



Investments

Overview of applicable statutes

Understand who should make investment decisions

Understand the role of consultants

What laws
govern
township
investments

Minn. Stat. Chapter 118A – General
Regulations

Minn. Stat. § 366.01, subd. 4 – Depository
Designation by Board

Minn. Stat. § 366.07 – Depository
Designation by Treasurer

Minn. Stat. § 366.08 – Treasurer Liability

Minn. Stat. § 366.09 – Interest

Others: Federal Laws, Special Rules for
Specialty Accounts

Definition

- **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 (118A.01)

Who Decides Where to Invest

Town Board has primary responsibility (Minn. Stat. § 118.02 and § 366.01, subd. 4)

Town Board may delegate duty to Treasurer (Minn. Stat. § 118.02)

Treasurer must designate depository of Board fails to do so w/in 30 days of annual meeting (Minn. Stat. § 366.07)

Not done by voters at annual meeting!
Such action would be advisory only.

Voters may authorize capital reserve fund (§ 365.10, subd. 18)

Designation of Depository Institutions (118A.02)

The governing body of each government entity shall designate, as a depository of funds, one or more financial institutions.

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

1. designate depository of funds
2. make investment of funds under sections 118A.01 to 118A.06 or other applicable law
3. both designate depositories and make investments as provided in this subdivision

Designations cannot last beyond end of term; should be done annually

What funds
can be
invested?

Any funds not
immediately needed or
restricted for other
purposes (§ 118A.04,
subd. 1)

Where can
funds be
invested?

Safekeeping Requirements 118A.06

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 the United States government securities to the Federal Reserve Bank of New York or

What types
of
investments
are legal?

Checking Accounts

Basic savings

CD's

U.S. Securities (govt. bonds, notes, bills, mortgages (except high-risk), etc)

State or local G.O. bond w/ "A" or higher rating

State or local revenue bond w/ "AA" or higher rating

HFA G.O. bond with "A" rating or higher

Safekeeping requirements

Minn. Stat. 118A.06

(4) a securities broker-dealer, or an affiliate of it, that meets the following requirements:

(i) it is a registered broker-dealer under chapter 80A or is exempt from registration requirements

(ii) it is regulated by the SEC and

(iii) it maintains insurance through SIPC or excess coverage in an equal amount to or greater than the value of the securities held

Broker Certification

Minnesota Statutes § 118A.04, subd. 9 requires government entities to provide each broker with information regarding the government entity's investment restrictions.

Prior to conducting any business with or for the government entity, the broker must acknowledge these investment restrictions and agree to conduct investment transactions in accordance with them.

The state auditor has promulgated a uniform notification form to assist government entities in complying with this law.

Safekeeping Requirements 118A.06 (b)

The government's entity's ownership of all securities must be evidenced by written acknowledgements identifying the securities by names of:

- issuers
- maturity dates
- interest rates
- CUSIP number or other distinguishing marks

FDIC Insurance

- Created in 1933 in response to the thousands of banks that failed during the depression, while over 4,000 commercial banks and 1,700 S&L's failed
- Initial deposit coverage was \$2,500, In 1980, coverage was increased to \$100,000
- In 1996, 90% of institutions pay no deposit insurance premiums
- In 2007, premiums became commonplace again, as the real estate downturn started to affect banks
- Current coverage at \$250,000 per depositor

General Rules

FDIC Insurance unless otherwise authorized

No deposit in single bank over FDIC limit unless bank properly securitized to 110% of total investment at end of each banking day investment exceeds FDIC insurance

Collateral must be pledged in writing to town

Collateral must be in restricted Federal Reserve Bank account or in trust department of a commercial bank or other financial institution not owned or controlled by bank offering it as security and which must be approved by town board

General Rules

Designation of depository must be in writing and shall set forth all terms of deposit.

Designation form must be signed by chair and clerk, and filed with clerk

All Interest must be credited to the respective town fund (Minn. Stat. §366.09)

Treasurer not liable (except for negligence) for losses incurred from investments (multiple statutes, but especially Minn. Stat. § 366.08)

Transfers

Transfers from any fund to another fund only when first fund has surplus and second fund has shortfall. Must be unanimous vote of board.

Written Investment Policies

Investment Policy

- Recommended
- Identify objectives and risk comfort (within legal limits)
- Identify ethical issues and conflicts of interest
- Establish internal controls
- Clarify roles, and make any appropriate designations
- Investment Review Process

Written Investment Policies

Prior to exercising any additional authority, the governmental entity must have written investment policies and procedures governing the following:

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

(Minn. Stat. 118A.07, Sub 2)

Summary

- You have a legal fiduciary obligation to the citizens in your municipality
- Designate your depositories, either through an Investment Policy or by list
- Deposit only in FDIC/SIPC insured banks and institutions
- Properly analyze and document collateral agreements
- Evaluate your risk exposure and incorporate into your investment policy
- Evaluate your custodian and safekeeping services provider