

RESOLUTION NO. 18-4

**AN RESOLUTION APPROVING AND ADOPTING AN INVESTMENT POLICY
FOR THE MORTON GROVE-NILES WATER COMMISSION**

WHEREAS, in 2017, the Morton Grove-Niles Water Commission (“MGNWC” or “Commission”) was established by the Village of Morton Grove, a home rule Illinois municipal corporation (“Morton Grove”), and the Village of Niles, a home rule Illinois municipal corporation (“Niles”), by the adoption of ordinances pursuant to Division 135 of Article 11 of the Illinois Municipal Code (65 ILCS 5/11-135-1, *et seq.*) (“Division 135”). The establishing ordinances are Morton Grove Ordinance 17-5, which was adopted on March 13, 2017, and Niles Ordinance No. 2017-19, which was adopted on March 14, 2017. In order to accomplish the objectives set forth in the above-referenced Ordinances, Morton Grove and Niles also approved under those same Ordinances an intergovernmental agreement entitled, “Intergovernmental Agreement For The Establishment And Operation Of The Morton Grove-Niles Water Commission And For The Purchase And Sale Of Water To The Commission For Commission Use And To Commission Wholesale Water Customers” (the “IGA”), to provide for the governance and operation of the MGNWC and to create the Board of Commissioners of the Morton Grove-Niles Water Commission (“MGNWC Board”) to govern the MGNWC; and

WHEREAS, the MGNWC is authorized, pursuant to State law and certain provisions of the IGA, to approve and adopt an Investment Policy; and

WHEREAS, The Board of Commissioners of MGNWC finds that passage of this Resolution, for purposes of approving and adopting the Investment Policy attached hereto as Exhibit “A” is in the best interests of MGNWC.

BE IT RESOLVED BY THE BOARD OF COMMISSIONERS OF THE MORTON GROVE-NILES WATER COMMISSION, COOK COUNTY, ILLINOIS, AS FOLLOWS:

SECTION 1: Each Whereas paragraph above is incorporated by reference into this Section 1 and made a part hereof as material and operative provisions of this Resolution.

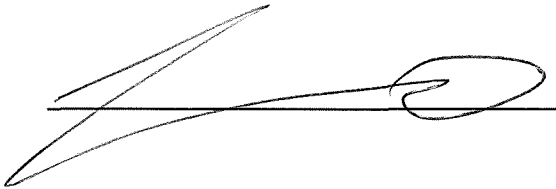
SECTION 2: The MGNWC Board approves and adopts the Investment Policy for the Morton Grove-Niles Water Commission, a copy of which is attached hereto as Exhibit “A” and made a part hereof.

SECTION 3: This Resolution shall be in full force and effect from and after its adoption and approval as provided by law.

ADOPTED this 18th day of January 2018, pursuant to a roll call vote as follows:

AYES: John Pietron and Steven Vinezeano
NAYS: None
ABSENT: None (Cook County Appointee not appointed yet)

PASSED by the Board of Commissioners of the Morton Grove-Niles Water Commission, Cook County, Illinois on a roll call vote at a Special Meeting thereof held on the 18th day of January 2018, and approved by the Chair, and attested by the Clerk on the same day.

A handwritten signature in black ink, appearing to read "Steven Vinezeano", written over a horizontal line.

Steven Vinezeano, Chair

ATTEST:

A handwritten signature in black ink, appearing to read "John Pietron", written over a horizontal line.

John Pietron, Clerk

EXHIBIT A

Morton Grove-Niles Water Commission Investment Policy

I. SCOPE

This policy applies to the cash management and investment activities of the Morton Grove-Niles Water Commission ("MGNWC"). With the exception of the debt service funds, reserve funds and other financial assets held by various fiscal agents and trustees, all other funds of the MGNWC shall be administered in accordance with the provisions of this policy. The debt service funds, reserve funds and assets held by fiscal agents and trustees, shall be administered according to the contractual and statutory requirements of the respective funds.

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

II. DELEGATION OF AUTHORITY

Authority to manage the investment program is granted to the MGNWC Board of Commissioners. The Superintendent or his designee shall establish written procedures and internal controls for the operation of the investment program that is consistent with the investment policy. Procedures should include references to safekeeping, delivery vs. payment, investment accounting, repurchase agreements, wire transfer agreements, and collateral/depository agreements. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the Superintendent. The Superintendent shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials, including outside investment managers. Internal controls over investment transactions shall be reviewed by the MGNWC's Board of Commissioners at least annually. Any exceptions noted by the internal or external auditor shall be reported to the General Counsel.

III. OBJECTIVES

The primary objectives of investment activities shall be Safety, Liquidity, and Total Return:

A. Safety

Safety of principal is the foremost objective of the investment program. 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 and interest rate risk.

1. Credit Risk

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

- a. Limiting investments to the safest types of securities
- b. Pre-qualifying the financial institutions, brokers, intermediaries and advisers with which the MGNWC will do business,
- c. Diversifying the investment portfolio so potential losses on individual securities will be minimized.

2. Interest Rate Risk

The MGNWC will minimize the risk that the market value of the securities in the portfolio will fall due to changes in general interest rates by:

- a. 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,
- b. Investing operating funds primarily in shorter-term securities or investment pools.

B. Liquidity

The investment portfolio shall remain liquid to meet all operating requirements that may be reasonably anticipated. This is accomplished by structuring the portfolio so that securities mature concurrent with cash needs to meet anticipated demands. A portion of the portfolio also may be placed in local government investment pools which offer same-day liquidity for short-term funds.

C. Total Return

The investment portfolio shall 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. The core of investments is limited to relatively low risk securities in anticipation of earning a fair return relative to the risk being assumed.

IV. PRUDENCE

The standard of prudence to be used by investment officials shall be the "prudent person," which states, "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" and shall be applied in the context of managing the entire 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 deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments.

V. INVESTMENT GUIDELINES:

A. Permissible Investments:

Except as modified herein, all investments purchased under this policy shall be guided by the Public Funds Investment Act 30 ILCS 235 et seq. and all revisions thereto, as may be made by the Illinois Legislature. Below is a summary of acceptable investments as determined by the Superintendent in compliance with the applicable statute:

1. Bonds, notes, certificates of indebtedness, treasury bills or other securities guaranteed by the full faith and credit of the United States of America, its agencies, and its instrumentalities.
2. Interest-bearing savings accounts, interest-bearing certificates of deposit or interest-bearing time deposits or any other investments that are direct obligations of any local banks.
3. Interest bearing bonds of any county, township, city, village, incorporated town, municipal corporation, or school district, of the State of Illinois, of any other state, or of any political subdivision or agency of the State of Illinois or of any other state, whether the interest earned thereon is taxable or tax-exempt under federal law. The bonds shall be owned in the name of the municipality and shall be rated at the time of purchase within the 2 highest general classifications established by the following rating agencies: Moody's Investors Service, Standard & Poor's, and Fitch.
4. Commercial paper - in that no single investment shall exceed \$2.0 million in face value with a maturity of no longer than 180 days and must have two ratings which must be either A 1, P-1, F-1 or D-1. (As currently exists or hereinafter amended by the following rating

agencies: Moody's Investors Service, Standard & Poor's, and Fitch). In the event that the rating assigned by the rating agencies falls below the required level as stated above, the MGNWC or its investment agent shall take steps to preserve the capital of the investment.

5. Securities legally issued by state or federal savings and loan associations which are insured by the F.D.I.C.
6. Money-market mutual funds registered under the amended Investment Company Act of 1940 provided that the portfolio is limited to bonds, notes, certificates of indebtedness, treasury bills, or other securities which are guaranteed by the full faith and credit of the United States of America, its agencies, and its instrumentalities or agreements to repurchase these same types of obligations under 30 ILCS 235 et seq.
7. Repurchase Agreements through any bank or other financial institution, or a regional investment pool, or the State of Illinois Treasurers Investment Pool. (Physical possession of the collateral security shall be obtained or a safekeeping receipt describing the collateral from the safekeeping bank shall be received.)
8. Agency bonds rated within the 2 highest general classifications established by the following rating agencies: Moody's Investors Service, Standard & Poor's, and Fitch. Permissible federal agency bonds include: Federal National Mortgage Association, Federal Housing Administration (FHA), Public Housing Boards (HUD), Federal Farm Credit Banks, Farmers Home Administration, Federal Land Banks, Federal Home Loan Banks, Federal Loan Home Mortgage Corporation (Freddie Mac), Student Loan Mortgage Corporation, and other agencies authorized under the statutes so long as they are approved by the Superintendent.
9. ~~Collateralized Mortgage Obligations (CMO) and Mortgage pass-throughs rated within the 2 highest general classifications established by the following rating agencies: Moody's Investors Service, Standard & Poor's, and Fitch are allowed so long as they make up no more than 35% of the total portfolio at the time of purchase. Leveraged, interest only, principal only, and companion tranche CMO's are strictly prohibited from purchase.~~
10. Taxable Municipal Bonds rated within the 2 highest general classifications established by the following rating agencies: Moody's Investors Service, Standard & Poor's, and Fitch are allowed so long

as they make up no more than 35% of the total portfolio at the time of purchase.

11. No single investment, except those guaranteed by the United States government or its agencies, may exceed 5% of the fund's total market value.
12. Other types of investments may be added to this list as changes to the statutes governing such investments are revised.

B. Portfolio Duration:

The investment manager shall be responsible for selecting the maturities of individual fixed income securities within the account. Effective or modified duration of the account should, under normal circumstances, not deviate from the duration of the benchmark by more than +/- 20% of the benchmark duration.

C. Use of Derivatives Prohibited:

Agency structured notes, index amortizing notes, and other derivative securities, except the CMO's and mortgage pass-throughs described in section A.9, are specifically prohibited under this policy. At no time may any derivative be utilized to leverage the portfolio for speculation.

D. Transactions:

Fixed income security purchase and sale transactions must be executed on a "best effort" basis with brokers selected by the investment manager. The manager's selection of a broker or dealer shall take into account such relevant factors as: (a) price and commission; (b) the broker's facilities, reliability, and financial responsibility; and (c) the ability of the broker to effect securities transactions, particularly with regard to such aspects thereof as timing, order size, and execution of orders. The manager shall make all reasonable efforts to obtain the most competitive rate.

E. Subsequent Events:

If at any time, due to major fluctuations in market prices, abnormal market conditions, or any other reason outside the control of the investment manager, there shall be a deviation from the specific guidelines described herein, the investment manager shall not be in breach of these guidelines so long as it takes such actions over such period of time as the investment manager determines are prudent and in the interests of the MGNWC to return the investments to compliance with these guidelines. It is the duty of each investment manager to notify the Superintendent, and the investment consultant in writing whenever such deviations occur and when they believe the current policy should be altered.

VI. CONTRACTS WITH FINANCIAL INSTITUTIONS

All depositories of the Morton Grove-Niles Water Commission, holding funds managed by the Superintendent or his designee, including the "operating bank" shall execute a contract with the Morton Grove-Niles Water Commission for an initial term not to exceed five years. The contract may include up to a total of four extension years for consideration. Contracts shall designate the requirements of serving as a depository for the MGNWC, including collateralization of MGNWC funds invested at such depository and the related safekeeping requirements of the pledged securities. The MGNWC shall initiate a Request for Proposal process to identify and support a recommendation to the MGNWC Board to award the MGNWC's contract for banking and depository services.

Such financial institutions shall provide such financial data to the Superintendent as may be required by the MGNWC to evaluate the financial condition of the institution. Such data will be in the form of audited financial statements, Federal Deposit Insurance Corporation regulatory reports, and shall be provided at least annually by the financial institutions to the Superintendent. Any refusal to provide such information to the MGNWC may cause termination of the depository contract with such institution.

A. Safekeeping of Securities :

Collateral for certificates of deposits and repurchase agreements will be registered in the MGNWC's name. The Superintendent will hold all safekeeping receipts of pledged securities used as collateral for certificates of deposits and repurchase agreements. A third-party institution will hold pledged securities in trust on behalf of the MGNWC's financial institution.

Safekeeping receipts of pledged securities may be "faxed" or e-mailed to the Superintendent or his designee in order to accommodate timely and legal investment transactions. The financial institution will mail the original safekeeping receipt of pledged securities within two business days after the facsimile is sent.

B. Collateralization:

The MGNWC requires full collateralization of all Commission investments in accordance with the MGNWC's collateral agreement. The MGNWC will allow the use of FDIC coverage as part of the calculation of full collateralization.

C. Bank Qualification:

To be considered as a depository for investments of MGNWC idle funds, the bank must meet the rates established by Federal Regulatory Standards for

a “well-capitalized” institution. This rating is based upon three (3) ratios and the required percentages to be maintained include:

1. Tier 1 Risk-Based Capital Ratio equal to 6%,
2. Total Capital Ratio equal to 10%, and
3. Tier 1 Capital Leverage Ratio equal to 5%

Reports shall be provided to the Superintendent on a quarterly basis.

D. Funds Managed by Outside Money Managers:

Will be held in trust for the MGNWC by a custodial bank under separate contract and will be administered in concurrence with the MGNWC’s Investment and Cash Management Policy.

VII. INVESTMENT LIQUIDITY AND DURATION

A. The MGNWC's demand for cash shall be projected using reliable cash forecasting techniques. To ensure liquidity, the appropriate maturity date and investment option available will be chosen. The MGNWC’s investment portfolio can be divided into four categories:

1. Sweep Funds,
2. Operating Funds,
3. Bond Funds, and
4. Other Reserve Funds.

B. The liquidity requirement for each category will vary with the final maturity that matches the need for use of the funds.

1. Sweep funds: These funds primarily consist of Commission-managed Investments which are intended to cover day-to-day operating expenses of the MGNWC. All funds are to be held in interest bearing overnight securities, which may include:

- a. Repurchase Agreements – The maximum maturity for repurchase agreements shall not exceed 330 days. The Repurchase Agreements shall be collateralized with approved securities in accordance with this policy. Repurchase agreements will normally be used when deemed appropriate to achieve the highest return while protecting principal of the portfolio.
- b. Money market mutual funds that meet the criteria of the State of Illinois investment statutes.

2. Operating Funds: All operating funds are to be held in an investment portfolio with a weighted average duration no more than four (4) years. The Superintendent, upon the advice and counsel of the MGNWC's investment consultant, will monitor the duration level and recommend changes as appropriate.
3. Bond Funds: No investment shall have a maturity exceeding the final principal and/or interest payment date.

VIII. PROCEDURES FOR BIDS AND OFFERS

Investment bids (solicitation of *offers* from brokers or financial institutions) will be taken by the Superintendent or designee for funds managed by the MGNWC at times when investment of idle funds would be in the best interest of the MGNWC or as required by federal regulations regarding arbitrage rebate on bond proceeds. Such bids requests will be made orally and confirmed in writing with the investment instrument and related collateral being forwarded to the MGNWC no later than 48 hours after bids are taken.

IX. DAILY CASH MANAGEMENT PRACTICES AND POLICIES

It is the policy of the Morton Grove-Niles Water Commission that all persons collecting cash receipts, whether in cash or other forms of payment, must turn in such receipts to the Superintendent or his designee on a daily basis together with records required to verify the accuracy of such collections. No receipts will be held overnight at any location for any reason. All receipts shall be deposited daily by the Superintendent. Checks are delivered to the bank for deposit; cash is securely stored and delivered to the bank twice a week. Investment of any idle funds will be made in accordance with Section V. of this policy. Any violation of this section of this policy by any employee of the MGNWC may result in disciplinary action.

X. INTERNAL CONTROLS

The Superintendent is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the MGNWC are protected from loss, theft, or misuse. The internal control structure shall be designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits likely to be derived, and the valuation of costs and benefits requires estimates and judgments by management.

XI. MARKING TO MARKET

The market value of the portfolio shall be calculated at least quarterly and a statement of the market value of the portfolio shall be issued at least quarterly. In

defining market value, the MGNWC will follow applicable GASB pronouncements.

XII. REVIEW OF INVESTMENT PORTFOLIO

The Superintendent or his designee shall review the investment portfolio at least quarterly. Such review shall examine the general performance of the portfolio, as well as determining that current levels of safety, liquidity, rate of return and diversification meet or exceed minimum levels contained herein. A series of appropriate benchmarks shall be established against which portfolio performance shall be compared on a regular basis. The Superintendent or designee has authority to give specific direction to the money managers regarding the need to add funds to or remove from the manager's portfolio, based upon cash flow needs of the MGNWC, and the authority to terminate a money manager at any time.

XIII. MGNWC BOARD

- A.** The Superintendent or designee shall provide a copy of the quarterly investment report to the MGNWC Board. The report will include but not be limited to the following:
 - 1. The market value of all securities
 - 2. The market value of the underlying collateral for repurchase agreements and certificates of deposit
 - 3. Listing of individual securities held at the end of the reporting period
 - 4. Realized and unrealized gains or losses and the cost and market value of securities
 - 5. Average weighted yield to maturity of portfolio on investments as compared to applicable benchmarks
 - 6. Listing of investment by maturity date
 - 7. Percentage of the total portfolio which each type of investment represents

- B.** In addition, an approved listing of the MGNWC's authorized financial institutions shall be provided to the Board on a quarterly basis. After the quarterly review of the investment report by the MGNWC Board, the Superintendent will file the report in the MGNWC official file.

- C.** The MGNWC Board shall review this policy and recommend any proposed changes to the MGNWC Council every three years.

XIV. ETHICS AND CONFLICTS OF INTEREST

The, Superintendent, or other financial officer retained or employed by the MGNWC 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. Prohibited activities include, but are not limited to, the following:

- A.** Having any interest, directly or indirectly, in any institution in which investments are permitted, except for a market rate mortgage or loan on his or her personal residence or personal property.
- B.** Having any interest, directly or indirectly, with the management of any institution or company in which the Morton Grove-Niles Water Commission has a depository relationship or investment management contract.
- C.** Receiving compensation of any type, including preferred treatment from any institution or company with which the MGNWC has a depository relationship or investment management contract.

XV. SEPARATE PROVISIONS OF POLICY AND CONFLICTS WITH ILLINOIS LAWS

The above policies shall remain in full force and effect until revoked by the MGNWC Board. If, after adoption of this policy, there are any conflicts of the policy with Illinois laws and/or statutes, current law shall dictate.

CLERK'S CERTIFICATION

I, John Pietron, certify that I am the duly appointed, qualified Clerk of the Morton Grove-Niles Water Commission. I do further certify that the above and foregoing, identified as Resolution Number 18-4, is a true, complete and correct copy of a Resolution otherwise identified as:

**AN RESOLUTION APPROVING AND ADOPTING AN INVESTMENT POLICY
FOR THE MORTON GROVE-NILES WATER COMMISSION**

Which Resolution was passed by the Morton Grove-Niles Water Commission on the 18th day of January 2018, the original of which is part of the books and records within my control as Clerk of the Morton Grove-Niles Water Commission.

Dated this the 18th day of January 2018



John Pietron, Clerk
Morton Grove-Niles Water Commission