

## **Chapter 24**

### **INVESTMENT POLICY**

#### **GENERAL REFERENCES**

**Code of Conduct — See Ch. 10.**

**Indemnification of officials — See Ch. 22.**

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#### **§ 24-1. Purpose and applicability.**

- A. The Mayor, Commissioners and management of the Town of Dewey Beach have the responsibility to manage the Town's financial resources in such a manner as to maximize its investment return while preserving its invested principal. This Investment Policy is intended to provide the Town's fiduciaries with guidance as to the planning, management, control and safeguarding of the Town's financial assets. This Investment Policy shall be operated in conformity with all applicable federal, state, local and other legal requirements.
- B. This policy applies to the investments of the Town's two major funds, the General Fund and the Beach Replenishment Fund. Balances in the Town's smaller (minor) funds will continue to be invested in collateralized repurchase agreements (sweep accounts) as is the current practice or other no-risk investments such as U.S. Treasury obligations, certificates of deposit, etc.

#### **§ 24-2. Investment strategy.**

- A. This Investment Policy is designed to take a more aggressive approach to investing portions of the Town's General Fund surplus amounts and Beach Replenishment Fund balances that are not needed to meet short-term operational and capital needs in order to increase the Town's total return on its investments and to provide additional resources for the Town's mid- and long-term requirements.
- B. Inasmuch as the General Fund and Beach Replenishment Fund have different financial objectives, liquidity requirements, and restrictions (Beach Replenishment Fund), the investment strategy of each is somewhat different and is directed to each fund's specific requirements.
  - (1) The General Fund as the operating fund of the Town of Dewey Beach is used to account for all financial resources (operating and capital) of the Town except for revenue sources that are legally restricted to expenditures for specific purposes. To the extent possible, the Town shall attempt to match its investments of General Fund surplus monies with anticipated cash flow requirements. Based on anticipated short-term (one year or less), mid-term (two years to five years) and long-term (five years and

beyond) financial operating and capital needs, the General Fund surplus shall be invested as follows:

- (a) Invest all funds required to meet specific short-term operating and capital needs in high-yield collateralized repurchase agreements (sweep account) as is the current practice or other liquid, low-risk investments such as U.S. Treasury obligations, certificates of deposits, etc. as set forth in Exhibit A (Authorized Investments).<sup>1</sup>
  - (b) Invest funds needed to meet specific mid-term capital requirements, up to 0% of surplus funds, in appropriate stock (e.g., dividend-paying conservative growth funds) and/or bond mutual funds regulated by the SEC.
  - (c) Invest funds required to meet specific long-term capital needs, up to 0% of surplus funds, in appropriate stock and bond mutual funds regulated by the SEC or other authorized long-term investments as set forth in Exhibit A.
- (2) The Beach Replenishment Fund monies are restricted as to use to support the Town's Atlantic Ocean beach and, if required, to help finance future beach replenishment projects. It is difficult to predict when, if ever, and to what extent the funds (which have accumulated from a tax on property owners) may be needed. Accordingly, preservation of principal and liquidity of investments are important from a fiduciary perspective. The Town shall invest the Beach Replenishment Funds as follows:
- (a) Up to 0% of the funds in appropriate stock and bond mutual funds regulated by the SEC or other marketable long-term investments authorized in Exhibit A.<sup>2</sup>
  - (b) The balance in low- to no-risk investments such as collateralized repurchase agreements (sweep accounts), U.S. Treasury obligations or other secured investments authorized in Exhibit A.
- C. The Mayor and Town Council, based on the advice of the Budget and Finance Committee, may authorize a revision of the percentages above, as conditions warrant.

### § 24-3. Objectives.

The primary objectives, in order of priority, of investment activities are safety, liquidity and yield.

- A. Safety of principal is the foremost objective of the overall investment program. Investments shall be made in a manner designed to ensure

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1. Editor's Note : Exhibit A is included at the end of this chapter.

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the preservation of capital in the overall portfolio. The objective is to mitigate credit risk and interest rate risk.

- (1) Credit risk. The Town of Dewey Beach will minimize credit risk, which is the risk of loss due to the failure of the security issuer or backer, by:
    - (a) Limiting investments to the types of securities listed in Exhibit A of this Investment Policy;<sup>3</sup>
    - (b) Prequalifying the financial institutions, broker/dealers, intermediaries, and advisers with which the Town will do business; and
    - (c) 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.
  - (2) Interest rate risk. The Town of Dewey Beach 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:
    - (a) Structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity; and
    - (b) Investing operating funds primarily in shorter-term securities, money market mutual funds, or similar investment pools and limiting the average maturity of the portfolio in accordance with this policy.
- B. 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. Furthermore, because all possible cash demands cannot be anticipated, the portfolio should consist largely of securities with active secondary or resale markets. Alternatively, a portion of the portfolio may be placed in money market mutual funds or local government investment pools which offer same-day liquidity for short-term funds.
- C. Yield. 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.

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**3. Editor's Note: Exhibit A is included at the end of this chapter.**

**§ 24-4. Standards of care.**

- A. Prudence. The standard of prudence to be used by investment officials shall be the "prudent person" standard and shall be applied in the context of managing an overall portfolio. Investment officers acting in accordance with written procedures and this Investment Policy and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and the liquidity and the sale of securities are carried out in accordance with the terms of this policy. The "prudent person" standard states that "investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived."
- B. Ethics and conflicts of interest. Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with the proper execution and management of the investment program, or that could impair their ability to make impartial decisions. Employees and investment officials shall disclose any material interests in financial institutions with which they conduct business. They shall further disclose any personal financial/investment positions that could be related to the performance of the investment portfolio. Employees and officers shall refrain from undertaking personal investment transactions with the same individual with whom business is conducted on behalf of the Town of Dewey Beach.
- C. Delegation of authority.
- (1) Authority to manage the investment program is granted by the Mayor and Town Council of Dewey Beach to the Town Manager (or Financial Manager), hereinafter referred to as "Investment Officer." Responsibility for the operation of the investment program is hereby delegated to the Investment Officer, who shall act in accordance with established written procedures and internal controls for the operation of the investment program consistent with this Investment Policy. Procedures should include references to: safekeeping, delivery versus payment, investment accounting, repurchase agreements, wire transfer agreements, and collateral/depository agreements. No person or Town employee may engage in an investment transaction without the approval of the Mayor and Town Council. With the exception of the Mayor and Town Council, no person may engage in an investment transaction except as provided under the terms of the policy and the procedures established by the Investment Officer. The Investment Officer shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials.

- (2) The Investment Officer may not originate or implement a new investment program or make investments without Budget and Finance Committee, Mayor and Town Council approval. The Investment Officer, with the approval of the Chairman of the Budget and Finance Committee, may renew an existing investment that has matured.

#### **§ 24-5. Safekeeping and custody.**

- A. Delivery versus payment. All trades of marketable securities will be executed by delivery versus payment (DVP) to ensure that securities are deposited in an eligible financial institution prior to the release of funds.
- B. Safekeeping. Securities will be held by a (centralized) independent third-party custodian selected by the Town as evidenced by safekeeping receipts in the Town of Dewey Beach's name. The safekeeping institution shall annually provide a copy of its most recent report on internal controls (Statement of Auditing Standards No. 70, or SAS 70).
- C. Internal controls. The Investment Officer shall establish a system of internal controls, which shall be documented in writing. The internal controls shall be reviewed by the Budget and Finance Committee and with the independent auditor. The controls shall be designed to prevent the loss of public funds arising from fraud, employee error, misrepresentation by third parties, unanticipated changes in financial markets, or imprudent actions by employees and officers of the Town of Dewey Beach.

#### **§ 24-6. Authorized investments.**

- A. Investment types. See Exhibit A for a listing of authorized investments.<sup>4</sup>
- B. Collateralization. If the Town of Dewey Beach deposits any funds in any financial institution, those funds will be subject to the following collateralization requirements. The financial institution shall:
  - (1) Collateralize the Town's daily ledger balance(s) if for any quarter during the most recent eight quarters the bank has not met both of the following two criteria:
    - (a) Return on total average assets of 0.50% or greater.
    - (b) Average capital ratio (total equity to total assets) of 5% or greater.
  - (2) If either criterion in Subsection B(1) is not satisfied, collateral must be pledged and shall consist of one or more of the following securities:

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**4. Editor's Note: Exhibit A is included at the end of this chapter.**

- (a) U.S. government securities.
  - (b) U.S. government agency securities.
  - (c) Federal Home Loan Board letters of credit.
  - (d) State of Delaware securities.
  - (e) Securities of a political subdivision of the State of Delaware with a Moody's rating of at least "A" or its equivalent as reported by another nationally recognized rating agency.
- (3) Ensure that the securities pledged as collateral (except for Federal Home Loan Board letters of credit) have a market value equal to or greater than 102% of the ledger balance(s) in the accounts marked to market each day.

#### **§ 24-7. Diversification.**

The investments shall be diversified by:

- A. Limiting investments to avoid over-concentration in securities from a specific issuer or business sector (excluding U.S. Treasury securities);
- B. Limiting investment in securities that have higher credit risks;
- C. Investing in securities with varying maturities; and
- D. Continuously investing a portion of the portfolio in readily available funds such as local government investment pools (LGIPs), money market funds or overnight repurchase agreements to ensure that appropriate liquidity is maintained in order to meet ongoing obligations.

#### **§ 24-8. Reporting.**

- A. Methods. The Investment Officer shall prepare an investment report at least quarterly, including a management summary that provides an analysis of the status of the current investment portfolio and the individual transactions executed of the last quarter. This management summary will be prepared in a manner which will allow the Town of Dewey Beach to ascertain whether investment activities during the reporting period have conformed to the investment policy. The report should be provided to the Mayor and Town Council, the Town Manager, and the Budget and Finance Committee. The report will include the following:
  - (1) Listing of individual securities held at the end of the reporting period.
  - (2) Realized and unrealized gains or losses resulting from appreciation or depreciation by listing the cost and market value of securities

over one-year duration that are not intended to be held until maturity.

- (3) Average weighted yield to maturity of portfolio on investments as compared to applicable benchmarks.
  - (4) Listing of investment by maturity date.
  - (5) Percentage of the total portfolio which each type of investment represents.
- B. Performance standards. The investment portfolio will be managed in accordance with the parameters specified within this policy. The portfolio should obtain a market average rate of return during a market/economic environment of stable interest rates. A series of appropriate benchmarks shall be established against which portfolio performance shall be compared on a regular basis. The benchmarks shall be reflective of the actual securities being purchased and risks undertaken, and the benchmarks shall have a similar weighted average maturity as the portfolio. The following indices are considered benchmarks for lower risk investment transactions and therefore might comprise a minimum standard for the portfolio's rate of return:
- (1) Average return on three-month U.S. Treasury bills;
  - (2) A specified money market mutual fund;
  - (3) The average rate of federal funds; and
  - (4) The consumer price index plus a specified margin.
- C. Marking to market. The market value of the portfolio shall be calculated at least quarterly, and a statement of the market value of the portfolio shall be issued at least quarterly. This will ensure that review of the investment portfolio, in terms of value and price volatility, has been performed consistent with the GFOA recommended practice on "Mark-to-Market Practices for State and Local Government Investment Portfolios and Investment Pools." In defining market value, considerations should be given to the GASB Statement 31 pronouncement.

#### **§ 24-9. Amendments.**

This policy shall be reviewed on an annual basis. Any changes must be approved by the Investment Officer and Budget and Finance Committee and then submitted to the Mayor and Town Council for approval.