

City of Northville

Investment Policy

Adopted November 16, 1998
Amended August 15, 2005
and August 21, 2006
and June 15, 2015

City of Northville Investment Policy

1.0 Purpose

It is the policy of the City of Northville to invest public funds in a manner which will provide the highest investment return with the maximum security while meeting the daily cash flow needs. This policy is intended to comply with all State of Michigan statutes and local ordinances governing the investment of public funds.

2.0 Scope

- 2.1 This investment policy applies to all financial assets of the City of Northville. These assets are accounted for in the various funds of the City of Northville which include the general fund, special revenue funds, debt service funds, capital project funds, enterprise funds, internal service funds, trust and agency funds, and any new fund established by the City of Northville.
- 2.2 Accordingly, funds which are not accounted for as City financial assets are excluded from this policy. Specifically, employee pension fund and employee deferred compensation funds are not subject to this policy as they are administered and managed by separate legal entities.

3.0 Prudence

- 3.1 The standard of prudence to be applied by the investment officer will be the "prudent person" rule which states the following. "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."
- 3.2 The above standard is established as the standard for professional responsibility and shall be applied in managing the City's entire portfolio.
- 3.3 Investment officers of the City, acting according to this investment policy and written procedures as may be established and exercising due diligence, shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from exceptions are reported to the City Manager in a timely fashion and appropriate action is taken to control adverse developments.

4.0 Objectives: safety, liquidity, and return on investment.

The primary objectives, in priority order, of the City of Northville's investment activities shall be:

4.1 Safety - Protection of investment 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 by diversifying holdings and maturities to mitigate both credit risk and interest rate risk.

Credit Risk

The City will minimize credit risk, the risk of loss due to the failure of the security, issuer or backer, by:

- * Limiting investments to the safest types of securities
- * Pre-qualifying financial institutions with which the City will do business
- * Diversifying the portfolio so that potential losses on individual securities would be minimized
- * Maintaining credit ratings on all holdings

Interest Rate Risk

The City will minimize the risk that the market value of the securities in the portfolio will fall due to changes in general interest rates by structuring the portfolio to meet the cash requirements of ongoing operations, thereby mitigating the need to liquidate securities at a loss prior to maturity.

Concentration Risk

The City will minimize the risk in placing a large portion of the portfolio with a single security issuer by limiting the exposure to 5% of the total portfolio at time of purchase. This requirement does not apply to investments issued by the U.S. government or its agencies or its instrumentalities, investments in mutual funds and highly rated investment pools..

Custodial Credit Risk

The City will minimize custodial credit risk by using only third-party custodians meeting a pre-qualification evaluation and holding securities in the City's name.

Foreign Currency Risk

The City will only invest in US dollar denominated securities.

4.2 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.

4.3 Return on Investment - The investment portfolio shall be designed with the objective of obtaining a rate of return throughout the budgetary and economic cycles, taking into account the investment risk constraints and the cash flow characteristics of the portfolio. Return on investment is of secondary importance compared to the safety and liquidity objectives described above.

5.0 Delegation of Authority

- 5.1 The authority to manage the investment program is derived from State statutes. The Finance Director is hereby designated as the investment officer of the City and is responsible for investment decisions and activities.
- 5.2 Written procedures shall be developed for the operation of the investment program consistent with this investment policy. Procedures will include references to: safekeeping, delivery vs. payment, investment accounting, repurchase agreements, wire transfer agreements, collateral/depository agreements and banking service contracts.
- 5.3 A system of written internal controls shall be designed to regulate the activities of investment officials to prevent loss of public funds due to fraud, error, misrepresentation, unanticipated market changes or imprudent actions.
- 5.4 In case of the Finance Director's absence, the City Manager or his designee shall be responsible for investment decisions and activities.
- 5.5 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 Finance Director, with the approval of City Manager and City Council, may delegate investment transactions to a qualified investment advisor.

6.0 Ethics and Conflict of Interest

- 6.1 Officers and 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 their ability to make impartial investment decisions.
- 6.2 Employees and investment officials shall disclose to the City Manager or City Council, as appropriate, any material interest in financial institutions that conduct business with the City, and they shall disclose any large personal financial or investment positions that could be related to the performance of the City's portfolio.
- 6.3 Employees and officers shall subordinate their personal investment transactions to those of the City, particularly with regard to the timing of purchases and sales.

7.0 Authorized Financial Institutions and Activities

- 7.1 The City, or the designated investment advisor, shall maintain a listing of approved broker / dealers. 7.2 The purchase of commercial paper, banker's acceptances, repurchase agreements, and municipal bonds shall be restricted to the City's or Investment Advisor's own approved issuer list in which there is an establishment of a formal credit review process when purchasing these particular types of investments.
- 7.2 Qualified investment advisors assisting the City in the management of its overall portfolio may purchase and sell investment securities in accordance with this policy and may utilize their own approved list of broker/dealers and security issuers; however, the list shall comply fully with the criteria maintained in this policy.
- 7.3 At least three competitive prices are required for every transaction involving an individual security to ensure a competitive selection of investment instruments. Adequate documentation of the bid process should be maintained.

8.0 List of authorized investments

The City is empowered by State statute (Michigan Public Act 20 of 1943 as amended) to invest surplus funds in the following types of securities.

- 8.1 Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
- 8.2 Certificates of deposits, savings accounts, deposit accounts, or depository receipts of a bank or a savings and loan association which is a member of the Federal Deposit Insurance Corporation or a credit union which is insured by the National Credit Union Administration; but only if the bank, savings and loan association, or credit union is eligible to be a depository of surplus funds belonging to the State under statute.
- 8.3 Commercial paper rated at the time of purchase within the top two (2) highest classifications established by not less than two (2) standard rating services and which matures not more than 270 days after the date of purchase.
- 8.4 United States government or federal agency obligation repurchase agreements. Repurchase agreements shall be negotiated only with dealers or financial institutions with whom the City has negotiated a Master Repurchase Agreement or with the City's primary financial institutions. Repurchase Agreements must be signed with the bank or dealer and must contain certain provisions similar to those outlined in the Public Security Association's model Master Repurchase Agreement. The underlying securities that make up the repurchase agreement collateral must have a market value of at least 102% of the amount of the initial purchase.
- 8.5 Banker's acceptances of United States banks.
- 8.6 Mutual Funds composed of investment vehicles which are legal in the State of Michigan for direct investment by local units of government. For further clarification this authorization is limited to

securities whose intention is to maintain a net asset value of \$1.00 per share.

- 8.7 Obligations of the State of Michigan or any of its political subdivisions that at the time of purchase are rated as investment grade by not less than one standard rating service.
- 8.8 Investments described in 8.1 through 8.7 above, if purchased through an inter local agreement under the Urban Cooperative Act of 1967, (EX SESS) PA 7, MCL 124.501 to 124.512.
- 8.9 Investment Pools organized under the surplus funds investment pool act 1982 P.A. 367, MCL 129.111 to 129.118 and the local government investment pool act 1985 P.A. 121, MCL 129.141 to 129.150. A due diligence standard must apply prior to investing in all bank sponsored or money market investment pools.
- 8.10 CDARs: certificates of deposit and/or cash sweep through the Certificate of Deposit Account Registry Services (CDARs).

9.0 **Safekeeping and Custody**

- 9.1 All securities purchased by the City of Northville will be properly designated as an asset of the City and held in safekeeping. No withdrawal of such securities, in whole or in part, will be made from safekeeping except by the investment officer as authorized herein.
- 9.2 Transactions in negotiable instruments which have a value exceeding SIPC insurance protection, and other insurance protection as may be applicable, with any one dealer will be required to be settled on a delivery vs. payment basis. A trust receipt from the contra party and proof of SIPC and other insurance will be required when the transaction is covered by insurance. Non-negotiable. Non-collateralized certificates of deposit, as is the law in the State of Michigan, will be evidenced by a safekeeping receipt from the issuing bank.
- 9.3 Securities must be held by a third party custodian designated by the Finance Director and evidenced by supporting safekeeping records as determined by the Finance Director.

10.0 **Diversification**

- 10.1 It is the policy of the City of Northville to diversify its investment portfolio with a goal of 5% maximum exposure to any one credit risk at time of purchase. This requirement does not apply to investments issued by the U.S. government or its agencies or its instrumentalities, investments in mutual funds and external investment pools, and other pooled investments. The diversification objective is to reduce overall portfolio risks while attaining average market rate of return.
- 10.2 Assets held in the common cash fund and other investments will be diversified to eliminate the risk of loss resulting from over-concentration of assets in a specific maturity, individual financial institution or a specific class of securities.

- 10.3 Diversification strategies will be determined by the Investment Advisor and reviewed by the investment officer as needed.
- 10.4 Investment maturities for operating funds will be scheduled to coincide with projected cash flow needs, taking into account large routine expenditures (i.e. debt service) as well as considering sizable blocks of anticipated revenue (i.e. property taxes and state revenue sharing payments).
- 10.5 The percentage of the overall portfolio to be invested in certificates of deposit, commercial paper, repurchase agreements, banker's acceptances, or municipal bonds shall be limited to a maximum of 50% for each security type.

11.0 Maximum Maturities

- 11.1 To the extent possible, the investment officer will attempt to match investments with anticipated cash flow requirements. Unless matched to a specific cash flow requirement, the investment officer will not directly invest in securities maturing more than four years from the date of purchase. Agency Mortgage backed securities will be limited to a weighted average life (WAL) of 5 years.
- 11.2 Reserve Funds may be invested in securities exceeding four years if the maturity of such investments is made to coincide as nearly as practicable with the expected use of the funds.

12.0 Performance and Reporting

- 12.1 The investment officer shall submit an annual investment report that provides the principal and type of investment by fund, annualized yield, ratio of cash to investments, earnings for the year, and a summary report of cash and investments maintained in each financial institution.
- 12.2 Performance of the portfolio shall be submitted to the City Council and City Manager in a quarterly report detailing the characteristics of the portfolio as well as its performance for that period. Material deviations from projected investment strategies shall be reported to the City Council and City Manager.
- 12.3 The City engages in an active investment strategy. Given this strategy, the benchmark used by the investment officer to determine whether market yields are being achieved will be the Bank of America/Merrill Lynch 1 – 3 Year U.S. Treasury Index.

13.0 Investment Policy Adoption

The City's investment policy shall be adopted by resolution of the City Council and may be amended upon the recommendation of the City Manager and approval of the City Council.

City of Northville

ACKNOWLEDGMENT OF RECEIPT OF INVESTMENT POLICY AND AGREEMENT TO COMPLY

I have read and fully understand Act 20 PA 1943, as amended, and the Investment Policy of the City of Northville as amended August 15, 2005 and August 21, 2006 and June 15, 2015.

Any investment advice or recommendation given by _____, representing _____, to the investment officer shall comply with the requirements of Act 20 PA 1943, as amended, and the Investment Policy of the City of Northville. Any existing investment not conforming with the statute or the policy will be disclosed promptly.

By: _____

Title: _____

Date: _____

City of Northville

RESOLUTION

INVESTMENT POLICY

WHEREAS, Act 20 of the Public Acts of 1943 as amended by Act 196 PA 1997 provides the framework for municipal investing in Michigan; and,

WHEREAS, the Northville City Council adopted an investment policy dated November 16, 1998, which conforms to Public Act. 20 of 1943 authorizing the investment of surplus funds into certain investment types; and,

WHEREAS, City staff and the City's Investment Advisor have reviewed the investment policy to ensure that it meets the City's investment objectives and procedures; and,

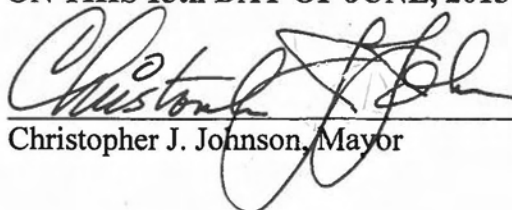
WHEREAS, revisions to the existing policy are recommended based upon that review;

NOW, THEREFORE, BE IT RESOLVED, that the City of Northville Investment Policy be amended and is hereby adopted.

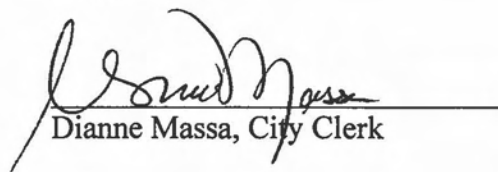
The forgoing resolution was offered by Darga and seconded by Allen.

Yes: Allen, Darga, Ekong, McKinley, Johnson
No: None
Absent: None

RESOLUTION DECLARED ADOPTED ON THIS 15th DAY OF JUNE, 2015


Christopher J. Johnson, Mayor

Attest:


Dianne Massa, City Clerk