

**CITY OF ALPENA**

**COUNCIL POLICY STATEMENT**

General Subject:	FINANCE	Policy No.	<u>10</u>
Specific Subject:	INVESTMENT POLICY	Date Issued	<u>2/16/87</u>
		Effective Date	<u>2/16/87</u>
		Amended Date	<u>2/18/97</u>
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**I. Purpose**

It is the policy of the City of Alpena to invest its funds in a manner which will provide the highest investment return with the maximum security while meeting the daily cash flow needs of the City of Alpena and that the program shall be operated in conformance with federal, state and other legal requirements.

**II. Scope**

This policy applies to the investment of all funds, excluding the investment of employees' retirement funds and retiree health care funds.

- a. Pooling of Funds**—except for cash in certain restricted and special funds, the City of Alpena, to the extent possible, will consolidate cash and reserve balances from all funds to maximize investment earnings and to increase efficiencies with regard to investment pricing, safekeeping and administration. Investment income will be allocated to the various funds based on their respective participation and in accordance with generally accepted accounting principles.

**III. Objectives**

The primary objectives, in priority order, of the City of Alpena's investment activities shall be safety, liquidity, and yield:

- a. Safety**—Safety of principal is the foremost objective of the investment program. Investments shall be undertaken in a manner that seeks to insure the preservation of capital in the overall portfolio. The objective will be to mitigate credit risk and interest rate risk.
- i. Credit Risk:** The City of Alpena will minimize credit risk, which is the risk of loss due to the failure of the security issuer or backer, by:
    - 1. Limiting investments to the types of securities listed in Section VII of this Investment Policy.
    - 2. Pre-qualifying the financial institutions, broker/dealers, intermediaries, and advisers with which the City of Alpena will do business in accordance with Section V.
    - 3. Diversifying the investment portfolio so that the impact of potential losses from any one type of security or from any one individual issuer will be minimized.
  - ii. Interest Rate Risk:** The City of Alpena will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by:
    - 1. Structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity.
    - 2. Investing operating funds primarily in shorter-term securities, money market mutual funds, or similar investment pools and limiting the average maturity of the portfolio in accordance with this policy (see section VIII).
- b. Liquidity**—The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated. This is accomplished by structuring the portfolio so that securities mature concurrent with cash needs to meet anticipated demands. Furthermore, since all possible cash demands cannot be anticipated, the portfolio should consist largely of securities with active secondary or resale markets. Alternatively, a portion of the portfolio may be placed in money market mutual funds or local government investment pools which offer same-day liquidity for short-term funds.
- c. Yield**—The investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints and liquidity needs. Return on investment is of secondary importance compared to the safety and liquidity objectives described above. The core of investments are limited to relatively low risk securities in anticipation of earning a fair return relative to the risk being assumed.
- d. Foreign Currency Risk**—The City does not have exposure to foreign investments.

#### **IV. Standards of Care**

- a. Prudence**—The standard of prudence to be used by investment officials shall be the “prudent person” standard and shall be applied in the context of managing an overall portfolio. Investment officers acting in accordance with written procedures and this 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 the liquidity and the sale of securities are carried out in accordance with the terms of this policy.

The “prudent person” standard 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”.

- b. Ethics and Conflicts of Interest**—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. Employees and investment officials shall disclose any material interests in financial institutions with which they conduct business. They shall further disclose any personal financial/investment positions that could be related to the performance of the investment portfolio. Employees and officers shall refrain from undertaking personal investment transactions with the same individual with whom business is conducted on behalf of the City of Alpena.
- c. Delegation of Authority**—Authority to manage the investment program is granted to the City Clerk/Treasurer/Finance Director, as investment officer and derived from the City Charter, Chapter 7, Section 7.6. Responsibility for the operation of the investment program is hereby delegated to the investment officer, who shall act in accordance with established written procedures and internal controls for the operation of the investment program consistent with this investment policy. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the investment officer. The investment officer shall be responsible for all transactions undertaken and shall regulate the activities of subordinate officials.

#### **V. Authorized Financial Institutions, Depositories, and Broker/Dealers**

- a. Authorized Financial Institutions, Depositories, and Broker/Dealers**—A list will be maintained of financial institutions and depositories authorized to provide investment services. In addition, a list will be maintained of approved security broker/dealers and financial institutions.

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

- i. Audited financial statements demonstrating compliance with state and federal capital adequacy guidelines.
  - ii. Proof of National Association of Securities Dealers (NASD) certification (not applicable to Certificate of Deposit counterparties).
  - iii. Proof of state registration.
  - iv. Certification of having read and understood and agreeing to comply with the City of Alpena's policy.
  - v. Evidence of adequate insurance coverage.
- b. Minority and Community Financial Institutions**—From time to time, the investment officer may choose to invest in instruments offered by minority and community financial institutions. In such situations, a waiver to certain parts of the criteria under Paragraph 1 may be granted. All terms and relationships will be fully disclosed prior to purchase and will be reported to the appropriate entity on a consistent basis and should be consistent with state or local law. These types of investment purchases should be approved by the appropriate legislative or governing body in advance.

## **VI. Safekeeping and Custody**

- a. **Delivery vs. Payment**—All Security transactions, including collateral for repurchase agreements and financial institution deposits, entered into by the City Clerk/Treasurer/Finance Director may be on a cash basis or a delivery vs. payment basis as determined by the City Clerk/Treasurer/Finance Director.
- b. **Safekeeping**—Securities will be held by independent third-party custodians selected by the City of Alpena as evidenced by safekeeping receipts in the City of Alpena's name. The safekeeping institutions shall annually provide a copy of their most recent report on internal controls (Statement of Auditing Standards No. 70, or SAS 70).
- c. **Internal Controls**—The investment officer shall establish an annual process of independent review by an external auditor. This review will provide internal control by assuring compliance with policies and procedures. The controls 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 City of Alpena.

## **VII. Suitable and Authorized Investments**

**Investment Types**—The following investments will be permitted by this policy and are those defined by state and local law where applicable:

Cited From Michigan Public Act 20, 129.91, as written:

1. Sec. 1 (1) Except as provided in section 5 of Act 20 of 1943, 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, deposit accounts, or depository receipts of a financial institution, but only if the financial institution complies with subsection (2).
  - 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, title 1 of chapter 686, 54 Stat. 789, 15 U.S.C. 80a-1 to 80a-3 and 80a-4 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 267, 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. 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 the 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. 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.
5. 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” mean 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.

## VIII. Investment Parameters

- a. **Diversification**—The investments shall be diversified by:
  - i. Limiting investments to avoid over concentration in securities from a specific issuer or business sector (excluding U.S. Treasury securities),
  - ii. Limiting investment in securities that have higher credit risks,
  - iii. Investing in securities with varying maturities, and
  - iv. Continuously investing a portion of the portfolio in readily available funds such as local government investment pools (LGIPs), or money market funds to ensure that appropriate liquidity is maintained in order to meet ongoing obligations.
- b. **Maximum Maturities**—To the extent possible, the City of Alpena shall attempt to match its investments with anticipated cash flow requirements.

Reserve funds and other funds with longer-term investment horizons may be invested in securities exceeding five (5) years if the maturities of such investments are made to coincide as nearly as practicable with the expected use of funds.

Because of inherent difficulties in accurately forecasting cash flow requirements, a portion of the portfolio should be continuously invested in readily available funds such as local government investment pools, or money market funds to ensure that appropriate liquidity is maintained to meet ongoing obligations.

#### **IX. Reporting**

- a. **Methods**—The investment officer shall prepare a quarterly investment report, including the individual transactions executed over the last quarter. This management summary will be prepared in a manner which will allow the City of Alpena to ascertain whether investment activities during the reporting period have conformed to the investment policy. The report should be provided to the entity's chief administrative officer, the legislative body. The report will include a listing of individual securities, maturity dates, interest rates, and book value.
- b. **Performance Standards**—the investment portfolio will be managed in accordance with the parameters specified within this policy. The portfolio should obtain a market average rate of return during a market/economic environment of stable interest rates.

#### **X. Policy Considerations**

- a. **Exemption**—Any investment currently held that does not meet the guidelines of this policy shall be exempted from the requirements of this policy. At maturity or liquidation, such monies shall be reinvested only as provided by this policy
- b. **Amendments**—This policy shall be reviewed on an annual basis. Any changes must be approved by the investment officer and any other appropriate authority, as well as the individuals charged with maintaining internal controls.

#### **XI. Approval of Investment Policy**

The investment policy shall be formally approved and adopted by the governing body of the City of Alpena.