



Legislation Text

File #: 07-0262, **Version:** 1

Resolution to Adopt Revised Investment Policy

The City's investment policy currently in effect was adopted in 1999. This policy established very conservative standards for investing that mitigate potential for loss, but also restrict earning potential.

After reviewing the policy with our investment advisor and various members of the Investment Policy Committee of the Association of Public Treasurers of the United States & Canada (APTUSC), some modifications are recommended. Below is a summary of the material changes to the policy:

- Entire policy rewritten and formatted to flow logically
- Mandated 50% allocation to Treasury Securities and/or Repurchase Agreements removed
- Restriction to 35% allocation in Federal Instrumentality Securities removed
- FDIC insurance requirement for Certificates of Deposit removed
- Treasurer's Report to Council made quarterly.

The effect of these changes is to permit slightly more flexible investment strategies, which are still considered conservative. It is noteworthy that the revised policy complies with Michigan law and the established public treasury standards of safety, liquidity, yield and legality.

The removal of restrictions regarding Treasury Securities, Repurchase Agreements and Federal Instrumentality Securities will allow the City to attain higher yields through two mechanisms. One, Federal Instrumentality Securities can earn a premium over Treasury Notes as there is slightly higher perceived risk. These securities are not backed directly by the U.S. Treasury, but are backed on a *de facto* basis by virtue of the issuer's relationship to the federal government. Two, our portfolio swells significantly during tax collections, up to \$65 million in the summer collection season. The mandated allocation to Treasury Securities and Repurchase Agreements has a secondary effect of limiting our potential investment in Commercial Paper. While our policy allows a 50% allocation to Commercial Paper, we could not approach that level without becoming non-conformant with respect to Treasury Securities. Commercial Paper typically commands a premium of 25-35 basis points over Treasury Securities. Our policy of purchasing only the highest quality Commercial Paper will not change.

The requirement limiting our CD deposits to FDIC insured levels caps our investment levels in these instruments at \$100,000 per banking institution. Lifting this requirement will allow the City to invest in CDs at a more significant level when rates are attractive. Requirements for banks at which we invest in CDs will not change.

A revised version of the policy was submitted to the APTUSC for certification. On June 29, we received a letter indicating that we had been approved for the APTUSC Investment Policy Certificate of Excellence. The certified policy is attached for your review.

The Budget and Finance Committee reviewed this revised policy on November 5, 2007 and

recommends approval.

Prepared by: Matthew V. Horning, Treasurer

Reviewed by: Tom Crawford, CFO

Financial and Administrative Services Area Administrator

Whereas, The Treasurer has reviewed the investment policy with the Chief Financial Officer, Investment Advisor and Treasury association colleagues;

Whereas, The Treasurer has identified recommended changes to the policy; and

Whereas, The Association of Public Treasurers of the United States & Canada has recognized the resulting policy with a certificate of excellence;

RESOLVED, That the revised investment policy replaces all previous versions and becomes the operating investment policy for the City effective immediately.