

Introduced by: Mayor
Date: Jan. 3, 1989
Hearing: Feb. 7, 1989
Vote: Enacted
Action: Unanimous

KENAI PENINSULA BOROUGH

ORDINANCE 89-7

ENACTING A NEW CHAPTER TO THE BOROUGH CODE ESTABLISHING A POLICY FOR INVESTMENT OF BOROUGH MONIES.

WHEREAS, the Borough has developed a program for sound investment of borough monies; and

WHEREAS, the policies that have been developed to govern this program should be codified;

NOW THEREFORE, BE IT ORDAINED BY THE ASSEMBLY OF THE KENAI PENINSULA BOROUGH:

Section 1. That the Kenai Peninsula Borough Code of Ordinances is hereby amended by adding a new chapter entitled "Investment of Monies" to be numbered KPB 5.10, which shall read as follows:

5.10.010 Scope. A. This chapter applies to the investment of all Borough monies, unless otherwise provided expressly by ordinance.

B. Objectives. The Borough investment portfolio shall be managed so that the portfolio, as a whole, meets the objectives set forth below. All persons selecting investments for Borough monies shall adhere to these objectives, which are listed in order of relative importance.

- 1) Safety of principal;
- 2) Maintaining sufficient liquidity to meet the Borough's cash flow requirements; and
- 3) Achieving a reasonable market rate of return.

Notwithstanding the above objectives, no person shall invest Borough monies in a manner which violates any provision of this chapter or the administrative procedures established hereunder.

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

5.10.030 Prudence. All persons having responsibility for making decisions regarding the investment of Borough monies shall utilize the same judgement 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.

5.10.040 Authorized Investments. A. Borough monies shall be invested only in the following instruments. All securities purchased by the Borough, and all other Borough investments, must mature not later than the time indicated below, measured from the date of the Borough'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. Certificates of deposit and other deposits at banks and savings and loan associations collateralized as provided in Sec. 5.10.070 -- 3 years;
5. 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;

6. Bonds and notes which are issued by any state or political subdivision thereof, and which are graded A or higher by Moody's Investor's Service, Inc., or Standard and Poor's Corporation -- 3 years;
7. Prime 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;
8. Prime bankers' acceptances offered by the 50 largest banks -- 180 days; and
9. Money market mutual funds whose portfolios consist entirely of instruments specified in subsections 1, 2, and 3 above -- maturity date not applicable.

B. No person shall invest any Borough monies in any instrument which is not listed in Subsection A. This prohibition includes but is not limited to, investment of Borough monies in any mutual fund (except as otherwise provided in Subsection A(9)), 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 may utilize in investing Borough monies. 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 Borough 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 deems appropriate. Similarly, the enumeration of instruments which are acceptable as collateral for Borough 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 discretion.

5.10.050 Placement of Borough 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 over the 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 shall not consider nonresponsive bids.

B. The finance director shall award a bid to the financial institution whose bid best fulfills the investment objectives contained in 5.10.010, considering the Borough investment portfolio as a whole.

C. All securities transferred to or from the Borough, 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 Borough funds are transferred to the financial institution with which the Borough is investing. The finance director may require financial institutions to deliver collateral to a custodial bank prior to bidding on Borough investments.

5.10.060 Diversification. Borough 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 shall adopt administrative procedures to implement this section.

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

COLLATERAL TYPE

MARGIN REQUIREMENT

- | | |
|---|------|
| 1. U.S. Treasury Securities with a maturity date 5 years or less from the date of the Borough'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 | |

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

5.10.110 Reporting. The finance director shall submit quarterly to the Assembly an investment report that summarizes the portfolio in terms of investment securities, maturities, risk categories, returns and other features.

5.10.120 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. "Prime 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 creditworthiness of the bank and a U.S. corporation as well as goods underlying the transaction.

9. "Prime 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.

Section 2. That KPB 5.08.020 and 5.08.021 are repealed.

Section 3. That the Kenai Peninsula Borough Code of Ordinances is hereby amended by adding a new section to be numbered KPB 5.08.015, which shall read as follows:

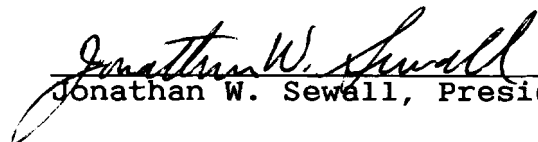
5.08.015 Depository Banks--Accounts maintained.

A general account shall be maintained for the borough and school district. Selection of the depository shall be in accordance with the requirements of the purchasing code, KPB 5.28.


Section 4. That from the effective date of this ordinance all previous resolutions or actions of the assembly establishing investment policies or practices shall no longer apply and govern investment of borough monies.

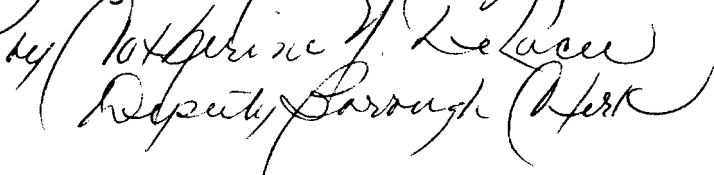
Section 5. That this ordinance shall take effect immediately upon its enactment.

ENACTED BY THE ASSEMBLY OF THE KENAI PENINSULA BOROUGH ON THIS 7th DAY OF February, 1989.


Jonathan W. Sewall, President

ATTEST:


Borough Clerk


Deputy Borough Clerk

INVESTMENT ADMINISTRATIVE PROCEDURES

These are specific procedures for the investment of Borough funds. Investment procedures are formulated by the Finance Director under the purview of the investment code of ordinances.

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DIVERSIFICATION

The following is the maximum level of investment in different instruments:

<u>Type</u>	<u>Level</u>	<u>Maturity</u>
U.S. Treasury securities	100%	2 yrs.
Other obligations of the U.S. Govt., its Agencies and Instrumentalities	100%	1 yr.
Overnight Repurchase Agreements	20%	N/A
Term Repurchase Agreements and Certificates of Deposit	60%	1 yr.
State Bonds and Notes	20%	2 yrs.
Bankers Acceptances	20%	180 days
Commercial paper	10%	180 days
Money Market Mutual Funds	10%	N/A

No more than 20% of the portfolio will be invested for longer than one year.

Repurchase Agreements and Certificates of Deposit with one financial institution shall not exceed:

- 1) 20% of the total net worth of the financial institution; and/or
- 2) 30% of the total Borough portfolio value

CURRENT AGREEMENTS AND CONTRACTS LISTING

Investment Safekeeping: First Nat'l Bank of Anchorage
July 29, 1987

Collateral Safekeeping: First Nat'l Bank of Anchorage
July 28, 1988

Banking Services: First Nat'l of Anchorage June 1, 1988

Tri-Party: First Nat'l Bank of Anchorage & Seafirst
Oct. 13, 1988
National Bank of Alaska, Seafirst

Repurchase: First Nat'l May 20, 1988

INTERNAL CONTROLS

The Supervisory Accountant - Cash Management, under the direction of the Controller, is responsible for placing and accounting for investments. Control over securities is achieved through separation of the accounting and safekeeping functions.

Safekeeping Authority: Ross Kinney, Finance Director
Larry Semmens, Controller

BID PROCEDURE-BROKERS

At least two bids will be received from brokers listed on the broker's list for a regular investment. The bid selected will be based on it's overall value to the portfolio.

Swaps will be awarded to a broker listed on the broker's list.

BROKERS LIST

Brokers may be placed on the list after obtaining suitable references. No investments may be purchased from a broker not on this list.

Matt Hofer, Merrill Lynch (907) 564-6614
Jeff Rousch, Benaroya Securities (800) 523-0616
Paul Jarvis, Cable Howse and Ragan (800) 654-8353
Stephen Clarke, Kidder Peabody (800) 426-7531
Jane Cuddy, PaineWebber (907) 562-3029

BID PROCEDURE-FINANCIAL INSTITUTIONS

Two bids are required from financial institutions listed on the financial institution list for certificates of deposit or term repurchase agreements. The bid best meeting the overall portfolio requirements will be selected.

FINANCIAL INSTITUTION LIST

A financial institution may appear on this list based on an evaluation of their overall creditworthiness.

Petter Jahnsen - National Bank of Alaska
Michael Buscemi - First National Bank of Anchorage

REPORT FORMAT

A report will be prepared quarterly for the Assembly showing the following information:

Type of investment

Face amount

Earnings for the current quarter and fiscal year to date

Annualized yield of portfolio

Maturity of portfolio