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PURPOSE:

To establish objectives, procedures, reporting mechanisms and guiding ethics for investing funds for the City of Kalamazoo.

SCOPE:

Covers all banking and investment practices for the City of Kalamazoo.

POLICY:

The proposed policy is the result of extensive analysis of current banking and investment practices, it is very comprehensive and is reflective of the state of the art in municipal investment practices. The policy deals with objectives, procedures, ethics and reporting. In addition, there is a section that outlines our required banking services and how they are to be obtained.

The attached proposed policy encourages active management of the investment portfolio. The policy requires a cash flow forecast and attention to the market place in determining suitable investments and their maturities. The diversification required by the policy will help ensure that the objective of safety is met and reduce the impact on the city of a single issuer defaulting.

I. Investment Policies**A. Policies to Provide for Safety of Principal**

Preserving safety of principal is accomplished by limiting two types of risk. (1) credit risk and (2) interest rate risk. Credit risk is the risk of loss associated with the failure of a security issuer or backer. Interest rate risk is the risk that the value of the portfolio will decline due to an increase in the general level of interest rates.

1. Reducing Credit Risk**a. Authorized Investments**

When investing the City's funds, the Treasurer shall limit his/her investments to investment instruments which are allowed by state law. Items (11) through (18) are considered instrumentalities for the U.D. Government and therefore, considered investment grade securities for public funds. The Treasurer may at times prohibit purchase of specific issues, because of current market conditions. Authorized investments include:

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- 1) United States Treasury Bills – Short-term obligations of the United States Government, issued and sold at a discount, with maturities of 12, 26, and 52 weeks.
- 2) United States Treasury Notes and Bonds – Obligations of the U.S. Government issued with a fixed coupon rate and original maturities of one year or more.
- 3) Treasury Strips – Obligations of the U.S. Government with no coupons, sold at a discount, with maturities greater than one year.
- 4) Repurchase Agreements – contractual agreements between the City and brokerage firms, banks, savings and loans or government bond dealers. The repurchase agreement (repo) issuer receives cash and, in turn, provides securities to the City for the cash. There exists a contractual agreement for the repo issuer to repurchase the securities at predetermined dates and prices.
- 5) Certificates of deposit, savings accounts, deposit accounts or depository receipts of a bank, savings and loan or credit union which is a respective member of the Federal Deposit Insurance Corporation or National Credit Union Administration.
- 6) Commercial paper which is rated within the three (3) highest classifications established by at least two (2) standard rating services. No more than 10% of any fund or the entire portfolio may be invested in commercial paper at any time.
- 7) Bankers acceptance from banks chartered by the United States.
- 8) Mutual funds composed of investments instruments which are eligible for direct investment by local units of government.
- 9) Investment pools established by local banks, with the pool being composed of investment instruments eligible for direct investment by local units of government.
- 10) Investment pools established by the county government, with the pool being composed of investment instruments eligible for direct investment by local units of government.

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- 11) Federal Home loan Bank Discount Notes – Consolidated obligations of the twelve district banks, issued on a discount basis, with maturities under one year.
- 12) Federal National Mortgage Association Debentures – Obligations of the Association, issued with a fixed coupon rate, with various maturities.
- 13) Federal National Mortgage Association Discount Notes – Obligations of the Association, issued on a discount basis, with maturities under one year.
- 14) Federal National Mortgage Association Debentures – Obligations of the Association, issued with a fixed coupon rate, with various maturities.
- 15) Federal Home Loan Mortgage Corporation Discount Notes – Obligations of the Corporation, issued on a discount basis, with maturities under one year.
- 16) Federal Home Loan Mortgage Corporation Debentures – Obligations of the Corporation, issued with a fixed coupon rate, with various maturities.
- 17) Federal National Mortgage Association Mortgage Backed Securities – Issues of the Association representing undivided interests in conventional mortgages underwritten and previously purchased by the Association. The Association guarantees the timely payment of interest at the certificate rate and full return of principal. Original maturity payment dates are thirty years.

b. Approved Banks, Saving and Loans and Brokers/Dealers

It is the policy of the City to purchase securities only from those institutions included on the City's approved list of banks, savings and loans and brokers/dealers. To be included on the approved list, each institution must meet the standards set forth in Sections IV.B "Selection Criteria for Banks, Saving and Loans and Brokers/Dealers". The Treasurer is authorized to sign all investment related agreements and contracts with the approved institutions on behalf of the City.

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Repurchase agreements will be limited to local financial institutions and securities brokers/dealers included on the Federal Reserve Bank of New York's list of primary government securities brokers/dealers with whom we have Master Agreements. (See Appendix A "Primary Dealers").

The City will limit certificates of deposit to those banks and savings and loans which meet the "Selection Criteria of Banks" in Section IV.B.1. and "Selection Criteria for Savings and Loans which do not qualify on the date this policy is adopted will be held until maturity. After maturity the provisions of this policy will apply.

A copy of this Banking and Investment Policy will be provided to the senior management of any bank, savings and loan, broker or dealer wishing to transact banking and investment business with the City to assure that it is appraised of the investment goals of the City.

c. Safekeeping of Securities.

1) Safekeeping Agreement

The City shall contract with a bank or banks for third-party safekeeping of securities either owned by the City as part of its investment portfolio or held as collateral to secure repurchase agreements.

d. Delivery Versus Payment

It is the policy of the City that all U.S. Government securities tendered for payment will be sent "delivery versus payment" (DVP) through the Federal Reserve System. By so doing, City funds are not released until the City has received, through the Federal Reserve wire, the securities purchased.

e. Collateralization

MCL 129.42 currently prohibits security, in the form of collateral, for the deposit of public money.

f. Bid Monitoring

It is the policy of the City to document all bids offered on all types of securities. A minimum of three (3) bids will be taken on all investments.

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g. Portfolio Diversification

It is the intent of the City of Kalamazoo to diversity its investment portfolio. Assets which are covered by this banking and investment policy shall be diversified to eliminate the risk of loss resulting from an over concentration of assets in a specific class of securities, in a specific class of securities, in a specific issuer or in a specific maturity.

The following guidelines will be followed to assist with the diversification of the investment portfolio:

<u>Diversification by Instrument</u>	<u>Max. % of Port or Individual Fund</u>
1) Bills, Notes and Bonds of the U.S Government	100%
2) Bills, Notes, and Bonds of U.S Agencies	100%
3) Non-negotiable Certificates of Deposit	25%
4) Commercial Paper	10%
5) Repurchase Agreements	25%
6) Bankers Acceptances	50%
7) Mutual Funds	50%
8) Investment Pools of Banks	100%
9) Investment Pools of County	20%

Diversification by Maturity Date

The maximum average maturity for the portfolio covered by this investment policy will be limited to eighteen (18) months. Short-term maturity scheduling shall be timed according to anticipated need.

h. Master Repurchase Agreement

It is the policy of the City to require each issuer or repurchase agreements to sign a copy of the City's Master Repurchase Agreement. An executed copy of

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 this agreement must be on file before the City will enter into any repurchase agreement with an issuer.

2. Managing Interest Rate Risk

 The longer the maturity of various investment securities, the greater their price volatility. Therefore, it is the City's policy to actively manage its investment portfolio in order to limit principal risk caused by changes in the interest rates.

B. Policies to Provide for Adequate Liquidity

 The policies set forth in this section will maintain the liquidity necessary to meet the City's demands for cash.

1. Cash Flow Forecasting

 The Treasurer and Comptroller shall prepare periodic cash flow forecasts to determine the maturity dates of all investments. These forecasts will ensure that funds are available to meet expected obligations due by the City.

2. Repurchase Agreements Maturities

 Because no secondary market exists for repurchase agreements, the maximum maturity for repurchase agreements in the investment portfolio shall be 120 days.

3. U.S. Government Security Marketability

 Only those U.S. government and agency obligations with active secondary markets will be purchased. Marketability shall be determined by the Treasurer.

C. Policies to Achieve Investment Return Objectives

 The policies set forth in this section will enable the City to achieve the yield objectives established for the portfolio.

1. Portfolio Maturity Management

 When structuring the maturity composition of the portfolio, it is the policy of the City to evaluate current and expected interest rate yields.

2. Competitive Bidding

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It is the policy of the City to require competitive bidding for all investment purchases. Exceptions will be made in the case of escrowed funds held by a financial institution according to bond ordinances, installment purchase contracts or similar agreements. At least three bidders must be contracted for all types of investments. All bids received must be documented and filed for auditing purposes. In the case of tie bids, the Treasurer, or designee, will make the investment award decision, giving strong consideration to local firms or banks.

D. Policies to Ensure Ethical and Prudent Action

1. Establishment of Internal Controls

The City will establish a system of internal controls over the investment activities of the City and document such controls in writing.

2. Prudent Investment Management

It is the City's policy that the Treasurer perform his duties in accordance with the policies and procedures set forth in the manual. The Treasurer and designates, when acting in good faith and in accordance with these policies and procedures and state statutes, shall be relieved of personal liability.

3. Training and Education

It is the City's policy to provide periodic training in investments for the Treasurer and designates through courses and seminars offered by the Governmental Finance Officers Association, Municipal Treasurer's Association, and by other similar organizations.

E. Depositories

The City of Kalamazoo will, through a request for proposal process, designate one or more banks as its primary depository(ies). This centralization is designed to maximize investment capabilities and minimize banking costs. The depository designation does not limit investment activity to the one financial institution.

Considerations the City of Kalamazoo will use to consummate a banking services contract will include:

1. Complete response to all required items on standard proposal forms.

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2. Aggregate banking service cost per identified activity.
3. Ability to meet service requirements.
4. Best availability schedule on deposit items.
5. Financial strength of the financial institution.
6. Qualified depository of public funds in accordance with state laws.
7. Location and convenience to City offices.
8. Best overall advantage to the City based on services provided.

Obtaining competitive proposals on the City's depository specifications will be the responsibility of the Treasurer. Selection of the depository shall be based on the institution offering the most favorable terms and conditions for the handling of the City's funds and the services available to the City.

The City's banking services contract shall be for a period not to exceed five (5) years. Special banking needs may be contracted for by the City outside this policy if approved by the Finance Director. If a depository does not meet the City's standards of financial stability pursuant to Section IV.B.A.a and b., the bank will be required to meet the requirements within six (6) months or lose the depository contact.

EFFECTIVE DATE: October 14, 1991

SEE ALSO:

HISTORY:

Adopted 1980
Revised 1981 & 1991