LEGISLATIVE, FINANCE, AND ADMINISTRATION COMMITTEE

The Legislative, Finance, and Administration Committee meeting was held on August 25, 2014, at 6:13 p.m. with Chairman Slavin presiding. Members present were Mr. Anderson, Mr. Shevock, and Mr. Sudler. Mr. Hare was absent. Members of Council present were Mr. Dixon, Mrs. Williams (arrived at 6:57 p.m.), Mr. Hutchison, and Council President Bonar. Mayor Christiansen was also present.

AGENDA ADDITIONS/DELETIONS

Mr. Sudler moved for approval of the agenda as presented, seconded by Mr. Anderson and unanimously carried.

Proposed Financial Reforms - Restrictions on Use of Appropriations

During the Committee meeting of June 23, 2014, Mr. Slavin advised members that during the June 11, 2014 Special City Council Meeting - Budget Review he proposed a series of 14 financial reforms to be addressed over the next six (6) to nine (9) months that would assist in shaping the City's Budget for FY 2015/2016. He stated that the proposed reforms were clustered into four (4) separate areas, as follows: 1) public safety; 2) compensation policies; 3) property tax governance; and 4) restrictions on uses of appropriations. He requested that members consider the public safety area first and that staff be requested to review the reforms, develop recommendations, and provide information on any financial gap that may result. He explained that the review would allow members to identify whether there was a need to create policy, ordinances, or Charter changes to implement any changes that may result from those discussions.

Mr. Slavin reviewed the four (4) proposed restrictions on uses of appropriations, as follows: 1) Funds appropriated for personnel expenses shall be restricted to use as personnel expenses; 2) Funds appropriated as capital expenses shall be restricted to use as capital expenses; 3) Funds appropriated as operating expenses shall be restricted to use as operating expenses; and 4) All requests for additional personnel shall be accompanied with a five-year estimate on the costs of such position, including salaries and other employment costs (OECs).

Referring to a memo from Mr. Scott Koenig, City Manager, dated August 20, 2014, outlining his comments regarding the proposals related to restrictions on use of appropriations, Mrs. Donna Mitchell, Controller/Treasurer, noted that the City of Dover was currently following the first three (3) proposals. However, she stated that one (1) example of an exception was when Council approved use of salary savings to increase the demolition budget. Mrs. Mitchell also noted that Mr. Koenig had no objections to the proposal that all requests for additional personnel shall be accompanied with a five-year estimate on the costs of such position, including salaries and OECs.

Referring to her memo dated August 20, 2014, Mrs. Mitchell stated that the City's current Purchasing Policy and Budget Administration - Guidelines for Operating Departments outline where change orders are permitted. She explained that the Purchasing Policy pertains to project budgets and only allows for change orders within the approved budget for the project. If requested change orders are outside the project budget, the request must be approved by City Council.

Mrs. Mitchell stated that the Budget Administration - Guidelines for Operating Departments outline the procedure for internal budget amendments. She noted that this procedure was originally developed by Councilman Robert Ritter based on a procedure used by Kent County Levy Court staff. Mrs. Mitchell stated that the procedure had been modified since its inception, and that in September 2013 she added language stating that "this procedure is not intended to adjust line items for normal operating cost overages, less than $500;" however, she was planning to revise the procedure to remove this language to ensure that staff is proactive in monitoring the budget. She stated that departments have leeway to move money between 20 and 30 series budget line items, so the system is currently set up with a "flag" that allows staff to override the budget when entering a requisition or purchase order. As a consequence, the Finance Department has to monitor overrides to ensure they are within the policy guidelines and follow up to request that budget amendment forms are completed. Mrs. Mitchell explained that she recently tested the system and found that the "flag" could not be set for certain accounts or within a certain range but could only be turned on or off for everything, so she has decided to amend the procedure and turn the "flag" off.

Responding to Mr. Slavin in regard to how to handle salary savings, Mrs. Mitchell reminded members that the City had changed the accounting method for pension allocations. She stated that the City has an Annual Required Contribution (ARC) for its pension liability, and a percentage of payroll is allocated to meet this budgeted pension expense. However, the amount of funds allocated as a percentage of payroll can be affected by attrition; therefore, the funds that come in may not meet the budgeted expense. For this reason, Mrs. Mitchell suggested that any salary savings go toward pension and Other Post-Employment Benefit (OPEB) liabilities.

Mr. Koenig stated that if there were salary savings available and a specific need to address, like the recent demolition budget, he would propose that the matter be presented to City Council to allow members to vote on whether they wanted these savings to go to the unfunded liabilities or be directed to the project.

Mr. Slavin questioned whether each of the four (4) proposals would be at the policy level, noting that City Council has the freedom to override the policies. Responding, Mr. Koenig confirmed that these four (4) proposals would be at the policy level; however, if staff was struggling with something with respect to the policy, the matter would be brought before City Council.

Mr. Sudler questioned whether staff forecasted a huge amount of salary savings with future projects. Responding, Mr. Koenig confirmed that there would only be salary savings if a position were to become vacant and remain unfilled for a certain amount of time, or if staff planned to hire an employee for a full year and was not able to immediately fill the position. He stated that staff tries to budget appropriately for all open and new positions. He reminded members that the budget for retirements was moved from individual departments into a pool, and if there were more retirements than staff anticipated, it could overwhelm that pool. Mr. Koenig stated that staff does not over budget for salaries, and expressed his belief that they have budgeting for salaries down to a science.

Mr. Anderson moved to recommend approval of the proposed financial reforms related to Restrictions on Use of Appropriations, seconded by Mr. Sudler and unanimously carried.

Annual Investment Policy Review

In accordance with Section 14 of the City of Dover Investment Policy, the City Investment Policy is reviewed by the Committee at least once every year and any amendments require the approval of City Council.

Mrs. Mitchell, Controller/Treasurer, advised members that the policy was reviewed by staff and the City's Investment Advisor (Public Financial Management) to determine if any changes were necessary. She reviewed the three (3) revisions recommended by the City's Investment Advisor.

Mrs. Mitchell stated that the reason for the Investment Advisor's recommended change to Section 8.2, Government Agency Securities, was to give the City more diversification. She explained that, currently, the federal government is buying back their own securities in an attempt to keep the market from going volatile, but without these securities, the market is limited. Mrs. Mitchell stated that this proposed change is not for return reasons, it is only to provide the instruments to invest in and diversify the City's portfolio.

Referring to Section 8.4.5, Corporate bonds and debentures, Mrs. Mitchell explained that the Investment Advisor recommended lowering the AA rating to A- by Standard and Poor's or A3 by Moody's. She stated that A- was still investment grade, and the Investment Advisor wanted to maintain investment grade but also be able to get additional high-quality corporate issuers on their approval list. Mrs. Mitchell stated that, for the same reasons, the Investment Advisor also recommended changes to Section 8.8, Municipal Obligations, which would lower the A rating by Standard and Poor's to A- or A to A3 by Moody's.

Staff recommended approval of the submitted changes to the City's Investment Policy.

Mr. Anderson expressed his concern that once the City gets to the bottom level of investment grade, the City could be subject to the volatility of downgrades, noting that an A would get downgraded to A- and staff would still have time to look it over. He questioned if staff had any concern regarding the potential of a downgrade from an A-.

Responding, Mrs. Mitchell stated that this did not cause her any concern because most of these instruments are governmental instruments and she did not foresee a lot of downgrades occurring. However, she agreed that this could happen and that if members had this concern, she did not have a problem with keeping it at A and suggested the possibility of capping the whole policy at A instead of A-.

In response to Mr. Anderson, Mrs. Mitchell clarified that the Moody's rating would be capped at A2.

Mr. Anderson questioned if this change would create any issues with the strategy the Investment Advisor was trying to implement. Responding, Mrs. Mitchell explained that the Investment Advisor would still have the same strategy, but there may be a more limited market available. She expressed her opinion that there was not a large difference between A and A-, or A3 and A2.

Mr. Anderson stated his belief that the instruments would still allow the City to diversify with World Bank, European and African development, etc.

Mrs. Mitchell confirmed Mr. Anderson's statement and noted that she had inquired about getting involved with "bad countries," not knowing if there would be some sentiment about who the instruments are held by, and reported that this would not be a problem.

Mr. Anderson moved to recommend amending the submitted changes to the City of Dover Investment Policy by changing the A- rating to A and the A3 rating to A2, seconded by Mr. Sudler and unanimously carried.

Mr. Anderson moved to recommend approval of the City of Dover Investment Policy, with the proposed Legislative, Finance, and Administration Committee amendments *(Attachment #1)*, seconded by Mr. Sudler and unanimously carried.

Discussion - Responsibilities and Reporting Structure for the Mayor and City Manager and Continuation of Full-Time Status for the Position of Mayor

During the Legislative, Finance, and Administration Committee meeting of May 12, 2014, members deferred further discussion of this item until after the 2014 Special Mayoral Election.

Mr. Hutchison reminded members that he served 25 years with the City of Dover Police Department, with five (5) years (1988 to 1992) as Chief of Police, and also served as the City's Mayor from 1994 to 2004. He stated that when he joined the Police Department in 1967, the population of the City of Dover was approximately 12,000 and the Police Department had a total of 24 officers; when he retired in 1992 there were 80 officers, and today there are 93 officers. He stated his observation that the things that had changed the most since he left the Police Department were: 1) the budget, 2) salaries and benefits, and 3) costs. Mr. Hutchison noted that the cost to maintain the Police Department is more than $13M annually and that the total taxes collected by the City of Dover do not cover the total cost of the Police Department. He stated that he believes labor negotiations, contracts, and the complexity of operations have changed the most. Mr. Hutchison expressed his opinion that the City of Dover has the finest Police Department in the State of Delaware, and he was very proud of the Department's operations.

Mr. Hutchison stated that the complexity of the City and the demands placed on the overall operation are increasing, which makes it difficult to maintain and control the City's total operations and costs. He reminded members that the City has a Council-City Manager form of government; however, based on the changes to and the complexity of the current City government, he strongly recommended that members consider changing to a strong City Manager form of government. Mr. Hutchison stated that the city manager proposes the budget and works with the controller/treasurer, mayor, and Council to get the budget approved; however, he noted that the Police Department has the biggest departmental operating budget in City and, currently, the city manager has absolutely no control over the Police Department. Likewise, there are a couple of other

departments that the city manager has no control over; yet, the city manager is held totally responsible for the budget. Mr. Hutchison expressed his opinion that there is a need to change the organizational structure to provide the city manager with more control, so that the City can move forward with better controls in place and better accountability when it comes to financial matters.

Referring to the recent concern regarding the hiring of a new assistant city manager, Mr. Sudler questioned if overseeing the Police Department would overwhelm the City Manager's Office. Responding, Mr. Hutchison stated that it absolutely would not.

Mr. Anderson reminded members that when this matter was previously discussed in 1995, he was representing a public organization and recommended that this issue be placed on the City ballot for a non-binding referendum. He stated that the referendum results at that time indicated that the residents wanted a full-time mayor, and expressed his belief that the recent Special Mayoral Election reaffirmed the desire of the residents. Mr. Anderson stated that the City could definitely make some budgetary adjustments and improvements but that there is a value to having certain issues dealt with by an elected official, especially those issues that affect people most directly, such as the police.

Mayor Christiansen stated that there was no one in the Council Chamber that he had greater respect for than his friend, Mr. Hutchison, who had performed many services for the City of Dover; however, he respectfully disagreed with Mr. Hutchison's comments. Mayor Christiansen reminded members that the City of Dover has a full-time mayor as part of a consent decree with the National Association for the Advancement of Colored People (NAACP). Noting that he served as Council President at the time that the consent decree was developed, he stated that Council was remiss in not assigning the mayor any specific responsibilities in the Code or Charter, other than control of the Police Department because Mayor Hutchison was well aware of the responsibilities of the office.

Mayor Christiansen stated that he was not "ballyhooing" for a job for himself, noting his interest in serving as mayor whether the position was full-time or part-time, but stressed that it was important and incumbent upon Council to continue the full-time position since Dover is a full-time City. Concurring with Mr. Anderson, Mayor Christiansen stated that during the most recent Special Mayoral Election, the citizens of the City reaffirmed this in that all five (5) candidates felt that the City of Dover needs a full-time mayor.

Mayor Christiansen stated that, as outlined in the Charter, the mayor is the conservator of the peace, and it is important that he/she remain responsible for the public safety and well-being of the citizens of Dover, particularly during times of natural and civil emergencies. He expressed the importance of this responsibility being in the hands of an elected official.

Mayor Christiansen stated that the current city manager does an outstanding job. He explained that he had worked with Mr. Scott Koenig, City Manager, for the past two (2) month, consulting on a daily basis regarding issues that are affecting the City, citizens, and employees, and suggested that one (1) of the formal responsibilities of the mayor should be to continue that interaction on a regular

basis. Mayor Christiansen expressed his opinion that a reduction of the mayor's position and diminishing his/her responsibilities would be a step back into the past. He stated that Dover is a growing City and needs a mayor who will have the opportunity to lead the City in its growth and the field of economic development on a full-time basis.

Mayor Christiansen stated his opinion that the mayor should have fiscal responsibility by helping to prepare the Police Department's budget and the overall City budget, as well as accountability when the budget is presented to Council.

Mr. Hutchison stated that he did not think the City should do away with a full-time mayor because the full-time mayor has a tremendous amount of duties and responsibilities to the citizens of Dover. He explained that his recommendation would be to redefine the organizational structure to give the city manager more responsibility over the day-to-day operations of the City.

Referring to the consent decree mentioned by Mayor Christiansen, Mr. Hutchison noted that the City of Dover is a completely different place today, and expressed his opinion that it may be the appropriate time to revisit the consent decree to determine if there is a consensus for change. He stated that he preferred when the mayor presided over Council, noting that it may serve the citizens of Dover to bring the mayor and Council back together, instead of continuing with the current separation.

Mayor Christiansen reminded members that when the mayor presided over Council there were different personalities in office and, at the time, it worked; however, it was now the mayor's responsibility to be chief executive of the City and not part of the legislative process. Mayor Christiansen expressed his opinion that it would be detrimental to allow the mayor to return to the Council Chamber to participate as part of the legislative body, because it would place the mayor's veto in danger, which is one (1) of the safeguards provided to protect the public against actions that may not be in the best interest of the City. Mayor Christiansen stated that it was the responsibility of the legislative body to legislate and appropriate, and it should be the responsibility of the mayor, as chief executive of the City, to assist the city manager and City staff in the daily operations of the City.

Council President Bonar reminded members that he served as a member of City Council in 1982 when it was decided to take the vote away from mayor because of strong personalities. He stated that the City has changed dramatically since that time and, after serving as mayor for a very brief time, he has a better understanding of the day-to-day operations of the City. He explained that the mayor's responsibilities do not only include attending ribbon cuttings and community meetings, but also attending appropriations' discussions at the Delaware Emergency Management Agency (DEMA), fighting and lobbying on behalf of the City to get funds from the General Assembly and various other fund giving organizations, etc. Mr. Bonar stated that although the city manager and various department heads oversee the City on a daily basis, he expressed his opinion that Council needs to develop a job description for the mayor and include it in the City's Code, so everyone understands what the responsibilities entail.

Mr. Bonar stated that it is imperative for the mayor to attend committee and community meetings in order to listen to the input provided as well as provide input. He explained that one (1) of the reasons he appointed the Ad Hoc Financial and Operational Advisory Committee was to study the structure of the City, in order to determine whether or not the City needs to reorganize and make recommendations for consideration by the Legislative, Finance, and Administration Committee.

Mr. Bonar expressed his opinion that an assistant city manager is necessary because the city manager is overwhelmed. He also stated his belief that the responsibilities of the mayor's position would not permit the City to ever reduce the position to part-time.

Mr. Anderson stated that Mr. Hutchison brought up valuable points of discussion. He noted that members previously discussed possible reforms regarding the appointment and confirmation of the chief of police and suggested that the Committee discuss that matter as well. Mr. Anderson stated that there would be value in looking at legislative descriptions and indicated that the Committee should solicit ideas from the current and former mayors and other people in the City.

Mr. Dixon concurred with Council President Bonar's comments, and expressed his opinion that the City should not get rid of the mayor, noting that it was the mayor's responsibility to ensure the safety and peace of the public, and that the mayor is the first person that citizens want to talk to.

Mr. Sudler thanked the City Clerk's Office for providing members with a complete history on this topic. Noting that former City Manager Anthony DePrima had indicated during a previous Council meeting that there was a job description for the mayor, Mr. Sudler inquired, if a job description for the mayor existed or was developed, how the mayor's work would be appraised.

Responding to Mr. Sudler, Mayor Christiansen reiterated that the former Council was remiss in not developing a job description for the mayor because Mayor Hutchison knew what was expected of the position; however, he stated that the City does need to develop specific responsibilities and benchmarks for the mayor to perform to, including bringing jobs to the City through economic development and acting as the conservator of the peace, ambassador and lobbyist. He stated that the public would judge whether the specific duties are fulfilled.

Mr. Wayne Holden, 333 Pennsylvania Avenue, reminded members that he was appointed to serve on the Ad Hoc Financial and Operational Advisory Committee during the Regular Council meeting of November 12, 2013 and was subsequently nominated to serve as Chairman of the Ad Hoc Committee. He stated that the Committee was created to advise City Council as a whole on operations, financial issues, and the organizational structure within the City of Dover. He stated that the Committee was still working and that it may take the balance of this year to look at all of the various aspects.

Mr. Holden advised members that during the first and second Ad Hoc Committee meetings, members discussed the organizational structure of the City and the fact that the City has a strong mayor type of organization. Mr. Holden stated that the organizational structure of the City of Dover reminded him of the Tammany Hall scandal in New York City and related New York Times

caricatures which serve as a classic historical point for the importance of ensuring control and accountability within municipal government. He stated that this type of problem could be prevented if every division of government was accountable to a specific individual who has the knowledge, background, and tenacity to work with the employees and departments to hold them responsible in regard to financial matters as well as the quality of work. Mr. Holden expressed his opinion that the city manager should serve in this capacity for the City of Dover, and noted that members of the Ad Hoc Committee had commended City Manager Koenig for the quality of his work.

Mr. Holden indicated that over time, City Council had gradually taken responsibility from the city manager and placed the accountability elsewhere. For example, Mr. Holden expressed concern that the Finance Department was asked to respond directly to City Council, as opposed to the city manager. He stated that a council is supposed to be a body that sets policy, determines direction, and chooses focus, but does not become involved in the execution of the process to make those things happen because that is the job of the city manager.

Mr. Holden reminded members that responsibility for the Police Department was shifted to the mayor during Crawford Carroll's tenure, when there were less than 30 officers. With more than 90 officers today, he expressed his opinion that the Police Department should be accountable and respond to the city manager. He stated that this was made apparent by the recent experience when the City had to pay more than $300,000 to resolve an error created by former Mayor Carleton Carey, who was not a professional negotiator or used to working with the unions or employees on a regular basis, but was in charge of the Police Department. Mr. Holden stated it is not possible to have overlapping areas of responsibility and expect to have an efficient organization.

Mr. Slavin observed that there appeared to be more that unites than separates members on this issue. He expressed concern regarding how to proceed in order to get to an actionable proposal that City Council could consider. Mr. Slavin suggested that this item be deferred until the Committee's meeting of September 8, 2014.

Mr. Sudler moved to defer further discussion of this item until the Committee meeting of September 8, 2014, seconded by Mr. Shevock.

Mr. Anderson stated that he would not be voting in favor of this motion because he did not believe anything would change between this meeting and the next. He expressed his preference to wait for the recommendations of the Ad Hoc Financial and Operational Advisory Committee.

The motion to defer further discussion of this item until the Committee meeting of September 8, 2014 carried by a vote of three (3) yes (Slavin, Shevock, and Sudler), and one (1) no (Anderson).

Review of New Ordinance/Ordinance Amendment Process

Due to time constraints, Mr. Shevock moved to defer the discussion regarding Review of New Ordinance/Ordinance Amendment Process until the Committee meeting of September 8, 2014, seconded by Mr. Anderson and unanimously carried.

Mr. Shevock moved for adjournment, seconded by Mr. Sudler and unanimously carried.

Meeting adjourned at 7:02 p.m.

Timothy A. Slavin
Chairman

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Attachment
Attachment #1 - City of Dover Investment Policy, with the proposed Legislative, Finance, and Administration Committee amendments

City of Dover, DE

Investment Policy Statement

Dated ~~August 12, 2013~~ *

(INVESTMENT ADVISOR AMENDMENTS INDICATED IN BLUE, BOLD FONT)
(PROPOSED LF&A COMMITTEE AMENDMENTS INDICATED IN BOLD, GREEN FONT)

1.0 Governing Authority

It is the policy of the City of Dover to invest public funds under its control in a manner that will provide the highest investment return consistent with the maximum safety of principal, while meeting cash flow needs of the City. The investment program shall conform to all state and local statutes governing the investment of public funds.

2.0 Scope

This Investment Policy Statement (the "Policy") applies to all financial assets of the City of Dover for which the City retains direct or indirect daily control. Funds for which the City has retained outside fund manager(s) shall also be governed by this Policy or, in the case of bond proceeds, related governing bond documents.

2.1 Accounts

2.1.1 Cash and Liquidity Accounts: The majority of the City's cash balance available for investment is maintained in the cash and liquidity accounts. These accounts will be managed and invested by investment managers, selected by the City Council through competitive bid, in order to maximize the return to the City while, at the same time, providing for safety of principal and sufficient liquidity for the City to meet its cash needs. The City will manage its short-term investments to ensure sufficient liquidity and prevent their premature sale for the purpose of covering expenditures. Short-term investments should mature at face value in sufficient amounts to meet any liquidity needs.

2.1.2 Reserve Cash (Intermediate) Account: To the extent cash is not expected to be needed on short notice, the City shall invest such funds in the Reserve Cash Account. This fund shall be managed and invested by an investment manager or managers**,** selected by the City Council after a competitive bid, in order to maximize the return on said money to the City while providing for the safety of principal.

All of the City of Dover's funds are accounted for in its Comprehensive Annual Financial Report. Those funds to which this Policy applies include (excluding the Deferred Compensation Plan and Pension Trusts):

2.2 Funds

2.2.1 General Fund
2.2.2 Capital Project Funds
2.2.3 Special Revenue Funds
2.2.4 Enterprise Funds
2.2.5 Internal Service Funds
2.2.6 Any new fund created by the City Council, unless specifically exempted

3.0 Objectives

The primary objectives of the City of Dover's investment activities, in order of importance

shall be:

3.1 Safety

Preservation of principal is the foremost objective of the investment program. To attain this objective, funds shall be diversified among securities of high credit quality and liquidity, so that risk of loss of principal is minimized.

3.2 Liquidity

The City's investments shall be made for such periods as to enable the City to meet all operating requirements that may be scheduled or reasonably anticipated.

3.3 Return on Investments

A goal of the investment program shall be to maximize investment return within the constraints of Sections 3.1 and 3.2.

4.0 Delegation of Authority

Authority to manage the City of Dover's investment program is derived from this Policy, which is approved by City Council, and "Dover Code, PART I, Subpart A, Article II, Section 17" (attachment B) which states in part that "The Controller/Treasurer shall be the custodian of all of the City funds."

The City's Controller/Treasurer shall:

1) Review the this Policy annually and recommend changes, if any, to City Council;
2) Be charged with implementing the Policy, and may delegate authority to make investments to an investment advisor. The Controller/Treasurer shall be responsible for all investment transactions and shall establish controls to regulate the activities of the investment advisor, if any.
3) Ensure that records of the City's investment activities are kept for ten-years.

5.0 Prudence, Ethics and Conflicts of Interest

Any official of the City or investment advisor/manager empowered to make investments on behalf of the City of Dover shall comply with the following:

5.1 "Prudent Person" Rule

Investment decisions shall be made with the judgment and care which persons of reasonable intelligence, under circumstances prevailing at the time the investment is made, would exercise in the management of their own investments assuming that their objectives are those shown in Section 3.0 of this policy.

5.2 Ethics and Conflict of Interest

The delegate authorized to make City investments shall act at all times in an ethical manner, and shall not engage in activity that could impair or be perceived to impair their ability to make impartial investment decisions. They shall disclose to the Mayor and City Council any material interests in financial institutions with which

the City has financial dealings, and which may be related to the performance of the investment program. Employees and officers shall refrain from undertaking personal investment transactions with the same individual(s) with whom business is conducted on behalf of the City.

6.0 Authorized Institutions and Dealers

All broker/dealers that desire to become qualified for investment transactions with the City shall meet the following:

1. Primary dealers and regional dealers that qualify under Securities and Exchange Commission Rule 15C3-1 (uniform net capital rule)
2. Capital of at least $25,000,000 or capital of $5,000,000 for firms incorporated in the State of Delaware
3. Registered as a dealer under the Securities Exchange Act of 1934
4. Member of the Financial Industry Regulatory Authority (FINRA)
5. Registered to sell securities in the State of Delaware
6. Engaged in the business of effecting transactions in U.S. government, federal agency, and corporate securities for at least five (5) consecutive years

To the extent the City utilizes the services of an outside Investment Advisor, it shall be the responsibility of the Investment Advisor to maintain an approved list of brokers.

7.0 Safekeeping and Custody

To ensure that securities are deposited in an eligible financial institution prior to the release of funds, all trades of marketable securities will be executed by delivery vs. payment ("DVP").

Further, all securities will be held by an independent third-party custodian, in the name of the City, and evidenced by safekeeping receipts in the City's name. The custodian shall provide daily confirmation of held securities as well as a monthly transactions and holdings report.

8.0 Authorized Investments and Trading of Securities

The Controller/Treasurer or authorized delegate may invest only in the types of securities listed below. The maximum stated maturity of any security shall be limited to 10 years at time of purchase, unless otherwise stated. For Agency mortgage backed securities, the maximum maturity shall be defined as the weighted average life ("WAL"). WAL is a convention that estimates the expected weighted amount of time, in years, for the principal amount of an issue to be fully paid. For this sector, WAL shall be limited to 10 years, measured at the original purchase date, provided by Bloomberg Financial Markets.

8.1 United States Government Securities

Marketable securities issued by the U.S. Government and supported by the full faith and credit of the U. S. Treasury either by statue or an opinion of the attorney general of the United States. Up to 100% of the portfolio may be invested in this

sector.

8.2 Government Agency Securities

Debt securities issued by government-sponsored enterprises ("GSE"), federal agencies, ~~and~~ federal financing banks**, and instrumentalities of the U.S. Government**. Up to 100% of the portfolio may be invested in this sector.

8.3 Certificates of Deposit and Time Deposits

8.3.1 Domestic Institutions: Issued or endorsed by a domestic bank, or a savings and loan association, organized and supervised under the laws of the United States and denominated in U.S. dollars; provided, however, that deposits are fully insured or guaranteed by the Federal Deposit Insurance Corporation ("FDIC").

If not insured by the FDIC:

- The banking institution must have assets of not less than $5 billion; and
- Issuers must have a short-term rating of A-1 by Standard & Poor's and P1 by Moody's and a long-term rating of AA by Standard & Poor's or Aa by Moody's.

The maximum stated maturity of any investment in this sector shall be limited to 5 years at time of purchase. This sector shall not exceed 25% of the total portfolio. No single issuer shall exceed 5% of the City's portfolio.

8.3.2 Delaware-Domiciled Institutions: Issued by or endorsed by any bank or savings association domiciled in the State of Delaware and organized and supervised under federal or State of Delaware banking laws which does not meet the requirements of Section 8.3.1 hereto; provided, however, that:

- For each of the latest two years, the bank or association has had a return on total average assets of 0.50% or greater and an average capital ratio (defined as total equity capital to total assets) of at least 1 to 20, or the instrument is secured as set forth in Section 9, "Collateralization of City Deposits," hereto; and
- Not more than the lesser of $10 million or 25% of an issuer's total equity capital, may be invested in any one issuer. (Investments due to mature in one business day may be excluded from the computation of this percentage.)
- The Board expressly affirms that, consistent with these guidelines, Delaware banks and savings associations should be considered as a source of investment.
- The maximum stated maturity of any investment in this sector shall be limited to 5 years at time of purchase. This sector shall not exceed 20% of the total portfolio. No single issuer shall exceed 5% of the City's portfolio.

8.4 Corporate Debt Instruments

Such instruments include commercial paper bankers' acceptances, and non-convertible senior debt securities (bonds and debentures).

8.4.1 Corporate securities must be denominated/issued in US dollars. Many foreign corporations issue debt/securities in the US market, in US dollars.

8.4.2 No single issuer shall exceed 5% of the City's portfolio.

8.4.3 Commercial Paper shall be limited to a final stated maturity of 270 days. This sector shall not exceed 25% of the total portfolio. Issuers shall be rated at least A-1 by Standard & Poor's and P-1 by Moody's.

8.4.4. Bankers' Acceptances shall be limited to a final maturity of 365 days. This sector shall not exceed 25% of the City's Portfolio. Issuers shall be rated at least A-1 by Standard & Poor's and P1 by Moody's.

8.4.5 Corporate bonds and debentures shall be limited to a final stated maturity of 5 years. This sector shall not exceed 50% of the total portfolio. Issuers shall hold a long-term rating of at least ~~AA~~ **A- A** by S&P or ~~Aa~~ **A3 A2** by Moody's.

8.5 Repurchase Agreements

The underlying collateral shall consist of U.S. government and/or GSE securities provided, however, that:

8.5.1 All repurchase agreements must be governed by a written master repurchase agreement;

8.5.2 Agreements will be entered into only with respect to underlying securities in which the investment manager may otherwise invest as described above, and only with a recognized U.S. Government/broker or a bank which meets the requirements set out under paragraph Section 8.3.1 or 8.3.2 above;

8.5.3 In the case of repurchase collateral held in book-entry form in the Federal Reserve System, all deliveries of securities must be made, for the transfer thereof, through the Federal Reserve book-entry system to the account designated by the investment manager for such purpose. Securities held in certificated form must be delivered to the investment manager or a custodian as directed by the investment manager.

8.5.4 Any collateral employed under this paragraph shall be counted towards the applicable maximum limits set forth within these guidelines for such type of investment, and such collateral shall be valued at market at not less than 103 percent of the maturity value of the agreement and marked-to-the-market as requested by the investment manager.

8.5.5 Repurchase agreements shall be limited to a maximum maturity of 90 days from date of purchase. No single issuer shall exceed 25% of the City's portfolio.

8.6 Registered Investment Companies (Money Market Funds)

No single fund shall exceed 25% of the City's portfolio. Money market funds

shall be rated AAAm by Standard & Poor's. A current prospectus must be obtained before investing in any money market fund, and current holdings reports must be maintained at least each month.

8.7 Mortgage-Backed Securities

Mortgage-backed securities issued by the following: Government National Mortgage Association (GNMA), Federal National Mortgage Association (FNMA) or Federal Home Loan Mortgage Association (FHLMC). This sector shall not exceed 50% of the total portfolio.

8.8 Municipal Obligations

Taxable and tax-exempt securities issued by state and local governments and public authorities in the United States. The maximum stated maturity of any investment in this sector shall be limited to 5 years at time of purchase. This sector shall not exceed 30% of the City's portfolio. No single issuer shall exceed 5% of the City's portfolio. Issuers shall be rated at least "A-"**"A"** by Standard & Poor's ~~and~~ **or** "A**3**"**"A2"** by Moody's. Additionally Issuers in the short term market (under one year) shall be rated at a minimum of "mig-1" or "sp-1" for Moody's and S&P.

8.9 State of Delaware Investments Pool

8.9.1 Delaware Local Government Investment Pool (DELGIP) -The investment in this pool is permitted in relation to the City's cash flow and the guidelines set forth by the State of Delaware. The investment in this pool will not exceed 25% of the total funds available and will be monitored by the City's Finance Department on a monthly basis.

8.9.2 Delaware Local Government Retirement Investment Pool (DELRIP) The investment in this pool is permitted in relation to the City's Post-Retirement Benefits Fund. The investment in this pool will not exceed 25% of the total funds available and will be monitored by the City's Finance Department on a monthly basis.

8.10 Trading Securities

The Controller/Treasurer is hereby authorized to sell securities prior to their stated maturity date in the following circumstances:

1. A security with declining credit may be sold prior to its maturity to minimize loss of principal;
2. A security swap may be executed if it would improve the quality, yield, or target duration of the portfolio;
3. Securities may be sold to provide needed liquidity.

8.11 Internal Control on such transactions

8.11.1 An investment report will be provided to the Council on a quarterly basis.

8.11.2 All investment reporting documents will be provided to the independent auditors.

8.11.3 Investment records will be kept by the City for ten (10) years.

8.11.4 The trading shall not involve any hedge, derivatives and/or borrowing funds for trading purposes.

9.0 Collateralization of City Deposits

If the City deposits funds in any financial institution, those funds will be subject to the following collateralization requirements. The financial institution shall:

9.1 Collateralize the City's daily ledger balance(s) if, for any quarter during the most recent eight quarters the bank has not met both of the following two criteria:
- Return on total average assets of 0.50 percent or greater.
- Average capital ratio (total equity to total assets) of 5.00 percent or greater.

9.2 If either criterion in paragraph 9.1 is not satisfied collateral must be pledged and shall consist of one or more of the following securities:
- U.S. Government securities
- U.S. Government agency securities
- Federal Home Loan Board letters of credit
- State of Delaware securities
- Mortgaged backed securities as referenced in Section 8.7
- Securities of a political subdivision of the State of Delaware with a Moody's rating of "A" or better

9.3 Ensure that the securities pledged as collateral (except for Federal Home Loan Board letters of credit) have a market value equal to or greater than 102 percent of the ledger balance(s) in the account(s) marked to market each day.

9.4 Ensure that securities pledged as collateral are housed at the Federal Reserve Bank or a mutually agreed upon third party depository. (The trust department of the winning vendor will not be acceptable.)

9.5 Provide reports on a monthly basis to the City Finance Department detailing the collateral pledged.

9.6 Provide a Call Report (Consolidated Report of Condition and Income, FFIEC 031) on a quarterly basis to the City Finance Department.

10.0 Policy Considerations

If securities owned by the City are downgraded by either Standard & Poor's or Moody's to a level below the quality required by this Policy, it shall be the City's policy to review the credit situation and make a determination as to whether to sell or retain such securities in the portfolio.

If a security is downgraded two grades below the level required by the Policy, the security shall be sold immediately.

If a security is downgraded one grade below the level required by this Policy and matures

within 6 months, the security may be held to maturity. The Controller/Treasurer may determine to sell the security if it is determined that there is a probability of default prior to maturity.

If a decision is made to retain a downgraded security in the portfolio, its presence in the portfolio will be monitored and reported monthly to the Controller/Treasurer.

11.0 Internal Controls

The Treasurer is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the City are protected from loss, theft, or misuse. The Treasurer shall also establish a process for an annual independent review by an external auditor to assure compliance with policies and procedures. The internal controls shall address the following:

- Control of collusion
- Separation of transaction authority from accounting and recordkeeping
- Custodial safekeeping
- Prohibition of physical delivery securities
- Clear, written delegation of authority to subordinate staff members
- Written confirmation of transactions for investments and wire transfers

12.0 Performance Standards

The City of Dover's investment decisions shall be made with the objective of obtaining a rate of return commensurate with the investment risk constraints and the cash flow needs. On a quarterly basis, the Controller/Treasurer shall compare the City's portfolio against the

Merrill Lynch 0-5 Year U.S. Treasury Index, in terms of time-weighted total return and average duration for the period under review.

13.0 Reporting

At the end of each calendar quarter, the Controller/Treasurer will submit a report of all quarter-ending investments to the Mayor and City Council. Reports shall include the following:

- Listing of individual securities held as of last day of reporting period, sorted by sector
- Par, market, and amortized cost values of each security
- Coupon, current yield, and final stated maturity date of each security

14.0 Investment Policy Adoption

The City of Dover's investment policy will be adopted by the City Council after review and recommendation of the Legislative and Finance Committee. The policy will be reviewed at least once every year by the Legislative and Finance Committee, which is charged with considering the existing policy and any recommendations to modify the policy. Any modifications to the policy must be approved by the City Council.

(INVESTMENT ADVISOR AMENDMENTS INDICATED IN BLUE, BOLD FONT)
(PROPOSED LF&A COMMITTEE AMENDMENTS INDICATED IN BOLD, GREEN FONT)

LEGEND

1. Original approval by City Council - November 14, 1988
2. Revised policy approved by City Council - March 7, 2005
3. City Council Approved with No Changes – April 14, 2008
4. Revised policy approved by City Council – July 25, 2011
5. Revised policy approved by City Council – August 12, 2013
6. **Revised policy approved by City Council – ***

ATTACHMENT A

GLOSSARY

AGENCIES: Federal agency securities, otherwise known as "Government Sponsored Enterprises."

CERTIFICATE OF DEPOSIT (CD): A time deposit with a specific maturity evidenced by a certificate. Large denomination CD's are typically negotiable.

BANKERS ACCEPTANCE: A short-term credit investment which is created by a non-financial firm and whose payment is guaranteed by a bank.

COLLATERAL: Securities, evidence of deposit or other property which a borrower pledges to secure repayment of a loan. Also refers to securities pledged by a bank to secure deposits of public monies.

COMMERCIAL PAPER: An unsecured obligation issued by a corporation or bank to finance its short-term credit needs. Maturities typically range from one (1) to 270 days.

COMPREHENSIVE ANNUAL FINANCIAL REPORT (CAFR): The official annual report for the City of Dover. It includes five combined statements for each individual fund and account group prepared in conformity with GAAP. It also includes supporting schedules necessary to demonstrate compliance with finance-related legal and contractual provisions, extensive introductory material, and a detailed Statistical Section.

CORPORATE BONDS: A debt security issued by a corporation based in the United States of America. Such bonds usually have a par value of $1,000, have a term maturity, and are traded on a major exchange.

DEALER: A dealer, as opposed to a broker, acts as a principal in all transactions, buying and selling for his own account.

DIVERSIFICATION: Dividing investment funds among a variety of securities offering independent returns, in an attempt to limit risk.

FEDERAL CREDIT AGENCIES: Agencies of the Federal government set up to supply credit to various classes of institutions and individuals, e.g., S&L's, small business firms, students, farmers, farm cooperatives, and exporters.

FEDERAL DEPOSIT INSURANCE CORPORATION (FDIC): A federal agency that insures bank deposits, currently up to $250,000 per deposit.

FEDERAL FUNDS RATE: The rate of interest at which Fed funds are traded. This rate is currently pegged by the Federal Reserve through open-market operations.

FEDERAL HOME LOAN BANKS (FHLB): The institutions that regulate and lend to savings and loan associations. The Federal Home Loan Banks play a role analogous to that played by the Federal Reserve Banks vis-a-vis member commercial banks.

FEDERAL NATIONAL MORTGAGE ASSOCIATION (FNMA): FNMA, like GNMA was chartered under the Federal National Mortgage Association Act in 1938. FNMA is a federal corporation working under the auspices of the Department of Housing and Urban Development (HUD). It is the largest single provider of residential mortgage funds in the United States. Fannie Mae, as the corporation is called, is a private stockholder-owned corporation. The corporation's purchases include a variety of adjustable mortgages and second loans, in addition to fixed-rate mortgages. FNMA's securities are also highly liquid and are widely accepted.

FEDERAL RESERVE SYSTEM: The central bank of the United States created by Congress and consisting of a seven member Board of Governors in Washington, D.C., 12 regional banks and about 5,700 commercial banks that are members of the system.

GOVERNMENT NATIONAL MORTGAGE ASSOCIATION (GNMA or Ginnie Mae): Securities influencing the volume of bank credit guaranteed by GNMA and issued by mortgage bankers, commercial banks, savings and loan associations, and other institutions. Security holder is protected by full faith and credit of the U.S. Government. Ginnie Mae securities are backed by the FHA, VA or FMHM mortgages. The term "passthroughs" is often used to describe Ginnie Mae's.

LIQUIDITY: A liquid asset is one that can be converted easily and rapidly into cash without a substantial loss of value. In the money market, a security is said to be liquid if the spread between bid and asked prices is narrow and reasonable size can be done at those quotes.

LOCAL GOVERNMENT INVESTMENT POOL (LGIP): The aggregate of all funds from political subdivisions that are placed in the custody of the State Treasurer for investment and reinvestment.

MARKET VALUE: The price at which a security is trading and could presumable be purchased or sold.

MATURITY: The date upon which the principal or stated value of an investment becomes due and payable.

MORTGAGE-BACKED SECURITIES (MBS): An investment instrument that represents ownership of, and is backed by, an individual interest in a pool of mortgages such as those issued by Ginnie Mae or Freddie Mac. Principal and interest from the individual mortgages is used to

pay principal and interest on the MBS.

MUNICIPAL NOTES AND BONDS: Securities issued by a state, city, or local government to finance operations or special projects.

PRUDENT PERSON RULE: An investment standard. In some states the law requires that a fiduciary, such as a trustee, may invest money only in a list of securities selected by the custody state--the so-called legal list. In other states the trustee may invest in a security if it is one which would be bought by a prudent person of discretion and intelligence who is seeking a reasonable income and preservation of capital.

QUALIFIED PUBLIC DEPOSITORIES: A financial institution which does not claim exemption from the payment of any sales or compensating use or ad valorem taxes under the laws of this state, which has segregated for the benefit of the commission eligible collateral having a value of not less than its maximum liability and which has been approved by the Public Deposit Protection Commission to hold public deposits.

RATE OF RETURN: A measure of worth, either at security or aggregate portfolio level, over a period of time. There are many return conventions, including but not limited to yield to maturity at cost, yield to maturity at market, yield to worst, time weighted total return, dollar weighted total return.

REPURCHASE AGREEMENT (RP OR REPO): A holder of securities sells these securities to an investor with an agreement to repurchase them at a fixed price on a fixed date. The security "buyer" in effect lends the "seller" money for the period of the agree-ment, and the terms of the agreement are structured to compensate him for this. Dealers use RP extensively to finance their positions. Exception: When the Fed is said to be doing RP, it is lending money, that is, increasing bank reserves.

REVERSE REPURCHASE AGREEMENT: The purchase of a security by a dealer with the agreement to sell it back to the seller at a fixed price at a later date. Typically used by owners of securities to finance short-term needs without having to liquidate the security.

SAFEKEEPING: A service to customers rendered by banks for a fee whereby securities and valuables of all types and descriptions are held in the bank's vaults for protection.

TIME DEPOSITS: A savings account or CD held for a fixed term or with the understanding that the customer can withdraw only by giving advanced notice.

TREASURY BILLS: A short-term (less than one year) non-interest bearing discount security issued by the U.S. Treasury department to finance the national debt. Most bills are issued to

mature in three months, six months, or one year.

TREASURY BOND: Long-term U.S. Treasury securities having initial maturities of more than 10 years.

TREASURY NOTES: A non-interest bearing discount security issued by the U.S. Treasury to finance the national debt. Most bills are issued to mature in three months, six months or one year.

UNIFORM NET CAPITAL RULE: Securities and Exchange Commission requirement that member firms as well as nonmember broker-dealers in securities maintain a maximum ratio of indebtedness to liquid capital of 15 to 1: also called net capital rule and net capital ratio.

Indebtedness covers all money owed to a firm, including margin loans and commitments to purchase securities, one reason new public issues are spread among members of underwriting syndicates. Liquid capital includes cash and assets easily converted into cash.

VARIABLE RATE MASTER DEMAND NOTES: A floating rate security with initial maturities and indexed rates chosen by the investor. The interest rate is adjusted periodically, usually off a standard such as that prevailing on a Treasury Bill or the prime interest rate.

YIELD: The rate of annual income return on an investment, expressed as a percentage.

INCOME YIELD is obtained by dividing the current dollar income by the current market price for the security.

NET YIELD or YIELD TO MATURITY is the current income yield minus any premium above par or plus any discount from par in purchase price, with the adjustment spread over the period from the date of purchase to the date of maturity of the bond.

ATTACHMENT B

Dover, Delaware, Code of Ordinances >> PART I - CHARTER AND RELATED LAWS

PART I - CHARTER AND RELATED LAWS [1]

Subpart A - CHARTER

PREAMBLE [3]

We the people of the City of Dover, under the constitution and laws of the state of Delaware, in order to secure the benefits of local self-government and to provide for an honest and accountable council-manager government, do hereby adopt this charter and confer upon the city the following powers, subject to the following restrictions, and prescribed by the following procedures and governmental structure. By this action, we secure the benefits of home rule and affirm the values of representative democracy, professional management, strong political leadership, citizen participation, and regional cooperation.

ARTICLE I. - POWERS OF THE CITY

ARTICLE II. - MAYOR AND COUNCIL

Sec. 17. - Controller/treasurer.

At the annual meeting the council shall elect a controller/treasurer to hold office until the next annual meeting of the council, or until his/her successor has been duly chosen and qualified, but subject to removal at any time by the council.

The controller/treasurer shall be the custodian of all the city funds and shall deposit them in a banking institution designated by the council.

(Amd. of 7-12-2005 (S.B. 126); Amd. of 7-8-2009 (S.B. 165, § 15))