

INVESTMENT POLICY

CITY OF RAPID CITY
SOUTH DAKOTA
May 2012

City of Rapid City, South Dakota
Investment Policy

1. Policy

It is the policy of the City of Rapid City, South Dakota, 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 City and conforming to all applicable laws and procedures governing the investment of public funds.

2. Scope

This policy applies to the investment of short-term operating funds of the City of Rapid City within a Pooled Cash Fund. Except for funds held in trust or special funds that are otherwise specifically provided for, this Fund will consolidate the balances from all funds to maximize investment earnings and meet the liquidity requirements of the City subject to the primary objective of providing security of principal. Investment income will be allocated to the various funds based on their respective participation of capital in the overall portfolio in accordance with generally accepted accounting principles.

3. Prudence

The standard of prudence to be used by the 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 this 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.

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.

4. Objectives

The primary objectives, in priority order, of the City of Rapid City’s *operating accounts* (accounts held with a banking institution) shall be:

A. Stability of Principal

Stability of principal is the foremost objective of the investment program. Investments of the City of Rapid City shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. To maintain 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.

The portfolio shall also be invested to control interest rate risk. Interest rate risk is the risk that the market value of securities in the portfolio will fall due to changes in interest rates. Interest rate risk may be quantified and managed by investing operating funds per the maturity constraints and the average maturity target.

B. Liquidity

The City of Rapid City's investment portfolio will remain sufficiently liquid to enable the City to meet all operating requirements which might be reasonably anticipated. All attempts should be made to insure that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity.

C. Total Return on Investments

The City of Rapid City's investment portfolio shall be designed with the objective of attaining a competitive rate of return throughout budgetary and economic cycles, commensurate with the City of Rapid City's investment risk constraints and the cash flow characteristics of the portfolio.

D. Physical Presence in the City of Rapid City

The primary objectives, in priority order, of the City of Rapid City's ***managed accounts*** (accounts held with an investment institution) shall be:

A. Stability of Principal

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D. Physical Presence in the City of Rapid City

5. Delegation of Authority

Authority to manage and operate the investment program is granted to the Finance Officer or his/her designee by Resolution.

No person may engage in an investment transaction except as provided under the terms of this policy. The Finance Officer shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate investment employees.

6. Ethics and Conflicts of Interest

The Finance Officer 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.

Investment employees shall disclose any material interests in financial institutions with which they conduct business and any personal financial investment positions that could be related to the performance of the investment portfolio. The Finance Officer and investment employees shall refrain from participating in Initial Public Offerings (IPOs) in their personal investment activity.

7. Authorized Financial Dealer and Institution

Financial institutions will be authorized to provide investment services in a resolution approved by the Common Council designating them as official depositories for municipal funds. All financial institutions who desire to become qualified bidders for investment transactions and/or custody must all submit a certification of having read, understood and agree to comply with the City of Rapid City's investment policy.

Securities will be held by a third-party custodian as evidenced by safekeeping records.

If repurchase agreements are utilized, a Master Repurchase Agreement will be signed with the bank or dealer.

8. Authorized and Suitable Investments

The City of Rapid City is empowered by statute to invest in the following types of securities:

- A. Securities issued by the United States Treasury.
- B. Securities issued by government-sponsored enterprises (GSEs) or federally related institutions that are guaranteed directly or indirectly by the U.S. Government.

- C. Mutual and money market funds that invest in United States Treasury securities or securities issued by GSEs or federally related institutions that are guaranteed directly or indirectly by the U.S. Government.
- D. Certificates of Deposit (CDs).
- E. Repurchase agreements complying with State statute and requirements.
- F. Money Market Accounts.

The City of Rapid City is prohibited by statute to invest in the following types of securities:

- A. Restricted stock or private placements.
- B. Margin purchases or other uses of borrowed funds.
- C. Options, hedging or short sales.
- D. Commodities, warrants or speculative securities.

9. Collateralization

In accordance with SDCL 4-6A, 51-10-9, and 52-5-20, Qualified Public Depositories will furnish collateral in the sum equal to one hundred percent (100%) of the public deposit accounts which exceed deposit insurance.

SDCL 4-6A-3 requires that collateral be segregated by each depository in such manner as approved by the South Dakota Public Deposit Protection Commission. Collateral may not be held in any safety deposit vault owned or controlled either directly or indirectly by the pledging financial institution but must be deposited for safekeeping in a financial institution that is a member of the Federal Reserve.

10. Diversification

The City of Rapid City will diversify its pooled cash funds by security type and institution. With the exception of US Treasury securities, no more than 50% of the City of Rapid City's total pooled cash fund will be invested in a single financial institution.

11. Maturity Constraints

Maximum Maturity – To the extent possible, the City of Rapid City will attempt to match its investments with anticipated cash flow requirements. Securities shall be redeemable at the option of the City in the open market. Mutual and money market fund investments shall be redeemable at the option of the City.

Average Maturity – The average dollar-weighted maturity target of the operating cash fund is 1.5 years. The portfolio shall be reviewed by the Finance Officer for rebalancing if the average maturity moves to either less than one (1) year or greater than two (2) years.

12. Internal Controls

The Finance Officer is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the City of Rapid City 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:

- A. The cost of a control should not exceed the benefits likely to be derived.

- B. The valuation of costs and benefits requires estimates and judgments by the Finance Officer.

Accordingly, the City Council shall establish a process for an annual independent review by an external auditor to assure compliance with policies and procedures.

13. Performance Standards

The investment portfolio shall be designed with the objective of obtaining a competitive rate of return throughout budgetary and economic cycles, commensurate with the investment risk constraints and the cash flow needs.

Market Yield (Benchmark): The City Finance Officer, in conjunction with the money manager, will establish an appropriate benchmark, which may be revised from time to time, that will determine whether the portfolio is achieving market yields. The benchmark will recognize that the City of Rapid City's investment strategy is passive and is not intended to time the market.

Total Return (Benchmark): An appropriate benchmark for the total rate of return shall be adopted from time to time by the Finance Officer, in conjunction with the money manager. The benchmark shall recognize the City's investment strategy of maintaining a portfolio of secure investments with a high degree of liquidity. The objective of the benchmark is to provide a measure for evaluating the relative effectiveness of the City's investment strategy.

14. Reporting Methods

The investment portfolio will be managed in accordance with the parameters specified within this policy. The Finance Officer shall prepare an investment report annually, including a management summary that provides a clear picture of the status of the current investment portfolio. The report should be provided to the Mayor and the City Council and will include the following:

- A. Breakdown by security type (CD, U.S. Treasury, and money market funds).
- B. A listing, by maturity date, of individual securities held at the end of the reporting period.
- C. Unrealized gains or losses resulting from appreciation or depreciation by listing the cost and market value.
- D. The percentage of the total portfolio which each financial institution holds.
- E. A listing of all authorized depositories.

15. Amendment

This policy shall be reviewed on an annual basis. Any changes must be reviewed by the Finance Officer for recommendation to the Mayor and City Council.