ASSEMBLY FINANCE COMMITTEE
THE CITY AND BOROUGH OF JUNEAU, ALASKA
Wednesday, January 9, 2019, 5:30 PM.
Assembly Chambers

I. **CALL TO ORDER**

II. **ROLL CALL**

III. **APPROVAL OF MINUTES**

   a. **Wednesday, December 12, 2018**

IV. **ITEMS FOR DISCUSSION**

   a. **Investment Code Revisions**

   b. **Committee Discussion of Potential New JACC Funding Options**

V. **NEXT MEETING DATE**

   a. **Wednesday, February 6, 2019**

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, December 12, 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, Loren Jones, Jesse Kiehl, Rob Edwardson, Carole Triem, Wade Bryson, Michelle Bonnet Hale and Mayor Beth Weldon.
Committee Members Participating Telephonically**:** Maria Gladziszewski.
Committee Members Absent: None.

Staff Present: Rorie Watt, City Manager; Mila Cosgrove, Deputy City Manager; Bob Bartholomew, Finance Director; Dallas Hargrave, Human Resources Director; Rich Etheridge, Fire Chief; Dave Scanlan, Eaglecrest General Manager; Robert Barr, Library Director; Beth McEwen, City Clerk; Sam Muse, Controller; and Elisabeth Jensen, Budget Analyst.

Others Present: Brian Holst, Executive Director, Juneau Economic Development Council (JEDC); and Alec Mesdag, Board Chair, Juneau Economic Development Council Board.

III. Approval of Minutes

The November 7, 2018, minutes were approved as presented.

IV. Juneau Economic Development Council (JEDC) / CBJ 1998 Revolving Fund Agreement Review

Alec Mesdag, Chair, Board of Directors, JEDC, introduced the information found on pages 4-13 of the meeting packet, including a 2-page letter from Brian Holst, Executive Director JEDC to Rorie Watt, City Manager; and a copy of the Memorandum of Agreement (MOA) between the CBJ and JEDC regarding 1998 Juneau Revolving Loan Fund Agreement, dated January 23, 1998.

On behalf of JEDC, Mr. Mesdag, and Mr. Holst, requested the Assembly withdraw from the JRLF MOA. They explained the original funding began with funds granted through a federal economic stabilization program intending to help the region transition away from reliance on the timber industry. The CBJ expensed the funding when control was granted to JEDC, who in turn created a liability to the CBJ on JEDC’s books. Exiting the MOA would allow JEDC to have more flexibility in providing funding to local businesses, convert the liability into capital contribution. Also end inefficient reporting responsibilities specific to the JRLF, which JEDC instead proposed to simplify and integrate with its annual reporting to the CBJ. This change would improve the balance sheet of JEDC, while having no impact on CBJ's balance sheet. According to JEDC, as of September 30, 2018, JEDC had $1,260,989 in capital from the JRLF and $796,806 in outstanding loans to seven Juneau companies.

CBJ staff and JEDC representatives responded to questions from the Assembly members about the existing program and options for the future.

Assembly members shared some concerns about withdrawing and losing all oversight. JEDC representatives committed that JEDC would provide streamlined reporting to the CBJ; and oversight of JEDC would remain with a CBJ-appointed Board of Directors, including a permanent seat by the Mayor of Juneau.

Mayor Beth Weldon, moved for the City & Borough of Juneau, and Juneau Economic Development Council (JEDC) to mutually withdraw from their January 23, 1998, Memo of Agreement (MOA), regarding the Revolving Loan agreement, with the effective date of the termination of the agreement to be determined by the City Manager.
Maria Gladziszewski OBJECTED.

<u>Roll call votes</u>:
Ayes: Edwardson, Triem, Bryson, Becker, Hale, Jones, Kiehl, and Mayor Weldon.
Nays: Gladziszewski.
Absent: None.
Motion PASSED 8-1.

V. Senior Sales Tax Exemption – Two Modification Ideas

Mr. Bartholomew, Finance Director, discussed the information provided on pages 14-18 of the meeting packet, including a short issue paper, two pages of analysis and two pages of guidelines and definitions for the current program.

Prior to being elected to her current post, Mayor Weldon had asked staff to provide a high level analysis of two ideas for potential modification of the current Senior Sales Tax Exemption. This presentation attempted to provide a basic overview of the current process to the new Assembly members, along with providing the high level analysis of the two scenarios:

Scenario 1: Evaluate raising the age limit for seniors, (while grandfathering existing seniors) to qualify for the senior tax exemption under both the existing essential purchases only level and expanding the program to all expenditures.

The former resulted in an estimated loss of revenue of $65K in 2024. The latter option would result in an annual loss of revenue approximately $3.6M beginning in 2019.

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Scenario 2: Evaluate raising the income level that qualifies for the sales tax rebate. Also, comparing the sales tax rebate income level, to the hardship income level, used for senior property tax hardship exemption.

The increase in income cap to $60,000 for an individual / $70,000 for a married couple, would increase the Total Rebate by $45,000 in 2019, adding approximately 107 qualifying applicants to the Sales Tax Rebate program.

The Assembly discussed the topic.

The meeting recessed at 6:50 PM.
The meeting reconvened at 7:03 PM.

VI. Major Revenues and CBJ Financial Position Update

Mr. Bartholomew, Finance Director, discussed the information provided on pages 19-23 of the meeting packet, beginning with a two page white paper, a Major Revenue schedule, a current General Government Available Fund Balance schedule and a schedule outlining CBJ Restricted Budget Reserve.

The FY20 budget was "Approved" in June, 2018, by the assembly as a "place holder". It will be the updated this winter and presented to the Assembly in April, 2019.

Last year the economic indicators pointed towards a contracting economy due to State uncertainty. Still, the news is better than expected with stable and strong (sales and property tax revenues) providing increased revenue of $3.5 Million in FY19 to fully fund our current budget, without dipping into fund balance as planned. This allows for potential opportunities for "one time" investment in the community.

Looking forward, the outlook is mixed with expected ongoing growth in tourism, but continued uncertainty remaining at the State and Federal levels.

As a result, the departments are being asked to bring back a budget level based on last year's tentatively approved FY20 budget with the addition of wage increases negotiated in 2018 (after assembly action on the budget).

The Assembly discussed the topic.

VII. Collective Bargaining Overview

Mila Cosgrove, Deputy City Manager; and Dallas Hargrave, Human Resources Director; discussed information provided as an eight-page memo, titled "Information for Union Contract Negotiation Preparation" that was handed out during the meeting.

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Ms. Cosgrove outlined the role of the City in the community, with much of that being driven by CBJ personnel – with workforce costs totaling 60-70% of the budget. The CBJ has a very highly engaged and dedicated workforce. It is important to invest in our employees in a sustainable way.

Mr. Hargrave provided an overview of the roles, responsibilities and legal framework pertaining to contract negotiations as codified in CBJ Code of Ordinances Sections 44.05 and 44.10.

Summary information was discussed for positions, wages, and comparatives for each bargaining unit.

The Assembly discussed the topic.

VIII. Information Item – Senior Assisted Living – Discuss Potential for a Competitive / Financially Incentivized Solicitation Process

Rorie Watt, City Manager; discussed a white paper penned by Scott Ciambor, Chief Housing Officer on pages 24-25 of the meeting packet. Additionally, staff is working on two other ideas including a “ground lease”, and “equity investments”. At this point, the ideas are still being developed, but staff wanted to make sure the Assembly was aware of the new ideas in the interim.

IX. Executive Session

Employee Compensation Negotiations.

Carole Triem moved to recess and reconvene to Executive Session for the purpose of discussing Employee Compensation Negotiation matters. There being no objection or public comment, it was so ordered that Executive Session would commence after a ten minute recess.

The meeting recessed at 8:40 PM.
The meeting reconvened at 8:50 PM.

The committee entered into Executive Session at 8:50 PM.
The committee returned from Executive Session at 9:48 PM.

Loren Jones reported that during the executive session the committee had discussed “contract negotiations” and the committee gave direction to staff.
Chair Kiehl asked if there was any other business. There was none.

The meeting was adjourned.

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X. Next Meeting Date

Wednesday, December 12, 2018.

XI. Adjournment

The meeting was adjourned at 9:49 PM.

City and Borough of Juneau
ASSEMBLY FINANCE COMMITTEE
January 9, 2019

Investment Program Code Changes – Round 2

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) Policy model/outline.

The attached information provides:
1. Revised investment code 57.25 (Draft).
2. Existing investment code for comparison.
3. Updated Investment Policy Statement (IPS). Policy document approved by City Manager and implements the code.

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 current 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 funds 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.

Proposed Code Changes:
The attached revised investment code has been significantly revised to add policy guidelines, remove outdated provisions and delegate certain authority to the City Manager and Finance Director.

Summary of Changes:
1. Section 25.005 Added – **Scope** – Directs Finance Director to implement investment code.
2. Section 25.010 Updated – **Definitions** - modernized and specific benchmarks deleted (addressed in policy).
3. Section 25.015 Added – **Management of Municipal Funds** - Defines the CBJ funds to be invested, authorizes the Investment Policy (approved by Manager) and requires independent third party custodian to control investment securities.

4. Section 25.018 Added – **Investment Objectives** – defined and prioritized as: Safety, Liquidity and Investment Return.
5. Section 25.020 Updated – **Authorized Investments** – modernized. Also removes the requirement for some investments to be done with "in-house" staff and some to be managed externally by contractor. Now the code is silent on who invests the funds. The list of investments is no longer segregated by the type of funds (e.g. short term, long term) or who invests (internal vs. external). The number and make-up of investment portfolios will be addressed in investment policy.
6. Sections 25.030 through 140 updated & modernized - addresses the provisions for our general banking (currently FNBA) activity. On average CBJ maintains a $10 - $12 million cash balance in our checking account, that is subject to these code sections.

Feedback from Professionals & Committee Questions:
Staff discussed the existing investment code and policy with the following investment professionals:
1. Alaska Permanent Capital Management - current investment manager.
2. Bob Storer – retired investment professional.
3. Wells Fargo Fixed Income Investment Office
4. True Value Investments Principal – Paul Jarvis. Mr. Jarvis is also on the board of the Alaska Government Finance Officers Association.

On November 7 the assembly Finance Committee reviewed and discussed a draft version of the updated coded and policy.

Discussion:
Questions from committee:
1. Do we know why original code mandated shared internal & external management? - We do not know but unanimous feedback from professionals was that the mandate is unique/unusual.
2. Does it make sense to let the Finance Director select the benchmark his performance will be measured against? - City Manager approves policy that sets benchmarks. Professional feedback was that investment landscape evolves and benchmarks should adjust accordingly (probably more often than folks would want to amend city code).
3. Is there less transparency to the public with delegating more criteria/limitations to policy versus code? - Transparency can be improved by regular reporting to public and assembly while maintaining management flexibility to adjust to changing situations.
4. Can you limit the scope of policy in code? - Yes you can. The intent of adding sections Section 25.010, .015 & .018 was to improve the code guidance/guardrails by dictating that all CBJ funds are subject to the code provisions and setting safety of principal as the top priority.
5. Instead of Finance Director having full authority to make decisions can you add language "… after consultation with …"? - You can require consultation but it can also be accomplished by requiring the finance committee, in section 015, be informed of significant changes in policy.
6. What is the extent of the auditor's annual work on investments? - Per the audit partner the current scope requires "Investments will be audited as part of the City and Borough's annual audit. Procedures should include reviewing investment decisions against code & policy for transaction approval and appropriateness of types of transactions. Annual amounts and disclosures should be reviewed with external reports to determine accuracy in reporting by Treasury and Finance departments".
7. Should there be an investment return goal (in code or policy)? - Not practical to set a goal given the volatility inherent in investment markets. The return goal is set through the prioritized "return objectives" of Safety, Liquidity and Return. Annual evaluation can

report if we are achieving the appropriate level of return for the amount of risk (or safety) that we want to take.

8. The code prioritizes the investment objectives (e.g. Safety #1) so should the policy also have the same prioritization? - Yes, policy updated to include the same priority as code.
9. Would you say our current investment approach is conservative? - Prioritizing safety is a conservative approach but currently CBJ has about 45% of intermediate portfolio invested in “investment grade” corporate bonds, which is more aggressive than many other governments. We could be more conservative in this area and will get a good evaluation of options when we bid out the investment management function.
10. Do we have a sense of how much of our funds could be invested in longer term investments? - The “Long Term Portfolio” (LTP) is defined in policy to cover long term horizon more like endowments and permanent funds. CBJ has not allocated any specific operating funds that meet this description. The LTP currently includes the restricted Arboretum Endowment (gifted to CBJ) and the Library Foundation funds. CBJ does have around $1 million (1/2% of total cash) in the LTP as it was necessary to meet the minimum threshold to open and institutional account with Vanguard. We are slowly reducing the CBJ allocation as the other funds grow. CBJ is evaluating how much of our cash investments can be extended from being invested in 3 year bonds to longer maturity 5 year bonds (depending on market projections).

Recommended Action:
Committee direct staff to have an ordinance drafted to implement the proposed investment code changes and introduce it to the full assembly for action.

Chapter 57.25 - INVESTMENTS AND COLLATERAL[1]

Sections:

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.

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

Certificate of deposit means a negotiable or nonnegotiable 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.

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. 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.

NRSRO means Nationally Recognized Statistical Rating Organization. NRSRO is a credit rating agency (CRA) that issues credit ratings that the U.S. Securities and Exchange Commission (SEC) permits other financial firms to use for certain regulatory purposes.

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 higher or its equivalent by a nationally recognized rating service;

(2) A bank whose letters of credit secure third-party debt issues rated A or higher or its equivalent 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.

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 will choose which investment portfolio is most appropriate for funds based on the objectives at hand. Portfolio types are outlined in the Investment Policy.
4. Appropriate benchmarks shall be selected by the Finance Director based upon portfolio goals and holdings of the portfolio. Benchmark selection shall be approved by the City Manager as a function of the Investment Policy Statement.
5. Safekeeping and Custody

a. *Delivery vs. Payment* - All trades of marketable securities will be executed using the delivery vs. payment (DVP) method 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).

6. 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.

7. 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.

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 to meet unanticipated demands (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 possible 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 A1/P1 by a nationally recognized statistical rating organization (NRSRO), and collateralized commercial paper with no time limit;
3. Negotiable certificates of deposit issued by rated banks;
4. Repurchase agreements secured by obligations insured or guaranteed by the United States or agencies or instrumentalities of the United States;
5. Bank obligations insured by the appropriate federal insurance agency, including nonnegotiable certificates of deposit secured as provided in Section 57.25.030;
6. Custodial money market funds 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;
7. U.S. dollar denominated corporate bonds rated investment grade or higher by a nationally recognized rating agencies at the time of purchase;
8. Mortgage-backed securities and collateralized mortgage obligations (CMOs) issued and insured or guaranteed by the United States or agencies or instrumentalities of the United States;
9. Asset-backed securities that are publicly traded and rated AAA by a NRSRO at the time of purchase;
10. 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;
11. 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;
12. 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;

13. Loans to specified funds of the City and Borough for the purpose of capital acquisition, made as provided in Section 57.05.045;
14. An investment pool for public entities authorized by AS 37.23;
15. 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 57.25.110, 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.

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)

57.25.060 *Repealed*

(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 – *Repealed*

(Serial No. 88-55, § 3, 1988)

57.25.080 *Repealed*

(Serial No. 88-55, § 3, 1988)

57.25.090 *Repealed*

(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 or section 57.25.060 pledged by the bank as collateral is no longer eligible as collateral.

(Serial No. 88-55, § 3, 1988)

57.25.110 - 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 uninsured loans or 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:
   a. All those terms and conditions set forth in subsection (2) of this section;
   b. The City and Borough shall have control over pledged collateral submissions to and withdrawals from the depository account;
   c. 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 [6]

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.

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.

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 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.

Lehman 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 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 stock market and over-the-counter markets.

NASDAQ means National Association of Securities Dealers Automated Quotation. 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.

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.

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.

57.25.020 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) 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 funds;

(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) 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."

(c) 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 57.25.110, 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.

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)

57.25.060 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)

57.25.100 Addition, substitution or change of collateral.

(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.

(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:

(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

(4) 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)

57.25.110 Security agreements on collateral.

(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.

(b) The security agreement shall include all of the following terms and conditions:

(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);

(3) The security agreement shall specify the authority of the City and Borough to:

a. Demand a substitution of collateral;

b. Exercise assignment or other rights under the security agreement; and

c. Take other action as provided under this chapter;

(4) That the bank issuing the nonnegotiable certificates of deposit shall pay all costs and expenses associated with the depository agreement and the depository account.

(c) All collateral pledged by a bank must be kept in depository accounts with another bank to be known as the trustee bank.

(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:

(1) All those terms and conditions set forth in subsection (b) of this section;

(2) The City and Borough shall have control over pledged collateral submissions to and withdrawals from the depository account;

(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)

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

(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:

(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:

a. The financial statements must be prepared under generally accepted accounting principles; or

b. The financial statements must be prepared under state or federal regulatory requirements, if the bank does not use generally accepted accounting principles;

(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.

(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:

(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;

(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;

(3) Upon seven days notice, such other information as the City and Borough may require.

(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)

57.25.130 Noncompliance.

(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:

(1) Without penalty, call all or a portion of the nonnegotiable certificates of deposit issued by the bank;

(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;

(3) Take other action available under the security, tri-party, or depository agreements;

(4) Take such other action as may be available at law or equity.

(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)

57.25.140 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)

FOOTNOTE(S):

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

City and Borough of Juneau
Investment Policy
Draft Update January 7, 2019

Table of Contents

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. 018)

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:

1. **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.

2. **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 to meet unanticipated demands (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** 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 with the following as possible exceptions:

    - 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 officials 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 liquidation and 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 regular reports. 1) Provide monthly reports of the holdings and transactions, and the total return achieved. 2) 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. 3) 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 A1/P1 by a nationally recognized statistical rating organization (NRSRO), and collateralized commercial paper with no time limit;
3. Negotiable certificates of deposit issued by rated banks;
4. Repurchase agreements secured by obligations insured or guaranteed by the United States, or agencies or instrumentalities of the United States;
5. Bank obligations insured by the appropriate federal insurance agency, including nonnegotiable certificates of deposit secured as provided in Section 57.25.030;
6. 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;
7. U.S. dollar denominated corporate bonds and rated investment grade or higher by nationally recognized rating agency at the time of purchase;
8. Mortgage-backed securities and collateralized mortgage obligations (CMOs)) issued and insured or guaranteed by the United States or agencies or instrumentalities of the United States; [suggested language WCM: Agency mortgage backed securities (MBS) backed by loans secured by residential, multifamily, and commercial properties including but not limited to pass-throughs, collateralized mortgage obligations (CMO’s), project loans, construction loans, and adjustable rate mortgages.]
9. Asset-backed securities that are publicly traded and rated AAA by a NRSRO at the time of purchase;
10. 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;
11. 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;

12. 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;
13. Loans to specified funds of the City and Borough for the purpose of capital acquisition, made as provided in Section 57.05.045;
14. An investment pool for public entities authorized by AS 37.23;
15. 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.
- 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 LTP 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 at least annually and reviewed monthly 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. Assets will be added to the appropriate Portfolio based on duration/average maturity and liquidity, as outlined below.

C. CBJ Portfolios

- *Working Capital Portfolio* The Working Capital Portfolio shall be the portion of the total investment portfolio that is managed for short-term liquidity, typically with an average maturity of 1 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 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 as defined in the “Authorized Investments” section of this policy and code 57.25.020.

Current Benchmark: *Bloomberg Barclays 1-3 Month US Treasury Bill Index or other comparable index available*

- *Intermediate-Term Portfolio (ITP)* The Intermediate-Term Portfolio shall have an average maturity of less than five years. Funds in this portfolio are intended for cash flow needs projected in the next 1-5 years.
  Current Benchmark: *Barclays U.S. Government/Credit 1-5 Year Index or other comparable index available*

- *Long-Term Portfolio (LTP)* This portfolio has a long-term investment horizon, and will include long-term CBJ funds and other endowments. 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, or ETFs.
  Current Benchmark by Asset Class:
  - Domestic Equity: *S&P 500 Index or other comparable index available*
  - International Equity: *FTSE Developed All Cap ex US Index or other comparable index available*
  - Domestic Fixed Income: *Bloomberg Barclays US Aggregate Float Adjusted Index or other comparable index available*

D. Intermediate-Term Portfolio Management

1. *Average Maturity/Duration*

   The average maturity of the ITP shall not exceed five years, and the duration shall be +/- 10% of the chosen benchmark.

2. *Quality*

   All fixed income securities held in the segment shall be comparable to those held in the respective benchmark used, and have an “investment grade” rating (Moody's rating of Baa, or a Standard & Poor's rating of BBB) or better by a NRSRO.

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 investment 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., corporate bonds) 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 than40% of the market value of the portfolio; furthermore, corporate securities with a Moody's rating of Baa or a Standard & Poor's rating of BBB shall constitute no more than 20% of the corporate bond holdings.
   - Mortgage-backed securities, including CMOs shall constitute no more than 20% of the market value of the portfolio.

- Certificates of Deposit shall not exceed 20% of the market value of the portfolio.
- US Agency Securities shall not exceed 40% of the market value of the portfolio. In addition, callable securities are limited to 20% of the portfolio.
- US Treasury Securities may comprise up to 100% of the portfolio.

5. *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.

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

1. *Eligible Securities*

a. Domestic Equity

The domestic equity allocation will be invested in an indexed mutual fund or ETF, managed to the S&P 500 Index. All the stocks in the benchmark are permissible investments. Cash should be kept to a minimum.

b. International Equity

c. The international equity allocation will be invested in an index fund, managed to the *FTSE Developed All Cap ex US Index*. All securities in the benchmark are permissible. 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 Float Adjusted 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 Float Adjusted 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 real return of 3.5% + the annual rate of inflation 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 CBJ funds. Total CBJ 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 return on the total LTP shall be compared to a composite benchmark consisting of each benchmark applied by the portfolio investment allocation.

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 CBJ 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.

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 (<=$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 NCUA)) 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 and ACH 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 and ACH 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 monthly. Accrued interest receivable is calculated and recorded monthly.

Central Treasury
CBJ uses a Central Treasury concept to account for investments for all CBJ funds and its 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.

City and Borough of Juneau
ASSEMBLY FINANCE COMMITTEE
January 9, 2019
Committee Discussion of Potential New JACC Funding Options

At the request of the Assembly Finance Committee Chair and other members, the following pages include the Manager Reports and Ordinances regarding JACC funding as discussed at a Special Assembly Meeting on August 20, 2018.

Manager's Report as published in meeting packet of August 20, 2018.

Public Hearing: Ordinance 2018-40 An Ordinance Authorizing the Issuance of General Obligation Bonds in the Principal Amount of Not to Exceed $12,000,000 to Finance Capital Improvements to the Facilities of the City and Borough, and Submitting a Proposition to the Voters at the Election to Be Held Therein on October 2, 2018.

This ordinance authorizes placing on the October 2, 2018 general election ballot the question of issuing $12 million in fifteen-year general obligation bonds for the purpose of funding a variety of capital projects. The identified projects include:

- Renovations to Centennial Hall, including upgrading the HVAC system and expanding the lobby area;
- Construction and equipping of a portion of a new arts and culture center; and
- Construction of an enclosed and heated corridor between Centennial Hall and the new arts and culture center.

The temporary 1% sales tax approved by voters during the October 2017 general election will pay for $4.5 million of the debt service. Beginning in FY20 to pay off the remaining $7.5 million of debt and interest would require .15 mills in property taxes for debt service payments for 15 years. This amount of debt service would require an annual property tax levy of approximately $15 (.15 mills) per $100,000 of assessed value or approximately $59 for an average single family home (estimated 2018 value $393,000 per CBJ Assessor). The annual payment funded by property taxes would be about $719,000.

This proposal was discussed at the Assembly Finance Committee meeting on July 25, 2018 and at the Assembly Committee of the Whole meeting immediately preceding this August 20 Special Assembly meeting.

Whether to invest further in Centennial Hall and whether to support the New JACC project are policy questions that are before the Assembly.
The City Manager has no recommendation at this time.

Presented by: The Manager
Introduced: 07/23/2018
Drafted by: Bond Counsel

ORDINANCE OF THE CITY AND BOROUGH OF JUNEAU, ALASKA

Serial No. 2018-40

An Ordinance Authorizing the Issuance of General Obligation Bonds in the Principal Amount of Not to Exceed $12,000,000 to Finance Capital Improvements to the Facilities of the City and Borough, and Submitting a Proposition to the Voters at the Election to Be Held Therein on October 2, 2018.

WHEREAS, improvements to the facilities of the City and Borough of Juneau, Alaska (the "City and Borough") are needed in order to meet the current and future needs of the City and Borough; and

WHEREAS, certain projects listed in Section 3 below (the "Projects") have been identified and approved by the Finance Committee as necessary to meet the needs of the City and Borough; and

WHEREAS, in order to provide funds for paying part of the cost of acquiring, constructing and equipping the Projects, it is deemed necessary and advisable that the City and Borough issue and sell its unlimited tax levy general obligation bonds in the principal amount of not to exceed $12,000,000 (the "Bonds");

NOW, THEREFORE, BE IT ENACTED BY THE ASSEMBLY OF THE CITY AND BOROUGH OF JUNEAU, ALASKA:

Section 1. **Classification.** This ordinance is a noncode ordinance.

Section 2. **Findings.** The Assembly of the City and Borough hereby finds and declares that the acquisition, construction and equipping of the Projects identified in Section 3 hereof are necessary and are in the best interest of the inhabitants of the City and Borough.

Section 3. **Purposes.** The Assembly has determined that the City and Borough is in need of the following:

A. Renovations to Centennial Hall, including upgrading the HVAC system and expanding the lobby area (the "Centennial Hall Project"), of which $4,500,000 will be paid from the Bonds described in Section 3;

B. Construction and equipping of a portion of a new arts and culture center; and

Construction of an enclosed and heated corridor between Centennial Hall and the new arts and culture center (the "Arts and Culture Center and Corridor Project"), of which $7,500,000 will be paid from the proposed Bonds described in Section 3.

The Centennial Hall Project and the Arts and Culture Center and Corridor Project are herein referred to collectively as the "Projects." The cost of all necessary architectural, engineering, design, and other consulting services, inspection and testing, administrative and relocation expenses, costs of issuance of the Bonds and other costs incurred in connection with the Projects that is approved by the electors shall be deemed capital improvement costs of the approved Projects. The approved Projects may be completed with all necessary furniture, equipment and appurtenances.

The new arts and culture center will be owned by the City and Borough of Juneau and is intended to be managed by the Juneau Arts and Humanities Council (JAHC). Currently, the estimated cost to design and construct the Arts and Culture Center and Corridor Project is estimated to be $32,000,000, $7,500,000 of which will come from the general obligation bonds authorized herein, with the remaining $24,500,000 to be raised from other sources. The issuance and contribution of the $7,500,000 from the Bonds for the Arts and Culture Center and Corridor Project is conditioned on the receipt of the $24,500,000 (or the funds in excess of $7,500,000 that are required to complete the Arts and Culture Center and Corridor Project, whether greater or less than $24,500,000) from the other sources. If such funds are not collected by JAHC by December 31, 2021, the $7,500,000 portion of the Bonds authorized herein will not be issued or contributed by the City and Borough to undertake the Arts and Culture Center and Corridor Project.

In addition to the foregoing conditions, if the City and Borough shall determine that it has become impractical to accomplish any portion of the approved Projects by reason of changed conditions or needs, incompatible development or costs substantially in excess of those estimated, the City and Borough shall not be required to accomplish such portions and shall apply Bond proceeds as set forth in this section.

Interest earnings on Bond proceeds may be used and applied by City and Borough, at the direction of the City Manager or his or her designee, for the Projects or for other capital improvements or for the retirement of the Bonds or other general obligation bonds of the City and Borough.

If the approved Projects have been completed in whole or in part, or their completion duly provided for, or their completion found to be impractical, the City and Borough may apply Bond proceeds or any portion thereof as provided in Section 10.10 of the Home Rule Charter.

In the event that the proceeds of sale of the Bonds, plus any other monies of the City and Borough legally available, are insufficient to accomplish the approved Projects as provided in this ordinance, the City and Borough shall use the available funds for paying the cost of those portions of the approved Projects for which the Bonds were approved deemed by the Assembly most necessary and in the best interest of the City and Borough. No Bond proceeds shall be used for any purpose other than a capital improvement.

Section 4. Details of Bonds. The Assembly hereby authorizes the issuance of general obligation bonds in order to fund the portion of the costs of the Projects described in Section 3 (the "Bonds"). The Bonds shall be sold in such amounts and at such time or times as deemed necessary and advisable by the Assembly and as permitted by law and shall mature over a period of not to exceed 20 years of date of issue. The Bonds shall be issued in an aggregate principal amount of not to exceed $12,000,000. The Bonds shall bear interest to be fixed at the time of sale or sales thereof. Both principal of and interest on the Bonds shall be payable from annual tax levies to be made upon all of the taxable property within the City and Borough, without limitation as to rate or amount and in amounts sufficient with other available funds, including sales tax levies, to pay such principal and interest as the same shall become due.

The full faith, credit, and resources of the City and Borough are hereby irrevocably pledged to the payment of both the principal and interest on such Bonds. The exact form, terms, conditions, contents, security, options of redemption, and such other matters relating to the issuance and sale of said Bonds as are deemed necessary and advisable by the Assembly shall be as hereinafter fixed by ordinance and resolution of the City and Borough.

Section 5. Submission of Question to Voters. The Assembly hereby submits to the qualified electors of the City and Borough the proposition of whether or not the City and Borough should issue the Bonds for the purpose of financing the costs of the approved Projects at the regular municipal election to be held on October 2, 2018.

The City and Borough clerk shall prepare the ballot proposition to be submitted to the voters as provided by this ordinance and shall perform all necessary steps in accordance with law to place these propositions before the voters at the regular election.

Section 6. Ballot Proposition. The proposition to be submitted to the qualified voters of the City and Borough as required by Section 5 above shall read substantially as follows:

Explanation

> The proposition will authorize the issuance of $12,000,000 in general obligation bond debt for paying the cost of renovations, construction, upgrades and capital improvements to the facilities of the City and Borough, including renovations to Centennial Hall, including the HVAC system and expansion of the lobby, construction of a portion of a new arts and culture center, and construction of an enclosed corridor between Centennial Hall and the new arts and culture center. Approximately $4,500,000 of the general obligation bond debt will be for renovations to Centennial Hall, with the remaining $7,500,000 of general obligation bond debt for the new arts and culture center and construction of the corridor between the new center and Centennial Hall. Currently, the estimated cost to design and construct the new arts and culture center and the

construction of the enclosed corridor between the new center and Centennial Hall will be $32,000,000, $7,500,000 of which will come from the general obligation bonds authorized herein, with the remaining $24,500,000, or as much as is needed to complete that project, raised from other sources. The issuance and contribution of the $7,500,000 to the arts and culture center and corridor from the City and Borough's general obligation bonds will be conditioned on the receipt of the $24,500,000 (or the remaining costs of that project, whether greater or less than $24,500,000) from the other sources. If such funds are not collected, the $7,500,000 portion of City and Borough general obligation bonds will not be issued or contributed. The new arts and culture center will be owned by the City and Borough of Juneau and is intended to be managed by the Juneau Arts and Humanities Council (JAHC). The total annual debt service costs, assuming an interest rate of 4.0%, will be $1,415,000 for years 1-7 and $678,000 thereafter, with approximately $643,000 in years 1-7 expected to be paid from the one percent temporary sales tax approved by voters in 2017, and the remaining balance to be paid from a property tax of approximately $15 per $100,000 of assessed value. This example of a property tax levy is provided for illustrative purposes only.

PROPOSITION NO. ___

GENERAL OBLIGATION BONDS

$12,000,000

For the purpose of renovating Centennial Hall, including upgrading the HVAC system and expanding the lobby, constructing a portion of a new arts and culture center, and constructing an enclosed, heated corridor between Centennial Hall and the new arts and culture center within the City and Borough, shall the City and Borough of Juneau, Alaska, issue and sell its general obligation bonds, maturing within 20 years of their date of issue, in the aggregate principal amount of not to exceed $12,000,000?

BONDS, YES ☐

BONDS, NO ☐

After voter approval of the proposition and in anticipation of the issuance of the Bonds, the City and Borough may issue short term obligations, under such date and in such amount, form, terms, maturity, and bearing such rate or rates of interest, all as may hereafter be fixed by ordinance of the City and Borough, consistent with limitations imposed by State law and by the Home Rule Charter and Code of the City and Borough.

Section 7. Notice of Election. The Assembly shall cause a notice of election to be published once a week for three consecutive weeks in a newspaper for general circulation in the City and Borough. The first notice shall be published not later than September 12, 2018, which is 20 days prior to the regular municipal election. The notice shall contain the information required by Section 10.5 of the Home Rule Charter of the City and Borough.

Section 8. Effective Dates.

(a) The authority to issue general obligation bonds proposed in Section 6 of this ordinance shall become effective on the day following the date the election results are certified for the regular municipal election held on October 2, 2018, if a majority of the qualified voters voting on the proposition set forth in Section 6 votes for the proposition.

(b) Section 6 of this ordinance authorizing the submission of the ballot proposition to the qualified voters of the City and Borough shall become effective thirty days after adoption of this ordinance.

ADOPTED this 13th day of August, 2018.

Kendell D. Koelsch, Mayor

ATTEST:

Elizabeth J. McEwen, City Clerk

Manager's Report as published in meeting packet of August 20, 2018.

Public Hearing: Ordinance 2018-43(b): An Ordinance Authorizing the Issuance of General Obligation Bonds in the Principal Amount of Not to Exceed $7,000,000 to Finance Capital Improvements to the Facilities of the City and Borough, and Submitting a Proposition to the Voters at the Election to Be Held Therein on October 2, 2018.

This ordinance authorizes placing on the October 2, 2018 general election ballot the question of issuing $7 million in fifteen-year general obligation bonds for the purpose of funding capital projects. The identified projects include: renovations to Centennial Hall, including upgrading the HVAC system, making improvements to the sound system, lighting system and technology, making improvements to the interior flooring, furnishings and wall systems and expanding the lobby area and construction of an enclosed and heated corridor between Centennial Hall and the potential new arts and culture center.

AFC Note: $4.5 million - not $7 million of debt

The temporary 1% sales tax approved by voters during the October 2017 general election will pay for $2.5 million of the debt service. The remaining $7 million of debt and interest would require .13 mills in property taxes for debt service payments. This amount of debt service would require an annual property tax levy of approximately $13 (.13 mills) per $100,000 of assessed value or approximately $51 for average single family home (estimated 2018 value $393,000 per CBJ Assessor).

The annual payment funded by property taxes would be about $635,000. This proposal was discussed at the Assembly Finance Committee meeting on July 25, 2018 and at the ssembly Committee of the Whole meeting immediately preceding this August 20 Special Assembly meeting.

Whether to invest further in Centennial Hall and whether to support the New JACC project are policy questions that are before the Assembly.
The City Manager has no recommendation at this time.

Presented by: The Manager
Introduced: 08/09/2018
Drafted by: Bond Counsel

ORDINANCE OF THE CITY AND BOROUGH OF JUNEAU, ALASKA

Serial No. 2018-43(b)

An Ordinance Authorizing the Issuance of General Obligation Bonds in the Principal Amount of Not to Exceed $7,000,000 to Finance Capital Improvements to the Facilities of the City and Borough, and Submitting a Proposition to the Voters at the Election to Be Held Therein on October 2, 2018.

WHEREAS, improvements to the facilities of the City and Borough of Juneau, Alaska (the "City and Borough") are needed in order to meet the current and future needs of the City and Borough; and

WHEREAS, certain projects listed in Section 3 below (the "Projects") have been identified and approved by the Finance Committee as necessary to meet the needs of the City and Borough; and

WHEREAS, if this bond issuance is successful, it is the intent of the Assembly to supplement the facility needs of the City and Borough by providing a two million dollar grant from sales tax previously allocated to Centennial Hall to the New JACC project that is under development by the non-profit Partnership Board that is affiliated with the Juneau Arts and Humanities Council; and

WHEREAS, in order to provide funds for paying part of the cost of acquiring, constructing and equipping the Projects, it is deemed necessary and advisable that the City and Borough issue and sell its unlimited tax levy general obligation bonds in the principal amount of not to exceed $7,000,000 (the "Bonds");

NOW, THEREFORE, BE IT ENACTED BY THE ASSEMBLY OF THE CITY AND BOROUGH OF JUNEAU, ALASKA:

Section 1. **Classification.** This ordinance is a noncode ordinance.

Section 2. **Findings.** The Assembly of the City and Borough hereby finds and declares that the acquisition, construction and equipping of the Projects identified in Section 3 hereof are necessary and are in the best interest of the inhabitants of the City and Borough.

Section 3. **Purposes.** The Assembly has determined that the City and Borough is in need of the following:

A. Renovations to Centennial Hall, including upgrading the HVAC system, making improvements to the sound system, lighting system and technology, making improvements to the interior flooring, furnishings and wall systems, and expanding the lobby area (the "Centennial Hall Project"); and

B. Construction of an enclosed and heated corridor between Centennial Hall and the new arts and culture center (the "Corridor Project").

The Centennial Hall Project and the Corridor Project are herein referred to collectively as the "Projects." The cost of all necessary architectural, engineering, design, and other consulting services, inspection and testing, administrative and relocation expenses, costs of issuance of the Bonds and other costs incurred in connection with the Projects that is approved by the electors shall be deemed capital improvement costs of the approved Projects. The approved Projects may be completed with all necessary furniture, equipment and appurtenances.

If the City and Borough shall determine that it has become impractical to accomplish any portion of the approved Projects by reason of changed conditions or needs, incompatible development or costs substantially in excess of those estimated, the City and Borough shall not be required to accomplish such portions and shall apply Bond proceeds as set forth in this section.

Interest earnings on Bond proceeds may be used and applied by City and Borough, at the direction of the City Manager or his or her designee, for the Projects or for other capital improvements or for the retirement of the Bonds or other general obligation bonds of the City and Borough.

If the approved Projects have been completed in whole or in part, or their completion duly provided for, or their completion found to be impractical, the City and Borough may apply Bond proceeds or any portion thereof as provided in Section 10.10 of the Home Rule Charter.

In the event that the proceeds of sale of the Bonds, plus any other monies of the City and Borough legally available, are insufficient to accomplish the approved Projects as provided in this ordinance, the City and Borough shall use the available funds for paying the cost of those portions of the approved Projects for which the Bonds were approved deemed by the Assembly most necessary and in the best interest of the City and Borough. No Bond proceeds shall be used for any purpose other than a capital improvement.

Section 4. Details of Bonds. The Assembly hereby authorizes the issuance of general obligation bonds in order to fund the portion of the costs of the Projects described in Section 3 (the "Bonds"). The Bonds shall be sold in such amounts and at such time or times as deemed necessary and advisable by the Assembly and as permitted by law and shall mature over a period of not to exceed 20 years of date of issue. The Bonds shall be issued in an aggregate principal amount of not to exceed $7,000,000. The Bonds shall bear interest to be fixed at the time of sale or sales thereof. Both principal of and interest on the Bonds shall be payable from annual tax levies to be made upon all of the taxable property within the City and Borough, without limitation as to rate or amount and in amounts sufficient with other available funds, including sales tax levies, to pay such principal and interest as the same shall become due.

The full faith, credit, and resources of the City and Borough are hereby irrevocably pledged to the payment of both the principal and interest on such Bonds. The exact form, terms, conditions, contents, security, options of redemption, and such other matters relating to the issuance and sale of said Bonds as are deemed necessary and advisable by the Assembly shall be as hereinafter fixed by ordinance and resolution of the City and Borough.

Section 5. Submission of Question to Voters. The Assembly hereby submits to the qualified electors of the City and Borough the proposition of whether or not the City and Borough should issue the Bonds for the purpose of financing the costs of the approved Projects at the regular municipal election to be held on October 2, 2018.

The City and Borough clerk shall prepare the ballot proposition to be submitted to the voters as provided by this ordinance and shall perform all necessary steps in accordance with law to place these propositions before the voters at the regular election.

Section 6. Ballot Proposition. The proposition to be submitted to the qualified voters of the City and Borough as required by Section 5 above shall read substantially as follows:

Explanation

The proposition will authorize the issuance of $7,000,000 in general obligation bond debt for paying the cost of renovations, construction, upgrades and capital improvements to the facilities of the City and Borough, including renovations to Centennial Hall, including the HVAC system, improvements to the sound system, lighting system, technology, interior flooring, furnishings and wall systems, expansion of the lobby, and construction of an enclosed corridor between Centennial Hall and the new arts and culture center. The total annual debt service costs, assuming an interest rate of 4.0%, will be $635,000 for 15 years with $2.5 million of total debt service expected to be paid from the one percent temporary sales tax approved by voters in 2017 and the remaining balance to be paid from a property tax of approximately $13 per $100,000 of assessed value. This example of a property tax levy is provided for illustrative purposes only.

PROPOSITION NO. ___

GENERAL OBLIGATION BONDS

$7,000,000

For the purpose of renovating Centennial Hall, including upgrading the HVAC system and expanding the lobby, improvements to the sound system, lighting system, technology, interior flooring, furnishings and wall systems, and constructing an enclosed, heated corridor between Centennial Hall and the new arts and culture center within the City and Borough, shall the City and Borough of Juneau, Alaska, issue and sell its general obligation bonds, maturing within 20 years of their date of issue, in the aggregate principal amount of not to exceed $7,000,000?

BONDS, YES ☐

BONDS, NO ☐

After voter approval of the proposition and in anticipation of the issuance of the Bonds, the City and Borough may issue short term obligations, under such date and in such amount, form, terms, maturity, and bearing such rate or rates of interest, all as may hereafter be fixed by ordinance of the City and Borough, consistent with limitations imposed by State law and by the Home Rule Charter and Code of the City and Borough.

Section 7. Notice of Election. The Assembly shall cause a notice of election to be published once a week for three consecutive weeks in a newspaper for general circulation in the City and Borough. The first notice shall be published not later than September 12, 2018, which is 20 days prior to the regular municipal election. The notice shall contain the information required by Section 10.5 of the Home Rule Charter of the City and Borough.

Section 8. Effective Dates.

(a) The authority to issue general obligation bonds proposed in Section 6 of this ordinance shall become effective on the day following the date the election results are certified for the regular municipal election held on October 2, 2018, if a majority of the qualified voters voting on the proposition set forth in Section 6 votes for the proposition.

(b) Section 6 of this ordinance authorizing the submission of the ballot proposition to the qualified voters of the City and Borough shall become effective thirty days after adoption of this ordinance.

Adopted this ___ day of ___________, 2018.

____
Kendell D. Koelsch, Mayor

Attest:

____
Elizabeth J. McEwen, Municipal Clerk