

**ASSEMBLY FINANCE COMMITTEE
THE CITY AND BOROUGH OF JUNEAU, ALASKA
Wednesday, November 7, 2018, 5:30 PM.
Assembly Chambers**

- I. CALL TO ORDER**
- II. ROLL CALL**
- III. APPROVAL OF MINUTES**
 - a. **Wednesday, September 5, 2018**
- IV. ITEMS FOR DISCUSSION**
 - a. **Social Services Grant Financial Information**
 - b. **Investment Code & Policy Update**
- V. NEXT MEETING DATE**
 - a. **Wednesday, December 12, 2018**
- VI. ADJOURNMENT**

ADA accommodations available upon request: Please contact the Clerk's office 72 hours prior to any meeting so arrangements can be made to have a sign language interpreter present or an audiotape containing the Assembly's agenda made available. The Clerk's office telephone number is 586-5278, TDD 586-5351, e-mail: city.clerk@juneau.org

DRAFT
City and Borough of Juneau
Minutes - Assembly Finance Committee Meeting
Wednesday, September 5, 2018, 5:30 p.m.

I. Call to Order

The meeting was called to order at 5:30 PM by Jesse Kiehl, Chair.

II. Roll Call

Committee Members Present: Mary Becker, Jesse Kiehl, Loren Jones, Maria Gladziszewski, Jerry Nankervis, Rob Edwardson and Mayor Ken Koelsch.

Committee Members Participating Telephonically: None.

Committee Members Absent: None.

Clerk's Note:

Two of the Assembly seats were vacant at the time of this meeting.

- *One of the District 2 seats was vacated by Beth Weldon on July 31, 2018.*
- *One of the Areawide seats was vacated by Norton Gregory on August 13, 2018.*

Their departures left two vacancies that will be determined by the voters in the October 2, 2018, Regular Municipal Election.

Staff Present: Rorie Watt, City Manager; Mila Cosgrove, Deputy City Manager; Bob Bartholomew, Finance Director; Rob Palmer, City Attorney; Carl Uchytel, Port Director, Docks & Harbors; Rich Etheridge, Fire Chief; Sam Muse, Controller; and Elisabeth Jensen, Budget Analyst.

III. Approval of Minutes

The August 8, 2018, minutes were approved as presented.

IV. Manufacturing Personal Property Tax (Ptax) Exemption Limitation Update

Bob Bartholomew, Finance Director, introduced the topic found on pages 4-5 of the meeting packet. Based on an Assembly request, an analysis was conducted to review the potential impact of eliminating the exemption limitation based on the number of Full Time Equivalent Employees (FTE) a business employs. The exemption is also based on a declining sliding scale of five years (year 1 - 100% of eligible value exempt, year 5 - 20% eligible). CBJ's currently ability to exempt 100% of property value from tax is grandfathered in. Any change to our existing program would cancel the grandfathered provision. Going forward only the Ptax in excess of 2.65 mills would be eligible for exemption. If the CBJ were to amend this portion of the existing code, the CBJ code would no longer be grandfathered in

Minutes - Assembly Finance Committee Meeting Wednesday, September 5, 2018, 5:30 p.m.

under the former State statutes, and result in an exemption floor of 2.65 mills (minimum required school funding requirement).

Discussion amongst the Assembly members ensued.

Jesse Kiehl provided a bit of history on the Senate Bill, stating that in the process of Senate Bill 100 going through the legislature, the creators made sure that the end result of the new law wouldn't impact Juneau's existing BPP laws. Robert Palmer, City Attorney confirmed Mr. Kiehl's statement.

V. Non-Profit Retail Sales Exemption from Sales Tax

In response to Assembly inquiries regarding the background and revenue loss from exempting non-profit organization retail sales from sales tax, Mr. Bartholomew, Finance Director, discussed the information provided on pages 6-7 of the meeting packet. The Assembly discussed the topic.

VI. FY18 Operating Budget Supplemental Funding Ordinance Update

Rorie Watt, City Manager and Mr. Bartholomew, Finance Director, discussed the information provided on pages 8-10 of the meeting packet.

Mr. Watt said he was not happy about the supplemental request, and "Most of the need is driven by revenue projection problems, revenue not materializing. It is not expenditure driven. It really should have come to light sooner so the assembly could have more time to react and the departments more time to adjust."

Mr. Bartholomew, noted that overall, expenditures were under budget, and that departments have done a good job reducing costs over the past few years but that there is less financial flexibility to absorb changes.

Clerk's Note: Mayor Koelsch left the meeting at 6:51 PM.

Clerk's Note: Mary Becker left the meeting at 7:01 PM.

**Jerry Nankervis, moved to refer Ordinance 2017-09(BB) to the full Assembly for approval.
WITHOUT OBJECTION.**

VII. Next Meeting Date

Wednesday, November 7, 2018.

VIII. Adjournment

The meeting was adjourned at 7:07 PM.

City and Borough of Juneau
ASSEMBLY FINANCE COMMITTEE
November 7, 2018
Social Service Grants Update

Issue:

Social Service Grant Program Update is being provided at the request of the Assembly.

Background:

In June of 1985, by Resolution 1113, the Assembly established the Alcohol, Mental Health, and Social Services Advisory Board. The board had a broad charge, a portion of which was "To review grant applications..."

In March of 1988, by Resolution 1291, the board structure was modified and it was retitled, Social Services Advisory Board. The resolution established three subcommittees of the larger board, one of which was titled the Social Service Block Grant Advisory Committee. That subcommittee was charged with performing a community-wide needs assessment, developing administrative and program guidelines for the social services block grant (though not necessarily awarding the funds), and providing other policy guidance to the primary committee.

Between March of 1988 and January 2016, the SSAB existed in some form or another, retaining the authority for the Social Services Block Grant program. In January of 2016, the SSAB was dissolved and via Memorandum of Agreement, the Juneau Community Foundation (JCF) took over the administration of the CBJ's Social Services Block Grant program. This transition was made to better serve the community of Juneau.

Funding is made available annually for health and social services programs and activities provided by community nonprofit organizations through the social services grant program. Funds go to programs and activities, not construction or infrastructure improvements. Utility grants are also provided to nonprofit social services organizations that provide transitional overnight accommodations in Juneau.

JCF administers the program in tangent with their Hope Endowment Grant program.

Current Status:

The CBJ and JCF have a current Memo of Understanding (MOU) detailing the arrangement for JCF to administer the Social Service Grant Funding in tangent with the Hope Endowment Grant program application process. The current MOU expires on June 13, 2020.

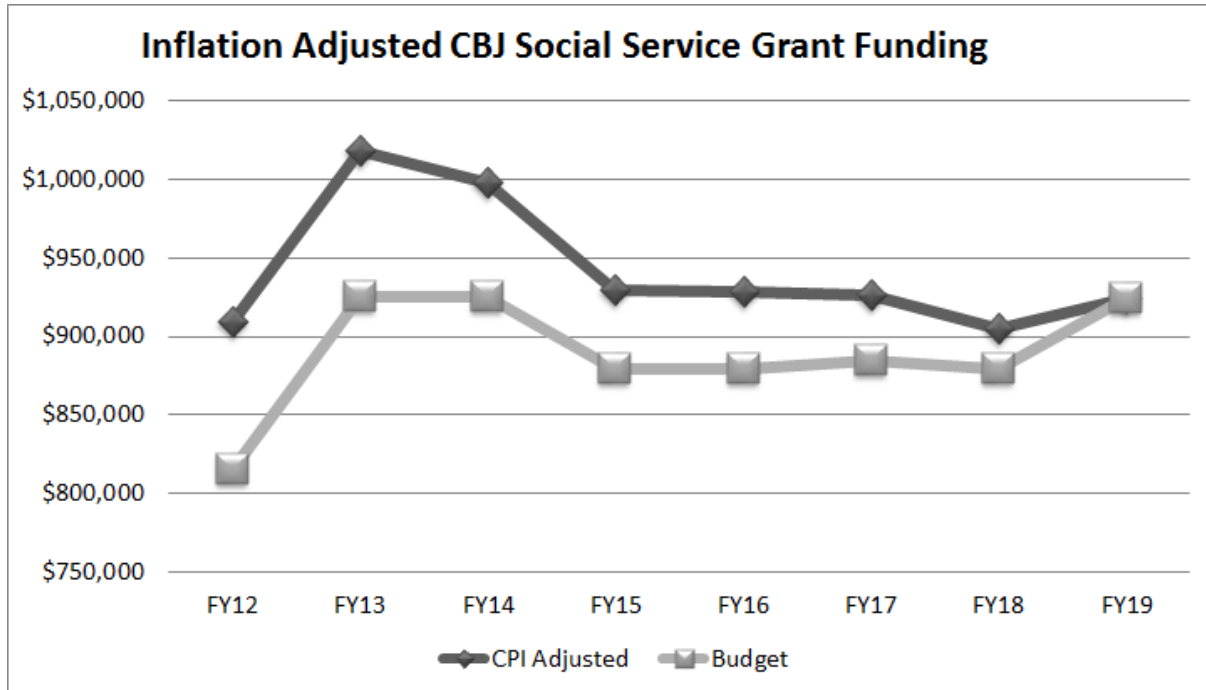
Currently applicants for funding under the SSAB program can apply for funds to be used in the following categories:

- A. Health
 - a. Access to Health Care
 - b. Suicide Prevention
 - c. Substance Abuse Treatment/Prevention
 - d. Infants & Toddlers
 - e. Seniors
 - f. People with Disabilities
- B. Education
 - a. Readiness to Learn
 - b. Early Elementary Performance
 - c. Success in High School
 - d. Community Building in Schools
- C. Income Stability
 - a. Access to Employment
 - b. Shelter and Housing
 - c. Poverty
 - d. Young Adult Stability
 - e. Family Stability

The current categories align with United Way's national guidelines. We have yet to reconcile them with the current goals and objectives of CBJ.

JCF now administers the program in tangent with the Hope Endowment Grant program. In FY19 the combined programs awarded \$1.9 Million in grants to be used to support direct services relating to the homeless, substance abuse, mental health services, relief for victims of abuse, hospice and suicide prevention.

In FY19 and FY20 the funding for Social Service grants was \$776,400; mental health and substance abuse community services studies \$45,000; utility grants \$47,500; and, \$30,000 for Juneau Community Foundation, with a total budget of \$898,900. Tobacco Tax is the primary source of funding for this program.



In a review of annual budgets compared to actual expenditures spanning the last five-years, only \$5,600 or 0.1% remained unspent.

The following table offers consolidated reporting of both Hope and SSAB as administered by JCF.

| | FY16 | FY17 | FY18 | FY19 |
|----------------------------|---------|---------|---------|---------|
| Amount Applied For | \$2.2 M | \$2.7 M | \$2.2 M | \$2.3 M |
| Amount Awarded | \$1.9 M | \$1.9 M | \$1.9 M | \$1.9 M |
| Difference | \$300 K | \$800 K | \$290 K | \$380 K |
| Non-Profits Awarded | 27 | 26 | 25 | 26 |

Next Steps:

The FY20 Approved Budget includes a total budget of \$898,900 as described above. The Assembly could consider adjusting or adopting the budget during the FY20 budget process in the spring of 2019.

City and Borough of Juneau
ASSEMBLY FINANCE COMMITTEE
November 7, 2018

Investment Program Update & Draft Code Changes

Issue:

Staff have reviewed the current investment code and policy and identified numerous needed updates. We also propose to restructure the code and policy to follow the national Government Finance Officer Association (GFOA) model/outline.

The attached information provides:

1. Update on the current structure, performance and income from the investment program.
2. Revised investment code 57.25 (Discussion Draft), and the "Track Change" detail.
3. Updated Investment Policy Statement (IPS).

Background:

The CBJ investment code and policy last was updated in 2007 and 2009. The city operates a "Central Treasury" for the management of all municipal finances including the school district and enterprise funds. Over the past few years the amount of cash subject to investment has varied from \$170 - \$220 million. The existing code requires that an external manager be contracted for managing a portion of intermediate term portfolio, and the remaining portion to be managed by the finance director/staff internally. The overall program is structured into 4 separate portfolios. In 2014 the CBJ staff Investment Officer retired and the external investment manager, Alaska Permanent Capital Management (APCM) was requested to initiate oversight and reporting for the investments managed internally. As the code requires internal management for the internal portion of the portfolio, APCM only has discretionary authority for this portfolio and must make investment recommendations. The finance director maintains final authority.

Current annual cost for the external investment management is approximately \$170,000 (about 0.12% of fees under management. Prior to 2014, the cost for external management was around \$110,000. The cost for internal management and accounting averaged \$200,000 a year (wages, benefits, computer analytics & trade control software). The analytics, software and some wage costs were eliminated. Some wage resources were reallocated within the treasury division for the investment accounting & management reporting duties.

Current Status:

Attached are documents to provide the latest audited fiscal year-end investment program information:

1. Investment Portfolio Allocation and Balances
2. Cash and bond investment portfolio performance
3. Investment income recent trend and 3 year projection

The attached revised investment code is being presented to the finance committee for initial education on the proposed changes and to solicit questions or feedback on areas of interest. There are 3 areas of significant change:

1. Remove the requirement for either external or internal investment management. Outline the investment objectives and requirements and then allocate investment management to internal or external managers as appropriate under the current circumstances.
2. Provide flexibility to establish the number and size of investment portfolios to fulfill investment code & policy objectives (safety, liquidity & return/income).
3. Restructure the investment code to more closely align with GFOA model.

Next Steps:

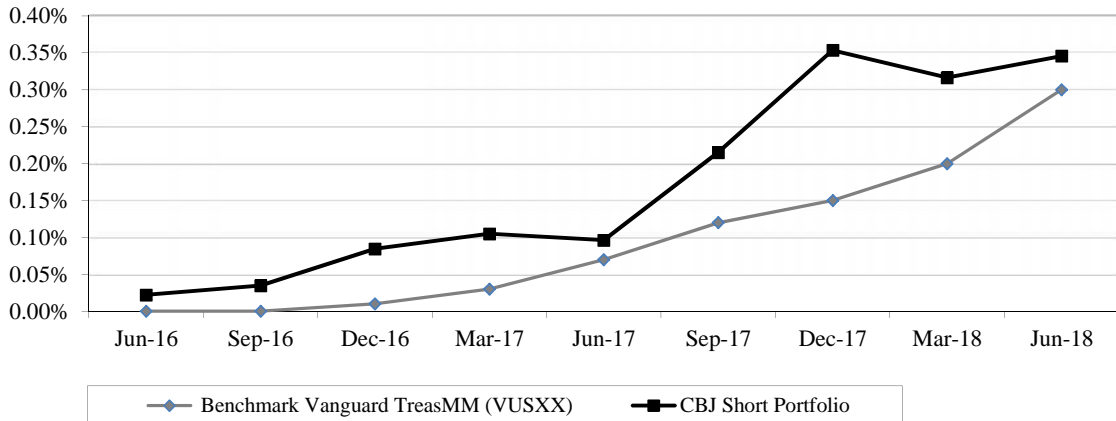
1. Provide the draft code and policy to other investment professionals for review and comments.
2. CBJ Law to complete legal review of proposed changes.
3. Receive feedback and questions from the finance committee.
4. Introduce draft ordinance to amend CBJ code for assembly deliberation and public comment.
5. Once code and policy updates are completed evaluate the existing investment program and determine if adjustments are necessary. Consider whether a competitive solicitation could provide opportunities to improve the risk and net return outcomes.

**City and Borough of Juneau
Investment Portfolio Balances
June 30, 2018**

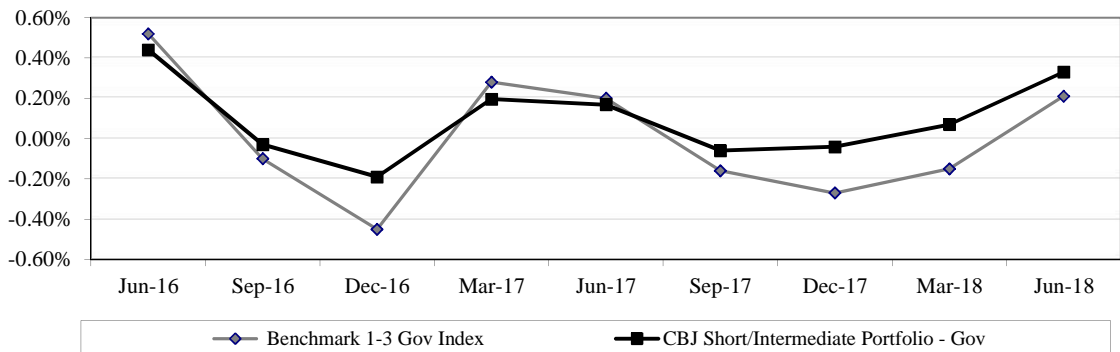
| | Fiscal Year to Date June 30, 2018 | | Fiscal Year to Date June 30, 2017 | |
|---------------------------|--|-------------------------|--|-------------------------|
| | Total Income | Market Value | Total Income | Market Value |
| Short Portfolio | \$ 718,000 | 52,955,000 | \$ 139,000 | \$ 30,226,000 |
| Short/Intermediate - Gov | 469,000 | 82,163,000 | \$ 133,000 | \$ 81,695,000 |
| Short/Intermediate - Corp | 370,000 | 70,036,000 | \$ 701,000 | \$ 69,666,000 |
| Long Portfolio | 309,000 | 5,178,000 | \$ 393,000 | \$ 4,869,000 |
| Totals | \$ 1,866,000 | 210,332,000 | \$ 1,366,000 | 186,456,000 |

City and Borough of Juneau Benchmark Comparisons June 30, 2018

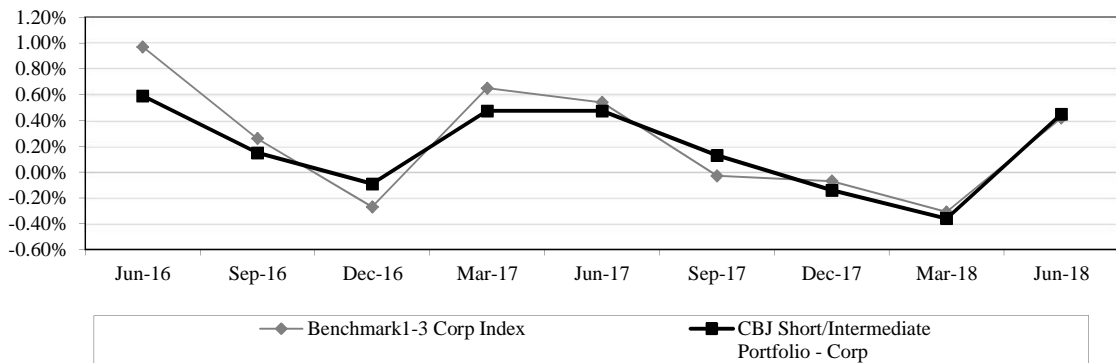
Short Portfolio Performance



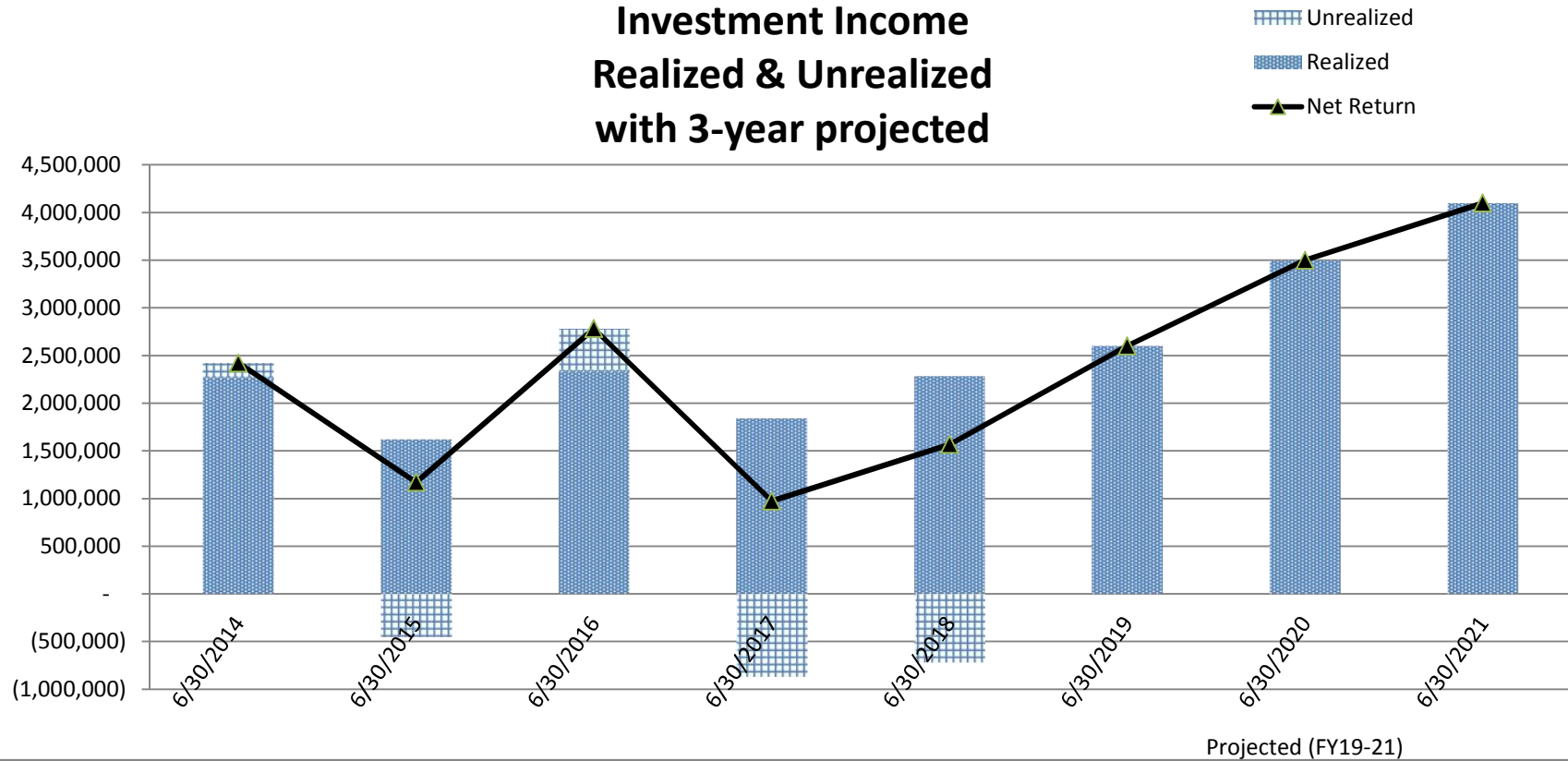
1-3 Year Gov Index vs CBJ Short Intermediate Portfolio - Gov



1-3 Year Corp Index vs CBJ Short Intermediate Portfolio - Corp



Investment Income Realized & Unrealized with 3-year projected



| | | | | | | Projected (FY19-21) | | |
|------------------------|-------------|-----------|-------------|-----------|-----------|---------------------|-------------|-------------|
| | 6/30/2014 | 6/30/2015 | 6/30/2016 | 6/30/2017 | 6/30/2018 | 6/30/2019 | 6/30/2020 | 6/30/2021 |
| Realized | 2,263,747 | 1,621,646 | 2,332,930 | 1,841,996 | 2,286,446 | 2,600,000 | 3,500,000 | 4,100,000 |
| Unrealized | 157,323 | (452,400) | 449,170 | (868,354) | (719,876) | - | - | - |
| Net Return | 2,421,070 | 1,169,246 | 2,782,100 | 973,643 | 1,566,571 | 2,600,000 | 3,500,000 | 4,100,000 |
| Allocation to Funds | (1,167,852) | (519,268) | (1,160,413) | (509,087) | (861,944) | (1,300,000) | (1,750,000) | (2,050,000) |
| Net Gen'l Gov't Return | 1,253,218 | 649,978 | 1,621,687 | 464,556 | 704,627 | 1,300,000 | 1,750,000 | 2,050,000 |

Chapter 57.25 - INVESTMENTS AND COLLATERAL^[1]

Sections:

| | |
|-----------|---|
| 57.25.005 | Scope. |
| 57.25.010 | Definitions. |
| 57.25.015 | Management of municipal funds. |
| 57.25.018 | Investment objectives. |
| 57.25.020 | Authorized investments. |
| 57.25.030 | Security on nonnegotiable certificates of deposit. |
| 57.25.040 | Ownership and encumbrance of collateral. |
| 57.25.050 | Acceptable collateral. |
| 57.25.100 | Addition, substitution or change of collateral. |
| 57.25.110 | Security agreements on collateral. |
| 57.25.120 | Reports and access to records of banks bidding on or holding nonnegotiable certificates of deposit. |
| 57.25.130 | Noncompliance. |
| 57.25.140 | Certificate of deposit restrictions. |

Footnotes:

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State Law reference— Investment pools for public entities, AS 37.23.010 et seq.

57.25.005 - Scope.

The Finance Director is responsible for the administration of the provisions of this chapter, except where otherwise provided. This chapter applies to the investment of short-term operating funds and long-term funds.

57.25.010 - Definitions.

The following words, terms and phrases, when used in this chapter, shall have the meanings ascribed to them in this section, except where the context clearly indicates a different meaning:

Bank means a state or federally chartered commercial or mutual bank, or credit union located in the United States and having insurance of accounts through the appropriate federal insuring agency of the United States.

Benchmark means an industry recognized standard index which shall be used to measure investment performance. Appropriate benchmarks shall be selected by the Finance Director based upon portfolio goals and holdings of the portfolio.

Bloomberg Barclays Intermediate Government/Credit Index means that index published by Bloomberg L.P., of New York and listing all publicly issued, fixed rate, nonconvertible domestic bonds, with maturity of at least one year and less than ten years. Measures the performance of US Dollar denominated US Treasuries, government-related and investment grade US corporate securities that have a remaining maturity of greater than one year and less than ten years.

Bloomberg Barclays 1-3 Month US Treasury Bill Index means the index designed to measure the performance of public obligations of the US Treasury that have remaining maturity between one and three months. This index is useful as a cash benchmark.

Bloomberg Barclays US Aggregate Bond Index means that index published by Bloomberg L.P., of New York and listing all publicly issued, fixed rate, nonconvertible domestic bonds, with maturity of at least one year.

Capital means combined capital, surplus and undivided profits. The term also means reserves for loan losses when applied to commercial banks; stock in savings and loan associations; and reserves and undivided profits, including reserves for loan losses, when applied to mutual banks, mutual savings and loan associations or credit unions.

Certificate of deposit means a negotiable security instrument or depository agreement.

Delinquent means the failure of the bank to return invested funds to the City and Borough on the maturity date and after demand for the funds has been made.

EAFE Index means the Europe, Australia and Far East Index from Morgan Stanley Capital International. An unmanaged, market value weighted index designed to measure the overall condition of overseas markets

FTSE 100 Index means the Financial Time Stock Exchange 100 Index. A share index of the 100 companies listed on the London Stock Exchange with the highest market capitalization.

MSCI means Morgan Stanley Capital International, a company that constructs a variety of indices covering many different asset classes, countries and regions.

NASD means National Association of Securities Dealers. A self-regulatory securities industry organization responsible for the operation and regulation of the NASDAQ stock market and over-the-counter markets.

NASDAQ means National Association of Securities Dealers Automated Quotation. This is a computerized system established by the NASD to facilitate trading by providing broker/dealers with current bid and ask price quotes on over-the-counter stocks and some listed stocks. All trading on the NASDAQ exchange is done over a network of computers and telephones.

Portfolio means the combined holding of more than one stock, bond, commodity, cash equivalent, or other asset by an investor. The purpose of a portfolio is to reduce risk by diversification.

Portfolio Benchmark means specific indices or securities that will be compared to the actual performance of a portfolio.

Rated bank means:

1. A bank all of whose debt issues are rated A or its equivalent or higher by a nationally recognized rating service;
2. A bank whose letters of credit secure third-party debt issues rated A or its equivalent or higher by a nationally recognized rating service; or
3. A bank which is a subsidiary of a one-bank holding company all of whose commercial paper has the highest rating given by a nationally recognized rating service or whose debt issues are rated at least an A or its equivalent by a nationally recognized rating service.

S&P 500 means Standard & Poor's index made up of 500 stocks of major companies selected by market size, industry and liquidity. The index is market capitalization weighted.

Value means the monetary measurement of the worth of collateral to the City and Borough as described in this chapter.

Weighted average life means the portfolio value derived by multiplying the book value of each investment by its maturity period, then dividing the sum of these products by the total book value of the portfolio.

(Serial No. 88-55, § 3, 1988; Serial No. 97-24, § 2, 1997; Serial No. 2001-07, § 2, 3-19-2001; Serial No. 2003-49, § 2, 12-8-2003; Serial No. 2007-45, § 2, 7-9-2007)

Cross reference— Definitions generally, CBJ Code § 01.15.010.

57.25.015 – Management of municipal funds.

1. Pooling of Funds - the Finance Director will consolidate cash and reserve balances from all funds to maximize investment earnings and to increase efficiencies with regard to investment pricing, safekeeping, and administration.
2. Investment decisions shall be guided by this section and by the City and Borough of Juneau Investment Policy, as modified from time to time by the City Manager.
3. The Finance Director may obtain the services of such investment managers, advisors, custodians and other professionals as are reasonably prudent and necessary to manage all municipal funds.
4. Safekeeping and Custody
 - a. *Delivery vs. Payment* - All trades of marketable securities will be executed by delivery vs. payment (DVP) to ensure that securities are deposited in an eligible custody account prior to the release of funds.
 - b. *Safekeeping* - Securities will be held by a centralized, independent third-party custodian selected by the City and Borough, as with all securities held in the City and Borough's name. The safekeeping institution shall annually provide a copy of their most recent report on internal controls (Statement of Auditing Standards No. 70, or SAS 70).
5. Restricted Funds shall be deposited into separate and restricted alternative investments, bank accounts or other accounts which may be interest-bearing and held by financial institutions for the benefit of the municipality, with all revenues and expenses associated with such funds allocated to such investments or accounts. Restricted funds may be commingled with other similarly restricted funds within the discretion of the Finance Director.
6. The Finance Director will choose which investment portfolio is most appropriate for funds based on the objectives at hand. Portfolio types are outlined in the Investment Policy.

57.25.018 – Investment objectives.

Investment portfolios will be selected to achieve the overall investment objectives. The primary objectives of investment activities shall be safety, liquidity, and return:

1. *Safety*

Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. The objective will be to mitigate credit risk and interest rate risk.

The Finance Director and any hired contractors shall manage investment funds exercising the judgment and care under the circumstances then prevailing 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.

- a. *Credit Risk* – the City and Borough will minimize credit risk, which is the risk of loss of all or part of the investment due to the failure of the security issuer or backer, by:
 - Limiting investments to the types of securities listed in Code Section 57.25.020.
 - Pre-qualifying and conducting ongoing due diligence of the financial institutions, broker/dealers, intermediaries, and advisers with which the City and Borough will do

business.

- Diversifying the investment portfolio so that the impact of potential losses from any one type of security or from any one individual issuer will be minimized.

b. *Interest Rate Risk* - The municipality will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by:

- Structuring the investment portfolio so that security maturities match cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity.
- Investing operating funds primarily in shorter-term securities, money market mutual funds, exchange-traded funds (ETF) or similar investment pools and limiting individual security maturity as well as the average maturity of the applicable portfolio.

2. *Liquidity*

The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated. This is accomplished by structuring the portfolio so that securities mature concurrent with cash needs to meet anticipated demands (static liquidity). Furthermore, since all possible cash demands cannot be anticipated, the portfolio should consist largely of securities with active secondary or resale markets (dynamic liquidity). Alternatively, a portion of the portfolio may be placed in money market mutual funds, ETFs, or local government investment pools which offer same-day liquidity for short-term funds.

3. *Return*

The investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints and liquidity needs. Return on investment is of secondary importance compared to the safety and liquidity objectives described above. The core investments are limited to relatively low risk securities in anticipation of earning a fair return relative to the risk being assumed. Securities shall generally be held until maturity with the following exceptions:

- A security with declining credit may be sold early to minimize loss of principal;
- Selling a security and reinvesting the proceeds that would improve the quality, yield, or target duration in the portfolio may be undertaken;
- Unanticipated liquidity needs of the portfolio require that the security be sold.

57.25.020 - Authorized investments.

To provide maximum security for the investment of public funds and to provide the greatest interest revenue consistent with safety:

Funds may be invested only in the following instruments:

1. Obligations of, or obligations insured or guaranteed by, the United States or agencies or instrumentalities of the United States;
2. Commercial paper issued by corporations or businesses and rated at least A2/P2 by a nationally recognized rating service, and collateralized commercial paper with no time limit;
3. Bankers acceptances drawn on and accepted by a rated bank and eligible for rediscount with or purchase by Federal Reserve System banks;
4. Negotiable certificates of deposit issued by rated banks;
5. Nonnegotiable certificates of deposit secured as provided in Section 57.25.030;

6. Repurchase and reverse repurchase agreements secured by obligations insured or guaranteed by the United States or agencies or instrumentalities of the United States;
7. Bank obligations secured by the Federal Deposit Insurance Corporation, the Federal Savings and Loan Insurance Corporation, or the National Credit Union Association;
8. Custodial money market and other mutual funds so long as the nature of the fund is generally consistent with all other provisions of this section of the code;
9. U.S. dollar denominated corporate bonds and rated investment grade or higher by nationally recognized rating agency at the time of purchase;
10. Mortgage-backed securities issued by an agency of the United States Government;
11. Asset-backed securities that are publicly traded and rated AAA by a nationally recognized rating agency at the time of purchase;
12. Domestic Fixed income Mutual Fund or ETF: Securities issued in the United States matching security types, quality and maturity ranges contained in the Bloomberg Barclays Aggregate Index;
13. Domestic equity Mutual Fund or ETF: Common and preferred stock issued by companies domiciled in the United States, and traded on a domestic stock exchange, or traded through the National Association of Securities Dealers Automated Quotation (NASDAQ) system;
14. International equity Mutual Fund or ETF: Common and preferred stock issued by companies domiciled outside the United States, primarily in developed countries, as defined by the Financial Times Stock Exchange 100 Index (FTSE 100);
15. Loans to specified funds of the City and Borough for the purpose of capital acquisition, made as provided in Section 57.05.045;
16. An investment pool for public entities authorized by AS 37.23;
17. Other investment types or asset classes as provided in the Investment Policy and consistent with all other provisions of this section of the code.

(Serial No. 88-55, § 3, 1988; Serial No. 93-07, § 2, 1993; Serial No. 97-24, § 3, 1997; Serial No. 97-40, § 2, 1997; Serial No. 99-32, § 2, 1999; Serial No. 2001-07, § 3, 3-19-2001; Serial No. 2002-05, § 2, 2-25-2002; Serial No. 2003-49, § 3 12-8-2003; Serial No. 2007-45, § 3, 7-9-2007)

57.25.030 - Security on nonnegotiable certificates of deposit.

Nonnegotiable certificates of deposit must be fully secured at all times as to the payment of principal and interest due on the maturity of the nonnegotiable certificate of deposit. The insured portion must be secured by insurance of accounts through the appropriate federal insurance agency. The portion in excess of the bank's insurance of accounts must be secured by collateral valued in a manner determined by the City and Borough, and conforming to the requirements of sections 57.25.040 through 57.25.100, at 102 percent.

(Serial No. 88-55, § 3, 1988)

57.25.040 - Ownership and encumbrance of collateral.

Pledged collateral must be owned by the bank issuing the certificate of deposit. Except for the assignment required under section 57.25.110, the bank must keep the pledged collateral free and clear of liens, security interests or encumbrances. The bank shall not release, assign, sell, mortgage, lease,

transfer, pledge or grant a security interest in, encumber, substitute or otherwise dispose of or abandon all or any part of the pledged collateral without the prior written authorization of the City and Borough.

(Serial No. 88-55, § 3, 1988)

57.25.050 - Acceptable collateral.

The City and Borough may accept the following types of collateral placed at current market value by a bank if that bank's valuation process is consistent with methods used in preparing its federal or state bank reports:

1. Obligations of, or obligations insured or guaranteed by, the United States or agencies or instrumentalities of the United States;
2. General obligation bonds and notes issued and insured or guaranteed by the state, or a political subdivision of the state;
3. Revenue bonds issued by the state or an agency or instrumentality of the state;
4. Revenue bonds issued by a political subdivision of the state which are rated A or its equivalent or higher by a nationally recognized rating service;
5. Corporate debt securities rated AA or its equivalent or higher by a nationally recognized rating service;
6. General obligation bonds issued by a state or a municipality in the United States other than the state, rated A or its equivalent or higher by a nationally recognized rating service;
7. The insured portion of a federally insured or guaranteed loan;
8. Negotiable certificates of deposit issued by a rated bank.

(Serial No. 88-55, § 3, 1988)

57.25.100 - Addition, substitution or change of collateral.

1. The City and Borough reserves the right to review any and all collateral proposed or submitted by a bank to secure nonnegotiable certificates of deposit. If the City and Borough determines that the collateral does not meet the requirements of this chapter, or determines that City and Borough funds are not adequately secured by the collateral, the City and Borough may demand additional collateral or substitution of collateral.
2. The bank must notify the City and Borough immediately, and confirm in writing within three business days, of any decline in value below required levels of its pledged collateral, and must immediately offer sufficient additional collateral, if:
 - a. The value of the federally insured portion of nonnegotiable certificates of deposit pledged as collateral is less than the amount of principal and interest due upon maturity;
 - b. Any collateral described in section 57.25.050 pledged by the bank as collateral is no longer eligible as collateral.

(Serial No. 88-55, § 3, 1988)

57.25.110 - Security agreements on collateral.

1. A bank issuing nonnegotiable certificates of deposit must enter into a security agreement with the City and Borough for all collateral pledged.
2. The security agreement shall include all of the following terms and conditions:

- a. That the bank must assign its interest in the collateral to the City and Borough and must transfer the collateral within two days of a collateralized investment award;
- b. The security agreement shall specify the authority of the City and Borough to:
 - i. Demand a substitution of collateral;
 - ii. Exercise assignment or other rights under the security agreement; and
 - iii. Take other action as provided under this chapter;
3. That the bank issuing the nonnegotiable certificates of deposit shall pay all costs and expenses associated with the depository agreement and the depository account.
4. All collateral pledged by a bank must be kept in depository accounts with another bank to be known as the trustee bank.
5. The City and Borough may accept the trustee bank in a tri-party agreement between the bank pledging collateral, the trustee bank and City and Borough. The tri-party agreement shall include all of the following terms and conditions:
6. All those terms and conditions set forth in subsection (b) of this section;
7. The City and Borough shall have control over pledged collateral submissions to and withdrawals from the depository account;
8. The trustee bank must send a depository receipt to the finance director promptly after the transfer or substitution of collateral.

(Serial No. 88-55, § 3, 1988)

57.25.120 - Reports and access to records of banks bidding on or holding nonnegotiable certificates of deposits.

1. *Reports required.* The following reports must be submitted to the City and Borough by banks bidding on or holding outstanding nonnegotiable certificates of deposits:
 - a. A copy of the bank's balance sheet and profit and loss statement must be submitted within 45 days after the end of each fiscal quarter as follows:
 - i. The financial statements must be prepared under generally accepted accounting principles; or
 - ii. The financial statements must be prepared under state or federal regulatory requirements, if the bank does not use generally accepted accounting principles;
 - b. On or before the tenth day of each month, the bank must submit a report listing the then current principal balance of loans pledged as collateral. The report must be prepared as of the last day of the previous month and must be prepared as of the last day of the previous month and must be certificated by a bank officer.
2. *Information available upon request.* Upon request by the City and Borough, the following information shall be made available by banks bidding on or holding outstanding nonnegotiable certificates of deposit:
 - a. The originals or certified copies of any papers and instruments relating to any or all of the collateral pledged to secure the nonnegotiable certificates of deposit;
 - b. Reports of examinations by state or federal agencies, and reports by the bank's independent auditors, to the extent not expressly prohibited by law;
 - c. Upon seven days' notice, such other information as the City and Borough may require.

3. *Access to information.* To the extent not expressly prohibited by law, the City and Borough shall have full access to, the right of inspection of, and the right to make extracts from, any records of the bank relating to all or any part of the collateral pledged to secure the nonnegotiable certificates of deposit.

(Serial No. 88-55, § 3, 1988)

57.25.130 - Noncompliance.

1. If a bank defaults in the payment of principal or interest due upon maturity of a nonnegotiable certificate of deposit for any investor, or fails to comply with the security, tri-party, or depository agreements provided for in this chapter, or otherwise fails to comply with the provisions of this chapter, the City and Borough may:
 - a. Without penalty, call all or a portion of the nonnegotiable certificates of deposit issued by the bank;
 - b. Sell, exchange, transfer, or otherwise dispose of the pledged collateral to recover the principal and interest due upon maturity of the nonnegotiable certificate of deposit and all costs incurred by the City and Borough as a result of such sale, exchange, transfer or disposal;
 - c. Take other action available under the security, tri-party, or depository agreements;
 - d. Take such other action as may be available at law or equity.
2. To the extent not expressly prohibited by law, the bank must indemnify and hold the City and Borough harmless from any forfeiture or loss of interest or other penalty or costs, including attorney's fees, imposed upon or incurred by the City and Borough by reason of its early withdrawal of any or all nonnegotiable certificates of deposit issued by the bank.

(Serial No. 88-55, § 3, 1988)

57.25. 140 - Certificate of deposit restrictions.

After reviewing a bank's financial position and determining that a limit is necessary to ensure the safety of City and Borough funds, the City and Borough may limit any increase or award on all future certificates of deposits issued by that bank.

(Serial No. 88-55, § 3, 1988)

Chapter 57.25 - INVESTMENTS AND COLLATERAL^[1]

Sections:

| | |
|------------------|--|
| <u>57.25.005</u> | <u>Scope.</u> |
| <u>57.25.010</u> | <u>Definitions.</u> |
| <u>57.25.015</u> | <u>Management of municipal funds.</u> |
| <u>57.25.018</u> | <u>Investment objectives.</u> |
| <u>57.25.020</u> | <u>Authorized investments.</u> |
| <u>57.25.030</u> | <u>Security on nonnegotiable certificates of deposit.</u> |
| <u>57.25.040</u> | <u>Ownership and encumbrance of collateral.</u> |
| <u>57.25.050</u> | <u>Acceptable collateral.</u> |
| <u>57.25.100</u> | <u>Addition, substitution or change of collateral.</u> |
| <u>57.25.110</u> | <u>Security agreements on collateral.</u> |
| <u>57.25.120</u> | <u>Reports and access to records of banks bidding on or holding nonnegotiable certificates of deposit.</u> |
| <u>57.25.130</u> | <u>Noncompliance.</u> |
| <u>57.25.140</u> | <u>Certificate of deposit restrictions.</u> |

Footnotes:

--- (1) ---

State Law reference— Investment pools for public entities, AS 37.23.010 et seq.

57.25.005 — Scope.

The Finance Director is responsible for the administration of the provisions of this title this chapter, except where otherwise provided. This chapter applies to the investment of short-term operating funds and long-term funds.

57.25.010 - Definitions.

The following words, terms and phrases, when used in this chapter, shall have the meanings ascribed to them in this section, except where the context clearly indicates a different meaning:

Bank means a state or federally chartered commercial or mutual bank, ~~—, savings and loan association,~~ or credit union located in the United States and having insurance of accounts through the appropriate federal insuring agency of the United States.

~~—~~ *Benchmark* means an industry recognized standard index which shall be used to measure investment performance. Appropriate benchmarks shall be selected by the Finance Director based upon portfolio goals and holdings of the portfolio.

Bloomberg Barclays Intermediate Government/Credit Index means that index published by Bloomberg L.P., of New York and listing all publicly issued, fixed rate, nonconvertible domestic bonds, with maturity of at least one year and less than ten years. Measures the performance of US Dollar denominated US Treasuries, government-related and investment grade US corporate securities that have a remaining maturity of greater than one year and less than ten years.

Bloomberg Barclays 1-3 Month US Treasury Bill Index means the index designed to measure the performance of public obligations of the US Treasury that have remaining maturity between one and three months. This index is useful as a cash benchmark.

Bloomberg Barclays US Aggregate Bond Index means that index published by Bloomberg L.P., of New York and listing all publicly issued, fixed rate, nonconvertible domestic bonds, with maturity of at least one year.

Capital means combined capital, surplus and undivided profits.

The term also means reserves for loan losses when applied to commercial banks; stock in savings and loan associations; and reserves and undivided profits, including reserves for loan losses, when applied to mutual banks, mutual savings and loan associations or credit unions.

Certificate of deposit means a negotiable security instrument or depository agreement.

Delinquent means the failure of the bank to return invested funds to the City and Borough on the maturity date and after demand for the funds has been made.

EAFE Index means the Europe, Australia and Far East Index from Morgan Stanley Capital International. An unmanaged, market value weighted index designed to measure the overall condition of overseas markets

FTSE 100 Index means the Financial Time Stock Exchange 100 Index. A share index of the 100 companies listed on the London Stock Exchange with the highest market capitalization.-

~~External portfolio means the central treasury funds held and managed by a contractor.~~

~~Internal short portfolio means the central treasury funds held and managed by the finance director to meet current cash flow needs.~~

~~Internal short/intermediate portfolio means the central treasury funds held and managed by the finance director to meet two- to four-year cash flow needs.~~

~~Long-Range Return portfolio means the central treasury funds held and managed by the finance director that are not needed to meet cash flow needs into the foreseeable future and will include long-term operating and legally restricted CBJ funds, (e.g., endowment funds).~~

~~Lehman Bloomberg Barclays US Capital Aggregate Index~~ means that index published by Lehman Brothers Inc., of New York and listing all publicly issued, fixed rate, nonconvertible domestic bonds, with maturity of at least one year.

~~Lehman Bloomberg Barclays Intermediate Government/Credit Index~~ means that index published by Lehman Brothers Inc., of New York and listing all publicly issued, fixed rate, nonconvertible domestic bonds, with maturity of at least one year and less than ten years.

MSCI means Morgan Stanley Capital International, a company that constructs a variety of indices covering many different asset classes, countries and regions.

NASD means National Association of Securities Dealers. A self-regulatory securities industry organization responsible for the operation and regulation of the ~~Nasdaq~~NASDAQ stock market and over-the-counter markets.

NASDAQ means National Association of Securities Dealers Automated Quotation. This is Aa computerized system established by the NASD to facilitate trading by providing broker/dealers with current bid and ask price quotes on over-the-counter stocks and some listed stocks. All trading on the ~~Nasdaq~~NASDAQ exchange is done over a network of computers and telephones.

Investment Portfolios means the combined holding of more than one stock, bond, commodity, cash equivalent, or other asset by an investor. The purpose of a portfolio is to reduce risk by diversification.

~~Working Capital (Rolling Fog portfolio) The Working Capital Portfolio shall be the portion of the total investment portfolio managed for short-term liquidity, typically with a duration of zero to 270 days. The Working Capital Portfolio is intended to provide for same-day liquidity for immediate cash needs. In addition to providing liquidity, the objective of the Working Capital Portfolio is the preserve principal and generate current income by investing in high-quality, short-term instruments.~~

~~Intermediate-Term Return Portfolio (Tidewater Portfolio) The Intermediate-term return portfolio shall be managed exercising the judgment and care under the circumstances then prevailing 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. The Intermediate-term Return portfolio shall have a duration of less than three years. The finance director may contract for the services of an external portfolio manager to complement and supplement the expertise Finance Director. The external portfolio manager shall report to the finance director and shall exercise the judgment and care described in this paragraph. The contracted manager shall not intentionally cause the duration of the external portfolio to exceed the duration of the most recently published agreed-upon Intermediate Government/Credit Index. If the duration of the external portfolio exceeds 110 percent of the most recently published agreed-upon Intermediate Government/Credit Index, the external portfolio manager shall take prompt and effective action to lower such duration to 100 percent or less of such index. Term ReturnP-Term ReturnP~~

Long-Range Return Portfolio (Glacier Portfolio)

~~The finance director shall manage a Long portfolio exercising the judgment and care under the circumstances then prevailing 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. The Long portfolio will have a long term investment horizon and will include long-term operating and CBJ endowment funds. To create real growth (inflation proof) and provide for annual spending needs, the Long portfolio assets shall be invested in equity, as well as fixed income, securities. Both domestic and international equity securities are appropriate. Long portfolio assets must be invested consistent with the "City and Borough Investment Policy." The finance director may select commingled funds, registered mutual funds, or separately managed accounts managed by external portfolio managers. Portfolio Benchmark means specific indices or securities that will be compared to the actual performance of a portfolio.~~

Rated bank means:

1. ~~(1)~~—A bank all of whose debt issues are rated A or its equivalent or higher by a nationally recognized rating service;
2. ~~(2)~~—A bank whose letters of credit secure third-party debt issues rated A or its equivalent or higher by a nationally recognized rating service; or
3. ~~(3)~~—A bank which is a subsidiary of a one-bank holding company all of whose commercial paper has the highest rating given by a nationally recognized rating service or whose debt issues are rated at least an A or its equivalent by a nationally recognized rating service.

~~S&P 500 means Standard & Poor's index made up of 500 stocks of major companies selected by market size, industry and liquidity. The index is market capitalization weighted.~~

~~Uninsured loan means an advance of money with a promise to repay secured by a first deed of trust on real property located within the City and Borough.~~

Value means the monetary measurement of the worth of collateral to the City and Borough as described in this chapter.

Weighted average life means the portfolio value derived by multiplying the book value of each investment by its maturity period, then dividing the sum of these products by the total book value of the portfolio.

(Serial No. 88-55, § 3, 1988; Serial No. 97-24, § 2, 1997; Serial No. 2001-07, § 2, 3-19-2001; Serial No. 2003-49, § 2, 12-8-2003; Serial No. 2007-45, § 2, 7-9-2007)

Cross reference— Definitions generally, CBJ Code § 01.15.010.

57.25.015 – ~~Management~~ of municipal funds.

1. Pooling of Funds - ~~Pursuant to the Charter (Central Treasury...)~~ the Finance Director will consolidate cash and reserve balances from all funds to maximize investment earnings and to increase efficiencies with regard to investment pricing, safekeeping, and administration.
2. Investment decisions shall be guided by this section and by the City and Borough of Juneau ~~Operating Investment Policy & Procedures for investment of Municipal funds~~, as modified from time to time by the City Manager.
3. The Finance Director ~~shall~~may obtain the services of such investment managers, advisors, custodians and other professionals as are reasonably prudent and necessary to manage all ~~m~~Municipal ~~F~~Funds.

—~~Safekeeping and Custody~~

~~Safekeeping and Custody~~

4.

—~~Delivery vs. Payment -~~

—All trades of marketable securities will be executed by delivery vs. payment (DVP) to ensure that securities are deposited in an eligible custody account prior to the release of funds.

a.

~~-Safekeeping -~~

b. Securities will be held by an ~~centralized~~, independent third-party custodian selected by the ~~entity~~City and Borough, as with all securities held in ~~the the entity's~~City and Borough's name. The safekeeping institution shall annually provide a copy of their most recent report on internal controls (Statement of Auditing Standards No. 70, or SAS 70).

5. Restricted Funds shall be deposited into separate and restricted alternative investments, bank accounts or other accounts which may be interest—bearing and held by financial institutions for the benefit of the municipality, with all revenues and expenses associated with such funds allocated to such investments or accounts. Restricted funds may be co-~~m~~mingled with other similarly restricted funds within the discretion of the Finance Director.

6. The Finance Director will choose which investment portfolio is most appropriate for funds based on the objectives at hand. Portfolio types are outlined in the Investment Policy, ~~and include Working Capital, the Intermediate Term Return Portfolio, and the Long Term Return Portfolio.~~

57.25.018 – Investment ~~o~~Objectives.

Investment portfolios will be selected to achieve the overall investment objectives. The primary objectives of investment activities shall be safety, liquidity, and return:

1. Safety

Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. The objective will be to mitigate credit risk and interest rate risk.

—The Finance Director and any hired contractors shall manage investment funds exercising the judgment and care under the circumstances then prevailing 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.

Credit Risk –

- a. the City and Borough CBJ will minimize credit risk, which is the risk of loss of all or part of the investment due to the failure of the security issuer or backer, by:
 - Limiting investments to the types of securities listed in Code Section 2257.25.020.
 - of this Investment Policy Pre-qualifying and conducting ongoing due diligence of the financial institutions, broker/dealers, intermediaries, and advisers with which CBJ the City and Borough will do business. in accordance with Section ??
 - Diversifying the investment portfolio so that the impact of potential losses from any one type of security or from any one individual issuer will be minimized. Choosing the correct portfolio in which to deposit funds in order to meet cash flow nee

—Interest Rate Risk -

- b. The municipality will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by:
 - Structuring the investment portfolio so that security maturities match cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity.
 - Investing operating funds primarily in shorter-term securities, money market mutual funds, exchange-traded funds (ETF) or similar investment pools and limiting individual security maturity as well as the average maturity of the applicable portfolio portfolio in accordance with this policy (see section VIII).

2. Liquidity

The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated. This is accomplished by structuring the portfolio so that securities mature concurrent with cash needs to meet anticipated demands (static liquidity). Furthermore, since all possible cash demands cannot be anticipated, the portfolio should consist largely of securities with active secondary or resale markets (dynamic liquidity). Alternatively, a portion of the portfolio may be placed in money market mutual funds, ETFs, or local government investment pools which offer same-day liquidity for short-term funds.

3. Return

The investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints and liquidity needs. Return on investment is of secondary importance compared to the safety and liquidity objectives described above. The core investments are limited to relatively low risk securities in anticipation of earning a fair return relative to the risk being assumed. Securities shall generally be held until maturity with the following exceptions:

- A security with declining credit may be sold early to minimize loss of principal;
- Selling a security and reinvesting the proceeds that would improve the quality, yield, or target duration in the portfolio may be undertaken;
- Unanticipated liquidity needs of the portfolio require that the security be sold.

57.25.020 - Authorized investments.

To provide maximum security for the investment of public funds and to provide the greatest interest revenue consistent with safety:

~~(a) The finance director shall manage two internal portfolios exercising the judgment and care under the circumstances then prevailing 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. The Internal Short portfolio shall have a duration of less than one year. The Internal Short/Intermediate portfolio shall have a duration of less than three years. Funds may be invested only in the following instruments:~~

- ~~1. (1) —~~ Obligations of, or obligations insured or guaranteed by, the United States or agencies or instrumentalities of the United States;
- ~~2. (2) —~~ Commercial paper issued by corporations or businesses and rated at least A2/P2 by a nationally recognized rating service, and collateralized commercial paper with no time limit;
- ~~3. (3) —~~ Bankers acceptances drawn on and accepted by a rated bank and eligible for rediscount with or purchase by Federal Reserve System banks;
- ~~4. (4) —~~ Negotiable certificates of deposit issued by rated banks;
- ~~5. (5) —~~ Nonnegotiable certificates of deposit secured as provided in Section 57.25.030;
- ~~6. (6) —~~ Repurchase and reverse repurchase agreements secured by obligations insured or guaranteed by the United States or agencies or instrumentalities of the United States;
- ~~7. (7) —~~ Bank obligations secured by the Federal Deposit Insurance Corporation, the Federal Savings and Loan Insurance Corporation, or the National Credit Union Association;
- ~~8. (8) —~~ Custodial money market and other mutual funds so long as the nature of the fund is generally consistent with all other provisions of this section of the code;
- ~~9. (9) —~~ U.S. dollar denominated corporate bonds and rated investment grade or higher by ~~a~~ nationally recognized rating agency at the time of purchase;
- ~~10. (10) —~~ Mortgage-backed securities issued by an agency of the United States Government;
- ~~11. Asset-backed securities that are publicly traded and rated AAA by a nationally recognized rating agency at the time of purchase;~~
- ~~12. —Domestic Fixed income Mutual Fund or ETF: Securities is-sued in the United States matching security types, quality and maturity ranges contained in the Bloomberg Barclays Aggregate Index;:-~~
- ~~13. —Domestic equity Mutual Fund or ETF: Common and preferred stock issued by companies domiciled in the United States, and traded on a domestic stock exchange, or traded through the National Association of Securities Dealers Automated Quotation (NASDAQ) system;:-~~
- ~~—————International equity Mutual Fund or ETF: Common and preferred stock issued by companies domiciled outside the United States, primarily in developed countries, as defined by the Financial Times Stock Exchange 100 Index (FTSE 100);Morgan Stanley Capital International's (MSCI's) — Europe, Australia, and Far East (EAFE) index.~~
- ~~14.~~
- ~~15. Loans to specified funds of the City and Borough for the purpose of capital acquisition, made as provided in Section 57.05.045;~~

16. An investment pool for public entities authorized by AS 37.23;

17. Other investment types or asset classes as provided in the Investment Policy and consistent with all other provisions of this section of the code.

~~_____ (11) Loans to specified funds of the City and Borough for the purpose of capital acquisition, made as provided in Section 57.05.045;~~

~~_____ (12) An investment pool for public entities authorized by AS 37.23.~~

~~(b) The finance director shall contract for the services of an external portfolio manager to complement and supplement the expertise of the internal portfolio. The external portfolio manager shall report to the finance director and shall exercise the judgment and care under the circumstances then prevailing 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. The external portfolio manager shall not intentionally cause the duration of the external portfolio to exceed the duration of the most recently published Lehman Intermediate Government/Credit Index. If the duration of the external portfolio exceeds 110 percent of the most recently published Lehman Intermediate Government/Credit Index, the external portfolio manager shall take prompt and effective action to lower such duration to 100 percent or less of such index. Funds may be invested only in the following authorized investment instruments:~~

~~(1) Obligations of, or obligations insured or guaranteed by, the United States or agencies or instrumentalities of the United States;~~

~~(2) Commercial paper issued by corporations or businesses and rated at least A2/P2 by a nationally recognized rating service, and collateralized commercial paper with no time limit;~~

~~(3) Bankers acceptances drawn on and accepted by a rated bank and eligible for rediscount with or purchase by Federal Reserve System banks;~~

~~(4) Negotiable certificates of deposit issued by rated banks;~~

~~(5) Nonnegotiable certificates of deposit secured as provided in section 57.25.030;~~

~~(6) Repurchase and reverse repurchase agreements secured by obligations insured or guaranteed by the United States or agencies or instrumentalities of the United States;~~

~~(7) Bank obligations secured by the Federal Deposit Insurance Corporation, the Federal Savings and Loan Insurance Corporation, or the National Credit Union Association;~~

~~(8) Money market funds and other mutual funds that are managed in a manner consistent with the restrictions in this section;~~

~~(9) U.S. dollar denominated corporate bonds and rated investment grade or higher by a nationally recognized rating agency at the time of purchase;~~

~~(10) Mortgage-backed securities issued by an agency of the United States Government;~~

~~(11) Mortgage-backed securities, collateralized mortgage obligations, and asset backed securities rated A or higher by a nationally recognized rating agency at the time of purchase;~~

~~(12) Futures and options subject to the limitations identified in the "City and Borough Investment Policy."~~

~~(cb) The finance director shall manage a Long portfolio exercising the judgment and care under the circumstances then prevailing 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. The Long portfolio will have a long term investment horizon and will include long term operating and CBJ endowment funds. To create real growth (inflation proof) and provide for annual spending needs, the Long portfolio assets shall be invested in equity, as well as fixed income, securities. Both domestic and international equity securities are appropriate. Long portfolio assets must be invested consistent with the "City and Borough Investment Policy." The finance director may select commingled funds, registered mutual funds, or separately managed accounts managed by external portfolio managers, invested in the following:~~

~~(1) Domestic fixed income: Securities issued in the United States matching security types, quality and maturity ranges contained in the Lehman Aggregate Index.~~

~~(2) Domestic equity: Common and preferred stock issued by companies domiciled in the United States, and traded on a domestic stock exchange, or traded through the National Association of Securities Dealers Automated Quotation (NASDAQ) system.~~

~~(3) International equity: Common and preferred stock issued by companies domiciled outside the United States, primarily in developed countries, as defined by the Morgan Stanley Capital International's (MSCI's) Europe, Australia, and Far East (EAFE) index.~~

(Serial No. 88-55, § 3, 1988; Serial No. 93-07, § 2, 1993; Serial No. 97-24, § 3, 1997; Serial No. 97-40, § 2, 1997; Serial No. 99-32, § 2, 1999; Serial No. 2001-07, § 3, 3-19-2001; Serial No. 2002-05, § 2, 2-25-2002; Serial No. 2003-49, § 3 12-8-2003; Serial No. 2007-45, § 3, 7-9-2007)

57.25.030 - Security on nonnegotiable certificates of deposit.

Nonnegotiable certificates of deposit must be fully secured at all times as to the payment of principal and interest due on the maturity of the nonnegotiable certificate of deposit. The insured portion must be secured by insurance of accounts through the appropriate federal insurance agency. The portion in excess of the bank's insurance of accounts must be secured by collateral valued in a manner determined by the City and Borough, and conforming to the requirements of sections 57.25.040 through 57.25.1040, at 102 percent.

(Serial No. 88-55, § 3, 1988)

57.25.040 - Ownership and encumbrance of collateral.

Pledged collateral must be owned by the bank issuing the certificate of deposit. Except for the assignment required under section 57.25.110, the bank must keep the pledged collateral free and clear of liens, security interests or encumbrances. The bank shall not release, assign, sell, mortgage, lease, transfer, pledge or grant a security interest in, encumber, substitute or otherwise dispose of or abandon all or any part of the pledged collateral without the prior written authorization of the City and Borough.

(Serial No. 88-55, § 3, 1988)

57.25.050 - ~~Collateral valued at current market.~~ Acceptable collateral.

The City and Borough may accept the following types of collateral placed at current market value by a bank if that bank's valuation process is consistent with methods used in preparing its federal or state bank reports:

1. ~~(1)~~ Obligations of, or obligations insured or guaranteed by, the United States or agencies or instrumentalities of the United States;

2. ~~(2)~~ General obligation bonds and notes issued and insured or guaranteed by the state, or a political subdivision of the state;

3. ~~(3)~~—Revenue bonds issued by the state or an agency or instrumentality of the state;
4. ~~(4)~~—Revenue bonds issued by a political subdivision of the state which are rated A or its equivalent or higher by a nationally recognized rating service;
5. ~~(5)~~—Corporate debt securities rated AA or its equivalent or higher by a nationally recognized rating service;
6. ~~(6)~~—General obligation bonds issued by a state or a municipality in the United States other than the state, rated A or its equivalent or higher by a nationally recognized rating service;
7. ~~(7)~~—The insured portion of a federally insured or guaranteed loan;
8. ~~(8)~~—Negotiable certificates of deposit issued by a rated bank.

(Serial No. 88-55, § 3, 1988)

~~57.25.060—Collateral valued at par.~~

~~The City and Borough may accept the following type of collateral to be valued at its outstanding principal balance each month:~~

~~That portion of a loan insured by private mortgage insurance secured by real property located within the state; provided that such loan is issued by a private mortgage insurance company authorized to do business in the state under AS title 21.~~

~~(Serial No. 88-55, § 3, 1988)~~

~~**State Law reference**—Mortgage insurance, AS 18.56.095; authorization of insurers, AS 21.09.010 et seq.; collateralization, AS 37.23.030.~~

~~57.25.070—Value of collateral valued at less than par.~~

~~Insured and uninsured loans, and uninsured portions of loans, will be valued at 75 percent of the outstanding principal balance each month (0.75 × outstanding principal balance). The collateral must be located within the City and Borough.~~

~~(Serial No. 88-55, § 3, 1988)~~

~~57.25.080—Restrictions on uninsured loans and uninsured portions of loans as collateral.~~

~~The following restrictions apply to uninsured loans and uninsured portions of loans pledged by a bank as collateral to secure nonnegotiable certificates of deposit:~~

- ~~(1) The finance director shall establish the maximum allowable percent of uninsured loans and uninsured portions of loans which may be used to collateralize the principal and interest due upon maturity of nonnegotiable certificates of deposit; provided such maximum shall not exceed 50 percent, and the percent of such loans pledged by the bank as collateral must not exceed that maximum allowable percent;~~
- ~~(2) The outstanding uninsured loan balance on the date such loan is pledged as collateral by a bank must not exceed five percent of the bank's capital.~~

~~(Serial No. 88-55, § 3, 1988)~~

~~57.25.090—Loans not eligible as collateral.~~

~~The following are not eligible collateral:~~

- ~~(1) Any loan delinquent in the payment of either principal or interest or otherwise in default;~~
- ~~(2) Any loan whose term of payment has been extended; or~~
- ~~(3) Any loan that has been classified by internal or external auditors or state or federal banking regulations.~~

~~(Serial No. 88-55, § 3, 1988)~~

57.25.10010060 - Addition, substitution or change of collateral.

- 1. (a) The City and Borough reserves the right to review any and all collateral proposed or submitted by a bank to secure nonnegotiable certificates of deposit. If the City and Borough determines that the collateral does not meet the requirements of this chapter, or determines that City and Borough funds are not adequately secured by the collateral, the City and Borough may demand additional collateral or substitution of collateral.
- 2. (b) The bank must notify the City and Borough immediately, and confirm in writing within three business days, of any decline in value below required levels of its pledged collateral, and must immediately offer sufficient additional collateral, if:
 - a. (1) The value of the federally insured portion of nonnegotiable certificates of deposit pledged as collateral is less than the amount of principal and interest due upon maturity;
 - ~~_____ (2) Any loan pledged as collateral becomes ineligible as collateral under section 57.25.090;~~
 - ~~_____ (3) Any uninsured loan pledged as collateral fails to comply with the restrictions set forth in section 57.25.080; or~~
 - b. (24) Any collateral described in section 57.25.050 ~~or section 57.25.060~~ pledged by the bank as collateral is no longer eligible as collateral.

(Serial No. 88-55, § 3, 1988)

57.25.11011070 - Security agreements on collateral.

- 1. (a) A bank issuing nonnegotiable certificates of deposit must enter into a security agreement with the City and Borough for all ~~uninsured loans or~~ collateral pledged.
- 2. (b) The security agreement shall include all of the following terms and conditions:
 - a. (1) That the bank must assign its interest in the collateral to the City and Borough and must transfer the collateral within two days of a collateralized investment award;
 - ~~_____ (2) That all uninsured loans and other property pledged as collateral to the City and Borough must be identified in an addendum to the security agreement which shall be updated monthly in accordance with subsection 57.25.120(a)(2);~~
 - b. (23) The security agreement shall specify the authority of the City and Borough to:
 - i. a. Demand a substitution of collateral;
 - ii. b. Exercise assignment or other rights under the security agreement; and
 - iii. c. Take other action as provided under this chapter;
- 3. (34) That the bank issuing the nonnegotiable certificates of deposit shall pay all costs and expenses associated with the depository agreement and the depository account.
- 4. (c) All collateral pledged by a bank must be kept in depository accounts with another bank to be known as the trustee bank.

- 5. ~~(d)~~—The City and Borough may accept the trustee bank in a tri-party agreement between the bank pledging collateral, the trustee bank and City and Borough. The tri-party agreement shall include all of the following terms and conditions:
- 6. ~~(1)~~—All those terms and conditions set forth in subsection (b) of this section;
- 7. ~~(2)~~—The City and Borough shall have control over pledged collateral submissions to and withdrawals from the depository account;
- 8. ~~(3)~~—The trustee bank must send a depository receipt to the finance director promptly after the transfer or substitution of collateral.

(Serial No. 88-55, § 3, 1988)

57.25. ~~12012080~~ - Reports and access to records of banks bidding on or holding nonnegotiable certificates of deposits.

- 1. ~~(a)~~—*Reports required.* The following reports must be submitted to the City and Borough by banks bidding on or holding outstanding nonnegotiable certificates of deposits:
 - a. ~~(1)~~—A copy of the bank's balance sheet and profit and loss statement must be submitted within 45 days after the end of each fiscal quarter as follows:
 - i. ~~a.~~—The financial statements must be prepared under generally accepted accounting principles; or
 - ii. ~~b.~~—The financial statements must be prepared under state or federal regulatory requirements, if the bank does not use generally accepted accounting principles;
 - b. ~~(2)~~—On or before the tenth day of each month, the bank must submit a report listing the then current principal balance of loans pledged as collateral. The report must be prepared as of the last day of the previous month and must be prepared as of the last day of the previous month and must be certificated by a bank officer.
- 2. ~~(b)~~—*Information available upon request.* Upon request by the City and Borough, the following information shall be made available by banks bidding on or holding outstanding nonnegotiable certificates of deposit:
 - a. ~~(1)~~—The originals or certified copies of any papers and instruments relating to any or all of the collateral pledged to secure the nonnegotiable certificates of deposit;
 - b. ~~(2)~~—Reports of examinations by state or federal agencies, and reports by the bank's independent auditors, to the extent not expressly prohibited by law;
 - c. ~~(3)~~—Upon seven days' notice, such other information as the City and Borough may require.
- 3. ~~(c)~~—*Access to information.* To the extent not expressly prohibited by law, the City and Borough shall have full access to, the right of inspection of, and the right to make extracts from, any records of the bank relating to all or any part of the collateral pledged to secure the nonnegotiable certificates of deposit.

(Serial No. 88-55, § 3, 1988)

57.25. ~~13013090~~ - Noncompliance.

- 1. ~~(a)~~—If a bank defaults in the payment of principal or interest due upon maturity of a nonnegotiable certificate of deposit for any investor, or fails to comply with the security, tri-party, or depository agreements provided for in this chapter, or otherwise fails to comply with the provisions of this chapter, the City and Borough may:

- a. ~~(1)~~—Without penalty, call all or a portion of the nonnegotiable certificates of deposit issued by the bank;
 - b. ~~(2)~~—Sell, exchange, transfer, or otherwise dispose of the pledged collateral to recover the principal and interest due upon maturity of the nonnegotiable certificate of deposit and all costs incurred by the City and Borough as a result of such sale, exchange, transfer or disposal;
 - c. ~~(3)~~—Take other action available under the security, tri-party, or depository agreements;
 - d. ~~(4)~~—Take such other action as may be available at law or equity.
2. ~~(b)~~—To the extent not expressly prohibited by law, the bank must indemnify and hold the City and Borough harmless from any forfeiture or loss of interest or other penalty or costs, including attorney's fees, imposed upon or incurred by the City and Borough by reason of its early withdrawal of any or all nonnegotiable certificates of deposit issued by the bank.

(Serial No. 88-55, § 3, 1988)

57.25-~~140100~~140 - Certificate of deposit restrictions.

After reviewing a bank's financial position and determining that a limit is necessary to ensure the safety of City and Borough funds, the City and Borough may limit any increase or award on all future certificates of deposits issued by that bank.

(Serial No. 88-55, § 3, 1988)

City and Borough of Juneau

Investment Policy

Updated September 2018

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I. Scope of Authority

In accordance with the Charter and the Codes of the City and Borough of Juneau (CBJ), authority for collection, custody and disbursement of all moneys from whatever sources is the responsibility of the Finance Director (CBJ 57.05.040). The Finance Director has delegated to the Treasury Division, with restriction, the management of the investment portfolio, the funds needed for annual operations and unexpended bond proceeds, and the day to day accounting and financial reporting of the Central Treasury functions.

In making investments, the Finance Director and Designees shall exercise the judgment and care under the circumstances then prevailing which an institutional investor of ordinary prudence, discretion, and intelligence exercises in the management of investments under the investment objectives of these investment policies and the CBJ codes. (CBJ 57.25.020)

The Finance Director and the Treasurer will monitor the performance and activities of the external portfolio manager to insure compliance with the then prevailing policy and code restrictions and to insure a net benefit to the CBJ.

II. Scope of Policy

This policy covers investments of Central Treasury funds, specified in CBJ code section 57.25.015. Should bond covenants be more restrictive than this policy, funds shall be invested in full compliance with those restrictions.

III. General Objectives

The investment of the Central Treasury is directed to the objectives of safety, liquidity and return. The Working Capital and Intermediate-Term Portfolio (ITP) will be invested with the objectives of safeguarding principal and providing liquidity, with a commensurate investment return. The Long-Term Portfolio (LTP) will be invested according to a total return philosophy. In combination, the following objectives will be met:

- **Safety** of the nominal value of assets. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. The objective will be to mitigate credit risk and interest rate risk.
- **Liquidity** to meet cash flow needs. The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated. This is accomplished by structuring the portfolio so that securities mature concurrent with cash needs to meet anticipated demands (static liquidity). Furthermore, since all possible cash demands cannot be anticipated, the portfolio should consist largely of securities with active secondary or resale markets (dynamic liquidity). Alternatively, a portion of the portfolio may be placed in money market mutual funds or local government investment pools which offer same-day liquidity for short-term funds.
- **Return** on investments that is commensurate with the time horizons of the assets, [leading to a higher level of distributable earnings], over a full market cycle. The investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints and liquidity needs. Return on investment is of secondary importance compared to the safety and liquidity objectives described above. The core investments are limited to relatively low risk securities in anticipation of earning a fair return relative to the risk being assumed. Securities shall generally be held until maturity.
 - A security with declining credit may be sold early to minimize the loss of principal.
 - A security swap would improve the quality, yield, or target duration of the portfolio.
 - Liquidity needs of the portfolio require that the security be sold early.

IV. Standards of Care

Prudence

The standard of prudence to be used by investment officials shall be the "Uniform Prudent Investor Act" standard and shall be applied in the context of managing an overall portfolio. Investment officers acting in accordance with written procedures and this investment policy and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and the liquidity and the sale of securities are carried out in accordance with the terms of this policy.

Ethics and Conflicts of Interest

Investment officials will recognize that the investment portfolio is subject to public review and evaluation. The overall program will be designed and managed with a degree of professionalism that is worthy of the public trust.

Officers and employees involved in the investment process shall refrain from personal business activity that may conflict with the proper execution of the investment program, or may impair their ability to make impartial investment decisions. Investment officials shall disclose to the Finance Director any material financial interests in financial institutions that conduct business with the CBJ,

and they will further disclose any personal financial or investment positions that could be related to the performance of CBJ portfolios, particularly with regard to the timing of purchases and sales.

Delegation of Authority

Authority to manage the investment program is granted to the Finance Director, and derived from the following: CBJ Code Section 57.05.040.

V. External Investment Managers

Selection of an External Investment Manager

To achieve the investment objectives of the Central Treasury, both CBJ staff and external investment managers may be employed to invest the assets. External managers will be considered for those assignments where they contribute additional expertise, and when the additional expense of external management is justified.

External investment managers must meet the following minimum criteria:

1. Be a bank, insurance company, independent investment counselor, SEC registered mutual fund, or investment adviser as defined by the Registered Investment Advisers Act of 1940.
2. Clearly articulate the investment strategy that will be followed, provide historical performance associated with the strategy, and document that the strategy is consistent with the guidelines in this Investment Policy Statement.
3. Provide historical quarterly performance numbers calculated on a time-weighted basis, based on a composite of all fully discretionary accounts of similar investment style, and reported net and gross of fees.
4. Provide detailed information on the history of the firm, key personnel, key clients, fee schedule, and support personnel.
5. Selected firms shall have no outstanding legal judgments or past judgments that may reflect negatively upon the firm's ability to perform.
6. Demonstrate the absence of conflict of interest.
7. Offer a competitive fee structure.

Duties and Responsibilities of an External Investment Manager

The duties and responsibilities of each investment manager retained for the Central Treasury include the following:

1. Manage the assets under its care, custody and/or control in accordance with the objectives and guidelines set forth herein and also expressed in separate written agreements when deviation is deemed prudent and desirable by the Finance Department.
2. Exercise investment discretion within the objectives and guidelines set forth herein.

3. Provide monthly reports of the holdings and transactions, and the total return achieved. Provide semi-annual reports that provide additional detail on the investment strategy and outlook, and performance attribution for the prior period. Semi-annual reports must state whether the portfolio is in compliance with the guidelines, and note the steps being taken to correct any failures to comply. Semi-annual reports should be provided within 30 days of quarter end. Provide fiscal year end reports consistent with CBJ's professional standards (GAAP and GASB.)
4. Promptly inform the Finance Director in writing regarding all significant and/or material matters and changes within the investment management firm pertaining to the investment of Central Treasury assets, including, but not limited to:
 - a. Investment strategy
 - b. Portfolio structure
 - c. Tactical approaches
 - d. Ownership & CBJ account principals
 - d. Financial condition
 - e. Recommendations for guideline changes
 - f. All material, legal, SEC, and other regulatory agency proceedings affecting the firm
5. Utilize the same care, skill, prudence and due diligence under the circumstances then prevailing that experienced, investment professionals acting in a like capacity and fully familiar with such matters would use in like activities for like investment programs with like aims in accordance and compliance with all applicable laws, rules and regulations from local, state, federal and international political entities as it pertains to fiduciary duties and responsibilities.
6. Adopt a brokerage policy that reasonably ensures that all transactions effected for the Central Treasury are subject to the best price and execution.
7. Acknowledge and agree in writing to their fiduciary responsibility to fully comply with the entire Investment Policy Statement set forth herein, and as modified in the future.

VI. Safe Keeping and Custody of Investments

The Finance Director shall enter into agreements with one or more financial institutions to provide custodial safekeeping services for Central Treasury investments and or pledged collateral. All investments purchased, or the required collateral to secure investments purchased, shall be held directly by the Central Treasury, by the third party custodial institution, or insured directly by the Federal Government. Where the holding of the investment directly by the Central Treasury or the third party custodial institution is impractical or impossible, the collateral will be pledged as security for the investment. The exception to this requirement will be investments in the Alaska Municipal League Investment Pool (AMLIP), in mutual funds, or in exchange-traded funds (ETFs). AMLIP investment will be held by a third party institution retained by the Investment Pool's manager and board.

The third party custodial safekeeping agreement shall include statements of authority from the Finance Director, details as to responsibilities of each party, notification of security purchases, sales, delivery, repurchase agreements, wire transfers, safekeeping and transaction costs, procedures in case of wire failures or other unforeseen mishaps and the liability of each party.

All trades where applicable will be executed by delivery vs. payment (DVP). This ensures that securities are deposited in the third party custodial institution simultaneously with the release of funds.

Securities held by the third party custodian are evidenced by safekeeping receipts and monthly activity reports.

VII. Authorized Investments

Funds may be invested only in the following instruments:

1. Obligations of, or obligations insured or guaranteed by, the United States or agencies or instrumentalities of the United States;
2. Commercial paper issued by corporations or businesses and rated at least A2/P2 by a nationally recognized rating service, and collateralized commercial paper with no time limit;
3. Bankers acceptances drawn on and accepted by a rated bank and eligible for rediscount with or purchase by Federal Reserve System banks;
4. Negotiable certificates of deposit issued by rated banks;
5. Nonnegotiable certificates of deposit secured as provided in Section 57.25.030;
6. Repurchase and reverse repurchase agreements secured by obligations insured or guaranteed by the United States or agencies or instrumentalities of the United States;
7. Bank obligations secured by the Federal Deposit Insurance Corporation, the Federal Savings and Loan Insurance Corporation, or the National Credit Union Association;
8. Custodial money market and other mutual funds so long as the nature of the fund is generally consistent with all other provisions of this section of the code;
9. U.S. dollar denominated corporate bonds and rated investment grade or higher by nationally recognized rating agency at the time of purchase;
10. Mortgage-backed securities issued by an agency of the United States Government;
11. Asset-backed securities that are publicly traded and rated AAA by a nationally recognized rating agency at the time of purchase;
12. Domestic Fixed income Mutual Fund or ETF: Securities issued in the United States matching security types, quality and maturity ranges contained in the Bloomberg Barclays Aggregate Index;
13. Domestic equity Mutual Fund or ETF: Common and preferred stock issued by companies domiciled in the United States, and traded on a domestic stock exchange, or traded through the National Association of Securities Dealers Automated Quotation (NASDAQ) system;
14. International equity Mutual Fund or ETF: Common and preferred stock issued by companies domiciled outside the United States, primarily in developed countries, as defined by the Financial Times Stock Exchange 100 Index (FTSE 100);
15. Loans to specified funds of the City and Borough for the purpose of capital acquisition, made as provided in Section 57.05.045;
16. An investment pool for public entities authorized by AS 37.23;
17. Other investment types or asset classes as provided in this Investment Policy and consistent with all other provisions of the CBJ code.

VIII. Investment Parameters

The following general guidelines apply to all portfolios. Any mutual funds or other commingled vehicles utilized will be reviewed to determine that their governing instruments are substantially consistent with the following guidelines.

A. General Guidelines

- All guidelines are considered at the time of purchase. The sale of a security is not automatically required due to a subsequent change in circumstance.
- Derivative securities are permissible investments when the derivative security has no more risk than the underlying security provided that the underlying security would be a permissible security and that the derivative does not impart leverage to the portfolio.
- Holdings of individual securities shall be large enough for easy liquidation.
- Each portfolio will be diversified with regard to specific issuer, industry, and economic sector, in order to reduce risk. The Long portfolio will be further diversified by type of security (fixed income and equity).
- Securities may be sold at a loss from any portfolio, if such an action is deemed to be consistent with the overall portfolio investment objectives.
- Commingled investment vehicles, such as mutual funds and ETFs, are permissible if the fund is managed in a manner consistent with this policy.

B. Analysis of Cash Flow to Determine Investable Funds

The cash flow forecast will be updated daily to determine funds available for investment. Investable funds are determined by analyzing known and projected cash sources and uses of funds for the next month. Sources analyzed include major projected receipts of property tax, sales tax, state grants, and future investment maturities. Uses of cash analyzed include current and projected accounts payable, payroll and payroll taxes, capital project outlays, debt service coverage, and other payments expected to exceed \$100,000. Projected inflows and outflows are included for City and Borough general accounts, Bartlett Regional Hospital, and the Juneau School District.

A review of the cash flows and daily balances of the Central Treasury has revealed that a portion of the assets remain in the Central Treasury for periods of time significantly longer than one year. As a result, the Central Treasury may prudently invest a portion of its assets in longer-term securities that are appropriate Portfolio types based on duration and liquidity outlined below.

C. CBJ Portfolios

- *Working Capital (Stable Value Portfolio)* The Working Capital Portfolio shall be the portion of the total investment portfolio that is managed for short-term liquidity, typically with a duration of zero to 270 days. The funds in this portfolio are generally expected to be used within a 12 month period. The Working Capital Portfolio is intended to provide for same-day liquidity for immediate cash needs. In addition to providing liquidity, the objective of the Working Capital Portfolio is to preserve principal and generate current income by investing in high-quality, short-term instruments.

Current Benchmark: *Bloomberg Barclays 1-3 Month US Treasury Bill Index*

- *Intermediate-Term Portfolio (ITP)* The Intermediate-Term Portfolio shall have a duration of less than five years. Funds in this portfolio are intended for cash flow needs projected in the next 1-5 years.

Current Benchmark: *Bloomberg Barclays Intermediate Government/Credit Index*

- *Long-Term Portfolio (LTP)* This portfolio has a long-term investment horizon, and will include long-term operating and CBJ endowment funds. To create real growth (inflation proof) and provide for annual spending needs, the LTP assets shall be invested in equity, as well as fixed income securities. Both domestic and international equity securities are appropriate. The Finance Director may select commingled funds, registered mutual funds, ETFs, or separately managed accounts managed by external portfolio managers.

Current Benchmark by Asset Class:

- Domestic Equity: *S&P 500 Index*
- International Equity: *Financial Times Stock Exchange 100 Index*
- Domestic Fix Income: *Bloomberg Barclays US Aggregate Bond Index*

D. Working Capital & Intermediate-Term Portfolio Management

1. Maturity/Duration

- Securities held in the Working Capital portfolio shall have maturities of less than twenty-four months.
- The duration of the Working Capital portfolio shall not exceed one year.
- Securities held in the ITP portfolio shall have maturities of less than sixty-six months.
- The duration of the ITP shall not exceed five years.

2. Quality

All fixed income securities held in the segment shall be in compliance with the respective benchmark used, and have an "investment grade" rating (Moody's rating of Baa, or a Standard & Poor's rating of BBB) or higher by a nationally recognized rating service, providing that the weighting of securities in the portfolio rated single "A" or below in quality by a nationally recognized rating service shall not exceed the lower of 110% of the index's weighting of securities rated single "A" or below, or 50% of the market value of the portfolio.

3. Diversification

It is the policy of CBJ to diversify its investment portfolios. To eliminate risk of loss resulting from the overconcentration of assets in a specific maturity, issuer, or class of securities, all cash and cash equivalent assets shall be diversified by maturity, issuer, and security type. Diversification strategies shall be determined and revised periodically by the Finance Director.

The exposure of any one of the portfolios to any one issuer shall not exceed 5 percent of the market value of the portfolio, with the exception of: U.S. Treasury or Agency securities, the AMLIP, or collateralized investments.

Positions in securities having potential default risk (e.g., commercial paper) shall be limited in size so that in case of default, the portfolio's annual investment income will exceed a loss on a single issuer's securities

4. *Sector Allocations*

- Corporate securities shall constitute no more than the lower of 110% of the index's corporate securities allocation, or 50% of the market value of the portfolio.
- Mortgage securities shall constitute no more than 40 percent of the market value of the portfolio.
- Certificate of Deposits shall not exceed 20 percent of the market value of the portfolio.

5. *Derivatives*

Derivative securities that derive their returns from factors other than interest rates are not permitted. Examples of such prohibited derivatives are structured notes tied to currencies or commodity prices.

6. *Repurchase Agreements*

The Central Treasury may invest in repurchase agreements per the requirements set forth in the CBJ 57.25.020(6). The Central Treasury will have an executed Master Repurchase Agreement on file for each firm conducting repurchase agreements with the Central Treasury prior to entering into repurchase agreements. The use of repurchase agreements will be consistent with GFOA "Recommended Practices on Repurchase Agreements". All repurchase agreements will be collateralized at a minimum of 102% of market value of principal and interest.

7. *Reverse Repurchase Agreements*

The Central Treasury may engage in reverse repurchase agreements, provided that:

- No more than 20 percent of the portfolio may be invested in reverse repurchase agreements;
- The maximum maturity of a reverse repurchase agreement shall be 90 days;
- Each reverse repurchase agreement shall mature on the date of a known cash flow which will be unconditionally available to repay the maturing reverse repurchase; and
- All reverse repurchase agreements must be subject of a Master Repurchase Agreement between the firm and CBJ.

8. *Futures and Options*

Fixed income managers may, with prior written approval of the Finance Director, engage in futures and options transactions subject to the following limitations:

- No long or short futures and/or options position may be established unless the portfolio has adequate cash reserves or securities to fund purchase or delivery of securities under the contract. The use of such instruments to lever the portfolio is strictly prohibited.

- The aggregate exposure to futures and options is limited to 25 percent. A futures position is to be valued at the face amount multiplied by the number of contracts adjusted for the most likely deliverable security.

E. Portfolio Management for the Long Term Portfolio (LTP)

1. *Eligible Securities*

a. Domestic Equity

The domestic equity allocation will be invested in an index mutual fund or ETF, managed to the S&P 500 index fund. All the stocks in the benchmark are permissible investments. Cash should be kept to a minimum. **The use of futures contracts to equitize residual cash is permitted.**

b. International Equity

The international equity allocation will be invested in an index fund, managed to the Financial Times Stock Exchange 100 Index ex US. All securities in the benchmark are permissible. **A stratified sampling strategy is acceptable when full replication is not practical.** Investments in currencies of the underlying securities are permitted.

c. Domestic Fixed Income

The objective of this investment is exposure to US investment-grade bonds, including both corporate and government bonds of all maturities. The domestic fixed income allocation will be invested in an index mutual fund or ETF, managed to the Bloomberg Barclays US Aggregate Bond Index.

2. *Maturity, Duration, Sector Allocation and Credit Quality*

Maturity, duration, sector allocation, and credit quality of the Domestic Fixed Income allocation are to be managed to reproduce the same risks as the Bloomberg Barclays US Aggregate Bond Index.

3. *Asset Allocation*

The strategic asset allocation of the Long portfolio shall be:

| | |
|-----------------------|----------|
| Broad Domestic Equity | 35% ± 5% |
| International Equity | 14% ± 5% |
| Domestic Fixed | 51% ± 5% |

The policy establishes for each asset class the target allocation, and a band around that target. The strategic asset allocation is expected to produce a median return of **7%** annualized over a 5-year period.

4. *Portfolio Rebalancing*

The current asset allocation of the Funds will deviate from the strategic asset allocation target

due to differences in market returns between the stock and bond markets. The current allocation will be evaluated quarterly and a rebalancing program will be initiated when the current allocation is no longer within the target range. Contributions or withdrawals will be directed in a manner that moves the current allocation closer to the strategic allocation. Rebalancing will be done at minimum, once each year to bring assets closer to their desired levels. Rebalancing may also take place quarterly and when funds are withdrawn.

5. Use of Commingled Funds

The Finance Director shall evaluate the use of commingled funds for the LTP. Commingled funds include registered mutual funds, unregistered institutional trusts and ETFs. Commingled funds will be considered when the total costs are lower than for a separately managed account.

When using commingled funds, the Finance Director shall review the prospectus and other written material about the fund to ensure that the management is essentially consistent with the guidelines set forth in this policy.

6. Total Investments

It is expected that the long portfolio will consist of endowment funds and some long-term operating funds. Total CBJ operating funds invested are not to exceed \$5 million plus appreciation.

IX. Performance Reporting

The Finance Department will prepare, on a calendar quarter basis, financial reports which will be posted to the CBJ website.

On a quarterly basis, the Finance Director will review:

- The investment manager's adherence to the security and portfolio guidelines and the duties and responsibilities of money managers;
- Material changes in the investment manager's organization, investment philosophy and/or personnel; and,
- Comparisons of the investment manager's results to appropriate benchmarks:
 - The Working Capital Portfolio is expected to generate a return comparable to the Bloomberg Barclays 1-3 Month US Treasury Bill Index. Safety and liquidity are more important investment criteria than returns for this segment.
 - The ITP will be compared to the Bloomberg Barclays Intermediate Government/Credit Index, or other suitable index. It is expected that the portfolio will be within the 75th percentile of the index return.
 - For the LTP, a benchmark will be established for each asset class, as follows:
 - Domestic Equity: S&P 500 Index
 - International Equity: Financial Times Stock Exchange 100 Index
 - Domestic Fix Income: Bloomberg Barclays US Aggregate Bond Index

- The return on the total endowment shall be compared to a composite benchmark consisting of 35% x S&P 500 index + 14% x FTSE index + 51% x Bloomberg Barclays US Aggregate Bond Index.

X. Internal CBJ Investment Transactions

Authorized Financial Dealers and Institutions

A list of five approved security broker/dealers will be maintained for transactions initiated by authorized CBJ staff. To be selected as a security broker/dealer the firm must be a primary dealer (as provided by the Federal Reserve Bank of New York) or have at minimum capital of \$10,000,000 and in operation for at least the past five consecutive years.

All broker/dealers who are not primary dealers who desire to become qualified bidders for investment transactions must supply the following as appropriate.

- Audited financial statements
- Proof of National Association of Securities Dealers (NASD) certification
- Proof of Alaska state registration
- Completed City and Borough of Juneau broker/dealer application form

Primary dealers will only be required to submit the completed City and Borough of Juneau broker/dealer application form.

A review of the financial condition and registration of the qualified bidders listing will be conducted by the Finance Director annually. The Finance Director may require additional information to confirm the financial ability of any firm wishing to do business with the city as a broker/dealer. Financial compliance files will be maintained by the Finance Department on all approved broker/dealers.

In addition to direct broker/dealer transactions, the internally managed segment may utilize one or more web-based sites for transactions. Since these sites provide direct transactions with selling brokers, dealers and other institutional traders, care will be taken to insure that there is sufficient transactional security provided by the site and that transaction fees are competitive.

External investment managers are expected to have their own policy regarding the use of security brokers/dealers. If the external investment manager has a brokerage affiliate, all trading for the CBJ account must be directed to a third party.

Investment Placement and Internal Control

The following tasks outline the required procedures necessary to properly determine and place appropriate Central Treasury Investments.

Selection of Investment Vehicle

After determining investable funds the investment analysis will include a review of interest rate trends, the yield curve analysis, existing portfolio mix and alternative investment instruments. Once the approximate maturity date range and investment vehicle are selected, bids will be solicited from authorized brokers.

Competitive Pricing on Investment Purchases

Competitive pricing shall be obtained on all purchases. For new issue securities offered at par, Treasury may contact one broker for this purchase. Care will be exercised to ensure that purchases are made from multiple brokers and no one broker is favored. For investment purchases of up to three million ($\leq \$3,000,000$), three quotes will be solicited or use of independent financial pricing sources will be made to ensure that "best" execution has been obtained. For investment purchases in excess of three million ($> \$3,000,000$), five quotes will be solicited. It is anticipated that no single purchase will exceed four million ($> \$4,000,000$).

When Treasury solicits bids for a block dollar amount containing multiple trades, a minimum of five brokers will be solicited. Bids will be solicited on a systematic rotation method that will, over time, offer reasonable opportunities for bidding to all persons on the qualified active brokers list.

All investment purchases (except AMLIP, repurchase agreements or investments secured by the federal government (i.e.: FDIC or FSLIC)) will be made on a delivery vs. payment basis (DVP). Brokers not responding to a bid solicitation within 15 minutes or other specified time period will be considered non-responsive.

Investment Transaction Authority

The following are authorized to execute investment transactions for the CBJ: The Finance Director, Treasurer, and Deputy Treasurer.

Investment Purchase

When an investment is purchased, an investment transaction file will be created. The file will include all pertinent information regarding the investment purchased, including any bid information, trade ticket, trade confirmation and any documentation received from the broker. Each investment will be entered into an investment system database for monitoring and reporting. Each investment transaction file will be maintained and retained per CBJ's retention schedule.

The custodian shall be notified of the transaction details in a timely manner, either the day prior for regular settlement and two days prior for longer settlements. Notification will be made by fax or other secure electronic means. The custodial bank handles the receipt of the security and the delivery of payment as agreed to in the custodial services contract.

Wire Transfers - Outgoing

Wire transfers require a written authorization confirming the transfer sent via fax or through a secure electronic bank transfer method.

The following people are authorized to approve outgoing wire transfers: Finance Director, Treasurer and Deputy Treasurer.

XI. Policy Considerations

Accounting for Investments

General Provisions

Investments are recorded at historical cost at time of purchase. Investments are marked to market and recorded annually. Accrued interest receivable is calculated and recorded annually.

Central Treasury

CBJ uses a Central Treasury concept to account for investments for all funds and the component unit, the Juneau School District.

Investment Schedules & Reconciliation

Schedules that provide detail investment support by investment will be maintained for the general Central Treasury portfolio and for all invested funds having specific investment earnings restrictions (arbitrage restrictions). All investment schedules will be updated and balanced to the general ledger and custodial statements monthly by the Treasury Division. These reports will be made available to the Finance Director on request.

Year-End Disclosures

Year-end disclosures included in the CBJ Comprehensive Annual Financial Report (CAFR) will include; investments allowed under CBJ Ordinances, investment carrying amount, risk category (according to current accounting requirements) and market value, as of June 30.

Interest Allocation of Central Treasury Earnings

The CBJ Treasurer's office shall record all interest earnings from the general investment portfolio in the general fund as the transactions occur. Interest income will be allocated at least annually. The following operating funds will be allocated interest income based on their cash positions, average monthly cash balance, and the associated general portfolio monthly yield:

- Forfeited Assets, required by Federal Regulations
- Enterprise Funds
- School District Agency Fund
- LID's with external debt
- Grants, as required by state or federal law
- Bond proceeds used for capital projects
- Agency Funds

For IRS Arbitrage reporting purposes, bond proceeds may be segregated and kept in a separate restricted investment portfolio. For each separate restricted investment portfolio the interest allocation will be the actual earnings from the investments in the applicable restricted portfolio.

XII. Approval of Investment Policy

The Finance Director can call for a review and update of the CBJ Investment Policy as needed. Changes to the Investment Policy may be authorized by the City Manager.

Last updated 11/2018 to incorporate adopted changes.