

ORDINANCE NO. 2012-17

AN ORDINANCE OF RADNOR TOWNSHIP, DELAWARE COUNTY, PENNSYLVANIA, AMENDING CHAPTER 44, FINANCIAL POLICIES, BY REVISING DEFINITIONS, SCOPE AND GOALS, PERMISSIBLE INVESTMENTS FOR TOWNSHIP FUNDS, POLICE AND CIVILIAN EMPLOYEE PENSION PLAN FUNDS, AND POST EMPLOYMENT BENEFIT PLAN FUNDS.

WHEREAS, the Board of Commissioners adopted Resolution 2003-11 on July 21, 2003 establishing Article I, "Investment of Township Funds"; and

WHEREAS, the independent auditors have recommended that periodic reviews and updates to the Investment Policy should be conducted by the Township; and

WHEREAS, the Administration worked with members of the Citizens Audit Review and Financial Advisory Committee during the summer of 2012 to review the Investment Policy and make various changes as proposed.

NOW, THEREFORE, be it *ORDAINED* and *ENACTED* that the Radnor Township Board of Commissioners does hereby adopt the following:

Section 1.

Chapter 44, Financial Policies, Article I Investment of Township Funds, is hereby amended revising § 44-1 Definitions, § 44-2 Scope, goals and objectives, § 44-3 Permissible investments, and § 44-4 Police and civilian employee pension plans, to read as follows:

§ 44-1. Definitions.

For purposes of this Article, the following terms shall have the noted meanings:

BOND PROCEEDS

Financial proceeds derived from the sale of general obligation bonds or notes or other types of tax-exempt securities.

CASH

Certificates of deposit, bank checking and savings accounts, money market/mutual funds, and other short-term instruments, generally maturing in 90 days or less.

COLLATERALIZATION

Process by which a bank or other financial institution pledges securities, property, or other deposits to secure funds invested by the Township. For example, Pennsylvania banks that accept funds from Radnor Township in excess of amounts covered by federal deposit

insurance (generally, \$250,000) are required to pledge 120% of the excess amount in U.S. Treasury bills as collateral in the event of that bank's default.

COMMERCIAL PAPER

An unsecured short-term promissory note issued by corporations, with maturities ranging from 2 to 270 days.

CREDIT RISK

The risk of financial loss due to the failure of the security issuer or backer.

DERIVATIVE

A type of financial investment, whose value is derived from, or depends on, the value of one or more other types of investment (examples include interest rate swaps, reverse repurchase agreements, etc.).

DIVERSIFICATION

The process of investing financial assets among a range of securities by type of investment, sector, maturity, and quality rating.

EQUITY

Common or preferred stock, which shall be restricted to high quality, readily marketable securities of corporations that are actively traded on all major exchanges.

FIDUCIARY RESPONSIBILITY

The obligation of an official to provide fiscal stewardship towards financial assets under his/her control.

FIXED INCOME

High quality, marketable securities with assets invested in obligations guaranteed by the U.S. Treasury or other federal agencies or investment grade corporate bonds and notes, including convertibles with a rating of A or higher.

GENERAL OPERATING FUNDS

Generally, governmental-type, internal service, and proprietary funds whose assets finance the day-to-day operations of the Township, such as the General Fund, General Debt Service Fund, Sewer Fund, Storm Water Management Fund, Liquid Fuels Fund, Capital Improvement Fund, Police Investigation Fund, Police Equitable Sharing Fund, Commemorative Shade Tree Fund, Parks Improvement and Open Space Fund, Educational Service Agency Fund, and Willows Fund.

INTEREST RATE RISK

The risk associated with declines or rises in interest rates, which cause an investment in a fixed-income security to increase or decrease in value.

MARKET RISK

The risk that the value of a security will rise or decline as a result of changes in market conditions.

MARKET VALUE

Current market price of a security.

MARK-TO-MARKET

The process whereby the book value or collateral value of a security is adjusted to reflect its current market value as of any given date.

MATURITY

The date on which payment of a financial obligation is due.

PENSION PLANS

Financial assets of the Township's Police Pension Trust Fund and the Civilian Employee Pension Trust Fund, which are held for the payment of benefits to retired employees.

OTHER POST-EMPLOYMENT BENEFIT (OPEB) PLAN

Financial assets of the Township deposited into the Post-Employment Benefits Obligation Trust Fund to be held for the payment of accrued but unused leave time, post-retirement healthcare, and any other post-retirement benefit that falls within the "OPEB" category.

PRINCIPAL

The face, or par, value of an investment instrument.

PRUDENT INVESTMENT PRINCIPLES

A standard that generally limits investment activities to those that a prudent, or reasonable, investor would engage in.

REPURCHASE AGREEMENT

An agreement of one party to sell securities at a specified price to a second party and a simultaneous agreement of the first party to repurchase the securities at a specified price or at a specified later date.

SWAP

An investment instrument whereby one asset is traded for another.

TREASURY BILLS

Short-term U.S. government debt securities with maturities of no longer than one year and issued in minimum denominations of \$ 10,000.

TREASURY BONDS

Long-term U.S. government debt securities with maturities of 10 to 30 years and issued in minimum denominations of \$1,000.

TREASURY NOTES

Intermediate U.S. government debt securities with maturities of one to 10 years and issued in denominations ranging from \$1,000 to \$1,000,000 or more.

§ 44-2. Scope, goals and objectives.

A. The purpose of this Article shall be to provide guidance to Radnor Township (Township) officials in discharging their fiduciary responsibility to prudently invest Township funds by identifying objectives, assigning responsibilities, and addressing certain risk factors to enhance investment performance.

B. Scope. This Article shall apply to all financial assets of the Township, including general operating funds, bond proceeds, and pension fund assets, and any of its component units, except as otherwise noted.

C. Objectives. The primary objectives of this Article shall be as follows:

1. Safety. Investments generally shall be made foremost with the preservation of principal in mind and by minimizing the effects of the following types of risk:

a. Credit risk. The Township shall minimize credit risk by:

(1) Limiting the investment of funds to the safest types of securities.

(2) Prequalifying the financial institutions, broker/dealers, intermediaries, and advisors with which the Township will conduct business.

(3) Diversifying investments so that potential losses on individual securities will be minimized.

b. Interest rate risk. The Township shall minimize the risk that the market value of securities in the portfolio will fall due to changes in general interest rates by:

(1) Structuring investments 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;

(2) Investing funds primarily in shorter-term securities, money market mutual funds, or similar investment pools where appropriate.

c. Market risk. Investment decisions generally shall not be made to anticipate possible changes in equity, fixed income, or other market conditions.

2. Liquidity. Investments shall be structured to ensure that adequate funds are on hand to pay reasonably anticipated Township obligations (such as payroll, scheduled debt payments, other operating expenses, and pension benefits) in a timely manner.

Because all possible cash demands cannot be anticipated, the portfolio should consist of investments with active or resale markets.

3. Return.

- a. Investment earnings are of secondary importance compared to safety and liquidity objectives. Except as otherwise indicated, investments generally shall be structured to attain a market average rate of return based on performance benchmarks established herein. These benchmarks shall be periodically reviewed by the Finance Director and may be adjusted with the approval of the Township Manager to reflect changes in the economic performance of the selected investment instruments.
- b. Investments as a rule shall be structured to exceed those benchmarks only when consistent with prudent investment principles and only if safety and liquidity objectives can be met.

4. Securities generally shall not be sold before they mature except as follows:

- a. A security that assumes an unforeseen underlying risk may be sold early to minimize loss of principal.
- b. Liquidity needs of the Township require the security be sold.
- c. Based on financial management recommendation with proper qualitative analysis.

D. Public trust and ethics.

1. Township officials in the investment process shall act as responsible custodians of the public interest and shall avoid any transaction that may impair public confidence in the governance of the Township.
2. Officials involved in the investment process shall refrain from personal business activity that could conflict with the proper execution and management of Township investments or that could impair their ability to make impartial decisions.
3. Officials involved in the investment process shall be governed by the Code of Ethics of the Township, and they also shall abide by the Code of Ethics of the Government Finance Officers Association (see Appendix A), incorporated as a part hereof. *Editor's Note: Appendix A, Code of Ethics of the Government Finance Officers Association, is included at the end of this chapter.*

§ 44-3. Permissible investments – governmental funds.

A. Township general operating funds and bond proceeds may be invested in cash, fixed income, and equity instruments and shall be in accordance with federal, state, and other applicable laws and regulations, as follows:

1. General operating funds. These shall be invested pursuant to Pennsylvania Act 72 of 1971, as amended (53 P.S. § 56705.1). Types of investment instruments permissible include, U.S. Treasury bills, obligations backed by the full faith and credit of the U.S. government or its agencies, shares of money market or mutual funds of companies that invest solely in authorized investments, funds pooled by other municipalities and governmental entities, including the Pennsylvania Local Government Investment Trust, certificates of deposit, guaranteed investment contracts, repurchase agreements, and commercial paper to the extent they are collateralized according to law.

a. Investment Credit Quality Restrictions:

(1) An "Approved Institution" is any financial institution with total assets in excess of \$2 billion and which carry a short term debt rating of A1 or better by Standard and Poor's or Moody's Rating Services. All United States Banks must be a member of the Federal Deposit Insurance Corporation.

(2) Commercial Paper must be rated A1 or better by Standard & Poor's or Moody's Rating Services. A split rating is acceptable so long as one of the ratings is A1 or better.

(3) Money Market Funds must have over \$1 billion in assets, must be managed by major bank trust department portfolio managers, and must be regulated by U.S. Government under Investment Company Act rule 2a-7 and/or 3c7. The funds will seek to maintain a \$1 per share net asset value.

(4) All investments in municipal bonds or agencies must be rated AA or better by Standard & Poor's or Moody's Rating Services.

2. Bond proceeds. These shall be invested in any instruments authorized for general operating funds and in other types of investments permitted by the Pennsylvania Local Unit Debt Act (53 Pa.C.S.A., Chapters 80-82); these latter generally include any type of securities in which the Commonwealth of Pennsylvania is authorized to invest.

3. Prohibited investments: Only those investments identified in subsection A of this Section are permissible. Neither the Township Administration nor outside investment managers are permitted to invest in any investment outside of what is permissible in subsection A of this Section. Such prohibited investments include.

but are not limited to hedge, derivative or asset backed investments or other non-traditional permissible investments that jeopardize the objectives of this investment policy as set forth in Section 44-2 of this Chapter.

- B. Safekeeping and custody. As a rule, all Township investments shall be stored in safekeeping by an unrelated third party not underwriting a particular investment.
1. Authorized financial dealers and institutions. The Finance Director shall maintain a list of financial institutions authorized to provide investment services and of approved security broker/dealers.
 2. Financial dealers/brokers who desire to offer investment transactions to the Township shall supply the following, as requested by the Finance Director:
 - a. Proof of Financial Industry Regulatory Authority (FINRA) certification.
 - b. Proof of state registration.
 - c. Certification of having read and understood and agreeing to comply with this Article.
 - d. Certification that the financial institution in which the investment is being purchased from has a rating of A1 or better from either Standard & Poor's or Moody's Rating Services;
 3. The Finance Director shall conduct, at least annually, a review of the performance and qualifications of the financial condition and registration status of qualified financial brokers/dealers, as well as financial institutions holding Township investments.
- C. Performance measures. The performance of Township investments shall be measured annually by the following criteria:
1. Safety. The extent to which any investments lost principal during a calendar year.
 2. Liquidity. The extent to which any investment had to be liquidated before its maturity to meet an expense.
 3. Return. The extent to which the average return of all investments met their objectives. To measure whether investments of general operating funds and bond proceeds meet their return objectives, the Finance Director shall use the following or other appropriate indexes as benchmarks: ninety-one-day Treasury bill yield; six-month certificate of deposit rate (CD); and twelve-month CD rate. The performance of pension plan assets shall be measured in accordance with § 44-4B.

D. Reporting. An annual report shall be provided to the Board of Commissioners that includes, at a minimum, the following information for invested general operating funds, bond proceeds, and pension plan assets:

1. Listing of individual investments held at the end of the year.
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. Dollar-weighted yield to maturity of portfolio on investments as compared to applicable benchmarks, as described in § 44-3C.
4. Listing of investments by maturity dates.
5. Percentage of the total portfolio that each type of investment represents.
6. Analysis of credit risk and other appropriate factors.

E. Investment procedures. The Finance Director may establish appropriate staff procedures that govern the investment of Township funds pursuant to this Article under the direction of the Township Manager.

§ 44-4. Police and civilian employee pension plans and other post-employment benefit obligation plan.

A. Objectives. The objectives of the police and civilian employee pension plans (plans) and Other Post-Employment Benefit Fund shall be to:

1. Pension Plans: Provide full funding for retirement benefits for each plan's respective participants and beneficiaries.
2. Other Post-Employment Benefit Obligation Plan: Provide full funding for retirement related obligations including accrued but unused leave time, retiree healthcare and any other benefit the Township is obligated to provide to both uniformed and civilian retirees
3. Maximize return within reasonable and prudent levels of risk.
4. Ensure that the plans' assets will be invested in accordance with all relevant legislation and regulations in a manner consistent with fiduciary standards.

B. Investment guidelines.

1. Time horizon. The plans' objectives are based on a five-year investment horizon so that interim fluctuations should be viewed with appropriate perspective; that is,

with the view that the chances and duration of investment losses are carefully weighed against the long-term potential for appreciation of assets.

2. Diversification. Investments shall be diversified with the intent to minimize the risk of investment loss. Consequently, the total portfolio of each plan will be constructed and maintained to provide prudent diversification of the concentration of holdings in individual issues, issuers, countries, governments or industries.
 - a. Not more than 5% of the total stock portfolio valued at market may be invested in common stock of any one corporation.
 - b. Not more than 25% of stock valued at market may be held in any one industry category.
 - c. Fixed income securities of any one issuer shall not exceed 5% of the total fixed income portfolio at the time of purchase (this shall not apply to issues of the U.S. Treasury or other federal agencies).
 - d. Derivatives shall not be purchased for the purpose of portfolio leveraging.
3. Asset allocation.
 - a. To achieve the greatest likelihood of meeting the plans' objectives and the best balance between risk and return for optimal diversification, the plans' assets shall be allocated in accordance with the ranges for each asset class as follows:

(1) Police pension plan.

Asset Class	Allocation (percentage)
Equities, domestic	27.5%-37.5%
Equities, international	13.0%-23.0%
Fixed income	36.5%-46.5%
Real estate and other Equity	0.0%-8.0%
Cash Equivalents	0.0%-10.0%

(2) Civilian pension plan.

Asset Class	Allocation (percentage)
Equities, domestic	27.5%-37.5%
Equities, international	13.0%-23.0%
Fixed income	36.5%-46.5%
Real estate and other Equity	0.0%-8.0%
Cash Equivalents	0.0%-10.0%

- b. The pension boards, with approval of the Township Manager, are authorized to adjust the allocation targets from time-to-time as circumstances warrant.
4. Rebalancing procedures. The asset allocation ranges established under § 44-4B(3) represent a long-term perspective. As such, rapid unanticipated market shifts or changes in economic conditions may cause the asset mix to fall outside the policy range. These divergences should be of a short term nature, and the respective plan's pension boards, under the direction of the Township Manager, shall be responsible for rebalancing the assets and ensuring that money managers selected by the pension boards keep divergences as brief as possible. Money managers shall have discretion to temporarily invest a portion of the assets in cash reserves when they deem it appropriate. However, the managers shall be evaluated against their peers on the performance of the total funds under their direct management.
5. Risk tolerances. The objectives of these plans cannot be achieved without incurring a certain amount of principal volatility. Therefore, the plans shall be managed in a style that seeks to minimize principal fluctuations over the established time horizon and that is consistent with the plans' stated objectives.
6. Performance expectations.
- a. The investment objectives for these plans shall be to achieve an average total annual rate of return equal to or greater than the plan's stated actuarial return assumptions. Performance will be measured against specific benchmarking of the pension assets against the biggest possible index in each of the asset classes (see §44-4(D)(2)(b) for examples of possible benchmarks). The actual returns may vary significantly from these targets on a year-to-year basis.
- b. The pension boards, with approval of the Township Manager, are authorized to adjust these performance targets from time-to-time as circumstances warrant.

C. Guidelines for portfolio holdings.

1. Equities. Equity holdings shall be restricted to high quality, readily marketable securities of corporations that are actively traded on all major exchanges.
2. Fixed income.
 - a. Fixed investments shall be high-quality, marketable securities with a preponderance of the investments in U.S. Treasury, federal agencies, and U.S. Government guaranteed obligations, and investment grade corporate issues including convertibles.
 - b. The overall Moody's or Standard & Poors' rating of the fixed-income assets shall be at least A. In cases where the yield spread adequately compensates for additional risk, securities of below-investment-grade ratings can be purchased up to a maximum of 15% of total market value of fixed-income securities.
 - c. Active bond management is hereby encouraged and may require transactions that will temporarily lower the investment return or change the maturity of the plans' portfolios in anticipation of market changes. Holdings of individual securities shall be large enough for liquidation.
3. Cash. Cash and short-term instruments maturing in 90 days or less shall be registered to a maximum of 10% of total assets at all times. Cash equivalent reserves shall consist of cash instruments having a quality rating of A-2, P-2 or higher.
4. Safekeeping. A custodian appointed by the pension boards for safekeeping shall hold all securities. The custodian shall produce statements at least monthly listing the name and value of all assets held.

D. Control procedures.

1. Review of investment objectives. An investment advisor, selected by the pension boards, shall regularly review the appropriateness of this portion of the Township investment policy for achieving the plans' stated objectives.
2. Review of investment performance.
 - a. The investment advisor shall report quarterly to the pension boards to review the plans' investment performance. In addition, the investment consultant will be responsible for keeping the pension boards advised of any material change in all money managers' personnel, investment strategy, and other pertinent information potentially affecting the performance of all investments.

- b. The investment advisor shall compare the investment results on a quarterly basis to appropriate benchmarks, as well as market index returns in both equity and debt markets. Examples of benchmarks and indexes that will be used are the S&P 500 Index for large companies; Russell 2000 Index for small companies; MSCI Europe, Australia and Far East Index (EAFE) for international equities; Barclays Capital Index for fixed-income securities; and the U.S. 91-Day Treasury Bill Index for cash equivalents.
- 3. The Township Manager or the pension boards from time-to-time may engage the services of an additional consultant to review the performance of the investment advisor, money managers, and this policy.

Section 2.

Repealer. All ordinances or parts of ordinances which are inconsistent herewith are hereby repealed.

Section 3.

Severability. If any section, paragraph, subsection, clause or provision of this Ordinance shall be declared invalid or unconstitutional by a court of competent jurisdiction, such decision shall not affect the validity of this Ordinance as a whole or any part thereof other than that portion specifically declared invalid.


Section 5.

Effective Date. This Ordinance shall become effective in accordance with the Home Rule Charter of Radnor Township.


ENACTED and **ORDAINED** this 8 day of April, 2013.

RADNOR TOWNSHIP

By:


Name: Elaine P. Schaefer
Title: President

ATTEST:


Robert A. Zienkowski,
Township Manager / Secretary