

**CITY OF WASILLA
ORDINANCE SERIAL NO. 12-08**

AN ORDINANCE OF THE WASILLA CITY COUNCIL ADOPTING A NEW WASILLA MUNICIPAL CODE (WMC) CHAPTER 5.14, INVESTMENT POLICY AND REPEALING THE OLD CHAPTER 5.12, INVESTMENT POLICY.

Section 1. Classification. This ordinance is of a general and permanent nature and shall become part of the city code.

Section 2. Adopting a new chapter. WMC 5.14, Investment Policy, is hereby amended to read as follows:

5.14.010 Scope.

A. This chapter applies to the investment of all city moneys, unless otherwise provided expressly by code.

B. 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 moneys shall adhere to these objectives, which are listed in order of relative importance.

1. Safety. 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.

a. Credit Risk. The city will minimize credit risk, the risk of loss due to the failure of the security issuer or backer, by:

1. Limiting investments to high quality investment grade securities;

2. Pre-qualifying the financial institutions, broker/dealers, intermediaries, and advisers with which the city will do business; and

3. Diversifying the investment portfolio so that potential losses on individual securities will be minimized.

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b. Interest Rate Risk. The city will minimize the risk that the market value of securities in the portfolio will fall due to changes in general interest rates, by:

1. 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; and

2. Investing operating funds primarily in shorter-term securities, money market mutual funds, or similar investment pools.

2. Liquidity. Maintaining sufficient liquidity to meet the city's cash flow requirements by structuring the portfolio so that securities mature concurrent with cash needs to meet anticipated demands. Since all possible cash demands cannot be anticipated, the portfolio should consist largely of securities with active secondary or resale markets. A minimum daily cash requirement will be established by the finance director, which may be placed in money market mutual funds or local government investment pools which offer security and same-day liquidity for short-term funds.

3. Yield. Achieving a reasonable market rate of return relative to treasury yields as a benchmark throughout budgetary and economic cycles, taking into account the investment risk constraints and liquidity needs. Return on investment is of secondary importance compared to the safety and liquidity objectives. Securities shall not be sold prior to maturity with the following exceptions:

a. A security with declining credit may be sold early to minimize loss of principal.

b. Liquidity needs of the portfolio require that the security be sold.

c. Duration adjustments so long as the security sold and purchased is in the best interest of the portfolio keeping safety and liquidity first.

C. Notwithstanding the above objectives, no person shall invest city moneys in a manner which violates any provision of this chapter.

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5.14.020 Delegation of authority.

Management responsibility for the investment program is hereby delegated to the finance director 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. The finance director shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinates.

5.14.030 Prudence.

All persons having responsibility for making decisions regarding the investment of city moneys shall utilize the same judgment and care, under the 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 capital as well as the probable income to be derived in accordance with the stated objectives.

5.14.040 Ethics and Conflicts of Interest.

A. Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with the proper execution and management of the investment program, or that could impair their ability to make impartial decisions. Employees and investment officials shall:

1. Disclose confidentially to the mayor any material financial interests in financial institutions with which they conduct business.
2. Refrain from undertaking personal investment transactions with the same individual with whom business is conducted on behalf of the city, particularly with regard to the timing of purchases and sales.

5.14.050 Authorized investments.

A. To provide maximum security for the investment of public funds and to provide the greatest interest revenue consistent with safety.

B. The finance director shall manage an internal portfolio consistent with WMC 5.14.030. The internal portfolio shall have a duration of less than one year and be specifically designed for daily cash flow needs or short-term funds.

C. The finance director shall contract for the service of an external portfolio manager to complement and supplement the internal portfolio. The external portfolio manager shall report to the finance director and council and 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

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investments entrusted to it not in regard to speculation but in regard to the permanent disposition of funds, considering probable safety of capital as well as probable income.

D. City moneys 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 settlement date of the city's investment transaction:

1. U.S. government obligations, U.S. government agency obligations, and U.S. government instrumentality obligations, which have a liquid market with a readily determinable market value and are insured or guaranteed by, the United States or agencies or instrumentalities of the United States—5 years;

2. Repurchase agreements that are documented by a written agreement, and are fully collateralized by delivery of government related obligations as referenced in number 1 above, to an independent third party custodian, which meet a margin requirement of 102% of the principal and unpaid accrued interest—2 years;

3. Certificates of deposit and other deposits at banks and savings and loan associations collateralized as provided in Sec. 5.14.080—3 years;

4. 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;

5. Bonds and notes which are issued by any state or political subdivision thereof, and which are rated A or higher by a nationally recognized statistical rating organization—5 years;

6. Prime commercial paper graded A1 or higher by a Moody's Investor's Service, Inc., and P1 or higher by Standard and Poor's Corporation, or equivalent by a nationally recognized statistical rating organization—270 days;

7. Prime bankers' acceptances offered by the 50 largest banks—180 days;

8. U.S. dollar denominated corporate obligations issued by corporations organized and operated within the United States—5 years. Corporate obligations shall be rated as follows:

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a. 1 year or less A rated by two major nationally recognized statistical rating agencies;

b. 1—2 years AA rated by at least one major nationally recognized statistical rating agencies;

c. 2—4 years AA rated by two major nationally recognized statistical rating agencies; and

d. 4—5 years AAA rated by two major nationally recognized statistical rating agencies.

9. Money market mutual funds that adhere to SEC rule 2a – 7.

10. The Alaska Municipal League Investment Pool, Inc., made in accordance with the terms of that pool's "Common Investment Agreement".

11. Special assessments of the city authorized by Chapter 5.20. Total principal investment is not to exceed \$250,000 at the end of any fiscal year. The rate the city shall receive when investing in special assessments is the prime rate plus two percent on the date the ordinance confirming the assessment roll is enacted by the council.

E. No person shall invest any city moneys in any instrument which is not listed in Subsection A. This prohibition includes but is not limited to, investment of city moneys in any mutual fund (except as otherwise provided in Subsection A.11), common or preferred stock, precious metals, option contracts, or futures contracts.

F. This chapter represents the maximum amount of authority and discretion which the finance director may utilize in investing city moneys. Nothing in this chapter shall be construed, however to prohibit the finance director from 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 to invest in all, or any particular, instrument contained in said list at any given time. The finance director may invest in some or all of said instruments as he or she deems appropriate. Similarly, the enumeration of instruments which are acceptable as collateral for city investments shall not be construed as requiring the finance director to accept all or any particular, instrument contained in said list at any given time. The finance director may accept some of said instruments, and reject others, in his or her discretion.

5.14.060 Placement of city investments.

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A. Because of rapid fluctuations of interest rates and the brief period of availability of some securities, bids or offers may be solicited, received, and accepted, either orally or in writing. Solicitation, receipt, and acceptance of bids over the telephone are authorized. In order for a bid to be responsive, it must meet all the specifications and requirements of the bid solicitation. The finance director shall not consider nonresponsive bids.

B. The finance director shall award a bid or offer to the financial institution whose bid or offer best fulfills the investment objectives contained in 5.14.010, 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, before city funds are transferred to the financial institution with which the city is investing. The finance director may require financial institutions to deliver collateral to a custodial bank prior to bidding on city investments.

5.14.060 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.

5.14.070 Collateralization.

A. If city moneys 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 any combination of the following securities, at the following margin requirements and maturities:

<u>Collateral Type</u>	<u>Margin Requirement</u>
<u>1. U.S. Treasury Securities with a maturity date 5 years or less from the date of the city's investment transaction</u>	<u>102%</u>
<u>2. Actively traded U.S. Government Agency or Instrumentality Securities, except mortgage pass-through securities with a:</u>	
<u>a. Maturity date one year or less from the date of the city's investment transaction</u>	<u>103%</u>
<u>b. Maturity date between 1 and 5 years from the date of the city's investment transaction</u>	<u>107%</u>
<u>3. Obligations of the State of Alaska and its political subdivisions secured by the full faith, credit and taxing power thereof:</u>	
<u>a. Maturity date 1 year or less from the date of the city's investment transaction</u>	<u>102%</u>

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b. <u>Maturity date between 1 and 5 years from the date of city's investment transaction</u>	<u>107%</u>
4. <u>FDIC and FSLIC Insurance</u>	<u>100%</u>

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.

5.14.080 Safekeeping.

Procedures and criteria for selection of a custodial or safekeeping institution shall be established under Section 5.14.020. Selection of an institution shall be in accordance with those procedures and WMC Chapter 5.08, Contracts and Purchasing. The finance director 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, and 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.

5.14.090 Agreements.

Security agreements instituting this policy will be entered into prior to the purchase of a certificate of deposit or repurchase agreements.

5.14.100 Internal controls.

The finance director shall establish a system of internal controls, which shall be documented in writing. The city's external auditors 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, and misrepresentation by third parties, unanticipated changes in financial markets, or imprudent actions by employees and officers.

5.14.110 Reporting.

The finance director shall submit quarterly to the council, an investment report that summarizes the portfolio in terms of investment securities, maturities, risk categories, returns and other features. For comparative yields or returns the 6-month treasury may be used as a bench mark.

5.14.120 Definitions.

When used in this chapter, the following words and phrases shall have the meanings set forth in this section:

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ACTIVELY TRADED. A security which is frequently bought or sold on a liquid market.

DELIVERY VS. PAYMENT. A security will be delivered to safekeeping before cash is paid for the security.

FINANCIAL INSTITUTION. A bank, savings and loan association, or securities dealer.

MARGIN REQUIREMENT. The amount by which the market value of the securities collateralizing a transaction exceeds the amount lent.

MARKED TO MARKET. To value a security at its current sales price.

MONEY MARKET MUTUAL FUNDS. 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.

NATIONALLY RECOGNIZED STATISTICAL RATING ORGANIZATION. A credit rating agency (CRA) that issues credit ratings that the U.S. Securities and Exchange Commission (SEC) permits other financial firms to use for certain regulatory purposes. As of November 2011, nine organizations were designated as NRSROs to include: Kroll Bond Rating Agency; Moody's Investor Service; Standard & Poor's; Fitch Ratings; M. Best Company; Dominion Bond Rating Service, Ltd; Japan Credit Rating Agency, Ltd.; Egan-Jones Rating Company; and Morningstar, Inc.

PLEGGED. Specific securities set aside as collateral which are identified to a specific account.

PRIME BANKERS' ACCEPTANCES. 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 creditworthiness of the bank and a U.S. corporation as well as goods underlying the transaction.

PRIME COMMERCIAL PAPER. 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.

REPURCHASE AGREEMENTS. Short term transactions consisting of the purchase of a security with the promise to return it at a later date.

U.S. GOVERNMENT AGENCY OR INSTRUMENTALITY SECURITIES. Obligations of the U.S. government issued on behalf of U.S. government departments

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through the Federal Financing Bank and securities issued by U.S. government-sponsored enterprises or quasi-public corporations.

U.S. TREASURY SECURITIES. A security that is backed by the full faith and credit of the U.S. government.

Section 3. Repeal of chapter. WMC 5.12, Investment Policy, is hereby repealed in its entirety:

~~5.12.010 Definitions:~~

~~—When used in this chapter, the following words and phrases shall have the meanings set forth in this section:~~

~~—“Bank” means a state or federally chartered commercial or mutual bank, savings and loan association or credit union located in the United States and having insurance of accounts through the appropriate insuring agency of the United States.~~

~~—“Certificate of deposit” means a nonnegotiable certificate of deposit or other depository agreement issued or to be issued to the city by a bank.~~

~~—“Government obligations” means interestbearing obligations of the United States, or for the payment of principal and interest on which the full faith and credit of the United States are pledged.~~

~~—“Moody’s” means Moody’s Investors Service, its successors and assigns, or if such organization shall be dissolved or liquidated or shall no longer perform the functions of a securities rating organization, any other nationally recognized securities rating organization designated by the finance director.~~

~~—“Rated bank” means a bank:~~

~~1. Whose short term obligations are rated at all times “A-1” or better by S&P and “P-1” or better by Moody’s;~~

~~2. Whose letters of credit secure third party debt issues rated at least “A” by S&P or Moody’s; or~~

~~3. Which is a subsidiary of a one bank holding company all of whose commercial paper has the highest rating given by S&P or Moody’s or whose long term debt issues are rated at least an “A” by S&P or Moody’s.~~

~~—“S&P” means Standard & Poor’s Ratings Group, its successors and assigns, or, if such organization shall be dissolved or liquidated or shall no longer perform the~~

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~~functions of a securities rating organization, any other nationally recognized securities rating organization designated by the finance director. (Ord. 08-29 § 6, 2008; Ord. 01-56 § 2; Prior code § 6.30.010)~~

~~5.12.020 Authorized investments:~~

~~— A. — In order to provide maximum security for the investment of city funds and to provide the greatest interest revenue consistent with safety, only the following investments of city funds will be authorized:~~

~~——— 1. — Government Obligations. Shares of SEC registered money market mutual funds conforming to Rule 2a-7 of the Investment Company Act of 1940 that invest primarily in direct obligations of the United States and repurchase agreements backed by those obligations, and rated in the highest category by S&P and Moody's.~~

~~——— 2. — Commercial Paper. Having original maturities of not more than two hundred seventy (270) days and rated at all times "A 1" or better by S&P and "P 1" or better by Moody's; and bearing interest at a rate at least twenty five basis points (.25%) above the rate of interest on United States Treasury obligations of the same maturity at the time of purchase.~~

~~— B. — Interest bearing obligations of a corporation, or of any state of the United States of America or any political subdivision thereof, which obligations at all times are rated at least "AA" by S&P or Moody's; provided, that any such obligation of a corporation shall bear interest at a rate of at least twenty five basis points (.25%) above the rate of interest on the United States Treasury obligations of the same maturity at the time of purchase.~~

~~— C. — Certificates of deposit of any rated bank; provided, that such certificates of deposit are:~~

~~——— 1. — Fully insured by an appropriate insuring agency of the United States; and~~

~~——— 2. — To the extent not so insured, collateralized with government obligations held by a third party custodian, in an amount equal to one hundred two percent (102%) of the principal and unpaid accrued interest.~~

~~— D. — Repurchase agreements with primary dealers or rated banks, collateralized with government obligations held by a third party custodian, in an amount equal to one hundred two percent (102%) of the principal and unpaid accrued interest.~~

~~— E. — The Alaska Municipal League Investment Pool, Inc.~~

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Section 4. Effective date. This ordinance shall take effect upon adoption by the Wasilla City Council.

ADOPTED by the Wasilla city Council on January 23, 2012.



VERNE E. RUPRIGHT, Mayor

ATTEST:



KRISTIE SMITHERS, MMC, City Clerk

[SEAL]

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Ordinance Serial No. 12-08: Adopting a new Wasilla Municipal Code Chapter 5.14, Investment Policy, and repealing the old Chapter 5.12, Investment Policy.

Agenda of: January 9, 2012

Date: December 28, 2011

Originator: Troy Tankersley, Finance Director

Route to:	Department	Signature	Date
X	Finance Director		12/28/11
X	Interim Deputy Administrator		12/28/11
X	City Clerk		

REVIEWED BY MAYOR VERNE E. RUPRIGHT: _____

FISCAL IMPACT: yes or no

Funds Available Yes or No

Account name/number: N/a

Attachments: None

SUMMARY STATEMENT: WMC 5.12 Investment Policy was last updated in 2001 to provide City funds be invested at the highest return while providing for the preservation of principal. In 2008, WMC 5.12 was updated solely to correct the introductory paragraph within definitions.

The purpose of amending WMC 5.12 Investment Policy is to provide formal objectives of safety, liquidity and yield with yield being of secondary importance. This policy further expands the City's responsibility in contracting with an external portfolio manager as well as funds invested internally by the Finance Director to maintain cash flow requirements.

As an added investment instrument, Section 5.14.050.D.11 allows the City to invest \$250,000 in special assessments authorized by WMC 5.20. The idea here is to allow the City to earn 2 points above prime while investing in the infrastructure of the City. Currently, the City must borrow funds to facilitate special assessment type projects. WMC 5.20 will need to be reviewed subsequent to passage of this ordinance to facilitate this process. Additionally, WMC 5.14.050 allows for investment instruments not expanded upon in current code and specifies the intended duration and rating where necessary so that not all the City funds are invested in one type of investment.

This policy elaborates the importance of diversification, collateralization, safekeeping, internal controls and reporting to Council. Reporting to Council should be required and will be required as part of this policy on a quarterly basis.

STAFF RECOMMENDATION: Introduce and set for public hearing Ordinance Serial No. 12-08.