

City of Allegan Investment Policy

Revised by Allegan City Council

October 23, 2006

Purpose

The purpose of this policy is to give an approved set of clear and concise objective guidelines to be used by those responsible for investing funds of the City of Allegan. The policy is based on the premise that available public funds should be invested in minimal or risk-free instruments where they may earn the highest rate of return available. The anticipation of these earnings will help finance various programs and services the City provides. An additional intent of this policy is that public funds of the community shall be working in the community and local financial institutions. It is recognized that this policy is subject to public review and will be subject to amendment by the Allegan City Council as changes occur in legislation, City investments and the City's economic needs.

Scope

The investment policy applies to all investment activities of the City of Allegan, hereafter referred to as "the City", and excluding those invested in a specified manner as required by law, bondholder agreement or City Council direction. The City employees' pension and deferred compensation funds are held by a third-party custodian/money manager, as previously approved by the City Council. The investment of funds held by the City in the Capital Asset Improvement Sinking Fund and the Capital Reserve Sinking Fund shall be governed by this policy except as otherwise provided in the City Charter. The depository holding Trust and Agency Fund receipts will be subject to approval, as provided herein, until disbursement.

Investment earnings shall become part of the fund for which the investment was made. When money of more than one fund is combined for an investment "pool", the money shall be accounted for separately, and the earnings from the investment shall be separately and individually computed, recorded and credited to the fund for which the investment was acquired.

Objectives

The following shall be the objectives of this policy:

- A. Safety of the principal – Each investment transaction shall seek first to ensure that capital losses are avoided, whether from default, erosion of market value or otherwise.
- B. Diversification – A closely related objective which eliminates the risk of loss from an over concentration of assets in a specific depository, a specific maturity, a specific issuer or a specific class of securities. The governing body, however, recognizes that in a diversified portfolio, occasional measured losses are inevitable and must be considered within the context of the overall portfolio's investment return, provided adequate diversification has been implemented.

- C. Maintain adequate liquidity – This objective reflects a desire to prevent cash shortages in meeting the City’s reasonably expected operating needs.
- D. Attaining or exceeding the market average rate of return – This objective seeks to attain “market average” rates of return on its operating fund investments, consistent with the constraints imposed by the preceding three objectives. The goal of the passive investment strategy is to attain a rate of return at or above the average three month U.S. Treasury bill, or the average of federal funds.
- E. Promote local economic and social growth – Where consistent with the law, FDIC Insurance thresholds and other objectives of this policy, preference will be given to local community financial institutions in the placement of City investments and deposits.

Delegation of Authority

The Allegan City Council shall set forth all policy regarding investments. The City Manager shall direct the City Treasurer, hereafter referred to as “Investment Officer”, in the implementation of those policies. Day to day management of the City’s investments will be the responsibility of the Investment Officer. The Investment Officer shall establish 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 terms of this policy and in accordance with the procedures established by the Investment Officer. The Investment Officer shall be responsible for all transactions undertaken, and shall establish a system of controls to regulate the activities of subordinate officials.

In the exercise of this fiduciary responsibility, the Investment Officer (or designate) shall have the authority to determine the maturity dates, kinds of investment instruments, and institutions which best meet the cash management needs and objectives of the City subject to the provisions of this policy.

Prudence

The following standard of prudence shall be applied in managing the City’s available funds in accordance with this policy:

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.

City investment officers acting in accordance with this investment policy and written procedures as may be established pursuant to this policy, state and local law, and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided that deviations from expectations are reported in a timely fashion, and appropriate action is taken to control adverse developments.

Ethics

Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with proper execution of this policy, or which could impair their ability to make impartial investment decisions. Employees and investment officials shall disclose to the City Manager any material financial interests in financial institutions that conduct business within the City, and they shall further disclose any large personal financial/investment positions that could relate to the performance of the City's portfolio. Employees and officers shall subordinate their personal investment transactions to those of the City, particularly with regard to the timing of purchases and sales.

Authorized Investments

The City may invest its funds in the following investments, which are approved investments for Michigan Municipalities as outlined in section 129.91 of the Michigan Compiled laws.

- ❖ *U.S. Government Obligations*, such as bonds, bills or notes which are direct obligations of the U.S. Government or any agency or instrumentality thereof, including repurchase agreements of such obligations. Eligible obligations include U.S Treasury Bills, U.S. Treasury Bonds, U.S. Treasury Notes, Export Import Bank Debentures and Participation Certificates, Farmers Home Administration Insured Notes, General Services Administration Participating Certificates, Obligations of the Federal Home Loan Mortgage Corporation, FNMA Bonds and GNMA Bonds, Participation Certificates, and Pass Troughs.
- ❖ *Certificates of Deposits*, savings accounts, deposit accounts, or depository receipts of a financial institution.
- ❖ *Investment Pools*, as allowed by Michigan Public Act 367 of 1982 or by Michigan Public Act 121 of 1985, and which are composed of investment vehicles, which are legal for direct investment, by local units of government in Michigan.
- ❖ *Commercial Paper*, rated at the time of purchase within the two (2) highest classifications established by not less than two (2) standard rating

services and which mature not more than 270 days after the date of purchase.

- ❖ *Mutual Funds*, including money market funds, registered under Title I of Chapter 686 of the Investment Company Act of 1940, 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 Michigan public corporation. This authorization shall be limited to securities whose intention is to maintain a net asset value of \$1.00 per share.

Investment Maturity and Liquidity

To the extent possible, the City will attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow requirement, the City will not directly invest in securities maturing more than five (5) year from the date of purchase.

Investments may be sold from one fund to another, in the event of a cash shortage. Interest will be prorated and an audit trail provided.

Financial Institutions, Intermediaries & Issuers Selection Criteria

- A. A financial institution, as identified in Michigan Public Act 20 of 1943, with which the City deposits or invests its funds must be eligible to be a depository of funds belonging to the State of Michigan under a law of the State of Michigan or the United States, and shall be a state or nationally chartered bank or a state or federally chartered savings and loan association, a savings bank, or credit union, the deposits of which bank, savings and loan association, savings bank, or credit union are insured by an agency of the United States Government, and which bank, savings and loan association, savings bank, or credit union maintains a principle office or branch office located in the State of Michigan under laws of the State of Michigan or the united States.
- B. Securities shall be purchased only through qualifying financial institutions, which provide the services of a securities dealer, or through “Primary Government Securities Dealers” as designated by the Federal Reserve Bank. These institutions, dealers and issuers must meet capital adequacy guidelines as determined by their respective regulatory agencies and certify that no material adverse events have occurred since the issuance of their most recent financial statements. They must also agree to notify the City in the event of material adverse events affecting their capital adequacy.

Safekeeping and Custody

All securities purchased by the City shall be properly designated as an asset of the City and held in safekeeping. No withdrawal of such securities, in whole or in part, shall be made from safekeeping except by the Investment Officer or by his or her designee.

All security transactions, including collateral for repurchase agreements and financial institution deposits, entered into by the City shall be on a cash (or delivery vs. payment) basis. Securities may be held by a third-party custodian designated by the City Council.

Knowledge of Investment Policy

Before accepting funds or engaging in investment transactions, each bank, savings and loan association, securities dealer, or other financial institution shall certify in writing that it has reviewed this statement of investment policies and objectives.

Investment Performance Reporting

The Investment Officer annually shall provide a written report to the City Council concerning the investment funds, which report shall include the principal and type of investment by fund, annualized yield, ratio of cash to investments, earnings for the preceding year and a summary report of cash and investments maintained in each financial institution.

Material deviations from projected investment strategies shall be reported immediately to the City Manager.

Acknowledgment of Eligibility as a Public Fund Depository and Receipt of City of Allegan's Investment Policy

I, _____ hereby certify that _____ qualifies
(Name of Representative) (Name of Institution)

as a depository of public funds in the State of Michigan. This institution also certifies the investment policy of the City of Allegan has been received and reviewed by our representatives. It is understood that the sole purpose of this investment policy is to provide the City of Allegan with a formally approved set of guidelines for the investment of public funds.

Regularly available services, subject to State of Michigan requirements, will be supplied to the City of Allegan upon request and subject to this institution's standard operating procedures. To aid the City of Allegan's implementation of its investment policy, annual financial statements of this institution will be provided to the City of Allegan.

The acknowledgment of receipt and review of the City of Allegan's investment policy does not accept or imply additional liability to this financial institution.

It is also understood additional agreements may become necessary due to the use of various financial instruments and services as provided in the investment policy (i.e. Third Party Custodial Agreements, Master Repurchase agreement, etc.).

Signature of Representative

Title

Date