

## 2018-February 6 QA

Wednesday, January 31, 2018 4:00 PM

### I. CONSENT AGENDA:

1. **18-090** Approve the Regular City Council Meeting Minutes of January 16, 2018.
2. **17-941** Approve the Award of Cooperative Procurement 17-178, Fire Engine Purchase to Fire Service, Inc. for an amount not to exceed \$623,875.

<b>Q:</b>	<b>Why is this fire truck necessary...is it a want or a need?</b>	<b>Coyne, Kevin</b>
<b>A:</b>	The fire truck purchase is part of a larger agreement with the Naperville Fire Protection District and the purchase will be 100% reimbursed by the NFPD. Please see the attached agreement.	

3. **18-042** Approve the Award of Bid 18-017, Excavation and Underground Utility Repairs, to Baish Excavating, Inc. for an amount not to exceed \$190,369, plus a 5% contingency.
4. **18-105** Approve the City Council Meeting Schedule for February, March & April 2018.
5. **18-097** Pass the Ordinance granting a deviation to the 35' platted building line based on the provisions of Section 7-1-13 (Platted Setback and Building Lines) of the Naperville Municipal Code for the property located at 730 Highland Ave - PZC 17-1-144
6. **18-035B** Pass the Ordinance amending Section 5 (Dedication of Park Lands and School Sites or for Payments or Fees In Lieu Of) of Chapter 3 (Required Improvements) of Title 7 (Subdivision Regulations) of the Naperville Municipal Code pertaining to Payments or Fees In Lieu of Dedication of Park Lands and School Sites. PZC 16-1-032.

<b>Q:</b>	<b>a. Please clarify – the current generation tables and allocations are consistent with past practices and do not reflect adjustments to make them more “equitable” between School and Park Districts, correct?</b> <b>b. Why is the Zoning Administrator referred to as “her”?</b>	<b>Boyd-Obarski, Rebecca</b>
<b>A:</b>	a. The generation tables and allocations are consistent with past practices and do not have any adjustments. b. The draft ordinance refers to Allison Laff as the Zoning Administrator as “her”, however, if Council prefers this can be changed to be more consistent with our current municipal code that uses "zoning administrator".	

7. **18-092B** Waive the first reading and pass the Ordinance approving a revision to the City's Investment and Cash Management Policy (Requires six positive votes).

Q:	<p>a. <b>Neither of the attached policies were “marked-up”.</b></p> <p>b. <b>One version allowed investment in CMBS of up to 35% of total portfolio – the other only up to 10% in that product. One version allowed investment in CMOs up to 10% of total portfolio – the other allowed up to 35% of the portfolio to be CMOs. Please send a redline version so we can see the changes the FAB proposes.</b></p> <p>c. <b>Please refresh our memories on how much is being invested under this policy – what are the cash balances invested? Since I assume the balances change over the course of the year, can you give us 2017 actuals for Jan 1, Apr 1, Jul 1, and Oct 1?</b></p> <p>d. <b>Does this money include the Operating Reserves, and each Utility’s Reserves?</b></p> <p>e. <b>Who (what company) invests/manages this money?</b></p> <p>f. <b>How is the City charged for management/investment of these funds? What fees does the City incur on each transaction? Will a more diverse menu of investments result in more fees? If so, has it been determined that the additional investment opportunities will yield sufficiently more to cover the fees?</b></p> <p>g. <b>What was the total return on investments in 2017?</b></p>	Boyd-Obarski, Rebecca
A:	<p>a. <b>Neither of the attached policies were “marked-up”.</b> Please see the two new attachments. One is a clean copy of the recommended policy, the second is a red-lined version of the changes to the policy.</p> <p>b. <b>One version allowed investment in CMBS of up to 35% of total portfolio – the other only up to 10% in that product. One version allowed investment in CMOs up to 10% of total portfolio – the other allowed up to 35% of the portfolio to be CMOs. Please send a redline version so we can see the changes the FAB proposes.</b> Please see attached. To clarify, FAB recommended that the CMBS limit be set at 10% and the CMOs remain at 35%</p> <p>c. <b>Please refresh our memories on how much is being invested under this policy – what are the cash balances invested? Since I assume the balances change over the course of the year, can you give us 2017 actuals for Jan 1, Apr 1, Jul 1, and Oct 1?</b> The market value of the City’s investments as of 12/31/2017 was \$86.7 million. The balance as of 12/31/2016 was \$70.8 million; 3/31/2017 was \$71.7 million; 6/30/2017 was \$84.1 million; and 9/30/2017 was \$95.7 million.</p> <p>d. <b>Does this money include the Operating Reserves, and each Utility’s Reserves?</b> Yes, this policy covers all funds held by the City, including the Operating Reserves and the Utility Funds’ Reserves.</p> <p>e. <b>Who (what company) invests/manages this money?</b> The City utilizes two money managers; BMO Global Asset Management/TCH and PFM Asset Management LLC; and Marquette Associates serves as the City’s financial advisor.</p> <p>f. <b>How is the City charged for management/investment of these funds? What fees does the City incur on each transaction? Will a more diverse menu of investments result in more fees? If so, has it been determined that the additional investment opportunities will yield sufficiently more to cover the fees?</b> What was the total return on investments in 2017?  Most of the activity that would take place as a result of expanding the investment policy would be within the two current fixed income portfolios managed by PFM and BMO/TCH. These two managers would have the discretion to add the newly permissible securities (corporate bonds, asset backed, non-agency mortgages, etc.). The same fee schedule would remain in place for each manager (0.15% for</p>	Mayer, Rachel

	<p>BMO/TCH and 0.10% for PFM). There would be no additional fees paid for management within these portfolios.</p> <p>If the City were to purchase any additional investments (through a mutual fund vehicle) or hire an additional investment manager (who might specialize in one of these newer sectors) there would be additional fees.</p> <p>A more diverse menu of investment options does not necessarily mean that the investment fees will increase. At this time, we are not anticipating a change in the investment managers or an increase in management fees. In the event an additional investment would be made, proper analysis and due diligence would be conducted to make sure that any fees paid would be appropriate for the asset class.</p> <p>Total return on investments in 2017 was +1.1% net of fees, or approximately \$800,000 in dollar terms.</p>	
<b>Q:</b>	<b>The redline version of the Investment Policy update was not showing in the attachment. Could you share this document with the Council.</b>	<b>Gustin, Patty</b>
<b>A:</b>	An updated version of the clean policy and the red-lined policy have been attached, see above.	Mayer, Rachel

## **J. PUBLIC HEARINGS:**

1. **17-905B** Receive the staff report for Auburn Manor (PZC 17-1-101) located at 9s364 Naper Boulevard (Item 1 of 6).
2. **18-080** Conduct the public hearing to consider the Annexation Agreement for Auburn Manor (PZC 17-1-101) located at 9s364 Naper Boulevard (Item 2 of 6).
3. **18-081** Pass the Ordinance authorizing execution of the Annexation Agreement for Auburn Manor (PZC 17-1-101) located at 9s364 Naper Boulevard (Item 3 of 6).
4. **18-082** Pass the Ordinance annexing the Subject Property located at 9s364 Naper Boulevard (Auburn Manor, PZC 17-1-101) (Requires six positive votes) (Item 4 of 6).
5. **18-083** Pass the Ordinance rezoning the property located at 9s364 Naper Boulevard (Auburn Manor, PZC 17-1-101) to R3A (Medium Density Multiple-family Residence District) (Item 5 of 6).
6. **18-084** Pass the Ordinance approving the Preliminary/Final Plat of Subdivision and deviations to Municipal Code Section 7-3-5 for Auburn Manor (PZC 17-1-101) located at 9s364 Naper Boulevard (Item 6 of 6).
7. **18-091** Conduct the Public Hearing for the Community Development Block Grant Program Year 2018 Annual Action Plan.

## **L. ORDINANCES AND RESOLUTIONS:**

1. **18-027** Pass the Ordinance approving a variance to Section 1208.2 of the 2012

<b>Q:</b>	<b>a. What is the purpose of the kitchen ceiling height standard?</b> <b>b. What element of this use makes it a “kitchen”?</b>	<b>Boyd-Obarski, Rebecca</b>
<b>A:</b>	a. The international building code requires a minimum of seven feet to allow for appropriate minimum headroom for occupation.  b. The future use in a portion of the basement is proposed to be where the restaurant will clean dishes. They would like to install a triple basin sink, dishwasher, and mop sink. No actual cooking will occur in the basement.	

**2. 18-108** Receive the report on the CY2018 Budget and review options for the Property Tax Levy reduction (Item 1 of 4)

<b>Q:</b>	<b>a. Why would a decrease in the Food &amp; Beverage Tax not be implemented until 2019?</b> <b>b. Is the anticipated \$.5M increase in the street maintenance improvement program (MIP) the same \$.5M that we discussed when we declined to accept the recommendation to \$12M per year this year and agreed to gradual increases over the next 3 years? Or is this additional expenditure that is anticipated?</b> <b>c. Could you please show us the amounts of all revenue streams projected in 2019 if the proposed increases were adopted? Please also show two versions of the projected revenue (i) one with a flat tax levy, and (ii) with a tax levy that fills the gap (if there is a gap), based on a 2019 2% increase in operating budget expenses.</b>	<b>Boyd-Obarski, Rebecca</b>
<b>A:</b>	a. A 2019 implementation date for the reduction of the F&B tax is due to the timing lag associated with the HRST. The City only receives 3 months of disbursements (\$1.1M) in the HRST in 2018, whereas a full year of collection is valued at \$4.4M. Any reduction in the F&B tax in 2018 would require additional revenue streams or expenditure reductions to maintain a balanced budget for 2018  b. Yes, this is the same \$.5M that was previously discussed as part of the City's plan to ramp up the annual investment in MIP. In 2018, the City's plan is to invest \$10.5M and increase \$.5M annually until total investment is \$12.0M in 2021.  c. Staff is working on compiling this analysis and will share with council when available.	<b>Mayer, Rachel</b>

<b>Q:</b>	<b>A. Where does our current level of FTEs rank historically?</b> <b>B. I've probably seen 100 people ask why we don't cut more. Has the summary of our cuts and FTE reduction been released to the public? I don't recall seeing it out there.</b> <b>C. Have any of our neighbors changed their HRST since we last discussed this? With the .25 increase would we still be lowest in the County?</b> <b>D. With respect to the FBT tax, if we refrain from reducing these funds....could we designate a set amount to Ogden improvements?</b> <b>E. Where does a tax levy of \$46.6 stand historically? Am I correct that it is still the lowest in many years...clarity would be appreciated.</b>	<b>Coyne, Kevin</b>
<b>A:</b>	<b>A. Where does our current level of FTEs rank historically?</b> a. The City's approved headcount for 2018 is 949 FTEs, this is the lowest it has been since 1996, when there were 932 FTEs.  <b>B. I've probably seen 100 people ask why we don't cut more. Has the summary of our cuts and FTE reduction been released to the public? I don't recall seeing it out there.</b>	<b>Mayer, Rachel</b>

	<p>a. Included as part of this agenda item and the budget documents are the total cuts including personnel, capital, and service level changes.</p> <p>C. <b>Have any of our neighbors changed their HRST since we last discussed this? With the .25 increase would we still be lowest in the County?</b></p> <p>a. In reviewing our comparable communities there have been no updates to their home rule sales tax rates. Naperville would still retain the lowest HRST of our comparable communities (excluding Lisle which is non-home rule), which includes neighboring communities and those of commensurate size. Attached is a listing of those comparable communities.</p> <p>D. <b>With respect to the FBT tax, if we refrain from reducing these funds....could we designate a set amount to Ogden improvements?</b></p> <p>a. In the ordinances' current form an allocation for Ogden Avenue improvements does not exist. Dollars are directly applied to SECA, social services, public safety pensions, and debt service. The ordinance may be amended as directed by City Council.</p> <p>E. <b>Where does a tax levy of \$46.6 stand historically? Am I correct that it is still the lowest in many years...clarity would be appreciated.</b></p> <p>a. If the 2017 Levy is abated to \$46.6 million it would be lower than the 2016 Levy and would be one of the lowest in the last ten years; 2015 and 2013 were slightly lower at approximately \$46.4 million each.</p>	
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3. **18-024B** Pass the Ordinance amending Section 2, of Chapter 11, of Title 3, of the Naperville Municipal Code increasing the local simplified municipal telecommunications tax rate to six percent (Item 2 of 4).
4. **18-025B** Pass the Ordinance amending Chapter 10, of Title 3, of the Naperville Municipal Code increasing the hotel and motel use tax rate to 5.50% and clarifying said tax applies to the use of online rental companies (Item 3 of 4).

Q:	There's a typo on page 2 of the date, FYI.	Hinterlong, Paul
A:	Noted. Thank you. No change to motion required as Ordinance is correct	Krieger, Doug

5. **18-102** Conduct the first reading of the Home Rule Sale Tax and Downtown Food and Beverage Tax Ordinance Amending Section 11 of Chapter 1, Title 3, and Amending Section 9 of Chapter 1, Title 3 of the Naperville Municipal Code. (Item 4 of 4)

## N. PETITIONS AND COMMUNICATIONS:

1. **18-096** Consider re-opening the 2018 Special Events Calendar to Approve the Festa Italiana Event scheduled for Friday, August 3 - Sunday, August 5, 2018 at the Naper Settlement.

Q:	<p>a. <b>When are applications for the Special Events Calendar due?</b></p> <p>b. <b>What is the decision-making timeline for event for consideration by the Special Events Team?</b></p> <p>c. <b>Have alternative locations been considered?</b></p> <p>d. <b>Is this event affiliated with any Naperville not for profit organization?</b></p>	Boyd-Obarski, Rebecca
A:	a. The applications for 2018 Special Events were made available on May 5, 2017 and due on June 5, 2017 (Pam Gallahue).	Gallahue, Pam & Tamayo-

<p>Conversations were still on-going through late June between the event organizers and Naper Settlement. The contract was not fully executed until late September. Contract states that the Renter must contact appropriate representatives for permits. (Tamayo-Calabrese, Rena)</p> <p>b. June 6 - Special Events Team given all applications for individual department review.</p> <p>June 8 - The Team met as a group to discuss and give preliminary approval for the 2018 calendar of events; this is done in June in order to release the SECA applications that are due in July for workshops that begin in September.</p> <p>December 19 – City Council approved 2018 Special Events calendar. (Gallahue, Pam)</p> <p>c. We understand that the organizers researched alternative locations in the Chicagoland area and found Naper Settlement to be the right fit. An alternative location gravely impacts this institution's ability to fulfill City Council's directive to raise additional funding and bring more people into its grounds. The revenue raised for Festa Italiana is deposited in the city's Naperville Settlement fund account. This earned revenue is part of the additional \$500,000 (approximate) that sits in the city's account help cover the general operation and programming of the city's museum. (Tamayo-Calabrese, Rena)</p> <p>d. No. This is a for-profit event, not eligible for SECA grant funding, and Star Events will be responsible for reimbursing the City for the cost of services. (Gallahue, Pam)</p>	Calabrese, Rena)
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## O. REPORTS AND RECOMMENDATIONS:

- 17-926B** Approve the Calendar Year (CY) 18 Special Events Cultural Amenities (SECA) Grant Program Allocations.

<b>Q:</b>	<b>Can we have the previous recommendations of the allocations before this set of recommendations?</b>	<b>Hinterlong, Paul</b>
<b>A:</b>	The original SECA Commission recommendation and Council recommendation from the November 21, 2017 workshop is attached.	Gallahue, Pam

- 18-099** Approve the staff recommendation (Option 1) to not financially participate in funding a replacement fence along the north side of 95th Street from west of the Springbrook Tributary No. 2 Creek to Gateshead Drive

<b>Q:</b>	<b>I will ask Council to table O18-099 (95th St Fence) since Councilwoman Gustin and I have been working with the neighbors to come up with a solution.</b>	<b>Brodhead, Judy</b>
<b>A:</b>	Understood.	<b>Krieger, Doug</b>

<b>Q:</b>	<p><b>A. When I was on PZC, residents often asked about sound walls for their properties. If we contribute to the cost of this fence, is there a justification for not doing so for others...i.e. are we going to have a deluge of residents asking for similar relief whom have comparable situations.</b></p> <p><b>B. In staff's opinion, will a fence even reduce the noise?</b></p>	<b>Coyne, Kevin</b>
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A:	<p>A. Since the discussion began, we have received inquiries about other fence locations. We are very confident that the city will receive several requests.</p> <p>B. Any object in the pathway will have some noise mitigation qualities, however the proposed fence is designed for privacy and not specifically designed as a noise wall</p>	Krieger, Doug
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**AGREEMENT BETWEEN THE CITY OF NAPERVILLE AND THE NAPERVILLE  
FIRE PROTECTION DISTRICT FOR INSTALLATION OF WATER MAIN AND  
ACQUISITION OF A FIRE TRUCK**

This agreement (“Agreement”) between the Naperville Fire Protection District (“**District**”), a Fire Protection District created pursuant to the Illinois Fire Protection District Act (70 ILCS 705 (hereinafter referred to as the “**Act**”)), and the City of Naperville (“**City**”), an Illinois municipal corporation and home rule unit of local government, is made this \_\_\_\_ day of \_\_\_\_\_, 2017.

**W I T N E S S E T H:**

**WHEREAS**, 70 ILCS 705/11(a) of the Act authorizes fire protection districts to contract for fire protection; and

**WHEREAS**, the City and District have heretofore entered into a long-term contract for twenty years with three, ten year options to extend providing for the City (and/or any fire district or municipality with which the City has a mutual aid agreement) to provide all territory within the District with fire protection and ambulance services (“Naperville Service Agreement”); and

**WHEREAS**, the Naperville Service Agreement between the City and District provides for the use of the District’s reserve funds to be utilized for specific line items to provide for needed Naperville Fire Department equipment to enhance the level of service to the City and the District; and

**WHEREAS**, the City has informed the District that a new fire truck with water carrying capacity of One Thousand Two Hundred and Fifty (1,250) gallons will greatly enhance service to territory within the District where municipal hydrants are not available, thereby reducing the risk of personal injury and property damage in a large portion of the District’s territory as well as the City; and

**WHEREAS**, the City has also identified territory within the District (“Green Acres Subdivision”) that could significantly benefit from the installation of City water main and a City hydrant which the City anticipates will significantly reduce response times and reduce the risk of personal injury and property damage.

**NOW, THEREFORE**, in consideration of the mutual agreements herein contained, it is hereby agreed by and between the parties as follows:



1. **Installation of Green Acres Water Main.** At no cost to the District or residents of the District, the City agrees that at its sole cost it will design, engineer, install and maintain a twelve-inch (12') water main, fire hydrant, and related improvements in the locations as shown on the engineering specifications and plans attached hereto as **Exhibit "A"** prepared by the City of Naperville and dated September 6, 2017 (the improvements are collectively referred to as "Water Main"). It is anticipated that the design, engineering and installation costs for the Water Main will exceed the sum or Three Hundred and Fifty Thousand Dollars (\$350,000.00) which shall be completed at the City's sole cost no later than April 30, 2018, or such other timeframe as may be agreed upon in writing by the District and the Chief of the Naperville Fire Department. Upon installation, the Water Main shall be owned, maintained and operated by the City at the City's sole cost. The City shall take all reasonable steps to ensure that the Water Main remains fully operational in order to enhance the life safety within the Green Acres Subdivision. The City shall be solely responsible to obtain all property rights necessary to install the Water Main. The City agrees to defend, indemnify, and hold the District harmless for all injuries and damages arising out of the design, engineering and operation of Water Main.

2. **Contribution Toward City Owned Fire Truck.** Upon completion of the Water Main as specified in paragraph 1 above, the District shall reimburse the City for the actual cost to Purchase a new fire tuck ("Fire Truck") with water holding capacity of not less than One Thousand Two Hundred and Fifty (1,250) gallons which will significantly improve fire protection services to the District. This District's obligation to reimburse the City for the Fire Truck shall under no circumstances exceed the sum of Six Hundred and Fifty Thousand Dollars (\$650,000.00) The anticipated specifications for the Fire Truck are attached hereto as **Exhibit "B"**. The final Fire Truck specifications will be agreed upon by the District and City Fire Chief. The District shall have no obligation to maintain the Fire Truck which shall be the sole obligation of the City.

3. **Liability.** The District shall not be held liable to the City or to any person for any alleged negligence in responding to a fire call in the District or in the manner or method of fighting any such fire, or for failure of the equipment. The individual Trustees of the District signing this Agreement, along with their successor Trustees, shall not be liable to the City for any expenses the City may have by reason of the claims or lawsuit of any person alleging negligence in the City's performance of this Agreement. The City shall not be held liable to the

District or to any person for any alleged negligence in responding to a fire call in the District or in the manner or method of fighting any such fire, or for failure of the equipment.

4. **Failure to Timely Install the Water Main.** In the event the City fails to install the Water Main by April 30, 2018, or such other timeframe as may be agreed upon in writing by the District and the Chief of the Naperville Fire Department, this Agreement, along with all District and City obligations hereunder, shall become null and void having no force or effect.

5. **General Provisions.**

(a) Venue. This Agreement shall in all respects be subject to and construed in accordance with and governed by the laws of the State of Illinois. Venue for any action arising out of the terms or conditions of this Agreement shall be proper only in the Circuit Court for the Eighteenth Judicial Circuit, DuPage County, Illinois.

(b) Ambiguity. This Agreement shall be construed without regard to any presumption or other rule requiring construction against the party causing this Agreement to be drafted.

(c) No Waiver. Neither party shall be deemed, by any act of omission or commission, to have waived any of its rights or remedies hereunder unless such waiver is in writing and signed by waiving party and, then only to the extent specifically set forth in the writing. A waiver with reference to one event shall not be construed as continuing or as a bar to or waiver of any right or remedy as to a subsequent event.

(d) Severability. If any of the provisions of this Agreement shall be declared invalid for any reason, such invalidation shall not affect other provisions of this agreement which can be given effect without the invalid provisions, and to this end the provisions of this Agreement are to be severable.

(e) Authority. The undersigned warrant and represent that have read and understand this Agreement and that they are authorized to execute this Agreement.

**IN WITNESS WHEREOF**, the parties hereunto have signed this Agreement this \_\_\_\_ day of \_\_\_\_\_, 2017.

**CITY OF NAPERVILLE**

**NAPERVILLE FIRE PROTECTION  
DISTRICT**

By: \_\_\_\_\_  
Douglas A. Krieger  
City Manager

By: \_\_\_\_\_  
Ken Hagenbaumer  
President

**ATTEST:**

By: \_\_\_\_\_  
Pam Gallahue, Ph.D.  
City Clerk

By: \_\_\_\_\_  
Stephen A. Grobl  
Secretary

By: \_\_\_\_\_  
Rick Oloffson  
Treasurer

# **City of Naperville, Illinois**

## **Investment & Cash Management Policy**

### **I. SCOPE**

This policy applies to the cash management and investment activities of the City of Naperville. With the exception of the police and fire pension funds or other financial assets bound by separate governance documents held by various fiscal agents and trustees, all funds of the city shall be administered in accordance with the provisions of this policy. The police and fire pension funds or other financial assets bound by separate governance documents 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 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. DELEGATION OF AUTHORITY**

Authority to manage the investment program is granted to the Director of Finance derived from the following: 30 ILCS 235 et. seq. The Director of Finance or designee establishes 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 Director of Finance. The Director of Finance 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 City's internal auditor, for ultimate review by the City's external auditor, at least annually. Any exceptions noted by the internal or external auditor shall be reported to the Financial Advisory Board.

### **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 City will minimize credit risk, the risk of loss due to the failure of the security issuer or backer by:

- a. Investing City assets in the safest types of securities; as defined in *Section V. A. Permissible Investments*
- b. Pre-qualifying the financial institutions, brokers, intermediaries and advisers with which the City will do business,
- c. Diversifying the investment portfolio so potential losses on individual securities will be minimized.

2. Interest Rate Risk

The City 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 MANAGER INVESTMENT GUIDELINES:**

### **A. Permissible Investments:**

Pursuant to home rule authority, below is a summary of acceptable investments as determined by the Director of Finance in compliance with the applicable statutes:

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, or 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 are allowed so long as they make up no more than 35% of the total portfolio at the time of the purchase.
4. Commercial paper with a maturity of no longer than 270 days and must have a minimum rating of A 1, P-1, or F-1 by at least two of 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 City 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. Non-agency bonds defined as loans with balances or credit underwriting standards that may or may not fall within the limits set by FHFA and do not qualify as collateral for securities that are issued by Ginnie Mae, Fannie Mae or Freddie Mac, and are sponsored by private companies other than government sponsored enterprises. Such bonds may make up no more than 10% of the total portfolio at any time.
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. Commercial Mortgage-Backed Securities ("CMBS") 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 10% of the total portfolio at any time.
11. Investment Grade Corporate Bonds defined as any bond rated BBB or better by Standard & Poor's or an equivalent grade rating from Moody's Investors Services or Fitch. Such bonds may make up no more than 30% of the total portfolio at any time.
12. Bank Loans and/or securitized pools of bank loans, otherwise know Collateralized Loan Obligations ("CLOs"). Such bonds may make up no more than 10% of the total portfolio at any time.
13. Asset-backed securities (ABS) whose underlying collateral consists of loans, leases or receivables, including but not limited to auto loans/leases, credit card receivables, student loans, equipment loans/leases, or home-equity loans. Such ABS may make up no more than 10% of the total portfolio at any time.

14. Any open-end mutual fund whose Principal Investment Strategy is investing in a diversified pool of fixed income instruments.
15. Local government investment pools rated AA or better by Standard & Poor's or an equivalent grade rating from Moody's Investors Services or Fitch. (Referred to Illinois Fund) Permissible pools include: Illinois Trust, The Illinois Funds, or any other investment pool authorized under the statutes so long as they are approved by the Director of Finance
16. No single issuer, except those guaranteed by the United States government or its agencies, may exceed 5% of the fund's total market value.
17. 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:**

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 City to return the investments to compliance with these guidelines. It is the duty of each investment manager to notify the



Director of Finance, Financial Advisory Board, 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 City of Naperville, holding funds managed by City staff, including the “operating bank” shall execute a contract with the City of Naperville 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 City, including collateralization of City funds invested at such depository and the related safekeeping requirements of the pledged securities. The City shall initiate a Request for Proposal process to identify and support a recommendation to the City Council to award the City’s contract for banking and depository services.

Such financial institutions shall provide such financial data to the Director of Finance as may be required by the City 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 Director of Finance. Any refusal to provide such information to the City 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 City's name. The Director of Finance 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 City's financial institution.

Safekeeping receipts of pledged securities may be "faxed" or e-mailed to the City Finance Department 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.

**Collateralization** - The City requires full collateralization of all City investments in accordance with the City's collateral agreement. The City will allow the use of FDIC coverage as part of the calculation of full collateralization. **Bank Qualification** - To be considered as a depository for investments of City idle funds, the bank must be in compliance with Federal Regulatory Standards for a “well capitalized institution”. Reports shall be provided to the Director of Finance on a quarterly basis.

- B. Funds managed by outside money managers** will be held in trust for the City by a custodial bank under separate contract and will be administered in concurrence with the City’s Investment and Cash Management Policy.

The Director of Finance or designee will monitor the adequacy of collateralization periodically, but not less often than monthly. The City requires monthly reports with market values of pledged securities from all financial institutions with which the City has investments requiring collateral to be pledged.

## **VII. INVESTMENT LIQUIDITY AND DURATION**

- A.** The City'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 City'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 City-managed Investments which are intended to cover day-to-day operating expenses of the City. 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 Financial Advisory Board, upon the advice and counsel of the City'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 Director of Finance or designee for funds managed by the City at times when investment of idle funds would be in the best interest of the City 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 City no later than 48 hours after bids are taken.

## **IX. DAILY CASH MANAGEMENT PRACTICES AND POLICIES**

It is the policy of the City of Naperville Finance Department that all departments collecting cash receipts, whether in cash or other forms of payment, must turn in such receipts to the Finance Department 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 Finance Department. Checks are delivered by courier daily to the bank for deposit; cash is securely stored in the City Hall vault and delivered by secured courier 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 City may result in disciplinary action.

## **X. INTERNAL CONTROLS**

The Director of Finance 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 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 City will follow applicable GASB pronouncements.

## **XII. REVIEW OF INVESTMENT PORTFOLIO**

The Director of Finance or 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 Director of Finance 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 City, and the authority to terminate a money manager at any time.

### **XIII. FINANCIAL ADVISORY BOARD**

- A.** The Director of Finance or designee shall provide a copy of the quarterly investment report to the Financial Advisory 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 City's authorized financial institutions shall be provided to the Board on a quarterly basis. After the quarterly review of the investment report by the Financial Advisory Board, the Director of Finance will submit the report to the City Council.
- C.** The Financial Advisory Board shall review this policy and recommend any proposed changes to the City Council every three years.

### **XIV. ETHICS AND CONFLICTS OF INTEREST**

The City Manager, Director of Finance, Financial Reporting Team Leader, or other financial officer employed by the City 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 City of Naperville 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 City has a depository relationship or investment management contract.

#### **XV. CITY-MANAGED INVESTMENTS**

The objective with all investments is to maximize returns. In order to maximize returns, funds should be kept at the money managers and only a minimum amount of cash should be on hand. The minimum amount of cash will be used to provide adequate short term funding for payroll and accounts payable. The maximum that will be held is \$22 million, unless a higher balance is required to fully benefit from the available earning credit rate.

#### **XVI. SEPARATE PROVISIONS OF POLICY AND CONFLICTS WITH ILLINOIS LAWS**

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

## GLOSSARY OF TERMS

**Accrued Interest** – The accumulated interest due on a bond as of the last interest payment made by the issuer.

**Agency** – A debt security issued by a federal or federally sponsored agency rated within the 2 highest general classifications established by the following rating agencies: Moody's Investors Service, Standard & Poor's, and Fitch. Federal agencies are backed by the full faith and credit of the U. S. Government. Federally sponsored agencies (FSAs) are backed by each particular agency with a market perception that there is an implicit government guarantee. Permissible federal agencies 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 Director of Finance.

**Amortization** - the process of paying the principal amount of an issue of bonds by periodic payments either directly to bondholders or to a sinking fund for the benefit of bondholders.

**Arbitrage** - Usually refers to the difference between the interest paid on the tax-exempt securities and the interest earned by investing the proceeds in higher yielding taxable securities. Internal Revenue Service regulations govern arbitrage (reference I.R.S. Reg. 1.103-13 through 1.103-15).

**Arbitrage Bonds** - Bonds which are deemed by the I.R.S. to violate federal arbitrage regulations. The interest on such bonds becomes taxable and the bondholders must include this interest as part of gross income for federal income tax purposes (I.R.S. Reg. 1.103-13 through 1.103-15).

**Assessed Value** - An annual determination of the just or fair market value of property for purposes of ad valorem taxation.

**Average Life** – The average length of time that issues of serial bonds and/or term bonds with a mandatory sinking fund feature is expected to be outstanding.

**Basis Point** - 1/100 of one percent.

**Bid** - The indicated price at which a buyer is willing to purchase a security or commodity.

**Bond** - Written evidence of the issuer's obligation to repay a specified principal amount on a date certain, together with interest at a stated rate, or according to a formula for determining that rate.

**Bond Anticipation Notes (BANS)** - Short-term interest bearing notes issued by a government in anticipation of bonds to be issued at a later date. The notes are retired from proceeds of the bond issue to which they are related.

**Callable Bond** - A bond which permits or requires the issuer to redeem the obligation before the stated maturity date at a specified price, the call price, usually at or above par value.

**Cash Sale/Purchase** – A transaction which calls for delivery and payment of securities on the same day that the transaction is initiated.

**Collateralization** – Process by which a borrower pledges securities, property, or other deposits for the purpose of securing the repayment of a loan and/or security.

**Commercial Paper** - Very short-term, unsecured promissory notes issued in either registered or bearer form, and usually backed by a line of credit with a bank.

**Convexity** – A measure of a bond's price sensitivity to changing interest rates. A high convexity indicates greater sensitivity of a bond's price to interest rate changes.

**Coupon Rate** - The annual rate of interest payable on a coupon bond (a bearer bond or bond registered as to principal only, carrying coupons evidencing future interest payments), expressed as a percentage of the principal amount.

**Credit Risk** – The risk to an investor that an issuer will default in the payment of interest and/or principal on a security.

**Current Yield (Current Return)** – A yield calculation determined by dividing the annual interest received on a security by the current market price of that security.

**Derivative Security** – Financial instrument created from, or whose value depends upon, one or more underlying assets or indexes of asset values.

**Discount** – The amount by which the par value of a security exceeds the price paid for the security.

**Diversification** – A process of investing assets among a range of security types by sector, maturity, and quality rating.

**Duration** – A measure of the timing of the cash flows, such as the interest payments and the principal repayment, to be received from a given fixed income security. This calculation is based on three variables; term to maturity, coupon rate and yield to maturity. The duration of a security is a useful indicator of its price volatility for given changes in interest rates.

**Enterprise Funds** - Funds that are financed and operated in a manner similar to private business in that goods and services provided are financed primarily through user charges.

**Federal Funds (Fed Funds)** – Funds placed in Federal Reserve banks by depository institutions in excess of current reserve requirements. These depository institutions may lend to Fed Funds to each other overnight or on a longer basis. They may also transfer funds among

each other on a same-day basis through the Federal Reserve banking system. Fed funds are considered to be immediately available funds.

**Federal Funds Rate** – Interest rate charged by one institution lending federal funds to the other.

**Government Securities** – An obligation of the U.S. government, backed by the full faith and credit of the government. These securities are regarded as the highest quality of investment securities available in the U.S. securities market.

**Interest Rate** – See “Coupon Rate.”

**Interest Rate Risk** – The risk associated with declines or rises in interest rates which cause an investment in a fixed – income security to increase or decrease in value.

**Liquidity** – An asset that can be converted easily and quickly into cash.

**Local Government Investment Pool (LGIP)** – An investment by local governments in which their money is pooled as a method for managing local funds.

**Mark-to-Market** – The process whereby the value of a security is adjusted to reflect its current market value.

**Market Risk** – The risk that the value of a security will rise or decline as a result of changes in market conditions.

**Market Value** – Current market price of a security.

**Maturity** - The date upon which the principal of a municipal bond becomes due and payable to bondholders.

**Net Asset Value** – The market value of one share of an investment company, such as a mutual fund. This figure is calculated by totaling a fund’s assets which includes securities, cash, and any accrued earnings, subtracting this from the fund’s liabilities, and dividing this total by the number of shares outstanding.

**Net Interest Cost (NIC)** - The traditional method of calculating bids for new issues of municipal securities. The total dollar amount of interest over the life of the bonds is adjusted by the amount of premium or discount bid, and then reduced to an average annual rate. The other method is known as the true interest cost (see "true interest cost").

**Par Value or Face Amount** - In the case of bonds, the amount of principal which must be paid at maturity.

**Principal** - The face amount or par value of a bond or issue of bonds payable on stated dates of maturity.



**Prudent Person Rule** – An investment standard outlining the fiduciary responsibilities of public funds investors relating to investment practices.

**Ratings** - Evaluations of the credit quality of notes and bonds, usually made by independent rating services, which generally measure the probability of the timely repayment of principal and interest on municipal bonds. The only ratings that will be acceptable are from Moody's, Standard and Poor's and Fitch Investor Services.

**Repurchase Agreement** – An agreement of one party to sell securities at a specified price to a second party and a simultaneous agreement of the first party to repurchase the securities at a specified price or at a specified later date.

**Short-Term Debt** - Short-term debt is defined as any debt incurred whose final maturity is three years or less.

**Swap** – Trading one asset for another.

**Term Bonds** - Bonds coming due in a single maturity.

**Total Return** – The sum of all investment income plus changes in the capital value of the portfolio.

**Volatility** – A degree of fluctuation in the price and valuation of securities.

**Weighted Average Maturity (WAM)** – The average maturity of all the securities that comprise a portfolio.

**Yield** – The current rate of return on an investment security generally expressed as a percentage of the security's current price.

**Yield to Maturity** - The rate of return to the investor earned from payments of principal and interest, with interest compounded semiannually and assuming that interest paid is reinvested at the same rate.

**Zero Coupon Bond** - A bond which pays no interest, but is issued at a deep discount from par, appreciating to its full value at maturity.

# City of Naperville, Illinois

## Investment & Cash Management Policy

### I. SCOPE

This policy applies to the cash management and investment activities of the City of Naperville. With the exception of the ~~debt service funds~~, police and fire pension funds, ~~reserve funds and~~ or other financial assets bound by separate governance documents held by various fiscal agents and trustees, all ~~other~~ funds of the city shall be administered in accordance with the provisions of this policy. The ~~debt service funds~~, police and fire pension funds, ~~reserve funds and~~ or other financial -assets bound by separate governance documents 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 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. DELEGATION OF AUTHORITY

Authority to manage the investment program is granted to the Director of Finance derived from the following: 30 ILCS 235 et. seq. The Director of Finance or designee establishes 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 Director of Finance. The Director of Finance 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 City's internal auditor, for ultimate review by the City's external auditor, at least annually. Any exceptions noted by the internal or external auditor shall be reported to the Financial Advisory Board.

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

- a. ~~Investing City assets~~ Limiting investments to in -the safest types of securities; as defined in Section V.A. Permissible Investments.
- b. Pre-qualifying the financial institutions, brokers, intermediaries and advisers with which the City will do business,
- c. Diversifying the investment portfolio so potential losses on individual securities will be minimized.

2. Interest Rate Risk

The City 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 MANAGER INVESTMENT GUIDELINES:

### A. Permissible Investments:

~~Except as modified herein, pursuant to home rule authority, 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. Pursuant to home rule authority, —B~~below is a summary of acceptable investments as determined by the Director of Finance 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, ~~or 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 are allowed so long as they make up no more than 35% of the total portfolio at the time of purchase.
4. Commercial paper ~~—in that no single investment shall exceed \$2.0 million in face value—with a maturity of no longer than 270180 days and must have a minimum two ratings of which must be either A 1, P-1, or F-1 or D-1 by at least two of the following rating agencies: Moody's Investors Services, Standard & Poor's, and Fitch. (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 City 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 Director of Finance.~~

~~8. Non-agency bonds defined as loans with balances or credit underwriting standards that may or may not fall within the limits set by FHFA and do not qualify as collateral for securities that are issued by Ginnie Mae, Fannie Mae or Freddie Mac, and are sponsored by private companies other than government sponsored enterprises. Such bonds may make up no more than 10% of the total portfolio at any time.~~

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. Commercial Mortgage-Backed Securities ("CMBS") 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 10% of the total portfolio at any time.

~~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. Investment Grade Corporate Bonds defined as any bond rated BBB or better by Standard & Poor's or an equivalent grade rating from Moody's Investors Services or Fitch. Such bonds may make up no more than 30% of the total portfolio at any time.~~

~~12. Bank Loans and/or securitized pools of bank loans, otherwise know Collateralized Loan Obligations ("CLOs"). Such bonds may make up no more than 10% of the total portfolio at any time.~~

~~13. Asset-backed securities (ABS) whose underlying collateral consists of loans, leases or receivables, including but not limited to auto loans/leases, credit card receivables, student loans, equipment loans/leases, or home-equity loans. Such ABS may make up no more than 10% of the total portfolio at any time.~~

~~14. Any open-end mutual fund whose Principal Investment Strategy is investing in a diversified pool of fixed income instruments.~~

~~15. Local government investment pools rated AA or better by Standard & Poor's or an equivalent grade rating from Moody's Investors Services or Fitch. (Referred to Illinois Fund) Permissible pools include: Illinois Trust, The Illinois Funds, or any other investment pool authorized under the statutes so long as they are approved by the Director of Finance~~

~~11.16.~~ No single issuer investment, except those guaranteed by the United States government or its agencies, may exceed 5% of the fund's total market value.

~~12.17.~~ 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:**

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 City to return the investments to compliance with these guidelines. It is the duty of each investment manager to notify the Director of Finance, Financial Advisory Board, 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 City of Naperville, holding funds managed by City staff, including the "operating bank" shall execute a contract with the City of Naperville 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 City, including collateralization of City funds invested at such depository and the related safekeeping requirements of the pledged securities. The City shall initiate a Request for Proposal process to identify and support a recommendation to the City Council to award the City's contract for banking and depository services.

Such financial institutions shall provide such financial data to the Director of Finance as may be required by the City 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 Director of Finance. Any refusal to provide such information to the City 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 City's name. The Director of Finance 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 City's financial institution.

Safekeeping receipts of pledged securities may be "faxed" or e-mailed to the City Finance Department 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 City requires full collateralization of all City investments in accordance with the City's collateral agreement. The City will allow the use of FDIC coverage as part of the calculation of full collateralization. Bank Qualification - To be considered as a depository for investments of City 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 Director of Finance on a quarterly basis.

- C. Funds managed by outside money managers** will be held in trust for the City by a custodial bank under separate contract and will be administered in concurrence with the City's Investment and Cash Management Policy.

The Director of Finance or designee will monitor the adequacy of collateralization periodically, but not less often than monthly. The City requires monthly reports with market values of pledged securities from all financial institutions with which the City has investments requiring collateral to be pledged. ~~For further information on collateral requirements, see collateral agreement attached and referenced to this policy as Appendix A.~~

## **VII. INVESTMENT LIQUIDITY AND DURATION**

- A.** The City'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 City'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 City-managed Investments which are intended to cover day-to-day operating expenses of the City. 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 Financial Advisory Board, upon the advice and counsel of the City'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 Director of Finance or designee for funds managed by the City at times when investment of idle funds would be in the best interest of the City 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 City no later than 48 hours after bids are taken.

## **IX. DAILY CASH MANAGEMENT PRACTICES AND POLICIES**

It is the policy of the City of Naperville Finance Department that all departments collecting cash receipts, whether in cash or other forms of payment, must turn in such receipts to the Finance Department 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 Finance Department. Checks are delivered by courier daily to the bank for deposit; cash is securely stored in the City Hall vault and delivered by secured courier 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 City may result in disciplinary action.

## **X. INTERNAL CONTROLS**

The Director of Finance 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 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 City will follow applicable GASB pronouncements.

## **XII. REVIEW OF INVESTMENT PORTFOLIO**

The Director of Finance or 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 Director of Finance 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 City, and the authority to terminate a money manager at any time.

### **XIII. FINANCIAL ADVISORY BOARD**

- A.** The Director of Finance or designee shall provide a copy of the quarterly investment report to the Financial Advisory 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 City's authorized financial institutions shall be provided to the Board on a quarterly basis. After the quarterly review of the investment report by the Financial Advisory Board, the Director of Finance will submit the report to the City Council.
- C.** The Financial Advisory Board shall review this policy and recommend any proposed changes to the City Council every three years.

### **XIV. ETHICS AND CONFLICTS OF INTEREST**

The City Manager, Director of Finance, Financial Reporting Team Leader, or other financial officer employed by the City 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 City of Naperville 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 City has a depository relationship or investment management contract.

#### **XV. CITY-MANAGED INVESTMENTS**

The objective with all investments is to maximize returns. In order to maximize returns, funds should be kept at the money managers and only a minimum amount of cash should be on hand. The minimum amount of cash will be used to provide adequate short term funding for payroll and accounts payable. The maximum that will be held is \$22 million, unless a higher balance is required to fully benefit from the available earning credit rate.

#### **XVI. SEPARATE PROVISIONS OF POLICY AND CONFLICTS WITH ILLINOIS LAWS**

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

## GLOSSARY OF TERMS

**Accrued Interest** – The accumulated interest due on a bond as of the last interest payment made by the issuer.

**Agency** – A debt security issued by a federal or federally sponsored agency rated within the 2 highest general classifications established by the following rating agencies: Moody's Investors Services, Standard & Poor's, and Fitch. Federal agencies are backed by the full faith and credit of the U. S. Government. Federally sponsored agencies (FSAs) are backed by each particular agency with a market perception that there is an implicit government guarantee. ~~An example of a Federal agency is the Government National Mortgage Association (GNMA). An example of a FSA is the Federal National Mortgage Association (FNMA).~~ Permissible federal agencies 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 Director of Finance.

**Amortization** - the process of paying the principal amount of an issue of bonds by periodic payments either directly to bondholders or to a sinking fund for the benefit of bondholders.

**Arbitrage** - Usually refers to the difference between the interest paid on the tax-exempt securities and the interest earned by investing the proceeds in higher yielding taxable securities. Internal Revenue Service regulations govern arbitrage (reference I.R.S. Reg. 1.103-13 through 1.103-15).

**Arbitrage Bonds** - Bonds which are deemed by the I.R.S. to violate federal arbitrage regulations. The interest on such bonds becomes taxable and the bondholders must include this interest as part of gross income for federal income tax purposes (I.R.S. Reg. 1.103-13 through 1.103-15).

**Assessed Value** - An annual determination of the just or fair market value of property for purposes of ad valorem taxation.

**Average Life** – The average length of time that issues of serial bonds and/or term bonds with a mandatory sinking fund feature is expected to be outstanding.

**Basis Point** - 1/100 of one percent.

**Bid** - The indicated price at which a buyer is willing to purchase a security or commodity.

**Bond** - Written evidence of the issuer's obligation to repay a specified principal amount on a date certain, together with interest at a stated rate, or according to a formula for determining that rate.

**Bond Anticipation Notes (BANS)** - Short-term interest bearing notes issued by a government

in anticipation of bonds to be issued at a later date. The notes are retired from proceeds of the bond issue to which they are related.

**Callable Bond** - A bond which permits or requires the issuer to redeem the obligation before the stated maturity date at a specified price, the call price, usually at or above par value.

**Cash Sale/Purchase** – A transaction which calls for delivery and payment of securities on the same day that the transaction is initiated.

**Collateralization** – Process by which a borrower pledges securities, property, or other deposits for the purpose of securing the repayment of a loan and/or security.

**Commercial Paper** - Very short-term, unsecured promissory notes issued in either registered or bearer form, and usually backed by a line of credit with a bank.

**Convexity** – A measure of a bond's price sensitivity to changing interest rates. A high convexity indicates greater sensitivity of a bond's price to interest rate changes.

**Coupon Rate** - The annual rate of interest payable on a coupon bond (a bearer bond or bond registered as to principal only, carrying coupons evidencing future interest payments), expressed as a percentage of the principal amount.

**Credit Risk** – The risk to an investor that an issuer will default in the payment of interest and/or principal on a security.

**Current Yield (Current Return)** – A yield calculation determined by dividing the annual interest received on a security by the current market price of that security.

**Derivative Security** – Financial instrument created from, or whose value depends upon, one or more underlying assets or indexes of asset values.

**Discount** –The amount by which the par value of a security exceeds the price paid for the security.

**Diversification** – A process of investing assets among a range of security types by sector, maturity, and quality rating.

**Duration** – A measure of the timing of the cash flows, such as the interest payments and the principal repayment, to be received from a given fixed income security. This calculation is based on three variables; term to maturity, coupon rate and yield to maturity. The duration of a security is a useful indicator of its price volatility for given changes in interest rates.

**Enterprise Funds** - Funds that are financed and operated in a manner similar to private business in that goods and services provided are financed primarily through user charges.

**Federal Funds (Fed Funds)** – Funds placed in Federal Reserve banks by depository

institutions in excess of current reserve requirements. These depository institutions may lend to Fed Funds to each other overnight or on a longer basis. They may also transfer funds among each other on a same-day basis through the Federal Reserve banking system. Fed funds are considered to be immediately available funds.

**Federal Funds Rate** – Interest rate charged by one institution lending federal funds to the other.

**Government Securities** – An obligation of the U.S. government, backed by the full faith and credit of the government. These securities are regarded as the highest quality of investment securities available in the U.S. securities market.

**Interest Rate** – See “Coupon Rate.”

**Interest Rate Risk** – The risk associated with declines or rises in interest rates which cause an investment in a fixed – income security to increase or decrease in value.

**Liquidity** – An asset that can be converted easily and quickly into cash.

**Local Government Investment Pool (LGIP)** – An investment by local governments in which their money is pooled as a method for managing local funds.

**Mark-to-Market** – The process whereby the value of a security is adjusted to reflect its current market value.

**Market Risk** – The risk that the value of a security will rise or decline as a result of changes in market conditions.

**Market Value** – Current market price of a security.

**Maturity** - The date upon which the principal of a municipal bond becomes due and payable to bondholders.

**Net Asset Value** – The market value of one share of an investment company, such as a mutual fund. This figure is calculated by totaling a fund’s assets which includes securities, cash, and any accrued earnings, subtracting this from the fund’s liabilities, and dividing this total by the number of shares outstanding.

**Net Interest Cost (NIC)** - The traditional method of calculating bids for new issues of municipal securities. The total dollar amount of interest over the life of the bonds is adjusted by the amount of premium or discount bid, and then reduced to an average annual rate. The other method is known as the true interest cost (see "true interest cost").

**Par Value or Face Amount** - In the case of bonds, the amount of principal which must be paid at maturity.

**Principal** - The face amount or par value of a bond or issue of bonds payable on stated dates of maturity.

**Prudent Person Rule** – An investment standard outlining the fiduciary responsibilities of public funds investors relating to investment practices.

**Ratings** - Evaluations of the credit quality of notes and bonds, usually made by independent rating services, which generally measure the probability of the timely repayment of principal and interest on municipal bonds. The only ratings that will be acceptable are from Moody's, Standard and Poor's and Fitch Investor Services.

**Repurchase Agreement** – An agreement of one party to sell securities at a specified price to a second party and a simultaneous agreement of the first party to repurchase the securities at a specified price or at a specified later date.

**Short-Term Debt** - Short-term debt is defined as any debt incurred whose final maturity is three years or less.

**Swap** – Trading one asset for another.

**Term Bonds** - Bonds coming due in a single maturity.

**Total Return** – The sum of all investment income plus changes in the capital value of the portfolio.

**Volatility** – A degree of fluctuation in the price and valuation of securities.

**Weighted Average Maturity (WAM)** – The average maturity of all the securities that comprise a portfolio.

**Yield** – The current rate of return on an investment security generally expressed as a percentage of the security's current price.

**Yield to Maturity** - The rate of return to the investor earned from payments of principal and interest, with interest compounded semiannually and assuming that interest paid is reinvested at the same rate.

**Zero Coupon Bond** - A bond which pays no interest, but is issued at a deep discount from par, appreciating to its full value at maturity.



**APPENDIX "A"**

**~~SAFEKEEPING/COLLATERAL AGREEMENT  
BETWEEN THE NAPERVILLE CITY TREASURER  
AND~~**

~~THIS AGREEMENT is entered into the \_\_\_\_\_ day of \_\_\_\_\_ 2008,  
between the Director of Finance of the City of Naperville, an Illinois municipal corporation, with  
offices at 400 South Eagle Street, Naperville, Illinois 60540 (hereinafter referred to as the  
TREASURER); and \_\_\_\_\_, a bank organized under the  
Illinois Banking Act, Ill. Rev. Stat. 1989, ch. 17, par. 301, et seq. with offices at \_\_\_\_\_  
\_\_\_\_\_, (hereinafter referred to as the SAFEKEEPING  
BANK.)~~

**~~RECITALS~~**

~~WHEREAS, on or about \_\_\_\_\_, 2008, the City of Naperville and the  
BANK entered into an Agreement whereby in consideration for being designated a depository  
for City of Naperville funds, the BANK agreed to pledge specified types of securities (hereinafter  
referred to as PLEDGED SECURITIES) to secure the prompt payment of the checks and drafts  
of the TREASURER or of any other City Officials; and~~

~~WHEREAS, it is prudent to specify the rights and obligations of the various parties before  
the BANK tenders the PLEDGED SECURITIES for safekeeping.~~

~~NOW, THEREFORE, in consideration of the premises and the mutual promises contained  
herein, the parties agree that:~~

~~1.0 — RECITALS INCORPORATED.~~

~~1.1 — The foregoing recitals are incorporated herein by reference as though fully set forth.~~

~~2.0 — \_\_\_\_\_ is DESIGNATED DEPOSITORY.~~

~~2.1 — \_\_\_\_\_ (hereinafter referred to as the SAFEKEEPING BANK) is hereby designated as the depository for the PLEDGED SECURITIES which will serve as one hundred (100%) percent collateral for the CITY funds the TREASURER has deposited with the BANK.~~

~~2.2 — Acting in its fiduciary capacity, the SAFEKEEPING BANK shall keep the PLEDGED SECURITIES in a suitable vault making every effort to safeguard them.~~

~~2.3 — The SAFEKEEPING BANK shall fully insure the PLEDGED SECURITIES against loss by fire, theft, and similar causes, excluding acts of GOD or a public enemy.~~

~~2.4 — The SAFEKEEPING BANK shall deliver certificates of insurance naming the City of Naperville as an additional insured party on the policies specified in subparagraph 2.3 of this Agreement.~~

~~3.0 — DUTIES OF THE SAFEKEEPING BANK.~~

~~3.1 — The SAFEKEEPING BANK shall:~~

~~3.1.a — Hold the PLEDGED SECURITIES as collateral according to the terms of this Agreement;~~

~~3.1.b — Upon the acceptance of any PLEDGED SECURITY, send receipts acknowledging such acceptance to both the BANK and to the TREASURER;~~

~~3.1.c Release PLEDGED SECURITIES equivalent to a specified value to the BANK upon receipt of written notice from the TREASURER and the BANK stating the TREASURER has withdrawn CITY funds from the BANK;~~

~~3.1.d Either keep the PLEDGED SECURITIES separate and apart and not commingled with any other securities, or at a minimum, hold the PLEDGED SECURITIES via book entry through the Federal Reserve System, provided that, the PLEDGED SECURITIES shall be clearly identified as those belonging to the BANK and pledged to the City of Naperville.~~

~~3.1.e Collect maturing interest coupons and principal on the PLEDGED SECURITIES which are in the bearer form and credit the BANK'S account;~~

~~3.1.f Surrender to the BANK all PLEDGED SECURITIES that are requested by the BANK for any reason, provided the BANK shall, either prior to or concurrently with such surrender, substitute other securities which are negotiable obligations of the United States Government, negotiable obligations of any agency or instrumentality of the United States Government guaranteed by the full faith and credit of the United States Government, negotiable obligations of the State of Illinois, of any county, city, town or municipal corporation of this state, or of any other political subdivision of this State which are rated "AA" or better by Moody's or Standard and Poor's, or any other negotiable obligation approved in writing by the TREASURER prior to substitution.~~

~~3.1.g Not surrender PLEDGED SECURITIES to the BANK unless the~~

~~BANK certifies that such substitute securities have a total dollar value equal to at least one hundred (100%) percent of the value of the securities being surrendered.~~

~~3.1.h—Accept securities being substituted for PLEDGED SECURITIES only in accordance with subparagraphs 3.1.f and 3.1.g of this Agreement.~~

~~3.1.i—Accept PLEDGED SECURITIES in the event of increases in CITY deposits by the TREASURER as certified by the BANK.~~

~~3.1.j—Deliver the PLEDGED SECURITIES to the TREASURER upon the TREASURER'S certification that either the BANK is insolvent or that the BANK has dishonored a check of the TREASURER or other official of the City of Naperville at a time when the BANK is holding sufficient funds to pay a CITY check.~~

~~3.2—The SAFEKEEPING BANK shall prepare and deliver to the TREASURER certified monthly statements describing the PLEDGED SECURITIES it is holding for the TREASURER as collateral for CITY funds on deposit with the BANK.~~

#### ~~4.0—SAFEKEEPING FEES.~~

~~4.1—The BANK shall pay any and all fees or charges assessed by the SAFEKEEPING BANK for its duties or responsibilities under the terms of this Agreement.~~

#### ~~5.0—TERM OF THIS AGREEMENT.~~

~~5.1—This Agreement shall remain in full force and effect from the date of its execution by the parties through the 30<sup>th</sup> day of September 2005.~~

~~5.2—This Agreement may be subject to cancellation by either the BANK or the CITY upon written notice delivered to the other party at the address stated below at least thirty (30) days prior to the anticipated date of cancellation.~~

~~6.0—ENTIRE AGREEMENT.~~

~~6.1—This Agreement and the exhibits and attachments hereto set forth the covenants, provisions, agreements conditions, and understandings between the parties.~~

~~6.2—There are no other covenants, promises, agreements, conditions, or understandings, either oral or written, between them other than those contained in this agreement.~~

~~7.0—AGREEMENT BINDING.~~

~~7.1—This Agreement shall be binding upon the BANK, the TREASURER and their respective successors and assigns.~~

~~8.0—NOTICES.~~

~~8.1—All notices required by the terms of this Agreement shall be in writing and shall be delivered to the parties at the addresses listed below.~~

~~8.2—Delivery to an officer authorized to receive notices or the mailing of the notice by registered or certified mail, return receipt required, shall constitute proper delivery for the purposes of this Agreement.~~

**TO THE TREASURER**

**TO THE BANK**

Rachel Mayer  
Director of Finance  
City of Naperville  
400 S. Eagle St.  
P.O. Box 3020  
Naperville, IL 60566-7020

*Name of Institution*  
*Primary Contact Name*  
*Address*

**TO THE SAFEKEEPING BANK:**

*Name of Institution*  
*Primary Contact Name*  
*Address*

**9.0 GOVERNING LAW:**

9.1 This Agreement shall be governed by the laws of the State of Illinois both as to interpretation and performance.

IN WITNESS WHEREOF, the parties set their hands and seals as of the date first written above.

**CITY OF NAPERVILLE**

By: \_\_\_\_\_ By: \_\_\_\_\_  
\_\_\_\_\_  
Douglas A. Krieger Date (Name) Date  
\_\_\_\_\_  
City Manager (Title)

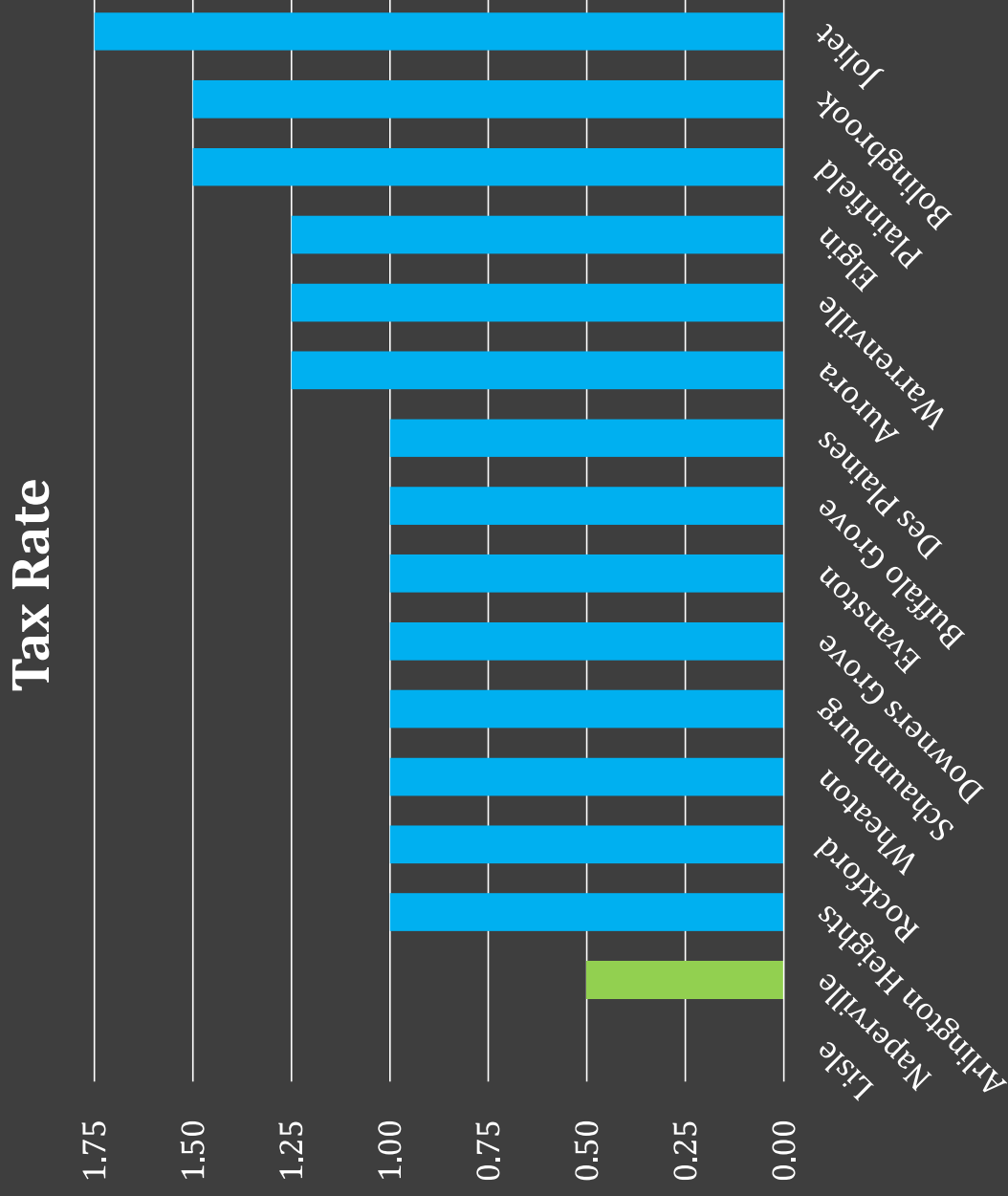
\_\_\_\_\_  
Rachel Mayer Date  
\_\_\_\_\_  
Director of Finance

Attest By: \_\_\_\_\_ Attest By: \_\_\_\_\_

\_\_\_\_\_  
Pamela Gallahue Date (Name) Date  
\_\_\_\_\_  
City Clerk (Title)

# Home Rule Sales Tax Comparison

- Naperville rate: 0.50%
- Each incremental ¼% earns \$4.55M
  - \$1.1M if approved July 2018



Organization	Project Title	Category	Request	Mean (Average)	Median (Midpoint)	Mode (Frequency)	SECA Unified Recommendation	Council Recommendation	C 1	C 2	C 3	C 4	C 5	C 6	C 7	C 8	C 9
<b>Capital Projects</b>																	
Fair Lady Productions Inc.	Center Stage Theater	Capital Project	10,000	1,111	0	0	0	0	0	0	0	10,000	0	0	0	0	0
<b>Cultural Amenities</b>																	
Artful Impact NFP	Singing for Seniors	Cultural Amenity	7,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000
BrightSide Theatre Inc	Youth Project	Cultural Amenity	2,610	2,600	2,600	2,600	2,600	2,600	2,600	2,600	2,600	2,600	2,600	2,600	2,600	2,600	2,600
BrightSide Theatre Inc	2018 BrightSide Theatre Season Programming	Cultural Amenity	32,000	15,244	15,800	15,800	15,800	15,800	15,800	15,800	10,800	15,800	15,800	15,800	15,800	15,800	15,800
Century Walk Corporation	Naperville's Public Art Program	Cultural Amenity	75,000	41,722	36,000	36,000	36,000	36,000	36,000	36,000	51,000	75,000	33,500	36,000	36,000	36,000	36,000
Chicago Telangana Association	BATHUKAMMA	Cultural Amenity	10,000	4,000	4,000	4,000	4,000	4,000	4,000	4,000	4,000	4,000	4,000	4,000	4,000	4,000	4,000
Chicago Sinfonietta Inc	Chicago Sinfonietta 2018-2019 Naperville Concert Season	Cultural Amenity	42,500	8,889	10,000	10,000	10,000	10,000	10,000	10,000	0	10,000	10,000	10,000	10,000	10,000	10,000
Chicago Sinfonietta Inc	Community Concerts	Cultural Amenity	12,500	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000
Dong Fang Chinese Performing Arts Association	Annual Moon Festival	Cultural Amenity	10,000	5,944	6,000	6,000	6,000	6,000	6,000	6,000	6,000	6,000	5,500	6,000	6,000	6,000	6,000
DuPage Symphony Orchestra	Youth Outreach.Educational Events	Cultural Amenity	14,800	4,444	5,000	5,000	5,000	5,000	5,000	5,000	0	5,000	5,000	5,000	5,000	5,000	5,000
DuPage Symphony Orchestra	2018 Summer Concerts at the Naperville Community Concert Center (Municipal Band Shelter) & Riverwalk Fine Art Fair	Cultural Amenity	6,400	3,079	3,079	3,079	3,079	3,079	3,079	3,079	3,079	3,079	3,079	3,079	3,079	3,079	3,079
DuPage Symphony Orchestra	2018-2019 Subscription Season (*Concerts between May and December 31, 2018 only)	Cultural Amenity	20,850	10,222	11,000	11,000	11,000	11,000	11,000	11,000	5,000	11,000	10,000	11,000	11,000	11,000	11,000
Fair Lady Productions Inc.	Kidz Kabaret and Center Stage Players Performance Season	Cultural Amenity	20,000	9,000	9,000	9,000	9,000	9,000	9,000	9,000	9,000	9,000	9,000	9,000	9,000	9,000	9,000
J.S. Bach Academy of Music	NYSO Concert Series	Cultural Amenity	28,420	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000
Jumping Off The Page	Naperville Reads	Cultural Amenity	14,900	10,222	12,000	12,000	12,000	12,000	12,000	12,000	10,000	0	10,000	12,000	12,000	12,000	12,000
Midwest SOARRING Foundation	23rd Annual Harvest Pow Wow	Cultural Amenity	40,000	12,722	15,000	15,000	15,000	15,000	15,000	15,000	10,000	0	14,500	15,000	15,000	15,000	15,000
Naperville Chorus	General Operating Support for Naperville Chorus Concerts in 2018	Cultural Amenity	5,000	2,386	2,375	2,375	2,375	2,375	2,375	2,375	2,375	2,375	2,475	2,375	2,375	2,375	2,375
Naperville Men's Glee Club	Spring Showcase 2018	Cultural Amenity	9,100	4,444	5,000	5,000	5,000	5,000	5,000	5,000	5,000	0	5,000	5,000	5,000	5,000	5,000
Naperville Sister Cities Foundation	Naperville Sister Cities 25th Anniversary - "Light the Way to New Connections".	Cultural Amenity	42,950	6,439	0	0	0	0	0	0	0	42,950	15,000	0	0	0	0
Rotary Club of Naperville Sunrise	Naper Lights	Cultural Amenity	41,900	16,956	16,900	16,900	16,900	16,900	16,900	16,900	17,400	16,900	16,900	16,900	16,900	16,900	16,900
Naperville Youth Development Coalition Inc (DBA KidsMatter)	The Naperville Youth Service Awards Program - Recognizing Youth Who Go Above & Beyond!	Cultural Amenity	5,350	1,189	0	0	0	-	5,350	0	0	5,350	0	0	0	0	0
Naperville Woman's Club	Naperville Woman's Club 59th Annual Juried Fine Art Fair	Cultural Amenity	30,100	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000
Naperville Woman's Club	Young Adult HS Art Contest 2018	Cultural Amenity	1,250	1,100	1,100	1,100	1,100	1,100	1,100	1,100	1,100	1,100	1,100	1,100	1,100	1,100	1,100
North Central College	North Central College Presents Home for the Holidays in Naperville	Cultural Amenity	75,000	38,889	35,000	35,000	35,000	35,000	35,000	35,000	35,000	75,000	30,000	35,000	35,000	35,000	35,000
Orchestra Parents-Patrons United Support or OPUS	Young Artists Salute, Honor and Love Concert	Cultural Amenity	7,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000
Pete Elman Big Band	Naperville Big Band Jazz Festival	Cultural Amenity	37,310	12,000	13,500	13,500	13,500	13,500	13,500	13,500	13,500	0	13,500	13,500	13,500	13,500	13,500
Sanskriti Foundation	Community Enrichment Program	Cultural Amenity	24,000	6,000	7,000	7,000	7,000	7,000	7,000	7,000	5,000	0	7,000	7,000	7,000	7,000	7,000
Simply Vedic	The Festival of Colors	Cultural Amenity	11,250	4,500	4,500	4,500	4,500	4,500	4,500	4,500	4,500	4,500	4,500	4,500	4,500	4,500	4,500
Simply Vedic	Indian Cultural Festival - Tastes and Cultures of India	Cultural Amenity	7,700	4,922	4,700	4,700	4,700	4,700	4,700	4,700	4,700	7,700	3,700	4,700	4,700	4,700	4,700
The Summer Place, Inc.	2018 52nd Season	Cultural Amenity	28,225	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000
Turkish American Cultural Alliance	International Children's Day	Cultural Amenity	9,000	2,889	3,250	3,250	3,250	3,250	3,250	3,250	3,250	0	3,250	3,250	3,250	3,250	3,250
Turning Pointe Autism Foundation	3rd Annual Naperville Pumpkin Festival	Cultural Amenity	10,000	3,700	3,700	3,700	3,700	3,700	3,700	3,700	3,700	3,700	3,700	3,700	3,700	3,700	3,700
Indian Prairie Educational Foundation	Fine Arts Festival 2018	Cultural Amenity	26,697	8,611	10,000	10,000	10,000	10,000	10,000	10,000	10,000	0	7,500	10,000	10,000	10,000	10,000



Organization	Project Title	Category	Request	Mean (Average)	Median (Midpoint)	Mode (Frequency)	SECA Unified Recommendation	Council Recommendation	C 1	C 2	C 3	C 4	C 5	C 6	C 7	C 8	C 9
Western DuPage Special Recreation Association Foundation	Visiting Artist Program	Cultural Amenity	2,650	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000
Xilin Association	Xilin Annual Lantern Festival	Cultural Amenity	10,400	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000
Young Naperville Singers	Young Naperville Singers 2018 Youth Choral Music Program	Cultural Amenity	23,000	9,833	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	8,500	10,000	10,000	10,000	10,000
YMCA of Metropolitan Chicago	Kroehler Family YMCA Movies in the Park	Cultural Amenity	1,999	1,888	1,999	1,999	1,999	1,999	1,999	1,999	1,999	1,999	1,000	1,999	1,999	1,999	1,999
<b>New Initiatives</b>																	
Arranmore Arts	"Show Me You" Temporary Public Art	New Initiative	8,000	6,000	6,000	6,000	6,000	6,000	6,000	6,000	6,000	6,000	6,000	6,000	6,000	6,000	6,000
Artful Impact NFP	Once Upon a Time Film Project	New Initiative	7,800	7,000	7,000	7,000	7,000	7,000	7,000	7,000	7,000	7,000	7,000	7,000	7,000	7,000	7,000
Artspeaks Inc	The Process is Art and the Art is Justice	New Initiative	10,000	4,348	4,348	4,348	4,348	4,348	4,348	4,348	4,348	4,348	4,348	4,348	4,348	4,348	4,348
DuPage Children's Museum	Artist in Residence	New Initiative	34,700	18,889	20,000	20,000	20,000	20,000	20,000	20,000	20,000	10,000	20,000	20,000	20,000	20,000	20,000
Naperville Heritage Society	Heritage Gateway and Welcoming Center	New Initiative	150,000	5,000	0	0	0	0	0	0	20,000	25,000	0	0	0	0	0
Rotary Club of Naperville Charities	Naperville Service Summit	New Initiative	12,000	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Sanjeevani	Annual play to showcase global stories	New Initiative	1,900	333	500	500	500	500	0	500	0	0	500	500	500	500	500
<b>Fundraisers</b>																	
Ray Graham Association For People With Disabilities	2018 Monarch Walk & After Party	Fundraiser	9,990	1,100	0	0	0	0	0	0	0	9,900	0	0	0	0	0
<b>Legacy Events</b>																	
Exchange Club Charitable Organization	Ribfest	Legacy Event	238,250	180,008	214,421	214,421	214,421	214,421	119,125	214,421	214,421	0	214,421	214,421	214,421	214,421	214,421
Naperville Community Charitable Organization Inc.	2018 Naperville Jaycees Last Fling	Legacy Event	166,916	152,918	148,918	148,918	148,918	148,918	166,916	148,918	148,918	166,916	148,918	148,918	148,918	148,918	148,918
	Labor Day Parade	Legacy Event	13,065	13,065	13,065	13,065	13,065	13,065	13,065	13,065	13,065	13,065	13,065	13,065	13,065	13,065	13,065
<b>Special Events</b>																	
Downtown Naperville Alliance (a division of the Naperville Area Chamber of Commerce)	DNA Summer Themed Event (e.g. Super Hero Saturday)	Special Event	5,500	5,389	5,500	5,500	5,500	5,500	5,500	5,500	5,500	5,500	4,500	5,500	5,500	5,500	5,500
Downtown Naperville Alliance (a division of the Naperville Area Chamber of Commerce)	Halloween Hop - Downtown Naperville Trick or Treat	Special Event	1,090	1,090	1,090	1,090	1,090	1,090	1,090	1,090	1,090	1,090	1,090	1,090	1,090	1,090	1,090
German American Events	Christkindlmarket	Special Event	132,361	0	0	0	0	0	0	0	0	0	0	0	0	0	0
	City Services Request	Special Event	46,114	41,500	41,500	41,500	41,500	41,500	41,500	41,500	41,500	41,500	41,500	41,500	41,500	41,500	41,500
Indian Community Outreach Organization	India Day Celebration Parade and Celebration ("India Day")	Special Event	16,000	1,778	0	0	0	0	0	0	0	16,000	0	0	0	0	0
	City Services Request	Special Event	29,339	26,345	25,489	25,489	25,489	25,489	29,339	25,489	25,489	29,339	25,489	25,489	25,489	25,489	25,489
	India Day Parade	Special Event	9,157	9,157	9,157	9,157	9,157	9,157	9,157	9,157	9,157	9,157	9,157	9,157	9,157	9,157	9,157
Jeanine Nicarico Memorial Fund for Literacy	G.L.O.W. 5K Run for Literacy	Special Event	13,672	11,323	11,628	11,628	11,628	11,628	6,836	11,628	11,628	13,672	11,628	11,628	11,628	11,628	11,628
Little Friends	Downtown Naperville Holiday Festival/Hometown Holidays!	Special Event	16,497	15,214	14,847	14,847	14,847	14,847	16,497	14,847	14,847	16,497	14,847	14,847	14,847	14,847	14,847
Naperville Art League	2018 Riverwalk Fine Art Fair	Special Event	38,217	11,111	10,000	10,000	10,000	10,000	20,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000
	City Services Request	Special Event	736	736	736	736	736	736	736	736	736	736	736	736	736	736	736
Naperville Heritage Society	Oktoberfest	Special Event	2,300	256	0	0	0	0	0	0	0	2,300	0	0	0	0	0
	City Services Request	Special Event	4,514	4,113	4,063	4,063	4,063	4,063	4,063	4,063	4,063	4,514	4,063	4,063	4,063	4,063	4,063
Naperville Heritage Society	Civil War Days	Special Event	900	0	0	0	0	0	0	0	0	0	0	0	0	0	0
	City Services Request	Special Event	2,062	1,835	1,835	1,835	1,835	1,835	1,835	1,835	1,835	1,835	1,835	1,835	1,835	1,835	1,835
Naperville Heritage Society	Naper Nights	Special Event	5,250	0	0	0	0	0	0	0	0	0	0	0	0	0	0
	City Services Request	Special Event	8,273	7,538	7,446	7,446	7,446	7,446	7,446	7,446	7,446	8,273	7,446	7,446	7,446	7,446	7,446
Naperville Heritage Society	All Hallows Eve	Special Event	1,000	0	0	0	0	0	0	0	0	0	0	0	0	0	0
	City Services Request	Special Event	1,202	1,095	1,082	1,082	1,082	1,082	1,082	1,082	1,082	1,202	1,082	1,082	1,082	1,082	1,082
Naperville Noon Lions Foundation	Turkey Trot 5K Run Walk	Special Event	13,941	10,533	12,547	12,547	12,547	12,547	6,970	12,547	12,547	0	12,547	12,547	12,547	12,547	12,547
Naperville Sunrise Foundation	St. Paddy's Day 5K	Special Event	8,588	7,824	7,729	7,729	7,729	7,729	8,588	7,729	7,729	7,729	7,729	7,729	7,729	7,729	7,729
Veterans of Foreign Wars Department of Illinois/Naperville American Legion	Annual Memorial Day Parade	Special Event	26,152	26,152	26,152	26,152	26,152	26,152	26,152	26,152	26,152	26,152	26,152	26,152	26,152	26,152	26,152
West Suburban Irish	2018 St. Patrick's Day Parade	Special Event	19,895	18,347	17,905	17,905	17,905	17,905	19,895	17,905	17,905	19,895	17,905	17,905	17,905	17,905	17,905

Organization	Project Title	Category	Request	Mean (Average)	Median (Midpoint)	Mode (Frequency)	SECA Unified Recommendation	Council Recommendation	C 1	C 2	C 3	C 4	C 5	C 6	C 7	C 8	C 9
TOTALS			Request				Unified Recommendation		C1	C2	C3	C4	C5	C6	C7	C8	C9
	Capital Projects		10,000				0	0	0	0	0	10,000	0	0	0	0	0
	Cultural Amenities		746,861				297,503	297,503	302,853	297,503	278,003	361,154	296,003	297,503	297,503	297,503	297,503
	Fundraisers		9,990				0	0	0	0	0	9,900	0	0	0	0	0
	Legacy Events		418,231				376,404	376,404	299,106	376,404	376,404	179,981	376,404	376,404	376,404	376,404	376,404
	New Initiatives		224,400				37,848	37,848	37,348	37,848	47,348	62,348	37,848	37,848	37,848	37,848	37,848
	Special Events		402,760				198,706	198,706	206,686	198,706	198,706	215,391	197,706	198,706	198,706	198,706	198,706
	Total Requested		1,812,242				910,461	910,461	845,993	910,461	900,461	838,774	907,961	910,461	910,461	910,461	910,461
	Total Available		910,461				910,461	910,461	910,461	910,461	910,461	910,461	910,461	910,461	910,461	910,461	910,461
	Difference Available/Requested		(901,781)				-		64,468	0	10,000	71,687	2,500	0	0	0	0