

Draft

Town of Anywhere

Investment Policy

POLICY:

The purpose of this document is to provide guidelines for the prudent investment of the Town of Anywhere's funds (all funds), and to outline the policies needed to maximize the efficiency of the Town's cash management system.

SCOPE:

All monies entrusted to the Treasurer and Town Manager as directed by the Municipal Officers shall be invested in accordance to Maine State Statutes Title 30A, Sections 5706, 5711 – 5719.

INVESTMENT COMMITTEE

An Investment Committee shall be established consisting of Town Manager, Treasurer, a representative of the Town Selectman, and any other prudent individuals. The Investment Committee should not exceed a number of 5 persons. The committee shall meet quarterly to discuss cash flow requirements, the monthly investment reports, investment strategy, procedures, and investment related work projects being undertaken in each department, which will affect the cash flow.

INVESTMENT OBJECTIVE:

The primary objectives, in priority order, of investment activities shall be safety, maintenance of liquidity, and income.

- I. **Safety** – Safety of principal and preservation of capital is the foremost objective of the investment program. The Treasurer and Town Manager shall seek to avoid capital losses (realized or unrealized) for all investment transactions made. The portfolio shall be diversified to insure that potential losses on the individual securities do not exceed the income generated from the remainder of the portfolio. The investment officer will insure the safety of invested funds by limiting interest and credit rate risks.

a. Interest Rate Risk – The risk that the market value of the portfolio securities will fall due to a changes in general interest rates. Interest rate risk will be mitigated by:

- Structuring the Town’ s portfolio so that securities mature to meet the Town’ s cash demands for ongoing operations, thereby precluding the need to sell securities on the open market prior to their maturity. (At all times shall the original principal investment not fall below the Town’s original cost basis for all invested funds. This includes realized and unrealized gains and losses.)
- Investing primarily in shorter-term securities.

b. Credit Risk – The risk of loss due to the failure of the security of backer. Credit risk will be mitigated by:

- Limiting investments to the types of securities authorized by this policy.
- Using financial institutions, which have been pre-qualified by the Investment Committee.
- Diversifying the investment portfolio to meet the Town’s current and future cash flow needs.

II. Maintenance of Liquidity – An adequate percentage of the portfolio shall be maintained in liquid short-term securities, which can be converted to cash to meet operating requirements. The portfolio should be structured so that securities mature in a ladder form.

III. Income – The objective of the portfolio should be designed to attain a market-average rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints and liquidity needs. The Town’s portfolio management approach is one, which prohibits speculation based on anticipated interest rate movements. The Town’ s approach is to buy investments with the intentions of holding them until maturity. All maturities in excess of one year shall be first approved by the majority vote of the board of selectman. This shall be done upon a recommendation form the investment committee with a detailed review of those investments longer than one year supplied to the board prior to vote. The Town shall not sell the securities prior to maturity unless:

- It will minimize the real or unrealized loss of principal
- A security swap would improve the yield in the portfolio
- Liquidity needs

The Town’ s investment portfolio shall be designed with the objective of meeting all legal requirements set forth by Federal, State, and Local laws.

ETHICS AND CONFLICTS OF INTEREST:

The Treasurer and Town Manager shall avoid any transaction that might impair public confidence in the Town's ability to govern effectively. Officers and employees involved in the investment process shall refrain from business activity that could conflict with proper execution of the investment program, or which could impair their ability to make impartial investment decisions. Employees and investment officials shall disclose to the Selectman any material financial interests in financial institutions that conduct business within this jurisdiction, and they shall further disclose any large personal financial/investment positions that could be related to the performance of the Town's portfolio. Employees and officers shall subordinate their personal investment transactions to those of the Town of Anywhere, particularly with regard to the time of purchase and sales. Any violation of this procedure will warrant review of the board of selectman. After review the Selectman, by majority vote, may take appropriate disciplinary action which may include dismissal if deemed appropriate.

DELEGATION OF AUTHORITY:

The ultimate responsibility for the investment program rests with the Town Selectman with their delegation and oversight to the Treasurer and Town Manager. They will be responsible for all transactions undertaken and has established a system of internal controls and standard operating procedures to regulate the activities of subordinated officers.

AUTHORIZED FINANCIAL DEALERS AND INSTITUTIONS

The Treasurer and Town Manager, with oversight from the Town Selectman, shall conduct investment transactions with financial and investment securities approved by the Investment Committee. In selecting financial institutions for deposits or investment of Town funds, the Treasurer and Town Manager shall review the financial institution's audited financial statements, proof of National Association of Securities Dealers (NASD) certification, proof of state registration, and certification of having read, understood, and agreed to comply with the Town's investment policy. The Treasurer and Town Manager should also complete an annual review of the financial condition and registration of qualified financial institutions.

INVESTMENT TRAINING

The Treasurer and Town Manager shall attend at least one training session annually to be paid by the Town. The investment training should be offered by a professional organization, such as, GFOA and MMA or any other outside qualified experts.

SUITABLE AND AUTHORIZED INVESTMENTS

- United States government bonds and instrumentalities – bonds and other direct obligations of the U.S.
- State bonds – “bonds and other direct obligations issued or guaranteed by any state or agency of any state, provided that the securities are rated within the 3 highest grade by any rating service approved by the Superintendent of Banking”(30A, M.R.S.A., Section 5712, 2).
- Maine State bonds – “bonds and other direct obligations issued or guaranteed by this State, agency of this State, or any political subdivision of the State that is not in default...”(30A, M.R.S.A., Section 5712, 3).
- Dominion of Canada – “bonds and other direct obligations issued or guaranteed by the Dominion of Canada, any province, or political subdivision provided that the securities are rated within the 3 highest grades by any rating service approved by the Superintendent of Banking and payable to the United States”(30A, M.R.S.A., Section 5712, 4).
- Short-term obligations – prime bankers’ acceptances and prime commercial paper.
- Corporate bonds – “bonds and other obligations of any United States or Canadian corporation, provided the securities are rated within the 3 highest grades. Not more than 2% of the total assets of the permanent reserve fund, permanent trust fund, or other permanent fund being invested of any one corporation”(30A, M.R.S.A., Section 5713, 1).
- Maine corporate bonds – “bonds and other obligations of any Maine corporation, actually conducting business in this State, for a period of 3 successful fiscal years, has earned or received an average net income of not less than 2% times the interest on the obligations. Not more than 20% of the total assets of the permanent reserve fund, permanent trust fund may be invested in these securities and not more than 2% in any one corporation”(30A, M.R.S.A., Section 5713, 2).
- Maine corporate stocks – “the stock of any Maine corporation, other than stock of a financial institution, conducting business in this State for at least 3 years and have received an average net income after taxes equivalent to at least 6% upon the entire outstanding issue of the stock. Not more than 10% of the deposits of the total assets of the permanent reserve fund, permanent trust fund, or other permanent fund being invested may be invested under this section in stocks of Maine corporations and not more than 1% in any one corporation. The fund shall be invested no more than 20% of the stock of any one corporation”(30A, M.R.S.A., Section 5713, 3).

“The Town shall not acquire or hold stock and obligations described below in excess of 30% of the total assets of the reserve fund, permanent trust fund, or other permanent fund. The Town shall not acquire or hold stock of any one bank in excess of 5%, nor shall any such fund be invested in stock in excess of 10% of the capital stock of any one bank”(30A, M.R.S.A., Section 5714, 2).

- “Debentures of any financial institution authorized to do business in the State of Maine incorporated under the laws of this State or the U.S. and of any financial institution holding company, provided that the holding company is registered under the United States Bank Holding Company Act of 1956 or the National Housing Act, Section 408”(30A, M.R.S.A., Section 5714, 1A).
- Stock – “capital stock, preferred stock, debentures, and acceptances of any insured bank not having an office in this State which has total capital reserves of at least \$50,000,000 and whose subsidiary banks have total capital reserves of at least \$50,000,000 provided that it is registered under the United States Bank Holding Company Act of 1956. Not more than 1% of the total assets of the permanent reserve fund, permanent trust fund, or other permanent fund may be invested”(30A, M.R.S.A., Section 5714, 1B).
- Capital Notes or debentures – “issued by any municipalities chartered under the laws of any state, or of the United States, or of the Commonwealth of Puerto Rico, notwithstanding the fact that these notes or debentures may be subordinated to the claims of depositors or other creditors of the issuing institution. Not more than 1% of the total assets of the permanent reserve fund, permanent trust fund, or other permanent fund being invested may be so invested”(30A, M.R.S.A., Section 5714, 1C).
- Obligations – “issued, assumed, or guaranteed by the International Bank for Reconstruction and Development or the Inter-American Development Bank or the African Development Bank”(30A, M.R.S.A., Section 5714, 1D).
- Passbook Savings Account – These accounts pay a low rate of interest, compounded daily on their balances. This account allows the transfer of money from checking to savings and earn short-term on odd amounts of money that are not available for longer investments.
- Repurchase Agreements – These investments are an agreement of one party to sell securities at a specified price to a second party and a simultaneous agreement of the first party to repurchase the securities at a specified price or at a specified later date.
- Mutual Funds – An investment company that pools money and can invest in a variety of securities, including fixed-income securities and money market instruments.
- Other stock investments – preferred stock of public utilities, bonds of nonprofit organizations, small business investment companies, and Maine Capital Corporation.

COLLATERALIZATION

Collateralization is required on accounts and deposits and repurchase agreements. The collateral must be in an amount equal to the excess deposit and it may consist only of securities in which municipalities may invest. The Town or an independent third party with whom the Town has a current custodial agreement will always hold collateral.

DIVERSIFICATION

It is the policy of the Town to diversify its investment portfolio to avoid incurring unreasonable and avoidable risks or loss resulting from over concentration of assets in a specific maturity, specific issuer, or a specific class of securities, with the exception of U.S. Treasury Securities and other authorized pools. No more than 75% of the Town's total investment portfolio will be invested in a single security type or with a single investment institution.

MAXIMUM MATURITIES

The Town shall not invest in securities, which at the time of investment have a term of maturity in excess of one year unless the Town Selectman have granted authority.

INTERNAL CONTROL

The Town's independent auditors shall review annually the Town's investment internal controls. The auditors will concentrate on; control of collusion, separation of duties, separating transaction authority from accounting and record keeping, custodial safekeeping, clear delegation of authority, specific limitations regarding securities losses and remedial action, written confirmation of telephone transactions, code of ethics, documentation of transactions.

PERFORMANCE STANDARDS

The Town's investment portfolio will be designed with the objective of exceeding the average Federal Funds rate. The Treasurer and Town Manager's objective is to maximize the Town's cash invested at all times.

REPORTING

The Treasurer shall submit a quarterly investment report for all funds invested to the Town Selectman and a monthly investment report for all funds invested to the Town Manager. The report should include the following:

- Purpose of the report
- Type of investments
- Investments by institution
- Current market value
- Purchases or cost of securities
- Date of maturity
- Rate of interest
- Realized and unrealized gains or losses

LEGISLATIVE CHANGES

The Treasurer and Town Manager shall incorporate any State of Maine Legislative Actions that impact allowable investment type, maturities, or percentage of allocations.

PORTFOLIO PERFORMANCE

If the market value of the Town's investment portfolio for any funds drops below 5%, within 30 days the investment company will immediately notify the Town Manager with oral communication. If the market value of the Town's portfolio falls below 10% within 30 days the investment company will notify the Town Manager with written notification.

INVESTMENT POLICY ADOPTION

Any investment currently held by the Town that does not meet the guidelines of this policy is exempt.

The Town's investment policy shall be adopted by resolution of the Selectman. The policy shall be reviewed annually by the Investment Committee and modify any changes if need be.