

Board of Public Works  
of the  
City of Lewes

STATEMENT OF OBJECTIVES AND  
GUIDELINES FOR THE INVESTMENT OF  
BOARD OF PUBLIC WORKS  
FUNDS

February 19, 2019

**Purpose**

A. The objectives and guidelines, as outlined herein, apply to all cash and special purpose funds for which the Board is financially accountable (the "Board's Fund"). These funds are categorized as outlined below.

1. Cash Accounts. The Board's available cash divided into three parts:

*Collection and Disbursement Accounts:* The Board maintains an amount of cash in its general collection and disbursement accounts sufficient to meet its outstanding obligations.

*Cash and Liquidity Accounts:* The majority of the Board's cash balance available for investment is maintained in the cash and liquidity accounts. These accounts will be managed and invested by the General Manager in order to maximize the return to the Board while, at the same time, providing for safety of principal and sufficient liquidity for the Board to meet its cash needs. The Board will manage its short-term (12- to 18-month) investments to ensure sufficient liquidity and prevent their premature sale for the purpose of covering expenditures. Short-term investments should mature at face value in sufficient amounts to meet any needs.

*Reserve Cash (Intermediate) Account:* To the extent cash is not expected to be needed on short notice, the Board will direct the funding of a third party. This fund shall be managed and invested by the General Manager in order to maximize the return on said money to the Board while providing for the safety of principal. The Board will manage its intermediate investments to ensure they are made under circumstances and in amounts in which the Board would not be forced to liquidate them at a loss.

B. The Board's funds shall be invested pursuant to the prudent person standard under the guidelines set forth below. The Board will review regularly its investment policies and strategies in light of the Board's experience as well as economic and financial conditions. The Board will consider special exceptions to these guidelines on a case-by-case basis. To the extent certain funds are subject to additional restrictions, the most limiting of the guidelines will apply to those funds.

C. Where applicable, this policy also incorporates the following Government Accounting Standards Board Statements:

1. GASB Statement No. 31 - Accounting and Financial Reporting for Certain Investments and External Investment Pools, implemented July 1, 1997. It should be noted that GASB Statement No. 32 amends No. 31 but only as it applies to Section 457 plans.
2. GASB Statement No. 40 – Deposit and Investment Risk Disclosure, effective July 1, 2004.

## II. Investment Objectives and Maturity Restrictions

- A. Each of the accounts shall be invested consistent with the primary objective for the account and the following general guidelines:
1. The General Manager shall maintain a pool of liquid funds that is considered sufficient to meet the uncertainty of cash demands.
  2. The remainder of the assets will be managed to produce the highest return available, consistent with liquidity and quality constraints, given the General Manager's outlook for interest rates and the economic environment.
- B. The objectives and maturity restrictions for each of the investable account types are outlined below.

### 1. *Cash Account Investment Objectives:*

The funds in the Cash Account must be available to support Board programs and activities. Since the amount of assets available for investment will fluctuate, the investment program adopted must allow the Board to meet both anticipated and unanticipated cash demands. The primary objective of this account is, therefore, to be invested so as to provide sufficient liquidity to meet the Board's needs for funds as they arise. (In this respect, liquidity is defined as the ability to realize, when required, the amount originally invested).

**Maturity Restrictions:** The maximum maturity for any investment at the time of purchase for the Cash Account shall be one year. Up to 100 percent of the Cash Account may be invested in the Delaware Local Government Investment Pool (DELGIP) Fund and/or the operations checking account at Board's designated Bank(s)

### 3. *Liquidity Accounts Investment Objectives:*

The primary investment objectives of the Liquidity Accounts are to maximize yield and to maintain safety of principal.

### 4. *Reserve Cash (Intermediate) Account Investment Objectives:*

The Reserve Cash Account has been established to provide funding over an intermediate horizon. The primary investment objectives, therefore, are to maximize yield and maintain safety of principal during the investment period.

### 4. *Authority Operating, Bond and Debt Service Reserve Fund Accounts Investment Objectives:*

The Board maintains various operating, bond and debt reserve funds, the investment of which is governed by statutes, bond trust agreements or Federal guidelines. The investment objectives of the operating, bond and debt service reserve funds include maximizing yield and maintaining the safety of principal. (Current tax law requires that aggregate earnings in

excess of the bond yield on bond and debt service reserve funds, however, must be rebated to the Federal government).

**Maturity Restrictions:** The maximum maturity for any investment at the time of purchase shall be ten years, except when prudent to match a specific investment instrument with a known specific future liability, in which case the maturity limitation shall match the maturity of the corresponding liability.

### III. Investment Restrictions

- A. The Board has adopted the following restrictions and policies relating to the investment of its assets. The policies are fundamental and may not be changed without written approval of the Board.
- B. The General Manager may not:
  - 1. Purchase any securities other than money market and other securities described under Section IV, "Permissible Investments," subject to the percentage of account limitations defined in Section VI, "Percentage of Account Limitations," hereof;
  - 2. Make investments for the purpose of exercising control or management of an issuer;
  - 3. Purchase or sell real estate for investment purposes (other than money market securities secured by real estate or money market securities issued by companies which invest in real estate, or interests therein), commodities or commodity contracts (with the exception of electricity, interests in oil, gas or other mineral exploration or development programs);
  - 4. Purchase any securities on margin, except for use of short-term credit necessary for clearance of purchases and sales of portfolio securities;
  - 5. Make short sales of securities or maintain a short position or write, purchase or sell puts, calls, straddles, spreads or combinations thereof, with the exception of wholesale electric power;
  - 6. Make loans to other persons;
  - 7. Mortgage, pledge, hypothecate or in any manner transfer as security for indebtedness any securities owned or held; or
  - 8. Invest in securities (except for variable rate master demand notes) with legal or contractual restrictions on resale or for which no readily available market exists

### IV. Permissible Investments

The following investments are permissible for all funds under the review of the Cash Management Policy Board, subject to the percentage limitations summarized in Section VI hereof.

- A. *Equity Securities.* The purpose of equity investments, both domestic and international, is to provide capital appreciation, growth of income and current income. This asset class has historically experienced greater market volatility and increased risk of loss than Fixed Income investments, but also has historically provided relatively higher returns which would help meet the portfolio's total return goals.
- B. *Fixed Income Securities.* Domestic and international fixed income investments are intended to provide diversification and a dependable source of current income. Fixed income

investments have historically experienced less market volatility and decreased risk of loss than equities and should reduce the overall volatility of the assets and provide a deflation or inflation hedge, as needed.

- C. Cash and Equivalents. Investments may be made in cash or cash equivalent vehicles to help ensure income, liquidity (for payments and expense) and preservation of the asset's principal value. The money market fund(s) selected by the General Manager shall be consistent with the investment quality guidelines as stated in this document.

**V. Collateralization of Board Deposits**

In accordance with the Government Finance Officers Association Recommended Practices on the Collateralization of Public Deposits, full collateralization will be required only on checking accounts (over and above the FDIC coverage) and non-negotiable certificates of deposit.

- A. When collateralization is required, it must be pledged and shall consist of one or more of the following securities:
- U.S. Government securities.
  - U.S. Government agency securities.
  - Federal Home Loan Board letters of credit.
  - State of Delaware securities.
  - Securities of a political subdivision of the State of Delaware with a Moody's rating of "A" or better. 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 percent of the ledger balance(s) in the account(s) marked to market each day.
- B. The financial institution shall:
1. Ensure that securities pledged as collateral are housed at the Federal Reserve Bank or a mutually agreed upon third party depository.
  2. Provide reports on a monthly basis to the Board detailing the collateral pledged.
  3. Provide a Call Report (Consolidated Report of Condition and Income, FFIEC 031) on a quarterly basis to the Board.

## VI. Percentage of Account Limitations

The General Manager, Assistant General Manager and Treasurer will monitor the overall asset allocation within the parameters detailed herein and adjust the strategic (long-term) and tactical (short/mid-term) allocations accordingly.

### Asset Allocation

The asset allocation shall be implemented using a policy portfolio, with target allocations and ranges for each investment strategy. Due to the need for diversification and the longer funding periods for certain investment strategies, the Investment Committee recognizes that an extended period of time may be required to fully implement the asset allocation plan. It is expected that market value fluctuations will cause deviations from the target allocations to occur.

Periodic rebalancing will maintain the Lewes Board of Public Works (LBPW) asset allocation policy within the targeted ranges, thereby ensuring that the LBPW does not incur additional risks as a result of having deviated from the policy portfolio for an extended period of time. Rebalancing will take place on a portfolio basis to reduce expenses as much as practical. More frequent tactical rebalancing of asset classes within their ranges will also be permitted in order to take advantage of shorter-term market conditions, as long as such changes or reallocations do not, in the opinion of the Investment Committee, cause undue risk or expense to the LBPW. Contributions of meaningful funds may be used to rebalance the portfolio towards the allocation policy.

The following Asset Allocation sample strategy has been established based on the strategic objectives, spending policy and risk tolerance of LBPW.

| <b><u>Strategy</u></b>                                   | <b><u>Minimum Range</u></b> | <b><u>Maximum Range</u></b> |
|--|-----------------------------|-----------------------------|
| <b><i>Equity</i></b>                                     | 15%                         | 35%                         |
| <b><i>Fixed Income</i></b>                               | 30%                         | 80%                         |
| <b><i>Cash and Equivalents</i></b>                       | 5%                          | 100%                        |
| <b><i>CDs, Time Deposits and Bankers Acceptances</i></b> | 10%                         | 50%                         |

## **VII. Account Reviews**

The General Manager shall report to the Board quarterly the investment outlook, structure of the accounts, and historic results. This report shall include but not be limited to:

- A. A review of the investment results achieved over the prior quarter and year in relation to the account restrictions and the General Manager's investment views and internal policies in effect prior to, and during the period;
- B. The General Manager's current outlook for the financial markets during the next six to twelve months;
- C. The General Manager's internal investment policies that have been adopted in response to these expectations;
- D. The appropriateness of the present portfolio given the expectations, internal investment policies and the Board's requirements; and
- E. A review of the guidelines relative to any constraint that the General Manager feels limits his/her ability to respond to market developments in a manner consistent with the investment objectives.
- F. If the Reserve Cash Portfolio becomes out of balance, the Investment Manager has a period of 90 days to bring the portfolio back into balance as per the guidelines referenced in Section VI.
- G. This IPS should be reviewed annually by the General Manager, Board Treasurer and Assistant General Manager and any recommendations for changes presented to the Board.