

## **INVESTMENT POLICY**

Approved by the Town Council at the 10-20-15 Town Council Meeting

All funds entrusted to the Town of Gray as directed by the Accounting Structure shall be invested in accordance with Title 30A MRSA § 5706, 5711-5719. Specifically the funds to be invested routinely may include but are not limited to:

- General fund (operating revenues received in advance of operational needs)
- Capital Reserve funds (funds allocated for future capital purchases, including proceeds of bonds or temporary notes issued in advance of the time for which payments for capital projects are required)
- Special Revenue funds
- Fiduciary and/or Permanent funds (in compliance with the Town's fiduciary capacity as trustee)

### **OBJECTIVES**

The Town's investment portfolio shall be designed with the objective of meeting all legal requirements set forth by Federal, State and applicable governing authorities.

The investment objectives are to invest the maximum amount possible, through the use of appropriately secure accounts. In investments, the Town places security/safety of funds as its first concern, maintenance of liquidity as a secondary concern and with rate of return as a tertiary concern.

To that end, the definitions for each concern are the following:

- 1) Security/Safety - Safety of principal and preservation of capital is the foremost objective. Capital losses (realized or unrealized) for all investment transactions made are unacceptable. 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 Treasurer will ensure the safety of invested funds by limiting interest rate, credit rate, deposit and custodial credit risks.
  - a. Interest Rate Risk - The risk that the market value of the portfolio securities will fall due to a change in general interest rates. Interest rate risk will be mitigated by:
    - i. 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 the original principal investment must not fall below the Town's original cost basis for all invested funds. This includes realized and unrealized gains and losses).
    - ii. Investing primarily in shorter-term securities.
  - b. Credit Rate Risk - The risk of loss due to the failure of the security of the backer. Credit rate risk will be mitigated by:
    - i. Limiting investments to the types of securities authorized only by this policy
    - ii. Using financial institutions which have been pre-qualified by the Finance Committee according to pre-established standards common to the industry and clearly identified by the Committee.

- iii. Diversifying the investment portfolio to meet the Town's current and future cash flow needs.
    - c. Deposit Risk - The risk that, in the event of the failure of a depository financial institution, the Town will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. Deposit risk will be mitigated by:
      - i. Complete collateralization/insurance of all deposited funds
        - 1. Primarily through depositing only with FDIC member institutions
        - 2. Validated custodial agreements with the depository institution
    - d. Custodial Credit Risk - The risk that, in the event of the failure of the financial institution, the Town will not be able to recover the value of its investments and/or collateral securities that are in the possession of an outside party. Custodial credit risk will be mitigated by:
      - i. Complete collateralization/insurance of all deposited funds
        - 1. Primarily through depositing only with FDIC member institutions
      - ii. Doing business with authorized institutions, depositories and broker/dealers
      - iii. Requirement to register all investments and/or collateral securities in the name of the Town only, not the financial institution
- 2) 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. This portfolio should be structured so that securities mature in a ladder form.
- 3) Rate of Return-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 intention of holding them until maturity. All maturities in excess of one year shall be first approved by the Town Council after the formal recommendation of the Finance Committee. The formal recommendation shall be accompanied with a detailed review of those investments longer than one year. The Town shall not sell the securities prior to maturity unless:
- a. It will minimize real or unrealized loss of principal
  - b. A security swap would improve the yield in the portfolio which outweighs the possible fees associated with the act
  - c. Maintenance of Liquidity as unforeseen before the investment

#### **ETHICS AND CONFLICTS OF INTEREST**

The Finance Committee will avoid proposing or approving any transaction that might impair public confidence in the Town's ability to govern effectively. The Treasurer and the Finance Director (or their assigned designee) will refrain from business activity that could conflict with proper execution of the current investment program as approved by the Finance Committee or the Town Council, or which could impair their ability to make impartial investment proposals. The Finance Committee, Treasurer and Finance Director will disclose to the Town Council, any material financial interest in financial institutions

that conduct business within the Town and will further disclose any large personal financial/investment positions that could be considered related to the performance of the Town's portfolio. The Finance Committee, Treasurer and Finance Director will subordinate their personal investment transactions to those of the Town, particularly with regard to the time of purchase and sales. Any violation of this procedure will be reviewed by the Town Council. After such review, the Town Council, by majority vote, may take appropriate disciplinary action according to the Personnel Policy, up to and including termination of employment.

#### **DELEGATION OF AUTHORITY**

The ultimate responsibility for the investment program rests with the Town Council, who have delegated the majority of those responsibilities to the Finance Committee in the Town Council Rules, and with oversight and reporting requirements to be undertaken by the Treasurer and the Finance Director. The Treasurer and the Finance Director will be responsible for all transactions processed and have established a system of internal controls to regulate the activities of subordinated officers.

It is the responsibility of the Finance Committee to develop and review biannually, the investment policies of the Town, assuring that all assets of the Town have been properly protected and invested in compliance with Federal and State laws and regulations.

#### **AUTHORIZED FINANCIAL DEALERS AND INSTITUTIONS**

The Treasurer and the Finance Director, under the oversight of the Finance Committee, will conduct investment transactions with financial and investment securities approved by the Finance Committee, or the Town Council. In selecting financial institutions with which to conduct business, the Treasurer and the Finance Director will present an overview of the financial institution's credentials, audited financial statements, proof of National Association of Securities Dealers (NASD) certification (if necessary), membership in the Federal Deposit Insurance Company (FDIC) (if necessary), proof of State registration, and other details as deemed pertinent or required by industry standards and current regulations. Any Financial Institution with which the Town conducts business must certify, in writing, that it has read, understood and agreed to comply with the Town's Fiscal Policy (as applicable), specifically the Investment section of that document.

#### **COLLATERALIZATION**

Collateralization is required on all investments including repurchase agreements. The collateral must be in an amount equal to the excess deposit and interest earned 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.

## **INVESTMENT TRAINING**

The Treasurer and/or Finance Director may be expected to attend at least one applicable training session annually, to be paid for by the Town, or will continually educate themselves in a manner acceptable after a required review and approval of the Finance Committee. The training or education is required to include any State of Maine Legislative Action as applicable to this policy.

## **SUITABLE AND AUTHORIZED INVESTMENTS**

- United States government bonds and instrumentalities (bonds and other direct obligations of the United States)
- State bonds - "bonds and other direct obligations issued or guaranteed by any state or agency of the state, provided that the securities are rated within the 3 highest grades by any rating service approved by the Superintendent of Banking" (30A, MRSA, Section 5712, 2)
- Maine State bonds – "bonds and other direct obligations issued or guaranteed by any state or agency of the state, or any political subdivision of the State that is not in default..." (30A, MRSA, 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, MRSA, Section 5712, 4)
- Short-term obligations – prime bankers' acceptances and prime commercial paper
- Corporate bonds – "bonds and other direct obligations of any United States or Canadian corporation, provided that the securities are rated within the 3 highest grades. Nor 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, MRSA, 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 in 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, MRSA, 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 in no more than 20% of the stock of any one corporation" (30A, MRSA, 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, MRSA, 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 US 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, MRSA, 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 a 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, MRSA, Section 5714, 1B)
- Capital Notes or Debentures – “issued by an 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 maybe be so invested” (30A, MRSA, 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, MRSA, 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 between the Town’s accounts 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.

## **DIVERSIFICATION**

The Town will 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 US Treasury Securities and other authorized pools. No more than 75% of the Town’s investment portfolio will be invested in a single security type or with a single investment institution.

## **INTERNAL CONTROL**

The Town's independent auditing auditors will annually review the Town's investment internal controls and procedures. 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 all transactions, code of ethics and 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's objective is to propose methods to the Finance Committee to maximize the Town's cash invested at all times.

## **REPORTING**

The Treasurer and the Finance Director will submit an investment report(s) to the Finance Committee for all funds invested on a mutually-agreed-upon schedule (not to exceed a six-month period). However, all investments will be recorded in to the Trial Balance and reconciled monthly by the Finance Director in the same manner as all other Town cash accounts.

The investment report(s) will including the following as necessary/applicable:

- Report period covered
- Type of investment(s)
- Investment(s) by institution
- Current market value (even though is it recognized that generally accepted accounting principles do not allow for the recording of market value as an account balance when taking into consideration collateralization and similar requirements of the Town)
- Purchases or cost of securities
- Date of maturity
- Rate of interest
- Realized and unrealized gains or losses (in consideration of current market value)

## **PORTFOLIO PERFORMANCE**

If the market value of the Town's investment portfolio for any fund drops below 5%, the investment company will immediately notify the Treasurer or the Finance Director by phone, if it cannot be done in writing, within 30 days of the date of occurrence. If the market value of the Town's investment portfolio falls below 10%, the investment company will immediately notify the Treasurer or the Finance Director in writing, within 30 days of the date of occurrence.

**LEGISLATIVE/POLICY CHANGES**

The Treasurer and Finance Director will incorporate any State of Maine Legislative Actions that impact allowable investment type, maturities and percentage of allocations. Updates of the same to applicable sections of this policy, as necessary and/or required, will be presented to the Finance Committee for recommendation to the Town Council.