



STAFF REPORT

AGENDA ITEM #: 16-107
COUNCIL MTG OF: August 16, 2016
FROM: S. Daly, Acting Town Administrator
OFFERED BY: Susan Hickey, Chief Financial Officer
PREPARED BY: Susan Hickey, Chief Financial Officer
SUBJECT: Annual Approval of Investment Policy

PURPOSE

Obtain Council approval of proposed updates to the Town of Derry Investment Policy.

TOWN ADMINISTRATOR COMMENTS

I have reviewed this proposal and concur with the CFO's recommendation.

BACKGROUND

The Finance Committee reviews the Investment Policy annually for any changes; either in material content or references to RSA's or updated policies.

DISCUSSION

The members of the Finance Committee, including the Treasurer, Trustee of Trust Funds, Controller and Chief Financial Officer review the Investment Policy each year for any updates. Once the committee votes on the suggested changes, the Town Council is presented with the policy for reaffirmation or adoption as amended.

The attached document has been amended from its FY2016 version in order to recite the proper legal basis for the policy. RSA 386:57 has been repealed and replaced with RSA 48:16.

FISCAL IMPACT

This proposal has no fiscal impact.

RECOMMENDED ACTION BY COUNCIL

Recommendation is for the Town Council to adopt the policy as presented.

RECOMMENDED MOTION

I MOVE THAT THE TOWN COUNCIL adopt Resolution number 2016-024 as follows ... *[Read the Resolution]*

Vote required: Simple majority of the Councilors present.

Attachment(s) Resolution #2016-024
Amended Investment Policy

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RESOLUTION

Number 2016-024

To Reaffirm and Adopt the Town of Derry Investment Policy as
Amended

WHEREAS, Section 7.1 of the Town Charter designates the Town Council as the governing body of the Town, which is then empowered by New Hampshire law to adopt policies pertaining to the business affairs of the Town; and

WHEREAS, the Council previously adopted the Town of Derry Investment Policy as a measure to guide the Trustees of Trust Funds in performing their duties; and

WHEREAS, from time to time certain revisions to that policy are in order;

NOW, THEREFORE, BE IT RESOLVED IN COUNCIL that the Town of Derry Investment Policy, dated August 16, 2016, is hereby reaffirmed as the policy of the Town and adopted as revised; and

This Resolution shall take effect immediately upon its passage.

Adopted: August 16, 2016.

Attest:

X _____

Brian Chirichiello, Council Chair

Date: _____

X _____

Daniel Healey, Town Clerk

Date: _____

Town of Derry, NH

Investment Policy

June, 2004

(Revised June 7, 2005)

(Revised June 18, 2013)

(Revised July 15, 2015)

(Revised August 16, 2016)

TOWN OF DERRY, NH INVESTMENT POLICY

1. Policy

It is the policy of the Town of Derry, NH, from hereon referred to as the "Town," to invest all funds in a manner which will provide safety of principal with a market rate of return while maintaining a sufficient level of liquidity to meet the daily cash flow demands of the Town. NH RSA 31:25 and RSA 41:29 provide the basis for development of a Town investment policy.

Because of the vague guidance in the NH RSA regarding investment policy, the Town has included specific reference to each of the referenced statutes, where it believes applicable.

2. Scope

a. This investment policy applies to all financial assets of the Town, except as set forth in 2.b. below. These financial assets are accounted for in various funds which are within the annual financial statements for the Town and include the following:

- Governmental Funds
- Fiduciary Funds
- Proprietary Funds

b. Investment policy for Trust Funds is separately contained in the Trustee of Trust Funds Investment Policy, which is governed by NH RSA ~~31:25~~ 31:25 That RSA requires an annual review of the Investment Policy.

3. Prudence

Investment decisions should be made by applying the Standard of Prudence.

The Standard of Prudence is defined as judgment and care that persons of prudence, discretion, and intelligence, under circumstances then prevailing, exercise in the management of their own affairs, not for speculation, but for investment, considering:

1. Safety
2. Maintenance of liquidity
3. Income

The Standard of Prudence shall be applied in the context of managing an overall portfolio of the Town. Investment officials, acting in accordance with internal control 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 fluctuations, provided deviations from expectations are reported in- a timely manner and appropriate action is taken to control adverse developments.

4. Objectives

The primary objectives, in order of priority, of the Town's investment activities shall be:

a. Safety - The foremost objective is the preservation of capital and the protection of investment principal. Investments of the Town shall be undertaken in a manner that seeks to ensure preservation of capital in the overall portfolio. To attain this objective, diversification is required to prevent potential losses on individual securities from exceeding the income generated by the remainder of the portfolio.

b. Liquidity - The Town's investment portfolio will remain sufficiently liquid to enable the Town to meet all operating requirements which might be reasonably projected. The maturity dates of investments shall not be beyond the time the Town anticipates it will need the funds. Limitations on investments, diversification and maturity scheduling shall depend upon whether the funds being invested are considered short-term or long-term funds. All funds shall be considered short-term except those reserved for capital projects. In order to maintain liquidity, investments of operating funds shall have maturities of one year or less.

c. Return on investment - In investing public funds, the Town will strive to maximize the return on the portfolio, but will avoid assuming unreasonable investment risk. The Town's investment portfolio shall be designed with the objective of attaining a competitive return throughout budgetary and economic cycles, taking into account the Town's investment risk constraints and the cash flow characteristics of the portfolio. A competitive return shall be determined by comparing a potential return to a benchmark return. A competitive return should be somewhat higher than the benchmark return. For the Town's purposes, the benchmark return will be a yield from a 90-day Treasury bill.

5. Diversification

The Town will diversify its investments to avoid incurring unreasonable and avoidable risks regarding specific security types or individual financial institutions. With the exception of U.S. Treasury Securities, U.S. Government Agencies and New Hampshire Public Deposit Investment Pool, no more than 75% of the Town's total investment portfolio will be invested in a single security type or with a single financial institution, unless 100% collateralized. Moreover, the Town's investment portfolio should also be diversified with respect to maturity dates. A maturity horizon should be established whereby investments will mature at different times in order to meet projected cash flow needs. Not more than 5% of the Town's total investment portfolio will be invested in securities with maturities greater than one year.

6. Maximum Maturities

To the extent possible, the Town will attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, the Town will not directly invest in securities maturing more than one year from the date of purchase.

Certain long-term reserve funds such as capital project may be invested in securities exceeding one year if the maturity of such investments is made to coincide as nearly as practicable with the expected use of the funds.

7. Collateralization

The collateral shall only consist of securities in which Towns may invest, as provided in RSA 386:5748:16 including New Hampshire Banking Department BAN 1450.04.

8. Safekeeping and Custody

All security transactions, including collateral for repurchase agreements, entered into by the Town shall be conducted on a "delivery vs. payment" basis. Securities will be held by a third party custodian, or trust department designated by the Treasurer and evidenced by safekeeping receipts. The Town may enter into an agreement with any financial institution with trust powers authorized to do business in the State for the safekeeping and investment of the reserve funds or trust funds of the Town. Services shall consist of the safekeeping and investment management of the funds, collection of interest and dividends, periodic review of the portfolio investments and any other fiscal service which is normally covered in a safekeeping and investment agreement.

9. Authorized Investments

The Treasurer may invest Town Funds in accordance with RSA 41:29.

10. Delegation of Authority

Authority to manage the Town's investment program is derived from the RSA 41:29 and is approved by the Town Council.

11. Ethics and Conflicts of Interest

Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment program, or which could impair their ability to make impartial investment decisions. Employees and investment officials shall disclose to the Treasurer and the Town Council any material financial interest in financial institutions that conduct business within this jurisdiction, and they shall further disclose any personal financial/investment positions that could be related to the performance of the Town portfolio.

12. Prohibited Interest

No Town employee shall invest Town funds in any instrument or institution in which he/she has any direct or indirect financial interest, nor shall he/she accept any gift, free service or payment of any kind for performing their duties under this policy.

13. Internal Control

The Town Council shall establish a system of internal controls which shall be documented in writing through Administrative Regulation, or adoption of ordinance. The controls shall be instituted to prevent possible loss of public funds arising from fraud, employee error, ~~misrepresentation and misrepresentation~~ by third parties, unanticipated changes in financial markets, or imprudent actions by employees and officers of the Town.

The Town Council shall also establish an annual process of independent review by an external auditor. This review will enhance internal control by assessing compliance with policies and procedures.

14. Accounting Method

Investments will be carried on the Town books in accordance with Generally Accepted Accounting Principles (GAAP).

15. Reporting

The Chief Financial Officer shall submit quarterly and annual investment reports to the Town Council and Finance Committee based on standard periodic balance sheet, revenue and expenditure reports available using the Town's financial software system, and external information received from the Treasurer. The reports shall summarize the status of funds to date for the current fiscal year and investment strategies employed during the quarter and throughout the year, describe the portfolio in terms of types of investment securities, maturities, risk and a comparison of carrying values and market values. A summary of the investment purchases and sales during the period and the return on the investments should also be reported. See Attachment A which sets forth the membership of the Finance Committee and its responsibilities.

16. External Management

The Trustees of the Trust Funds may contract with a qualified external money management company, in accordance with RSA 31:38A, in order to benefit from portfolio diversification, credit research, full-time portfolio management and economies of scale that are unavailable from the Town's internal staff. Any such contract will define and control the risks of the portfolio and establish performance criteria for monitoring and evaluating results.

Upon advice of the contracted, qualified external money management company, the Trustee of Trust Funds may invest in corporate stocks, bonds or other debentures subject to limitations in RSA 386:57.383.22

17. Independent Provisions

If any section, sentence, or phrase of this policy is held for any reason to be inoperative, void or invalid, the validity of the remaining portion of this resolution shall not be affected. It is the intention of the Town Council in adopting this resolution that no portion alone shall become inoperative or fail by reason of the invalidity of any other portion and, the Town Council does hereby declare that it would have separately passed and adopted the provisions contained herein apart from one another.

18. Effective Application

This policy shall apply to all investments purchased after the date of adoption of this policy by the Town Council. This policy is not meant to apply to instruments purchased prior to the date of the adoption.

19. Finance Committee

The Finance Committee shall be established by the Town Council and include one (1) Council Representative, the Treasurer, the Chair of the Trustees of Trust Funds or their designee, Town Administrator, Chief Financial Officer and Controller. The Committee shall meet on a quarterly basis to review town-wide financial reports, and be updated on the status of investments. They shall assist with internal control policies. They shall recommend finance programs and/or policies. The Town Administrator shall oversee the Committee and report to the Council any recommendations from the Finance Committee.

20. Investment Policy Adoption

The Town's investment policy shall be adopted by resolution of the Town Council. The original copy of the policy is to be filed with the Town Clerk. The policy shall be reviewed on an annual basis by the Finance Committee and any modifications made thereto must be approved by the Town Council. Attachment A will be maintained by the Chief Financial Officer to document the annual review of this policy.

Adopted June 15, 2004, Revised
June 7, 2005 and Revised
September 4, 2015~~this 4th day of September 2015~~ and
Revised August 16, 2016
by the Derry Town Council.

~~G. Thomas Cardon, Chair~~ Brian Chirichiello, Chair
Derry Town Council

Attachment A