

VILLAGE OF ORLAND PARK, ILLINOIS

INVESTMENT POLICY

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

**I. Scope**

This policy applies to the investment of all funds of the Village of Orland Park except for the Police Pension Fund and the Village Library Fund, which are subject to the order of the Board of Trustees of each respective fund.

**II. General Objectives**

The primary objectives, in priority order, of investment activities shall be legality, safety, liquidity, and yield. The portfolio should be reviewed periodically as to its effectiveness in meeting the Village of Orland Park's needs for safety, liquidity, rate of return, diversification, as well as its general performance.

A. **Legality** - Conformance with federal, state and other legal requirements is the foremost objective of the Village of Orland Park's investment program.

B. **Safety** - Investments shall be undertaken in a manner that seeks to ensure the preservation of portfolio capital. The objective will be to mitigate credit risk and interest rate risk.

1. **Credit Risk** - The Village of Orland Park will minimize credit risk, the risk of loss due to the failure of the security issuer or backer, by:

a. Limiting investments to the safest type of securities.

b. Pre-qualifying financial institutions, broker/dealers, intermediaries, and advisers with which the Village of Orland Park will do business.

c. Diversifying the investment portfolio so that potential losses on individual securities are minimized.

2. **Interest Rate Risk** - The Village of Orland Park will minimize the risk that the market value of securities in the portfolio will fall due to changes in general interest rates, by:
  - a. Structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity.
  - b. Investing operating funds primarily in short-term securities, money market mutual funds, or similar investment pools.
3. **Liquidity** - The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated. This will be accomplished by structuring the portfolio so that securities mature concurrent with cash needs to meet anticipated demands. Furthermore, since all possible cash demands cannot be anticipated, the portfolio should consist largely of securities with active secondary or resale markets. A portion of the portfolio also may be placed in money market mutual funds or local government investment pools, which offer same-day liquidity for short-term funds.
4. **Yield** - The investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints and liquidity needs. Return on investment is of secondary importance compared to the safety and liquidity objectives described above. The core of investments is limited to relatively low risk securities in anticipation of earning a fair return relative to the risk being assumed. Securities shall not be sold prior to maturity with the following exceptions:
  - a. A security with declining credit may be sold early to minimize loss of principal.
  - b. A security swap would improve the quality, yield, or target duration in the portfolio.
  - c. Liquidity needs of the portfolio require that the security be sold.

### **III. Standards of Care**

- A. **Prudence** - The standard of prudence to be used by investment officials shall be the prudent person standard and shall be applied in the context of managing an overall portfolio. Investment officers acting in accordance with written procedures, 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 the liquidity and sale of securities are carried out in accordance with the

terms of this policy. 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.

- B. **Ethics and Conflicts of Interest** - Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with the proper execution and management of the investment program, or that could impair their ability to make impartial decisions. Employees and investment officials shall disclose any material interest in financial institutions with which they conduct business. They shall further disclose any personal financial/investment positions that could be related to the performance of the investment portfolio. Employees and officers shall refrain from undertaking personal investment transactions with the same individual that business is conducted with on behalf of the Village of Orland Park.
- C. **Delegation of Authority** - Management and administrative responsibility for the investment program is hereby delegated to the Finance Director who, under the delegation of the Board of Trustees, shall establish written procedures for the operation of the investment program. Procedures should include references to the following: Safekeeping, Delivery vs. Payment, Investment Accounting, Repurchase Agreements, Wire Transfer Agreements, and Collateral/Depository Agreements. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the Finance Director. The Finance Director shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials.

#### IV. **Safekeeping and Custody**

- A. **Authorized Financial Dealers and Institutions** - A list of financial institutions authorized to provide investment services to the Village of Orland Park will be maintained. In addition, a list also will be maintained of approved security broker/dealers selected by creditworthiness. These may include  primary dealers or regional dealers that qualify under Securities and Exchange Commission (SEC) Rule 15C3-1 (uniform net capital rule).

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

1. Audited financial statements.
2. Proof of National Association of Securities Dealers (NASD) Certification.
3. Proof of state registration.
4. Completed broker/dealer questionnaire.
5. Certification of having read, understood and agreeing to comply with the Village of Orland Park's investment policy.
6. An annual review of the financial condition and registration of qualified financial institutions and broker/dealers will be conducted by the Finance Director.

**B. Internal Controls** - The Finance Director is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the Village of Orland Park are protected from loss, theft or misuse. The internal control structure shall be designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that (1) the cost of a control should not exceed the benefits likely to be derived and (2) the valuation of costs and benefits requires estimates and judgments by management.

Accordingly, the Finance Director shall establish a process for an annual independent review by an external auditor to assure compliance with policies and procedures. The internal controls shall address the following points:

1. Control of collusion.
2. Separation of transaction authority from accounting and record keeping.
3. Custodial safekeeping.
4. Avoidance of physical delivery securities.
5. Clear delegation of authority to subordinate staff members.
6. Written confirmation of transactions for investments and wire transfers.
7. Development of a wire transfer agreement with the lead bank and the third-party custodian.

**C. Delivery Vs. Payment** - All security transactions, including collateral for repurchase agreements, entered into by the Village of Orland Park, shall be conducted on a delivery-versus-payment (DVP) basis. Securities will be held by an independent third party custodian, designated by the Finance Director, and evidenced by safekeeping receipts and a written custodial agreement.

## V. **Suitable and Authorized Investments**

A. **Investment Types** - The following investments will be permitted by this policy, and are those defined by Illinois Compiled Statutes.

1. U.S. government obligations, U.S. government agency obligations, and U.S. government instrumentality obligations, which have a liquid market with a readily determinable market value.
2. Certificates of deposit and other evidences of deposit at financial institutions, banker's acceptances, and commercial paper, rated in the highest tier (e.g., A-1, P-1, F-1, or D-1 or higher) by a nationally recognized rating agency.
3. Investment-grade obligations of state, provincial and local government and public authorities.
4. Repurchase agreements whose underlying purchased securities consist of the foregoing.
5. Money market mutual funds regulated by the Securities and Exchange Commission and whose portfolios consist only of dollar-denominated securities.
6. Local government investment pools, either state-administered or through joint powers statutes and other intergovernmental agreement legislation.

All investments except for local government investment pools will be selected on the basis of competitive bids. Financial institutions located within the Village of Orland Park will be awarded the bid if the local bid is within 1/4 of 1% of the best bid. The financial institution that holds a maturing investment will be given the opportunity to match the highest bid if their bid is within five basis points in order to save administrative expenses.

Investments shall be made that reflect the cash flow needs of the fund type being invested.

B. **Collateralization** - Funds on deposit (checking accounts, certificates of deposit, etc.), in excess of FDIC limits, must be secured by some form of collateral, witnessed by a written agreement and held at an independent, third party institution in the name of the Village of Orland Park.

The Village will accept any of the following assets as collateral:

1. U.S. Government Securities
2. Obligations of Federal Agencies
3. Obligations of Federal Instrumentalities
4. Obligations of the State of Illinois
5. Obligations of the Village of Orland Park
6. General Obligation Municipal Bonds rated AA or better

The amount of collateral provided shall not be less than 110% of the fair market value of the net amount of public funds secured. The ratio of fair market value of collateral to the amount of funds secured will be reviewed quarterly and additional collateral will be requested when the ratio declines below the level required. Pledged collateral will be held by the Village of Orland Park 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 Orland Park, but they will allow for an exchange of collateral of like value.

## **VI. Investment Parameters**

The Village of Orland Park will maintain investment accounts in the financial institutions within the Village of Orland Park whenever possible, and when not precluded by other standards of this policy.

A. **Diversification** - The Village of Orland Park's investments shall be diversified as follows:

1. No financial institution shall hold more than 35% of the Village of Orland Park's investments, exclusive of U.S. Treasury securities held in safekeeping, which have a maturity exceeding one year. Diversification of investments with maturities of less than a year shall be at the discretion of the Finance Director based upon bids.
2. Commercial paper shall not exceed 10% of the Village's investment portfolio.
3. The Village of Orland Park will invest in securities with varying maturities.
4. The Village of Orland Park will continuously invest a portion of the portfolio in readily available funds such as local government investment pools, money market funds or overnight repurchase agreements to ensure that appropriate liquidity is maintained in order to meet ongoing obligations.

B. **Maximum Maturities** - To the extent possible, the Village of Orland Park shall attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, the Village of Orland Park will not directly invest in securities maturing more than two years from the date of purchase.

Reserve funds and other funds with longer-term investment horizons may be invested in securities exceeding two (2) years if the maturities of such investments are made to coincide as nearly as practicable with the expected use of funds. The intent to invest in securities with longer maturities shall be disclosed in writing to the Village Board.

Because of inherent difficulties in accurately forecasting cash flow requirements, a portion of the portfolio should be continuously invested in readily available funds such as local government investment pools, money market funds, or overnight repurchase agreements to ensure that appropriate liquidity is maintained to meet ongoing obligations.

## VII. Reporting

A. **Methods** - The Finance Director shall prepare an investment report at least quarterly, including a management summary that provides an analysis of the status of the current investment portfolio and transactions made over the last quarter. This management summary will be prepared in a manner that will allow the Village of Orland Park to ascertain whether investment activities during the reporting period have conformed to the investment policy. The report should be provided to the legislative body. The report will include the following:

1. Listing of individual securities held at the end of the reporting period.
2. Realized and unrealized gains or losses resulting from appreciation or depreciation by listing the cost and market value of securities over one-year duration that are not intended to be held until maturity.
3. Average weighted yield to maturity of portfolio on investments as compared to applicable benchmarks.
4. Listing of investment by maturity date.
5. Percentage of the total portfolio that each type of investment represents.

B. **Performance Standards** - The investment portfolio will be managed in accordance with the parameters specified within this policy. The portfolio should obtain a market average rate of

return during a market/economic environment of stable interest rates. Portfolio performance will be compared against the 90-day Treasury Bill.

- C. **Write Up to Market** - The market value of the portfolio shall be calculated at least quarterly and a statement of the market value of the portfolio shall be issued at least quarterly to the Board of Trustees.

## **VIII. Policy Considerations**

- A. **Amendments** - The Village's Board of Trustees shall adopt the Village's Investment Policy. On an annual basis, the Finance Director shall review the Village of Orland Park's investment policy. Any modifications made thereto must be approved by the Board of Trustees.