

Administrative-Finance Committee
August 6, 2018
6:30 p.m. – City Hall Conference Room

- 1. Call to Order**
- 2. Public Comment**
- 3. New Business**
 - a. Republic Bank of Chicago – Collateral Letter of Credit
 - b. Lion’s Club – Storage Shed Proposal
 - c. Approval of Minutes – May 7, 2018
- 4. Other Business**
- 5. Next Meeting – Tuesday, September 4, 2018**
- 6. Adjournment**

CITY OF DARIEN

MEMO

TO: Administrative/Finance Committee Members
FROM: Bryon D. Vana, City Administrator
DATE: August 1, 2018
SUBJECT: Republic – Banking Services

Republic Bank currently provides the City with most of our banking services. The City's investment policy outlines how the City invests and protects funds while held by a bank, including collateralization. For those governments that have deposits in financial institutions in excess of FDIC limits, many banks collateralize public deposits through the pledging of securities. Currently, Republic provides collateral by pledging securities such as bonds. Republic has requested changing to a Letter of Credit as collateral.

Representatives from Republic will attend the August 6th Administrative/Finance Committee meeting to review the revision. The revisions are acceptable to Treasurer Coren and comply with our investment policy. Attached is additional information for your review.

This item is for information only and does not require any Committee action.

Banking info
Attorney letter



Secure Public Deposits with Letters of Credit

Securing Your Deposit

If you are a state, local, or other public entity that deposits funds at one of our member depository institutions, those deposits can be efficiently secured by a Public Unit Deposit Letters of Credit, or public unit deposit LC, from the Federal Home Loan Bank of Chicago (FHLBank Chicago). We are a cooperative financial institution owned by our members located throughout Illinois and Wisconsin. Members leverage our Aaa/AA+ rating to ensure your deposits are safe by naming your entity as the beneficiary of the letter of credit.

Benefits of Using LCs

Secure: The FHLBank Chicago is an Aaa/AA+ rated institution, the same rating as the U.S. government.

Payout: In the unlikely event of member default, you will be paid promptly by the FHLBank Chicago.

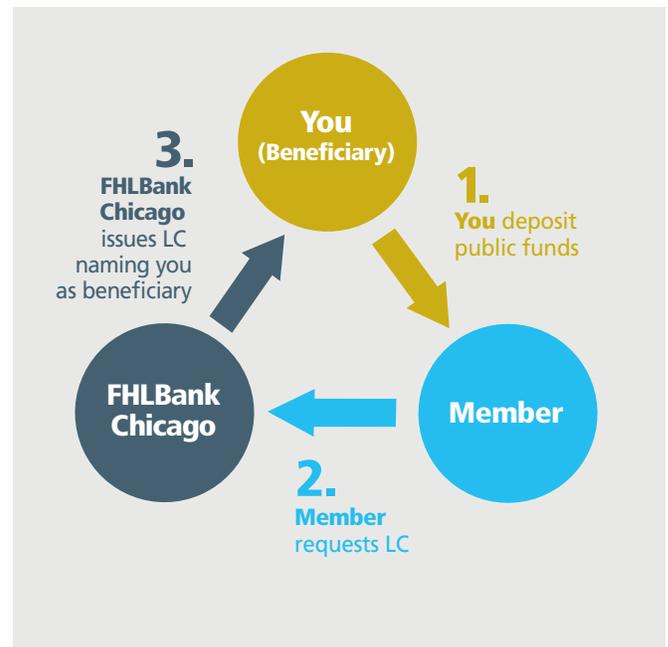
Convenient: The FHLBank Chicago can typically issue a standard LC within 24 hours.

Irrevocable: Terms of LCs may not be altered or cancelled unless all parties agree, in writing.

Ease of use: A LC eliminates the continual need to monitor and release securities collateral.

How it Works

LCs are the result of a relationship between the FHLBank Chicago, its members, and you. As a depositor at one of our member institutions, you can request a LC naming you as beneficiary. By using our LC, the member guarantees your deposits.



Getting Started

Contact your depository institution and request a LC today. With more than 700 members in our district, it's likely they are a member of the FHLBank Chicago. Visit fhlbc.com for a list of members.

Learn more about letters of credit by contacting one of our product specialists at lcops@fhlbc.com or 1-855-345-2244.

Secure Public Deposits with Letters of Credit

Illinois and Wisconsin Statutes Permit Use of LCs*

The question of whether a particular public entity may accept an FHLBank Chicago LC to secure its deposits is generally considered to be a matter of state law.

Illinois Law

In Illinois, the Public Funds Investment Act¹ provides that: “[w]henever a public agency deposits any public funds in a financial institution, the public agency may enter into an agreement with the financial institution requiring any funds not insured by the Federal Deposit Insurance Corporation...to be collateralized by any of the following classes of securities * * * **letters of credit issued by a Federal Home Loan Bank...**”²

The same statute defines “public agency” to mean: “the State of Illinois, the various counties, townships, cities, towns, villages, school districts, educational service regions, special road districts, public water supply districts, fire protection districts, drainage districts, levee districts, sewer districts, housing authorities, the Illinois Bank Examiners’ Education Foundation, the Chicago Park District, and all other political corporations or subdivisions of the State of Illinois, now or hereafter created, whether herein specifically mentioned or not.”³

¹ 30 ILCS 235/1 et seq.

² 30 ILCS 235/6(d)(8)(iii)

³ 30 ILCS 235/1

Wisconsin Law

In Wisconsin, the Public Deposits statute⁴ provides that: “[a] surety bond or other security, including **an irrevocable letter of credit issued by a federal home loan bank**, state bank, national bank, federal or state savings bank, federal or state credit union, or federal or state savings and loan association, may be required of or given by any public depository for any public deposits that exceed the amount of deposit insurance provided by an agency of the United States and the coverage provided under s. 34.08(2).”⁵

“Public deposits” is defined as “public moneys deposited by a public depositor in a public depository, including private moneys held in trust by a public officer.”⁶ “Public depositor” means “the state or any county, city, village, town, drainage district, power district, school district, cooperative educational services agency, sewer district, or any commission, committee, board or any governmental subdivision of the state or any court of this state, a corporation organized under §39.33 or the housing and economic development authority...which deposits any moneys in a public depository...”⁷

⁴ Wis. Stat. § 34.01 et seq. as amended April 18, 2018

⁵ Wis. Stat. § 34.07

⁶ Wis. Stat. § 34.01(3)

⁷ Wis. Stat. § 34.01(4)

*This information has been provided as a courtesy by the Federal Home Loan Bank of Chicago and is believed to be accurate. It does not constitute legal advice. Please consult your own legal advisor regarding the information presented here.

About the Federal Home Loan Bank of Chicago

The Federal Home Loan Bank of Chicago (FHLBank Chicago) is a wholesale bank and one of 11 district banks chartered in 1932 by the U.S. Congress to improve the availability of funds to support home ownership. Our mission is to partner with our member shareholders in Illinois and Wisconsin to provide them with competitively priced funding, a reasonable return on their investment in the FHLBank Chicago, and support for community investment activities. All federally insured depository institutions, insurance companies engaged in residential housing finance, credit unions, and community development financial institutions located in our district are eligible to apply for membership. The FHLBank System, which is regulated by the Federal Housing Finance Agency, has more than 7,000 members.

FHLBC PUD Letters of Credit

A safe and efficient means to collateralize public funds

June 18, 2018

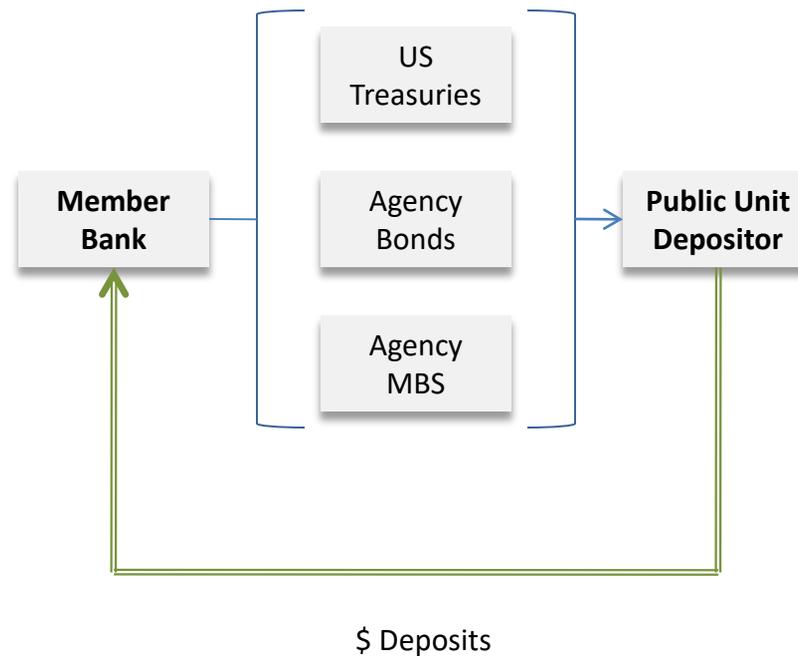
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Using Bonds to Collateralize Public Funds Deposits

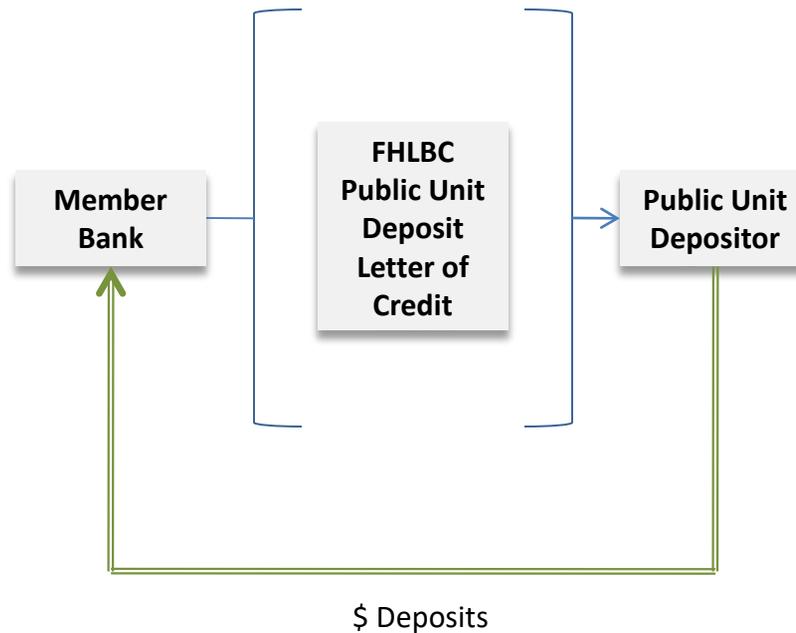
- Specific types of securities requested by the public agency from the depository bank
- Pledged Securities are held by a custodial bank or trust company acting as agent for the public agency
- The public agency is required to receive frequent and detailed reports on the securities being pledged which can be cumbersome and operationally expensive



- When it is time to take ownership of the collateral, the public agency may find it difficult and time consuming
- Banks often have difficulty finding enough eligible securities to meet the demands of their public agency depositors

A FHLBC PUD Letter of Credit Simplifies Everything

- A city, state or local government agency benefits from the safety of an **Aaa/AA+ rated institution**
- The FHLBC payout on a draw is prompt if member fails to return a deposit; there is no delay from selling securities in the market or delay due to resolution proceedings



- A PUD LC **eliminates the need to monitor third-party custodian safekeeping reports or bank statements**
- A PUD LC is convenient and can typically be issued within 24 hours of application
- Eliminates cumbersome legal paperwork and cost associated with the release of securities

PUD LC Process Benefits to Public Agencies

- **Convenience**: Safekept by the Public Agency
- **Savings**: Reduce costs associated with the security portfolio maintenance
- **Ease of use**: Eliminate the need to monitor pledged securities collateral
- **Safety**: A payout on a draw is prompt (within 3 business days)
- **Rating**: The FHLBC is rated Aaa/AA+, the same rating as the U.S. Government
- **Preference**: A public agency may prefer a PUD LC versus pledged securities

Eligibility and Safety for Public Deposits

- For Public Unit Deposit (PUD) Letters of Credit: The FHLBC will issue a letter of credit directly to a public unit (i.e. municipality, state and local government agency) to collateralize and secure its deposits
- A few examples of public entities accepting LCs:
 - ✓ Cities
 - ✓ Villages
 - ✓ Counties
 - ✓ State treasurers
 - ✓ State universities
 - ✓ Water reclamation districts
 - ✓ Housing authorities
 - ✓ Public school districts
 - ✓ County hospitals
 - ✓ Public libraries
 - ✓ Police pensions
 - ✓ Regional transportation authorities

Safety for Public Deposits

- Public Agencies are covered up to FDIC max of \$250k and have minimum requirements for collateral pledged to them
 - Credit rating
 - Security type
 - Auditor preference

- How does the FHLBC measure up?
 - Aaa by Moody's and AA+ by S&P
 - Explicitly stated in Illinois Public Funds Act as a permissible security
 - Worked hand-in-hand with Sikich

FHLB Letters of Credit are Approved as Collateral for Deposits under Illinois Law *

In Illinois, the Public Funds Investment Act provides that:

Whenever a public agency deposits any public funds in a financial institution, the public agency may enter into an agreement with the financial institution requiring any funds not insured by the Federal Deposit Insurance Corporation or the National Credit Union Administration or other approved share insurer to be collateralized by any of the **following classes of securities * * * letters of credit issued by a Federal Home Loan Bank. . .**

<http://www.ilga.gov/legislation/ilcs/ilcs3.asp?ActID=496&ChapterID=7>

*The question of whether a particular public agency may accept an FHLB letter of credit to secure its deposits is generally considered to be a matter of state law. While you may find this information useful, please consult your own legal counsel.

The Public Agency Should Update Its Investment Policy for FHLBC Letters of Credit

“...The [Public Agency] funds can be invested as authorized by [identify statute governing investments of public funds]:

The [Public Agency] will minimize credit risk by further limiting its investments to:

(1) [list types of acceptable government and agency obligations]

(2) certificates of deposit or time deposits of financial institutions insured by the FDIC or NCUA. The policy requires the [Public Agency] to maintain funds in financial institutions willing to collateralize all funds in excess of FDIC and NCUA limits with [types of government guaranteed securities, in an amount equal to [insert margin] percent (at market) of the funds on deposit] or with a **Federal Home Loan Bank irrevocable Letter of Credit equal to [insert margin] percent.**

Securities collateral will be evidenced by a written collateral agreement with the collateral held by an agent of the [Public Agency] in the [Public Agency] name. **A Federal Home Loan Bank Letters of Credit will be evidenced by an original irrevocable Letter of Credit issued by the Federal Home Loan Bank to the [Public Agency] or an agent of the [Public Agency].” SAMPLE ATTACHED**

(3) [additional types of allowable investments in fixed income securities, mutual funds, equities, repurchase agreements, commercial paper, deposits in state investment pools, etc.]...”

This information has been provided as a courtesy by the Federal Home Loan Bank of Chicago and is believed to be accurate. It does not constitute legal advice. Please consult your own legal advisor regarding the information presented here.

GFOA Best Practices

The Government Finance Officers Association (GFOA) is a large, influential national organization that municipal finance officers nationwide look towards for guidance and “best practices” when it comes to topics such as financial reporting and collateralizing their public deposits.

Letters of credit are considered an important form of protecting municipal deposits according to the GFOA

Selected excerpts from the GFOA on Best Practices for Collateralization:

Collateralizing Public Deposits (1984, 1987, 1993, 2000, 2007, 2010) (TIM)

Background. The safety of public funds should be the foremost objective in public fund management.

Collateralization of public deposits through the pledging of appropriate securities or other instruments (i.e. surety bonds or **letters of credit**) **by depositories is an important safeguard for such deposits.** The amount of pledged collateral is determined by a governmental entity’s deposit level and the policy or legal required collateral margin. Some states have established programs for the pooling of collateral for deposit of public funds.

6. The governmental entity should thoroughly review the terms and conditions of any letters of credit, including those issued by a federal agency or government sponsored enterprise.

http://www.gfoa.org/index.php?option=com_content&task=view&id=1634

Contacts

- Hunter Kennedy – Team Lead, Member Transaction Desk
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 - hkennedy@fhlbc.com

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JBM e-mail: jmurphey@rmcj.com

Memorandum

To: Bryon Vana
Fr: John Murphey
Date: 7-26-18
Re: Republic Bank

Sections IV(3) and V(2) of the City's Investment Policy require that our bank deposits be collateralized. Republic Bank is proposing that our deposits with them be collateralized by way of a letter of credit issued by the Federal Home Loan Bank of Chicago. In the unlikely event that Republic Bank were to default on our deposits with that institution, the City would draw on the letter of credit issued by FHLB, much like we would draw on a letter of credit issued by a bank in the event a developer were to default on its obligation to build public improvements for a subdivision or other development.

This instrument is a form of collateralization which satisfies the requirements of the City's Investment Policy. I would like to see the final form of the document when it is issued.

**FEDERAL HOME LOAN BANK OF CHICAGO
IRREVOCABLE LETTER OF CREDIT
NUMBER: [REDACTED]**

Date: [REDACTED], [REDACTED]

[Name of Beneficiary]

[Address of Beneficiary]

[Address of Beneficiary]

Attention: [REDACTED]

Ladies and Gentlemen:

At the request and for the account of [Member Name] (“Member”), the Federal Home Loan Bank of Chicago (the “Bank”) hereby establishes in your favor as beneficiary (the “Beneficiary”) this Irrevocable Letter of Credit No. [REDACTED] (“Letter of Credit”), pursuant to which, subject to the terms and conditions contained herein, the Bank authorizes you to draw upon the Bank an amount not exceeding \$ [REDACTED] (the “Credit Amount”). The Credit Amount shall be automatically reduced without reinstatement as of the date and by the amount of any demand for payment honored by the Bank under this Letter of Credit.

The Credit Amount may be increased and or decreased from time to time at the request of the Member to the Bank and, in the case of a decrease in the Credit Amount, with the prior consent of the Beneficiary. A request for an increase in the Credit Amount shall be evidenced by an amendment to the Letter of Credit in the form of Exhibit B and a decrease in the Credit Amount shall be evidenced by an amendment to the Letter of Credit in the form of Exhibit C that has been signed by the Beneficiary acknowledging its consent to the decrease.

This Letter of Credit is for the benefit of the Beneficiary and it is intended to collateralize deposit accounts that Beneficiary has established at the Member, which accounts are Public Unit Deposit accounts.

Partial drawings and multiple drawings are permitted.

[Choose one of the following two paragraphs:]

This Letter of Credit will expire at 4:30 p.m. (Central Time) on the date (the “Expiration Date”) that is the earliest of: (i) [REDACTED], 201 [REDACTED] (the “Termination Date”); (ii) the date the Credit Amount is reduced to \$0; or (iii) the date you surrender this Letter of Credit to the Bank for cancellation.

~~--OR--~~

This Letter of Credit will expire at 4:30 p.m. (Central Time) on the date (the “Expiration Date”) that is the earliest of: (i) [REDACTED], 201 [REDACTED] (the “Initial Termination Date”) or any then-applicable Termination Date (defined in the next sentence); (ii) the date the Credit Amount is reduced to \$0; or

[Name of Beneficiary]

Letter of Credit No. _____

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(iii) the date you surrender this Letter of Credit to the Bank for cancellation. The Initial Termination Date shall be deemed automatically extended, without amendment, for one year from the Initial Termination Date, and thereafter for one year from each anniversary of the then-applicable Termination Date, (each extension of the Initial Termination Date, a "Termination Date"), unless at least 60 days prior to the then applicable Termination Date we notify you in writing at the above address, by registered mail or courier service with confirmed delivery, that we, in our sole discretion, do not wish to extend the then-applicable Termination Date for any such additional period; provided, however, that in no event shall the Termination Date be extended beyond _____, 201_____.

Subject to the other provisions of this Letter of Credit, you may demand payment under this Letter of Credit prior to the Expiration Date by presenting your certificate in the form of Exhibit A, prepared in the form of a letter on your letterhead, signed by your authorized officer, with the blanks appropriately completed (the "Certification") in an amount no greater than the Credit Amount, and either (i) delivered to the Bank at 200 E. Randolph Dr., Chicago, Illinois 60601, Attention: Member Transactions Desk (or such other address in Illinois as the Bank may provide) or (ii) sent to the Bank by facsimile transmission to Facsimile No. (312) 552-1220 (or to any number(s) designated by us by written notice delivered to you).

If the Certification is presented in full compliance with the terms of the Letter of Credit (a "Drawing"), and received at or before 4:30 p.m. (Central Time) on a Business Day, the Bank will honor the Drawing by wire transfer of the Draft Amount specified in the Certification to the account designated in the Certification by 12:00 noon (Central Time) on the third Business Day after presentment. Documents received after 4:30 p.m. (Central Time) will be deemed to have been received before 4:30 p.m. (Central Time) on the following Business Day. As used in this Letter of Credit, a "Business Day" is any day on which the Bank is open for business. All payments under this Letter of Credit will be made with funds of the Bank and not from funds of the Member.

If a demand for payment made by you hereunder does not conform to the terms and conditions of this Letter of Credit, we will attempt to notify you that the purported demand was not effected in accordance with the Letter of Credit and we will hold the documents for disposal at your instruction or return the same to you, as you may elect. Any correction or resubmission of your demand will be deemed a new demand.

By honoring a Drawing under this Letter of Credit, we make no representation as to the correctness of the amount of the Drawing, the authority of any person signing on your behalf or your representations on your certification.

To the extent not inconsistent with the express terms hereof, this Letter of Credit shall be governed by, and construed in accordance with, the terms of the International Standby Practices, International Chamber of Commerce Publication No.590 (the "ISP"). As to matters not governed by the ISP, this Letter of Credit shall be governed by and construed in accordance with the internal laws of the State of Illinois, including without limitation the Uniform Commercial Code as in effect in the State of Illinois.

This Letter of Credit is not transferable or assignable, either in whole or in part, except with the express written consent of the Bank and the Beneficiary.

[Signature page follows]

[Name of Beneficiary]

Letter of Credit No. _____

Page 3

This Letter of Credit sets forth in full the undertaking of the Bank, and this undertaking may not be modified, amended or amplified in any way without the written consent of the Bank and the Beneficiary.

Very truly yours,

FEDERAL HOME LOAN BANK
OF CHICAGO

By: _____

Name:

Title:

By: _____

Name:

Title:

[Beneficiary Letterhead]

EXHIBIT A

TO FEDERAL HOME LOAN BANK OF CHICAGO

IRREVOCABLE LETTER OF CREDIT NUMBER: [REDACTED]

DRAWING CERTIFICATE

Date: _____

Federal Home Loan Bank
of Chicago
200 E. Randolph Dr.
Chicago, IL 60601
Attention: Member Transactions Desk

Ladies and Gentlemen:

The undersigned is the Beneficiary of the above-referenced Letter of Credit, issued for the account of [Member Name] (the "Member"). The undersigned hereby certifies to you that:

- (1) The Member held certain deposits of [Name of Beneficiary], (the "Depositor") which, as of _____, 20____, consist of principal and interest to maturity in the total amount of \$ _____ (the "Contract Amount"), and
- (a) The Member has failed or refused to permit the withdrawal of any deposit of the Depositor held by the Member as requested by the Depositor; or
 - (b) The Member has failed to pay the full amount of any certificate of deposit or other time deposit at the maturity thereof; or
 - (c) The Member:
 - (i) is insolvent or has otherwise failed; or
 - (ii) has been closed or seized by a state or federal regulator; or
 - (iii) is the subject of an application for the appointment of a receiver, conservator, or other such official; or
 - (iv) has had a receiver, conservator, or other such official appointed to conduct the business and affairs of the Member; or
 - (d) The Letter of Credit is not being renewed.
- (2) The amount of \$ _____ (the "Draft Amount") is required to satisfy the obligation of the Member in respect of the Contract Amount by reason of an event described in Paragraph 1(a), (b), (c) or (d) above.

(3) The Draft Amount does not exceed the Credit Amount (now in effect) of the Letter of Credit.

(4) To the extent the Draft Amount is paid by the Federal Home Loan Bank of Chicago, the undersigned will not attempt to collect the Draft Amount from the Member or insurer of the Member's deposits in respect of the Contract Amount.

(5) Please wire funds as follows:

ABA No. _____

Reference: _____

Acct.: _____

By signing this Drawing Certificate, the undersigned officers certify that they are authorized to make this certification on behalf of the Depositor.

Sincerely,

[NAME OF BENEFICIARY]

By: _____

Title: _____

Authorized Signature

By: _____

Title: _____

Authorized Signature

[Bank Letterhead]

EXHIBIT B

to Federal Home Loan Bank of Chicago
Irrevocable Letter of Credit No. _____

[Date of Amendment]

BENEFICIARY:

[Name of Beneficiary]
[Address of Beneficiary]
[Address of Beneficiary]
[Attention: _____]

**RE: Amendment to Irrevocable Letter of Credit No. _____
(Increase of Credit Amount)**

Ladies and Gentlemen:

At the request and for the account of [Member Name] (the "Member"), the Federal Home Loan Bank of Chicago (the "Bank") has previously issued its **Irrevocable Letter of Credit No. _____** dated _____ (the "Letter of Credit") to you as Beneficiary. The initial Credit Amount (as that term was defined in the Letter of Credit) of the Letter of Credit was US \$ _____. Effective as of _____, the Bank hereby amends the Letter of Credit to increase the Credit Amount to US \$ _____.

[If applicable: Further, effective as of _____, the Bank hereby amends the Letter of Credit to extend the current Expiration Date to _____.]

Except as amended by this Amendment, the Letter of Credit remains in full force and effect as originally issued.

FEDERAL HOME LOAN BANK OF CHICAGO

By: _____
Name: _____
Title: _____

By: _____
Name: _____
Title: _____

[Bank Letterhead]

EXHIBIT C

to Federal Home Loan Bank of Chicago
Irrevocable Letter of Credit No. _____

[Date of Amendment]

BENEFICIARY:

[Name of Beneficiary]
[Address of Beneficiary]
[Address of Beneficiary]
[Attention: _____]

**RE: Amendment to Irrevocable Letter of Credit No. _____
(Decrease of Credit Amount)**

Ladies and Gentlemen:

At the request and for the account of [Member Name](the "Member"), the Federal Home Loan Bank of Chicago (the "Bank") has previously issued its **Irrevocable Letter of Credit No. _____** dated _____ (the "Letter of Credit") to you as Beneficiary. The initial Credit Amount (as that term was defined in the Letter of Credit) of the Letter of Credit was US \$ _____. Effective as of the date indicated below, the Bank hereby amends the Letter of Credit to decrease the Credit Amount to US \$ _____, provided, however, that such decrease in the Credit Amount shall not become effective until this Amendment has been countersigned by the Beneficiary indicating its consent to such decrease.

[If applicable: Further, effective as of _____, the Bank hereby amends the Letter of Credit to extend the current Expiration Date to _____.]

Amendment to Irrevocable Letter of Credit No.
(Decrease of Credit Amount)

Except as amended by this Amendment, the Letter of Credit remains in full force and effect as originally issued.

FEDERAL HOME LOAN BANK OF CHICAGO

By: _____
Name: _____
Title: _____

By: _____
Name: _____
Title: _____

Accepted and agreed to as of insert effective date of decrease:

[NAME OF BENEFICIARY]

By: _____
Authorized Signature

By: _____
Authorized Signature

**THE CITY OF DARIEN
INVESTMENT POLICY**

December 20, 1999

THE CITY OF DARIEN INVESTMENT POLICY

1. Purpose/Scope

The purpose of this Investment Policy is to establish a clear understanding between the City of Darien and financial institutions regarding investment objectives, goals and guidelines for the City, to comply with Section 2.5 of the Public Funds Investment Act, 30 ILCS 235/2.5, and to obtain a maximized return within the confines of low risk tolerance. In this context funds should be managed in a prudent manner as it relates to such issues as rates of return, investment vehicles and diversification among individual investments.

1. **Pooling of Funds.** Except for cash in certain restricted and special funds, the City 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. General Objectives

The primary objectives, in priority order, of investment activities shall be safety, liquidity and yield:

1. **Safety.** Safety of principal is the foremost objective of the investment program. Investments shall be undertaken in a manner which 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.** Credit risk is the risk of loss due to the failure of the security issuer or backer. The City will minimize credit risk by:
 - Limiting investments to the safest types of securities/financial instruments;
 - Pre-qualifying the financial institutions, broker/dealers, intermediaries, and advisers with which the City will do business; and
 - Diversifying the investment portfolio so that potential losses on individual securities will be minimized.
 - 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:
 - 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; and

- Investing operating funds primarily in shorter-term securities, money market mutual funds, or similar investment pools.
2. **Liquidity.** The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated. This is accomplished by structuring the portfolio so that securities/financial instruments mature concurrent with cash needs to meet anticipated demands (static liquidity). Furthermore, since all possible cash demands cannot be anticipated, the portfolio should consist largely of securities with active secondary or resale markets (dynamic liquidity). A portion of the portfolio also may be placed in money market mutual funds or local government investment pools which offer same-day liquidity for short-term funds.
 3. **Yield.** 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. Return on investment is of secondary importance compared to the safety and liquidity objectives described above. The core of investments are limited to relatively low risk securities in anticipation of earning a fair return relative to the risk being assumed. The goal of investment is to exceed the inflation rate as measured by the consumer price index (CPI) on an annualized basis. Securities shall not be sold prior to maturity with the following exceptions:
 - A security with declining credit may be sold early to minimize loss of principal;
 - A security swap would improve the quality, yield, or target duration in the portfolio; and
 - Liquidity needs of the portfolio require that the security be sold.

III. Standards of Care

1. **Prudence.** The standard of prudence to be used by the City's treasurer shall be the "prudent person" standard and shall be applied in the context of managing an overall portfolio. The treasurer 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 fashion and the liquidity and the sale of securities are carried out 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.

2. **Ethics and Conflicts of Interest.** The treasurer and employees of the City 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. Such employees and the treasurer shall disclose any material interests in financial institutions with which they conduct business. They shall further disclose any personal financial or investment positions that could be related to the performance of the investment portfolio. The treasurer or any employee having influence on the City's investment decisions shall not:
- Have any interest, directly or indirectly, in any investments in which the City is authorized to invest.
 - Have any interest, directly or indirectly, in the sellers, sponsors, or managers of those investments.
 - Receive, in any manner, compensation of any kind from any investments in which the City is authorized to invest.
3. **Delegation of Authority.** The Corporate Authorities of the City hold the ultimate responsibility for the funds and the appropriateness of its investment policy and execution. The Corporate Authorities shall:
- Define investment policy, objectives and guidelines for the investments including risk tolerance;
 - Review adequacy or need for change of this policy;
 - Meet and review reports concerning asset management and performance; and
 - Select institutions authorized to accept fund assets.

Authority to manage the investment program is hereby granted by the Corporate Authorities to the City's treasurer. Responsibility for the operation of the investment program is hereby delegated to the treasurer and the City Administrator, who shall act in accordance with established written procedures and internal controls for the operation of the investment program consistent with this investment policy. Procedures should include references to: safekeeping, delivery vs. payment, investment accounting, repurchase agreements as permitted under 30 ILCS 235/2(g), 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 treasurer. The treasurer and City Administrator shall:

- Be responsible for all transactions undertaken;
- Establish a system of controls to regulate the activities of subordinate officials and employees;
- Have full discretion of the management of the investments subject to the overall investment guidelines set by the Corporate Authorities and state law;

- Serve as fiduciary responsible for specific security decisions;
- Ensure that all cash is productively employed at all times;
- Meet, as required with the Corporate Authorities and provide reports relative to the status of the investments;
- Assist the Corporate Authorities in developing investment policy guidelines; and
- Follow all legal and statutory requirements regarding investments.

IV. Safekeeping and Custody

1. **Authorized Financial Institutions.** Qualified and licensed financial institutions shall be selected which qualify as depositories/custodians under Illinois law. In making these selections, the Corporate Authorities shall consider financial stability and strength of the institution and availability of financial data regarding the institution. A list will be maintained of the financial institutions authorized to provide investment services.

2. **Authorized Investment Advisors.** The treasurer, with the consent and approval of the Corporate Authorities may appoint investment advisors. The investment advisor shall be a fiduciary with respect to the security decisions and shall be one of the following:
 - An investment advisor registered under the Federal Investment Advisors Act of 1940 (15 U.S.C. Section 80b-1 *et seq.*) and the Illinois Securities Law of 1953;
 - A bank or trust company authorized to conduct a trust business in Illinois;
 - A life insurance company authorized to transact business in Illinois; or
 - An investment company as defined and registered under the Federal Investment Company Act of 1940 (15 U.S.C. Section 80A-1 *et seq.*) and registered under the Illinois Securities Law of 1953.

The investment advisor shall be a person who:

- Has the power to manage, acquire, or dispose of any security;
- Has knowledge in writing that he or she is a fiduciary with respect to the City's securities; and
- Is at least one of the following: (i) registered as an investment advisor under the Federal Investment Advisors Act of 1940 (15 U.S.C. 80b-1 *et seq.*); (ii) registered as an investment advisor under the Illinois Securities Law of 1953; (iii) a bank, as defined in the Investment Advisors Act of 1940; or (iv) an insurance company authorized to transact business in this Illinois.

All investment advice and services provided by an investment advisor so appointed shall be rendered pursuant to written contract between the investment advisor and the

City, and in accordance with the City's investment policy. The contract shall include all of the following:

- Acknowledgment in writing by the investment advisor that he or she is a fiduciary with respect to the City's securities;
- The City's investment policy;
- Full disclosure of direct and indirect fees, commission, penalties, and any other compensation that may be received by the investment advisor, including reimbursement for expenses; and
- A requirement that the investment advisor submit periodic written reports, on at least a quarterly basis, for the Corporate Authorities' regularly scheduled meetings. All returns on investments shall be reported as net returns after payment of all fees, commissions, and any other compensation.

3. **Internal Controls.** The treasurer is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the City 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 (1) the cost of a control should not exceed the benefits likely to be derived and (2) the valuation of costs and benefits requires estimates and judgments by management.

Accordingly, the treasurer and City Administrator shall establish a process for an annual independent review by an external auditor to assure compliance with policies and procedures. The internal controls shall address the following:

- Control of collusion;
- Separation of transaction authority from accounting and recordkeeping;
- Custodial safekeeping;
- Avoidance of physical delivery securities;
- Clear delegation of authority to subordinate staff members;
- Written confirmation of transactions for investment and wire transfers; and
- Development of a wire transfer agreement with the lead bank and third-party custodian.

All investments shall be clearly held and accounted for to indicate ownership by the City.

Custody at a national brokerage firm is allowed if the account is insured by the Security Investor Protection Corporation (SIPC). Additional amounts of insurance will be necessary to cover the total investment value of the funds. Funds invested in institutions insured by the FDIC including CDs must be fully collateralized.

V. **Suitable and Authorized Investments**

1. **Investment Types.** The following investments will be permitted by this policy and as limited by the Public Funds Investment Act, 30 ILCS 235/2, where applicable:
 - Interest bearing U.S. government bonds, notes, certificates of indebtedness, treasury bills or other securities now or hereafter issued;
 - U.S. government obligations and U.S. government agency obligations in the form of bonds, notes, debentures or other similar obligations;
 - Interest-bearing savings accounts, certificates of deposit, time deposits or any other investments constituting direct obligations of any bank as defined by the Illinois Banking Act;
 - U.S. corporations obligations with assets exceeding \$500,000,000 if (i) such obligations are rated at the time of purchase at one of the 3 highest classifications established by at least 2 standard rating services and which mature not later than 180 days from the date of purchase, (ii) such purchases do not exceed 10% of the corporation's outstanding obligations and (iii) no more than one-third of the City's funds may be invested in such short term obligations;
 - Money market mutual funds registered under the Investment Company Act of 1940;
 - Interest bearing county, township, city, village, incorporated town, and school district bonds;
 - FDIC insured banks, short term discount obligations of the Federal National Mortgage Association, securities issuable by savings banks or savings and loan associations insured by the FDIC; insured dividend-bearing share accounts or class of share accounts of a credit union chartered under the laws of Illinois or the United States but having the principal office located within Illinois;
 - Public Treasurers' Investment Pool created under Section 17 of the State Treasurer Act, funds managed, operated and administered by a bank, subsidiary of a bank, or subsidiary of a bank holding company; and
 - Repurchase Agreements which are collateralized by full faith and credit U.S. Treasury securities.

2. **Collateralization.** Collateralization of funds through pledging of appropriate securities by depositories is the only way to fully guarantee the safety of deposits. Collateralization of assets insured by the FDIC should be in writing; executed by the depository and any person claiming an adverse interest, contemporaneously with the acquisition of the asset by a depository; approved by the board of directors of the depository; and kept continuously from the time of execution as an official record of the depository.

3. **Investment Restrictions.** The Corporate Authorities determine the following actions to be inappropriate and prohibited:

- Any margin (borrowing) of investments;
- Purchase or sale of commodities or options;
- Purchase of common or preferred stock;
- Any investment that would jeopardize the integrity of the funds or cause trustee to violate their fiduciary duties;
- Derivatives; and
- Any investment that would violate Illinois law.

VI. **Investment Parameters**

1. **Diversification.** The investments shall be diversified by:

- Limiting investments to avoid over concentration in securities from a specific issuer or business sector (excluding U.S. Treasury securities);
- Limiting investment in securities that have higher credit risks;
- Investing in securities with varying maturities; and
- Continuously investing a portion of the portfolio in readily available funds such as IPTIP, money market funds to ensure that appropriate liquidity is maintained in order to meet ongoing obligations.

2. **Maximum Maturities.** To the extent possible, the City shall attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, the City will not directly invest in securities maturing more than five (5) years from the date of purchase or in accordance with Illinois law. The City shall adopt weighted average maturity limitations (which often range from 90 days to 3 years), consistent with the investment objectives.

Reserve funds and other funds with longer-term investment horizons may be invested in securities exceeding five (5) years if the maturity of such investments are made to coincide as nearly as practicable with the expected use of funds. The intent to invest in securities with longer maturities shall be disclosed in writing to the Corporate Authorities.

Because of inherent difficulties in accurately forecasting cash flow requirements, a portion of the portfolio should be continuously invested in readily available funds such as IPTIP's or money market funds to ensure that appropriate liquidity is maintained to meet ongoing obligations.

VII. Reporting

1. **Methods.** The City Administrator shall prepare an investment report at least quarterly, including a management summary that provides an analysis of the status of the current investment portfolio, transactions made over the last quarter, and a statement of the market value of the portfolio at the end of that quarter. This management summary will be prepared in a manner which will allow the City to ascertain whether investment activities during the reporting period have conformed to the investment policy. The report shall be provided to the Corporate Authorities. The report will include the following:
 - Listing of individual securities held at the end of the reporting period.
 - Realized and unrealized gains or losses resulting from appreciation or depreciation by listing the cost and market value of securities over one-year duration that are not intended to be held until maturity (in accordance with Governmental Accounting Standards Board (GASB) requirements).
 - Average weighted yield to maturity of portfolio on investments as compared to applicable benchmarks.
 - Listing of investment by maturity date.
 - Percentage of the total portfolio which each type of investment represents.
2. **Performance Standards.** The investment portfolio will be managed in accordance with the parameters specified within this policy. The portfolio should obtain a market average rate of return during a market/economic environment of stable interest rates. A series of appropriate benchmarks shall be established against which portfolio performance shall be compared on a regular basis.

VIII. Policy Considerations.

1. **Exemption.** Any investment currently held that does not meet the guidelines of this policy shall be exempted from the requirements of this policy. At maturity or liquidation, such monies shall be reinvested only as provided by this policy.
2. **Amendments.** This policy shall be reviewed by the treasurer on an annual basis. Any changes must be approved by the Corporate Authorities. The treasurer will notify the Corporate Authorities at the first meeting in January that the Corporate Authorities are in compliance with applicable law and that there have been no major changes or amendments to the applicable law within the foregoing year that would affect such compliance.

A copy of the City's Investment Policy shall be kept on file in the City Clerk's office and made available to the public during normal business hours.

CITY OF DARIEN

MEMO

TO: Administrative/Finance Committee Members
FROM: Bryon D. Vana, City Administrator
DATE: August 1, 2018
SUBJECT: Lions Club Request – Storage on City Property

The attached request was mentioned at the July 16th, 2018, City Council meeting and referred to the Administrative/Finance Committee to review.

In summary, the Lions Club is asking to place a storage shed, approximately 16ft X 20ft, on City property. The original request is to locate the shed at water plant 4, next to the sheds recently constructed at that location. However, other locations have been suggested including the grass area adjacent to the garage located in the rear of the city hall property.

If the concept of this request is favorable with the Committee, the Committee should address the following:

- Acceptable location
- Lease fee, if any
- Necessary provisions of a lease agreement covering such things as term length, insurance requirements, what can be stored, etc.

Please feel free to contact me if you have any questions.



DARIEN LIONS CLUB



DISTRICT 1 J

1702 Plainfield Road • Darien, Illinois 60561

www.darionlions.org ++ www.facebook.com/DLCIL

June 27, 2018

Mr. Byron Vana
City Administrator
City of Darien
Darien, Illinois 60561

Mr. Vana:

It has come to our attention via Alderman Joe Marchese that our club might have an opportunity to purchase a storage shed for installation at the City of Darien storage facility on Manning Road just north of Plainfield. According to Alderman Marchese, the site, which currently houses three City owned storage sheds, has room for a fourth shed of similar size; a shed that would provide storage for many of our club supplies. We currently rent a storage unit at the Safeguard facility on Lemont Road, and our monthly rental rate will soon reach \$310 per month or \$3,720 per year. As a not for profit organization dedicated to serving the Darien Community, such a yearly expenditure precludes our providing donations to several worthy community organizations. This month alone, we will be donating over \$15,000 to 19 community and charitable groups. If we were able to purchase a storage shed for use at this facility, we would be able to provide additional funds for additional charitable groups.

This opportunity poses several questions, and we would like to get some feedback/answers from you in order for us to discuss this matter and make a decision as to how we want to proceed. I've listed several questions/concerns below that our Board asked when we recently discussed this venture:

- Alderman Marchese stated that the sheds currently on the property were purchased via lowest bid from Home Depot. Would the city be the purchasing agent for a fourth shed, or will the Darien Lions assume that responsibility;
- While our major events occur periodically throughout the year, we would need to have access to "our" shed at various times throughout the year. How do you see the city providing access to the club when we have need for various supplies? Currently, we have one member of our club who holds the fob and key to our current facility; we would establish the same procedure for a storage shed at this facility;
- While we will have a status as "tenants," we are a charitable group, and as stated previously, we want to use our funds for charitable outreach rather than spending these funds on a storage rental. Do you see us entering into a long-

term lease with the city, and if so, what would be a fair monetary fee for our use of this property?

The Darien Lions Club appreciates the opportunity to work with the City of Darien, and it is our hope that the City can assist us as we seek a viable solution to our current storage needs.

Please feel free to call me (630-253-3274) or email me (lionkenkohnke@gmail.com) regarding any questions you might have or answers that you can provide to assist us in making our final decision.

Yours truly,

Kenneth Kohnke
President – 2018 - 2019
Darien Lions Club

Cc: Mr. Daniel Gombac
Alderman Joseph Marchese

City of Darien
Minutes of the Administrative/Finance Committee
May 7, 2018

The Meeting was called to order by Chairman/Alderman Ted Schauer at 6:00 pm. Committee members Aldermen Kenny and Chlystek were present. City Administrator Bryon Vana was also present.

A proposal from Sunrise Communications in an amount not to exceed \$40,709 for the labor and materials for the replacement of the broadcast system in the media room and the Council Room cameras.

Staff advised that the FYE 19 budget includes \$45,000 to upgrade the media room and replace the cameras in the City Hall council chambers. The current equipment has reached its useful life, is archaic, and at times, falters. The upgrade will provide a more reliable system since the current switcher is old and no longer supported. Additionally, the cameras are approximately 15 years old and are in need of replacement. The current cameras are analog and would not be compatible with the new equipment that will be digital. Sunrise Communications solicited 3 quotes on behalf of the City for the main equipment. AVI Systems is the recommended vendor that supplied the lowest, *complete* quote. The breakdown of the remaining costs for this project are included below.

Main Equipment*	\$24,994.00
Network Communication System (network switch, cables)	3,000.00
2 year warranty – TriCaster 410	2,295.00
Material Contingency	3,000.00
Labor	6,020.00
Contingency Labor	1,400.00
Total	\$40,709.00

The committee unanimously recommended approval a motion approving a proposal from Sunrise Communications in an amount not to exceed \$40,709 for the labor and materials for the replacement of the broadcast system in the media room and the Council Room cameras.

Minutes – March 5, 2018

The minutes were approved.

Adjournment - The meeting adjourned at 6:40.

Approved:

Ted Schauer, Chairman _____

Joseph Kenny, Member _____

Thomas Chlystek, Member _____