



# 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.



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 corporation, 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.