

**CITY OF CRAIG
ORDINANCE NO. 455**

**AN ORDINANCE RELATING TO BANKING, INVESTMENT AND
COLLATERALIZATION POLICIES FOR THE CITY OF CRAIG, ALASKA
AND CREATING A NEW CHAPTER, 3.14, OF TITLE 3 FOR THAT PURPOSE**

BE IT ORDAINED BY THE CITY COUNCIL OF THE CITY OF CRAIG:

Section 1. Classification. This ordinance is of a general and permanent nature and the code sections adopted shall become a part of the code of the City of Craig, Alaska.

Section 2. Severability. If any provision of this ordinance or its application to any person or circumstance is held invalid, the remainder of this ordinance and the application to other persons or circumstances shall not be affected thereby.

Section 3. Effective Date. This ordinance shall become effective immediately upon adoption.

Section 4. Action. **This ordinance amends Chapter 3.14 of the Craig Municipal Code by adding policies for banking, investment and collateralization for city funds.**

3.14.010 Objective. Safety of principal is the foremost investment objective of the City of Craig. Each investment transaction shall seek to first ensure that capital losses are avoided, whether they are from securities defaults or erosion of market value. The City of Craig seeks to attain market rates of return on its investments, consistent with constraints imposed by its safety objectives and cash flow considerations that restrict placement of public funds. All participants in the investment process shall seek to act responsibly as custodians of the public trust. Investment officials shall avoid any transaction that might impair public confidence in the City of Craig.

3.14.020 Treasury Management. In accordance with the Craig Municipal Code 2.04.060 the responsibility for conducting investment transactions resides with the city treasurer *and/or the city administrator*. The treasurer/*administrator* shall not deposit funds in any depository that is not a member of the Federal Deposit Insurance Corporation (FDIC) *or the Securities Investor Protection Corporation (SIPC)*. Investments shall be made with judgement 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.

3.14.030 Authorized Financial Dealers and Institutions. The city treasurer/administrator will maintain a list of financial institutions authorized to provide investment service. In addition, a list will also be maintained of approved security broker/dealers selected by credit worthiness. Investments shall be placed with securities dealers who, unless they are affiliated with a bank, shall be required to be classified as reporting dealers affiliated with the New York Federal reserve Bank, as primary dealers or regional dealers that qualify under Securities and Exchange Commission Rule 15C3-1 (uniform net capital rule).

3.14.040 Permissible Investments. Funds of the City of Craig may be invested in:

- A. U.S. Treasury Securities;
- B. [Treasury n]Notes or bonds issued by the United States or the State of Alaska or its political subdivisions or other states of the United States, maturing within two years;
- C. Federally insured or fully collateralized certificates of deposit of banks and savings and loan associations, maturing within two years;
- D. Repurchase agreements collateralized by U.S. Treasury securities and marked-to-market. [I]f repurchase agreements are overnight investments [M]arked-to-market is not necessary or if securities are [over-]collateralized [(at least 102%).] in excess of 102%.
- E. A state investment pool formed within the state of Alaska and comprised of agencies of the state and/or its political subdivisions;
- F. Money market mutual funds whose portfolios consist entirely of U.S. government securities.
- G. In addition to the above listed instruments, the Endowment Fund shall be permitted to hold the following securities in an account segregated from other funds of the City:
 1. Mortgage-backed and asset-backed obligations denominated in U.S. dollars with a credit rating of A-/A3 or better from two national ratings agencies;
 2. Corporate debt obligations of U.S. domiciled corporations denominated in U.S. dollars with a rating of A-/A3 or better from at least two national ratings agencies;
 3. Convertible debt obligations of U.S. domiciled corporations denominated in U.S. dollars with a credit rating of A-/A3 or better from two national ratings agencies;
 4. Common and preferred stock of U.S. domiciled corporations listed on a national exchange or NASDAQ with a minimum market capitalization of five hundred million dollars;

5. Common and preferred stock of foreign corporations which are listed on a national exchange or NASDAQ, traded in the form of American Depository receipts or similar structure;
6. Master limited partnerships listed on a national exchange;
7. Real estate investment trusts (REITs) listed on a national exchange with a market capitalization in excess of five hundred million dollars;
8. Closed-end mutual funds listed on a national exchange with a minimum total net asset value in excess of two hundred million dollars, the individual securities contained therein which may not meet the above requirements.

3.14.050 Collateralization and Custody. Collateralization will be required to be pledged on two types of investments[,]; certificates of deposit [and repurchase (and reverse) agreements, and on all deposits in one depository of \$100,000 and more]. not covered by insurance and repurchase agreements. In order to anticipate market changes and provide a level of security for all funds, the collateralization level will be a minimum of 102%. Because of the nature of the allowed investments in the Endowment Fund, the Endowment Fund is exempted from the collateral requirements contained herein.

The City chooses to limit collateral to the following:

1. State and Municipal Bonds and Notes:
Alaska issues, Federally guaranteed project notes- Alaska issues; other states [- BAA rating] rated A- or better;
2. U.S. [Government Obligations: Direct obligation; Federal Agency Issues; Federally guaranteed project notes.] Treasury or Agency Obligations.

Collateral will always be held by an independent third party with which the City has a current custodial agreement. A clearly marked evidence of ownership (safekeeping receipt) must be supplied to the City and retained.

The right of collateral substitution will be granted only after a signed release from the City is obtained, except for par value substitutions.

All security transactions, including collateral for repurchase agreements, entered into by the City of Craig shall be conducted on a deliver-vs.-payment basis. Securities will be held by a third party custodian designated by the Treasurer and evidenced by safekeeping receipts.

3.14.060 Diversification. It is the policy of the City to diversify its investment portfolio. Assets held in the common cash fund and other investment funds shall be diversified to eliminate the risk of loss resulting from over-concentration of assets in a specific issuer or a specific class of securities. Diversification strategies shall be determined and revised periodically by the city treasurer.

In establishing specific diversification strategies, the following general policies and constraints shall apply:

Portfolio maturities shall be staggered to avoid undue concentration of assets in a specific maturity sector. Maturities selected shall provide for stability of income and reasonable liquidity.

The following diversification limitations shall be imposed on the portfolio:

Maturity: no more than 35 percent of the portfolio may be invested beyond 12 months, and the average maturity of the portfolio shall never exceed eighteen months.

To the extent possible, the city will attempt to match investments with anticipated cash requirements. Unless matched to a specific cash flow, the city will not directly invest in securities maturing more than two years from date of purchase.

The Endowment Fund shall also be broadly diversified across asset classes, debt securities maturities, and individual security selections.

3.14.070 Internal Control. As part of the annual audit, there shall be a review by the external auditor to assure the compliance of the city's ordinance.

3.14.080 Competitive Selection of Investment Instruments. Before the city invests any surplus funds *other than the Endowment Fund*, a competitive "bid" process shall be conducted. If a specific maturity date is required, either for cash flow purposes or for conformance to maturity guidelines, bids will be requested for instruments that meet the maturity requirement. Bids will be requested from the financial institutions for various options with regards to term and instrument. The city will accept the bid that provides the highest rate of return within the maturity required and within the parameters regarding investments.

Bid Provisions:

- a. The city treasurer shall solicit bids from a minimum of two banks of financial institutions for each investment.
- b. Notices to bid shall be delivered in person, by mail, or by other electronic means including telephone, FAX machines or E-mail,

to those eligible banks and financial institutions as the city may elect.

- c. Notice to bid shall set forth:
 1. The principal amount, maturity date, the investment period and the cash settlement date;
 2. The date, time and place of bid opening; and,
 3. Such other information as the city, from time-to-time, may deem necessary or appropriate.
- d. Bids may be delivered to the city in person, by mail or by other electronic means as authorized by the city. No bid, or amendment to a bid, will be accepted after the time set forth in the notice. In the event no bids are received, the treasurer may negotiate the investment with any eligible bank or financial institution. The city reserves the right to cancel any or all notices to bid, in whole or in part, for any reason at any time, and the cancellation of a notice to bid will be binding on banks and financial institutions submitting bids.
- e. Bids shall identify separately each investment by principal amount and maturity date. Interest rates shall be a rate per annum calculated on a [360-day year] *comparable basis*. Bids for portions of investments may be accepted by the city at the discretion of the treasurer.
- f. If identical bids are received from two or more banks or financial institutions, the investment shall be divided equally among such bidders if the divided investment amount would not result in loss of interest. If the divided deposit would result in loss of interest, the treasurer shall, at the treasurer's discretion, award by lot or by auction to the highest bidder of those bidders submitting identical bids.
- g. The treasurer/*administrator* shall award the bid made on each investment to the bank or financial institution offering the highest return to the city (giving consideration to the security of the investment and the margin of risk.
- h. The City of Craig reserves the right to accept or reject any and all bids, in whole or in part, when deemed to be in the best interests of the city.

3.14.090 Competitive Selection of Banking Services. Depositories shall be selected through the city's banking selection process, which shall include a formal request for proposal process every two years. In selecting depositories, the credit worthiness of institutions shall be considered, and the city treasurer shall conduct a comprehensive review of prospective depositories' credit characteristics and financial history. Local preference will be given consideration in the selection of banking services. *In the event of identical bids between the financial institution*

currently holding the deposits and other bidders, the deposits shall remain with the current institution.

3.14.100 Endowment Fund Created. There is created an endowment fund, the [purpose] primary objective of which is sustained growth and high level of income with safety of principle a secondary concern. [to invest and protect the principle in accordance with the city's investment ordinance and, at the direction of the Craig City Council, to annually appropriate for expenditure the interest earned.] The Endowment Fund consists of specified funds managed at the direction of an investment advisor selected in accordance with this section. [T]he Craig City Council may annually appropriate for expenditure [the interest earned.] a percentage of the market value of the fund, such percentage to be determined net of inflation-proofing. The fund will consist of reserves dedicated to the fund on a time-to-time basis by the council. Funds once dedicated are intended to be held in the fund for perpetuity unless otherwise unanimously determined by the council.

The Endowment Fund shall be managed in accordance with the Prudent Expert rule which requires management with care, skill, prudence and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims.

The city treasurer or city administrator may, with concurrence of the city council, retain a registered investment advisor to manage the Endowment Fund. Such advisor will be bound by all aspects of this chapter except section 3.14.080, (Competitive Selection of Investment Instruments), where the Endowment Fund is specifically exempted. An independent report of absolute and comparative performance and of compliance with this chapter shall be provided to the city council quarterly and a written report of due diligence findings concerning the advisor will be provided annually. These reporting requirements are in addition to any other reporting requirements contained within this chapter. Investment guidelines given to such advisor(s) may be more restrictive than the policies contained herein, but may not be less restrictive.

3.14.110 Reporting Requirements. The city treasurer and/or city administrator shall generate monthly reports for management purposes. In addition, the city council will be provided quarterly reports which will include data on investment instruments being held, interest earned, compare the return with budgetary expectations, as well as any narrative necessary for clarification. Quarterly performance reports will be provided by the investment advisor of the Endowment Fund showing absolute and

relative performance, risk level experienced, and comparing the fund to the specified goals and appropriate benchmarks of the fund.

3.14.120 Definitions. As used in this chapter, the following definitions apply:

1. "Deliver – Vs – Payment" means that a security will be delivered to safekeeping [before] simultaneous to cash [is] being paid for the security.
2. "Financial Institution" means a bank, savings and loan association or securities dealer.
3. "Marked to Market" means to value a security at its current sales price.
4. "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.
5. "Pledged" means specific securities set aside as collateral which are identified to a specific account.
6. "Repurchase Agreements" means short term transactions consisting of the purchase of a security with the promise to return it at a later date.
7. "U.S. Government Obligations" means obligations of the U.S. Government issued on behalf of the U.S. Government departments through the Federal Financing Bank and securities issued by U.S. Government-sponsored enterprises or quasi-public corporations.
8. "U.S. Treasury Securities" means a security that is backed by the full faith and credit of the U.S. government.

3.14.130 Investment Policy Adoption. The city's investment policy shall be adopted by ordinance. The budget committee shall review the policy on an annual basis and any modifications made thereto must be approved by the city council.

APPROVED: May 20, 1998

Dennis L. Watson ATTEST: Vicki Hamilton
MAYOR DENNIS WATSON CITY CLERK WICKI HAMILTON-CITY CLERK

