



CITY OF DAVISON

INVESTMENT POLICY

Council Resolution
Adopted 2/14/2022

City of Davison, Michigan

Investment Policy

Overview

The City of Davison, 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 Manager who is appointed by a seven-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 Davison.

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

Policy

It is the policy of City of Davison 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 all state statutes and local ordinances governing the investment of public funds.

Scope

This investment policy applies to all financial assets of the City except, for its employee pension fund, retiree health care fund, employee deferred compensation fund(s), or any other fund(s) which are organized and administered separately.

These funds are accounted for in the City's annual audited financial report and include the following funds:

- General Fund
- Street Funds
- Special Revenue Funds
- Debt Service Funds
- Water and Sewer Enterprise Funds
- Trust and Agency Funds
- Inter-Governmental Service Funds
- Any new fund created by the governing body, unless specifically exempted

Prudence and Indemnification

The standard of prudence to be used in managing the City’s assets is the “prudent person” 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 prudent person rule shall be applied in

the context of managing the overall portfolio. 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.

The investment official, acting in accordance with written procedures, the investment policy and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments.

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 of Capital - Safety of principal is the foremost objective of the investment program. Investments of City of Davison shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. To attain this objective, diversification is required in order that potential losses on individual securities do not exceed the income generated from the remainder of the portfolio.
- Liquidity: Maintenance of sufficient liquidity to meet anticipated disbursements and cash flows.
- Return on Investment - The investment portfolio of City of Davison shall be designed in a manner to attain a market rate of return throughout budgetary and economic cycles, commensurate with the City's investment risk constraints and the cash flow characteristics of the portfolio. Return on investment is of secondary importance compared to safety and liquidity objectives.
- Maintaining the Public's Trust - All participants in the investment process shall seek to act responsibly as custodians of the public trust. In addition, the overall investment program shall be designed and managed with a degree of professionalism worthy of the public trust. Investment officials shall also avoid any transaction that might knowingly impair public confidence in City of Davison's ability to govern effectively.

Delegation of Authority

Authority to manage City of Davison's investment program is derived from Michigan Public Act 20 of the Public Acts of 1943, as amended MCL 129.91 and 129.93. The City Treasurer is designated as investment officer of the City and is responsible for investment decisions and activities. The Treasurer shall develop and maintain written administrative procedures for the daily operation of the investment program, consistent with the investment policy. In the absence of the Treasurer, the designee will assume all related investment responsibilities. No person may engage in investment transactions except as provided under the terms of this policy and the administrative procedures established by the City Treasurer. The Treasurer shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials.

Ethics and Conflicts of Interest

All City 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. Employees shall disclose to the City Manager any material interests in financial institutions with which they conduct business, in accordance with applicable laws. They shall further disclose any personal financial/investment positions that could be related to the performance of the investment portfolio. Employees shall refrain from undertaking personal investment transactions with the same individual with whom business is conducted on behalf of the City of Davison.

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 these 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 based on 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:

- A. 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.
- B. 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.
- C. 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.
- D. Eligible Banker's Acceptances with maturities not exceeding 180 days from the date of trade settlement issued by FDIC insured state or national banks with combined capital and surplus of at least \$250 million. Banker's acceptances shall be rated at least A-1 or the equivalent at the time of purchase by at least two IRSROs. If the issuing bank has senior long-term debt outstanding, it must be rated, at the time of purchase at least M- or the equivalent by each IRSRO that rates the bank.
- E. 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.
- F. 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 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.

- G. 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.
- H. 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).
- I. 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.
- J. Local Government Investment Pools organized under Section 4 of Public Act 121 of 1985, the Local Government Investment Pool Act.

Diversification

It is the policy of the City of Davison to maintain a diversified investment portfolio. All cash and cash equivalent assets of the City will be diversified to eliminate the risk of loss resulting from an over-concentration of assets in a specific maturity, individual financial institution(s), or a specific class of securities. Diversification strategies shall be determined and revised periodically by the City Treasurer.

Investment Maturity and Liquidity

The portfolio shall remain sufficiently liquid to meet all cash requirements that may be reasonably anticipated. To the extent possible, investments shall be matched with anticipated cash flows and known future liabilities. Investments shall be limited to maturities not exceeding four years from the date of trade settlement.

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 based on 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).

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.

Investment Policy Adoption and Revisions

This Investment Policy shall be adopted by resolution of the City Council. It shall be reviewed periodically by the Treasurer, and may be amended by the City Council as conditions warrant.

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 returns on an investment, expressed as a percentage.

Appendix A

Acknowledgement of receipt of the Statement of Investment Policies, Procedures,
and Objectives of the City of Davison and agreement to comply.

By: _____

Title: _____

Date: _____