

NEW HAMPSHIRE MUNICIPAL ASSOCIATION



# *Treasurers Duties and Investing Public Funds*

**Presented By:**

*Barbara T. Reid, NHMA Government Finance Advisor*

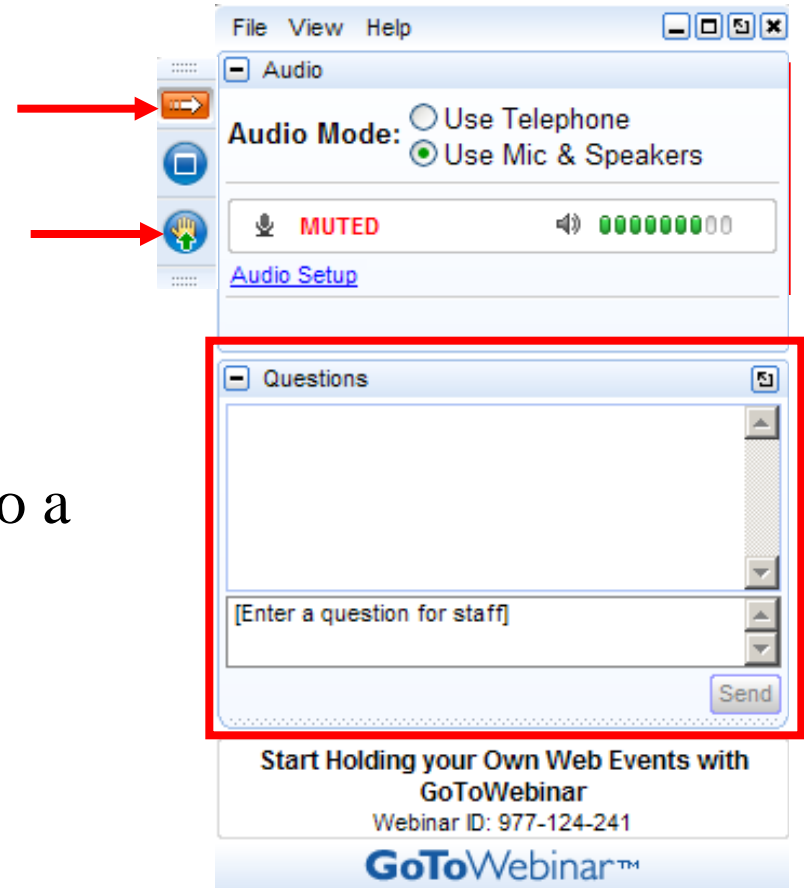
**&**

*Michael Jache, Treasurer, City of Concord*

*December 10, 2014*

# How to Participate Today

- Open and close your Panel
- Submit text questions
- Q&A addressed at the end of today's session
- Raise your hand in *response* to a question



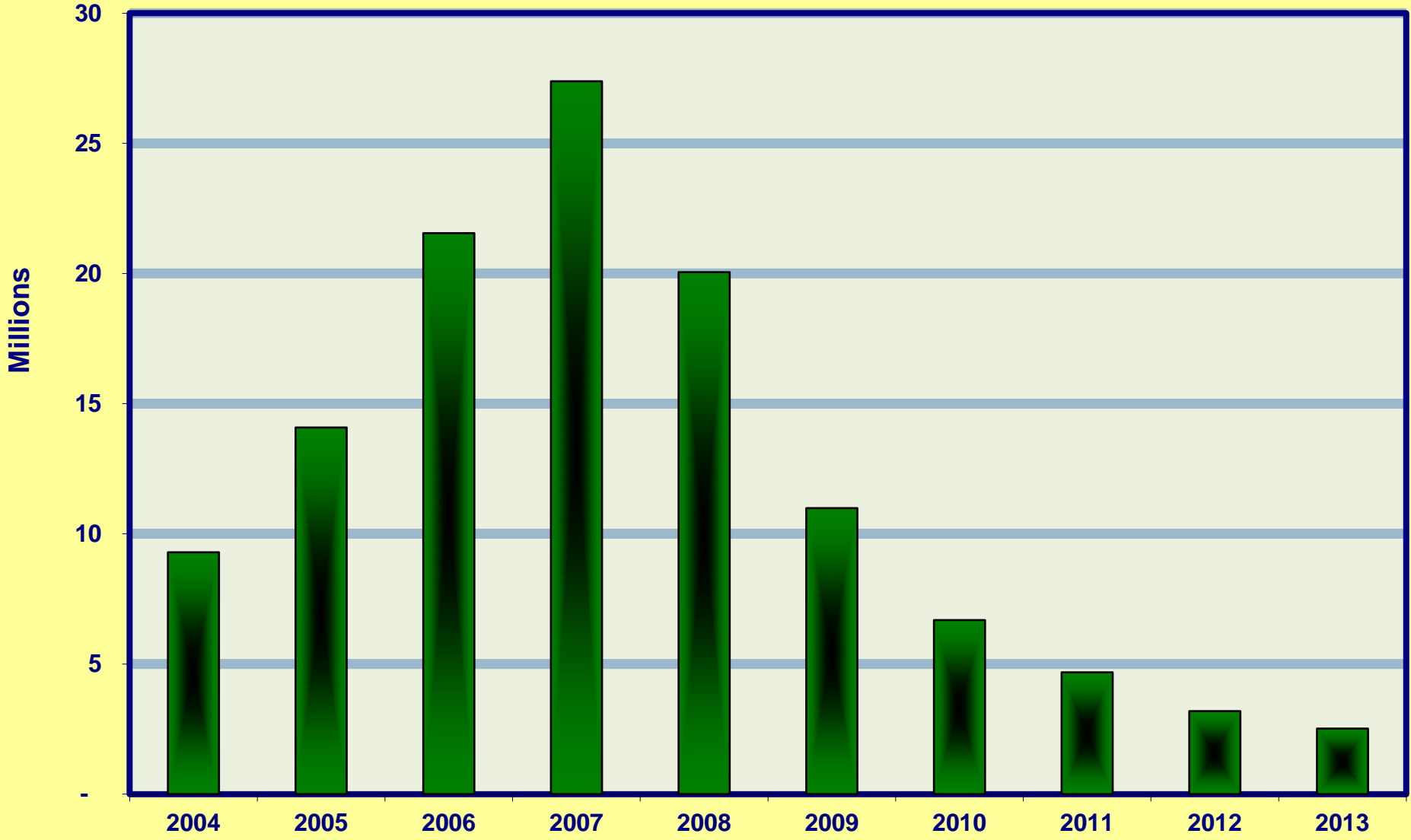
# *Agenda*

- Governing Statutes
- Security of Public Funds
  - FDIC Insurance
  - Collateralization
  - Perfecting Collateral Agreements
- Practical Implementation of a Comprehensive Investment Policy

# *Objectives*

- ✓ **Safety:** Preservation of principle should be the foremost objective. Mitigate custodial credit risk, which is the risk of loss due to the failure of the security issuer.
- ✓ **Liquidity:** Sufficient to meet all operating requirements that may be reasonably anticipated.
- ✓ **Yield:** Return on investment is of tertiary importance compared to safety and liquidity objectives.

**Interest on Investments  
2004 - 2013**



Data Source: [www.nhpfc.org](http://www.nhpfc.org)

# *Governing Statutes*

- RSA 41:29 – Towns
- RSA 48:16 – Cities
- RSA 52:8 – Village Districts
- RSA 197:2-a – School Districts

# *Treasurers Duties*

- I. Shall have custody
- II. Shall deposit
- III. Shall keep record and report
- IV. Shall invest
- V. Shall request “option” of collateral
- VI. May delegate
- VII. Shall ensure timely deposits

# *“The treasurer shall deposit...”*

- Participation units of the NH Public Deposit Investment Pool (NHPDIP),
- Federally insured banks chartered under the laws of NH,
- Federally insured banks chartered under the federal government, with a branch in NH, or
- Federally insured banks outside the state only if pledged collateral is delivered to a 3<sup>rd</sup> party custodial bank or to the Federal Reserve Bank:
  - US government obligations
  - US government agency obligations
  - Obligations of the State of NH.



# *Depository Institutions*

- NH Banking Department website  
[www.nh.gov/banking](http://www.nh.gov/banking)  
Current listing of state chartered banks
- Federally insured banks – FDIC [www.fdic.gov](http://www.fdic.gov)  
Deposit Insurance  
Bank Find
- Federally chartered banks – Comptroller of the Currency [www.occ.treas.gov](http://www.occ.treas.gov)  
Topics  
Licensing

***“The treasurer shall invest...”***

“Whenever the treasurer has in custody an excess of funds which are not immediately needed for the purpose of expenditure, the treasurer *shall* invest the same in accordance with the investment policy *adopted* by the selectmen/mayor and aldermen/city council...”

# *Authorized Investments*

- NH Public Deposit Investment Pool (NHPDIP)
- Deposits of federally insured banks chartered under the laws of NH or federally insured banks chartered under the federal government with a branch in NH, including
  - » Money market accounts
  - » Certificates of deposit
  - » Repurchase agreements
  - » All other types of interest bearing accounts

# *Authorized Investments*

- Obligations fully guaranteed as to principal and interest by the US government.
  - US Treasury bills, bonds and notes
  - US government agency securities:
    - Government National Mortgage Association (Ginnie Mae or GNMA)
    - Export-Import Bank (EXIMBANK)
    - Small Business Administration (SBA)
    - Farm Services Agency (FSA)
    - General Services Administration (GSA)
    - Maritime Administration

*Source: GFOA Elected Officials Guide to Investing  
(available at [www.gfoa.org](http://www.gfoa.org))*

# *Government Sponsored Enterprise (GSE)*

GSE obligations *do not* carry the full faith and credit of the US government and therefore are not authorized investments for public funds under NH law:

- Federal National Mortgage Association (Fannie Mae or FNMA)
- Federal Home Loan Mortgage Corporation (Freddie Mac or FHLMC)
- Federal Home Loan Banks (FHLB)
- Federal Farm Credit System Banks

# *Authorized Investments*

- Interest-bearing deposit in federally insured financial institutions if certain conditions are met:
  - Initially invested with a custodial bank (a NH chartered bank or federally chartered bank with a branch in NH)
  - Custodial bank then invests in other banks (including out-of-state banks) up to the FDIC insurance limit of \$250,000 with a reciprocal amount of investment from those other banks.

**TAKE A**

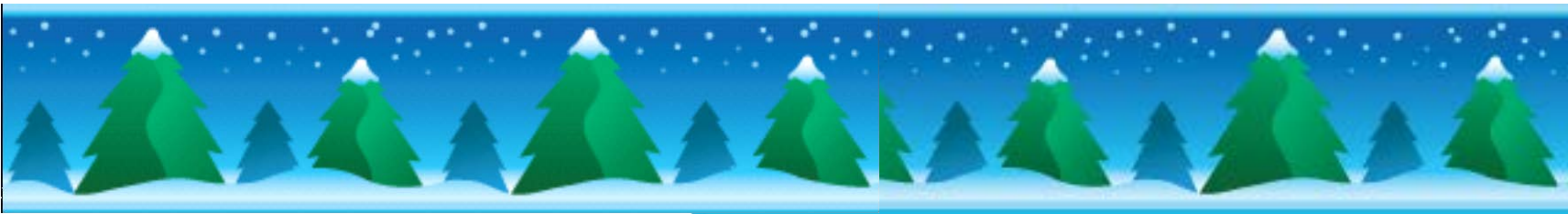


**POLL!**

# Poll Question

According to the Boston Globe magazine, approximately how many Christmas trees were cut in New Hampshire in 2012?

- a. 28,000
- b. 77,500
- c. 132,000
- d. 184,500





# *Collateral Requirement*

- *Town/City Treasurers* “... shall insure that prior to acceptance of any moneys for deposit or investment, including repurchase agreements, the federally insured bank shall make available at the time of such deposit or investment an *option* to have such funds secured by collateral having a value at least equal to the amount of such funds.”
- Such collateral shall be *segregated* for the exclusive benefit of the town/city.

# *Security of Public Funds*

- *“Custodial credit risk”* is the risk that the municipality will not be able to recover deposits or investments in the event of the failure of the financial institution.
- *Any* portion of a deposit or investment not covered by depository insurance is exposed to custodial credit risk and must be disclosed in the notes to the audited financial statements.
- FDIC insurance coverage for government accounts is per *official custodian*, not per account.

# *FDIC Calculator*

- [www.fdic.gov](http://www.fdic.gov) – Deposit Insurance - Electronic Deposit Insurance Estimator (EDIE)
  - All the accounts at a given bank
  - Official custodian of each account
  - Type of account
  - Account balance

# *Collateralization*

- Exposure to custodial credit risk is minimized by collateralizing deposits, whereby banks pledge assets to secure the deposit amounts in excess of the FDIC insurance coverage.
- Some municipalities collateralize more than 100% of the deposit amount regardless of any FDIC insurance provided.
- Collateral held in the name of the municipality with a third-party custodial bank or with the banks trust department.
- Irrevocable letter of credit.

## *Securities Appropriate for Collateral of Public Funds*

- “Only securities defined by the bank commissioner as provided by rules adopted pursuant to RSA 386:57 shall be eligible to be pledged as collateral.”
- NH Banking Administrative Rule Ban 1450  
Collateralization of Public Deposits  
[www.nh.gov/banking](http://www.nh.gov/banking)  
Laws, Rules and Guidance

# *Perfecting Collateral Agreements*

- FDIC recognition of assets pledged to a particular municipality is contingent upon the collateral agreement meeting certain requirements:
  - In writing,
  - Approved by the board of directors of the depository institution or its loan committee, with approval reflected in the minutes,
  - Continuously, from the time of its execution, an official record of the depository institution.
- If the collateral agreement does not meet the above three criteria, the FDIC may void the security interest, leaving the municipality or school district with only the right to share with other creditors in the pro rata distribution of the assets of a failed institution.

# *Perfecting Collateral Agreements*

- Board of directors does not need to approve every collateral agreement, but may delegate this responsibility.
- Delegated to a particular officer with parameters regarding the type and dollar amount of collateral agreements to which said officer may bind the institution.
- The delegation should be in the form of a corporate resolution and be an official record.

# *Recommended Steps to Secure Public Funds*

- The municipality, *not the bank*, is responsible for insuring the safety of all public funds under their control.
- Determine the FDIC insurance amount on deposits, and secure written collateral agreements for funds exceeding that coverage.
- Secure written collateral agreements on depository investments.
- Obtain a copy of the minutes of the board or loan committee meeting, or the delegation resolution (stating the specific person, type of agreement and dollar amount).



**TAKE A**

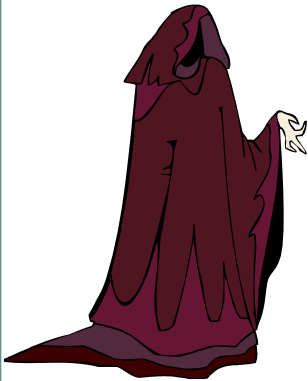


**POLL!**

# *Poll Question*

What are the names of the two street urchin spirits that show up in the ghost of Christmas present segment in Charles Dickens “A Christmas Carol”?

- a. Dodger and Fagin
- b. Want and Ignorance
- c. Bert and Ernie
- d. Hope and Need



# *Investment Policy*

- RSA 41:9 for Selectmen and RSA 47:6 for City Council or Board of Aldermen:  
*“...annually review and adopt an investment policy for the investment of public funds in conformance with applicable statutes and shall advise the treasurer of such policies.”*

# *Concord Investment and Cash Management Policy*

- Annual adoption of investment policy
- Number and types of accounts
- Authorized investments
- Selection of Depository Institutions
  - RFP process
  - Extensions
  - Negotiations

# *Concord Investment and Cash Management Policy*

- Investment guidelines
- Competitive bidding process
- Use of local institutions
- Collateral process
- Cash flow projections
- “Positive Pay” Services

# *Final Words of Wisdom*

*“Never invest in a product you don’t understand.”*

FDIC

*“If you can’t explain it simply, you don’t understand it well enough.”*

Albert Einstein

*??Questions??*

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# *Thank You for Attending Today's Webinar!*

- **NHMA:** The Service and Action Arm of New Hampshire Municipalities
- **Our Mission:** The New Hampshire Municipal Association is a non-profit, non-partisan association working to strengthen New Hampshire cities and towns and their ability to serve the public as a member-funded, member-governed and member-driven association since 1941. We serve as a resource for information, education and legal services. NHMA is a strong, clear voice advocating for New Hampshire municipal interests.

- **Contact Us:**

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