

**BUDGET & FINANCE COMMITTEE  
PAYNESVILLE CITY HALL  
JUNE 7, 2010  
5:30 P.M.**

**AGENDA**

- I. CALL TO ORDER
  
- II. CONSENT AGENDA
  - A. Minutes (page 1)
  
- III. NEW BUSINESS
  - A. GO Bond of 2004 (page 4)
  
- IV. OLD BUSINESS
  - A. Liquor Store - Update
  - B. 2010 Budget
    - 1. Holiday Lighting Costs (page 5)
  - C. 2011 Budget – **Please bring your budget that was emailed to you last week with you to the meeting.**
    - 1. School 3 Year Plan (page 6)
    - 2. Projected Effect On Tax Levy By Elimination Of Local Government Aid (page 9)
    - 3. Grants (page 10)
  - D. Draft Investment Policy (page 11) – please review and bring any changes or suggestions with to the meeting.
  
- V. INFORMATIONAL
  
- VI. ADJOURN

**\*\*\*Please contact Renee Eckerly if you can't attend the meeting.\*\*\***

**Voting Members: Jean Soine, Belinda Ludwig, Dennis Zimmerman, Kirk Johnson, and Renee Eckerly.**

This agenda has been prepared to provide information regarding an upcoming meeting of the Paynesville Budget & Finance Committee. This document does not claim to be complete and is subject to change.

**BARRIER FREE:** All Paynesville Budget & Finance Committee meetings are accessible to the handicapped. Attempts will be made to accommodate any other individual need for special services. Please contact City Hall (320) 243-3714 early, so necessary arrangements can be made.

## REQUEST FOR COMMITTEE/COUNCIL ACTION

**COMMITTEE/COUNCIL NAME:** Budget & Finance Committee

Committee/Council Meeting Date: June 7, 2010

Agenda Section: Consent Agenda

Originating Department: Administration

Item Number: II - A

**ITEM DESCRIPTION:** Minutes

Prepared by: Staff

**COMMENTS:**

Please review the attached minutes from the May 10, 2010 Budget & Finance Committee meeting.

**ADMINISTRATOR COMMENTS:**

**COMMITTEE/COUNCIL ACTION:**

Motion to approve the minutes from the May 10, 21010 Budget & Finance Committee meeting.

**MINUTES  
BUDGET & FINANCE COMMITTEE**

**MAY 10, 2010**

Jean Soine called the meeting to order at 5:30 p.m. Other members present were Dennis Zimmerman, Renee Eckerly, and Kirk Johnson. Belinda Ludwig was absent.

**Motion was made by Zimmerman to approve the April 12, 2010 Budget & Finance Committee Meeting minutes. Seconded by Johnson and unanimously carried.**

**MEETING DATES**

June 7, July 12, and July 26 were approved for meeting dates.

**SERVER UPGRADE**

The Committee discussed the email from Tim Starkenburg, Bennett; explaining the \$3,000.00 cost for the installation of the migration from 32 bit to 64 bit and the cost to migrate from windows 2003 to 2008. The cost is okay and the \$5,963.64 would come from Capital Improvement Accounts.

**Motion was made by Johnson to approve the upgrade at the cost of \$5,963.64; payable to Bennett Office Technologies and recommend such to the City Council. Seconded by Zimmerman and unanimously carried.**

**GRANTS**

**City Hall & Fire Department** – All the plans are in and waiting on the grant documents from the State.

**ADA Compliancy** – handicapped doors at the Paynesville Area Center – The City did not get the grant. Decisions were based on repeat applicants, smaller communities, and funding of 100%. It was recommended to reapply in the fall of 2011.

**SCORE** – Mergen will get an update this Fall, if awarded

**Ethnic Festival** – The City should know by the end of May if the City is a grant recipient.

**Community** – The City is waiting to hear from Stearns County. Six communities applied and the County will award to four of them.

**Park & Tree** – The Board is researching a number of grant options for shelter and equipment grants.

**LIQUOR STORE UPDATE**

Eckerly reported on the Armory site and meeting today with the School and Credit Union representatives to work jointly and compromise. The City should know more after May 17, 2010.

## **2010 BUDGET**

**Holiday Lights** – Eckerly reported on the meeting with the Chamber of Commerce regarding the cost of changing the bulbs to LED. The Chamber requested to find out if the City will put money toward replacing the bulbs. The Committee stated there is no money; so either reduce the cost or electricity or the City will reduce the hours of the lights. Eckerly will update Jeb Johnson on the Committee's decision. The Chamber has suggested reducing the number of light units from 44 to 30.

**Legislative Update** – The Committee discussed the Supreme Court's decision and Zimmerman updated the Committee on today's action.

## **2011 BUDGET**

**School Fields** - Eckerly distributed a new 3-year recreation facility plan that was received today from the school. The Committee will keep \$9,150.00 in the budget for now, but to contact the school to make sure that these are essential purchases.

An electronic preliminary budget will be sent to the Committee members on Wednesday.

## **INSURANCE AGENT**

Eckerly reported that Dombrovski was missing from the list and did not get an RFP and they wanted to be given a chance to bid. To be fair, the Committee requested that the packets be resent out to all agents with a closing date of Monday, May 17, 2010 and to go to Council on May 16, 2010.

There being no further business, the meeting was adjourned at 6:35 p.m.

**IM G.O. Improvement Bonds of 2004 (Fund #485)**  
**Table 12-1-11 @ 100**

Year	Principal	Coupon	Interest	Payment	5% Cov'g	Total Required	Year	Sewer & Water Rates	Special Assessments	Tax Levies	Interest Earnings	OK Fund Balance
2 2010	60,000	2.80%	26,040	86,040	4,302	90,342	2010	29,000	27,207	18,000	10,644	354,811
2 2011	60,000	3.00%	24,360	84,360	4,218	88,578	2011	29,000	26,076	19,000	10,480	349,320
2 2012	65,000	3.20%	22,560	87,560	4,378	91,938	2012	29,000	24,944	20,000	10,359	337,662
2 2013	65,000	3.40%	20,480	85,480	4,274	89,754	2013	29,000	23,813	21,000	10,130	331,851
2 2014	70,000	3.60%	18,270	88,270	4,414	92,684	2014	29,000	22,681	21,000	9,956	321,804
2 2015	70,000	3.80%	15,750	85,750	4,288	90,038	2015	29,000	0	22,000	9,654	292,421
2 2016	75,000	4.00%	13,090	88,090	4,405	92,495	2016	29,000	0	23,000	8,773	260,699
2 2017	75,000	4.10%	10,090	85,090	4,255	89,345	2017	29,000	0	23,000	7,821	231,176
2 2018	80,000	4.20%	7,015	87,015	4,351	91,366	2018	29,000	0	24,000	6,935	199,745
2 2019	85,000	4.30%	3,655	88,655	4,433	93,088	2019	29,000	0	25,000	5,992	166,650
<b>705,000</b>			<b>161,310</b>	<b>866,310</b>	<b>43,316</b>	<b>909,626</b>		<b>290,000</b>	<b>124,721</b>	<b>216,000</b>	<b>90,744</b>	

The Improvement Bonds of 2004 were issued for a total Principal amount of \$990,000. Final bond payment is scheduled for December of 2019. Bond proceeds financed the Hudson Street, Belmont Street, Railroad Street, Lake Avenue, Industrial Loop and Service Road improvements. The bonds are payable from water and sewer revenues, special assessments, annual tax levies and are additionally secured by unlimited ad valorem taxes. The early call feature becomes effective December 1, 2011.

**Recommendation:** Provided sewer and water revenues and special assessments are received as indicated, tax levies collectible from 2014 through 2019 can be cancelled, still producing a positive cash flow upon final maturity of this issue.

*Option:  
 Tax levies 2010-2013 = 78,000  
 Divide by 10 years +  
 remove 2014-2019  
 levies*

5

## Jennifer Welling

---

**From:** Renee Eckerly  
**Sent:** Friday, May 21, 2010 2:46 PM  
**To:** Jennifer Welling  
**Subject:** FW: bulbs

For Finance

Renee Eckerly  
City Administrator – Paynesville, MN  
Email: [ReneeE@paynesvillemn.com](mailto:ReneeE@paynesvillemn.com)  
Telephone: 320-243-3714 ext. 227  
Fax: 320-243-3713

---

**From:** Jeb M Johnson [mailto:[jjfmbank@lkdllink.net](mailto:jjfmbank@lkdllink.net)]  
**Sent:** Tuesday, May 18, 2010 2:15 PM  
**To:** Renee Eckerly  
**Subject:** bulbs

Renee,  
We have decided not to replace the bulbs or the actual lights this year, mainly because we just don't have enough money to do it. We're not going to make any changes, I have talked to Ron. We have made it a goal to light up the entrances to town after the detour, and we're going to stick to that goal. At the rate we have been raising funds through our annual waffle breakfast, we will need all of our current funds plus the next three year's net proceeds to do anything at all. I wish we were in a position to lower these operating costs but we aren't.

Thanks

Jeb Johnson  
Farmers & Merchants State Bank  
PO Box 137 Paynesville, MN 56362  
320-243-3702  
[Jeb@fmpaynesville.com](mailto:Jeb@fmpaynesville.com)

## Jennifer Welling

---

**From:** Renee Eckerly  
**Sent:** Tuesday, May 11, 2010 2:34 PM  
**To:** Jennifer Welling  
**Subject:** FW: 3 year proposal

Please put on June 7<sup>th</sup> Finance agenda

Renee Eckerly  
City Administrator – Paynesville, MN  
Email: [ReneeE@paynesvillemn.com](mailto:ReneeE@paynesvillemn.com)  
Telephone: 320-243-3714 ext. 227  
Fax: 320-243-3713

**From:** Matt Dickhausen [<mailto:mdickhausen@paynesville.k12.mn.us>]  
**Sent:** Tuesday, May 11, 2010 1:41 PM  
**To:** Renee Eckerly  
**Cc:** Burlingame Todd  
**Subject:** RE: 3 year proposal

Hi Renee,

The field mowing and dragging are estimates based on average yearly expense. They move up a bit due to expected pay and tax increases.

The items listed in the proposal are items that we feel are essential to the maintenance and playability of our facilities. That being said, the Tennis Court Resurfacing will only be done if it is greatly needed at that time. Right now they are in good shape but we feel that we need to have the resurfacing at least on our radar screen. The year selected in the plan is when they should be resurfaced.

Please let me know if you have any other questions.

Thanks,

Matt Dickhausen  
Director  
[Paynesville Area Community Education](#)  
[Paynesville Fitness Center](#)  
320-243-7570

**From:** Renee Eckerly [<mailto:Renee@paynesvillemn.com>]  
**Sent:** Tuesday, May 11, 2010 10:36 AM  
**To:** Matt Dickhausen  
**Cc:** Burlingame Todd  
**Subject:** RE: 3 year proposal

Matt & Todd,

I presented the proposal to the Finance Committee last night. They requested that I contact you and find out if the items listed are essential such as the purchase of bleachers for elementary baseball field, new backstop on HS JV softball field, resurfacing the tennis courts. Also the field mowing and dragging expenses increase each year, could you tell me why? The next Finance meeting is June 7<sup>th</sup>.

Thank you

Renee Eckerly  
City Administrator – Paynesville, MN  
Email: [ReneeE@paynesvillemn.com](mailto:ReneeE@paynesvillemn.com)  
Telephone: 320-243-3714 ext. 227  
Fax: 320-243-3713

**From:** Matt Dickhausen [mailto:mdickhausen@paynesville.k12.mn.us]  
**Sent:** Monday, May 10, 2010 11:54 AM  
**To:** Renee Eckerly  
**Cc:** Burlingame Todd  
**Subject:** 3 year proposal

Hi Renee,  
Please see attached for the requested Proposed Paynesville Area School District and City of Paynesville  
3 Year Outdoor Summer Recreation Facility Plan.

Please let me know if you have any questions.

Thanks and have a Great Day!

**Matt Dickhausen**  
**Director**  
**Paynesville Area Community Education**  
**Paynesville Fitness Center**  
**320-243-7570**





**Projected Effect on Tax Levy by Elimination of Local Government Aid**

Based on \$1,889,241.00 for Expenditures 2011 Budget

Revenue Amount other than LGA and Property Taxes = \$610,961.00

<b>LGA Amount</b>	<b>Property Tax Levy</b>	<b>% Levy</b>
\$0.00	\$1,278,280.00	176.19%
\$100,000.00	\$1,178,280.00	153.73%
\$200,000.00	\$1,078,280.00	131.28%
\$300,000.00	\$978,280.00	108.82%
\$400,000.00	\$878,280.00	86.36%
\$500,000.00	\$778,280.00	63.90%
\$600,000.00	\$678,280.00	41.44%
\$679,705 amount in 2011 budget	\$598,575.00	23.54%

**Grants**  
as of June 2, 2010

Year Applied	Year of Award	Dept	Total Cost of Project	Grant Award	Other Contributions	City Cost	Grant Agency	Comment
2010	2010	Fire	\$6,427.50	\$2,000.00	\$4,427.50	\$0.00	DNR- Division of Forestry	Wildland Personal Protective Equipment \$4,427.50 is being paid by Fire Dept fundraiser monies
2009	2010	Fire	\$30,125.00	\$28,619.00	\$0.00	\$1,506.00	FEMA	Turn Out gear
2010	open	Fire	\$25,421.00		\$0.00	\$1,271.00	FEMA	10 800mghz radios and base unit
2010	denied	Elections	\$5,587.00	\$0.00	\$0.00	\$0.00	MN Secretary of State Office	Install automated door openers at Area Center to make building ADA compliant for election
2010	2010	Municipal Blding/Fire	\$52,106.00	\$47,069.00	\$0.00	\$5,037.00	Dept of Commerce	install 2-new HVAC unit at City Hall and replace lighting fixtures at Fire Hall
2010	open	Human Rights	\$7,191.00		\$3,441.00	\$0.00	Central MN Arts Board	Requested amount \$3,600.00
2010	open	Trail	\$36,470.00			\$0.00	Stearns County	Request for a bike greenway from Area Center to Trail, shelter at Area Center and Community Garden produce to school program. This grant is with the school, hospital, area center, community gardens club, community ed.
2006	2010	Trail	\$750,000.00	\$400,000.00	\$170,000.00	open	SAFE-TEA LU and DNR	Phase 6 & 8 of Lake Koronis Recreational Trail
2008	2012	Trail	\$430,300.00	\$284,240.00		open	SAFE-TEA LU	Phase 7 of Lake Koronis Recreational Trail The City will apply for a DNR grant to help offset the local match of \$146,060.00
2007	2007	EDAP	\$1,101,414.00	\$814,506.00	\$212,202.00	\$75,000.00	MN DEED-Small Cities	EDAP used revolving loan funds to cover the \$75,000. There was 16 loans issued to business for \$3,735.30. This grant was closed Dec. 2009, but is revolving money that may come back in if rehab building sold before timeframe expires.
2008	2008	EDAP	\$251,950.00	\$206,950.00	\$45,000.00	\$0.00	MN DEED-Small Cities	This grant closes Dec. 2010. Last project should be completed in June 2010 and final report presented to City Council in July 2010.
	2007	Airport	\$60,000.00	\$57,000.00	\$0.00	\$3,000.00		SP7302-11 - ALP
	2009	Airport	\$366,245.00	\$347,932.00	\$0.00	\$18,313.00		SP7302-13 - Airport Hanger
	2010	Airport	\$75,000.00	\$71,250.00	\$0.00	\$3,750.00		SP7302-14 - Airport Hanger

CITY OF PAYNESVILLE  
INVESTMENT POLICY

**PURPOSE**

The purpose of this policy is to establish the city's investment objectives and establish specific guidelines that the City of Paynesville will use in the investment of city funds. It will be the responsibility of the City Administrator or Treasurer to invest city funds in order to attain a market rate of return while preserving and protecting the capital of the overall portfolio. Investments will be made, based on statutory constraints, in safe, low risk instruments.

Formatted: Indent: Left: 0"

**SCOPE**

This policy covers all monies of the City of Paynesville and includes deposits and investments of funds deposited in interest bearing accounts.

It is a common occurrence for the City of Paynesville to have cash balances in various fund accounts which, though allocated for a specific purpose, remain unexpended. It is the policy of the City that any fund with a cash balance which will remain unexpended for a reasonable period of time, shall be invested in a manner as outlined below.

**DELEGATION OF AUTHORITY**

Minnesota Statutes Chapter 118A.02 permits the governing body to authorize the treasurer or chief financial officer to make investments of funds under sections 118A.01 to 118A.06. Therefore, the City Administrator is authorized to invest public funds within the confines of this Policy and State Statute for the City Council.

Formatted: Indent: Left: 0"

The City Administrator shall assure compliance with this policy and further develop and maintain adequate controls, procedures, and methods assuring safety and accurate accounting on a day to day basis.

Formatted: Justified

**CHIEF INVESTMENT OFFICER**

The chief investment officer will be the City Administrator, who will assure compliance with this policy and further develop and maintain adequate controls, procedures and methods of assuring safe and adequate accounting on a day-to-day basis. The City Administrator will provide the City Council, on a regular basis, all and any information requested and ~~keep~~keeps elected officials fully apprised of any problems, changes, or irregularities which may occur to assure proper handling of City funds.

**PRUDENCE**

The standard of prudence to be used by investment officials shall be the "prudent investor", and shall be applied in the context of managing the overall portfolio. Investment officers acting in accordance with this policy and with MN Statute 118A, and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided that reasonable action is taken

Formatted: Indent: Left: 0"

to control adverse developments and unexpected deviations are reported in a timely manner.

**ETHICS AND CONFLICTS OF INTEREST**

Officers and employees involved in the investment process shall refrain from personal business activity that would conflict with proper execution of the investment policy, or which would impair their ability to make impartial investment decisions. Employees and investment officials shall disclose to the City Council any large personal financial or investment positions that could be related to the performance of this jurisdiction's portfolio. Employees and officials shall subordinate their personal investment transactions to those of this jurisdiction, particularly with regard to the timing of purchases and sales.

**OBJECTIVES**

At all times investments of the City shall be in accordance with Minnesota Statutes Chapter 118A and amendments. (Refer to Appendix A.) The primary objectives of the City's investment activities shall be in the following order of priority:

Formatted: Indent: Left: 0"

**A. Safety of principal.** Safety of the principal is the foremost objective of the city. Each investment transaction must seek to first insure that capital losses are avoided. The objective will be to mitigate credit risk and interest rate risk.

Formatted: Indent: Left: 0.5"

Formatted: Font: Bold

Credit Risk is the risk of loss due to failure of the security issuer or backer.

Formatted: Indent: First line: 0.5"

Interest Rate Risk is the risk that the market value of securities in the portfolio will fall due to changes in general interest rates.

Formatted: Indent: Left: 0.5"

Depositories as designated shall have insurance through the Federal Deposit Insurance Corporation (FDIC) or National Credit Union share Insurance Fund (NCUSIF).

Formatted: Indent: Left: 0.5"

To ensure safety, it is the policy of the City that when considering an investment, all depositories under consideration by cross-checked against existing investments to make certain that funds in excess of insurance limits are not made in the same institution unless collateralized as outlined below.

Formatted: Indent: Left: 0.5"

**B. Liquidity.** The investment portfolio must remain sufficiently liquid to meet all operating costs that may be reasonably anticipated. The portfolio must be structured so that securities mature concurrent with cash needs to meet anticipated demands. Cash needs will be determined based on cash flow forecasts prepared during the budget process.

Formatted: Indent: Left: 0.5"

Formatted: Font: Bold

**C. Diversification of instruments.** A variety of investment vehicles must be used so as to minimize the exposure to risk of loss. The investment portfolio must be diversified by individual financial institution, government agency, or by

Formatted: Indent: Left: 0.5"

Formatted: Font: Bold

corporation (in the case of commercial paper) to reduce the exposure to risk of loss.

**D. Diversification of maturity dates.** Investment maturity dates should vary in order to ensure that the city will have money available when it needs it. Extended maturities may be utilized to take advantage of higher yields; however, no more than % of the total investments should extend beyond five (5) years and in no circumstance should any extend beyond 10 years.

Formatted: Indent: Left: 0.5"

Formatted: Font: Bold

**E. Yield.** The investment portfolio shall be designed to attain a market average rate of return through budgetary and economic cycles, taking into consideration the city's investment risk constraints, cash flow characteristics of the portfolio and prudent investment principles.

Formatted: Font: Bold

Formatted: Indent: Left: 0.5"

**INTERNAL CONTROLS**

The City Administrator shall establish a system of internal controls, which shall be documented in writing. The internal controls shall be reviewed by the City Council and with the City Auditor. The controls shall be designed to prevent losses of public funds arising from fraud, employee error, misrepresentations by third parties, unanticipated changes in financial markets, or imprudent actions by employees and officers of the City of Paynesville.

**CONSULTANTS**

The retention of consultants, agreements with money managers, etc., will not be authorized without express consent of the City Council after recommendations by the City Administrator.

**SAFETY OF PRINCIPAL**

Safety of principal is the first priority in investing City funds. The City invests only in those investment instruments authorized for municipalities under Minnesota Statutes Chapters 471.56 and 475.66. Depositories as designated shall have insurance through the Federal Deposit Insurance Corporation (FDIC). To ensure safety, it is the policy of the City that when considering an investment, all depositories under consideration be cross-checked against existing investments to make certain that funds in excess of insurance limits are not made in the same institution unless collateralized as outlined below.

**COLLATERALIZATION**

All City funds must be deposited in financial institutions which provide \$100,000.00 in government insurance protection. At no time, will deposits in any one institution exceed \$100,000.00 unless such excesses are protected by pledged securities.

Pledged securities, computed at market value, will be limited to the following.

1. United States Treasury Bills, Notes, or Bonds all of which must mature within five years. Such securities pledged must cover all City deposits in the amount of 110%.
2. United States Agency securities guaranteed by the United States Government. Such securities pledged must cover all City deposits in the amount of 120%.
3. Repurchase Agreements, with maturities not exceeding one year, secured by United States Government Bills, Notes, or Bonds, in the amount of 120%.
4. Municipal General Obligation Bonds, rated "A" ~~or~~ or better by Moodys provided no single issue exceeds \$200,000.00 with maturities not exceeding five years. Such municipal bonds pledged must cover all City deposits in the amount of 110%.
5. Irrevocable standby letters of credit issued by Federal Home Loan Banks to a municipality accompanied by written evidence that the bank's public debt is rated "AA" or better by Moody's Investors Service, Inc. or Standard & Poor's Corporation.

No other collateral except as designated in 1, 2, 3, or 4 above will be authorized. Securities detailed above under 1 and 2 may be purchased directly by the City when deemed feasible.

City at the time funds are invested must be provided to the City Administrator on the same business day the investment is purchased. The original "Agreement for Safekeeping of Pledged Securities" shall be delivered to the City Administrator within five business days following purchase of the investment. Also, a Certification of Adoption of Resolution approving assignment of collateral by depository's Board of Directors or loan committee shall be provided for each security pledged. Changes in the values of the securities pledged shall be delivered to the City Administrator immediately by the financial institution.

Formatted: Indent: Left: 0"

#### **AUTHORIZED INVESTMENTS**

All City investments shall be in accordance with Minnesota Statutes Chapter 118A and amendments and shall favor the following instruments:  
Examples of authorized investments are as follows:

Formatted: Indent: Left: 0"

1. Cash deposited in any savings association, commercial bank, trust company, credit union, or industrial loan and thrift institution whose funds are fully insured by the Federal Deposit Insurance Corporation (FDIC) or the Federal Savings and Loan Insurance Corporation (FSLIC) or National Credit Union Administration (NCUA) or collateralized with obligations described in Section VII of this Policy;
2. Operating Bank Account - Deposits shall be limited to the amounts guaranteed by FDIC, FSLIC or NCUA unless overnight funds in excess are fully collateralized under the specific requirements of Section VII of this Policy;
3. Certificates of Deposit, Time Deposits and other evidences of deposits from thrift institutions, banks, savings banks, trust companies, or savings and loan associations which are authorized to transact business in the State of Minnesota (State). Deposits of public funds which exceed FDIC, FSLIC or NCUA insurance are to be fully collateralized under Section VII of this Policy;
4. Shares in Minnesota Municipal Joint Powers Investment Trust (4M Fund), and other investment trusts that comply with state statutes;
5. Direct obligations of the Department of the Treasury of the U.S. Government and federal agency issues which are guaranteed by the U.S. Government as to principal and interest;
6. General obligations of the State of Minnesota (including Minnesota Housing Finance Agency) and local governments with taxing powers, which is rated "A" or better by a national bond rating service, provided no single issue exceeds \$200,000 with maturities not exceeding seven years.

Investments specifically prohibited are derivative products, structured notes, inverse index bonds, repurchase agreements not authorized by statute, and other exotic products.

1. Direct United States Government Obligations

- A. Treasury Bills
- B. Treasury Certificates
- C. Treasury Notes
- D. Treasury Bonds

2. Federal Agency Issues

- A. Federal Home Loan Bank Notes
- B. Federal National Mortgage Association Notes
- C. Federal Intermediate Credit Bank Debentures
- D. Federal Farm Credit Bank Discount Corporation Notes or Bonds



- ~~E. Federal Home Loan Mortgage Corporation Notes or Bonds~~
- ~~F. Government national Mortgage Association Notes~~
- ~~3. Shares in investment companies whose only investments are United States Government and agency issues.~~
- ~~4. General Obligations of the State of Minnesota, rated "A" or better by Moody's, provided no single issue exceeds \$200,000.00 with maturities not exceeding five years.~~
- ~~5. Bankers Acceptance of U. S. Banks eligible for purchase by the Federal Reserve System.~~
- ~~6. Commercial paper, rated A-1, P-1, and F-1, for maturities of 90 days or less.~~
- ~~7. Interest bearing deposits (checking account, certificates of deposits, money market savings, ordinary savings).~~

**PROHIBITED INVESTMENTS**

It is the City's policy to refrain from investing in banks, savings and loan associations, or credit unions whose equity to asset ratio is less than 6.0%.

**MAXIMUM INVESTMENT**

It is the policy of the City to determine its cash balances on a regular basis for the purpose of investing excess funds.

**POOLING INVESTMENTS**

For the purpose of making the maximum amount of funds available for investment, the cash for all City funds is pooled in an investment account. Interest earnings are allocated among the various funds based upon their average cash balance.

**LIQUIDTY**

~~The purpose of having part of the City's portfolio in very liquid funds is to ensure that funds will be available should an unexpected large bill be presented for payment.~~

## LOCAL INVESTMENTS

The City's investment portfolio shall be invested in certificates of deposit or other instruments through banks or other financial institutions located in the local area provided adequate insurance and conforming pledging is available in conformance with authorized securities. The local area is defined as the City of Paynesville. Deposits in institutions outside of the City are allowed when rates exceed the rates of institutions located within the City, ~~by at least ten basis points (0.10%). Deposits in institutions outside the local area are allowed when they exceed local rates by at least fifteen basis points (0.15%).~~

## MAXIMUM INTEREST EARNINGS

~~After the liquidity needs, and scheduled maturity needs are satisfied, the balance of the funds available for investment are placed with institutions that offer the greatest safety and highest rate of return consistent with the maturities as determined by the City. Quotations or telephone bids are normally taken for all investments, whether they are short term or long term.~~

## CRITERIA FOR SELECTION OF INVESTMENTS

- ~~1. — **Safety** — Regardless of any other considerations, the protection of the taxpayer's money must be assured. Speculation with the principal amount of the investment is never justified.~~
- ~~2. — **Timing of Maturities** — When funds are needed, they must be available.~~
- ~~3. — **Liquidity** — A proper investment must be sufficiently liquid so that the City is able to obtain cash if an emergency arises.~~
- ~~4. — **Yield** — If the Safety, Timing of Maturities, and Liquidity factors have received proper consideration, the investment or deposit providing the maximum earnings may be made since the object of investing idle funds is to put the taxpayer's money to a use that will yield the greatest return consistent with safety and the City's later need for that money.~~

## ETHICS AND CONFLICTS OF INTEREST

Officers and employees involved in the investment process shall refrain from personal business activity that would conflict with proper execution of the investment policy, or which would impair their ability to make impartial investment decisions. Employees and investment officials shall disclose to the City Council any large personal financial or investment positions that could be related to the performance of this jurisdiction's portfolio. Employees and officials shall subordinate their personal investment transactions to those of this jurisdiction, particularly with regard to the timing of purchases and sales.

**INTERNAL CONTROLS**

The City Administrator shall establish a system of internal controls. Those controls will be the City Administrator make the investment selection. The Accounting Specialist will prepare the wire transfer of funds and the Accounting Specialist Senior will make the entries and verify the amount with the financial institution. The internal controls shall be reviewed by the City Council and with the City Auditor. The controls shall be designed to prevent losses of public funds arising from fraud, employee error, misrepresentations by third parties, unanticipated changes in financial markets, or imprudent actions by employees and officers of the City of Paynesville.

Before the City invests any surplus funds, competitive quotations shall be obtained. If a specific maturity date is required, either for cash flow purposes or for conformance to maturity guidelines, quotations will be requested for instruments which meet the maturity requirement. The City will accept the quotation which provides the highest rate of return within the maturity required and within the limits of this Policy.

Formatted: Indent: Left: 0"

Monthly, the City Administrator shall provide an investments report to the City Council. Investments shall be audited and reported with the City's financial statement annually.

Formatted: Indent: Left: 0"

**ANNUAL REVIEW**

It shall be the practice of the City Council to review and ~~approve~~ amend the investment policy ~~each year on it's first regular meeting in September from time to time as needed.~~

Adopted this \_\_\_\_\_ day of \_\_\_\_\_, ~~2002-2010~~ upon the proper adoption of Resolution \_\_\_\_\_ by the City Council of the City of Paynesville.

18

**CHAPTER 118A**  
**DEPOSIT AND INVESTMENT OF LOCAL PUBLIC FUNDS**

118A.01	DEFINITIONS.	118A.05	CONTRACTS AND AGREEMENTS.
118A.02	DEPOSITORIES; INVESTING; SALES, PROCEEDS, IMMUNITY.	118A.06	SAFEKEEPING; ACKNOWLEDGEMENTS.
118A.03	WHEN AND WHAT COLLATERAL REQUIRED.	118A.07	ADDITIONAL INVESTMENT AUTHORITY.
118A.04	INVESTMENTS.	118A.08	NO SUPERSEDING EFFECT.

**118A.01 DEFINITIONS.**

Subdivision 1. **Application.** The definitions in this section apply to sections 118A.01 to 118A.06.

Subd. 2. **Government entity.** (a) "Government entity" means a county, city, town, school district, hospital district, public authority, public corporation, public commission, special district, any other political subdivision, except an entity whose investment authority is specified under chapter 11A or 356A.

(b) For the purposes of sections 118A.02 and 118A.03 only, the term includes an American Indian tribal government entity located within a federally recognized American Indian reservation.

Subd. 3. **Financial institution.** "Financial institution" means a savings association, commercial bank, trust company, credit union, or industrial loan and thrift company.

Subd. 4. **Public funds.** "Public funds" means all general, special, permanent, trust, and other funds, regardless of source or purpose, held or administered by a government entity, unless otherwise restricted.

**History:** 1996 c 399 art 1 s 2; 1999 c 151 s 39

**118A.02 DEPOSITORIES; INVESTING; SALES, PROCEEDS, IMMUNITY.**

Subdivision 1. **Designation; delegation.** (a) The governing body of each government entity shall designate, as a depository of its funds, one or more financial institutions.

(b) The governing body may authorize the treasurer or chief financial officer to:

(1) designate depositories of the funds;

(2) make investments of funds under sections 118A.01 to 118A.06 or other applicable law; or

(3) both designate depositories and make investments as provided in this subdivision.

Subd. 2. **Sale; proceeds; immunity, if loss.** (a) The treasurer or chief financial officer of a government entity may at any time sell obligations purchased pursuant to this section and the money received from such sale, and the interest and profits or loss on such investment shall be

credited or charged, as the case may be, to the fund from which the investment was made.

(b) Neither such official nor government entity, nor any other official responsible for the custody of such funds, shall be personally liable for any loss sustained from the deposit or investment of funds in accordance with the provisions of sections 118A.04 and 118A.05.

**History:** 1996 c 399 art 1 s 3

### **118A.03 WHEN AND WHAT COLLATERAL REQUIRED.**

Subdivision 1. **For deposits beyond insurance.** To the extent that funds on deposit at the close of the financial institution's banking day exceed available federal deposit insurance, the government entity shall require the financial institution to furnish collateral security or a corporate surety bond executed by a company authorized to do business in the state. For the purposes of this section, "banking day" has the meaning given in Federal Reserve Board Regulation CC, Code of Federal Regulations, title 12, section 229.2(f), and incorporates a financial institution's cutoff hour established under section 336.4-108.

Subd. 2. **In lieu of surety bond.** The following are the allowable forms of collateral in lieu of a corporate surety bond:

(1) United States government Treasury bills, Treasury notes, Treasury bonds;

(2) issues of United States government agencies and instrumentalities as quoted by a recognized industry quotation service available to the government entity;

(3) general obligation securities of any state or local government with taxing powers which is rated "A" or better by a national bond rating service, or revenue obligation securities of any state or local government with taxing powers which is rated "AA" or better by a national bond rating service;

(4) general obligation securities of a local government with taxing powers may be pledged as collateral against funds deposited by that same local government entity;

(5) irrevocable standby letters of credit issued by Federal Home Loan Banks to a municipality accompanied by written evidence that the bank's public debt is rated "AA" or better by Moody's Investors Service, Inc., or Standard & Poor's Corporation; and

(6) time deposits that are fully insured by any federal agency.

Subd. 3. **Amount.** The total amount of the collateral computed at its market value shall be at least ten percent more than the amount on deposit at the close of the financial institution's banking day, except that where the collateral is irrevocable standby letters of credit issued by Federal Home Loan Banks, the amount of collateral shall be at least equal to the amount on deposit at the close of the financial institution's banking day. The financial institution may furnish both a surety bond and collateral aggregating the required amount.

Subd. 4. **Assignment.** Any collateral pledged shall be accompanied by a written assignment to the government entity from the financial institution. The written assignment shall recite that, upon default, the financial institution shall release to the government entity on demand, free of exchange or any other charges, the collateral pledged. Interest earned on assigned collateral will be remitted to the financial institution so long as it is not in default. The government entity may sell the collateral to recover the amount due. Any surplus from the sale of the collateral shall be payable to the financial institution, its assigns, or both.

Subd. 5. **Withdrawal of excess collateral.** A financial institution may withdraw excess collateral or substitute other collateral after giving written notice to the governmental entity and receiving confirmation. The authority to return any delivered and assigned collateral rests with the government entity.

Subd. 6. **Default.** For purposes of this section, default on the part of the financial institution includes, but is not limited to, failure to make interest payments when due, failure to promptly deliver upon demand all money on deposit, less any early withdrawal penalty that may be required in connection with the withdrawal of a time deposit, or closure of the depository. If a financial institution closes, all deposits shall be immediately due and payable. It shall not be a default under this subdivision to require prior notice of withdrawal if such notice is required as a condition of withdrawal by applicable federal law or regulation.

Subd. 7. **Safekeeping.** All collateral shall be placed in safekeeping in a restricted account at a Federal Reserve bank, or in an account at a trust department of a commercial bank or other financial institution that is not owned or controlled by the financial institution furnishing the collateral. The selection shall be approved by the government entity.

**History:** 1996 c 399 art 1 s 4; 2003 c 51 s 15,16; 2004 c 151 s 1,2; 2004 c 174 s 2; 2007 c 44 s 7; 2007 c 57 art 3 s 39; 2008 c 154 art 10 s 1

**NOTE:** The amendments made to subdivisions 1 and 3 by Laws 2004, chapter 151, sections 1 and 2, are effective retroactively from the beginning of a government entity's fiscal year 2003 and apply to each fiscal year thereafter. Laws 2004, chapter 151, section 3.

#### 118A.04 INVESTMENTS.

Subdivision 1. **What may be invested.** Any public funds, not presently needed for other purposes or restricted for other purposes, may be invested in the manner and subject to the conditions provided for in this section.

Subd. 2. **United States securities.** Public funds may be invested in governmental bonds, notes, bills, mortgages (excluding high-risk mortgage-backed securities), and other securities, which are direct obligations or are guaranteed or insured issues of the United States, its agencies,

its instrumentalities, or organizations created by an act of Congress.

Subd. 3. **State and local securities.** Funds may be invested in the following:

(1) any security which is a general obligation of any state or local government with taxing powers which is rated "A" or better by a national bond rating service;

(2) any security which is a revenue obligation of any state or local government with taxing powers which is rated "AA" or better by a national bond rating service; and

(3) a general obligation of the Minnesota housing finance agency which is a moral obligation of the state of Minnesota and is rated "A" or better by a national bond rating agency.

Subd. 4. **Commercial papers.** Funds may be invested in commercial paper issued by United States corporations or their Canadian subsidiaries that is rated in the highest quality category by at least two nationally recognized rating agencies and matures in 270 days or less.

Subd. 5. **Time deposits.** Funds may be invested in time deposits that are fully insured by the Federal Deposit Insurance Corporation or bankers acceptances of United States banks.

Subd. 6. **High-risk mortgage-backed securities.** For the purposes of this section and section 118A.05, "high-risk mortgage-backed securities" are:

(a) interest-only or principal-only mortgage-backed securities; and

(b) any mortgage derivative security that:

(1) has an expected average life greater than ten years;

(2) has an expected average life that:

(i) will extend by more than four years as the result of an immediate and sustained parallel shift in the yield curve of plus 300 basis points; or

(ii) will shorten by more than six years as the result of an immediate and sustained parallel shift in the yield curve of minus 300 basis points; or

(3) will have an estimated change in price of more than 17 percent as the result of an immediate and sustained parallel shift in the yield curve of plus or minus 300 basis points.

Subd. 7. **Temporary general obligation bonds.** Funds may be invested in general obligation temporary bonds of the same governmental entity issued under section 429.091, subdivision 7, 469.178, subdivision 5, or 475.61, subdivision 6.

Subd. 8. **Debt service funds.** Funds held in a debt service fund may be used to purchase any obligation, whether general or special, of an issue which is payable from the fund, at such price, which may include a premium, as shall be agreed to by the holder, or may be used to redeem any obligation of such an issue prior to maturity in accordance with its terms. The securities representing any such investment may be sold by the governmental entity at any time,

but the money so received remains part of the fund until used for the purpose for which the fund was created. Any obligation held in a debt service fund from which it is payable may be canceled at any time unless otherwise provided in a resolution or other instrument securing obligations payable from the fund.

**Subd. 9. Broker; statement and receipt.** (a) For the purpose of this section and section 118A.05, the term "broker" means a broker-dealer, broker, or agent of a government entity, who transfers, purchases, sells, or obtains securities for, or on behalf of, a government entity.

(b) Prior to completing an initial transaction with a broker, a government entity shall provide annually to the broker a written statement of investment restrictions which shall include a provision that all future investments are to be made in accordance with Minnesota Statutes governing the investment of public funds.

(c) A broker must acknowledge annually receipt of the statement of investment restrictions in writing and agree to handle the government entity's account in accordance with these restrictions. A government entity may not enter into a transaction with a broker until the broker has provided this written agreement to the government entity.

(d) The state auditor shall prepare uniform notification forms which shall be used by the government entities and the brokers to meet the requirements of this subdivision.

**History:** 1996 c 399 art 1 s 5

#### **118A.05 CONTRACTS AND AGREEMENTS.**

Subdivision 1. **May enter into.** In addition to other authority granted in sections 118A.01 to 118A.06, government entities may enter into contracts and agreements as follows.

**Subd. 2. Repurchase agreements.** Repurchase agreements consisting of collateral allowable in section 118A.04, and reverse repurchase agreements may be entered into with any of the following entities:

- (1) a financial institution qualified as a "depository" of public funds of the government entity;
- (2) any other financial institution which is a member of the Federal Reserve System and whose combined capital and surplus equals or exceeds \$10,000,000;
- (3) a primary reporting dealer in United States government securities to the Federal Reserve Bank of New York; or
- (4) a securities broker-dealer licensed pursuant to chapter 80A, or an affiliate of it, regulated by the Securities and Exchange Commission and maintaining a combined capital and surplus of \$40,000,000 or more, exclusive of subordinated debt.



Reverse agreements may only be entered into for a period of 90 days or less and only to meet short-term cash flow needs. In no event may reverse repurchase agreements be entered into for the purpose of generating cash for investments, except as stated in subdivision 3.

Subd. 3. **Securities lending agreements.** Securities lending agreements, including custody agreements, may be entered into with a financial institution meeting the qualifications of subdivision 2, clause (1) or (2), and having its principal executive office in Minnesota. Securities lending transactions may be entered into with entities meeting the qualifications of subdivision 2 and the collateral for such transactions shall be restricted to the securities described in this section and section 118A.04.

Subd. 4. **Minnesota joint powers investment trust.** Government entities may enter into agreements or contracts for:

(1) shares of a Minnesota joint powers investment trust whose investments are restricted to securities described in this section and section 118A.04;

(2) units of a short-term investment fund established and administered pursuant to regulation 9 of the Office of the Comptroller of the Currency, in which investments are restricted to securities described in this section and section 118A.04;

(3) shares of an investment company which is registered under the Federal Investment Company Act of 1940 and which holds itself out as a money market fund meeting the conditions of rule 2a-7 of the Securities and Exchange Commission and is rated in one of the two highest rating categories for money market funds by at least one nationally recognized statistical rating organization; or

(4) shares of an investment company which is registered under the Federal Investment Company Act of 1940, and whose shares are registered under the Federal Securities Act of 1933, as long as the investment company's fund receives the highest credit rating and is rated in one of the two highest risk rating categories by at least one nationally recognized statistical rating organization and is invested in financial instruments with a final maturity no longer than 13 months.

Subd. 5. **Guaranteed investment contracts.** Agreements or contracts for guaranteed investment contracts may be entered into if they are issued or guaranteed by United States commercial banks, domestic branches of foreign banks, United States insurance companies, or their Canadian subsidiaries, or the domestic affiliates of any of the foregoing. The credit quality of the issuer's or guarantor's short- and long-term unsecured debt must be rated in one of the two highest categories by a nationally recognized rating agency. Should the issuer's or guarantor's credit quality be downgraded below "A", the government entity must have withdrawal rights.

**History:** 1996 c 399 art 1 s 6; 1997 c 219 s 1; 2000 c 493 s 1; 2005 c 152 art 1 s 2

**118A.06 SAFEKEEPING; ACKNOWLEDGEMENTS.**

Investments, contracts, and agreements may be held in safekeeping with:

- (1) any Federal Reserve bank;
- (2) any bank authorized under the laws of the United States or any state to exercise corporate trust powers, including, but not limited to, the bank from which the investment is purchased;
- (3) a primary reporting dealer in United States government securities to the Federal Reserve Bank of New York; or
- (4) a securities broker-dealer having its principal executive office in Minnesota, licensed under chapter 80A, or an affiliate of it, and regulated by the Securities and Exchange Commission; provided that the government entity's ownership of all securities is evidenced by written acknowledgments identifying the securities by the names of the issuers, maturity dates, interest rates, CUSIP number, or other distinguishing marks.

**History:** 1996 c 399 art 1 s 7

**118A.07 ADDITIONAL INVESTMENT AUTHORITY.**

Subdivision 1. **Authority provided.** As used in this section, "governmental entity" means a city with a population in excess of 200,000 or a county that contains a city of that size. If a governmental entity meets the requirements of subdivisions 2 and 3, it may exercise additional investment authority under subdivisions 4, 5, and 6.

Subd. 2. **Written policies and procedures.** Prior to exercising any additional authority under subdivisions 4, 5, and 6, the governmental entity must have written investment policies and procedures governing the following:

- (1) the use of or limitation on mutual bond funds or other securities authorized or permitted investments under law;
- (2) specifications for and limitations on the use of derivatives;
- (3) the final maturity of any individual security;
- (4) the maximum average weighted life of the portfolio;
- (5) the use of and limitations on reverse repurchase agreements;
- (6) credit standards for financial institutions with which the government entity deals; and
- (7) credit standards for investments made by the government entity.

Subd. 3. **Oversight process.** Prior to exercising any authority under subdivisions 4, 5, and 6, the governmental entity must establish an oversight process that provides for review of the government entity's investment strategy and the composition of the financial portfolio. This process shall include one or more of the following:

- (1) audit reviews;
- (2) internal or external investment committee reviews; and
- (3) internal management control.

Additionally, the governing body of the governmental entity must, by resolution, authorize its treasurer to utilize the additional authorities under this section within their prescribed limits, and in conformance with the written limitations, policies, and procedures of the governmental entity.

If the governing body of a governmental entity exercises the authority provided in this section, the treasurer of the governmental entity must annually report to the governing body on the findings of the oversight process required under this subdivision. If the governing body intends to continue to exercise the authority provided in this section for the following calendar year, it must adopt a resolution affirming that intention by December 1.

Subd. 4. **Repurchase agreements.** A government entity may enter into repurchase agreements as authorized under section 118A.05, provided that the exclusion of mortgage-backed securities defined as "high-risk mortgage-backed securities" under section 118A.04, subdivision 6, shall not apply to repurchase agreements under this authority if the margin requirement is 101 percent or more.

Subd. 5. **Reverse repurchase agreements.** Notwithstanding the limitations contained in section 118A.05, subdivision 2, the county may enter into reverse repurchase agreements to:

- (1) meet cash flow needs; or
- (2) generate cash for investments, provided that the total securities owned shall be limited to an amount not to exceed 130 percent of the annual daily average of general investable monies for the fiscal year as disclosed in the most recently available audited financial report. Excluded from this limit are:
  - (i) securities with maturities of one year or less; and
  - (ii) securities that have been reversed to maturity.

There shall be no limit on the term of a reverse repurchase agreement. Reverse repurchase agreements shall not be included in computing the net debt of the governmental entity, and may be made without an election or public sale, and the interest payable thereon shall not be subject to the limitation in section 475.55. The interest shall not be deducted or excluded from gross income of the recipient for the purpose of state income, corporate franchise, or bank excise taxes, or if so provided by federal law, for the purpose of federal income tax.

Subd. 6. **Options and futures.** A government entity may enter into futures contracts, options on futures contracts, and option agreements to buy or sell securities authorized under law as legal investments for counties, but only with respect to securities owned by the governmental

entity, including securities that are the subject of reverse repurchase agreements under this section that expire at or before the due date of the option agreement.

**History:** *1996 c 399 art 1 s 8*

**118A.08 NO SUPERSEDING EFFECT.**

Except as provided in Laws 1996, chapter 399, article 1, section 11, sections 118A.01 to 118A.06 shall not supersede any general or special law relating to the deposit and investment of public funds.

**History:** *1996 c 399 art 1 s 9*