

CITY OF PRESQUE ISLE

Investment Policy



Approved by the City Council: October 16, 1995
Amended by the City Council: November 4, 1996
Reaffirmed without changes: July 10, 2006

City Seal

Attest: Nancy Nichols, City Clerk

INVESTMENT POLICY

It is the policy of the City of Presque Isle that available funds be invested to the maximum extent possible at the highest possible rates obtainable at the time of investment in conformance with the legal and administrative guidelines outlined herein.

Legal Aspects

Title 30-A, Section 5706 through 5719 of the Maine Revised Statutes Annotated (M.R.S.A.) authorizes Treasurers to deposit or invest municipal funds by direction of the municipal officers. All investment instruments allowed in this policy must be expressly authorized by Maine Statutes, including updates.

Investment Objectives

The following investment objectives shall apply in the management of funds:

1. Primary concern shall be given to the preservation of capital and the protection of investment principal.
2. The portfolio shall remain sufficiently liquid to enable the City to meet operational requirements which may be reasonably anticipated.
3. The City will strive to maximize the return on the portfolio but will avoid assuming unreasonable investment risk.
4. The City will diversify its investments to avoid incurring unreasonable and avoidable risks regarding specific security type or individual institutions.

Investment Principles

Investment of the City's funds shall be conducted in a manner consistent with the following principles:

1. The City may purchase only legally authorized investments pursuant to 30-A M.R.S.A., Section 5706 through 5719.

Investment Policy

Page 2:

2. In order to maintain liquidity, the maturity date of investments shall not be beyond the time the City anticipates it will need the funds. Funds in the operating (general) fund shall have investment maturities of one year or less. In the case of non-operating funds, investments shall have maturities of two years or less with no more than twenty percent (20%) of the average portfolio beyond one year.
3. Deposits and investments of funds in local banks can only be made in financial institutions that are insured by the Federal Deposit Insurance Corporation (FDIC), the National Credit Union Share Insurance Fund or the successors to these federal agencies. Any funds deposited or invested above the \$100,000 insurance limit should be collateralized by the financial institution, or the excess funds should be placed with another financial institutional.
4. Cash balance in all demand deposit accounts shall not exceed compensating balances whenever possible. The Treasurer shall strive to invest at least ninety-five percent (95%) of all available funds on a daily basis.
5. Repurchase agreements can only be obtained from financially stable financial institutions. Repurchase agreements must be collateralized by U. S. Government securities with a market value equal to, or greater than, the principal amount of the repurchase agreement.

Authorized Investments

The following is a list of the types of investments that are authorized by Maine Statutes:

1. Obligations of the U. S. Government, its agencies and instrumentalities.

A. **United States Treasury Obligations**

Treasury Bills (or T-Bills) These U. S. Government obligations are non-interest bearing instruments that pay the bearer a fixed sum after a specified number of days from the issue date. The bills are sold at a discount price and their yield is the difference between the discount price and their face value. The full faith and credit of the U. S. Government is pledged to secure their repayment. They feature maximum liquidity and are offered weekly with maturities of ninety-one (91) and one hundred and ninety-two (192) days on an auction basis.

Investment Policy
Page 3:

Treasury Notes and Bonds – Like municipal bonds, treasury notes and bonds are coupon securities paying interest every six (6) months. Notes have a fixed maturity of not less than one year and not more than ten (10) years. Bonds are coupon securities with maturities exceeding ten (10) years. Most treasury bonds with longer maturities, have call provisions which allow the treasury to redeem the bond prior to maturity on, or after, the specified call date.

B. **U. S. Government Agency Securities** – Other interest bearing obligations are issued by various Federal agencies. Federally operated agencies include:

Export – Import Bank of the United States
Farmers Home Administration (Fm. H. A.)
Federal Housing Administration (F. H. A.)
General Service Administration (G. S. A.)
Government National Mortgage Association (G. N. M. A. or Ginnie Mae)
Small Business Administration (S. B. A.)

C. **U. S. Government – Sponsored Corporations – Instrumentalities**

Most of the growth in the so-called federal agency market has resulted from the issuance of debt by government-sponsored corporations. These instru-

mentalities are established to fund various lending programs. The principal agencies that issue such obligations are:

Federal Land Banks

Federal Intermediate Credit Banks

Federal Home Loan Banks

Federal National Mortgage Association (F. N. M. A. or Fannie Mae)

2. Certificates of deposits and other evidence of deposits at banks, savings and loan associations, and credit unions.
 - A. Certificates of Deposit issued by commercial banks have been the mainstay of most governmental investment programs. The bank CD's are available at all

Investment Policy

Page 4:

traditional bank depositories and have been authorized for investment purposes by most legislative bodies. CD's offer money market rates of return for minimum deposits of \$100,000 and allow the purchaser to choose the maturity dates ranging from fourteen (14) days on. The major disadvantage of CD's is the inability to terminate the investment before maturity without partial or total loss of interest income. Insurance coverage is provided for deposits up to \$100,000 by the Federal Deposit Insurance Corporation (FDIC) thus affording some measure of safety.

3. A prime bankers acceptances
 - A. A draft or bill of exchange accepted by a bank which then guarantees the payment of that bill.
4. Prime commercial papers
 - A. An unsecured promissory note with a fixed maturity of no more than two-hundred seventy (270) days.

5. Repurchase agreements whose underlying collateral consists of the following:
 - A. The repurchase agreement is a short term instrument tailored to specific maturities. Essentially, the REPO consists of two simultaneous transactions. First, the investor purchases securities (collateral) from a banker or dealer. At the same time, the selling bank or dealer contractually agrees to repurchase the security (collateral) at the same price (plus interest) at a mutually agreed future date. The interest rate is agreed upon when the repurchase agreement is executed. The collateral used most often is a U. S. Government security which is ordinarily kept in a separate account created and maintained by the bank or dealer. Collateral pledged should always be equal to, or greater than, the face value of the repurchase agreement. Advance discussion of collateral policies of each institution should be held at time of purchase to avoid any possible confusion concerning the amount of collateral on each investment.

Investment Policy
Page 5:

6. Money market mutual funds whose portfolios consists of the following:
 - A. Investments in the shares of an investment company registered under the United States Investment Company Act of 1940, whose shares are registered under the United States Securities Act of 1933 and provided that the investments of the fund are limited to bonds and other direct obligations of the United States Government or repurchase agreements secured by bonds and other direct obligations of the United States Government.

Reporting

An annual report shall be submitted to the City Manager and City Council no later than sixty (60) days after the end of the fiscal year summarizing the information and include suggestions for improvements that might be made in the investment program.

Code of Ethics

All personnel involved in the investment program shall refrain from personal business activity that could conflict with proper execution of the investment program, or which could impair their ability to make impartial investment decisions. No City employee shall invest City funds in any instrument or institution in which he/she has any direct or indirect financial interest, nor shall he/she accept any gift, free service or payment of any kind for performing their duties under this policy.

Savings Clause

If any section, sentence, clause or phrase of this policy is held, for any reason to be inoperative, void or invalid, the validity of the remaining portion of this resolution shall not be affected thereby.