



North Shore Sanitary District **Investment Policy**

REVISION OF MAY 12, 2010

I. SCOPE

This investment policy applies to all financial funds of the North Shore Sanitary District (hereafter referred to as the "District"). These funds are accounted for in the District's Comprehensive Annual Financial Report and currently include:

Wastewater Treatment Fund (an enterprise fund)

Funds held by the Illinois State Treasurer and Lake County Treasurer during tax collection periods shall be governed by the State and County investment policies, and are not subject to the provisions of this policy.

II. INVESTMENT OBJECTIVES

The investment objectives of the District are:

1. The foremost objective is the safety of principal. Each investment transaction shall seek to first ensure that capital losses are avoided, whether they are from security defaults or erosion of market value.
2. The second objective is the liquidity of the investment transaction. Funds must be readily available when needed.
3. The third objective is to attain market rates of return on investments, consistent with constraints imposed by the safety objective, cash flow considerations and Illinois state laws that restrict the placement of public funds.
4. The fourth objective is that all participants in the investment process shall seek to act responsibly as custodians of the public trust. Investment officials shall avoid any transaction that might impair public confidence in the District's ability to govern effectively.

III. DELEGATION OF AUTHORITY

Management responsibility for the investment program is hereby delegated to the Deputy Treasurer, who shall establish written procedures for the operation of the investment program, consistent with this investment policy. Such procedures shall include explicit delegation of authority to other positions responsible for investment transactions and investment records. No position may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the Deputy Treasurer. The Deputy Treasurer shall be responsible for all transactions undertaken, and shall establish a system of internal controls to regulate the activities of subordinate officials.

By official action at a public meeting, the Board of Trustees may assign District funds available for investment to one or more professional investment advisors, brokers, dealers or money managers. Each such professional investment advisor, broker, dealer or money manager shall be the designated Deputy Treasurer of the public funds over which it exercises control and shall be required to manage public funds assigned to it pursuant to the Illinois statutes governing the investment of public monies and subject to all provisions of the District's Investment Policy. Furthermore, each such professional investment advisor, broker, dealer or money manager assigned public funds for investment shall fully cooperate in periodic audits/investigations by District staff and/or the District's independent auditor, and comply with all staff and auditor requests for information or documentation.

IV. INVESTMENT COMMITTEE

There is hereby created an investment committee, consisting minimally of the Treasurer, General Manager, Deputy Treasurer(s), and a citizen knowledgeable in the area of investments who shall be appointed by the Board of Trustees. Members of the investment committee shall meet periodically to determine general strategies and to monitor results. The investment committee shall include in its deliberations such topics as: economic outlook, portfolio diversification and maturity structure, potential risks to the District's funds, authorized depositories, brokers and dealers, and the target rate of return on the investment portfolio. Written investment procedure must be approved by the investment committee. The committee shall establish its own rules of procedure.

V. PRUDENCE [30 ILCS 235/2.5(a)(2)]

Investments shall be made with judgment and care, under circumstances then prevailing, by persons of prudence, discretion and diligence in the management of District affairs, not for speculation, but for investment, considering the District's investment objectives.

The standards of prudence to be used by investment officials shall be the "prudent person", and shall be applied in the context of managing an overall portfolio. Investment officers acting in accordance with written procedures and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided that deviations from expectation are reported in a timely fashion, and appropriate action is taken to mitigate adverse developments.

VI. ETHICS AND CONFLICTS OF INTEREST [30 ILCS 235/2.5(a)(12)]

Officers and employees involved in the investment process shall refrain from personal business activity that could conflict, or appear to conflict, with the proper execution and management of the investment program, or that could impair their ability to make impartial decisions.

VII. INTERNAL CONTROLS [30 ILCS 235/2.5(a)(6-7)]

The Deputy Treasurer shall establish a system of internal controls, which shall be documented in writing. The internal controls shall be reviewed by the District staff, investment committee and independent auditor. The controls shall be designed to prevent losses of public funds arising from fraud, employee error, misrepresentation by third parties, anticipated changes in financial markets, or imprudent actions by employees, officers of the District, or other parties managing, directing, investing or holding public funds.

The staff member appointed Deputy Treasurer and the General Manager shall be the only District employees authorized to transfer invested funds between banks or financial institutions. Any such transfer will require the signature of each position (2 signatures required). The only exception to this two signature policy is that incoming transfers to the District's primary business checking account may be completed with the signature of only one position (1 signature required).

VIII. INDEMNIFICATION

The staff member appointed Deputy Treasurer and the General Manager shall each be covered by an indemnity bond in the amount of \$5 million or an alternative amount as may be established by the Board of Trustees. All other Deputy Treasurers assigned public funds by the Board of Trustees shall be covered by an indemnity bond in an amount equal to or exceeding the public funds they are assigned.

IX. FINANCIAL INSTITUTIONS

The Board of Trustees shall annually designate financial institutions which are approved for investment purposes. It is the policy of the District to promote local economic development by investing its funds in local institutions whenever it is also in the best interest of the District.

Designated financial institutions will be required to meet the following criteria in order to receive the District's funds for investment:

1. Insurance. Public funds shall be deposited only in financial institutions insured by the Federal Deposit Insurance Corporation or National Credit Union Administration.
2. Collateral [30 ILCS 235/2.5(a)(5)]. The amount of the District's deposits or investments not insured by an agency of the federal government must be collateralized by an acceptable collateral instrument with a market value equal to at least 110% the market value of the investment.

- a) Acceptable collateral instruments shall include the following:
- i. Direct & general obligations of the United States Government (Treasuries).
 - ii. Direct & general obligations of Agencies or Instrumentalities of the United States Government (Agencies).
 - iii. Direct & general obligation bonds of any of the following provided they are currently rated a minimum of "Aa3" (Moody's) or "AA-" (Standard and Poor's or Fitch Group):
 1. State of Illinois.
 2. Any other state of the United States.
 3. Any taxing body (including city, town, county, school district, etc.) of any state of the United States provided that the debt service is payable from general ad valorem taxes.
- b) All such collateral must be held by a third party safekeeping custodian that is not affiliated with the financial institution holding the District's investment. Furthermore, the pledged collateral must qualify under one of the following criteria (i.e. "i" or "ii" below):
- i. Collateral is held in the District's name and the District is issued a safekeeping receipt by the custodian that lists the specific security pledged, its interest rate, its maturity date, and other pertinent information. The District's written authorization is required before the custodian will release the pledged security.
 - ii. Collateral is assigned to the District by the custodian from a pool of securities deposited by the pledging institution. However, this collateral shall only be acceptable to the extent that all of the following conditions are contractually met:
 1. The custodian is acting as the District's agent.
 2. The custodian stipulates that the District's instructions shall prevail over the pledging financial institution in regards to the release of any pledged securities.
 3. Securities pledged and assigned to the District may not be concurrently used to collateralize any other deposit or liability.
- c) All repurchase agreements shall also meet any further requirements with respect to collateral and safekeeping as required by law.
3. Size. The amount of the District's deposits or investments shall not exceed 25% of the net worth or capital stock and surplus of the institution.
4. Disclosure [30 ILCS 235/6(a,b,c)]. Each financial institution shall furnish the Deputy Treasurer with a copy of all statements of resources and liabilities which it is required to furnish to the Commissioner of Banks and Trust Companies, Federal Home Loan Bank, Illinois Department of Financial Institutions, National Credit Union Association, or the Comptroller of the Currency. In addition, each financial institution holding District funds shall provide a monthly report from the 3rd party safekeeping institution showing the market value of collateral held on the District's behalf.

5. Community Reinvestment [30 ILCS 235/8(a)(1)]. The District is committed to developing relationships with financial institutions that support community reinvestment activities.
- A) Overall CRA Rating. The financial institution's most recent "Overall CRA Rating" shall be *Satisfactory* or above. If the institution's overall rating is rated *Need to Improve* or lower, no new funds will be deposited with that institution. Existing funds deposited in the institution will remain until maturity, but will not be reinvested with that institution.
- B) CRA Performance Tests. The financial institution shall meet the requirements of this Sub-Section along with Sub-Section 5.A., if District funds are to be deposited in the financial institution. The institution's performance tests (Lending, Investment, and Service) shall be rated *Satisfactory* or higher for each of the three performance tests. If an institution's rating is *Need to Improve* or lower for two review periods in a row, the District will not deposit any additional funds with the institution, irrespective of the institution's overall rating. Existing funds deposited in the institution will remain until maturity, but will not be reinvested with that institution.
- C) Fair Lending Practices. In conjunction with a financial institution CRA rating, the District will review any fair lending violations received by the institution.

X. INVESTMENT INSTRUMENTS [30 ILCS 235/2(a)(1-5)]

As a unit of local government in the State of Illinois, the District is restricted by Illinois Compiled Statutes Chapter 30 Public Funds Investment Act to certain, specific investment choices, including the following that the District has qualified to be appropriate for the investment of District funds:

1. Savings accounts, certificates of deposit and other time accounts of commercial banks insured by the Federal Deposit Insurance Corporation. This specifically includes investments made through the Certificate of Deposit Account Registry Service (CDARS), as provided for by Public Act 093-0756, effective 7/16/04.
2. Bonds, notes, certificate of indebtedness, treasury bills, or other securities which are guaranteed by the full faith and credit of the United States of America.
3. Short term discount obligations of the Federal National Mortgage Association.
4. Dividend or share accounts of a credit union insured by the National Credit Union Administration.
5. Repurchase agreements, as per state law not to exceed 330 days.
6. The Illinois Funds (State of Illinois Treasurer's Office).
7. The Illinois Metropolitan Investment Fund (IMET).

The Illinois Funds and Illinois Metropolitan Investment Fund are public entities founded pursuant to Illinois statutes exclusively to invest the pooled public funds of governmental bodies within the State of Illinois. Each is subject to its own established investment objectives, investment restrictions, collateral requirements, internal controls, ethics policies, etc. as required or permitted for the investment of public funds under Illinois statutes. These considerations may differ from those established elsewhere in this Investment Policy. It shall be the policy of the District to explicitly permit investment in the Illinois Funds and/or Illinois Metropolitan Investment Fund, and neither the Illinois Funds nor the Illinois Metropolitan Investment Fund shall be subject to the requirements or conditions established elsewhere in this Investment Policy.

As noted earlier, It is the policy of the District to promote local economic development by investing its funds in local institutions whenever it is also in the best interest of the District. Accordingly, it is the goal of the District to concentrate its investment efforts in, but not be limited to, Certificates of Deposit, Repurchase Agreements and U.S. Treasury obligations issued by commercial banks located within the District. However, it is not the intent of the District to deny an investment to a financial institution located within the District that has consolidated its governmental investment operations to a location outside the District's service area. Money placed in the Illinois Funds or Illinois Metropolitan Investment Fund shall satisfy the District's liquidity needs and may, from time to time, serve to best meet the District's investment objectives as stated in Section II of this Investment Policy. Investments will be selected on the following basis:

1. The institution offering the investment must meet all the criteria as stated in Section IX. FINANCIAL INSTITUTIONS of this policy statement.
2. The duration of the investment must coincide with the cash requirements of the District to meet short or long term needs.
3. The rate of interest on the investment must be at least equivalent to the average rate of return available in the market place.
4. Whenever possible, that no more than 25% of the total available funds for the Wastewater Treatment Fund be placed in the same financial institution, with the possible exception of investments in the Illinois Funds or the Illinois Metropolitan Investment Fund, either of which may, at times, best satisfy the District's investment objectives depending upon market conditions.

XI. MATURITY LIMITATIONS

Investment maturities for the Wastewater Treatment Fund shall be scheduled to coincide with projected cash flow needs, taking into account large routine expenditures (capital projects, bond service payments, payroll, utilities, chemicals, etc.) as well as considering sizable blocks of anticipated revenue (user fees, property tax, replacement tax, and other contract billings). Maturities in this category shall comply with the following guidelines:

Under 30 days	10% minimum
Under 90 days	25% minimum
Under 270 days	50% minimum
Under 1 year	75% minimum
Up to 2 years	100% minimum

Maturity scheduling for the repayment of bond issues shall be timed according to anticipated need, such as payment schedules for bond principal and interest.

The above maturity limitations are established as general guidelines. When the Investment Committee believes that the investment climate warrants a concentration of dates of maturity that fall outside the above ranges, approval must be obtained by the Board of Trustees prior to investment.

XII. COMPETITIVE SELECTION OF INVESTMENTS

It is the policy of the District to solicit competitive bids. The District shall annually notify designated financial institutions (see Section IX.) of the District's bid process. Financial institutions shall then notify the District in writing if they wish to participate in the investment bid process.

The District shall notify participating financial institutions in writing, via facsimile or other means, of the amount of funds available for investment, the award date and maturity date. Written bid offerings shall be accepted no later than 10:30 A.M. on the award date. Information regarding bids submitted shall not be shared with any participant until after the investment has been awarded.

The District shall accept the bid(s) which provide the highest rate of return within the maturity required. Financial institutions participating in this investment bid program shall waive all wire transfer fees and charges to transmit or receive District funds.

Records shall be kept of the bids offered, the bids accepted and a brief explanation of the decisions made regarding the investments. A summary report shall be prepared following each bid and shall be provided to each institution submitting a bid and be included in the monthly financial report to the Board of Trustees.

XIII. PLACEMENT OF INTEREST

Interest earned on Wastewater Treatment Fund investments shall be recorded as revenue for the same fund.

XIV. REPORTING [30 ILCS 235/2.5(a)(9,10)]

Each Deputy Treasurer shall submit a monthly investment report to the Board of Trustees. This report shall summarize each investment transaction for the month. Annually, each Deputy Treasurer shall submit a report to the Board of Trustees summarizing investment activities of the past fiscal year along with comments regarding market trends, cash flow expectations, future investment strategies, recommendations, etc.

XV. GENERAL PROVISIONS

This policy is subject to the provisions of the Public Funds Investment Act (30 ILCS 235). This policy becomes effective upon its adoption by the Board of Trustees and may be amended from time to time as they see fit.