

# Ann Arbor DDA

Investment Policy

# Statutory Requirements

## INVESTMENT OF SURPLUS FUNDS OF POLITICAL SUBDIVISIONS Act 20 of 1943

### Sections 2, 3, 4, 5, 6,8, 10

Sec. 5. (1) Not more than 180 days after the end of a public corporation's first fiscal year that ends after the effective date of the amendatory act that repealed section 2, a governing body, in consultation with the investment officer, shall adopt an investment policy that, at a minimum, includes all of the following:

- (a) A statement of the purpose, scope, and objectives of the policy, including safety, diversification, liquidity, and return on investment.
- (b) A delegation of authority to make investments.
- (c) A list of authorized investment instruments. If the policy authorizes an investment in mutual funds, it shall indicate whether the authorization is limited to securities whose intention is to maintain a net asset value of \$1.00 per share or also includes securities whose net asset value per share may fluctuate on a periodic basis.
- (d) A statement concerning safekeeping, custody, and prudence.

### Section 8

(2) Except as provided in subsection (5), a public corporation that invests its funds under subsection (1) shall not deposit or invest the funds in a financial institution that is not eligible to be a depository of funds belonging to this state under a law or rule of this state or the United States.

### Section 5

(c) "Investment officer" means the treasurer or other person designated by statute or charter of a public corporation to act as the investment officer. In the absence of a statutory or charter designation, the governing body of a public corporation shall designate the investment officer.

# City Policy

Component  
Unit

Additional  
Restrictions &  
Enhancements

Review

Investment Type	Maximum % Overall Portfolio	Maximum % Individual Securities	Maximum Maturities
U.S. Treasury Obligations	100%		15 yrs
Federal Agency Securities	10%		
Federal Instrumentality Securities	65%	30%	10 yrs
Time Certificates of Deposit	10%	Insured Limit	5 yrs
Prime Commercial Paper	25%	5%	270 days
Repurchase Agreements	100%		10 yrs
State of Michigan/Political Subdivision Obligations	10%	5%	10 yrs
Money Market Mutual Funds	30%		
Joint Interlocal Investment Ventures	100%		
Investment Pools	10%		
Local Government Investment Pools	10%		

# Going Forward



Submitting policy  
for accreditation  
with Association of  
Public Treasurers  
of the United  
States and Canada



Investment  
Procedure  
Manual



Maintaining  
investments  
in line with  
policy



Establishing  
updated  
protocols  
with Bank of  
Ann Arbor



Maintaining  
professional  
memberships  
and training

Questions





# Agenda Item

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TO: DDA Board  
FROM: Sara McCallum, Deputy Director  
ITEM: Resolution to Adopt the DDA Investment Policy  
MEETING DATE: June 5, 2024

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Michigan Public Act 20 of 1943, Investment of Surplus Funds of Political Subdivisions, establishes legal requirements for the investment of public funds held by political subdivisions of the State of Michigan.

The DDA's current investment policy was adopted in 2002 and revisions are needed to bring that policy more fully into compliance with State statute provisions, and into better alignment with City policy.

In drafting the proposed policy, staff referenced PA 20, as well as Public Act 40 of 1932, Depositories for Public Moneys. We also reviewed the Government Finance Officers Association Sample Policy and best practices, and the City's investment policy.

Before being brought to the Board for consideration, the policy was reviewed by the City Treasurer as well as the DDA's investment advisor.

Attached for the Board's consideration is the revised investment policy and a resolution for its adoption.

**ACTION REQUESTED:**

Approve the Resolution to Adopt the DDA Investment Policy.
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Policy Title:	Ann Arbor Downtown Development Authority Investment Policy		
Effective Date:	6/5/2023	Review:	Annually by staff
Supersedes:	Investment Policy of 12/4/2002		
Approved By:	DDA Board Resolution of 6/5/24	Prepared By:	Sara McCallum
Signature:			

## 1. Overview

1.1 The Ann Arbor Downtown Development Authority (DDA) is a tax increment financing authority created by the City of Ann Arbor (City) under what is now the recodified Michigan Public Act 57 of 2018. The DDA is a component unit of the City and is governed by a 12-member Board of Trustees (Board) whose members are appointed by City Council.

1.2 This investment Policy has been adopted by resolution of the Board and replaces all previous investment policies or resolutions concerning the cash management or investment of DDA funds.

## 2. Purpose

2.1 The purpose of this Investment Policy is to establish guidelines and custodial procedures for the prudent and responsible management of public funds in a manner which will provide the maximum security of those funds while meeting the cash flow demands of the DDA and providing the highest investment return under the constraints of those priorities and in conformance with all relevant laws and regulations.

## 3. Scope

3.1 This policy applies to all municipal funds under the control of the DDA, including operating funds, special revenue funds, reserve funds, and any other funds held.

## 4. Objectives

4.1 The objectives of the investment activities, shall include, but not be limited to:

- Safety - Preserve capital through the mitigation of credit risk and interest rate risk.
- Liquidity - Maintain sufficient availability of funds to meet cash flow needs.
- Yield - Earn a market rate of return on investments across budgetary and economic cycles. Optimizing return on investment shall be deemed of secondary importance to the objectives of safety and liquidity.

4.2 DDA funds shall be invested in accordance with all applicable DDA policies, State statutes, and Federal regulations.



## 5. Delegation of Authority

5.1 The DDA Accounting Director is designated as investment officer and is granted authority to develop and manage the DDA's investment program in accordance with this investment policy and under the oversight of the DDA Executive Director and the Board. This authority is derived from Michigan Public Act 57 of 2018.

5.2 The investment officer may delegate the authority to conduct investment transactions to other authorized persons. In the absence of the investment officer, the DDA Executive Director is authorized to act as investment officer.

5.3 All persons authorized to conduct investment transactions shall act in accordance with established written procedures and internal controls, and consistent with this policy.

5.4 No person may engage in an investment transaction except as provided under the terms of this policy and the investment program established by the investment officer.

5.5 The DDA may engage the support services of outside professionals in regard to its investment program including the engagement of financial advisors, special legal representation, and third party custodial services.

## 6. Standard of Prudence

6.1 The standard of prudence to be used by investment officials shall be the "uniform prudent investor act" standard and shall be applied in the context of managing an overall portfolio. The DDA adheres to the Prudent Investor Standard when managing and investing public funds. This standard states, "Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion, and intelligence exercise in the management of their own affairs, not for speculation, but for investment considering the probable safety of their capital as well as the probable income to be derived."

6.2 Personnel who act in accordance with this investment policy and exercise due diligence shall be relieved of personal responsibility for an individual security's performance.

## 7. Ethics and Conflicts of Interest

7.1 Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with the proper execution and management of the investment program, or that could impair their ability to make impartial decisions. They shall disclose any material interests in financial institutions that conduct business with the DDA. They shall further disclose any personal financial/investment positions that could be related to the performance of the investment portfolio. They shall refrain from undertaking personal investment transactions with the same individual with whom business is conducted on behalf of the DDA.

7.2 They shall comply with all applicable laws, regulations, professional codes of conduct, and DDA policy.

## 8. Authorized Financial Institutions, Depositories, and Broker/Dealers

### 8.1 Financial Institutions

- a. The investment officer will maintain a list of financial institutions and depositories authorized by the Board to provide depository and other banking services.



b. To be authorized, a financial institution must be eligible to be a depository of funds belonging to the State of Michigan and must maintain a principal office or branch office in Michigan. Banks that fail to meet this criteria, or in the judgement of the investment officer no longer offer adequate safety, will be removed from the list.

## 8.2 Broker/Dealers

a. The investment officer will maintain a list of broker/dealers authorized to conduct security transactions with the DDA. These broker/dealers shall be authorized based on creditworthiness and/or other factors, such as FINRA broker check.

b. All financial institutions and broker/dealers who desire to become qualified for investment transactions must supply the following as appropriate:

- Audited financial statements demonstrating compliance with state and federal capital adequacy guidelines
- Proof of Financial Industry Regulatory Authority (FINRA) certification (not applicable to Certificate of Deposit counterparties)
- Proof of state registration
- Completed broker/dealer questionnaire (not applicable to Certificate of Deposit counterparties)
- Certification agreeing to comply with the DDA's investment policy.
- Evidence of adequate insurance coverage.

## 8.3 Investment Advisory Services

a. If the DDA has engaged for investment advisory services, the authorized investment advisor may utilize their own list of approved broker/dealers when executing transactions on behalf of the DDA, provided that they limit investing the DDA's funds with only broker/dealers who meet the requirements of section 8.2 of this policy; provided their approved list be provided to the DDA upon request; and provided they certify agreement to follow all the provisions of this policy on an annual basis or upon any revisions to this policy.

8.4 The investment officer will conduct an annual review of the financial condition and registration of all qualified financial institutions, broker/dealers, and investment advisors, as befits the services provided.

## 9. Authorized Investments

9.1 All investments for the DDA shall be made in accordance with Michigan State Statutes Public Act 20 of 1943 "Investment of Surplus Funds of Political Subdivisions" (PA 20), and Public Act 40 of 1932 "Depositories for Public Moneys" (PA40). The DDA may invest in the following range of securities and financial instruments as allowed under PA 20:

a. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States, including:

- U.S. Treasury Obligations - United States Treasury Bills, Treasury Notes, Treasury Bonds, and Treasury Strips with maturities not exceeding fifteen years from the trade settlement date. There is no limit on the percentage of the portfolio that may be invested in these obligations.

- Federal Agency Securities – Debentures and mortgage-backed securities with a stated final maturity not exceeding ten years from the trade settlement date. These securities shall not exceed 10% of the DDA's portfolio.
- Federal Instrumentality Securities – Debentures, discount notes, step-up and callable securities with a final maturity not exceeding ten years from the trade settlement date. These securities shall not exceed 65% of the DDA's portfolio, and no more than 30% of the DDA's portfolio may be invested in any one issuer of these securities.

b. Certificates of deposit, but only if the financial institution complies with PA 40; and only if the certificates of deposit are obtained in accordance with the PA 20 guidelines. Investments in certificates of deposit shall not have a maturity exceeding five years, shall not exceed 10% of the DDA's portfolio, and the full amount of the principal and any accrued interest of each certificate of deposit shall be insured by an agency of the United States.

c. Prime commercial paper with an original maturity of 270 days or less, and rated A-1 or the equivalent at the time of purchase by not less than two nationally recognized statistical rating organizations (NRSROs). If the commercial paper issuer has senior debt outstanding, the senior debt must be rated A or the equivalent by not less than two of those rating services. Investments in commercial paper shall not exceed 25% of the DDA's portfolio and no more than 5% of the DDA's investment portfolio may be invested in any single issuer.

d. Repurchase agreements collateralized by U.S. Treasury obligations or federal instrumentality securities listed in subsection (a), with maturities not exceeding ten years. For the purpose of this section the collateral shall have an original minimum market value (including accrued interest) of 102% of the dollar value of the transaction and the collateral maintenance level shall be 101%. If collateralized value drops below 101 percent, it will immediately be restored to 102%. Collateral shall be held by the DDA's custodial bank which shall serve as safekeeping agent and the market value of the collateral securities shall be marked to the market daily based on that day's bid price. The right of collateral substitution is granted. Repurchase Agreements shall be entered into with primary dealers reporting to the Federal Reserve Bank of New York, with firms having a primary dealer within their holding company structure, or with approved depository banks that have an executed repurchase agreement with the DDA. There is no limit on the percentage of the portfolio that may be invested in repurchase agreements.

e. *Bankers' acceptances of United States banks are not approved investments of the DDA.*

f. Obligations of the State of Michigan or any of its political subdivisions that are rated at least A- or the equivalent with a stable or positive rating outlook by at least one NRSRO at the time of purchase, and with a final maturity not exceeding ten years from the trade settlement date. Investments in such obligations shall not exceed 10% of the DDA's portfolio and no more than 5% of the DDA's portfolio may be invested in any one issuer. Diversification and credit criteria described for the State do not apply to issues of the DDA.

g. Money market mutual funds (MMMFs) registered under the Investment Company Act of 1940 that are "no-load" (i.e., no commission or fee shall be charged on purchases or sales of shares); have a constant daily net asset value per share of \$1.00; limit assets of the fund to securities authorized under PA 20 as legal investments for public corporations; have a maximum stated maturity in accordance with Rule 2a-7 of the Investment Company Act of 1940; and are rated AAAM or the equivalent. The investment officer shall pre-approve each MMMF before purchase. Investments in MMMFs shall not exceed 30% of the DDA's portfolio.

h. Obligations previously described herein if purchased through an interlocal agreement under the Urban Cooperation Act of 1967, 1967 (Ex Sess) PA 7, MCL 124.501 to 124.512 that are “no-load”; have a constant net asset value per share of \$1.00; and limit assets of the fund to securities either AAAM by Standard and Poor’s, Aaa by Moody’s or AAA/V1+ by Fitch. There is no limit on the percentage of the portfolio may be invested in joint interlocal investment ventures.

i. Investment pools organized under the Surplus Funds Investment Pool Act, 1982 PA 367, MCL 129.111 to 129.118, that are “no-load”; have a constant daily net asset value per share of \$1.00’ and limit assets of the fund to securities authorized in PA 20 as legal investments for a public corporation. No more than 10% of the DDA’s portfolio may be invested in investment pools organized under this section.

j. Investment pools organized under section 4 of the Local Government Investment Pool Act, 1985 PA 121, MCL 129.141 to 129.150. No more than 10% of the DDA’s portfolio may be invested in these pools at any time.

9.2 The foregoing list of authorized securities are to be strictly interpreted. Securities that have been downgraded to a level that is below the minimum ratings described herein may be sold or held at the discretion of the investment officer. The portfolio will be brought back into compliance with Investment Policy guidelines as soon as practical.

9.3 The State of Michigan does not require the collateralization of all public funds. See collateralization requirements for specific securities in section 9.1 of this document.

## 10. Safekeeping and Custody

### 10.1 Delivery vs Payment

a. All trades of marketable securities will be executed by delivery vs. payment (DVP) to ensure that securities are deposited in an eligible custody account prior to the release of funds.

### 10.2 Safekeeping

a. Securities will be held by a [centralized] independent third-party custodian selected by the entity as with all securities held in the DDA’s name. The safekeeping institution shall annually provide a copy of their most recent report on internal controls (Statement of Auditing Standards No. 70, or SAS 70).

## 11. Investment Guidelines

### 11.1 Diversification

a. It is the intent of the DDA to diversify its investment portfolio to avoid risk of loss resulting from a concentration of assets in a specific instruments, individual financial institutions or maturities, while also retaining flexibility to respond to the economic outlook, the securities market, and the DDA’s anticipated cash flow needs.

b. No more than 25% of the total portfolio shall be invested in securities with maturities exceeding seven years. No more than 12.5% of the total portfolio shall be invested in securities with maturities exceeding eleven years.

c. The investment officer shall periodically review the DDA’s diversification strategy to adapt to changing market conditions.

d. See table in Section 11.3.a for a summary of maximum percentages allowable by investment category.

## 11.2 Portfolio Maturity

a. To the extent practical, the DDA's investment portfolio will be designed to match anticipated cash flow requirements. Unless tied to a specific use horizon, the maximum maturity of any single investment shall not exceed fifteen years from the trade settlement date, and the weighted average final maturity of the overall portfolio shall not exceed 6.5 years.

b. See table in Section 11.3.a for a summary of maximum maturities allowable by investment category.

## 11.3 Concentration Limits

a. The DDA shall manage its investment portfolio to avoid the concentration of investments in any one type of investment, single issuer, or with maturities beyond specified horizons. To that end, concentration shall be limited as follows:

Investment Type	Maximum % Overall Portfolio	Maximum % Individual Securities	Maximum Maturities
U.S. Treasury Obligations	100%		15 yrs
Federal Agency Securities	10%		
Federal Instrumentality Securities	65%	30%	10 yrs
Time Certificates of Deposit	10%	Insured Limit	5 yrs
Prime Commercial Paper	25%	5%	270 days
Repurchase Agreements	100%		10 yrs
State of Michigan/Political Subdivision Obligations	10%	5%	10 yrs
Money Market Mutual Funds	30%		
Joint Interlocal Investment Ventures	100%		
Investment Pools	10%		
Local Government Investment Pools	10%		

## 11.4 Competitive Transactions

a. Each investment shall be competitively transacted with authorized broker/dealers. Whenever possible, at least three broker/dealers shall be contacted and their bid and offering prices shall be recorded. If competitive offerings are not readily available, then quotations for comparable or alternative securities shall be documented.

b. Transactions executed by the DDA's investment advisor shall be conducted on a competitive basis as described in this section.

## 12. Pooling of Funds for Efficiency

12.1 To optimize investment efficiency, the DDA may consolidate or pool cash and investment balances across various funds within the entity. This approach is aimed at maximizing earnings and promoting the efficient use of available resources.

## 13. Controls, Reporting, Review

### 13.1 Internal Controls

- a. The investment officer shall establish a system of internal controls, which shall be documented in writing and shall be designed to prevent the loss of public funds arising from fraud, employee error, misrepresentation by third parties, unanticipated changes in financial markets, or imprudent actions by employees and officers of the DDA.
- b. The internal controls shall be reviewed annually by the investment officer and the DDA's independent auditor.
- c. The investment officer and other staff involved in the investment process shall maintain professional memberships and pursue periodic training to ensure they are updated on industry best practices and legal requirements.

### 13.2 Regular Reporting

- a. The investment officer shall provide regular reports to the Board regarding investment activities, including performance, compliance with PA 20, and compliance with all relevant laws and regulations.

### 13.3 Review and Amendment

- a. This policy shall be reviewed annually to ensure its continued effectiveness and relevance in line with PA 20 and shall be revised by the Board as needed.

## 14. Adoption

- 14.1 This Investment Policy shall be adopted by the Board and take effect as of June 5, 2024.

## Glossary

**Bankers Acceptance:** A draft or bill or exchange accepted by a bank or trust company. The accepting institution guarantees payment of the bill, as well as the issuer.

**Broker:** A broker brings buyers and sellers together for a commission paid by the initiator of the transaction or by both sides.

**Certificate of Deposit:** A time deposit with a specific maturity evidenced by a certificate. Large denomination CDs are typically negotiable.

**Collateral:** Securities or property pledged by a borrower to secure payment.

**Commercial Paper:** An unsecured promissory note with a fixed maturity of no more than 270 days. Commercial paper is normally sold at a discount from face value.

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

**Debenture:** A bond secured only by the general credit of the issuer.

**Delivery Versus Payment:** There are two methods of delivery of securities: delivery versus payment and delivery versus receipt (also called free). Delivery versus payment is delivery of securities with an exchange of money for the securities. Delivery versus receipt is delivery of securities with an exchange of a signed receipt for the securities.

**Discount Securities:** Non-interest bearing money market instruments that are issued at a discount and redeemed at maturity for full face value.

**Diversification:** Dividing investment funds among a variety of securities offering independent returns.

**Liquidity:** A liquid asset is one that can be converted easily and rapidly into cash without a substantial loss of value.

**Local Government Investment Pool:** A pool of funds authorized under the laws of the State that receives deposits from one or more local units and pays returns based upon each local unit's share of investment in the pool.

**Mark-to-market:** The process whereby the book value or collateral value of a security is adjusted to reflect its current market value.

**Market Value:** Current market price of a security.

**Repurchase Agreement:** A written contract covering all future transactions between the parties to repurchase or reverse repurchase agreements that establish each party's rights in the transactions. The

agreement will often specify, among other things, the right of the buyer-lender to liquidate the underlying securities in the event of default by the seller-borrower.

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

**Money Market Mutual Fund:** A mutual fund that limits its investments to some or all types of money market instruments.

**Net Asset Value:** The market value of one share of an investment company, such as a mutual fund.

**No Load Fund:** A mutual fund that does not levy a sales charge on the purchase or sale of its shares.

**NRSRO:** Nationally Recognized Statistical Rating Organizations - organizations that issue credit ratings for securities.

**Portfolio:** Collection of securities held by an investor or investors.

**Primary Dealer:** A group of government securities dealers who submit daily reports of market activity and positions and monthly financial statements to the Federal Reserve Bank of New York and are subject to its informal oversight. Primary dealers include Securities and Exchange Commission (SEC) registered securities broker/dealers, banks, and a few unregulated firms.

**Prudent Person Rule:** Standard of investing which states that investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived.

**Rate of Return:** The yield obtainable on a security based on its purchase price or its current market price. This may be the amortized yield to maturity on a bond or the current income return.

**Ratings:** An evaluation of an issuer of securities by Moody's, Standard & Poor's, Fitch, or other rating services of a security's credit worthiness.

**Repurchase Agreements:** A transaction whereby a holder of securities sells 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 agreement, and the terms of the agreement are structured to compensate the buyer. Dealers use repurchase agreements extensively to finance their positions.

**Rule 2a-7 of the Investment Company Act of 1940:** Applies to all money market mutual funds and mandates such funds to maintain certain standards, including a 13-month maturity limit a 90-day average maturity on investments and maintenance of a constant net asset value of one dollar (\$1.00).

**Safekeeping:** Holding of assets (e.g., securities) by a financial institution.

**Treasury Bills:** A non-interest bearing discount security issued by the U.S. Treasury to finance the national debt. Treasury Bills are issued with maturities ranging from a few days to 26 weeks.



**Treasury Bonds:** Long-term U.S. Treasury securities having initial maturities of more than ten years.

**Treasury Notes:** Intermediate term coupon bearing U.S. Treasury securities having initial maturities of from one to ten years.

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

## **RESOLUTION TO ADOPT THE DDA INVESTMENT POLICY**

Whereas, Michigan Public Act 20 of 1943 (PA 20) establishes a legal framework for the investment of public funds of political subdivisions of the State of Michigan, including the requirement that governing bodies, in consultation with their investment officer, shall adopt an investment policy that, at a minimum includes all of the following:

- A statement of purpose, scope, and objectives of the policy, including safety, diversification, liquidity, and return on investment
- A delegation of authority to make investments
- A list of authorized investment instruments
- A statement concerning safekeeping, custody, and prudence

Whereas, The proposed investment policy does include all of these provisions;

Whereas, PA 20 also provides a list of investment types that are permissible for investment of public funds, and the proposed investment policy does restrict the DDA to investing in instruments allowed under PA 20;

Whereas, PA 20 does stipulate that before executing an order to purchase or trade the funds of a public corporations, a financial intermediary, broker, or dealer shall be provided with a copy of the public corporation's investment policy and shall acknowledge the receipt of the policy and agree to comply with the terms of the policy, and the proposed investment policy includes that requirement;

Whereas, PA 20 does require the investment officer to provide a quarterly written report to the governing body, and that provision is included in the proposed policy as well;

Whereas, In addition to reviewing the requirements of PA 20, staff did also review the Government Finance Officer's Sample Investment Policy, as well as the City of Ann Arbor Investment Policy, and did in particular draft the DDA's Investment Policy to comply with provisions of the City's policy as is appropriate for a component unit of the City;

Whereas, The proposed investment policy has been reviewed by the City of Ann Arbor Treasurer, and the DDA's investment advisor before being presented for the DDA Board's consideration;

**RESOLVED**, The Ann Arbor Downtown Development Authority Board adopts the Ann Arbor Downtown Development Investment Policy, effective June 5, 2024.

**INVESTMENT OF SURPLUS FUNDS OF POLITICAL SUBDIVISIONS**  
**Act 20 of 1943**

AN ACT relative to the investment of funds of public corporations of the state; and to validate certain investments.

**History:** 1943, Act 20, Imd. Eff. Mar. 13, 1943;—Am. 1988, Act 285, Imd. Eff. Aug. 1, 1988;—Am. 1997, Act 196, Imd. Eff. Dec. 30, 1997.

*The People of the State of Michigan enact:*

**129.91 Investment of funds of public corporation; eligible depository; secured deposits; funds limitation on acceptable assets; pooling or coordinating funds; written agreements; investment in certificate of deposit; conditions; “financial institution” defined; additional definitions.**

Sec. 1. (1) Except as provided in section 5, the governing body by resolution may authorize its investment officer to invest the funds of that public corporation in 1 or more of the following:

(a) Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.

(b) Certificates of deposit, savings accounts, or depository receipts of a financial institution, but only if the financial institution complies with subsection (2); certificates of deposit obtained through a financial institution as provided in subsection (5); or deposit accounts of a financial institution as provided in subsection (6).

(c) Commercial paper rated at the time of purchase within the 2 highest classifications established by not less than 2 standard rating services and that matures not more than 270 days after the date of purchase.

(d) Repurchase agreements consisting of instruments listed in subdivision (a).

(e) Bankers' acceptances of United States banks.

(f) Obligations of this state or any of its political subdivisions that at the time of purchase are rated as investment grade by not less than 1 standard rating service.

(g) Mutual funds registered under the investment company act of 1940, 15 USC 80a-1 to 80a-64, with authority to purchase only investment vehicles that are legal for direct investment by a public corporation. However, a mutual fund is not disqualified as a permissible investment solely by reason of any of the following:

(i) The purchase of securities on a when-issued or delayed delivery basis.

(ii) The ability to lend portfolio securities as long as the mutual fund receives collateral at all times equal to at least 100% of the value of the securities loaned.

(iii) The limited ability to borrow and pledge a like portion of the portfolio's assets for temporary or emergency purposes.

★★★★(h) Obligations described in subdivisions (a) through (g) if purchased through an interlocal agreement under the urban cooperation act of 1967, 1967 (Ex Sess) PA 7, MCL 124.501 to 124.512.

(i) Investment pools organized under the surplus funds investment pool act, 1982 PA 367, MCL 129.111 to 129.118.

(j) The investment pools organized under the local government investment pool act, 1985 PA 121, MCL 129.141 to 129.150.

(2) Except as provided in subsection (5), a public corporation that invests its funds under subsection (1) shall not deposit or invest the funds in a financial institution that is not eligible to be a depository of funds belonging to this state under a law or rule of this state or the United States.

(3) Assets acceptable for pledging to secure deposits of public funds are limited to assets authorized for direct investment under subsection (1).

(4) The governing body by resolution may authorize its investment officer to enter into written agreements with other public corporations to pool or coordinate the funds to be invested under this section with the funds of other public corporations. Agreements allowed under this subsection shall include all of the following:

(a) The types of investments permitted to be purchased with pooled funds.

(b) The rights of members of the pool to withdraw funds from the pooled investments without penalty.

(c) The duration of the agreement and the requirement that the agreement shall not commence until at least 60 days after the public corporations entering the agreement give written notice to an existing local government investment pool which is organized under the local government investment pool act, 1985 PA 121, MCL 129.141 to 129.150, in those counties where such a pool is operating and accepting deposits on or before September 29, 2006.

- (d) The method by which the pool will be administered.
  - (e) The manner by which the public corporations will respond to liabilities incurred in conjunction with the administration of the pool.
  - (f) The manner in which strict accountability for all funds will be provided for, including an annual statement of all receipts and disbursements.
  - (g) The manner by which the public corporations will adhere to the requirements of section 5.
- (5) In addition to the investments authorized under subsection (1), the governing body by resolution may authorize its investment officer to invest the funds of the public corporation in certificates of deposit in accordance with all of the following conditions:
- (a) The funds are initially invested through a financial institution that is not ineligible to be a depository of surplus funds belonging to this state under section 6 of 1855 PA 105, MCL 21.146.
  - (b) The financial institution arranges for the investment of the funds in certificates of deposit in 1 or more insured depository institutions, as defined in 12 USC 1813, or 1 or more insured credit unions, as defined in 12 USC 1752, for the account of the public corporation.
  - (c) The full amount of the principal and any accrued interest of each certificate of deposit is insured by an agency of the United States.
  - (d) The financial institution acts as custodian for the public corporation with respect to each certificate of deposit.
  - (e) At the same time that the funds of the public corporation are deposited and the certificate or certificates of deposit are issued, the financial institution receives an amount of deposits from customers of other insured depository institutions or insured credit unions equal to or greater than the amount of the funds initially invested by the public corporation through the financial institution.
- (6) In addition to the investments authorized under subsection (1), the governing body by resolution may authorize its investment officer to invest the funds of the public corporation in deposit accounts that meet all of the following conditions:
- (a) The funds are initially deposited in a financial institution that is not ineligible to be a depository of surplus funds belonging to this state under section 6 of 1855 PA 105, MCL 21.146.
  - (b) The financial institution arranges for the deposit of the funds in deposit accounts in 1 or more insured depository institutions, as defined in 12 USC 1813, or 1 or more insured credit unions, as defined in 12 USC 1752, for the account of the public corporation.
  - (c) The full amount of the principal and any accrued interest of each deposit account is insured by an agency of the United States.
  - (d) The financial institution acts as custodian for the public corporation with respect to each deposit account.
  - (e) On the same date that the funds of the public corporation are deposited under subdivision (b), the financial institution receives an amount of deposits from customers of other insured depository institutions or insured credit unions equal to or greater than the amount of the funds initially deposited by the public corporation in the financial institution.
- (7) A public corporation that initially invests its funds through a financial institution that maintains an office located in this state may invest the funds in certificates of deposit as provided under subsection (5).
- (8) As used in this section, "financial institution" means a state or nationally chartered bank or a state or federally chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United States government and that maintains a principal office or branch office located in this state under the laws of this state or the United States.
- (9) As used in this act:
- (a) "Governing body" means the legislative body, council, commission, board, or other body having legislative powers of a public corporation.
  - (b) "Funds" means the money of a public corporation, the investment of which is not otherwise subject to a public act of this state or bond authorizing ordinance or resolution of a public corporation that permits investment in fewer than all of the investment options listed in subsection (1) or imposes 1 or more conditions upon an investment in an option listed in subsection (1).
  - (c) "Investment officer" means the treasurer or other person designated by statute or charter of a public corporation to act as the investment officer. In the absence of a statutory or charter designation, the governing body of a public corporation shall designate the investment officer.
  - (d) "Public corporation" means a county, city, village, township, port district, drainage district, special assessment district, or metropolitan district of this state, or a board, commission, or another authority or agency created by or under an act of the legislature of this state.

**History:** 1943, Act 20, Imd. Eff. Mar. 13, 1943;—CL 1948, 129.91;—Am. 1964, Act 126, Eff. Aug. 28, 1964;—Am. 1977, Act 66, Imd. Eff. July 20, 1977;—Am. 1978, Act 500, Imd. Eff. Dec. 11, 1978;—Am. 1979, Act 79, Imd. Eff. Aug. 1, 1979;—Am. 1982, Act 217, Imd. Eff. July 8, 1982;—Am. 1988, Act 239, Imd. Eff. July 11, 1988;—Am. 1997, Act 44, Imd. Eff. June 30, 1997;—Am. 1997, Act 196, Imd. Eff. Dec. 30, 1997;—Am. 2006, Act 400, Imd. Eff. Sept. 29, 2006;—Am. 2008, Act 308, Imd. Eff. Dec. 18, 2008;—Am. 2009, Act 21, Imd. Eff. May 5, 2009;—Am. 2012, Act 152, Imd. Eff. May 30, 2012.

#### **129.92 Repealed. 1997, Act 196, Imd. Eff. Dec. 30, 1997.**

**Compiler's note:** The repealed section pertained to investment of sinking funds and insurance moneys by school districts.

#### **129.93 Existing investments ratified and validated.**

Sec. 3. Investments made before the effective date of the amendatory act that repealed section 2 of the surplus funds, sinking funds, or insurance funds of a political subdivision of this state in bonds and other obligations of the United States or its instrumentalities or certificates of deposit or depository receipts of a bank that is a member of the federal deposit insurance corporation as provided under section 1 and former section 2 of this act are hereby ratified and validated.

**History:** 1943, Act 20, Imd. Eff. Mar. 13, 1943;—CL 1948, 129.93;—Am. 1964, Act 126, Eff. Aug. 28, 1964;—Am. 1997, Act 196, Imd. Eff. Dec. 30, 1997.

#### **129.94 Funds accumulated under eligible deferred compensation plan; deposit; investment; existing investments ratified and validated.**

Sec. 4. (1) As used in this section:

(a) "Eligible deferred compensation plan" means a deferred compensation plan established and maintained by a governing body, which plan meets the requirements of section 457 of the internal revenue code.

(b) "Financial institution" means a state or nationally chartered bank, a state or federally chartered savings bank, a state or federally chartered savings and loan association, or a state or federally chartered credit union, which financial institution is insured by an agency or instrumentality of the federal government.

(c) "Governing body" means the legislative or governing body of a county, city, village, township, or special assessment district, or an agency, board, or commission of a county, city, village, or township.

(2) The governing body, by resolution, may authorize its treasurer or chief fiscal officer to deposit funds received under an eligible deferred compensation plan in a financial institution authorized by law to do business in this state or with an authorized deferred compensation agent appointed by the governing body. Notwithstanding any other provision of this act, the treasurer or chief fiscal officer, as authorized by resolution of the governing body, may place funds accumulated under an eligible deferred compensation plan with a financial institution authorized to do business in this state, a state or federally licensed investment company or insurance company authorized to do business in this state, or trust established by public employers for the commingled investment of the amounts held under deferred compensation and retirement plans, which funds shall be invested by the financial institution, insurance company, investment company, or trust as directed by the governing body. The investment of eligible deferred compensation plan funds shall be in the manner and for the purposes described in section 457 of the internal revenue code.

(3) The investment of funds accumulated under an eligible deferred compensation plan of a governing body prior to the effective date of the amendatory act that added this section, which investments otherwise meet the requirements of this section, are ratified and validated.

**History:** Add. 1988, Act 285, Imd. Eff. Aug. 1, 1988.

#### **129.95 Investment policy; adoption by governing body.**

Sec. 5. (1) Not more than 180 days after the end of a public corporation's first fiscal year that ends after the effective date of the amendatory act that repealed section 2, a governing body, in consultation with the investment officer, shall adopt an investment policy that, at a minimum, includes all of the following:

(a) A statement of the purpose, scope, and objectives of the policy, including safety, diversification, liquidity, and return on investment.

\*\*\* (b) A delegation of authority to make investments.

(c) A list of authorized investment instruments. If the policy authorizes an investment in mutual funds, it shall indicate whether the authorization is limited to securities whose intention is to maintain a net asset value of \$1.00 per share or also includes securities whose net asset value per share may fluctuate on a periodic basis.

(d) A statement concerning safekeeping, custody, and prudence.

(2) A governing body that as of the effective date of the amendatory act that repealed section 2 has adopted an investment policy that substantially complies with the minimum requirements under subsection (1) is not in violation of this section as long as that policy remains in effect.

**History:** Add. 1997, Act 196, Imd. Eff. Dec. 30, 1997.

**129.96 Execution of order to purchase or trade funds of public corporation; providing copy of investment policy; public corporation subject to subsection (1); report.**

Sec. 6. (1) Subject to subsection (2), before executing an order to purchase or trade the funds of a public corporation, a financial intermediary, broker, or dealer shall be provided with a copy of the public corporation's investment policy and shall do both of the following:

- (a) Acknowledge receipt of the investment policy.
- (b) Agree to comply with the terms of the investment policy regarding the buying or selling of securities.

(2) A public corporation is subject to subsection (1) beginning on the date that the investment policy of a public corporation takes effect or 180 days after the end of the public corporation's first fiscal year ending after the effective date of the amendatory act that repealed section 2, whichever is earlier.

(3) The investment officer shall provide quarterly a written report to the governing body concerning the investment of the funds.

**History:** Add. 1997, Act 196, Imd. Eff. Dec. 30, 1997;—Am. 2007, Act 213, Imd. Eff. Dec. 27, 2007.

**129.97 Long-term or perpetual trust fund; investment of assets; resolution authorizing investment officer same authority as investment fiduciary under MCL 38.1132 to 38.1140m; conditions.**

Sec. 7. Notwithstanding any law or charter provision to the contrary, if a public corporation has a long-term or perpetual trust fund consisting of money and royalties or money derived from oil and gas exploration on property or mineral rights owned by the public corporation, the governing body of the public corporation may by resolution provide its investment officer with the same authority to invest the assets of the long-term or perpetual trust fund as is granted an investment fiduciary under the public employee retirement system investment act, 1965 PA 314, MCL 38.1132 to 38.1140m.

**History:** Add. 2008, Act 220, Imd. Eff. July 16, 2008.

**129.97a Investment of assets of special revenue fund by investment officer; resolution granting authority; annual special revenue fund report.**

Sec. 7a. (1) Notwithstanding any law or charter to the contrary, if a public corporation has a special revenue fund consisting of payments for park operations and maintenance, the governing body of the public corporation may by resolution provide its investment officer with the same authority to invest the assets of the special revenue fund as is granted an investment fiduciary under the public employee retirement system investment act, 1965 PA 314, MCL 38.1132 to 38.1140m.

(2) The investment officer shall prepare and issue an annual special revenue fund report. The investment officer shall make the annual special revenue fund report available to the citizens of the public corporation. The annual special revenue fund report shall include all of the following:

- (a) The name of the special revenue fund.
- (b) The special revenue fund's investment fiduciaries.
- (c) The special revenue fund's assets and liabilities.
- (d) The special revenue fund's funded ratio.
- (e) The special revenue fund's investment performance.
- (f) The special revenue fund's expenses.

**History:** Add. 2008, Act 404, Imd. Eff. Jan. 6, 2009.



**CITY OF ANN ARBOR**

**INVESTMENT POLICY**

Council Resolution  
Adopted XXXXXXXXXX





## **City of Ann Arbor, Michigan**

### **Investment Policy**

#### Overview

The City of Ann Arbor, Michigan ("the City") is a home rule municipality operating under its City Charter and City Code. The City functions under the direction of a City Administrator who is appointed by an eleven-member City Council. The purpose of this Investment Policy is to establish the investment scope, objectives, delegation of authority, standards of prudence, eligible investments and transactions, internal controls, reporting requirements, and safekeeping and custodial procedures necessary for the investment of the funds of the City of Ann Arbor.

This Investment Policy has been adopted by resolution of the City Council of Ann Arbor, Michigan and replaces all previous investment policies or resolutions concerning the cash management or investment of City funds.

The City manages a flexible investment portfolio, which includes general operating funds, bond reserve funds, proceeds from bond sales that will be expended on capital projects as well as various other funds. Because these funds may be required at any time, it is essential that the City maintain strict maturity horizons for the purpose of liquidity control.

#### Policy

It is the policy of the City of Ann Arbor to invest public funds in a manner which will provide the highest investment return with the maximum security while meeting the daily cash flow demands of the City and conforming to Michigan Public Act 20 of 1943.

#### Scope

This Investment Policy applies to the financial assets of the Consolidated Investment Fund, Limited Investment Fund, Capital Projects Funds, Trust and Agency Funds, and any other funds not specifically excluded. Specifically excluded from the constraints of this Investment Policy are assets of the Pension Fund, Housing Commission, Fifteenth District Court, Elizabeth Dean Fund, Downtown Development Authority and Contractor's Retainage Fund.

Except for cash in certain restricted and special funds, the City shall consolidate cash balances from all funds to maximize investment earnings and to increase efficiencies with regard to investment pricing, safekeeping and administration. Investment income

shall be allocated to the various funds based on their respective participation and in accordance with generally accepted accounting principles.

#### Investment Objectives

The City's funds shall be invested in accordance with all applicable City policies, State statutes, and Federal regulations, and in a manner designed to accomplish the following objectives, which are listed in priority order:

- Safety: Preservation of capital and protection of investment principal
- Liquidity: Maintenance of sufficient liquidity to meet anticipated disbursements and cash flows
- Yield: Attainment of a market rate of return equal to or higher than the performance measure recommended by the Treasurer and approved by the Chief Financial Officer.

#### Prudence and Indemnification

The standard of prudence to be used in managing the City's assets is the "prudent investor" rule which states, "Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment considering the probable safety of their capital as well as the probable income to be derived." The City's overall investment program shall be designed and managed with a degree of professionalism that is worthy of the public trust. The City shall recognize that no investment is without risk and that the investment activities of the City are a matter of public record. Accordingly, the City recognizes that occasional measured losses may occur in a diversified portfolio and shall be considered within the context of the overall portfolio's return, provided that adequate diversification has been implemented and that the sale of a security before maturity can be in the best long-term interest of the City.

Personnel acting in accordance with this Investment Policy and written procedures and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price change, or other loss in accordance with the City's Indemnification Policy in effect at the time.

#### Delegation of Authority

The ultimate responsibility and authority for the investment of all City funds resides with the Chief Financial Officer. Acting under the authority of the City Code Chapter 5, 1.103(2), the Chief Financial Officer may delegate the authority to conduct investment transactions and to manage the operation of the investment portfolio to other specifically authorized persons. The Chief Financial Officer, Treasurer, and Deputy Treasurer are authorized to transact investment business on behalf of the City.

Subject to required procurement procedures, the City may engage the support services of outside professionals in regard to its financial program, so long as it can be demonstrated that these services produce a net financial advantage or necessary financial protection of the City's resources. Such services may include engagement of

financial advisors in conjunction with debt issuance, portfolio management, special legal representation, third party custodial services, and appraisals by independent rating services.

#### Investment Procedures

The Chief Financial Officer shall establish written administrative procedures for the operation of the City's investment program as well as internal controls, which shall include explicit delegation of authority to personnel responsible for investment transactions. The procedures shall be designed to prevent losses of public funds arising from fraud, employee error, misrepresentation by third parties, or imprudent actions by employees and officers of the City.

#### Ethics and Conflicts of Interest

All City employees involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment program or which could impair, or create the appearance of an impairment of, their ability to make impartial investment decisions. Employees shall disclose to the Chief Financial Officer any material equity interests in financial institutions that conduct business with the City and they shall subordinate their personal investment transactions to those of the City. Failure to report these relationships may be grounds for discipline, up to and including termination. Employees shall comply with all applicable laws, regulations, professional codes of responsibilities and City policies.

#### Selection of Banks

The Treasurer shall maintain a list of banks and savings banks authorized to provide depository and other banking services and from which the City may purchase Time Certificates of Deposit. To be authorized, a bank must be eligible to be a depository of funds belonging to the State of Michigan and maintain a principal office or branch office in Michigan. Banks that fail to meet this criteria, or in the judgment of the Treasurer no longer offer adequate safety to the City, will be removed from the list.

#### Selection of Broker/Dealers

The Treasurer shall maintain a list of broker/dealers authorized to conduct security transactions with the City. To be eligible, a firm must meet at least one of the following criteria:

1. Be recognized as a Primary Dealer by the Federal Reserve Bank of New York or have a primary dealer within their holding company structure; or
2. Report voluntarily to the Federal Reserve Bank of New York; or
3. Qualify under Securities and Exchange Commission (SEC) Rule 15c3-1 (Uniform Net Capital Rule).

In addition, each broker/dealer must complete and annually update a City approved Broker/Dealer Information Request Form, and submit the firm's most recent financial

statements.

Broker/dealers will be selected on the basis of their expertise in public cash management and their ability to provide services for the City's account. Approved broker/dealers and firms they represent must be licensed to do business in the State of Michigan and as such are subject to the provisions of Michigan Statutes relating to the investment of public funds.

Per Section 129.96 of Michigan's Act 20 of 1943, before an order to purchase or trade the funds of the City, a financial intermediary, broker, or dealer shall be provided with a copy of this investment policy and shall do both of the following:

- A. Acknowledge receipt of the investment policy.
- B. Agree to comply with the terms of the investment policy regarding the buying or selling of securities.

Alternatively, if the City has engaged the services of an investment advisory firm, the authorized Investment Advisor may utilize the Investment Advisor's list of broker/dealers when executing transactions on behalf of the City, provided that each broker/dealer meets the minimum criteria listed above in items 1 – 3 of this section. The Investment Advisor's approved list of broker/dealers shall be provided to the City on an annual basis or upon request. In addition, the authorized Investment Advisor shall provide a written receipt of this Investment Policy and agreement to conduct transactions on behalf of the City in accordance with this Investment Policy. The authorized Investment Advisor shall provide such certification on an annual basis or upon any revision to this Investment Policy.

#### Authorized Investments and Transactions

All investments for the City shall be made in accordance with Michigan State statutes: Act 20 of 1943 as amended, M.C.L. 129.91-129.96, Investment of Surplus Funds of Political Subdivisions, and Act 40 of 1932 as amended, M.C.L. 129.12, Depositories for Public Moneys.

The City has further delineated the types of securities and transactions eligible for use by the City as follows:

1. U.S. Treasury Obligations: United States Treasury Bills, Treasury Notes, Treasury Bonds, and Treasury Strips with maturities not exceeding fifteen years from the date of trade settlement. There is no limit on the percentage of the portfolio that may be invested in these obligations.
2. Federal Agency Securities: Debentures and mortgage-backed securities with a stated final maturity not exceeding ten years from the date of trade settlement. Investments in Federal Agency Securities shall not exceed 10% of the City's investment portfolio.

3. Federal Instrumentality Securities: Debentures, discount notes, step-up and callable securities with a final maturity not exceeding ten years from the date of trade settlement. Investments in Federal Instrumentality Securities shall not exceed 65% of the City's investment portfolio, and no more than 30% of the City's investment portfolio may be invested in any one issuer of federal instrumentality securities.
4. Time Certificates of Deposit with a maturity not exceeding five years, and issued by state or federally chartered banks or savings banks as defined in M.C.L. 129.16, "Depositories for Public Money", that are eligible to be a depository of funds for the State of Michigan, and Certificates of Deposit that are purchased in accordance with M.C.L. 129.91 guidelines. Investments in certificates of deposit shall not exceed 10% of the City's investment portfolio and no more than \$300,000 of the City's investment portfolio may be invested in any one issuer.
5. Obligations of the State of Michigan or any of its political subdivisions with a final maturity not exceeding ten years from the date of trade settlement, that are rated at least A- or the equivalent with a stable or positive rating outlook by at least one nationally recognized statistical rating organization (NRSRO). Investments in such obligations shall not exceed 10% of the City's investment portfolio and no more than 5% of the City's investment portfolio may be invested in any one issuer. Diversification and credit criteria described for obligations of the State of Michigan are not applicable to issues of the City of Ann Arbor.
6. Prime Commercial Paper with an original maturity of 270 days or less which is rated A-1 or the equivalent at the time of purchase by not less than two NRSROs. If the commercial paper issuer has senior debt outstanding, the senior debt must be rated A or the equivalent by not less than two of those rating services. Investments in commercial paper shall not exceed 25% of the City's investment portfolio and no more than 5% of the City's investment portfolio may be invested in any one issuer.
7. Repurchase Agreements with a termination date of 90 days or less collateralized by U.S. Treasury Obligations or Federal Instrumentality Securities listed in 1 and 3 above with maturities not exceeding ten years.

*Collateralization:* For the purpose of this section, the term "collateral" shall mean "purchased securities" under the terms of the City approved Master Repurchase Agreement. The collateral shall have an original minimum market value (including accrued interest) of 102% of the dollar value of the transaction and the collateral maintenance level shall be 101%. If collateralized value drops below 101 percent, it will immediately be restored to 102%. Collateral shall be held by the City's custodial bank as safekeeping agent, and the market value of the collateral securities shall be marked to the market daily based on that day's bid price. The right of collateral substitution is granted.

*Master Repurchase Agreement:* Repurchase Agreements shall be entered into only with primary dealers reporting to the Federal Reserve Bank of New York, or with firms that have a primary dealer within their holding company structure or with approved depository banks that have executed an approved Master Repurchase Agreement with the City. The Treasurer shall maintain a copy of the City's approved Master Repurchase Agreement along with a list of the counterparties who have executed a Master Repurchase Agreement with the City.

There is no limit on the percentage of the portfolio that may be invested in repurchase agreements.

8. Money Market Mutual Funds registered under the Investment Company Act of 1940 that are "no-load" (i.e., no commission or fee shall be charged on purchases or sales of shares); have a constant daily net asset value per share of \$1.00; limit assets of the fund to securities authorized in M.C.L. 129.91 as legal investments for a public corporation; have a maximum stated maturity in accordance with Rule 2a-7 of the Investment Company Act of 1940; and are rated either AAAM or the equivalent. The Treasurer shall pre-approve each Money Market Fund before purchase. Investments in money market mutual funds shall not exceed 30% of the City's investment portfolio.
9. Investment Pools organized under Act 367 of 1982, MCL 129.111 to MCL 129.118, Surplus Funds Investment Pool Act, that are "no-load"; have a constant daily net asset value per share of \$1.00; and limit assets of the fund to securities authorized in M.C.L. 129.91 as legal investments for a public corporation. Investments in investment pools shall not exceed 10% of the City's investment portfolio.
10. Joint Interlocal Investment Ventures organized under the Urban Cooperation Act of 1967, 1967 (Ex Sess) PA7, M.C.L. 124.501 to 124.512 that are "no-load"; have a constant net asset value per share of \$1.00; and limit assets of the fund to securities authorized in M.C.L. 129.91 as legal investments for municipalities; and are rated either AAAM by Standard and Poor's, Aaa by Moody's or AAA/V1+ by Fitch. Not more than 10% of the City's total portfolio may be invested in investment pools at any one time.
11. Local Government Investment Pools organized under Section 4 of Public Act 121 of 1985, the Local Government Investment Pool Act. Not more than 10% of the City's total portfolio may be invested in these pools at any one time.

It is the intent of the City that the foregoing list of authorized securities be strictly interpreted. Any deviation from this list must be pre-approved by the Chief Financial Officer in writing.

Securities that have been downgraded to a level that is below the minimum ratings described herein may be sold or held at the City's discretion. The portfolio will be brought back into compliance with Investment Policy guidelines as soon as is practical.

### Collateralization of Deposits

The State of Michigan does not require collateralization of all public funds. See Authorized Investments and Transactions, above, for repurchase agreement collateralization requirements.

### Safekeeping and Custody

The City Council shall designate one or more financial institutions to provide safekeeping and custodial services for the City. A City approved Safekeeping Agreement shall be executed with each custodian bank prior to utilizing that bank's safekeeping services. To be eligible for designation as the City's safekeeping and custodian bank, a financial institution shall meet the criteria described in the Selection of Banks section of this Investment Policy.

Custodian banks will be selected on the basis of their ability to provide services for the City's account and the competitive pricing of their safekeeping related services.

The purchase and sale of securities and repurchase agreement transactions shall be settled on a delivery versus payment basis. Ownership of all securities shall be perfected in the name of the City. Sufficient evidence to title shall be consistent with modern investment, banking and commercial practices.

All City owned securities, except Certificates of Deposit, Investment Pools, and Money Market Mutual Funds, will be delivered by book entry and will be held in third-party safekeeping by a City approved custodian bank, its correspondent bank or the Depository Trust Company (DTC).

### Investment Diversification

It is the intent of the City to diversify the investments within its portfolio to avoid incurring unreasonable risks inherent in over investing in specific instruments, individual financial institutions or maturities. The asset allocation in the portfolio should, however, be flexible depending upon the outlook for the economy, the securities market, and the City's anticipated cash flow needs.

There is no limit on the percentage of the portfolio that may be invested in U.S. Treasury Obligations and Repurchase Agreements. However, no more than 30% of the total portfolio shall be invested in any one issuer of Federal Instrumentality Securities. No more than 5% of the total portfolio shall be invested in any one issuer of commercial paper, or obligations of the State of Michigan or any of its political subdivisions. Exposure to certificates of deposit is limited to no more than \$300,000 per issuer.

No more than 25% of the total portfolio shall be invested in securities with maturities exceeding seven years. No more than 12.5% of the total portfolio shall be invested in securities with maturities exceeding eleven years.

Other investments shall not exceed the following limits in each of the categories listed



below as a percentage of the total portfolio.

- 65% in Federal Instrumentality Securities
- 30% in Money Market Mutual Funds
- 25% in Prime Commercial Paper
- 10% in Time Certificates of Deposit
- 10% in Federal Agency Securities
- 10% in Obligations of the State of Michigan or any of its political subdivisions
- 10% in Investment Pools
- 10% in Joint Interlocal Investment Ventures
- 10% in Local Government Investment Pools

Tax funds collected on behalf of taxing authorities and held pending disbursement are not subject to the diversification limits above.

#### Portfolio Maturities and Liquidity

To the extent possible, the City's investments shall be matched with anticipated cash flow requirements. Unless matched to a specific cash flow liability and approved by the Chief Financial Officer in writing the City will not invest in securities maturing more than fifteen years from the date of trade settlement, and the weighted average final maturity of the portfolio shall not exceed 6.5 years.

The City recognizes that bond proceeds may, from time to time, be subject to provisions of the Tax Reform Act of 1986, Federal Arbitrage Regulations, as amended. Due to the legal complexities of arbitrage law and the necessary immunization of yield levels to correspond to anticipated cash flow schedules, the reinvestment of such debt issuance may, upon the advice of Bond Counsel or financial advisors, deviate from the maturity limitation provisions of this Investment Policy with prior written approval of the Chief Financial Officer. In all cases, however, types of eligible investments will be in compliance with this Investment Policy. This paragraph is only applicable to City funds subject to arbitrage calculations.

#### Competitive Transactions

Each investment shall be competitively transacted with authorized broker/dealers. Whenever possible, at least three broker/dealers shall be contacted and their bid and offering prices shall be recorded.

If the City is offered a security for which there is no other readily available competitive offering, then quotations for comparable or alternative securities shall be documented.

Transactions executed by the City's investment advisor shall be conducted on a competitive basis as described in this section.

#### Internal Controls

An external auditor shall independently review the City's investment activities on an annual basis. This procedure will assure compliance with policies and procedures.

### Performance

The benchmark yield shall be equal to the average yield on the U.S. Treasury Security that most closely corresponds to the portfolio's actual weighted average maturity. When comparing the performance of the City's portfolio, the reported rate of return shall include both average weighted yield and rate of return net of fees.

### Reporting

The Treasurer shall prepare a quarterly investment report summarizing the investments held by the City and the current market value of those investments. The report shall include a summary of investment earnings and performance results during the period, illustrate the portfolio's adherence to appropriate risk levels utilizing appropriate metrics like maturity or duration depending on the investment strategy of the portfolio, and compare the portfolio's total return versus established investment objectives and goals including performance relative to established benchmark yields. The quarterly investment report shall be submitted in a timely manner to the Chief Financial Officer and to the City Council or its designated financial oversight committee.

The City has established reporting and accounting standards for callable U.S. Instrumentality securities. Callable securities may be retired at the issuer's option prior to the stated maximum maturity. All securities holding reports for the City shall disclose the stated maturity as well as the first call date of each callable security held. For callable securities which are purchased priced to the first call date and have an overwhelming probability of being called on the first call date, weighted average maturity as well as yield shall be calculated using the first call date. Authorized investment personnel may, however, choose to use a further call date or maturity date for reporting purposes when conditions mandate.

### Policy Revisions

The Treasurer and Chief Financial Officer shall review this Investment Policy annually, and amend it as conditions warrant, subject to approval by City Council or its designated financial oversight committee.

## GLOSSARY

**Bankers Acceptance (BA):** A draft or bill or exchange accepted by a bank or trust company. The accepting institution guarantees payment of the bill, as well as the issuer.

**Broker:** A broker brings buyers and sellers together for a commission paid by the initiator of the transaction or by both sides.

**Callable Bond:** A bond issue in which all or part of its outstanding principal amount may be redeemed before maturity by the issuer under specified conditions.

**Certificate of Deposit:** A time deposit with a specific maturity evidenced by a certificate. Large denomination CDs are typically negotiable.

**Collateral:** Securities or property pledged by a borrower to secure payment.

**Commercial Paper:** An unsecured promissory note with a fixed maturity of no more than 270 days. Commercial paper is normally sold at a discount from face value.

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

**Debenture:** A bond secured only by the general credit of the issuer.

**Delivery Versus Payment:** There are two methods of delivery of securities: delivery versus payment and delivery versus receipt (also called free). Delivery versus payment is delivery of securities with an exchange of money for the securities. Delivery versus receipt is delivery of securities with an exchange of a signed receipt for the securities.

**Discount Securities:** Non-interest bearing money market instruments that are issued at a discount and redeemed at maturity for full face value.

**Diversification:** Dividing investment funds among a variety of securities offering independent returns.

**Federal Deposit Insurance Corporation (FDIC):** A federal agency that insures bank and savings bank deposits.

**Federal Funds Rate:** The rate of interest at which Fed funds are traded. The Federal Reserve currently pegs this rate through open-market operations.

**Fed Wire:** A computer system linking member banks and other financial institutions to the Fed, used for making inter-bank payments of Fed funds and for making deliveries of and payments for Treasury, agency and book-entry mortgage backed securities.

**Investment Adviser's Act:** Legislation passed by Congress in 1940 that requires all investment advisers to register with the Securities and Exchange Commission. The Act is designed to protect the public from fraud or misrepresentation by investment advisers.

**Liquidity:** A liquid asset is one that can be converted easily and rapidly into cash without a substantial loss of value.

**Local Government Investment Pool:** A pool of funds authorized under the laws of the State that receives deposits from one or more local units and pays returns based upon each local unit's share of investment in the pool.

**Mark-to-market:** The process whereby the book value or collateral value of a security is adjusted to reflect its current market value.

**Market Value:** Current market price of a security.

**Master Repurchase Agreement:** A written contract covering all future transactions between the parties to repurchase or reverse repurchase agreements that establish each party's rights in the transactions. A master agreement will often specify, among other things, the right of the buyer-lender to liquidate the underlying securities in the event of default by the seller-borrower.

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

**Money Market Mutual Fund:** A mutual fund that limits its investments to some or all types of money market instruments.

**Net Asset Value:** The market value of one share of an investment company, such as a mutual fund.

**No Load Fund:** A mutual fund that does not levy a sales charge on the purchase or sale of its shares.

**NRSRO:** Nationally Recognized Statistical Rating Organizations - organizations that issue credit ratings for securities.

**Portfolio:** Collection of securities held by an investor.

**Primary Dealer:** A group of government securities dealers who submit daily reports of market activity and positions and monthly financial statements to the Federal Reserve Bank of New York and are subject to its informal oversight. Primary dealers include Securities and Exchange Commission (SEC) registered securities broker/dealers, banks, and a few unregulated firms.

**Prudent Person Rule:** Standard of investing which states that investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived.

**Rate of Return:** The yield obtainable on a security based on its purchase price or its current market price. This may be the amortized yield to maturity on a bond or the current income return.

**Ratings:** An evaluation of an issuer of securities by Moody's, Standard & Poor's, Fitch, or other rating services of a security's credit worthiness.

**Repurchase Agreements:** A transaction whereby a holder of securities sells 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 agreement, and the terms of the agreement are structured to compensate the buyer. Dealers use repurchase agreements extensively to finance their positions.

**Rule 2a-7 of the Investment Company Act of 1940:** Applies to all money market mutual funds and mandates such funds to maintain certain standards, including a 13-month maturity limit a 90-day average maturity on investments and maintenance of a constant net asset value of one dollar (\$1.00).

**Safekeeping:** Holding of assets (e.g., securities) by a financial institution.

**Treasury Bills:** A non-interest bearing discount security issued by the U.S. Treasury to finance the national debt. Treasury Bills are issued with maturities ranging from a few days to 26 weeks.

**Treasury Bonds:** Long-term U.S. Treasury securities having initial maturities of more than ten years.

**Treasury Notes:** Intermediate term coupon bearing U.S. Treasury securities having initial maturities of from one to ten years.

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