

2015-07-15
Kennett Township
Township Investment Policy

Purpose

It is the policy of Kennett Township to invest its funds in a manner which will provide the highest investment return with the maximum security while meeting the daily cash flow needs of the Township and comply with all state statutes governing the investment of public funds.

Scope

This investment policy applies to all financial assets of the Kennett Township organized into "Funds" which cannot be co-mingled. As such, investment portfolios created from cash generated by these funds should be maintained as separate accounts.

Objectives

The primary objectives, in priority order, for the township's investment activities shall be:

Safety--*Safety of principal is the foremost objective of the investment program. Investments shall be undertaken in a manner that seeks to insure the preservation of capital in the overall portfolio.*

Diversification--*The investments will be diversified by security type and institution in order that potential losses on individual securities do not exceed the income generated from the remainder of the portfolio.*

Liquidity--*The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated. A layered portfolio consisting of varied investment maturities may be desirable as long as the liquidity is maintained.*

Return on Investment--*The investment portfolio shall be designed with the objective of obtaining a rate of return throughout the budgetary and economic cycles, taking into account the investment risk constraints and the cash flow characteristics of the portfolio.*

Delegation of Authority to Manage Township Portfolios

This Policy provides the Township Treasurer with the authority to recommend an investment advisor ("The Management Company") to manage the Township investment portfolios. The recommendation should be approved by the Township Board of Supervisors on an annual basis.

DRAFT 2015-06-16
Kennett Township
Township Investment Policy

Upon acceptance, the Management Company will provide to the Township Treasurer a list of procedures including but not limited to:

- *Safekeeping, delivery vs payment, investment accounting, repurchase agreements, wire transfer agreements, collateral/depository agreements and banking service contracts.*

No other person or company may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the Kennett Township Board of Supervisors. Any such deviation must be provided in writing by the Township Treasurer.

The Kennett Township Treasurer shall be responsible for maintaining records of all transactions undertaken and on a periodic basis, either monthly or quarterly, shall update the Township financial records with the current portfolio market values.

List of Authorized Investments

The Kennett Township is limited to investments permitted by The Second Class Township Code¹ as amended, and may invest in the following:

1. **Treasury bills**, which are investment instruments issued by the United States (U.S.) Treasury. Treasury bills are backed by the full faith and credit of the U.S. government's ability to levy and collect taxes.
2. **Short-term obligations of the U.S. government** or its agencies or instrumentalities, which are typically considered to be any U.S. government-issued investment instrument. Short-term obligations usually refer to financing instruments of less than 13 months maturity. However, these may or may not include those backed by the full faith and credit of the federal government. Many instruments of the U.S. government do not have the full faith and credit backing (i.e., Federal National Mortgage Association [FNMA or Fannie Mae] and Federal Home Loan Mortgage Corporation [FHLMC or Freddie Mac] bonds). Full faith and credit backing has been granted to Government National Mortgage Association (GNMA or Ginnie Mae) bonds.
3. **Deposit accounts**, which include savings accounts and certificates of deposit as well as other time deposit type accounts available at banks, savings and loan associations, or credit unions. These must be insured by one of the federal deposit insurance organizations. When the value of the taxing district's deposits exceeds the insurable limits, the additional sums must be secured by collateral pledged by the

¹ 53 P.S. § 68204 ("The Second Class Township Code," Section 3204.1).

DRAFT 2015-06-16
Kennett Township
Township Investment Policy

depository pursuant to Act 72 of 1971.⁹

4. **Obligations of the U.S. government** (other than Treasury bills) or its agencies or instrumentalities backed by full faith and credit. As previously discussed, Ginnie Mae investments have been determined to have such backing. Other similar instruments, such as Fannie Mae and Freddie Mac bonds, do not.
5. **Obligations of the Commonwealth of Pennsylvania** or its agencies or instrumentalities backed by the full faith and credit of the Commonwealth or its political subdivisions, which include any bonds issued by the Commonwealth of Pennsylvania, a municipality, or a school district. These issues must carry the backing of the taxation powers of the governmental unit issuing the debt. Issues from municipal authorities that are not backed by taxing powers do not qualify for investment of school district funds.
6. **Shares of an investment company registered under the Investment Company Act of 1940**, whose shares are registered under the Securities Act of 1933. The only investments of the company must be in those authorized for direct investment by the municipality.

Safekeeping and Custody

All security transactions, including collateral for repurchase agreements and financial institution deposits, entered into by the Township shall be on a cash (or delivery vs payment) basis. Securities may be held by a third party custodian designated by the treasurer and evidenced by safekeeping receipts as determined by the treasurer.

Prudence

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.

DRAFT 2015-06-16
Kennett Township
Township Investment Policy

Appendix

Municipal Investments¹

From the Pennsylvania Legislators Municipal Deskbook, 3rd edition (2006), [page 181](#)

Municipalities are authorized to invest all funds of the municipality. They are required to invest funds consistent with sound business practice. The governing body can adopt rules and regulations to govern the investment of municipal funds.

There is no one set of authorized investments for all local governments in Pennsylvania, but it is essential that the statutory investment options delineated in the respective municipal codes are followed. The First Class Township Code² the Second Class Township Code,³ the Borough Code,⁴ the Third Class City Code,⁵ the County Code,⁶ and the Public School Code of 1949⁷ authorize six types of investments. For purposes of pension or retirement funds, the municipal codes authorize additional investment options.⁸

1. **Treasury bills**, which are investment instruments issued by the United States (U.S.) Treasury. Treasury bills are backed by the full faith and credit of the U.S. government's ability to levy and collect taxes.
2. **Short-term obligations of the U.S. government** or its agencies or instrumentalities, which are typically considered to be any U.S. government-issued investment instrument. Short-term obligations usually refer to financing instruments of less than 13 months maturity. However, these may or may not include those backed by the full faith and credit of the federal government. Many instruments of the U.S. government do not have the full faith and credit backing (i.e., Federal National Mortgage Association [FNMA or Fannie Mae] and Federal Home Loan Mortgage Corporation [FHLMC or Freddie Mac] bonds). Full faith and credit backing has been granted to Government National Mortgage Association (GNMA or Ginnie Mae) bonds.
3. **Deposit accounts**, which include savings accounts and certificates of deposit as well as other time deposit type accounts available at banks, savings and loan associations, or credit unions. These must be insured by one of the federal deposit insurance organizations. When the value of the taxing district's deposits exceeds the insurable limits, the additional sums must be secured by collateral pledged by the depository pursuant to Act 72 of 1971.⁹

DRAFT 2015-06-16
Kennett Township
Township Investment Policy

4. **Obligations of the U.S. government** (other than Treasury bills) or its agencies or instrumentalities backed by full faith and credit. As previously discussed, Ginnie Mae investments have been determined to have such backing. Other similar instruments, such as Fannie Mae and Freddie Mac bonds, do not.
5. **Obligations of the Commonwealth of Pennsylvania** or its agencies or instrumentalities backed by the full faith and credit of the Commonwealth or its political subdivisions, which include any bonds issued by the Commonwealth of Pennsylvania, a municipality, or a school district. These issues must carry the backing of the taxation powers of the governmental unit issuing the debt. Issues from municipal authorities that are not backed by taxing powers do not qualify for investment of school district funds.
6. **Shares of an investment company registered under the Investment Company Act of 1940**, whose shares are registered under the Securities Act of 1933. The only investments of the company must be in those authorized for direct investment by the municipality.

In addition to investments authorized by the municipal codes, the Local Government Unit Debt Act provides for the investment of bond proceeds in sinking funds by local governments (except municipal authorities).¹⁰ Monies in sinking funds may be invested in accounts and certificates of deposit in banks and savings and loan associations. Deposits and certificates above the limit of federal deposit insurance agencies must be secured by collateral. Sinking fund moneys can also be invested in any security the Commonwealth is using for investment at the time of the investment.

Monies from more than one fund can be combined to purchase a single investment, provided moneys of each of the funds are accounted for separately and earnings are separately computed, recorded, and credited to each of the funds. Municipalities may also join with other political subdivisions and municipal authorities for joint investments, provided separate accounting, recording, and crediting is maintained for each unit's funds. Furthermore, the Intergovernmental Cooperation Act¹¹ permits cooperative investment pools, such as the Pennsylvania School District Liquid Asset Fund, the Pennsylvania Local Government Investment Trust, and the State Treasurer's Invest Program.

Thus, it is imperative that municipal investors utilize only those investments that comprise allowable investment options. Public investors should be aware of all of the investment options available to them and avoid purchasing any securities that may be questionable.

DRAFT 2015-06-16
Kennett Township
Township Investment Policy

However, when evaluating investment options, municipal investors must be aware of other criteria to ensure that they achieve their investment goals. Specifically, to make the most effective use of idle funds, public investors must try to earn the best returns possible without sacrificing the safety of their funds or subjecting their portfolios to undue risks. Investors must achieve this goal within the constraints of applicable laws, investment policies, and other internal practices. In addition, investors must make their decisions within the overriding principles of safety, liquidity, and yield. Investors who follow these principles can avoid being tomorrow's headlines.

¹ *Fiscal Management Handbook*, 9th ed., Governor's Center for Local Government Services, Pennsylvania Department of Community and Economic Development, Harrisburg, Pa., 2003.

² 53 P.S. § 56705.1 ("The First Class Township Code," Section 1705.1).

³ 53 P.S. § 68204 ("The Second Class Township Code," Section 3204.1).

⁴ 53 P.S. § 46316 ("The Borough Code," Section 1316).

⁵ 53 P.S. § 36804.1 ("The Third Class City Code," Section 1804.1).

⁶ 16 P.S. § 1706 ("The County Code," Section 1706).

⁷ 24 P.S. § 4-440.1 ("Public School Code of 1949," Section 440.1).

⁸ 53 P.S. § 56705.1(d)(vii) ("The First Class Township Code," Section 1705.1(d)(vii)); 53 P.S. § 68204(d)(7) ("The Second Class Township Code," Section 3204(d)(7)); 53 P.S. § 46316(c)(vii) ("The Borough Code," Section 1316(c)(vii)); 53 P.S. § 36804.1(d)(7) ("The Third Class City Code," Section 1804.1(d)(7)); 16 P.S. § 1706(c)(8) ("The County Code," Section 1706(c)(8)); 20 Pa.C.S. ("Probate, Estates and Fiduciaries Code"), Ch. 73 (Municipalities Investments).

⁹ 72 P.S. § 3836-1 et seq. (Standardizing the Procedures for Pledges).

¹⁰ 53 Pa.C.S. § 8224 ("Local Government Unit Debt Act").

¹¹ 53 Pa.C.S. § 2301 et seq. (Intergovernmental Cooperation)