolio under management with any one institution. Exception to the diversification requirements are made for:  
 U.S. Government Treasury issues  
 U.S. Government Agency issues (excluding mortgage backed securities)  
 Issues that are rated AAA and have the full faith guarantee of the U.S. Government.

12. MATURITIES

Maturities of investments shall be selected to match the need for funding during the annual operating cycle.

13. LIQUIDITY

Liquidity and marketability should be prime considerations in the selection of individual securities.

14. ACCEPTABLE INVESTMENTS

- A. Money Market funds of authorized depositories
- B. Money Market funds from authorized depositories, not exceeding \$250,000 per institution, assembled by an agent of the City where the City provides the funds to the agent and the agent invests the funds in various money market funds on behalf of the City.
- CB. Funds invested in the State of Wisconsin Local Government Investment Program
- DG. Certificates of Deposit of local financial institutions that are authorized depositories with preference, when possible, to financial institutions located in the City of Franklin.
- ED. Government repurchase agreements with a minimum of 100% or more collateralization with respect to its estimated market value plus accrued interest where the underlined securities are U.S. Government Treasury issues, U.S. Government Agency issues (excluding mortgage backed securities), and Issues that are rated AAA and have the full faith guarantee of the U.S. Government including guaranteed Small Business Administration security issues (pools and loans).

15. RESTRICTIONS

- A. No security restricted in WI Statutes Sec 66.0603 will be purchased.
- B. No securities other than money market, government repurchase agreements, certificates of deposit, savings accounts or checking accounts are acceptable.
- C. All investment maturities shall be in less than 365 days.
- D. Investments that do not have either FDIC coverage or the full faith guarantee of the U.S. Government shall require a written credit analysis of the offering institution prior to making the investment.

2011

16. POLICY AND PERFORMANCE REVIEW AND PERFORMANCE MEASUREMENT

This investment policy shall be reviewed each year during the first quarter. There is no management benchmark for comparing portfolio performance of these funds.

Policy Revised:	March 6, 2012	Resolution 2012-XXXX
Policy Revised	March 1, 2011	Resolution 2011-6697
Policy Revised:	February 2, 2010	Resolution 2010-6625
Policy Revised:	February 6, 2009	Resolution 2009-6520
Policy Revised:	September 9, 2008	Resolution 2008-6480
Policy Established:	September 9, 2003	Resolution 2003-5584

3/26/2012

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