



Financial Policies



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SECTION 1 – GENERAL POLICY

It is the expectation and the general understanding of the City Council and the residents of Marion that the City conducts its financial affairs in a thoughtful and prudent manner. The following policies provide the framework within which the City conducts its financial affairs. Most of these policies represent long-standing principles, traditions, and practices which have guided the City in the past and have helped maintain financial stability. There may be times in which the City Council deviates from policy based on sound decisions and public interest. These deviations will be noted in the City Council minutes.

SECTION 2 – REVENUE POLICIES

2.1 Purpose

The City of Marion revenue policies are intended to provide guidelines for determining the revenues and revenue sources necessary to provide basic municipal services to the community. It is the City's goal to create and maintain a diversified, yet stable, revenue system to protect it from possible short-term fluctuations in any of its various revenue sources. An integral factor in the City's ability to maintain a strong revenue supply is the diversity of its tax base and the health of the regional economy. Therefore, the City resolutely encourages economic development through the implementation of financial policies that create a favorable tax climate, while meeting service demands of businesses and residents.

2.2 Policies

- A. A diversified, yet stable, revenue system will be utilized by the City to protect it from possible short-term fluctuations in any of its revenue sources.
- B. In situations in which the City has determined that a fee may be a more appropriate method of funding a government program or service than property taxes, the City may explore the possibility of using fees instead of property taxes as the appropriate revenue source to fund the program or service. As much as practical fees should be established at a level that supports the entire cost of providing the program or service.



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- C. Through community and economic development, a broader tax base will be pursued to increase tax revenue and help reduce annual fluctuation in the property tax rate. The City's Economic Development Policy provides the framework for utilization of tax increment financing and tax abatement through Urban Revitalization.
- D. Revenue projections should be developed on an annual basis. Existing and potential revenue sources should be reviewed annually.

2.3 Property Taxes

- A. The City's total property tax levy rate and tax revenues shall be reviewed annually and evaluated taking into consideration current and forecasted economic conditions, proposed service level changes, State and Federal mandates, changes in the property tax rollback, amendments to the property tax law, and any other factors that affect the City's ability to provide basic City services or maintain sufficient cash reserves.
- B. Stability and consistency in the property tax levy rate from one year to the next is desired. Adjustments to the levy are appropriate and may be made when tax revenues are projected to fall short. If revenues are expected to exceed the funding for basic services, the city council will review available options, which may include, but are not limited to infrastructure improvements, equipment or economic development projects.

SECTION 3 – RESERVES AND CONTINGENCIES

3.1 Purpose

The maintenance of adequate cash reserves provides the City with flexibility and security and is an important factor considered by rating agencies and the underwriting community when reviewing City debt issuance. Along with maintaining the City's credit worthiness, such cash reserves provide the means to handle economic uncertainties, local disasters and other unanticipated financial hardships, as well as, meeting debt cash flow requirements. In addition to the designations noted below, fund balance levels will be sufficient to meet funding requirements for projects approved in prior years that are carried forward into the new year, debt service reserve requirements, reserves for encumbrances



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and other reserves or designations required by contractual obligations or generally accepted accounting principles. Deviation from the following general policies by Council may occur based on sound decisions and public interest. When such deviations are made, it shall be specifically noted and included within Council minutes.

3.2 General Policies

- A. Cash reserves should not be used to finance routine operating expenses, which exceed budget levels. Routine operating expenses shall be defined as reasonably anticipated reoccurring annual expenditures.
- B. Cash reserves may be used to finance capital improvement projects only when cash reserves have been specifically identified in the budget to finance such project, and do not bring the fund balance below the required level.
- C. Excess cash reserves may be used to balance revenues and expenditures as long as the minimum cash reserve requirements of this policy are met, provided that said cash reserves may only be used to offset non-reoccurring expenditures.
- D. Revenues will equal or exceed expenditures for each budget year unless there are funds available in excess of the cash reserves requirements of this policy.
- E. The City's annual budget is considered balanced if the cash reserve requirements, the working capital requirements and the revenue and expenditure requirements of this policy have been met.

3.3 Reserve Policies by Fund

- A. General Fund cash reserves (fund balance) should be maintained at a level sufficient to provide funding for general governmental operations. It is the City's goal to have an unrestricted minimum balance at fiscal year-end of not less than 25% of general fund expenditures. However, the balance may be higher, if deemed prudent, due to the uncertainty of future revenues or anticipated expenditures.
- B. Equipment Replacement Reserve Funds - The City may establish and maintain equipment replacement reserve funds to provide for the scheduled purchase of vehicles and equipment, and will consider annually appropriating funds to it to provide for the timely upgrading and



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replacement of vehicles and equipment. The amount added to these funds by annual appropriation should be the amount required to maintain the funds at the approved level. It is the City's intent that the reserve funds replace the City's need to borrow funds for vehicle and equipment acquisitions. A minimum fund balance of 5% of the current year expenditures will be maintained to ensure proper funding, and to accommodate price volatility.

- C. Road Use Tax Fund - It is the City's goal to have an unrestricted minimum balance at fiscal year-end of not less than 25% of Road Use Tax fund operating expenditures. The balance may be higher, if deemed prudent, due to the anticipated capital expenditures.
- D. Enterprise Fund unrestricted cash reserves (fund balances) should be maintained at a level sufficient to provide funding to meet 25% of the fiscal year operating expenditures.
 - a. Sanitary Sewer
 - b. Solid Waste
 - c. Urban Forest
 - d. Storm Water Management
- E. Sewer Replacement Fund – The city will maintain a sewer replacement fund to provide for the City's costs for sewer maintenance and repairs, extension and/or oversizing projects and vehicle and equipment replacement.
- F. Health Insurance reserves should be maintained at level sufficient to cover the City's OPEB liability.

3.4 GASB 54

GASB 54 establishes the following five fund balance classifications: Non-spendable, Restricted, Committed, Assigned, and Unassigned. Fund Balance classifications assigned, unassigned, and committed are considered "unrestricted" fund balances. The order of spending will be as follows: restricted, committed, assigned and unassigned. Restricted funds shall be spent according to the purpose for which they were received. Unassigned funds shall always be



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spent after Committed and Assigned funds have been exhausted. The City Manager and/or the Finance Director are authorized to assign fund balances according to specific factors involved. The City Council will have authority to commit fund balances.

SECTION 4 – OPERATING EXPENDITURE POLICIES

4.1 Purpose

Operating expenditures must meet the City's requirements to provide services within the framework of available revenues. Fiscal control and long range financial planning is necessary to guarantee that the City's current and future finances will remain sound. The operating expenditure policies guide the evaluation and control of the City's appropriations and expenditures.

4.2 General Policies

- A. Expenditure projections will be developed on an annual basis, and will be reviewed quarterly. Projections should include estimates of anticipated operating costs for programmed capital improvement projects, and for equipment and capital facilities replacement and maintenance schedules.
- B. Current expenditures should be paid, in accordance of Council directives, with current revenues or excess cash reserves.
- C. Current expenditures should not be balanced by postponing needed expenditures, accruing future revenues, issuing short term debt, or paying for routine operating costs out of minimum cash reserves.
- D. The operating budget should provide for adequate maintenance of fixed assets and equipment and provide for their orderly replacement.
- E. The City will encourage the provision of services through the private sector and other public agencies whenever and wherever greater efficiency and effectiveness can be achieved.
- F. The City will maintain risk management and safety programs to reduce costs and minimize losses.

SECTION 5 – CAPITAL IMPROVEMENTS PLANNING



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5.1 Purpose

Policies for the capital improvements program are intended to encourage planning for future growth and infrastructure repair within the framework of the City's financial policies.

5.2 General Policies

- A. The City should develop and annually update a five-year capital improvement program (CIP). This program should identify future capital project expenditures made necessary by anticipated changes in population, infrastructure replacement and extension, economic base and/or land use.
- B. The operating and maintenance cost of a proposed capital improvement shall be calculated to determine a "true cost" of each improvement and assist in programming of future overall revenue requirements of the City.
- C. The capital improvements plan will include the costs, timing and sources of funding and the estimated impact of future revenue requirements for each project. These calculations shall reflect adjustments for inflation.
- D. The capital improvements plan should maintain the City's assets at a level adequate to protect the City's capital investments, minimize future maintenance and replacement costs, and provide for an adequate level of service.
- E. The City's annual capital improvements budget should be based on the five-year CIP. The budget will include final calculations of revenue sources and related impacts on future availability of revenue for additional projects.
- F. The annual expenditures identified in the CIP should be fully funded from financial resources that are anticipated to be current and available.
- G. Grants and similar forms of intergovernmental assistance should be used to finance only those projects identified in the CIP or other planning documents as the community needs.
- H. A fiscal impact analysis should be performed on all projects for which the City's financial participation is requested by the private sector. This analysis should identify anticipated direct and indirect public costs and revenues associated with the proposed project.



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SECTION 6 – DEBT MANAGEMENT POLICIES

6.1 Purpose

The issuance of debt is a necessity for the financing of many major capital improvements. Determining the method and timing for financing is subject to numerous considerations. The City's debt policies are intended to encourage conservative debt management while maintaining the flexibility to use the various financing mechanisms that are available to the City.

The City's overall tax levy must be reflective of the impact of debt issuance. Alternative revenue sources will be used when practicable to maintain an overall tax rate consistent with the general philosophy of municipal service determined by the City Council.

The cost of financing through the issuance of debt is also affected by the strength of the City's financial position. Bond ratings and investor's interest are influenced by the City's debt management policies, as well as, by the overall financial policies of the City. It is the City's goal to maintain debt management policies that keep outstanding debt within manageable levels and which maintains the City's flexibility to issue debt in the case of unusual circumstances of those beyond the City's control.

6.2 General Policies

- A. Long-term borrowing shall be limited to capital improvements projects that cannot be financed from current revenues and have estimated life span of greater than the term of borrowing. Principal and interest will be scheduled to be within the revenues available for debt service. Long-term debt shall not be used for current operations.
- B. Any capital improvement projects or capital equipment financed through bonds should be financed for a period not to exceed the expected useful life of the asset being financed.
- C. Total outstanding debt, including overlapping debt, will be considered when planning additional debt issuance.
- D. Consideration should be made for the City's share of utility projects, including the cost of over-sizing of water, sewer and storm water mains, being financed with current utility funds and other revenues when funds are appropriate and available.



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- E. The use of general obligation bonds for projects does not dismiss the potential of pro rata payment for debt service by specifically benefited funds such as water, sewer, storm water, or road use tax.
- F. The City will consider refunding outstanding debt in order to achieve interest cost savings, restructure principal and/or eliminate burdensome covenants with bondholders. Refunding's undertaken to achieve interest cost savings in advance of their call date should strive to achieve a new present value savings benefit equal to a minimum of 3% of the present value of the refunded par amount.
- G. Financing requirements will be reviewed annually. The timing for financing will be based upon the City's need for funds, market conditions and debt management policies.
- H. The City will follow a policy of full disclosure on every financial report and bond prospectus with bond rating agencies about its financial condition.
- I. The City will follow applicable laws, regulations and bond covenants relative to arbitrage and rebate compliance requirements.

6.3 Debt Limitations

- A. The average maturity of general obligation debt should not exceed the useful life of the asset being financed and/or state law limitations.
- B. Bond issues should be structured so that the debt service schedule is within the revenues available for debt service.
- C. Total general obligation indebtedness should not exceed 50% of the City's statutory debt limit.

SECTION 7 – FINANCIAL REPORTING AND ACCOUNTING

7.1 General Policies

- A. The City will maintain a high standard of accounting practices. To that end, the City will continue to use the latest edition of Governmental Accounting, Auditing, and Financial Reporting (GAAFR) as its source of generally accepted accounting principles (GAAP).
- B. The City's relationship with its independent public accounting firm will be reviewed at a minimum every five years.



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- C. The City will maintain its budget and accounting system on a cash basis which will be the basis for all interim, internal, and state reporting.
- D. The City will adhere to a policy of full and open public disclosure of all financial activity and information.
- E. The City shall maintain an internal control system to safeguard its assets, check the accuracy and reliability of its accounting data, promote operational efficiency and encourage adherence to prescribed City policies.

7.2 Reports

- A. The City will maintain a budgetary control system and will produce interim financial reports that measure actual revenues and expenditures compared to budgeted revenues and expenditures.
- B. Monthly and annual reports should present a summary of financial information by major fund and activity type.
- C. Monthly reports should be provided presenting actual cash position.
- D. Each year, the City shall retain either an independent public accounting firm or the State Auditor to perform the annual audit and will make the audit available to all interested parties.
- E. The City will comply with all federal and state audit and review regulations, including OMB A-133 single audit and Single Point of Contact (SPOC) review requirements.

SECTION 8 – INVESTMENT POLICIES

8.1 Purpose

The purpose of this investment statement is to establish the policy that the City shall follow to promote the responsible use of public funds as income-earning resources. The statement will outline the methods, procedures and practices that the City shall follow in carrying out its investment activities.

8.2 General Policies

It is the policy of the City of Marion to invest public funds in a manner which will provide the maximum security, maintain necessary liquidity and obtain a reasonable investment return, all in accordance with Iowa statutes governing the investment of public funds.



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8.3 Scope

This Investment Policy applies to all funds under the management of the City of Marion.

8.3.1 Pooling of Funds

Except for cash in certain restricted and special funds, the City of Marion will consolidate cash balances from all funds to maximize investment earnings. Investment income will be allocated to various funds based on their respective participation and in accordance with generally accepted accounting principles.

8.4 General Objectives

The primary objectives, in priority order, of the City's investment activities shall be safety, liquidity and yield.

8.4.1 Prescribed Level of Credit Risk

According to General Accounting Standards Board Statement Number 40, paragraphs 68 and 69, the categories of credit risk for investments, dependent on the nature of the investment and the custodial provisions are:

- Deposits that are not covered by depository insurance and are (a) uncollateralized, (b) collateralized with securities held by the pledging financial institution, or (c) collateralized with securities held by the pledging financial institution's trust department or agent but not in the depositor-government's name
- Investment securities that are uninsured, are not registered in the name of the government, and are held by either (a) the counterparty or (b) the counterparty's trust department or agent but not in the government's name.
- The City Treasurer/Finance Director shall arrange safekeeping procedures so that investments are insured or registered or are held by the City or its agent in the City's name.

8.4.2 Safety



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Safety of principal is the foremost objective of the investment program. Investments shall be undertaken in such a manner that seeks to ensure the preservation of capital in the overall portfolio. The objective will be to mitigate credit risk and interest rate risk.

A. Credit Risk

The City will minimize the risk of loss due to the failure of the security issuer or backer, by

1. Limiting investments to the safest types of securities
2. Pre-qualifying the financial institutions, broker/dealers, intermediaries, and advisors with which the City will do business
3. Diversifying the investment portfolio so that potential losses on individual securities will be minimized.
4. An investment shall be rated within the two highest classifications as established by at least one of the rating review services approved by the Superintendent of Banking by Rule adopted pursuant to Chapter 17A.

B. Interest Rate Risk

The City will minimize the risk that the market value of securities in the portfolio will fall due to changes in general interest rates, 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. Investing operating funds primarily in shorter-term securities, money market mutual funds, or similar investment pools.
3. Investing in securities with adjustable coupons.

C. Duration Risk

1. Less than or equal to six years
2. Manager should disclose duration of portfolio on monthly reports



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3. Prepayment risk for mortgaged back securities needs to be disclosed

8.4.3 Liquidity

The investment portfolio shall remain sufficiently liquid to meet all operating and capital requirements that may be reasonably anticipated 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 will 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 investment pools that provide same-day liquidity for short-term funds.

8.4.4 Yield

The investment portfolio shall be constituted 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. The return on investments is to be accorded secondary importance compared to the safety and liquidity objectives described above. The core of investments will focus on relatively low risk securities with an expectation 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 value may be sold early to minimize loss of principal.
- B. A security may be exchanged to improve the quality, yield or target duration in the portfolio
- C. A security may be sold in order to satisfy liquidity requirements.

8.5 Standards of Care

8.5.1 Prudence

The criterion for the management decisions to be exercised by the investment officials shall be the "prudent person" standard and shall be applied in the context of managing an overall portfolio. Investment officers



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acting in accordance with written procedures and 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 manner and the liquidity and the sale of securities are administered 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.

8.5.2 Ethics and Conflicts of Interest

Officers and employees involved in the investment processes shall refrain from personal business activity that could conflict with the proper execution and management of the investment program or could impair their ability to make impartial decisions. Employees and investment officials shall disclose any material interests in financial institutions with which business is conducted. They shall further disclose any personal financial or investment positions that could be related to the performance of the investment portfolio. Also, these same individuals shall refrain from undertaking personal investment transactions with the same individual with whom investment business is conducted on behalf of the City.

8.5.3 Delegation of Authority

The authority for management of the investment program is vested in the City Treasurer/Finance Director and is derived from Section 12B.10, Subsection 1, of the Code of Iowa. In the absence of the City Treasurer/Finance Director, the authorization is delegated to the Accountant. Responsibility for the operation of the investment program is hereby delegated to the appropriate investment officer, who shall act in accordance with established written procedures and internal controls for the operation of the investment program consistent with this investment policy.

8.6 Legal Authority

Code of Iowa

The following is a summary of sections of the Code of Iowa applicable to City investments administration.



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- Section 372.8. Council - Manager Form of Government - Supervision

(1) The City Manager is the chief administrative officer of the City and shall:

(2)(n) Appoint a treasurer subject to the approval of the Council . . .

- Section 12B.10. Public Funds Investment Standards

- A. The City Treasurer/Finance Director shall at all times keep funds coming into the City's possession as public money in a vault or safe to be provided for that purpose or in one or more depositories approved pursuant to Chapter 12C. However, the City Treasurer/Finance Director shall invest, unless otherwise provided, any public funds not currently needed in investments authorized by this section.
- B. The City Treasurer/Finance Director and other investment officials of the City, when investing, depositing, or acting as custodian of public funds are acting in a fiduciary capacity for the citizens of Marion and shall exercise the care, skill, prudence and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use to attain the goal of this subsection. This standard requires that when making investment decisions, a public entity shall consider the role the investment or deposit plays within the portfolio of assets of the public entity and the goals of this subsection.

The primary goals of investment prudence shall be based in the following order of priority:

1. Safety of principal is the first priority.
2. Maintaining the necessary liquidity to match expected liabilities is the second priority.
3. Obtaining a reasonable return is the third priority.



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- C. Investments of public funds shall be made in accordance with written policies. A written investment policy shall address the goals set out in Iowa Code Section 12B.10(2) and shall also address, but is not limited to, compliance with Iowa law, diversification, maturity, quality and capability of investment management.

The trading of securities in which any public funds are invested for the purpose of speculation and the realization of short-term trading profits is prohibited.

City investments must have maturities that are consistent with the needs and use of the City.

- D. Subsection 5 of Section 12B.10 identifies permitted investments and is included in Section 8.0 of this Investment Policy.

- 12B.10A. Public Investment Maturity and Procedural Limitations

- A. "Operating funds" means those funds which are reasonably expected to be expended during a current budget year or within fifteen months of receipt. Operating funds are subject to the following limitations:

1. Operating funds must be identified and distinguished from all other funds available for investment.
2. Operating funds may only be invested in investments which mature within 397 days or less and which are authorized by law and as limited by this written investment policy of the City.

- B. All investments of public funds by the City shall be subject to the following:

1. Each investment must be authorized by applicable law and as limited by the written investment policy of the City.



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2. All custodial agreements shall comply with rules adopted by the Treasurer of State pursuant to Iowa Code Section 12B.10C.
 3. All contracts providing for the investment of public funds shall be in writing and shall contain a provision requiring that all investments shall be in accordance with the laws of the State and as limited by the written investment policy of the City.
 4. A contract for the investment or deposit of public funds shall not provide for compensation of an agent or fiduciary based upon investment performance.
- C. A City Treasurer/Finance Director may invest funds that are not operating funds in investments having maturities longer than 397 days to provide funding for pay-as-you-go financing of utility construction and required bond and insurance reserves.
- Section 12B.10B. Written Investment Policy
- A. Political subdivisions shall approve written investment policies which incorporate the guidelines specified in Section 12B.10, Sections 12B.10A through 12B.10C, and any other provisions deemed necessary to adequately safeguard public funds.
- B. The written investment policy must be delivered to all of the following:
1. City Council.
 2. All depository institutions or fiduciaries for public funds of the City.
 3. The auditor of the City.



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- Section 12B.10C. Regulation of Public Funds Custodial Agreements

"Public Funds Custodial Agreement" means any contractual arrangement pursuant to which one or more persons (including but not limited to, investment advisors, investment companies, trustees, agents, the federal reserve and custodians) are authorized to act as a custodian of or to designate another person to act as a custodian of public funds or any security or document of ownership or title evidencing public funds investments. This does not include custodial agreements between an open-end management investment company registered with the Federal Securities and Exchange Commission and a custodian bank.

The City of Marion shall comply with any rules adopted by the Treasurer of the State of Iowa requiring the inclusion in public fund custodial agreements any provision necessary to prevent loss of public funds.

However, this section does not apply to public funds that are invested under the provisions of a resolution or indenture for the issuance of bonds, notes, certificates, warrants, or other evidences of indebtedness.

- Section 12C.1. Deposits in General - Definitions

The City Treasurer/Finance Director shall invest all funds not needed for current operating expenses in time certificates of deposit in approved depositories pursuant to this chapter, or in investments permitted in Section 12B.10.

Current operating funds are retained in interest bearing checking and savings accounts with local financial institutions.

- Section 12C.9. Investment of Sinking Funds - Bond Proceeds

The City Treasurer/Finance Director may invest the proceeds of public bonds or obligations and funds being accumulated for the payment of principal and interest or reserves in investments set out in Section 12B.10, Subsection 4, paragraphs "a" through "g", an investment contract or tax exempt bonds. The investment shall be as defined and permitted by Section 148 of the Internal Revenue Code and applicable regulations under this section. An investment contract or tax-exempt bonds shall be rated within the two highest classifications as established



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by at least one of the standard rating services approved by the Superintendent of Banking by rule adopted pursuant to Chapter 17A.

- Sections 12C.15 through 12C.23 pertain to collateralization requirements. They are not repeated here because of the length of these sections. Those sections are hereby incorporated by reference.
- Section 384.21. Joint Investment of Funds

A city or a city utility board shall keep all funds invested to the extent practicable, and may invest the funds jointly with one or more cities, utility boards, judicial district departments of correctional services, or counties pursuant to a joint investment agreement. All investment of funds shall be subject to Sections 12B.10 and 12B.10A and other applicable laws.

8.7 Investment Authority and Responsibility

8.7.1 Legal Background

The City Council is charged, under Iowa Code Section 12B.10B, with approving a written investment policy which incorporates the guidelines specified in Section 12B.10 entitled "Public Funds Investment Standards"; Section 12B.10A entitled "Public Investment Maturity and Procedural Limitations"; Section 12B.10B entitled "Written Investment Policies"; and Section 12B.10C entitled "Regulation of Public Funds Custodial Agreements" and which are described in Section 6.0 of this Investment Policy entitled "Legal Authority".

Authority to invest City funds is designated in the City Treasurer/Finance Director by Iowa statute as designated above. (Iowa Code Section 12B.10, Subsection 1)

The City Manager, as chief administrative officer for the City, is responsible by statute for budget preparation, overall business affairs of the City and appointment, with City Council approval, of the City Treasurer/Finance Director.

8.7.2 Authority and Responsibility Assigned

The City Treasurer/Finance Director shall establish written procedures for the operation of the investment programs consistent with this Investment Policy. Procedures should include references to safekeeping, repurchase agreements,



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money managers, wire transfer agreements, collateral/depository agreements and banking service contracts.

The City Treasurer/Finance Director shall invest all funds in accordance with this policy. In the absence of the City Treasurer/Finance Director, the Assistant Finance Director shall be responsible and in the absence of the Assistant Finance Director, the responsibility shall be assumed by the Accountant. No person shall engage in an investment transaction except as provided under the terms of this investment policy and the procedures established by the City Treasurer/Finance Director. The City Treasurer/Finance Director shall be responsible for all transactions undertaken and shall establish a system of controls and reports to inform the City Manager of the details of investment transactions. At least quarterly the City Manager shall meet with the City Treasurer/Finance Director to discuss the status of current investments, strategies for future investments and other investment matters deemed necessary. Quarterly and fiscal year-to-date reports shall be provided by the City Manager to the City Council so they can review performance of the investments.

In carrying out prescribed responsibilities the City has established an Investment Oversight Advisory Committee.

8.8 Authorized Investment Instruments (Section 12B.10(5))

8.8.1 Permitted Investments

Investment instruments authorized for purchase by the City Treasurer/Finance Director shall be limited to:

- A. United States Government, Agency and Instrumentality Obligations.
- B. Certificates of Deposit (time, demand and/or negotiable) and other evidences of deposit such as time deposits, savings accounts at federally insured depository institutions approved pursuant to Chapter 12C, Code of Iowa.
- C. Prime bankers' acceptances that mature within 270 days and that are eligible for purchase by a federal reserve member bank provided that at the time of purchase no more than ten percent of the investment portfolio shall be in investments authorized by this paragraph and that



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at the time of purchase no more than five percent of the investment portfolio shall be invested in the securities of a single issuer.

- D. Repurchase agreements. A master repurchase agreement between the City and bank or dealer must be in place prior to entering into any repurchase transaction. The master repurchase agreement must include the following provisions:
1. The underlying collateral shall be limited to United States Government, Agency and Instrumentality Obligations;
 2. Collateral shall be marked-to-market daily by the custodian and shall be maintained at value equal to or greater than the cash investment;
 3. At the time of purchase, the market value of the collateral shall represent 102 percent of the cash investment;
 4. An authorized third party custodian or safekeeping agent shall hold all securities purchased under a repurchase agreement;
 5. A seller of repurchase securities shall not be entitled or authorized to substitute collateral, except as authorized by the City Treasurer/Finance Director; and
 6. Retail repurchase agreements and reverse repurchase agreements shall not be authorized for purchase.
- E. Management investment company including open ended, exchanged or closed end registered with the Federal Securities and Exchange Commission under the Federal Investment Company Act of 1940, 15 U.S.C. §80(a), and operating in accordance with 17 C.F.R. §270.2a-7, provided such entity limits its investments to those allowed by this policy.



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F. A joint investment trust organized pursuant to Chapter 28E of the Iowa Code prior to and existing in good standing on the effective date of this Act or a joint investment trust organized pursuant to Chapter 28E after April 28, 1992, provided that the joint investment trust shall either be rated within the two highest classifications by at least one of the standard rating services approved by the Superintendent of Banking by rule adopted pursuant to Chapter 17A and operated in accordance with 17 C.F.R. §270.2a-7, or be registered with the Federal Securities and Exchange Commission under the Federal Investment Company Act of 1940, 15 U.S.C. §80(a) and operated in accordance with 17 C.F.R. §270.2a-7. The manager or investment advisor of the joint investment trust shall be registered with the Federal Securities and Exchange Commission under the Investment Advisor Act of 1940 15 U.S.C., § 80(b), as amended, provided such entity limits its investments to those allowed by this policy.

G. Participation in investment pools is authorized by Section 384.21. The City may participate in investment pools after approved by the City Council as an action item on the City Council agenda. Recommendations from the City Manager for participation in a pool or trust shall include in the background portion of the cover memo a discussion of research findings on the reliability and experience of the firm and its top executive officer(s). Participation is limited to pools that invest only in authorized instruments identified above and whose investment strategy is consistent with the City's Investment Policy.

H. Agency issued Collateralized Mortgage Obligations (CMO's), which are securities underwritten and guaranteed by Ginnie Mae, Fannie Mae or Freddie Mac.

8.8.2 Prohibited Investments

A. Futures and options contracts are not permissible investments. Iowa Code Section 12B.10(5)(h).

B. Whole loan CMO's or privately labeled CMO's, which are typically issued by private entities including subsidiaries of investment banks,



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financial institutions and home builder's or mutual funds that hold whole loan CMO.

- C. The trading of securities in which any public funds are invested for the purpose of speculation and the realization of short-term trading profits is prohibited. (Iowa Code Section 12B.10(3)).
- D. International bonds are not permissible investments.
- E. Corporate bonds are not permissible investments.
- F. Municipal securities approved by Municipal Security Rulemaking Board (MSRB).

8.9 Investment Options

The City Treasurer/Finance Director is not required to use all the investment options authorized by this Investment Policy. The selection of investment options shall be determined by the legal requirements or other limitations on investment opportunities, cash flow characteristics, the acceptability of exposure to market risks, the rate of return, the technical ability of the staff responsible for administering the investment program, and the availability of time and tools for City staff to engage in conservative but active management.

8.10 Professional Investment Assistance

This investment policy authorizes the use of investment advisors (money managers) and investment consultants to assist the City in the management of its invested funds.

8.10.1 Investment Advisor Defined

An "Investment Advisor" (money manager) is a person or firm with investment expertise paid a fee to manage funds to enhance the rate of return. The investment advisor shall be selected because of the advisor's investment expertise, experience, strategy and fund management aids. The investment advisor shall determine the actual investments to be made of funds under



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management according to this Investment Policy. This Investment Policy shall apply in all aspects to the investment activities of the City's investment advisor.

8.10.2 City - Investment Advisor Relationship

The investment advisor's plan shall be explicit, in writing, personally presented to the City at least annually and mutually agreed upon. Any meaningful change to the plan should be communicated in writing to the City in the interim. It shall also be within the competence of the investment advisor; be realistic and reasonable relative to the market; and satisfy the legitimate and informed expectations of the City.

Investment advisor compensation shall not be based upon performance.
(Section 12B.10A(2)(c))

8.10.3 Selection of Investment Advisor

Prospective investment advisors shall be examined in three major areas: professional investment competence, commitment to City service, and soundness of business strategy.

A prospective investment advisor must have a clear concept of how to add value to the City's portfolio. Such a concept can be based upon the advisor's perception of an opportunity in the market that presents opportunities for it to increase the portfolio's rate of return. In addition to a sound concept of how to add value, the advisor must have developed a sensible process for making decisions to execute the concept, and must have a convincing record of achievement of the results intended.

The advisor will be reasonably accessible for the convenience of personal meetings and will be a fixed-fee-based provider of services and not a performance-based-fee provider. Monthly, calendar year-to-date, one year, three year, five year and from inception returns need to be reported by each investment advisor monthly in order to capture a full market cycle. Returns should be reported gross and net of fees.

8.10.4 Investment Consultant Defined

An "Investment Consultant" is a person or firm with investment expertise used by the City to assist in the development of investment plans and strategies that are consistent with the Investment Policy, to identify investment advisors whose



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investment management style and strategy are consistent with the objectives, intent and limitations of the Investment Policy and to monitor the performance of the investment advisors selected by the City. The investment consultant shall not be an investment advisor (money manager) or custodian and may not benefit in any manner from making investments in behalf of the City.

8.10.5 Selection of Investment Consultant

The Investment Consultant may be an individual or firm. Said consultant will be thoroughly familiar with all investment instruments authorized for use in the City of Marion Investment Policy. The consultant will be or will become knowledgeable as to the intent of the City of Marion Investment Policy. The consultant will convey this intent to prospective investment advisors to guarantee the suitability of investment instruments to be selected by said advisor(s).

The individual consultant or the individual representing the consultant firm will have had at least five years of hands-on experience in the selection process and in monitoring of investment advisors or closely related experience, such as, having worked in an advisory capacity for at least five years.

The consultant will be reasonably accessible for the convenience of personal meetings and will be a fee-based provider of services and may not benefit in any manner from making investments in behalf of the City. The consultant will have an orientation toward the needs and requirements pertaining to the investment of public funds.

8.11 Authorized Financial Dealers and Institutions

8.11.1 Selection Process

A set, formal process shall be used to select financial advisors, third party custodians, and brokers/dealers in money market instruments. Authorized dealers and Institutions must be approved by the City Investment Committee and City Treasurer/Finance Director. This policy is intended to screen out institutions that lack economic viability or whose past practices suggests that the safety of public capital would be impaired if transactions were directed to or through such firms. As required by Chapter 23A.3, Code of Iowa, it shall be City policy to consider purchasing services from locally owned businesses if the cost and other considerations are relatively equal.



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The City Treasurer/Finance Director shall maintain a list of investment advisors and financial institutions authorized to provide investment advisor and custodian services. In addition, a list shall also be maintained of approved security broker/dealers selected by credit worthiness. These may include "primary" dealers or regional dealers that qualify under Securities & Exchange Commission Rule 15C3-1 (uniform net capital rule). Investment Advisory Firms registered with the SEC under the Investment Advisors Act of 1940. No public deposit shall be made except in a qualified public depository as established by the Treasurer of the state of Iowa. The City may also maintain an account with the federal reserve for custodial services and investment transactions.

8.11.2 Financial Institutions and Brokers/Dealers

All financial institutions and broker/dealers who desire to become qualified bidders for investment transactions of the City of Marion or its investment advisors shall supply the City Treasurer/Finance Director with the following: annual audited financial statements or Uniform Application for Investment Advisor Registration (ADV) report, proof of state registration if applicable, or Federal Depository Bank registration and certification of having read the City of Marion's Investment Policy. An annual review of the financial condition and registrations of qualified bidders shall be conducted by the City Treasurer/Finance Director or his/her designee.

Each financial institution and broker/dealer that bids on City of Marion (or City of Marion investment advisors) investment transactions shall file a current audited financial statement.

8.11.3 Independent Auditor's Verification

The City's independent auditor verifies account balances for securities/instruments being held by the custodian annually.

8.12 Collateralization

Collateralization shall be required on two types of investments: Certificates of Deposit, and other evidence of deposit at City Council approved insured depository institutions; and repurchase agreements. In order to anticipate market changes and provide a level of security for all funds, the collateralization level shall be that as is required by Iowa law for Certificates of Deposit and other evidence of deposit and 102 percent of market value of principal and accrued interest for repurchase agreements.



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The City chooses to limit collateral to those investment instruments authorized by this Investment Policy. Collateral shall always be held by an independent third party bailee who holds the collateral for the benefit of the City and where the City is a party to the bailee agreement. A clearly marked evidence of ownership (safekeeping receipt) shall be supplied to the City and retained by the City Treasurer/Finance Director.

Collateral substitution is not authorized, except as approved in writing by the City Treasurer/Finance Director.

8.13 Maximum Maturities

The City of Marion will attempt to match its investments with anticipated cash flow requirements.

8.13.1 Operating Funds - Available for Short-Term Investment

Operating funds represent fund balances, current revenues and other moneys anticipated to be expended during a current fiscal year or within 15 months of receipt. Operating funds may only be invested in instruments that mature within 397 days or less. Operating funds must be identified and distinguished from all other funds available for investment. (Section 12B.10A(1))

8.13.2 Reserve and Construction Funds - Available for Long-Term Investment

Reserve and construction funds available for long-term investment represent debt service and self-insurance and operating reserve funds; funds being accumulated for capital improvements on a pay-as-you-go basis; and construction funds for future projects. These funds may be invested in investments having maturities longer than 397 days. (Section 12B.10A(3)). The maturities for long-term investments shall coincide as nearly as practicable with expected use of the funds. For securities with maturity longer than one year, duration will be used as the primary measure of maturity rather than final maturity of the financial instrument. The City Treasurer/Finance Director will provide written notice of anticipated withdrawals.

8.14 Safekeeping and Custody

8.14.1 Delivery Versus Payment

All security transactions, including collateral for repurchase agreements, entered into by the City of Marion shall be conducted on a delivery-versus-payment



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(DVP) basis. Securities will be held by a third party custodian designated by the Treasurer and evidenced by safekeeping receipts.

8.14.2 Investment Securities

Investment securities shall be held by the City Treasurer/Finance Director or by a custodian who: (a) is not also the Investment Manager for the funds; (b) is designated in writing by the City Treasurer/Finance Director; and (c) will issue safekeeping receipts to the City Treasurer/Finance Director for securities held for the City.

8.14.3 Bonding

City investment officials shall be bonded to protect the public against possible embezzlement and/or malfeasance.

8.15 Diversification

The purpose of diversification is to reduce overall portfolio risk while attaining market rates of return and to enable the City of Marion to meet all anticipated cash requirements.

The investments shall be diversified by:

- Financial Institution
- Limiting investments to avoid over-concentration in securities of a specific issuer
- Limiting Certificates of Deposit to the amount approved by City Council for each financial institution in accordance with the Code of Iowa.
- Investing in securities with varying maturities.
- Investing a minimum of 5% of the total portfolio in highly marketable short-term treasuries, U.S. Government Agency Securities, checking accounts with interest, government pooled account, or a combination of all four.
- Investing no more than twenty-five (25) percent of the City's investment portfolio in a single authorized pool, with the exception of U.S. Government Treasury Securities, federal agencies and instrumentalities, and deposits in approved depositories.



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8.16 Internal Controls

The City Treasurer/Finance Director shall be responsible for establishing a system of internal controls that will provide reasonable assurance that the City investments comply with the objectives of the Investment Policy. The system shall include but not be limited to the following:

- A. All investment transactions shall be reported to the Finance Director and the results recorded in the general ledger.
- B. Verification of the securities held by the Finance Director shall be conducted internally, at least semiannually.
- C. Review of compliance with the internal policy and related procedures shall be part of the annual audit process conducted by the City's independent auditors. This shall include a confirmation letter from each financial institution, money manager and third-party custodian verifying the principal amount and the market value of all obligations secured by the City of Marion's deposits and investments. Managers should disclose pricing service used for MBS.

8.17 Reporting

The City Treasurer/Finance Director shall prepare an investment report quarterly for the City Council. This report will include the following:

- List of individual securities held at the end of the reporting period further broken down by issuer, purchase date, maturity date, coupon rate, par value, market value, book value, and yield-to-maturity
- A report summarizing the portfolio by type, the percentage of the total portfolio which each type of investment represents, par value, market value, book value, term, days to maturity, year-to-date earnings and effective rate of return

8.18 Ethics and Conflict of Interest

City officers and employees involved in the investment process shall refrain from personal business activity that could conflict with the proper execution of the investment program, or which could impair the ability to make impartial investment decisions. Such officers and employees shall disclose to the City Council any material financial interests in financial institutions that conduct business with the City and they shall further disclose any large personal



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financial/investment positions that could be related to the City's portfolio. City officers and employees shall subordinate their personal investment transactions to those of the City particularly with regard to the time of purchases and sales.

The appearance of a conflict of interest shall also be avoided by those investing City funds.