Chapter 3.10 Investment and Collateralization of Public Funds

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3.10.010 Scope. This chapter applies to the investment of all City monies, unless otherwise provided expressly by ordinance. (Ord. 93-14 Section 3, 1993)

3.10.015 Objectives. The City investment portfolio shall be managed so that the portfolio, as a whole, meets the objectives set forth below. All persons selecting investments for City monies shall adhere to these objectives, which are listed in order of relative importance.
(1) Safety of principal;
(2)Maintain sufficient liquidity to meet the City's cash flow requirements; and
(3)Achieving a reasonable market rate or return.
Not withstanding the above objectives, no person shall invest City monies in a manner which violates any provision of this chapter or the administrative procedures established hereunder. (Ord. 93-14 Section. 3, 1993)

3.10.020 Delegation of authority. Management responsibility for the investment program is hereby delegated to the Finance Director/Treasurer who shall establish written procedures for the operation of the investment program, consistent with this investment policy. Such procedures shall include explicit delegation of authority to persons responsible for investment transactions. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the Finance Director/Treasurer. The Finance Director/Treasurer shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinates. (Ord. 93-14 Section 3, 1993)

3.10.030 Prudence. All persons having responsibility for making decisions regarding the investment of City monies shall utilize the same judgment and care, under the circumstances then prevailing, that an institutional investor would use in the conduct of an enterprise of a like character and with like aims, not for speculation but for investment, considering the probable safety of capital as well as the probable income to be derived in accordance with the stated objectives. (Ord. 93-14 Section 3, 1993)

3.10.040 Authorized investments. a. City monies shall be invested only in the following instruments: All securities purchased by the City, and all other City investments, must mature not later than the time indicated below, measured from the date of the City's investment transaction:
1. U.S. Treasury securities - 3 years;
2.Other obligations by the U. S. Government, its agencies and instrumentalities - 3 years.
3.Repurchase agreements of acceptable securities listed in subsections 1 and 2 of this section which meet a margin requirement of 102%; provided, however, the maturity limitations specified in those subsections do not apply if the securities in the repurchase agreement are marked to market daily;
4.Units of the Alaska Municipal League Investment Pool in accordance with an executed common Investment

Agreement and in conformance with AS 37.23.010--37.23.900.
5.Certificates of deposit and other deposits at banks and savings and loan associations collateralized as provided in Section 3.10.070 - 3 years.
6. Uncollateralized deposits at banks and savings and loan associations, to the extent that the deposits are insured by the Federal Deposit Insurance Corporation (FDIC) or the Federal Savings and Loan Insurance Corporation - 3 years;
7. Taxable bonds or notes which are issued by any state or political subdivision thereof, and which are graded AA or higher by Moody's Investor's Service, Inc., or Standard and Poor's Corporation - 3 years;
8. Commercial paper graded A1 or higher by Moody's Investor's Service, Inc., or P1 or higher by Standard and Poor's Corporation - 270 days;
9. Bankers' acceptances offered by banks rates at least "AA" by Moody's or Standard and Poor's;
10. Money market mutual funds whose portfolios consist entirely of instruments specified in subsection 1, 2 and 3 above - with net asset value of $1.00.
b. No person shall invest any City monies in any instrument which is not listed in subsection a. This prohibition includes but is not limited to, investment of City monies in any mutual fund (except as otherwise provided in subsection a (10), common or preferred stock, precious metals, zero coupon bonds, corporate bonds, option contract or futures contract.
c. This chapter represents the maximum amount of authority and discretion which the Finance Director/Treasurer may utilize in investing City monies. Nothing in this chapter shall be construed, however, to prohibit the Finance Director/Treasurer for adopting standards, rules, policies and procedures which are more restrictive than those contained in this chapter. The enumeration in this chapter of instruments which are authorized for City investments shall not be construed as requiring the Finance Director/Treasurer to invest in all, or any particular instrument contained in said list at any given time. The Finance Director/Treasurer may invest in some or all of said instrument as deemed appropriate. Similarly, the enumeration of instruments which are acceptable as collateral for City investments shall not be construed as requiring the Finance Director/Treasurer to accept all or any particular, instrument contained in said list at any given time. The Finance Director/Treasurer may accept some of said instruments, and reject others. (Ord. 93-14 3, 1993)

3.10.050 Placement of City investments. a. Because of rapid fluctuations of interest rates and the brief period of availability of some securities, bids may be solicited, received, and accepted, either orally or in writing. Solicitation, receipt, and acceptance of bids by telephone is authorized. In order for a bid to be responsive, it must meet all the specifications and requirements of the bid solicitation. The Finance Director/Treasurer shall not consider nonresponsive bids.
b. The Finance Director/Treasurer shall award a bid to the financial institution whose bid best fulfills the investment objectives contained in 3.10.010, considering the City investment portfolio as a whole.
c. All securities transferred to or from the City, except securities transferred as collateral, shall be transferred using the delivery versus payment method. Securities transferred as collateral shall be actually received by the custodial bank designated by the Finance Director/Treasurer may require financial institutions to deliver collateral to a custodial bank prior to bidding on City investments. (Ord. 93-14 3, 1993)

3.10.060 Diversification. City investments shall be diversified to minimize the risk of loss resulting from over concentration of investments in a specific maturity, a specific issuer, a specific class of security or a specific financial institution. Investments will be diversified to maintain a degree of liquidity. The Finance Director/Treasurer shall adopt administrative procedures to implement this section. (Ord. 93-14 3, 1993)

3.10.070 Collateralization.
a. If City monies are invested in certificates of deposit or other deposits, the entire amount of principal and interest which will be payable to the City upon maturity of the investment must be collateralized by a combination of the following securities, at the following margin requirements and maturities.

COLLATERAL TYPE and MARGIN REQUIREMENT
1. U.S. Treasury Securities with a maturity date 5 years or less from the date of the City's investment transaction. 102%

2. Actively traded U.S. Government agency or Instrumentality Securities, except mortgage pass-through securities with a:

a. Maturity date 1 year or less from the date of the City's investment transaction. 103%

b. Maturity date between 1 and 5 years from the date of the City's investment transaction 107%

3. Government National Mortgage Association mortgage pass-through securities. 120%

4. Obligations of the State of Alaska and its political subdivisions secured by the full faith, credit and taxing power thereof;

a. Maturity date 1 year or less from the date of the City's investment transaction. 102%

b. Maturity date between 1 and 5 years from the date of the City's investment transaction. 107%

0 5. FDIC and FSLIC Insurance 100%

6. Securities underlying units in the Alaska Municipal Investment Pool.

b. A financial institution shall not release, assign, sell, mortgage, lease, transfer, pledge or grant a security interest in, encumber, substitute or otherwise dispose of or abandon all or any part of pledged collateral without prior written authorization of the City. (Ord. 93-14 3, 1993)

3.10.080 Safekeeping. Procedures and criteria for selection of a custodial or safekeeping institution shall be established under Section 3.10.020 of this chapter. Selection of an institution shall be in accordance with those procedures and the City purchasing code. The Finance Director/Treasurer shall enter into agreements with one or more financial institutions to provide custodial and safekeeping services for City investments. All investments purchased by the City and all securities used as collateral for certificates of deposit, or other deposits, shall be either held directly by the City, or held by a third party custodial bank as agent for the City. Collateral for overnight repurchase agreements shall be pledged to the City but may be held by the financial institution. (Ord. 93-14 3, 1993)

3.10.090 Agreements. Security agreements instituting this policy will be entered into prior to the purchase of a certificate of deposit or repurchase agreements. (Ord. 93-14 3, 1993)

3.10.100 Internal controls. The Finance Director/Treasurer shall establish a system in internal controls, which shall be documented in writing. The City's external auditor shall review and evaluate, at least annually, the system of internal controls to ensure that they are adequate for the purposes stated in this section. The controls shall be designed to prevent losses of public funds arising from fraud, employee error, misrepresentation by third parties, unanticipated changes in financial markets, or imprudent actions by employees or officers. (Ord. 93-14 3, 1993)

3.10.110 Reporting. The Finance Director/Treasurer shall submit quarterly to the City Manager an investment report that summarizes the portfolio in terms of investment securities, maturities, risk categories, returns and other features. The City Manager shall present this report to the City Council in its entirety. (Ord. 93-14 3, 1993)

3.10.120 Definitions. As used in this chapter, the following definitions apply:
1. "Actively traded" means a security which is frequently bought or sold on a nationally recognized market.
2. "Delivery vs. Payment" means that a security will be delivered to safekeeping before cash is paid for the security.
3. "Financial institution" means a bank, savings and loan association, or securities dealer.
4. "Margin requirement" means the amount by which the market value of the securities collateralizing a transaction exceeds the amount lent.
5. "Marked to market" means to value a security at its current sales price.
6. "Money market mutual funds" means a mutual fund which maintains a constant share price regardless of market fluctuations and which has an average maturity for its entire portfolio of one year or less.
7. "Pledged" means specific securities set aside as collateral which are identified to a specific account.
8. "Bankers' acceptances" means an order to pay a certain amount of money on a certain date and bearing an unconditional promise of a bank to pay the draft at maturity. Bankers acceptances are secured by the credit worthiness of the bank and a U.S. Corporation as well as goods underlying the transaction.
9. "Commercial paper" means an unsecured promissory note of a corporation backed by a line of credit with a bank, issued for a specific amount and maturing on a specific day.
10. "Repurchase agreements" means short term transactions consisting of the purchase of a security with the promise to return it at a later date.
11. "U.S. Government agency or instrumentality securities" means obligations of the U.S. Government issued on

behalf of U.S. Government departments through the Federal Financing Bank and securities issued by U.S. Government-sponsored enterprises or quasi-public corporations.
12. "U.S. Treasury Securities" means a security that is backed by the full faith and credit of the U.S. Government.
13. "Net Asset Value" means the invested fund's value remains the same. Any value above that is treated as income, i.e. invest $1.00 today and withdraw $1.00 tomorrow plus interest earned. (Ord. 93-14 3, 1993)

3.10.130 Governance of Homer Permanent Fund Assets. a. In investing and managing the monies of the Permanent Fund established pursuant to HCC Chapter 3.12, the persons having responsibility for making decisions shall exercise the judgment and care under the circumstances then prevailing which an institutional investor of ordinary prudence, discretion, and intelligence exercises in the management of large investments entrusted to it, not in regard to speculation, but in regard to the long term investment of funds considering the probable safety of capital as well as probable income, in accordance with the stated objectives of the Permanent Fund.

b. In order to ensure sound investment strategy, the city council will take action in the following manner:

1. The city council shall establish written investment policies by formal resolution which shall be adhered to without exception;

2. The city council shall review the investment policies of the permanent fund at least once each year during the first quarter and shall, by formal resolution, re-adopt or modify said policies;

3. The city council shall establish, by formal resolution, a plan for the allocation of investment assets each year that provides for the following:

(a) That earnings available for annual appropriation and distribution shall be confined to the interest, dividends or coupon discounts derived from the investments of the fund. Realized or unrealized gains to the portfolio value are not considered earnings,

(b) The portfolio of growth sub-fund will be invested primarily in equities, and is exempt from HCC 3.10.040.

(c)The portfolio of the income sub-fund will be invested primarily in bonds and the other fixed rate securities authorized by HCC 3.10.040.

(d) The income sub-fund may be used as a revolving loan for various city capital projects as provided in HCC Chapter 3.12.

(e) Sets forth portfolio duration, and which establishes performance benchmarks, and which estimates the percentage or amount of that year=s annual earnings that would be necessary to retain to inflation-proof the fund principal;

4. The city council shall establish a permanent fund investment committee consisting of the finance director, the city clerk, two members of the city council, and two members of the community at-large. The term of each appointment shall be two years, with initial terms of the city council members and members at-large staggered so that half of the terms will expire each year. The committee shall be appointed by the mayor and confirmed by the city council. The appointment of any city official will automatically terminate on the date when the person no longer holds such city office. Any city council member or member at-large may be removed from the committee at any time by the City Council.

5. The committee shall meet at least quarterly to provide direction as required for maintenance of the fund. The committee shall provide regular reports of its activity to the city council.

6. The city administration shall maintain on file within the offices of the Finance Department monthly reports which indicate transactions affecting the investment account, to include, at a minimum, transfers of cash into and out of the account, and interest or dividends received by the account;

7. The city administration shall order an objective performance evaluation of the investment program every year;

8. The city administration shall retain one or more bank custodians to hold all investment cash and fixed income securities of the permanent fund and require that the custodians shall render monthly reports to the administration

regarding assets held at both book and market values, and individual transactions which have taken place; that the banks shall have adequate fidelity insurance, and that written contracts be entered into between the city and the custodian banks.

c. The city, with the approval of the city council, shall retain one or more professional investment managers to design portfolios and invest funds in accordance with the written investment policies adopted by the city council. The investment managers shall be registered financial advisers with both the United States Securities and Exchange Commission and the state of Alaska, unless otherwise exempt from registration, and the investment managers shall agree to serve as a fiduciary to the city. Each investment manager shall carry professional liability insurance in an amount satisfactory to the city, and the terms of the investment relationship shall be memorialized in a written contract entered into between the city and the respective investment advisers.(Ord. 05-14(S) '2), 2006)

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