

Board of Public Works of the City of Lewes

STATEMENT OF OBJECTIVES AND GUIDELINES FOR THE INVESTMENT OF BOARD OF PUBLIC WORKS FUNDS

January 19, 2011

Purpose

A. The objectives and guidelines, as outlined herein, apply to all cash and special purpose funds for which the Board is financially accountable (the "Board's Fund"). These funds are categorized as outlined below.

1. Cash Accounts. The Board's available cash divided into three parts:

Collection and Disbursement Accounts: The Board maintains an amount of cash in its general collection and disbursement accounts sufficient to meet its outstanding obligations.

Cash and Liquidity Accounts: The majority of the Board's cash balance available for investment is maintained in the cash and liquidity accounts. These accounts will be managed and invested by the General Manager in order to maximize the return to the Board while, at the same time, providing for safety of principal and sufficient liquidity for the Board to meet its cash needs. The Board will manage its short-term (12- to 18-month) investments to ensure sufficient liquidity and prevent their premature sale for the purpose of covering expenditures. Short-term investments should mature at face value in sufficient amounts to meet any needs.

Reserve Cash (Intermediate) Account: To the extent cash is not expected to be needed on short notice, the Board will direct the funding of a third part. This fund shall be managed and invested by the General Manager in order to maximize the return on said money to the Board while providing for the safety of principal. The Board will manage its intermediate investments to ensure they are made under circumstances and in amounts in which the Board would not be forced to liquidate them at a loss.

B. The Board's funds shall be invested pursuant to the prudent person standard under the guidelines set forth below. The Board will review regularly its investment policies and strategies in light of the Board's experience as well as economic and financial conditions. The Board will consider special exceptions to these guidelines on a case-by-case basis. To the extent certain funds are subject to additional restrictions, the most limiting of the guidelines will apply to those funds.

C. Where applicable, this policy also incorporates the following Government Accounting Standards Board Statements:

1. GASB Statement No. 31 - Accounting and Financial Reporting for Certain Investments and External Investment Pools, implemented July 1, 1997. It should be noted that GASB Statement No. 32 amends No. 31 but only as it applies to Section 457 plans.
2. GASB Statement No. 40 – Deposit and Investment Risk Disclosure, effective July 1, 2004.

II. Investment Objectives and Maturity Restrictions

A. Each of the accounts shall be invested consistent with the primary objective for the account and the following general guidelines:

1. The General Manager shall maintain a pool of liquid funds that is considered

sufficient to meet the uncertainty of cash demands.

2. The remainder of the assets will be managed to produce the highest return available, consistent with liquidity and quality constraints, given the General Manager's outlook for interest rates and the economic environment.

B. The objectives and maturity restrictions for each of the investable account types are outlined below.

1. Cash Account Investment Objectives:

The funds in the Cash Account must be available to support Board programs and activities. Since the amount of assets available for investment will fluctuate, the investment program adopted must allow the Board to meet both anticipated and unanticipated cash demands. The primary objective of this account is, therefore, to be invested so as to provide sufficient liquidity to meet the Board's needs for funds as they arise. (In this respect, liquidity is defined as the ability to realize, when required, the amount originally invested).

Maturity Restrictions: The maximum maturity for any investment at the time of purchase for the Cash Account shall be one year.

Up to 100 percent of the Cash Account may be invested in the Delaware Local Government Investment Pool (DELGIP) Fund and/or the operations checking account at Board's designated Bank(s)

2. Liquidity Accounts

Investment Objectives: The primary investment objectives of the Liquidity Accounts are to maximize yield and to maintain safety of principal.

Maturity Restrictions: The maximum maturity for any investment at the time of purchase shall be two years for the Liquidity Accounts.

3 Reserve Cash (Intermediate) Account

Investment Objectives: The Reserve Cash Account has been established to provide funding over an intermediate horizon. The primary investment objectives, therefore, are to maximize yield and maintain safety of principal during the investment period.

Maturity Restrictions: The maximum maturity for any investment at the time of purchase shall be ten years. The maximum average maturity of the portfolio shall be seven years.

4. Authority Operating, Bond and Debt Service Reserve Fund Accounts

Investment Objectives: The Board maintains various operating, bond and debt reserve funds, the investment of which is governed by statutes, bond trust agreements or Federal guidelines. The investment objectives of the operating, bond and debt service reserve funds include maximizing yield and maintaining the safety of principal. (Current tax law requires that aggregate earnings in excess of the bond yield on bond and debt service reserve funds, however, must be rebated to the Federal government).

Maturity Restrictions: The maximum maturity for any investment at the time of purchase shall be ten years, except when prudent to match a specific investment instrument with a known specific future liability, in which case the maturity limitation shall match the maturity of the corresponding liability.

III. Investment Restrictions

- A. The Board has adopted the following restrictions and policies relating to the investment of its assets. The policies are fundamental and may not be changed without written approval of the Board.
- B. The General Manager may not:
1. Purchase any securities other than money market and other securities described under Section IV, "Permissible Investments," subject to the percentage of account limitations defined in Section VI, "Percentage of Account Limitations," hereof;
 2. Make investments for the purpose of exercising control or management of an issuer;
 3. Purchase or sell real estate for investment purposes (other than money market securities secured by real estate or money market securities issued by companies which invest in real estate, or interests therein), commodities or commodity contracts with the exception of electricity, interests in oil, gas or other mineral exploration or development programs;
 4. Purchase any securities on margin, except for use of short-term credit necessary for clearance of purchases and sales of portfolio securities;
 5. Make short sales of securities or maintain a short position or write, purchase or sell puts, calls, straddles, spreads or combinations thereof, with the exception of wholesale electric power;
 6. Make loans to other persons;
 7. Mortgage, pledge, hypothecate or in any manner transfer as security for indebtedness any securities owned or held; or
 8. Invest in securities (except for variable rate master demand notes) with legal or contractual restrictions on resale or for which no readily available market exists

IV. Permissible Investments

The following investments are permissible for all funds under the review of the Cash Management Policy Board, subject to the percentage limitations summarized in Section VI hereof.

- A. United States Government Securities. Marketable securities issued by the U.S. government and supported by the full faith and credit of the U.S. Treasury either by statute or an opinion of the attorney general of the United States.
- B. Government Agency Securities. Debt securities issued by government-sponsored enterprises, federal agencies, federal financing banks, and international institutions part of whose capital stock has been subscribed for by the United States.

C. Certificates of Deposit, Time Deposits, and Bankers Acceptances.

1. Domestic Institutions: Issued or endorsed by a domestic bank, or a savings and loan association, organized and supervised under federal or any state laws, or any of its branches located in the United Kingdom, the Bahamas, or the Cayman Islands and denominated in U.S. dollars; provided, however, that:

The banking institution has assets of not less than \$5 billion; and

The banking institution is rated not lower than "B" by Fitch, Inc. (formerly Thomson's BankWatch Service).

2. Non-Domestic Institutions: Issued or endorsed by a non-domestic bank organized and supervised under the laws of Japan, Canada, United Kingdom, Holland, Germany, France, or Switzerland and denominated in U.S. dollars, provided, however, that:

The banking institution has assets of not less than \$5 billion; and

The banking institution has a Fitch, Inc. (formerly Thomson's BankWatch Service) "Peer Group Rating" not lower than II.

3. Delaware-Domiciled Institutions: The Cash Account, and only the Cash Account, may also be invested in Certificates of Deposit, Time Deposits, and Bankers Acceptances issued by or endorsed by any bank or savings association domiciled in the State of Delaware and organized and supervised under federal or State of Delaware banking laws which does not meet the requirements of Section IV-C-1 hereto; provided, however, that:

For each of the latest two years, the bank or association has had a return on total average assets of 0.50% or greater and an average capital ratio (defined as total equity capital to total assets) of at least 1 to 20, or the instrument is secured as set forth in Section V, "Collateralization of Board Deposits," hereto; and

Not more than the lesser of \$10 million or 25% of an issuer's total equity capital may be invested in any one issuer. (Investments due to mature in one business day may be excluded from the computation of this percentage.)

The Board expressly affirms that, consistent with these guidelines, Delaware banks and savings associations should be considered as a source of investment.

D. Money Market Funds. The money market fund(s) selected by the General Manager shall be consistent with the investment quality guidelines as stated in this document.

E. Canadian Treasury Bills. Marketable securities issued by the government of Canada, which are fully hedged against fluctuations in foreign exchange markets.

F. Canadian Agency Securities. Debt securities issued by the Export Development Corporation, a Federal Crown Corporation and an agent of Her Majesty in Right of Canada. These securities are issued as U.S. dollar denominated commercial paper having a maximum maturity of 270 days.

G Mortgage-Backed Securities. The Cash Reserve (Intermediate) Account and Liquidity Account may invest in AAA-rated Government National Mortgage Association (GNMA), Federal National Mortgage Association (FNMA) or Federal Home Loan Mortgage Association (FHLMC) mortgage-backed securities in the form of pass-throughs. The average life of these securities in the Liquidity Account is not to exceed

two years.

- H Municipal Obligations. Taxable and tax-exempt securities issued by state and local governments and public authorities in the U.S. These investments are permissible only for the Cash Reserve (Intermediate) Account.

V. Collateralization of Board Deposits

In accordance with the Government Finance Officers Association Recommended Practices on the Collateralization of Public Deposits, full collateralization will be required only on checking accounts (over and above the FDIC coverage) and non-negotiable certificates of deposit.

- A. When collateralization is required, it must be pledged and shall consist of one or more of the following securities:

- U.S. Government securities.

- U.S. Government agency securities.

- Federal Home Loan Board letters of credit.

- State of Delaware securities.

- Securities of a political subdivision of the State of Delaware with a Moody's rating of "A" or better.

- Ensure that the securities pledged as collateral (except for Federal Home Loan Board letters of credit) have a market value equal to or greater than 102 percent of the ledger balance(s) in the account(s) marked to market each day.

- B. The financial institution shall:

- 1. Ensure that securities pledged as collateral are housed at the Federal Reserve Bank or a mutually agreed upon third party depository.
 - 2. Provide reports on a monthly basis to the Board detailing the collateral pledged.
 - 3. Provide a Call Report (Consolidated Report of Condition and Income, FFIEC 031) on a quarterly basis to the Board.

VI. Percentage of Account Limitations

The purchase of the securities outlined in Section IV cannot exceed the following percentage limits of the Account, valued at market. Investments due to mature in one business day may be excluded from the computation of said percentages.

- A. U.S. Government. No Restrictions.

- B. Government Agency. 50% total, 20% in any one agency.

- C. CDs, Time Deposits and Bankers Acceptances. 50% total, 10% in any one issuer.

- 1. Domestic. No additional restrictions.
 - 2. Non-Domestic. 25%.
 - 3. Delaware Domiciled. See IV-C-3-b hereof.

- D. Money Market Funds. 25% total, 10% in any one fund except for the Cash Account, which may invest 100% of the Account in the DELGIP Fund or the Board's designated bank money market fund.

- E. Canadian Treasuries. 25% total, 10% in any one agency.
- F Canadian Agency Securities. 25% total, 10% in any one agency.
- G. Mortgage-backed and asset backed securities. 20% total (combined with VI. M. below if applicable)
- H. Municipal Obligations. 10% in any one issuer.

VII. Account Reviews

The General Manager shall report to the Board quarterly the investment outlook, structure of the accounts, and historic results. This report shall include but not be limited to:

- A. A review of the investment results achieved over the prior quarter and year in relation to the account restrictions and the General Manager's investment views and internal policies in effect prior to, and during the period;
- B. The General Manager's current outlook for the financial markets during the next six to twelve months;
- C. The General Manager's internal investment policies that have been adopted in response to these expectations;
- D. The appropriateness of the present portfolio given the expectations, internal investment policies and the Board's requirements; and
- E. A review of the guidelines relative to any constraint that the General Manager feels limits his/her ability to respond to market developments in a manner consistent with the investment objectives.