

TITLE 6
FISCAL POLICIES

CHAPTERS

6.04 FINANCES

6.08 INVESTMENT POLICY AND OBJECTIVES

TITLE 6

FISCAL POLICIES

Chapter 6.04 -- Finances

Sections:

6.04.010	Budget and Capital Program.
6.04.020	Bonding Capital Improvements.
6.04.030	Fiscal Year.
6.04.040	Funds Designated.
6.04.041	Permanent Fund Account
6.04.042	Capital Improvement Maintenance Reserve and Improvement Account.
6.04.050	Audit of Borough Government Accounts.
6.04.060	Centralized Treasury.
6.04.070	Obligations and Expenditures.
6.04.080	Appropriation.
6.04.90	Treatment of Funds.
6.04.100	Set-offs Prior to Disbursements.

6.04.010 Budget and Capital Program.

- A. The mayor shall arrange for the preparation of a budget and capital program. The budget and capital expenditure proposals shall be given a public hearing.
- B. After public hearing, the Assembly may approve budgets with or without amendments and shall appropriate the funds required for the approved budgets.

(Ord. 88-1, Sec. 6.04.010, part, 1987)

6.04.020 Bonding Capital Improvements.

The Borough may waive the bonding requirements and may exempt contractors from compliance with the provisions of AS 36.25.010 (a), if the estimated cost of the project does not exceed \$400,000, and

- (1) the contractor is, and for two years immediately preceding the award of the contract has been, a licensed contractor having its principal office in the state;
- (2) the contractor certifies that it has not defaulted on a contract awarded to the contractor during the period of three years preceding the award of a contract for which a bid is submitted;
- (3) the contractor submits a financial statement, prepared within a period of nine months preceding the submission of a bid for the contract and certified by a public accountant or a certified public accountant licensed under AS 08.04,

demonstrating that the contractor has a net worth of not less than 20 per cent of the amount of the contract for which a bid is submitted; and

- (4) the total amount of all contracts that the contractor anticipates performing during the term of performance of the contract for which a bid is submitted does not exceed the net worth of the contractor reported in the certified financial statement prepared and submitted under (3) of this section by more than seven times.

(Ord. 01-05 (amended Ord. 88-1), Sec. 6.04.020, part, 1987)

6.04.030 Fiscal Year.

The fiscal year of the municipality shall begin on the first day of July and end on the last day of June.

(Ord. 88-1, Sec. 6.04.030, part, 1987)

6.04.040 Funds Designated.

The accounts of the borough shall be divided into the following principal funds:

1. General Fund. All financial transactions relating to the general operations of the municipal government shall be recorded in the accounts of this fund. The General Fund will be funded, to the extent permissible by the source of revenues, from the proceeds received in the year prior to their expenditures, unless approved for immediate disbursement by the Assembly in a budget ordinance. The General Fund shall contain the following accounts:

(Ord. 07-06 (amended Ord. 01-08), Sec. 6.04.040 1)

- A. Trust, agency, and bond fund accounts as required.
- B. The permanent fund account. Funds appropriated or allocated to this account by the Assembly shall be available only to meet the needs of the Borough, including the school district, arising out of natural disasters, major financial emergencies, and for the payment of principal and interest on general obligation bonds to prevent an impending default. In the event of a natural disaster, or major financial emergency, the Assembly may appropriate money from the permanent fund account to forward fund the Borough's operating budget for the next fiscal year.

(Ord. 01-08 (amended Ord. 90-13), Sec. 6.04.040 1(B))

- C. Such other accounts as the mayor determines are necessary or appropriate under current government accounting practices and are approved by the Assembly.
- 2. Special Assessment Funds. These funds shall be created upon establishing a special assessment district and providing for financing of public improvements by special assessments.

(Ord. 01-08 (amended 89-6), Sec. 6.04.040, part, 1987)

6.04.041. Permanent Fund Account.

- A. **Assembly Authority.** Unless the Assembly provides otherwise in its approved budget or an appropriation ordinance, the provisions of this section shall govern the deposit and crediting of funds to the Permanent Fund Account established under section 6.04.040 1(B).
- B. **Purpose.** It is the goal of the Assembly that the Permanent Fund Account grow in perpetuity and provide a permanent, potential source of fiscal support to further the Aleutian East Borough's goals and needs. It also seeks to preserve purchasing power over time. At any time, the mayor may propose and the Assembly may, on its own initiative or upon the recommendation of the mayor, deposit in the Permanent Fund Account amounts from any lawfully available source.
- C. **Bond Covenant Considerations.** Upon approval of the Assembly by resolution or ordinance, and subject to prior covenants made pursuant to authority granted under this section, the Borough may enter into a bond covenant requiring that prior to any deposit or transfer to the Permanent Fund Account, the current fiscal year debt service on the bonds shall be paid or that one or more deposits shall be made to the debt service fund of the bonds until the balance of the debt service fund equals an amount not exceeding debt service payments on the bonds remaining due during the current fiscal year. Funds of appropriations subject to a pledge under this subsection shall be deposited in accordance with such pledge. When the pledge has been fulfilled, funds that subsequently become available that are appropriated for the debt service on the bonds shall be deposited to the Permanent Fund Account to the extent the appropriation to the Permanent Fund Account is unfunded. Debt service payments include payments of principal and interest on bonds for which a pledge pursuant to this section 6.04.041 has been made.
- D. **Spending Policy.** The Borough Assembly may only appropriate from the Permanent Fund Account to the General Fund as follows: In its discretion and consistent with this Chapter, the Borough Assembly may, in any fiscal year, appropriate an amount not to exceed four percent (4%) of the five-year average fund market value, to be computed using the five (5) prior calendar years market value. This spending policy attempts to smooth the effects of market volatility and preserve the purchasing power of the fund.

If funds are appropriated from the Permanent Fund to the General Fund the funds must be allocated to specific municipal functions.

(Ord. 18-11 (Amended 12-01) Sec. 6.04.041(D))

E. **Investments – Purpose and Limitations.** A purpose of the permanent fund is growth through prudent investment of fund assets. Notwithstanding the objectives of the Borough policy for the investment of its operating and other funds set out in Code Section 6.08.010(C), the investment of permanent fund assets shall be made to maintain safety of principal while maximizing total return. Investments shall be diversified to minimize the risk of loss resulting from a concentration of investments in a specific maturity, issuer, class of security, financial institution or, with respect to equity investments, in a specific company, industry or investment sector. Fund assets may be invested in the instruments and securities set out in Code Section 6.08.030 and in the following securities:

- (1) (a) Domestic Equities, which taken as a whole, attempt to replicate the Standard & Poor's 500 Index, including both mutual funds and exchange traded funds (ETF's).
- (b) International Equities, which taken as a whole, attempt to replicate the Morgan Stanley Capital International Europe Australasia and Far East (MSCI EAFE) or a substantial similar Index, including both mutual fund and exchange traded funds (ETF's).
- (c) Equities, which taken as a whole, attempt to replicate the universe of domestic real estate investment trusts as represented by the S&P REIT Index or the Cohen & Steers Realty Majors Portfolio Index, including both mutual funds and exchange traded funds (ETF's).
- (d) Domestic Equities, which taken as a whole, attempt to replicate the Standard & Poor's 400 Mid Cap Index, including both mutual funds and exchange traded funds (ETF's).
- (e) Emerging markets equity index funds, which taken as a whole, attempt to replicate the Morgan Stanley Capital International Emerging Markets or a substantially similar Index, including both mutual funds and exchange traded funds (ETF's).
- (f) Global infrastructure equities, which taken as a whole, attempt to replicate the STOXX Global Broad Infrastructure Index, or a substantially similar index, including both mutual funds and exchange traded funds (ETFs).

(g) U.S. Treasury Inflation Protected Securities (TIPS), and/or mutual funds or ETFs which attempt to replicate the Bloomberg Barclays Capital U.S. Treasury Inflation Protected Securities Index, or a substantially similar index.

(h) Domestic equities, which taken as a whole, attempt to replicate the Standard & Poor's SmallCap 600 Index, or a substantially similar index, including both mutual funds and exchange traded funds (ETFs).

(i) Commodities, which taken as a whole, attempt to replicate a broad based commodity index, such as the Bloomberg Commodity Index or a substantially similar index, including mutual funds, exchange traded funds (ETFs) and exchange traded notes (ETNs);

(2) Permanent Fund asset allocation plan and performance measurement targets.

The asset allocation targets and ranges are as follows:

Asset Class	Target % Weighting	Range %
Domestic Equity	24	18-30

Mid Cap. Equity	7	2-12
Small Cap Equity	3	0-6
International Equity	12	6-18
Emerging Markets	5	0-10
Real Estate Equity	5	0-10
Infrastructure	5	0-10
Commodities	5	0-10
US Fixed Income	19	10-30
TIPS	10	0-15
Cash	5	0-10

(Ord.
19-07

(Amended Ord. 19-06, Sec. 6.04.041(E2))

- (3) The Performance of the investment advisors will be measured as follows:

- (a) Performance measurement for the Domestic Equity Allocation will be measured against the Target Weighting, using the Standard & Poor's 500 as the Benchmark.
- (b) Performance measurement for the Mid/Small Cap Equity Allocation will be measured against the Target Weighting, using the Standard & Poor's 400 Mid Cap Index as the Benchmark.
- (c) Performance measurement for the International Equity Allocation will be measured against the Target weighting using the Morgan Stanley Capital International Europe Australasia and Far East (MSCI EAFE) or a substantially similar Index for the Benchmark.
- (d) Performance measurement for the Real Estate Allocation will be measured against the Target weighting using the Standard & Poor's REIT Index for the Benchmark.
- (e) Performance measurement for the Fixed Income Allocation will be measured against the Target weighing using the Bloomberg Barclays Intermediate Gov/Credit Index for the Benchmark. The duration of the Fixed Income Allocation should be maintained between 80% and 120% of the duration of the Benchmark.
- (f) Performance measurement for the Emerging Market Allocation will be measured against the Target weighting using the Morgan Stanley Capital International Emerging Market (MSCI Emerging) or a substantially similar Index for the Benchmark.
- (h) Performance measurement for the infrastructure allocation will be measured against the target weighting, using the STOXX Global Broad Infrastructure Index or a substantially similar index as the benchmark.
- (i) Performance measurement for the U.S. Treasury Inflation Protected Securities (TIPS) allocation will be measured against the target weighting using the Bloomberg Barclays Capital U.S. Treasury Inflation Protected Securities 0-5 Index or a substantially similar index.
- (j) Performance measurement for the small cap equity allocation will be measured against the target weighting, using the Standard & Poor's SmallCap 600 Index or a substantially similar index as the benchmark.
- (k) Performance measurement for the cash/1—3 month treasuries will be measured against the target weighting, using the

Citigroup 3-Month Treasury Bill Index or a substantially similar index as the benchmark.

(l) Performance measurement of the commodity allocation will be measured against the target weighting, using a broad based index such as the Bloomberg Commodity Index or a substantially similar index.

(Ord.19-06 (Amended 18-11), Sec. 6.04.041(E))

(Ord. 18-11 (Amended 17-03) Sec. 6.04.041)

6.04.042 Capital Improvement Maintenance Reserve and Improvement Account.

1. **Annual Deposit.** Each year the mayor shall include in the proposed budget for the coming fiscal year the deposit to the Capital Improvement Maintenance Reserve Account of the greater of \$100,000 or an amount equal to two and one-half percent of the total anticipated revenues from the borough sales tax and the state shared fisheries business license tax. The amount shown to be deposited to the account in the annual budget finally approved by the Assembly and all interest earned on the account shall be deposited to the account.
2. **Appropriation.** The Assembly may appropriate from the account all or any part of the balance for the purpose of maintenance and minor repair of borough capital improvements. The Assembly may appropriate from the account all or any part of the account that exceeds \$500,000 for capital projects, including expenses for advance project studies or definition work, capital matching grants, planning, design, acquisition, construction and other capital project expenses.
3. **Not a Limit.** There shall be no maximum or minimum balance for the account. The Assembly may appropriate monies for maintenance and minor repair of borough capital improvements and for capital projects from other sources. The Assembly may provide for deposits to the account in any amount and from any sources it determines appropriate.

Ord. 96-1 (Amended Ord. 92-8), Sec. 6.04.042, part, 1987)

6.04.050 Audit of Borough Government Accounts.

Prior to the end of each fiscal year the Assembly shall designate certified public accountants who, as of the end of the fiscal year, shall make an independent audit of all the accounts and other evidences of financial transactions including, but not being limited to, trust and agency funds and bond and assessment funds, of the borough government and shall submit their report to the Assembly and to the mayor. Such accountant or accountants shall have no personal interest, direct or indirect, in the fiscal affairs of the borough government or of any of its officers. They shall not maintain any accounts or records of the borough business, but, within specifications approved by the Assembly,

shall post-audit the afore described books of the borough government. Copies of the audit shall be available to the public on request.

(Ord. 88-1, Sec. 6.04.050, part, 1987)

6.04.060 Centralized Treasury.

There is established the borough centralized treasury. All municipal funds received by the borough, its school district, departments or other agencies of the borough shall be deposited in the borough centralized treasury.

(Ord. 89-7, Sec. 6.04.060)

6.04.070 Obligations and Expenditures.

- (a) No obligation may be incurred against, nor may payment be made from money in the treasury except in accordance with an appropriation duly made by the Assembly.
- (b) Except as to the operating budget appropriation made to the school district, no payment may be made and no obligation incurred against any appropriation unless the mayor or the mayor's designee ascertains that there is a sufficient unencumbered balance in the appropriation and that sufficient money is or will be available to cover the obligation.
- (c) No payment may be made and no obligation may be incurred against operating budget appropriation to the school district unless the superintendent or the superintendent's designee ascertains that there is a sufficient unencumbered balance in the appropriation and that sufficient money is or will be available to cover the obligation.
- (d) Every obligation incurred and every payment and authorization of payment made in violation of this section 070 is void unless ratified by the Assembly.

(Ord. 91-6, Sec. 6.04.070)

6.04.080 Appropriation.

- (a) Appropriations shall be by ordinance and shall set forth appropriation categories in such detail as the Assembly deems appropriate; provided, the operating budget appropriations to the school district shall be deemed a single appropriation category for purposes of this section 080.
- (b) Transfers within the operating budget appropriation to the school district shall be made in accordance with the policies of the school board.
- (c) Except as provided in subsections (c) and (d), all appropriations lapse and are void at the end of the last day of the fiscal year for which the appropriation was made

unless otherwise specifically provided in the appropriating or other ordinance. However, a valid, unpaid obligation existing on June 30 is automatically reappropriated for the fiscal year beginning on the succeeding July 1. This subsection applies to appropriations to the Borough and the school district.

- (d) Appropriations for capital purposes do not lapse until the capital project has been completed and the mayor has determined that all expenses of the project have been paid or until the project has been formally abandoned by the Borough Assembly. Appropriations required by a federal or state grant or similar program to carry over to the following fiscal year do not lapse at the end of the fiscal year if the lapse of the appropriation would be a violation of the grant or program requirements.

(Ord. 91-6, Sec. 6.04.080)

6.04.090 Treatment of Funds.

- (a) Federal and state money received by the Borough shall be deposited in the Borough centralized treasury and shall be disbursed in the same manner as other Borough money. State and federal money is subject to the fiscal controls imposed by the chapter except to the extent state or federal laws or regulations prevent such treatment.
- (b) Unexpended, unobligated money in the treasury at the end of a fiscal year that was allocated under an appropriation that lapses under section 070 is available for appropriation by the Assembly for any lawful purpose; provided, any money received by the Borough under a restriction that it be expended only for specified purposes or within a specified area, may be reappropriated only for such purposes or areas.
- (c) For the purpose of determining the source of unexpended, unobligated money available for reappropriation at the end of a fiscal year, money shall be deemed expended in the following order, to the extent related expenditures were made during the fiscal year:
 - (1) federal money required to be expended for a specific purpose.
 - (2) state money required to be expended for a specific purpose.
 - (3) donated money accepted with conditions as to use.
 - (4) Borough revenues that must be spent within specified areas of the Borough.
 - (5) unrestricted federal money,

- (6) unrestricted state money,
- (7) unrestricted Borough money.

(Ord. 91-6, Sec. 6.04.090)

6.04.100 Set-offs Prior to Disbursements.

- (a) Disbursements of money to a person, firm or corporation Shall be made only after all the various receivable accounts of the Borough have been reviewed for outstanding balances owed, and the disbursement will be reduced by setting off the amount of any delinquent indebtedness due the Borough from such person, firm or corporation.
- (b) All contracts to which the Borough is a party which will or may involve the disbursement of Borough funds shall contain the following clause, or its substantial equivalent: "Disbursement of money by the Aleutians East Borough hereunder shall be subject to set-off pursuant to the provisions of the Code of the Aleutians East Borough." Such contracts include, but are not limited to, oral contracts, employment contracts, construction contracts, purchasing contracts and contracts.

(Ord. 04-01, Sec. 6.04.100)

TITLE 6

REVENUE AND FINANCE

Chapter 6.08 -- Investments And Securities

Sections:

6.08.010	Investment Policy and Objectives.
6.08.020	Mayor Authorized to Invest Borough Funds.
6.08.030	Authorized Investments.
6.08.040	Collateralizations.
6.08.050	Safekeeping and Custody of Securities.
6.08.060	Competitive Placement of Investments.
6.08.070	Emergencies.
6.08.080	Portfolio Liquidity.

6.08.010 Investment Policy and Objectives.

- A. This chapter applies to the investment of all borough monies unless otherwise expressly provided by ordinance.
- B. Each person making decisions regarding the investment of borough monies shall use the same judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of large investments entrusted to them not for the purpose of speculation, but for the permanent disposition of funds, taking into account the objectives set out in subsection (c) of this section.
- C. Borough investments shall be diversified to minimize the risk of loss resulting from a concentration of investments in a specific maturity, a specific issuer, a specific class of security or a specific financial institution. Individual investments shall be made based on the following objections set out in the order of relative importance:
 - (1) Safety of Principal,
 - (2) Maintenance of sufficient liquidity to meet the cash flow requirements of the borough, and
 - (3) Achievement of a reasonable return on the investment.

(Ord. 89-1, Sec. 6.08.010)

6.08.020 Mayor Authorized to Invest Borough Funds.

The mayor is authorized to invest borough monies in accordance with this chapter and to establish, in writing, such administrative procedures as may be necessary to implement the policies and requirements of this chapter. The mayor may delegate in writing to the borough administrator and to other borough employees all or any part of the management authority over the borough investment program. It shall be the responsibility of the mayor to ensure that each person who invests borough monies does so in strict compliance with this chapter and the administrative procedures established in writing by the mayor.

(Ord. 89-1, Sec. 6.08.020)

6.08.030 Authorized Investments.

A. Borough monies shall be invested only in the following instruments:

- (1) U.S. Treasury securities,
- (2) Other obligations guaranteed by the U.S. Government or its agencies or instrumentalities,
- (3) Repurchase agreements with financial institutions for the sale and repurchase of securities specified in subsections (1) and (2) of this section,
- (4) Certificates of deposits and other deposits at banks and savings and loan associations collateralized as provided in section 6.08.040,
- (5) Uncollateralized deposits at banks and savings and loan associations to the extent that the deposits are insured by the Federal Deposit Insurance Corporation or the Federal Savings and Loan Insurance Corporation,
- (6) Bonds and notes which are issued by any state or political subdivision thereof and which are graded A or higher by Moody's Investor's Service, Inc., or Standard and Poor's Corporation, and
- (7) Prime commercial paper graded A1 or higher by Moody's Investor's Service, Inc., or P1 or higher by Standard and Poor's Corporation.
- (8) Obligations of corporations, provided the obligations are graded "Baa" or higher by Moody's Investor's Service Inc., or Standard and Poor's Corporation and issued in the United States and denominated in US dollars. Not more than 15% of the fixed income portfolio may be held in Baa rated securities,
- (9) The Alaska Municipal League Investment Pool, Inc.
- (10) Income producing real estate investments.

(Ord. 05-02, (Amended Ord. 96-5), Sec. 6.08.030)

6.08.040 Collateralization.

- (a) If borough monies are invested in certificates of deposits or other deposits in a bank or savings and loan association, the entire amount of principal and interest that will be payable to the borough upon maturity of the investment must be collateralized by any combination of the following, unless otherwise provided:
 - (1) Insurance issued by the Federal Deposit Insurance Corporation or the Federal Savings and Loan Insurance Corporation,
 - (2) U.S. Treasury securities,
 - (3) Obligations guaranteed by the U.S. Government or its agencies and instrumentalities, or
 - (4) Obligations of the State of Alaska or its political subdivision which are secured by the full faith, credit and taxing power thereof and which are rated A or higher by Moody's Investor's Service, Inc. or Standard and Poor's Corporation.
- (b) At all times during the term of a borough investment required to be collateralized, the bank or savings and loan association with which such monies are invested shall pledge and maintain collateral which has, at all times, a current market value equal to the total of the principal and interest which will be due and owing to the borough at the maturity date of the investment. The mayor may require greater amounts of collateralization if the mayor determines that such action is reasonably necessary to protect the security of borough investments.

(Ord. 89-1, Sec. 6.08.030)

- (c) The collateralization requirements of this section do not apply to investments of the Borough permanent fund.

(Ord. 96-5 (amended Ord. 89-1), new subsection Sec. 6.08.030(c)

6.08.050 Safekeeping and Custody of Securities.

Unless waived by the mayor in writing, all investments purchased by the borough and all securities pledged to the borough's collateral shall be held either directly by the borough or by a third party custodial bank or a nationally recognized brokerage firm as agent of the borough. The mayor may enter into agreements with one or more banks to provide custodial and safekeeping services for borough investments or a nationally recognized brokerage firm to provide brokerage services for borough investments.

(Ord. 94-1, (Amended Ord. 89-1), Sec. 6.08.050)

6.08.060 Competitive Placement of Investments.

To the extent reasonably possible, the investment of borough funds shall be done on a competitive basis.

(Ord. 89-1, Sec. 6.08.060)

6.08.070 Emergencies.

Notwithstanding any other provision of this chapter, if the mayor determines that a reasonable possibility exists that the principal or interest of a borough investment is not adequately secured for any reason, the mayor may take any action with respect to such investment as may be appropriate to protect the principal and interest of the borough investment, including, but not limited to:

- (1) Rescind or otherwise terminate the investment without regard to interest or other penalties which may arise because of said action.
- (2) Demand from the financial institution additional or substitute collateral,
- (3) Demand from the financial institution additional or substitute safekeeping measures,
- (4) Notify state or federal regulatory agencies of the nature and reasons for said insecurity and seek assistance in remedying the insecurity.
- (5) Temporarily deviate from the provisions of section 6.08.010 (c) relating to borough portfolio diversification, and
- (6) Take any other action the mayor deems reasonably necessary to protect the security of the principal or interest of the borough investment.

(Ord. 89-1, Sec. 6.08.070)

6.08.080 Portfolio Liquidity.

Investments will have maturity dates so that at least \$500,000 of all borough investments will mature or may be drawn upon within 100 days. The limitations of this section do not apply to investments of the Borough permanent fund nor may investments of the Borough permanent fund that mature within 100 days be considered for purposes of meeting the requirements of this section.

(Ord. 96-5 (amended Ord. 89-1), Sec. 6.08.080)