CITY OF MARQUETTE, MICHIGAN

CITY COMMISSION POLICY

Policy Number: **2008-01**	Revision Date: May 11, 2015
Date Adopted: September 8, 2008	
Department: Administrative	

SUBJECT: **CITY OF MARQUETTE INVESTMENT POLICY**

PURPOSE: It is the policy of the City of Marquette 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 entity and conforming to all state statutes and local ordinances governing the investment of public funds.

POLICY:

SCOPE

This investment policy applies to all financial transactions and assets held by the City of Marquette other than pension fund assets. These assets are accounted for in the City of Marquette's Comprehensive Annual Financial Report and include:

- General Fund
- Special Revenue Funds
- Debt Service Funds
- Capital Project Funds
- Enterprise Funds
- Internal Service Funds
- Fiduciary Funds
- Permanent Funds
- General Capital Assets
- General Long-Term Debt
- Any new fund created by the local unit, unless specifically exempted by the legislative body

The fund excluded from this policy is the Police/Fire Retirement System Fund which has its own investment policy statement (IPS) approved by the Pension Board. The IPS is consistent with the provision of the Michigan Public Employee Retirement System Investment Act 314 of 1965 and any amendments thereof.

PRUDENCE

In managing its investment portfolio, City of Marquette officials should avoid transactions that might impair public confidence. 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 standard of prudence to be used by investment officials shall be the "prudent person" and/or "prudent investor" standard and shall be applied in the context of managing an overall portfolio. Investment officers of the City of Marquette, acting in accordance with State statute, this Investment Policy, 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 that deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments.

INVESTMENT OBJECTIVES

The following primary investment objectives, in compliance with Michigan Public Act 20 of the Public Acts of 1943, as amended [MCL 129.91 et seq], in priority order, of the City of Marquette's investment activities shall be:

<u>Safety</u>

Safety of principal is the foremost objective of the investment program. Investments of the City of Marquette shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. To attain this objective, the City of Marquette will diversify its investments by investing funds among a variety of financial institutions and in securities offering independent returns.

<u>Liquidity</u>

The City of Marquette's investment portfolio will remain sufficiently liquid to enable the City of Marquette to meet all operating requirements which might be reasonably anticipated.

Yield (<u>Return on Investment)</u>

The City of Marquette's investment portfolio shall be designed with the objective of attaining a benchmark rate of return throughout budgetary and economic cycles, commensurate with the City of Marquette's investment risk constraints and the cash flow characteristics of the portfolio.

DELEGATION OF AUTHORITY

Authority to manage the City of Marquette's investment program is derived from State statutes. Management responsibility for the investment program is hereby delegated to the Chief Financial Officer or Designee who shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials and their procedures in the absence of the Chief Financial Officer. The Chief Financial Officer shall establish written investment policy procedures for the operation of the investment program consistent with this policy. The procedures should include reference to: safekeeping, Public Security Association (PSA) repurchase agreements, delivery vs. payment, wire transfer agreements, collateral/depository agreements and banking service contracts. Such procedures shall include explicit delegation of authority to persons responsible for investment transactions. No person may engage in an investment transaction except as provided under terms of this policy and the procedures established by the Chief Financial Officer.-

ETHICS AND CONFLICTS OF INTEREST

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 – or create the appearance of an impairment on – 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 with the City of Marquette, and they shall further disclose any large personal/financial investment positions that could be related to the performance of the City of Marquette's portfolio. Authorized Investment Advisors (if any) shall subordinate their personal investment transactions to those of the City, particularly with regard to the timing of purchases and sales.

AUTHORIZED FINANCIAL DEALERS AND INSTITUTIONS

The Chief Financial Officer will maintain a list of financial institutions that have been authorized by the legislative body to provide investment and depository services. In addition, a list will also be maintained for approved or security broker/dealers selected by credit worthiness that are authorized to provide investment services in the State of Michigan. These may include "primary" dealers or regional dealers that qualify under Securities & Exchange Commission Rule 15c3-1 (Uniform Net Capital Rule). No public deposit shall be made except in a qualified public depository as established by State law. Financial institutions and broker/dealers who desire to become qualified bidders for investment transactions must supply the Chief Financial Officer with one or more of the following: audited financial statements for the most recent fiscal year, certification of having read the City of Marquette's investment policy and the pertinent State statutes, proof of National Association of Security Dealers certification or proof of State registration.

An annual review of the financial condition and registration of qualified bidders may be conducted by the Investment Advisory Board. A current audited financial statement is required to be on file for each financial institution and broker/dealer in which the City of Marquette invests.

AUTHORIZED AND SUITABLE INVESTMENTS

The City of Marquette is empowered by Michigan Public Act 20 of the Public Acts of 1943, as amended [MCL 129.91 et. seq.] to invest in the following types of securities:

a. U.S. Government Obligations

Bonds, securities, and other obligations of the United States, or an agency or instrumentality of the United States in which the principal and interest is fully guaranteed by the United States, including securities issued or guaranteed by the government national mortgage association;

b. Certificate of Deposits, Savings Accounts, Deposit Accounts or Depository Receipts of a Financial Institution

Negotiable certificates of deposit, savings accounts, deposit accounts or depository receipts of a bank or 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 a law or rule of Michigan or the United States;

c. Bankers Acceptances

Bankers Acceptances are short-term securities of 30 to 270 day duration. The investment is backed by the credit of the issuing bank, the credit of the company purchasing goods, and the purchased inventory. The City would be limited to U.S. banks rated at least an A by Standard and Poor's or Moody's;

d. Commercial Paper

No more than 50 percent of any one fund may be invested in 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;

e. Mutual Funds

Mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Authorized mutual funds are limited to securities whose intention is to maintain a net asset value of $1.00 per share;

f. 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 of Marquette's primary financial institutions. A Master Repurchase Agreement must be signed with the bank or dealer and must contain provisions similar to those outlined in the Public Security Association's model Master Repurchase Agreement. All repurchase agreement transactions must comply with Public Act 20 of the State of Michigan.

g. Certificate of Deposit Account Registry Service (CDARS)

CDARS is comprised of a special network of banks. With the CDARS program, when a large amount of money is deposited with a participating local bank, the funds are broken into smaller amounts and placed into CDs issued by other banks in the network – in increments below the standard FDIC insurance maximum in each bank. The City's authorized investment firms are used for CDARS deposits.

h. <u>Obligations of the State of Michigan</u>

Obligations of the State of Michigan (municipal bonds) 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.

i. <u>Investment Pools</u>

Investment Pools organized under the Surplus Funds Investment Pool Act of Michigan, 1982 PA 367, as amended [MCL 129.111 through 129.118] and the Local Government Investment Pool Act of Michigan, 1985 PA 121, [MCL 129.141 through 129.150]. A due diligence standard must apply prior to investing in all bank sponsored or money market investment pools.

The Chief Financial Officer is restricted to investments that meet the statutory restrictions above and limitations on security issues and issuers as detailed below:

a. Investment of bond proceeds of funds pledged for bond repayment must be fully insured, fully collateralized or otherwise protected from loss of principal and interest and maturities must assure the availability of funds on the dates for principal and interest repayment specified in the bond covenants.

b. Investments in Commercial Paper are restricted to those that have, at the time of purchase, the top investment rating provided by any two nationally recognized rating agencies. Commercial Paper held in the portfolio that subsequently receives a reduced rating shall be closely monitored and sold immediately if the principal invested may otherwise be jeopardized.

c. Certificates of Deposit shall be purchased only from financial institutions that qualify under Michigan law and are consistent with Opinion No. 6168, Opinions of the Attorney General (1983).

d. To the extent possible, the investing officer will attempt to match investments with anticipated cash flow requirements.

e. Investments will be diversified by security type and institution. With the exception of U.S. Treasury securities and authorized investment pools, no more than <u>50 percent</u> of the total investment portfolio will be invested in a single security type.

f. In money market mutual funds or qualified bank trust funds composed of investment vehicles which are legal for direct investment by local governments in Michigan.

INVESTMENT POOLS/MUTUAL FUNDS

A thorough investigation of the pool/fund is required prior to investing, and on a continual basis. There shall be a questionnaire developed that will answer the following general questions:

- -- A description of eligible investment securities, and a written statement of investment policy and objectives.
- -- A description of interest calculations and how it is distributed and how gains and losses are treated.
- -- A description of how the securities are safeguarded (including the settlement processes), and how often the securities are priced and the program audited.
- -- A description of who may invest in the program, how often, what size deposit and withdrawal are allowed.
- -- A schedule for receiving statements and portfolio listings.
- -- Are reserves, retained earnings, etc. utilized by the pool/fund?
- -- A fee schedule, and when and how is it assessed.
- -- Is the pool/fund eligible for bond proceeds and/or will it accept such proceeds?

COLLATERALIZATION

The State of Michigan does not require collateralization.

SAFEKEEPING AND CUSTODY; THIRD PARTY CUSTODIAL AGREEMENTS

All security transactions, including collateral for repurchase agreements, entered into by the City of Marquette shall be conducted on a delivery-versus-payment (DVP) basis. Securities will be held by a third party custodian designated by the Chief Financial Officer and Treasurer and evidenced by safekeeping receipts.

All securities purchased by the City of Marquette under this section shall be properly designated as an asset of the City and may be held in safekeeping by a third party custodial bank or other third party custodial institution, chartered by the United States Government of the State of Michigan and no withdrawal of such securities, in whole or in part shall be made from safekeeping except by the Chief Financial Officer or Treasurer as authorized herein, or by their respective designees.

The City of Marquette will execute third party custodial agreements(s) with its bank (s) and depository institutions(s). Such agreements will include letters of authority from the City of Marquette, details as to responsibilities of each party, notification of security purchases, sales delivery, repurchase agreements and wire transfers, safekeeping and transactions costs, procedures in case of wire failure or other unforeseen mishaps including liability of each party.

DIVERSIFICATION AND MAXIMUM MATURITIES

The City of Marquette will diversify its investments by security type and institution. With the exception of U.S. Treasury securities and authorized pools, no more than 50% of the City of Marquette's total investment portfolio will be invested in a single security type or with a single financial institution.

To the extent possible, the City of Marquette will attempt to match investments with anticipated cash flow requirements.

The following is a table of securities and the City's length maturity:

Investment Type	Grade/Reference	% Total Investment	Length
1- U.S. Obligation	N/A	Up to 100%	No Restrictions
2- Certificate of Deposit	A (Bank)	Up to 100%	No Restrictions
3- Savings Accounts	A (Bank)	Up to 100%	No Restrictions
4- Bankers Acceptance	A (Bank)	Up to 50%	30 to 270 days
5- Commercial Paper	Top 2 Grades	Up to 50%	1 to 270 days
6- Repurchase Agreements	PA 20	Up to 25%	1 to 90 days
7- Money Market Mutual Funds	PA 20	Up to 100%	No Restrictions
8- Investment Pools	PA 20	Up to 100%	No Restrictions

INTERNAL CONTROLS

The Chief Financial Officer with the City Treasurer shall establish a system of internal controls which is designed to prevent losses 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. This annual process will be independently reviewed by an external auditor. The review will provide internal control by assuring compliance with policies and procedures.

PERFORMANCE STANDARDS

The investment portfolio shall be designed with the objective of obtaining a rate of return throughout budgetary and economic cycles, commensurate with the investment risk constraints and the cash flow needs.

The City of Marquette's investment strategy is active, in that investment transactions are initiated by the City. Given this strategy, the basis used by the Chief Financial Officer to determine whether market yields are being achieved shall be the average Federal Funds rate and/or the 90 day U.S. Treasury Bill rate that is comparable to the portfolio's investment duration.

REPORTING

The Chief Financial Officer shall provide the City Commission quarterly investment reports that provide a clear picture of the status of the current investment portfolio. The management report should include comments on the fixed income markets and economic conditions, discussions regarding restrictions on percentage of investment by categories, possible changes in the portfolio structure going forward and thoughts on investment strategies. Schedules in the quarterly report should include the following:

a. A listing of individual securities held at the end of the reporting period by authorized investment category.

b. Average life and final maturity of all investments listed.

c. Coupon, discount or earnings rate.

d. Par value, amortized book value and market value.

e. Percentage of the portfolio represented by each investment category.

Performance of the portfolio shall be reported periodically and submitted to the City Manager. Reports shall include details of the characteristics of the portfolio as well as its performance for that period. Reports shall be submitted at a minimum on an annual basis (and as frequently as quarterly or monthly). Material deviations from projected investment strategies shall be reported immediately.

INVESTMENT POLICY ADOPTION

The City of Marquette's investment policy shall be adopted by resolution of the City of Marquette Commission. The policy shall be reviewed on an annual basis by the Finance Committee of the legislative authority or by an Investment Advisory Board created by legislative action. Modifications made at that time or when necessitated by State statutory revision must be approved by the Commission of the City of Marquette.

Originally Adopted: November 1997
Updated: March 2008, December 2014

GLOSSARY

AGENCIES: Federal agency securities and/or Government-sponsored enterprises.

ASKED: The price at which securities are offered.

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.

BENCHMARK: A comparative base for measuring the performance or risk tolerance of the investment portfolio. A benchmark should represent a close correlation to the level of risk and the average duration of the portfolio's investments.

BID: The price offered by a buyer of securities. (When you are selling securities, you ask for a bid.) See Offer.

BROKER: A broker brings buyers and sellers together for a commission.

CERTIFICATE OF DEPOSIT (CD): A time deposit with a specific maturity evidenced by a Certificate. Large denomination CD's are typically negotiable.

CERTIFICATE OF DEPOSIT ACCOUNT REGISTRY SERVICE (CDARS): A program allowing the public to spread money in various banks so as to not exceed FDIC limits at a bank. CDARS eliminates the need to go from bank to bank to deposit money. A participating local bank spreads the money across several banks, ensuring that the amount of money in each bank is never above the FDIC limit.

COLLATERAL: Securities, evidence of deposit or other property, that a borrower pledges to secure repayment of a loan. Also refers to securities pledged by a bank to secure deposits of public monies.

COMPREHENSIVE ANNUAL FINANCIAL REPORT (CAFR): The official annual report for the City of Marquette. It includes government-wide statements of net assets and activities, statements on each major fund, combined statements for aggregate remaining funds, and statements for each fund of the City of Marquette prepared in conformity with GAAP. It also includes supporting schedules necessary to demonstrate compliance with finance-related legal and contractual provisions, extensive introductory material, and a detailed Statistical Section.

COUPON: (a) The annual rate of interest that a bond's issuer promises to pay the bondholder on the bond's face value. (b) A certificate attached to a bond evidencing interest due on a payment date.

DEALER: A dealer, as opposed to a broker, acts as principal in all transactions, buying and selling for his 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. 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.

DERIVATIVES: Financial instruments whose return profile is linked to, or derived from, the movement of one or more underlying index or security, and may include a leveraging factor, underlying index or security (interest rates, foreign exchange rates, equities or commodities).

DISCOUNT: The difference between the cost price of a security and its maturity when quoted at lower than face value. A security selling below original offering price shortly after sale is also considered to be at a discount.

DISCOUNT SECURITIES: Non-interest bearing money market instruments that are issued a discount and redeemed at maturity for full face value, e.g., U.S. Treasury Bills.

DIVERSIFICATION: Dividing investment funds among a variety of securities offering independent returns.

FEDERAL CREDIT AGENCIES: Agencies of the Federal government set up to supply credit to various classes of institutions and individuals, e.g., S&L's, small business firms, students, farmers, farm cooperatives, and exporters.

FEDERAL DEPOSIT INSURANCE CORPORATION (FDIC): A federal agency that insures bank deposits, currently up to $250,000 per depositor, per insured bank, per custodian.

FEDERAL FUNDS RATE: The rate of interest at which Federal funds are traded. This rate is currently pegged by the Federal Reserve through open-market operations.

FEDERAL HOME LOAN BANKS (FHLB): Government sponsored wholesale banks (currently 12 regional banks), that lend funds and provide correspondent banking services to member commercial banks, thrift institutions, credit unions and insurance companies. The mission of the FHLB's is to liquefy the housing related assets of its members who must purchase stock in their district bank.

FEDERAL NATIONAL MORTGAGE ASSOCIATION (FNMA): FNMA, like GNMA, was chartered under the Federal National Mortgage Association Act in 1938. FNMA is a federal corporation working under the auspices of the Department of Housing and Urban Development (HUD). It is the largest single provider of residential mortgage funds in the United States. Fannie Mae as the corporation is called, is a private stockholder-owned corporation. The corporation's purchases include a variety of adjustable mortgages and second loans, in addition to fixed-rate mortgages. FNMA's securities are also highly liquid and are widely accepted. FNMA assumes and guarantees that all security holders will receive timely payment of principal and interest.

FEDERAL OPEN MARKET COMMITTEE (FOMC): Consists of seven members of the Federal Reserve Board and five of the twelve Federal Reserve Bank Presidents. The President of the New York Federal Reserve Bank is a permanent member, while the other Presidents serve on a rotating basis. The Committee periodically meets to set Federal Reserve guidelines regarding purchases and sales of Government Securities in the open market as a means of influencing the volume of bank credit and money.

FEDERAL RESERVE SYSTEM: The central bank of the United States created by Congress and consisting of a seven member Board of Governors in Washington, D.C., 12 regional banks and about 5,700 commercial banks that are members of the system.

GOVERNMENT NATIONAL MORTGAGE ASSOCIATION (GNMA OR Ginnie Mae): Securities influencing the volume of bank credit guaranteed by GNMA and issued by mortgage bankers, commercial banks, savings and loan associations, and other institutions. Security holder is protected by full faith and credit of the U.S. Government. Ginnie Mae securities are backed by the FHA, VA or FmHA mortgages. The term "pass-throughs" is often used to describe Ginnie Maes.

LIQUIDITY: A liquid asset is one that can be converted easily and rapidly into cash without a substantial loss of value. In the money market, a security is said to be liquid if the spread between bid and asked price is narrow and reasonable size can be done at those quotes.

LOCAL GOVERNMENT INVESTMENT POOL (LGIP): The aggregate of all funds from political subdivisions that are placed in the custody of the State Treasurer for investment and reinvestment.

MARKET VALUE: The price at which a security is trading and could presumably be purchased or sold.

MASTER REPURCHASE AGREEMENT: A written contract covering all future transactions between the parties to repurchase – reverse repurchase agreements that establishes 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: The market in which short-term debt instruments (bills, commercial paper, bankers' acceptances, etc.) are issued and traded.

OFFER: The price asked by a seller of securities. (When you are buying securities, you ask for an offer.) See Asked and Bid.

OPEN MARKET OPERATIONS: Purchases and sales of government and certain other securities in the open market by the New York Federal Reserve Bank as directed by the FOMC in order to influence the volume of money and credit in the economy. Purchases inject reserves into the bank system and stimulate growth of money and credit; sales have the opposite effect. Open market operations are the Federal Reserve's most important and most flexible monetary policy toll.

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 (SE) registered securities broker-dealers, banks, and a few unregulated firms.

PRUDENT PERSON RULE: An investment standard. In some states the law requires that a fiduciary, such as a trustee, may invest money only in a list of securities selected by the custody state – the so-called legal list. In other states the trustee may invest in a security if it is one that would be bought by a prudent person of discretion and intelligence who is seeking a reasonable income and preservation of capital.

QUALIFIED PUBLIC DEPOSITIORIES: A financial institution that does not claim exemption from the payment of any sales or compensating use or ad valorem taxes under the laws of this state, that has segregated, for the benefit of the commission, eligible collateral having a value of not less than its maximum liability and that has been approved by the Public Deposit Protection Commission to hold public deposits.

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.

REPURCHASE AGREEMENT (RP or REPO): A holder of securities sells these 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 him for this. Dealers use RP extensively to finance their positions. Exception: When the Fed is said to be doing RP, it is lending money that is increasing bank reserves.

SAFEKEEPING: A service to customers rendered by banks for a fee whereby securities and valuables of all types and descriptions are held in the bank's vaults for protection.

SECONDARY MARKET: A market made for the purchase and sale of outstanding issues following the initial distribution.

SECURITIES & EXCHANGE COMMISSION: Agency created by Congress to protect investors in securities transactions by administering securities legislation.

SEC RULE 15c3-1: See Uniform Net Capital Rule

STRUCTURED NOTES: Notes issued by Government Sponsored Enterprises (FHLB, FNMA, SLMA, etc.) and corporations, that have imbedded options (e.g., call features, step-up coupons, floating rate coupons, derivative-based returns) into their debt structure. Their market performance is impacted by the fluctuation of interest rates, the volatility of the imbedded options and shifts in the shape of the yield curve.

TREASURY BILLS: A non-interest bearing discount security issued by the U.S. Treasury to finance the national debt. Most bills are issued to mature in three months, six months, or one year.

TREASURY NOTES: Medium-term coupon-bearing U.S. Treasury securities issued as direct obligations of the U.S. Government and having initial maturities from two to 10 years.

UNIFORM NET CAPITAL RULE: Securities and Exchange Commission requirement that member firms, as well as nonmember broker-dealers in securities, maintain a maximum ratio of indebtedness to liquid capital of 15 to 1; also called net capital rule and net capital ratio. Indebtedness covers all money owed to a firm, including margin loans and commitments to purchase securities, one reason new public issues are spread among members of underwriting syndicates. Liquid capital includes cash and assets easily converted into cash.

YIELD: The rate of annual income return on an investment, expressed as a percentage. (a) INCOME YIELD is obtained by dividing the current dollar income by the current market price for the security. (b) NET YIELD or YIELD TO MATURITY is the current income yield minus any premium above par or plus any discount from par in purchase price, with the adjustment spread over the period from the date of purchase to the date of maturity of the bond.