Investment Policy


A. Background Information

The City of Saco (“the City”), incorporated in 1867, is located at the mouth of the Saco River on the southerly side of Saco Bay in the Gulf of Maine, in the southern coastal section of the State and is approximately the tenth largest city in the State of Maine. The City operates under a Mayor-Council-City Administrator form of government, with a seven member Council. The City Administrator is the City’s Chief Operating Officer and is appointed by the Mayor and confirmed by the Council.

The Finance Director is the City’s Treasurer. Title 30-A, Sections 5706 and 5711 of the Maine Revised Statutes provide that the Treasurer shall invest municipal funds upon direction of the municipal officers. Title 30-A, Section 5719 provides that a municipality has no authority to make any investments other than those permitted by statute.

The following Investment Policy addresses the methods, procedures and practices, which must be exercised to ensure effective and judicious fiscal and investment management of the City’s funds. The purpose of this Investment Policy is to establish the investment scope, objectives, delegation of authority, standards of prudence, reporting requirements, internal controls, eligible investments and transactions, diversification requirements, risk tolerance, and safekeeping and custodial procedures for the investment of the funds of the City of Saco.

This Investment Policy has been adopted by the City Council of the City of Saco by resolution on June 20, 2005 and it replaces any previously dated investment policies, guidelines or lists of authorized investments.

B. SCOPE

This Policy shall apply to the investment management of the following financial assets under the control of the City and accounted for within the City’s Comprehensive Annual Financial Report: Operating Funds within the City’s General Fund, Special Revenue Funds, Capital Project Funds, Proprietary Funds, Permanent Funds, Agency Funds and bond proceeds.

Many of these funds are pooled for investment purposes. The investment income derived from the pooled investment account will be allocated to the
various funds based on the applicable balance on an annual basis as of each fiscal year end.

C. PRUDENCE

The standard of prudence to be used for managing the City’s assets shall be Title 30-A, Section 5718 of the Maine Revised Statutes which in general states that investments shall be made with the judgment and care that persons of prudence, discretion and intelligence, under circumstances then prevailing, exercise in the management of their own affairs, not for speculation but for investment, considering safety, income and maintenance of liquidity.

1. Safety: The safety of principal and preservation of capital in the overall portfolio;
2. Income: The income to be derived throughout budgetary and economic cycles, taking into account prudent investment risk constraints and the cash-flow characteristics of the portfolio; and
3. Maintenance of liquidity: Maintenance of sufficient liquidity to meet all operating and other cash requirements with which a fund is charged that are reasonably anticipated.

The City’s investment program shall be designed and managed with a degree of professionalism that is worthy of the public trust. The City recognizes that no investment is totally without risk and that the investment activities of the City are a matter of public record. Accordingly, the City recognizes that occasional measured losses are inevitable in a diversified portfolio and shall be considered within the context of the overall portfolio’s return, provided that adequate diversification has been implemented and that the sale of a security is in the best long-term interest of the City.

The Finance Director and authorized investment personnel acting in accordance with written procedures and exercising due diligence shall be relieved of personal responsibility for an individual security’s credit risk or market price changes, provided that the deviations from expectations are reported in a timely fashion to the City Administrator and appropriate action is taken to control adverse developments.

D. OBJECTIVES

The City’s principal investment objectives are:

1. Preservation of capital and protection of investment principal;
2. Maintenance of sufficient liquidity to meet anticipated cash flows;
3. Attainment of a market value rate of return;
4. Diversification to avoid incurring unreasonable market risks.
5. Maximization of funds available for investment;
6. Conformance with all federal, state and local statutes, rules or regulations

E. DELEGATION OF AUTHORITY

Under the Maine Revised Statutes Title 30-A Sections 5706 through 5719 and the Saco City Code, responsibility for the investment of the City’s funds covered by this Investment Policy resides with the Finance Director who is the City’s Treasurer. The Finance Director is responsible for developing City policy regarding the investment and custody of the City’s investable funds, as well as the City’s internal procedures affecting those funds. The Finance Director shall implement this Policy after it is approved by the City Council.

The Finance Director has the authority to conduct investment transactions and manage the operation of the investment portfolio. The Finance Director may delegate authority to other specifically authorized staff members with the approval of the City Administrator. No person may engage in an investment transaction except as expressly provided under the terms of this Investment Policy. The Finance Director shall be responsible for all investment or cash management transactions undertaken and shall keep the City Administrator fully apprised of the same.

The City may engage the support services of outside professionals in regard to its investment program, so long as it can be clearly demonstrated that these services produce a net financial advantage or necessary financial protection of the City’s financial resources.

F. ETHICS AND CONFLICTS OF INTEREST

Elected officials and employees involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment program or which could impair or create the appearance of an impairment of their ability to make impartial investment decisions. Employees and investment officials shall disclose to the City Administrator any material financial interests they have in financial institutions that conduct business with the City and they shall subordinate their personal investment transactions to those of the City.

G. PROHIBITED INTEREST

No City employee shall invest City funds in any instrument or institution in which he or she has a direct or indirect financial interest; nor shall he or she accept any gift, free service or payment of any kind for performing their duties under this policy.
H. AUTHORIZED SECURITIES AND TRANSACTIONS

All investments of the City shall be made in accordance with Title 30-A, Sections 5706 through 5719 of the Maine Revised Statutes. Any revisions or extensions of these sections of the Maine Revised Statutes will be assumed to be part of this Investment Policy immediately upon being enacted.

The City has further restricted the investment of funds to the following types of securities and transactions:

1. U.S. TREASURY OBLIGATIONS: Treasury bills, Treasury notes and Treasury bonds with maturities not exceeding three years from date of trade settlement.

2. FEDERAL INSTRUMENTALITY SECURITIES: Debentures, discount notes and callable securities, with maturities not exceeding three years from the date of trade settlement, issued by the following only: Federal Home Loan Banks (FHLB), Federal National Mortgage Association (FNMA), Federal Farm Credit Banks (FFCB), Federal Home Loan Mortgage Corporation (FHLMC) and Student Loan Marketing Association (SLMA).

3. REPURCHASE AGREEMENTS: With maturities not to exceed one year collateralized by U.S. Treasury Obligations or Federal instrumentality Securities listed in items 1 and 2 above with the maturity of the collateral not exceeding 10 years. For the purpose of this section, the term collateral shall mean purchased securities under the terms of the City’s approved Master Repurchase Agreement. The purchased securities shall have an original market value including accrued interest of 102 percent of the dollar value of the transaction and the collateral maintenance level shall be at 101 percent. Collateral shall be held in the City’s custodian bank as safekeeping agent, and the market value of the collateral securities shall be market-to-market daily.

Repurchase Agreements shall be entered into only with dealers who have executed a City approved Master Repurchase Agreement with the City and who are recognized as Primary Dealers with the Market Reports Division of the Federal Reserve Bank of New York. Primary Dealers approved as Repurchase Agreement counter parties shall have a short-term credit rating of at least A-1 or the equivalent and a long-term credit rating of at least A or the equivalent. The Finance Director shall maintain a copy of the City’s approved Master Repurchase Agreement along with a list of the broker/dealers who have an executed Master Repurchase Agreement with the City.
4. COMMERCIAL PAPER: With maturities not exceeding 270 days from the date of purchase which is rated at least A-1 by Standard and Poor's, P-1 by Moody's or F-1 by Fitch at the time of purchase by each service which rates the commercial paper. If the commercial paper issuer has senior debt outstanding, the senior debt must be rated by each service that publishes a rating on the issuer of at least A by Standard and Poor's, A2 by Moody's or A by Fitch.

5. MONEY MARKET MUTUAL FUNDS: registered under the Investment Company Act of 1940 which are:
   a. “No-load” (meaning no commission or fee shall be charged on purchases or sales of shares);
   b. Maintain a stable share price of $1.00 per share;
   c. Invest only in U.S. Treasury bills, notes, bonds or other obligations issued or guaranteed by the U.S. Government or its agencies or instrumentalities and in repurchase agreements secured by such obligations.
   d. Have a maximum stated maturity and weighted average maturity in accordance with Federal Securities Regulation 2a-7; and
   e. Have received the highest short-term rating from at least one rating organization such as Standard & Poor's Corporation or Moody's Investors Service, Inc.;
   f. The fund must not invest in un-rated securities.

6. TIME CERTIFICATES OF DEPOSIT: with maturities not exceeding three years, in state of nationally chartered banks or savings and loans, which are insured by the Federal Deposit Insurance Corporation (FDIC). Certificates of Deposit which exceed the FDIC insured amount shall be collateralized in accordance with Title 30-A, Section 5706 of the Maine Revised Statutes and, with respect to Time Certificates of Deposit exceeding $100,000, may be purchased only from financial institutions which meet the criteria set forth under the following section, “Selection of Banks and Savings and Loans.”

7. FUNDS ORGANIZED THROUGH MAINE INTER-LOCAL COOPERATION: that maintain a net asset value of $1.00, specifically the Maine Cooperative Liquid Assets Security System Trust (Maine CLASS). It is the intent of the City that the foregoing list of authorized securities be strictly interpreted. Any deviation from this list must be pre-approved by the City Administrator in writing.

The City recognizes that bond proceeds may, from time to time, be subject to the provisions of the Tax Reform Act of 1986, Federal Arbitrage Regulations, as amended. Due to the legal complexities of arbitrage law and the necessary immunization of yield levels to correspond to anticipated cash flow schedules, the reinvestment of such debt issuance
may, upon the advice of Bond Counsel or financial advisors, deviate from
the maturity limitation provisions of this Policy with written approval of the
City Administrator.

I. INVESTMENT DIVERSIFICATION AND LIQUIDITY
It is the intent of the City to diversify the investments within the portfolio to avoid
incurring unreasonable risks inherent in over investing in specific instruments,
individual financial institutions or maturities. Nevertheless, the asset allocation in
the portfolio should be flexible depending upon the outlook for the economy, the
securities markets, and the City’s anticipated cash flow needs. No more than
50% of the City’s total portfolio shall be invested in commercial paper.

To the extent possible, investments shall be matched with anticipated cash flow
requirements and known future liabilities. The City shall maintain at least 10% of
its total investment portfolio in instruments maturing in 30 days or less. Unless
matched to a specific cash flow requirement, the City will not invest in securities
maturing more than three years from the date of trade settlement.
Bond proceeds are not pooled for investment purposes and shall be excluded
from calculations of the diversification and liquidity requirements in this section.
Other deviations from the diversification and liquidity requirements in this section
can be made only with the advance written authorization of the City
Administrator.

J. SELECTION OF FINANCIAL INSTITUTIONS ACTING AS BROKER/DEALERS
AND BROKER/DEALERS
The Finance Director shall maintain a list of authorized broker/dealers and
financial institutions, which are approved for investment purposes, and it shall be
the policy of the City to purchase securities only from those authorized
institutions and firms.

To be eligible, a broker/dealer or financial institution must meet at least one of
the following criteria:

1. Be recognized as a Primary Dealer by the Market Reports Division of
   the Federal Reserve Bank of New York,

2. Report voluntarily to the Market Reports Division of the Federal
   Reserve Bank of New York, or

3. Meet the securities dealer’s capital adequacy requirements of the New
   York Federal Reserve Bank and provide written certification to the City
   that the requirements have been met on a continuous basis for the
   previous twelve-month period.

4. Maintain registration as an active member of the National Association of
   Securities Dealers.
The Finance Director on the basis of their expertise in public cash management and their ability to provide services for the City's account will select Broker/dealers and other financial institutions. Approved broker/dealers and the firms they represent shall be licensed to do business in the State of Maine. When selecting broker/dealers, the Finance Director will give consideration to local or regional financial institutions, as long as they meet the standards set forth in this Policy.

Each broker/dealer, bank or savings and loan that has been authorized by the Finance Director shall be required to submit and annually update a City approved Broker/Dealer Information Request form, which includes the firm's most recent financial statements. The Finance Director shall maintain a list of the broker/dealers that have been approved by the City, along with each firm's most recent Broker/Dealer Information Request form. Broker/dealers shall attest in writing that they have received and reviewed a copy of this Policy.

Annually, the Finance Director shall review the list of approved broker/dealers, their financial statements and their Information Request forms and shall contemplate changes to the list as part of its broker/dealer due diligence process. The City may purchase commercial paper from direct issuers even though they are not on the approved broker/dealer list as long as they meet the criteria outlined in of the Authorized Securities and Transactions section H. subsection 4

K SELECTION OF BANKS AND SAVINGS AND LOANS

The Finance Director shall maintain a list of authorized banks and savings and loans that are approved to provide investment clearing and other banking services for the City. To be eligible for authorization, a bank or savings and loan must be a member of the FDIC and must meet the minimum credit criteria (described below) of credit analysis provided by commercially available bank rating services. Banks or savings and loans failing to meet the minimum criteria, or in the judgment of the Finance Director no longer offering adequate safety to the City, will be removed from the list. When selecting banks and savings and loans, the Finance Director will give consideration to local financial institutions, as long as they meet the standards set forth in this policy.

The City shall utilize the commercially available bank rating services of IDC Financial Publishing Inc or HighlineData LLC formerly known as Sheshunoff Bank and S&L Quarterly, to perform credit analyses on banks and savings and loans seeking authorization. Data obtained from the bank rating services will include factors covering overall rating or ranking, capital adequacy, asset quality, earnings and liquidity. To be eligible for designation to provide banking services, a financial institution must qualify as a depository of public funds in the State of Maine as defined in Title 30-A, Section 5706 of the Maine Revised Statutes.

Also the financial institution shall meet the following criteria:
1. Have a HighlineData Peer Group rating of 30 or better on a scale of zero to one hundred with one hundred being the highest quality for the most recent reporting quarter before the time of selection; or

2. Have an IDC Financial Publishing, Inc. overall ranking of 125 or better on a scale of one to three hundred with one being the lowest quality for the most recent reporting quarter before the time of selection.

3. The Finance Director shall maintain a file of the most recent credit rating analysis reports performed for each approved financial institution by one of the above listed rating firms. Bank credit analysis shall be performed on a semi-annual basis.

L. SAFEKEEPING AND CUSTODY

All security transactions, including collateral for repurchase agreements, entered into by the City shall be conducted on a delivery versus payment basis. Securities will be held by a third party custodian agreed to by the Finance Director provided it meets or exceeds the minimum risk category classification of GASB (Governmental Accounting Standards Board).

The Finance Director shall select one or more financial institutions to provide safekeeping and custodial service for the City. A City approved Safekeeping Agreement shall be executed with each custodian bank prior to utilizing that bank’s safekeeping services. To be eligible for designation as the City’s safekeeping and custodian bank, a financial institution shall qualify as a depository of public funds in the State of Maine as defined in Title 30-A, Section 5706 of the Maine Revised Statutes. Also the financial institution shall meet the following criteria:

1. Have a HighlineData Rating of 30 or better on a scale of zero to one hundred with one hundred being the highest quality for the most recent reporting quarter before the time of selection; or

2. Have an IDC Financial Publishing, Inc. ranking of 125 or better on a scale of one to three hundred with one being the lowest quality for the most recent reporting quarter before the time of selection.

3. Custodian banks will be selected on the basis of their ability to provide services for the City’s account and the competitive pricing of their safekeeping related services.

4. The Finance Director shall maintain a file of the credit rating analysis reports performed for each approved financial institution by one of the above listed rating firms. Bank credit analysis shall be performed on a semi-annual basis.
5. The purchase and sale of securities and repurchase agreement transactions shall be settled on a delivery versus payment basis. It is the intent of the City that ownership of all securities be perfected in the name of the City. Sufficient evidence to title shall be consistent with modern investment, banking and commercial practices.

6. All investment securities, except Certificates of Deposit, Money Market Funds, and Local Government Investment Pools, purchased by the City will be delivered by either book entry or physical delivery and will be held in third-party safekeeping by a City approved custodian bank, its correspondent New York bank or its Depository Trust Company (DTC) participant account.

7. All Fed wire able book entry securities owned by the City shall be evidenced by a safekeeping receipt or a customer confirmation issued to the City by the custodian bank stating that the securities are held in the Federal Reserve system in a CUSTOMER ACCOUNT for the custodian bank which will name the City as “customer.”

8. All non-book entry (physical delivery) securities shall be held by the custodian bank’s correspondent bank and the custodian bank shall issue a safekeeping receipt to the City evidencing that the securities are held by the correspondent bank for the City as “customer.”

M. PORTFOLIO PERFORMANCE
The investment and cash management portfolio shall be designed to attain a market value rate of return throughout budgetary and economic cycles, taking into account prevailing market conditions, risk constraints for eligible securities, and cash flow requirements.

N. REPORTING
Accounting and reporting on the City’s investment portfolio shall conform to Generally Accepted Accounting Principles (GAAP) and the Government Accounting Standards Boards (GASB) recommended practices. The Finance Director shall prepare at least quarterly and submit on a periodic basis, at least annually, to the City Council a report of the investments held by the City, the current market valuation of the investments and performance results. The report shall include a summary of investment earnings during the period. A record shall be maintained by the City of all bids and offerings for security transactions in order to ensure that the City receives competitive pricing. Reports prepared by outside advisors shall be sent to the City’s Finance Director. This Investment Policy shall be reviewed periodically by the Finance Director and may be amended by the City Council as conditions warrant.

O. INTERNAL CONTROLS
The Finance Director shall develop written administrative procedures and internal controls, consistent with this Policy, for the operation of the City's investment program. Such procedures shall be designed to prevent losses of public funds arising from fraud, employee error, third party misrepresentation, or imprudent actions by employees of the City. Proper documentation for all investment transactions shall be prepared and maintained for an appropriate amount of time.

P. ACCOUNTING METHOD
Investments will be carried on the City's books at fair value as required by Governmental Accounting Standards Board (GASB) Statement No. 31. Interest on securities will be credited to investment income at the time of sale. The values of investment securities will be accrued as of each fiscal year end.

Q. EXTERNAL MANAGEMENT
The City Council may contract with a qualified external money management company in order to benefit from portfolio diversification, credit research, full-time portfolio management and economies of scale that are unavailable from the City staff. Any such contract will define and control the risks of the portfolio and establish performance criteria for monitoring and evaluating results.

R. STATUTORY COMPLIANCE
Nothing in the City's Investment Policy shall be read to contravene with State law 30-A M.R.S.A. Sections 5706 through 5719 (the “Act”).