



**Carver County Board of Commissioners
April 25, 2023
Work Session**

The County Board Room is open to the public.

- 9:00 a.m. **A. CULTURE: Provide organizational culture fostering accountability to achieve goals and sustain trust/confidence in County government**
 1. 2023 County Employee Events 1
- 9:25 a.m. **B. FINANCES: Improve the County’s financial health and economic profile**
 1. Investment Update 2-11

David Hemze
County Administrator

UPCOMING MEETINGS

May 2, 2023	9:00 a.m. Board Meeting
May 4, 2023	4:00 p.m. West Creek Apartment Open House Groundbreaking, Schram Haus Brewery, Chaska
May 9, 2023	No Meeting
May 9, 2023	9:00 a.m. Midwest Medical Examiner Building Tour
May 16, 2023	9:00 a.m. Board Meeting
May 23, 2023	9:00 a.m. Board Work Session
May 30, 2023	No Meeting

Carver County Board of Commissioners Request for Board Action



Agenda Item:

2023 County Employee Events

Primary Originating Division/Dept: Employee Relations

Meeting Date: 4/25/2023

Contact: Kerie Anderka Title: Employee Relations Director

Item Type:
Work Session

Amount of Time Requested: 25 minutes

Presenter: Title:

Attachments: ☐ Yes ☒ No

Strategic Initiative:

Culture: Provide organizational culture fostering accountability to achieve goals & sustain public trust/confidence in County government

BACKGROUND/JUSTIFICATION:

Employee Relations would like to provide the Board with information on various 2023 employee recognition and engagement events offered countywide. The information also includes Employee Club sponsored events planned in collaboration with Employee Relations, and activities provided as part of the County's voluntary Health & Wellness Program, in addition to annual employee recognition and retiree events.

The events support and provide forums for employee engagement, recognition, and appreciation, and support overall health and wellbeing of the County workforce.

ACTION REQUESTED:

Direction from Board to proceed with recommended calendar of events.

FISCAL IMPACT: None

If "Other", specify:

FUNDING

County Dollars =

FTE IMPACT: None

Total \$0.00

☒ Insert additional funding source

Related Financial/FTE Comments:

Office use only:

RBA 2023 - 9051

Carver County Board of Commissioners Request for Board Action



Agenda Item:

Investment Update

Primary Originating Division/Dept: Property & Financial Services

Meeting Date: 4/25/2023

Contact: David Frischmon

Title: Property and Finance Director

Item Type:

Work Session

Amount of Time Requested: 30 minutes

Presenter: Dave, Tom and Mary Kaye

Title:

Attachments: ☒ Yes ☐ No

Strategic Initiative:

Finances: Improve the County's financial health and economic profile

BACKGROUND/JUSTIFICATION:

The County's Finance staff currently manage the County's investment portfolio without any direct help from an external investment advisor. Several Mn counties have transitioned to and are benefitting from an external investment advisor. Thus, in 2021, Finance staff issued a request for proposal (RFP) to a list of investment advisors who were highly recommended by other Mn counties. Five RFPs were received and reviewed by the Property & Finance Director and Finance Team. After several meetings, Ehlers and Associates is being recommended to provide investment advisor services. At the Board workshop, Finance staff will provide an overview on:

1. Summary of RFP's and selection process
2. Recommendation to hire Ehlers and Associates as an Investment Advisor
3. Change the County's Investment Policy (see attached) to:

A. Allow the County to hire an Investment Advisor to help County staff manage the County's investment portfolio

B. Allow County staff to invest cash being held for the County's Compensated Absences long term liability in the equity markets via the Mn State Board of Investment. (State Statute has been changed to allow County's with a AAA bond rating to invest cash in the equity markets). Please note that in 2010, the County Board authorized County staff to invest in the equity markets via the Mn State Board of Investment with cash that is being held in a separate Trust for the County's OPEB long term liability.

C. Update outdated language and references in the County's current Investment Policy.

ACTION REQUESTED:

Provide direction on County staff recommendations to hire Ehlers and Associates as an Investment Advisor and to make changes to the County's Investment Policy

FISCAL IMPACT: Other

If "Other", specify:

see comment below

FUNDING

County Dollars =

Total

\$0.00

Related Financial/FTE Comments:

The recommended changes to the County's Investment Policy are expected over the long term to increase the County's annual investment income.

Office use only:

RBA 2023 - 8978



Carver County – Financial Policy Manual

Investment Policy

SECTION: Revenue
AUTHORITY: Res. 17-08

EFFECTIVE: 3/3/08
REVISED: 4/15/14
4/25/23

Purpose

It is the policy of the County to invest public funds in a manner which will provide the highest investment return with the maximum security while meeting the daily cash flow requirements of the County and conforming to all state and local statutes governing the investment of public funds. The purpose of this Policy is to develop an overall program for cash investments, designed and managed with a high degree of professionalism, worthy of the public trust; to establish that elected and appointed officials and employees are custodians of a portfolio which shall be subject to public review; to establish cash investment objectives, delegation of authority, standards of prudence, internal controls, authorized investments, selection process for investments, advisor and broker representations.

~~To provide clear guidelines as it pertains to investments in order to maximize return while minimizing risk.~~

Policy Scope

This Policy applies to the investments and deposits of all the funds of the County.

~~Carver County is responsible for receiving and disbursing public funds for many programs and taxing districts within the County's jurisdiction. While the funds are in the custody of the County, pending disbursement, it is the Investment Manager's responsibility to invest the monies as prescribed by Minnesota Statutes, Chapters 118, 471 and 475, which are included in this policy by reference.~~

Pooling of Funds

Except for cash in certain restricted and special funds, the County will consolidate cash and reserve balances from all funds to maximize investment earnings and to increase efficiencies with regard to investment pricing, safekeeping and administration. Investment income will be allocated to the various funds based on their respective participation and in accordance with generally accepted accounting principles.

Investment Program Objectives

~~Four~~ Five objectives are taken into consideration for a sound investment program. It is the policy of Carver County when investing public monies to follow these objectives in the order of importance as listed ~~priority~~:

1. Legality - The County is limited by law as to the type of investments that can be made. At

all times, investments of the County shall be in accordance with Minnesota Statutes Chapter 118A and amendments thereto. ~~The following investment instruments are authorized: All general obligations of the United States Government; indirect government obligations such as Federal Agency notes and bonds excluding mortgage-backed securities that are defined as high risk; certificates of deposit backed by collateral; repurchase agreements; reverse repurchase agreements; bankers acceptance; commercial paper; and Guaranteed Investment Contracts (GICs).~~

2. **Safety** - Safety of principal is the foremost objective of the investment portfolio. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. The objective will be to mitigate credit risk, interest rate risk, and custodial risk. ~~Many banks and investment firms are dealers in these authorized investments. It is the policy of Carver County to do business only with those firms that are willing to meet the requirements set forth by state law and the County for the County's protection in regard to safekeeping, delivery and receipt. It is a statutory requirement that all certificates of deposit are to be backed by collateral at 110% of market value. The County reserves the right to require substitute collateral if any collateral subsequently fails to meet the requirements set.~~

Credit Risk: Credit Risk is the risk of loss due to failure of the security issuer or backer. Thus, designated depositories shall have insurance through the FDIC (Federal Insurance) or the SIPC (Securities Investor Protection Corporation). To ensure safety, it is the policy of the County that when considering an investment, all depositories under consideration be cross-checked against existing investments to make certain that funds in excess of insurance limits are not made in the same institution unless collateralized as outlined below.

Interest Rate Risk: Interest Rate Risk is the risk that the market value of securities in the portfolio will fall due to changes in general interest rates. The County will minimize Interest Rate Risk by:

1. Investing in both shorter-term and longer-term investments.
2. Timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.
3. Monitoring, on a quarterly basis, the expected mark-to-market adjustment if interest rates increase by 100-200 Basis Points. When these reports (commonly referred to as "Shock Reports") show a 5% (\$2.0 million on a \$40 million portfolio) \$2 million negative mark-to-market adjustment with an increase of 150 Basis Points, for the current calendar year with an increase of 100 Basis Points, the Investment Manger shall take reasonable and prudent actions to reduce the County's exposure to an increase in interest rates.

Custodial Risk: The County will minimize deposit Custodial Risk, which is the risk of loss due to failure of the depository bank (or credit union), by obtaining

collateral or bond for all uninsured amounts on deposit, and by obtaining necessary documentation to show compliance with state law and a perfected security interest under federal law.

3. **Liquidity** - The investment portfolio shall remain sufficiently liquid to meet projected disbursement requirements. This is accomplished by structuring the portfolio so that securities mature concurrent with cash needs to meet anticipated demands. Investment portfolios will be structured so that securities mature concurrent with cash needs to meet anticipated demands. Liquid funds will allow the County to meet possible cash emergencies without being penalized on investments.

~~The cash position of Carver County and its various programs has peaks and valleys during the year which require that a portion of the investment portfolio emphasize liquidity. It is a policy of the County to consider liquidity as a priority while still recognizing the need to maximize yield.~~

4. **Yield** - The investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary cycles, considering investment risk and liquidity needs. Return on investment is of secondary importance compared to the safety and liquidity objectives described above. Securities shall generally be held until maturity with the following exceptions.

- A security with declining credit quality may be sold prior to maturity to minimize loss of principal.
- Liquidity needs of the County require a security or securities are sold prior to maturity.
- A security swap would improve the safety and yield of the overall portfolio.

~~After the above considerations have been met, it is the practice of the County to maximize its yield while assuring that the maturity dates coincide with expenditure needs.~~

5. **Purchasing Power** - Recognizing that the bond investment options for public entities only allow investment growth around the rate of inflation, the intent of this objective is not only to preserve capital but also to seek enhancement of the portfolio's purchasing power over the long run. To this end, the portfolio will include equity investments from the MN State Board of Investment that track the returns of the Standards & Poor's 500 Index.

Delegation of Authority

It is the Investment Manager's responsibility to invest the monies as prescribed by Minnesota Statutes, Chapters 118, 471 and 475, which are included in this policy by reference. All depositories and investment firms that the County deals with will be approved by County's Senior Financial Executive prior to any transactions. It is further the responsibility of the County's Senior Financial Executive to designate depositories as authorized in Minnesota Statute 118A.02, Sub. 1. The County's Senior Financial Executive will maintain a listing of all institutions designated as depositories.

The Investment Manager may delegate this authority to a qualified individual in his/her reporting chain. The authorized County individuals, when acting in accordance with this Policy and exercising due diligence, shall not be held responsible for losses, provided that the losses are reported immediately, and that appropriate action is taken to control further losses.

The Finance Department may hire an external Financial Advisory Firm to perform all or some of these duties. An external Financial Advisory Firm requires a contract approved by the County Board. If the County chooses to utilize an SEC-registered investment advisory/management firms (External Investment Managers) to invest segments of the investment portfolio. The External Investment Manager will operate within the constraints of this investment policy and an executed Investment Advisory Agreement. The External Investment Manager shall have discretion over the assigned segment of the investment portfolio. All External Investment Managers shall purchase and sell securities in accordance with Minnesota Statute 118A, this investment policy statement, and the Investment Advisory Agreement. External Investment Managers must be registered under the Investment Advisers Act of 1940 and be licensed and registered to do business in Minnesota and registered as an investment advisor through IARD (Investment Advisor Registration Depository) in Minnesota.

Authorized Financial Dealers and Institutions:

If the County chooses to engage an investment advisor, that investment advisor may choose to utilize any broker-dealer that it deems prudent. Qualified investment advisors assisting the County in the management of its overall investment portfolio may purchase and sell investment securities in accordance with this investment policy and may utilize their own approved list of broker-dealers and security issuers; however, the list shall fully comply with the criteria maintained in this policy.

If the County chooses not to engage an investment advisor, the County will maintain a list of financial institutions authorized to provide investment services to the County. Prior to any investment transactions with the County, all broker/dealers who desire to become qualified bidders for investment transactions must supply the County with audited financial statements, proof of FINRA registration, proof of Minnesota registration, a certificate of insurance for excess SIPC coverage, and completion of the broker notification and certification form required by Minnesota Statutes 118A.

Prudence

The standard of prudence to be used by investment officials shall be the “prudent investor,” and shall be applied in the context of managing the investments. All investment transactions shall be made in good faith with the degree of judgment and care, under the circumstances, that a person of prudence, discretion and intelligence would exercise in the management of their own affairs. This standard of prudence shall mean not for speculation, and with consideration of the probable safety of the capital as well as the probable investment return derived from assets.

Internal Controls

Internal controls are designed to prevent loss of public funds due to fraud, error, misrepresentation, unanticipated market changes, or imprudent actions. Internal controls shall address:

- Separation of transaction authority from accounting and record keeping.
- Clear delegation of authority to subordinate staff members.
- Confirmation of transactions for investments and wire transfers.
- Development of a wire transfer agreement with the lead bank and third-party custodian.
- Investment and interest earnings will be recorded in the County's accounting records based on generally accepted government accounting procedures.
- A periodic summary of all investment transactions will be reviewed by the Finance Director at least once per quarter.
- Each year, as part of the annual audit by an external auditing firm, there will be an independent review. This review will provide internal control by assuring compliance with this policy
- The Investment Manager will report periodically to the County Board on the total of all funds invested and the total interest received on all securities year to date.

Authorized Investments and Collateralization

All County investments and deposits shall be those allowable by Minnesota Statutes Chapter 118A and amendments thereto. In accordance with MN Statutes 118A, collateralization will be required on all demand deposit accounts, including checking, savings, and money market accounts, and non-negotiable certificates of deposit in excess of federal deposit insurance.

State law defines the types of collateral that a financial institution may pledge for public deposits.

These types of collateral include:

- United States Government Treasury issues;
- Issues of United States Government Agencies and Instrumentalities;
- Obligations of state and local governments;
- Time Deposits fully insured by the Federal Deposit Insurance Company (FDIC) or any federal agency; and
- Irrevocable standby letters of credit issued by federal home loan banks.

Since the amount a public entity has on deposit will vary from time to time, the financial institution needs sufficient amounts of pledged collateral to cover 110% of the uninsured amount on deposit during peak deposit times.

A. Investments

The financial assets of the County may be invested in securities or other investments permitted pursuant to M.S. 118A. The following permissible investments of 118A are further restricted as noted below:

Investment Securities	Total Portfolio Exposure	Exposure per Issuer	Additional Restrictions
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1. Direct Obligations of U.S.	100%	Unlimited	No more than 25% in Zero Coupon Investments None
2. Obligations Issued or Guaranteed by an Agency of the U.S.	100%	Unlimited	None \$8 million per CUSIP
3. Agency Mortgage Backed Securities including Collateralized Mortgage Obligations	75 25%	5 10% in any one Mortgage Pool or CMO	No more than 50% in Mortgage pools or sequential CMO's \$4 million per CUSIP
4. Share of Regulated Investment Companies invested in 1 & 2 above	100%	100 20%	None
5. Repurchase or Reverse Repurchase Agreements	30 20%	10%	90 days maturity or less
6. General Obligations of any State of the US which is a general obligation of any state or local government with taxing powers	50%	5% 2% (4% MN)	"AA" or better by at least one major rating agency
7. Any security which is a revenue obligation of any state or local government with taxing powers	50%	5% 2% (4% MN)	"AA" or better by a National Bond Rating Service
8. Commercial Paper	50%	\$ 105 million for any one issuer	270 Days or less, highest rating by two rating agencies.
9. Bankers Acceptance	25%	5%	Pursuant to State Statute
10. GIC's Index Mutual Funds managed by MN State Board of Investments	40% (A)	5% (A)	A+ rated by AM Best (A)
<u>(A) Minnesota Statute 118A.09. Maximum investment specified in statute.</u> <u>County investments not to exceed total funds available in Compensated Absences Internal Service Fund.</u> <u>Investment returns may be accumulated up to the maximum allowed per Statute 118A.09, but not to exceed total funds available in the Compensated Absences Internal Service Fund.</u>			

Equity Investment Parameters

The amount invested in the Minnesota State Board of Investment - Minnesota Non-Retirement Equity Fund is limited lesser of statute maximum or County's total funds within the Compensated Absences Internal Service Fund. Equity investments are targeted for long-term capital plans, compensated absence reserves/liabilities or other long- term obligations established by applicable accounting standards. Long-term capital costs for purposes of this policy are defined as expenses to be incurred more than fifteen years into the future from the date of purchase.

Once the amounts invested reach the investment parameter limitations, no other funds may be invested beyond the investment parameter limitation; however, the Senior Financial Executive is authorized to manage the funds previously invested under this section even if the total exceeds the investment parameter limitation.

The Investment Manager has established the following guidelines needed to carry out this policy.

Guidelines

The County's investment duties require that decisions are made daily concerning the investment of millions of dollars. The investment function operates under state law which establishes restrictions and requirements. Carver County has adopted an Investment Policy which provides more specific program directives.

Authorization & Record Retention

1. All depositories and investment firms that the County deals with will be approved by the County Investment Manager prior to any transactions. It is further the responsibility of the County Investment Manager to designate depositories as authorized in Minnesota Statute 118A.02, Sub. 1 and by County Board Resolutions.
2. The County Investment ManagerFinance Department will maintain a listing of all institutions designated as depositories.
4. Before engaging in investment transactions with any broker/dealer, the supervising officer at the securities broker/dealer shall submit a certification. The document will state that the officer has reviewed the investment policies and objectives, as well as applicable state law, and agrees to disclose potential conflicts of interest or risk to public funds that might arise out of business transactions between the County and the broker/dealer. All financial institutions shall agree to undertake reasonable efforts to preclude imprudent transactions involving the County's funds.

Investments

The Investment Manager shall maintain a system of internal controls for investments. The internal controls shall be reviewed by the State Auditor's Office. The controls shall be designed to avoid losses of county funds arising from fraud, employee error, and misrepresentations by third parties,

~~unanticipated changes in financial markets, or imprudent actions by employees and officers of the county. 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, considering the probable safety of their capital as well as the probable revenue to be derived. The financial assets of the county may be invested in those securities or other investments permitted pursuant to M.S. 118A. These include:~~

~~Investment maturities shall be selected to accommodate forecasted requirements, meet anticipated capital obligations, and optimized investment objectives. Individual securities shall be limited to a maximum maturity/average life of fifteen years. The total portfolio shall be limited to a maximum average maturity/average life of ten years.~~

~~Portfolio investments shall not exceed 50% of the County's investment portfolio with any one institution, to avoid concentration of assets.~~

Safekeeping and CollateralizationCustody

~~All security transactions, including collateral for repurchase agreements, entered by the County shall be conducted on a delivery-versus-payment (DVP) basis. All investment securities purchased by the county shall be held in accordance with Minnesota statute 118A. All bank deposits will be insured or collateralized in accordance with Minnesota Statutes, Chapter 118.~~

Diversification

~~The County will attempt to diversify its investments according to type and maturity. The portfolio, as much as possible, will contain both short-term and long-term investments. The County will attempt to match its investments with anticipated cash flow requirements. Extended maturities may be utilized to take advantage of higher yields. Investment maturities shall be selected to accommodate forecasted requirements, meet anticipated capital obligations, and optimized investment objectives. Individual securities shall be limited to a maximum maturity/average life of ten years. The total portfolio shall be limited to a maximum average maturity/average life of five years.~~

Conflict 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.~~

~~The Investment Manager shall refrain from personal business activity that could conflict with the proper execution and management of the investment program and shall disclose any material interests in financial institutions with which he conducts business. The Investment Manager shall refrain from undertaking personal investment transactions with the same individual with whom business is conducted on behalf of Carver County.~~

Broker Representations

~~Counties must obtain from their brokers or advisors certain representations regarding future investments. Pursuant to Minnesota Statutes 118A, the County shall provide each broker or advisor with the County's investment policy, and the securities broker or advisor shall submit a~~

certification annually to the County stating that the officer has reviewed the investment policies and objectives, as well as applicable state law, and agrees to disclose potential conflicts of interest or risk to public funds that might arise out of business transactions between the firm and the County. Agents of financial institutions shall agree to undertake reasonable efforts to preclude imprudent transactions involving the County's funds.

Performance Standards and Benchmark

The investment portfolio shall be designed with the objective of obtaining a rate of return throughout budgetary and economic cycles, commensurate with the investment risk constraints and the cash flow needs. The basis used by the Senior Financial Executive to determine whether market yields is being achieved shall be to a comparable benchmark.

e.g., 90-day US Treasury Bill, 6-month US Treasury Bill, Average Fed Funds Rate.

Other Reporting

The county Investment Manager shall ~~present~~prepare a quarterly investment report to the County Board covering the investment activities and investment status. The management summary shall be prepared in a manner that will allow the Governing Body to determine if investment activities during the reporting period conform to this Investment Policy and incorporating as appropriate, investment activity, investment allocation, and rates of return.
~~of portfolio investments and performance (incorporating as appropriate, investment activity, investment allocation, and rates of return).~~