

**CITY OF CRAIG
ORDINANCE NO. 529**

**AN ORDINANCE RELATING TO BANKING, INVESTMENT AND
COLLATERALIZATION POLICIES FOR THE CITY OF CRAIG, ALASKA,
DELETING AND THEN RE-ENACTING CHAPTER 3.14, AND ADDING
THREE NEW CHAPTERS, 3.15, 3.16, AND 3.17**

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 deletes and then re-enacts Chapter 3.14 of the Craig Municipal Code, and adds Chapters 3.15, 3.16, and 3.17 to the Craig Municipal Code detailing policies for investment and banking services.**

Chapter 3.14 shall be titled "Investment of Operating Funds".

3.14.010 Objective. A. There are opportunities from time-to-time for the city to invest surplus operating funds. Such funds are generally short-term in nature and are often restricted as to their use, and as such are best not commingled in the Craig Endowment Fund. 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. A. In accordance with the Craig Municipal Code 2.04.060 the responsibility for conducting investment transactions resides with the Mayor, city administrator and city treasurer. The Mayor, administrator and treasurer shall not deposit funds in any depository that is not a member of the Federal Deposit Insurance Corporation (FDIC), the National Credit Union Administration (NCUA) 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 Permissible Investments. A. Operating funds of the City of Craig may be invested in:

1. Federally insured or fully collateralized certificates of deposit of banks and credit unions maturing within two years;
2. U.S. Government treasury, agency and instrumentality securities.
3. Notes or bonds issued by the State of Alaska or its political subdivisions or other states of the United States, maturing within two years, with a credit rating of A-/A3 or better from two national ratings agencies, maturing within two years.
4. Repurchase agreements collateralized by U.S. Treasury securities and marked-to-market. If repurchase agreements are overnight investments or if securities are collateralized in excess of 102%, marked-to-market is not necessary;
5. A state investment pool formed within the state of Alaska and comprised of agencies of the state and/or its political subdivisions;
6. Money market mutual funds whose portfolios consist entirely of U.S. government securities.

3.14.040 Collateralization and Custody. A. Collateralization will be required to be pledged on two types of investments: certificates of deposit 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%.

B. The City chooses to limit collateral to the following:

1. State and Municipal Bonds and rated A-/A3 or better;
2. U.S. Government treasury, agency and instrumentality securities

- C. Collateral will always be held by an independent third party with whom the City has a current custodial agreement. A clearly marked evidence of ownership (safekeeping receipt) must be supplied to the City and retained.
- D. The right of collateral substitution will be granted only after a signed release from the City is obtained, except for par value substitutions.
- E. All security transactions, including collateral for repurchase agreements, entered into by the City of Craig shall be conducted on a delivery-vs.-payment basis. Securities will be held by a third party custodian designated by the Treasurer and evidenced by safekeeping receipts.

3.14.050 Diversification. A. It is the policy of the City to diversify its investment portfolio. The following general policies and constraints shall apply:

1. 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;
2. Maturities shall attempt to match anticipated cash requirements;
3. No operating fund investment may carry a maturity date of more than two years.

B. Diversification strategies shall be determined and revised periodically by the city treasurer.

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

3.14.070 Competitive Selection of Investment Instruments. A. Before the city invests any surplus funds 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.

- B. Bid Provisions:
1. The city treasurer shall solicit bids from a minimum of two banks or financial institutions for each operating fund investment.
 2. 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.
 3. Notice to bid shall set forth:
 - a. The principal amount, maturity date, the investment period and the cash settlement date;
 - b. The date, time and place of bid opening; and,
 - c. Such other information as the city, from time-to-time, may deem necessary or appropriate.
 4. 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.
 5. Bids shall identify separately each investment by principal amount and maturity date. Interest rates shall be a rate per annum calculated on a comparable basis. Bids for portions of investments may be accepted by the city at the discretion of the treasurer.
 6. Bidders not affiliated with a bank must demonstrate that they are classified as reporting dealers affiliated with the Federal Reserve Bank as primary dealers or regional dealers that qualify under Securities and Exchange Commission Rule 15C3-1 (uniform net capital rule).
 7. If identical bids are received from two or more banks or financial institutions, the treasurer shall, at the treasurer's discretion, award by lot.
 8. The Mayor, administrator and treasurer shall award the bid made on each investment to the bank or financial institution offering the highest effective return to the city (giving consideration to the security of the investment and the margin of risk).
 9. 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.
 10. Upon maturity of an initial investment of surplus funds, the investments may be maintained at the financial institution and rolled into the same financial instrument for one new term.

Chapter 3.15 shall be titled “Craig Endowment Fund Investment Policies”.

3.15.010 Endowment Fund Created. A. There is created an endowment fund.

- B. Safety of principal is the foremost investment objective of the fund. Each investment transaction shall seek to first ensure that capital losses are avoided, whether they are from securities defaults or permanent 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.

3.15.020 Source of Funds. A. From time-to-time, the council will appropriate undesignated funds to the Endowment Fund. Funds once dedicated are intended to be held in the fund for perpetuity unless otherwise unanimously determined by the council.

3.15.030 Growth of Principal. A. The long-term goals of the Endowment Fund are:

1. To achieve a level of earnings that exceeds the average rate of inflation, as reported by the Anchorage CPI index. In order to avoid the effects of extreme activities in the market place from year-to-year, it is directed that the fund earnings be compared to a 5-year rolling average rate of inflation. Until the fund has been in existence for 5 years, the earnings will be expected to meet the average rate of inflation since inception; and
2. To allow for the appropriation of earnings to supplement general operating funds and to provide match or funds for capital construction projects; and
3. To increase the principal of the fund using net earnings and other funds.

3.15.040 Treasury Management A. 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.

- B. The city treasurer or city administrator may, with concurrence of the city council, retain a registered investment advisor to manage all or part of the Endowment Fund. Such advisor will be bound by all aspects of this chapter. A report of absolute and comparative performance and of compliance with this chapter shall be provided to the city council quarterly by the investment advisor. In addition, a copy of the Association of Investment Management and Research report, and a completed copy of Part II of Securities and Exchange Commission Form ADV shall be provided to the city council annually by the investment advisor. 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.

3.15.050 Permissible Investments. A. The City of Craig Endowment Fund may be invested in:

1. U.S. Government treasury, agency and instrumentality securities.
2. Notes or bonds issued by the State of Alaska or its political subdivisions or other states of the United States, maturing within two years, with a credit rating of A-/A3 or better from two national ratings agencies;
3. Federally insured or fully collateralized certificates of deposit of banks and credit unions, maturing within two years;
4. Repurchase agreements collateralized by U.S. Treasury securities and marked-to-market. If repurchase agreements are overnight investments or if securities are collateralized in excess of 102%, marked-to-market is not necessary.
5. A state investment pool formed within the state of Alaska and comprised of agencies of the state and/or its political subdivisions;
6. Money market mutual funds whose portfolios consist entirely of U.S. government securities.
7. Any of the following:
 - a. 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;
 - b. 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;
 - c. 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;

- d. 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, or a mutual fund that invests in these stocks.

3.15.060 Collateralization and Custody. A. Collateralization will be required to be pledged on two types of investments: certificates of deposit 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%.

- B. The City chooses to limit collateral to the following:
 - 1. State and Municipal Bonds and Notes rated A-/A3 or better
 - 2. U.S. Government treasury, agency and instrumentality securities.
- C. Collateral will always be held by an independent third party with whom the City has a current custodial agreement. A clearly marked evidence of ownership (safekeeping receipt) must be supplied to the City and retained.
- D. The right of collateral substitution will be granted only after a signed release from the City is obtained, except for par value substitutions.
- E. All security transactions, including collateral for repurchase agreements, entered into by the City of Craig shall be conducted on a delivery-vs.-payment basis. Securities will be held by a third party custodian designated by the Treasurer and evidenced by safekeeping receipts.
- F. For that portion of the Endowment Fund that is managed by an investment manager, all funds and securities shall be held by an independent third party custodian. Settlement of transactions shall be performed by the independent third party custodian at the direction of the investment manager.

3.15.070 Diversification. A. It is the policy of the City to diversify its investment portfolio.

- B. The following duration and maturity limitations shall apply to the fixed income portfolio.
 - 1. Duration: The Endowment Fund shall maintain a duration of between 1.25 and 3.5 years
 - 2. Maturity: No single investment may have a maturity date in excess of ten years.

- C. Diversification strategies shall be determined and revised periodically by the city treasurer.

3.15.080 Asset Allocation and Performance Benchmarks. A. No more than 5% of the Endowment Fund portfolio that is managed by an investment manager may be held in the form of cash equivalents for a period longer than 30 days, unless extenuating circumstances exist. Such circumstances should be documented in writing by the investment manager. Anticipated cash requirements for the city should be documented in writing by the treasurer/administrator to the investment manager.

- B. The portion of the Endowment Fund managed by an investment manager shall be compared to appropriate benchmarks. Asset allocation of the investment portfolio shall hold securities similar to those held in the appropriate benchmarks.

- C. That portion of the fund that is held by the city in other financial instruments for collateralization of loans is exempt from this section.

3.15.090 Reporting Requirements. A. 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.

- B. The third party designated to hold funds and securities managed by an investment advisor shall generate monthly financial statements showing activity and investment details. These reports shall be compared to the monthly reports generated by the investment advisor. Discrepancies shall be researched by the treasurer.

3.15.100 Appropriation of Earnings. A. As part of the annual budget approval process, the city council may appropriate up to 100 percent of the fund's adjusted net earnings for use in city operations.

- B. Appropriations for projects using adjusted net earnings are subject to individual approval by the council.

- C. Any adjusted net earnings available but not appropriated by the end of the fiscal year shall lapse to the principal of the fund and will not be available as earnings for distribution in subsequent years.

3.15.110 Use of Principal as Collateral. A. From time to time, the city requires funds for projects. The City has found it helpful to use investment funds as collateral for short-term loans while searching for project funding. The intent of this provision is to insulate the general operating fund from the impacts of cash requirements for construction projects that will likely be funded by other sources.

- B. No more than \$2 million of the Endowment Fund shall be used as collateral for short-term loans. The following parameters shall apply to short-term collateralization of the Endowment Fund:
1. the loan should be for a period of 12 months or less; and the loan should not be extended for a period longer than 3 years from the original loan date;
 2. the loan should provide for interest-only payments until grant and/or final project funding is available;
 3. the value of investment held as collateral must be an amount sufficient to cover loan interest payments using investment interest earnings;
 4. if the project directly relates to a revenue-generating department, that department should be charged the monthly interest payments;
 5. if the project does not generate revenue or relate to a revenue-generating department, the city council may appropriate an amount of investment earnings generated by the collateral to be used for payment of monthly interest payments.

Chapter 3.16 shall be titled "Selection of Banking Services"

3.16.010 Selection of Banking Services. A. Recognizing that long-term banking relationships are beneficial to the daily operations of the City, city operating funds, i.e., checking and small savings accounts, shall remain with a financial institution so long as the services provided meet the needs of the city.

- B. The City shall seek to establish and maintain a low-cost banking relationship for its day-to-day operating funds. The treasurer/administrator shall take care to minimize banking fees where possible and maximize interest earnings. At the treasurer/administrator's discretion, a competitive bid process can be initiated to determine the benefits of moving the city's operating funds to a different financial institution. In selecting depositories, the credit

worthiness and financial history shall be reviewed. Convenience and efficiency shall be given consideration when reviewing the merits of a financial institution.

3.16.020 Signatories. A. For all accounts maintained by the city, the Mayor, city administrator, treasurer, and city clerk shall be account signers. For additional convenience, city council members and other city officials may be assigned to the accounts. Withdrawal transactions require two authorized signatures.

Chapter 3.17 shall be titled “Adoption and Definitions”

3.17.010 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.

3.17.020 Definitions. As used in chapters 3.14, 3.15, and 3.16 the following definitions apply:

1. “Delivery – Vs – Payment” means that a security will be delivered to safekeeping simultaneous to cash 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 treasury obligations” means direct obligations backed by the full faith and credit of the U.S. Government such as US Treasury bills, notes, and bonds.
8. “U.S. Government agency and instrumentality securities” means highly rated (AA- or better) obligations issued on behalf of US Government sponsored enterprises and quasi-public corporations. Issuers include the Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, and others.
9. “Earnings” is interest, dividends, and capital gains realized and received during the calendar year. Unrealized gains and accrued interest are not considered “Earnings”.

10. "Net Earnings" is the amount in dollars remaining after payment of advisor and custodial fees are made from annual earnings of the Endowment Fund.
11. "Adjusted Net Earnings" is the amount in dollars remaining after an amount equal to the five-year rolling average rate of inflation on the Endowment Fund's market value is deducted from Net Earnings.

APPROVED: February 19, 2004

Dennis Watson
MAYOR, DENNIS WATSON

ATTEST Vicki Hamilton
VICKI HAMILTON, CITY CLERK

