



# Commission Policy

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## I. INTRODUCTION AND SCOPE

Milwaukee Metropolitan Sewerage District, hereinafter referred to as the "District", was formed under the laws of Wisconsin 1981, appearing in the Wisconsin Statutes as Sec. 200.21 through 200.65. It is a municipal body corporate in the nature of a special purpose municipal corporation. For the purposes of constitutional debt limitations, the District is a "special district." The District's chief responsibilities are to provide sewage treatment services and to maintain and improve watercourses for nearly all of Milwaukee County, Wisconsin, and portions of municipalities in surrounding counties. The District's governing body is the Metropolitan Sewerage Commission, which has 11 members.

This Investment Policy hereinafter referred to as the Policy, addresses the methods, procedures and practices that must be exercised to ensure effective and judicious fiscal management of the District's operating and capital funds. The Policy does not apply to the investment management of the District's pension and deferred compensation funds.

The investment guidelines outlined below have been written to comply with various regulatory requirements under which Milwaukee Metropolitan Sewerage District operates.

## II. INVESTMENT OBJECTIVES

The District's funds shall be invested in accordance with all applicable District policies and procedures, State statutes, and Federal regulations, and in a manner designed to accomplish the following objectives:

- Preservation of capital and protection of investment principal.
- Maintenance of sufficient liquidity to meet anticipated disbursements and cash flows.
- Diversification to avoid incurring unreasonable risks regarding securities owned.
- Attainment of a market rate of return equal to or higher than the performance measure established within this Policy.



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### III. DELEGATION OF AUTHORITY

The Metropolitan Sewerage Commission in accordance with state statutes and Commission resolution has delegated the responsibility and authority for the investment of District funds to the Treasurer of the District. The authority delegated herein is supplemental to and descriptive of the delegation of authority to the Treasurer in Wisconsin Statutes, Sec. 200.27(5). The District's Treasurer may delegate the authority to conduct investment transactions and manage the operation of other investment activities to the investment officers of the District. For the purposes of this Policy, the District Treasurer may delegate authority to the Deputy Finance Director, Controller, and the Supervisor of Revenue and Fixed Assets and anyone serving in the capacities of either on an acting basis. Other members of the Treasurer's staff may be appointed, from time to time for designated terms, to serve as investment officers of the District to assist in the cash management, treasury or investment functions during which terms they shall be deemed to be acting investment officers. Persons who are authorized to transact securities business for the District are listed in [Appendix 1](#) of the Policy. The Metropolitan Sewerage Commission will periodically review the performance of the cash, treasury, and investment management practices of the District.

The Treasurer shall establish written standard operating procedures for the operation of the District's investment program consistent with this Policy. The Treasurer and other authorized persons 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. The Treasurer acting as Investment Officer will be responsible for ensuring that sufficient liquidity exists to maintain District operations in the event of adverse market conditions.

The Treasurer may obtain support services of outside professionals, pursuant to any applicable procurement policies of the District, so long as the Treasurer has a reasonable belief that a net financial advantage or necessary financial protection of the District's resources will be attained. The District Treasurer can develop a list of approved Investment Advisors after completing a thorough review of their services and qualifications. The current list of approved Investment Advisors is provided in [Appendix 2](#).

### IV. PRUDENCE

A prudent investment officer of the District shall act within the limits of this Policy of the Metropolitan Sewerage Commission and any statutes, resolutions and regulations pertaining to the Metropolitan



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Sewerage Commission or to the Milwaukee Metropolitan Sewerage District including the “prudent person rule” in Wisconsin Statutes, Sec. 881.01:

In acquiring, investing, reinvesting, exchanging, retaining, selling and managing property for the benefit and use of the Milwaukee Metropolitan Sewerage District, an investment officer shall exercise the judgment and care under the circumstances then prevailing, which like situated governmental financial officers of prudence, discretion, and intelligence exercise in the management of the affairs of the governmental organizations for which they act, not in regard to speculation but in regard to the permanent disposition of the governmental organization’s funds, considering the probable income as well as the probable safety of the capital.

## V. ETHICS AND CONFLICTS OF INTEREST

Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with proper execution and management of the investment program, or that could impair or create the appearance of an impairment of their ability to make impartial investment decisions. Employees and investment officials shall disclose to the Metropolitan Sewerage Commission any material financial interests they have in financial institutions that conduct business with the District and they shall subordinate their personal investment transactions to those of the District particularly with regard to the timing of purchases and sales. Employees and officers shall refrain from undertaking personal investment transactions with the same individuals with whom business is conducted on behalf of the District. All staff and investment advisory firms will strictly adhere to the District’s Code of Conduct regarding Conflict of Interest.

## VI. ELIGIBLE INVESTMENTS AND TRANSACTIONS

### A. STATUTORY AUTHORITY

All investments will be made in accordance with the applicable State of Wisconsin Statutes as follows:

- Sec. 25.50, Wis. Stats., Local Government Pooled - Investment Fund;
- Sec. 34.05, Wis. Stats., Designation of Public Depositories;
- Sec. 34.06, Wis. Stats., Liability of Treasurers;
- Sec. 66.0301, Wis. Stats., Intergovernmental Cooperation
- Sec. 66.0603, Wis. Stats., Investments;



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Sec. 895.46, Wis. Stats., Indemnification.

## B. INTENT

It is the intent of the District that the following list of authorized securities be strictly interpreted. Any deviation from this list must be pre-approved by the District's Treasurer in writing.

## C. DEFINITIONS

The Metropolitan Sewerage Commission has further restricted the investment of District funds to the following types of securities and transactions:

1. U.S. Treasury Obligations: Treasury Bills, Treasury Notes, Treasury Bonds and Treasury Strips with maturities not exceeding five years from the trade settlement date.
2. Federal Instrumentality Securities: Debentures, discount notes, callable securities, step-up securities and stripped principal or coupons with final maturities not exceeding five years from the trade settlement date. For the purposes of this paragraph the Treasurer or his designee must not consider a "weighted average life" as a stated maturity. The District will not invest in any of the subordinated debentures issued by the federal instrumentality issuers.
3. U.S. Government Agency Securities: Securities with stated final maturities not exceeding five years from the trade settlement date that are backed by the full faith and credit of the U.S. government. Securities issued by the Government National Mortgage Association are limited to debentures and mortgage-backed securities.
4. Prime Commercial Paper: Commercial Paper issued on U.S. or foreign companies denominated in U.S. currency with a maturity not exceeding 180 days from the trade settlement date.

The commercial paper purchased by **authorized internal staff** of the District must have a minimum rating of at least A-2 or the equivalent at the time of purchase by at least one service that publishes a rating on the issuer of the commercial paper.

The commercial paper recommended to be purchased by an **authorized investment advisor** of the District acting on the District's behalf must have a minimum rating of at least A-1 or the equivalent at the time of purchase by at least one service that publishes a rating on the issuer of the commercial paper.



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The commercial paper issuer must have a commercial paper program of at least \$500,000,000, except for banks and companies located within Milwaukee Metropolitan Sewerage District boundaries. Banks and companies located within the District's boundaries do not need to meet a minimum program size requirement. If the issuer has senior debt outstanding, the senior debt must be rated by at least one service that publishes a rating on the issuer of at least A- or the equivalent. (Senior debt is defined as the most senior secured or unsecured debt of the issuer with an original maturity exceeding one year.)

5. Local Government Investment Pools (LGIPs) as created and authorized under the following Wisconsin Statutes: Sec. 25.50, which authorizes the creation of the Local Government Pooled Investment Fund; or Sec. 66.0301, which authorizes local government participation in LGIPs. Investments in LGIPs established under Sec 66.0301 must be limited to those pools which: are "no-load" (i.e. no commission fee shall be charged on purchases or sales of shares); limit assets of the pool to those securities authorized by Statute; and have a constant daily net asset value per share (usually \$1.00).
6. Repurchase Agreements with a defined termination date of 180 days or less collateralized by U.S. Treasury securities listed in item 1 above with a maturity not exceeding 10 years. For the purpose of this section, the term collateral shall mean purchased securities under the terms of the District's approved Master Repurchase Agreement. The purchased securities shall have an original minimum market value including accrued interest of 102% of the dollar value of the transaction and the collateral maintenance level shall be 101.5%. Collateral shall be held in the District's custodial bank as safekeeping agent, and the market value of the collateral securities shall be marked-to-the-market daily based on that day's bid price.

Repurchase Agreements shall be entered into only with dealers who have executed a District-approved Master Repurchase Agreement with the District and who are recognized as Primary Dealers with the Federal Reserve Bank of New York, or with firms that have a Primary Dealer within their holding company structure. A copy of the District's approved Master Repurchase Agreement and a list of dealers who have an executed Master Repurchase Agreements with the District are included in [Appendix 3](#).

7. Money Market Mutual Funds as authorized under Sec. 66.0603(1m)(a)5, Wisconsin Statutes, which: are "no-load" (i.e. no commission fee shall be charged on purchases or sales of shares);



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are registered under the Investment Company Act of 1940; limit assets of the fund to those securities authorized by Statute; have a constant daily net asset value per share (usually \$1.00); have a maximum stated maturity and weighted average maturity in accordance with Federal Securities Regulation 2a-7; and are rated AAAM or the equivalent. The aggregate value of money market mutual funds may not exceed 20% of the District's portfolio and at the time of investment, any one money market mutual fund may not exceed 10% of the District's portfolio. The District's investment may also not exceed 5% of the outstanding shares of any one money market mutual fund.

8. Certificates of Deposit with maturities not exceeding three years or interest bearing accounts insured by the Federal Deposit Insurance Corporation (FDIC) in state or national banks, or state or federally chartered savings and loan associations located within the State of Wisconsin which have been designated as depositories for public sector monies by the State of Wisconsin Statutes, and have been approved by the District in accordance with this Investment Policy, Section IX, "Selection of Banks". Any deposits exceeding \$500,000 shall be covered by a surety bond or collateralized by U.S. Treasury Securities with maturities of the collateral no greater than 10 years and an original minimum market value including accrued interest of 102 % of the dollar value of the transaction. The collateral maintenance level shall be 101 % during the term of the deposit. Collateral shall be held in the District's custodial bank as safekeeping agent, and the market value of the collateral securities shall be marked-to-the-market daily based on that day's bid price.
9. Corporate Bonds issued by U.S. companies and denominated in U.S. currency with maturities not exceeding five years from the trade settlement date which are rated at least ~~AA-AA-~~ or the equivalent at the time of trade settlement by at least one service that publishes a rating on the issuer of the Corporate Bond.
10. State and Local Government Series (SLGS) are United States Treasury Certificates of Indebtedness, Notes, and Bonds of the State and Local Government Series. These securities are available for purchase by state and local governments and certain other entities with proceeds (or amounts treated as proceeds) that are subject to yield restrictions or arbitrage rebate requirements under the Internal Revenue Code. The securities are characterized in the regulations as time deposit, demand deposit, and special zero interest. These securities will be used only for the purpose of defeasing District debt.



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Derivative securities (securities that derive their value from another security or index) are not permissible investments except for the following types:

1. Treasury or Instrumentality securities that have call or put options;
2. Treasury or Instrumentality securities whose coupon rates adjust by a fixed spread to an industry convention index;
3. Instrumentality securities known as “step-ups” that have fixed coupons for a period of time and then are callable; if they are not called, then the coupon must step up to a specified coupon level which is fixed until maturity or the next step-up date; a step-up security may have several coupon step-ups, each with an associated call option.

The above securities must have a set maturity not exceeding five years from the trade settlement date.

## VII. INVESTMENT DIVERSIFICATION

It is the intent of the District to diversify the investments within its portfolio to avoid incurring unreasonable risks inherent in excessive investing in specific instruments, individual financial institutions or maturities. The asset allocation in the portfolio should, however, be flexible depending upon the outlook for the economy, the securities market, and the District's anticipated cash flow needs.

A minimum of 50% of the investable assets of the District, based on par value, will be maintained in those securities listed in items 1, 2, 3, and 5 under Eligible Investments and Transactions. This diversification requirement could be exempted for commercial paper if the commercial paper holdings meet all of the other policy requirements and mature in 60 days or less from the trade settlement date.

At no time may the amount of funds invested in any issuer that is not the U.S. Treasury, a Federal Instrumentality, or a U.S. Government Agency exceed the lesser of \$15 million or 10% of the investable assets of the District, based on par value.

## VIII. INVESTMENT MATURITY AND LIQUIDITY

Investments shall be limited to maturities not exceeding five years from the date of trade settlement except by written approval of the District’s Treasurer. In addition, the District shall maintain at least \$10,000,000 of its total investment portfolio in instruments maturing in 60 days or less.



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In the case of callable securities, the first call date shall be used as the maturity date for investment purposes in this section if, in the opinion of the Treasurer, there is little doubt that the security will be called prior to maturity. If, in the opinion of the Treasurer, the callable security will go to maturity, then that date will be used as the final maturity. In all cases for accounting purposes, however, the final maturity date of the callable securities shall be used as the maturity of the security in order to disclose the maximum maturity in the District's financial reports.

## IX. COMPETITIVE TRANSACTIONS

Each investment transaction shall be competitively transacted with broker/dealers/issuers that have been authorized by the Treasurer. At least two broker/dealers/issuers shall be contacted for each transaction and their bid and offering prices shall be recorded. Trades will be executed at the best price for the District.

Investment advisory firms hired by the District to provide investment advisory and management services on any portion of the District's portfolio, which also have a broker/dealer operation directly or indirectly related to the advisory firm (through a holding company or sub-divisions), may not transact any trades on behalf of the District with the related broker/dealer.

## X. SELECTION OF BANKS AND SAVINGS AND LOANS AS DEPOSITORIES AND PROVIDERS OF GENERAL BANKING SERVICES

The Metropolitan Sewerage Commission shall approve a list of authorized banks and savings and loans that provide depository and other banking services for the District, including a designated agent to deposit public moneys into FDIC or NCUA insured deposit accounts. To be eligible for authorization, a state or national bank, or state or federally chartered savings and loan association must be located within the State of Wisconsin, be a member of the FDIC, and qualify as depository for public sector monies under Wisconsin Statutes. Banks or savings and loans that in the judgment of the Treasurer no longer offer adequate safety to District, will be removed from the list. A credit analysis will be performed at least annually on all approved banks and savings and loans.

The Treasurer shall maintain the list and will update it annually to insure current compliance. A list of approved banks and savings and loans is included in [Appendix 4](#).

## XI. SELECTION OF BROKER/DEALERS AND FINANCIAL INSTITUTIONS ACTING AS BROKER/DEALERS





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The Treasurer shall maintain a list of authorized broker/dealers and financial institutions that are approved for investment purposes, and it shall be the policy of the District to purchase securities only from those authorized institutions and firms. The Treasurer may rely on a list of approved broker/dealers utilized by the Treasurer's investment advisor. Such approved broker/dealers shall comply with the criteria above and the list shall be provided to the Treasurer whenever updated or upon request.

To be eligible, a firm/bank must meet at least one of the following criteria:

1. be recognized as a Primary Dealer by the Federal Reserve Bank of New York;
2. report voluntarily to the Federal Reserve Bank of New York;
3. qualify under Securities and Exchange Commission (SEC) Rule 15c3-1 (Uniform Net Capital Rule); or
4. be an FDIC member and meet criteria in Section IX, "Selection of Banks and Savings and Loans as Depositories and Providers of General Banking Services."

In the event that the District does not utilize an investment advisor, the Treasurer will be responsible for selecting those broker/dealers and other financial institutions that deal directly with the District. The selection will be based on a broker/dealer's or financial institution's expertise in public cash management and their ability to provide service to the District's account.

~~Authorized broker/dealers shall also attest in writing that they have received a copy of this Policy.~~

## **XII. SAFEKEEPING AND CUSTODY**

The Treasurer shall approve one or more financial institutions to provide safekeeping and custodial services for the District. A District approved Safekeeping Agreement shall be executed with each custodian bank prior to utilizing that bank's safekeeping services. Custodian banks will be selected on the basis of their ability to provide service to the District's account and the competitive pricing of their safekeeping related services.

It is the objective of the District that all owned securities be perfected in the name of the District.



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All investments except non-negotiable Certificates of Deposit, Local Government Investment Pools and Money Market Mutual Funds, purchased by the District will be delivered by book entry and will be held in third-party safekeeping by a District approved custodian bank in the custodian bank's federal reserve account or the custodian bank's Depository Trust Company (DTC) account.

The District's perfected ownership of all fed wirable book entry securities shall be evidenced by a safekeeping receipt issued to the District by the custodian bank who acts as the District's safekeeping agent. The safekeeping receipt shall state that the securities are held in the Federal Reserve System either in a **Customer Account** for the custodian bank, which will name the District as "customer," or in a **Trust Account** with the trust department named as agent for the District.

All securities which are eligible for delivery through the Depository Trust Company (DTC) shall be held in the custodian bank's DTC participant account and the custodian bank shall issue a safekeeping receipt to the District evidencing that the securities are held by the DTC for the District as customer.

All registered securities held by a custodian shall be registered in the name of the District or in the name of a nominee of the District or in the name of the custodian or its nominee or, if in a clearing corporation, in the name of the clearing corporation or its nominee.

The District's custodian will be required to furnish the District with monthly reports of holdings of custodied securities as well as a report of monthly securities activity.

### **XIII. PERFORMANCE BENCHMARKS**

The Treasurer shall periodically establish a benchmark yield for the District's investment portfolio, but in no case shall the "static" benchmark yield be less than the Local Government Pooled Investment Fund of the State of Wisconsin measured on an annualized basis. All fees involved with managing the portfolio should be included in the computation of the portfolio's rate of return. The Treasurer shall report semi-annually the results of the portfolio to the Commission.

### **XIV. REPORTING**

At a minimum, the Treasurer shall prepare a quarterly report for the District's Executive Director on the investment earnings and performance results of the District's investment portfolio. The report



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shall include a listing of the investments held by the District and the historical cost, amortized cost and current market value of the portfolio. The Treasurer shall prepare, at least quarterly, a review of the portfolio's adherence to appropriate risk levels and a comparison between the portfolio's total return and the established investment objectives and goals.

Investment accounting shall be performed in accordance with Generally Accepted Accounting Principles (GAAP) and the accounting standards promulgated by the Governmental Accounting Standards Board (GASB).

## **XV. POLICY REVISIONS**

This Policy shall be reviewed periodically by the Treasurer and may be amended by the Metropolitan Sewerage Commission as conditions warrant. The data contained in the Annexes to this Policy may be updated by the Treasurer as necessary, provided the changes in no way effect the substance or intent of this Policy.