

Proposed by:	Assemblyman Henry
Finance Review:	05/02/2012
First Reading:	05/03/2012
Second Reading:	05/17/2012
Vote:	4 Aye      1 Nay    1 Absent

## MUNICIPALITY OF SKAGWAY, ALASKA ORDINANCE NO. 12-13

### AN ORDINANCE OF THE MUNICIPALITY OF SKAGWAY, ALASKA AMENDING TITLE 4 REVENUE AND FINANCE BY AMENDING SECTION 4.04.020 DEPOSIT AND INVESTMENT OF FUNDS.

WHEREAS, amending the way in which General Fund monies are invested will allow for higher returns on investments;

NOW THEREFORE BE IT ORDAINED AND ENACTED BY THE MUNICIPALITY OF SKAGWAY, ALASKA AS FOLLOWS:

**Section 1. Classification.** This ordinance is of a general and permanent nature and shall become a part of the Skagway Municipal Code.

**Section 2. Purpose.** To amend Title 4, Revenue and Finance by amending Section 4.04.020 Deposit and Investment of Funds.

**Section 3. Amendment.** The Skagway Municipal Code is hereby amended (~~strike through~~) indicates text to be deleted from and (**bold underscore**) indicates text added to the current code. Chapter 19.04 Zoning Ordinance is hereby amended as follows:

#### 4.04.020 **Deposit and investment of funds.**

A. The prudent man rule shall be applied in the management and investment of municipal funds. The "prudent man rule" means that in making investments the same judgment and care under the circumstance then prevailing shall be exercised which an institutional investor of ordinary prudence, discretion and intelligence exercises in the management of large investments entrusted to it, not in regard to speculation, but in regard to the permanent disposition of funds, considering probable safety of capital as well as probable income.

1. Objective – ~~General Fund and Enterprise Funds~~. Safety of principal is the foremost investment objective of the municipality for these funds. Each investment transaction shall seek to first ensure that capital losses are avoided, whether they be from securities defaults or erosion of market value. The municipality seeks to attain market rates of return on its investments, consistent with constraints imposed by its safety objectives and cash flow considerations that restrict placement of public funds. All participants in the investment process shall seek to act responsibly as custodians of the public trust. Investment officials shall avoid any transaction that might impair public confidence in the municipality.
2. Objective – J.M. Frey Land Fund Reserve, **General Fund** and the Sales Tax Fund. Growth and Income is the primary objective of the municipality for this fund. The municipality desires to keep portfolio risk below that of common stocks alone, but to pursue a total return greater than that provided by bonds alone. Total return is defined to be the result of capital gains, realized and unrealized, plus income derived from dividends and interest. It is recognized that economic and security market conditions are not constant, but ever changing and, as a result, continuous portfolio adjustments will be required in order to maintain asset productivity. All

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participants in the investment process shall seek to act responsibly as custodians of the public trust. Investment officials shall avoid any transaction that might impair public confidence in the municipality.

3. Treasury management – The responsibility for conducting investment transactions resides with the borough manager. The manager shall not deposit funds in any depository that is not a member of the Federal Deposit Insurance Corporation (FDIC) or the Securities Investor Protection Corporation (SIPC). Investments shall be made with judgment and care, under 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 their capital as well as the probable income to be derived.
4. Permissible investments – Funds of the municipality may be invested in:
  - a. U.S. Treasury bills;
  - b. Notes or bonds issued by the United States Treasury, U.S. government agencies, or government-sponsored enterprises, or the state of Alaska or its political subdivisions or other states of the United States;
  - c. Mortgage-backed and asset-backed obligations denominated in U.S. dollars with a credit rating rated of A2/A3 or better from two national rating agencies;
  - d. Corporate debt obligations of U.S.-domiciled corporations with a credit rating of A2/A3 or better from two national ratings agencies;
  - e. Convertible debt obligations of U.S.-domiciled corporations with a credit rating of A2/A3 or better from two national ratings agencies;
  - f. Federally insured or fully collateralized certificates of deposit of banks and savings and loan associations;
  - g. A state investment pool formed within the state of Alaska and comprised of agencies of the state and/or its political subdivisions;
  - h. Money market mutual funds whose portfolios consist predominantly of U.S. government securities;
  - i. An investment pool authorized by Alaska Statutes 37.23.010 through 37.23.900;
  - j. Up to forty percent may be invested in bond mutual funds investing primarily in investment grade corporate and government bonds with a minimum of a five-year track record and at least one billion dollars in asset value;
  - k. In addition to the above listed instruments, the following are also permitted in the J.M. Frey Land Fund Reserve, **General Fund** and the Sales Tax Fund:
    - (i) Investment in permitted equities shall not exceed ~~60%~~ **80%** of total portfolio value. This shall be reviewed by July 1 annually.
    - (ii) Common and preferred stock of U.S.-domiciled corporations listed on a national exchange or NASDAQ, with a minimum market capitalization of five hundred million dollars,
    - (iii) Common and preferred stock of foreign corporations which are listed on a national exchange or NASDAQ, traded in the form of American Depository Receipts or similar structure,

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- (iv) Master limited partnerships listed on a national exchange,
  - (v) Real estate investment trusts (REIT's) listed on a national exchange with a market capitalization in excess of five hundred million dollars,
  - (vi) Closed-end stock mutual funds listed on a national exchange with a minimum total net asset value in excess of two hundred million dollars, the individual securities contained therein which may not meet the above requirements.
  - (vii) Open-end stock mutual funds with a minimum four-year track record and at least five hundred million dollars in asset value
  - (viii) Bond mutual funds investing primarily in investment grade corporate and government bonds with a minimum of a five-year track record and at least five hundred million dollars in asset value.
5. Diversification - It is the policy of the municipality to diversify its investment portfolio. Assets shall be diversified to eliminate the risk of loss resulting from over-concentration of assets in a specific issuer or a specific class of securities. Diversification strategies shall be determined and revised annually by the borough manager and the finance committee.
- a. In establishing specific diversification strategies, the following general policies and constraints shall apply:
    - (i) Portfolio maturities shall be staggered to avoid undue concentration of assets in a specific maturity sector. Maturities selected shall provide for stability of income and reasonable liquidity.
  - b. The following diversification limitations shall be imposed on the portfolio:
    - (i) To the extent possible, the municipality will attempt to match investments with anticipated cash requirements. Excess funds will be defined, for this policy, as funds in excess of anticipated annually budgeted moneys and cash flows. The fixed income portion of such excess funds shall be invested with an average portfolio maturity not to exceed eight years.
6. Internal Controls – As part of the annual audit there shall be a review by the external auditor to assure the compliance of the municipality's policies and procedures. The borough manager may also, with concurrence of the borough assembly, commission independent reports assessing the absolute and comparative performance of the investment advisor(s) and of compliance with this chapter.
7. Selection of banking services – Depositories shall be selected through a banking selection process every three years. In selecting depositories, the credit worthiness of institutions shall be considered, and the borough manager shall conduct a comprehensive review of prospective depositories' credit characteristics and financial history.
8. Investment advisor – The borough manager, with concurrence of the borough assembly, shall retain a registered investment advisor to manage a portion of the municipality's investment portfolio. Such advisor(s) will be bound by all aspects of this chapter. Investment guidelines given to such advisor(s) may be more restrictive than the

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- policies contained herein, but may not be less restrictive. The advisor shall submit quarterly performance reports to the borough manager. The advisor shall be licensed with the Securities Exchange Commission.
9. Reporting requirements – The borough manager shall generate monthly reports for management purposes. In addition, the borough assembly will be provided quarterly reports that will include data on investment instruments being held, interest earned, comparing the return with budgetary expectations, as well as any narrative necessary for clarification.
  10. Investment policy adoption – The municipality’s investment policy shall be adopted by ordinance. The finance committee shall review the policy on an annual basis and any modifications made thereto must be approved by the borough assembly.


**Section 4. Severability.** If any provision of this ordinance or any application thereof to any person or circumstance is held invalid, the remainder of this ordinance and the application to other persons or circumstances shall not be affected thereby.

**Section 5. Effective Date.** This ordinance shall become effective immediately upon adoption.

**PASSED AND APPROVED** by a duly constituted quorum of the Borough Assembly of the Municipality of Skagway this 17<sup>th</sup> day of May, 2012.

  
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Stan Selmer, Mayor

ATTEST:

  
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Emily A. Deach, Borough Clerk

(SEAL)

