



		7/12/19
<b>Title:</b>	<b>CDA Deposits and Investments</b>	
<b>Authority:</b>	<b>Community Development Authority</b>	

The Community Development Authority (CDA) is adopting this policy for the purpose of establishing guidelines for the Investment of reserve CDA funds.

## I. OVERVIEW

The purpose of these investment guidelines is to formalize the framework for the CDA's short-term investment activities of excess reserve funds. The primary objectives of this policy, in order of priority, are safety, liquidity and yield.

Investment income will be allocated to the CDA general spending reserves. For the purposes of financial statements, all cash and investments with an original maturity of three months or less will be considered cash and cash equivalents. Investments will be reported at fair values, based on quoted market values.

### **Authority, Prudence and Ethics**

All purchases and sales of investments will be authorized by the CDA and executed by Finance Director acting as the fiscal agent for the CDA.

The standard of prudence to be used by Village investment officials will be the "prudent person" standard and applied in the context of managing an overall portfolio. The "prudent person" standard states that, "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."

Employees involved in the investment process should refrain from personal business activity that could conflict with proper execution of the investment program or which could impair their ability to make impartial investment decisions. All investment officials are to abide by the Village's conflict of interest policy.

## II. SAFETY

Safety and preservation of principal in the overall portfolio is the foremost investment objective. To ensure the safety of the CDA's deposits and investments, this section lists what investments are suitable for the investment of CDA reserves.

## **Authorized Investments**

The CDA reduces exposure to this risk by restricting allowed investments. The Village's investments are restricted in accordance with Wisconsin statutes section 66.0603 (see appendix A). The CDA chooses to further limit investments to the following:

1. Checking and saving accounts;
2. Local government investment pools either state-administered or developed through joint powers statutes and other intergovernmental agreement legislation, such as the Local Government Investment Pool and Wisconsin Investment Series Cooperative;
3. Certificates of deposits (fully FDIC insured for principal) and certificates of deposit purchased through the Certificate of Deposit Account Registry Service (CDARS);
4. Money market mutual funds regulated by the Securities and Exchange Commission and whose portfolios consist of only of dollar-denominated securities;

The CDA will engage in diversification of investments (type, length of maturity and institution) to the extent practicable considering yield, investment costs and cash flow needs.

## **Custodial Credit Risk**

Custodial credit risk is the risk of default by the holding institution, i.e. the bank holding cash or securities. The CDA shall reduce this risk by ensuring substantially all funds are either insured, collateralized or registered to the CDA. The terms "substantially all funds" recognizes that there are times when minimal amounts may not be protected in this manner, such as with cash on hand or in cases where the market value exceeds the face value of an investment.

This risk is also reduced through the Village's selection of authorized financial institutions.

1. CDA deposits will be protected through insurance:
  - a. The Federal Deposit Insurance Corporation (FDIC) currently protects deposits up to \$250,000 for checking and \$250,000 for savings accounts.
  - b. The Wisconsin State Deposit Guarantee Fund protects public deposits under Statutes 20.144 (1) (a) and 34.08 (2) up to \$400,000, after FDIC coverage, for any one public depositor in any individual public depository.

### **III. LIQUIDITY**

The investment officials shall ensure that the CDA has adequate funds in usable form to be able to meet ongoing business needs that may be reasonably anticipated without the use of village funds to support CDA cash flow needs. This is accomplished by structuring the portfolio so that securities mature concurrent with cash needs to meet anticipated demands.

This will be accomplished through a combination of the following practices. A minimum of 10% of CDA reserves shall be held in cash. All remaining funds shall be invested in a manner whereby at least one third (33%) of invested balances are scheduled to mature each year. Since all possible cash demands cannot be anticipated, the portfolio should consist largely of securities with active secondary or resale markets.

#### **Interest Rate Risk**

This is the risk that changes in the market interest rates will negatively affect the fair value of an investment. Generally, the fair value of longer maturity investments is more sensitive to changes in the market interest rate. The Village should seek to mitigate this risk by:

1. 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.
2. Limiting the maturities of all investments when purchased to less than three (3) years.
3. Laddering investments to meet cash flow needs.

### **IV. YIELD**

The investment portfolio should 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 the Village's investment strategy is limited to relatively low risk securities in anticipation of earning a fair return relative to the risk being assumed. Securities shall generally be held until maturity.

Given the passive nature of the CDA's investment strategy, appropriate benchmarks for comparison include: the average Federal Funds rate, local government investment pool rate and average return on the U.S. Treasury Bills.