



CITY OF PONTIAC
OFFICE OF THE EMERGENCY MANAGER

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Dated: August 12, 2013
Amended Date: April 23, 2014

ORDER NO. S-320

RE: Investment Policy

TO: Sherikia Hawkins, City Clerk
John Naglick, Finance Director

The Local Financial Stability and Choice Act (Act 436 of 2012/MCL 141.15411, et. seq.) in Section 10 empowers an Emergency Manager to issue orders to the appropriate local elected and appointed officials and employees, agents, and contractors of the local government a Manager considers necessary to accomplish the purposes of the Act and any such orders are binding on the local elected and appointed officials and employees, agents, and contractors of the local government to whom they are issued.

Section 12(1) of the Act provides that “[a]n emergency manager may take 1 or more of the following additional actions with respect to a local government that is in receivership, notwithstanding any charter provision to the contrary: (ee) [t]ake any other action or exercise any power or authority of any officer, employee, department, board, commission, or other similar entity of the local government, whether elected or appointed, relating to the operation of the local government. The power of the emergency manager shall be superior to and supersede the power of any of the foregoing officers or entities.”

Whereas, Public Act 20 of 1943 requires the governing body to adopt an investment policy.

It is hereby ordered:

1. The attached “City of Pontiac Investment Policy” is adopted.
2. All other investment policies adopted by the City of Pontiac are hereby repealed.

The Order shall have immediate effect.

Copies of the documents referenced in this Order are to be maintained in the offices of the City Clerk and may be reviewed and/or copies may be obtained upon submission of a written request consistent with the requirements of the Michigan Freedom of Information Act and subject to any exemptions contained in that state statute and subject to any exemptions allowed under that statute (**Public Act 442 of 1976, MCL 15.231, et. seq.**).

This order is effective as indicated and is necessary to carry out the duties and responsibilities required of the Emergency Manager as set forth in the Local Financial Stability and Choice Act (Act 436 of 2012/MCL 141.15411, et. seq.) and the contract between the Local Emergency Financial Assistance Loan Board and the Emergency Manager.

Louis H. Schimmel
City of Pontiac
Emergency Manager

cc: State of Michigan Department of Treasury
Mayor Leon B. Jukowski
Pontiac City Council

City of Pontiac Investment Policy

I. Governing Authority

Legality

The investment program shall be operated in conformance with federal, state, and other legal requirements, including the Investment of Surplus Funds of Political Subdivisions, being Public Act 20 of 1943, as amended.

II. Scope

This policy applies to the investment of all funds, excluding the investment of employees' retirement funds, which are governed under the policies of the respective retirement systems. Proceeds from certain bond issues, as well as separate foundation or endowment assets, will be covered by a separate policy at such time that the City should acquire such funds.

1. *Pooling of Funds*

Except for cash in certain restricted and special funds, the City of Pontiac 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. General Objectives

The primary objectives, in priority order, of investment activities shall be safety, liquidity, and yield:

1. *Safety*

Safety of principal is the foremost objective of the investment program. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. The objective will be to mitigate credit risk and interest rate risk.

a. Credit Risk

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

- Limiting investments to the types of securities listed in Section VII of this Investment Policy
- Pre-qualifying the financial institutions, broker/dealers, intermediaries, and advisers with which the City of Pontiac will do business in accordance with Section V
- 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.

b. Interest Rate Risk

The City of Pontiac 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:

- 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.

- 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).

c. General Risk

Risk shall also be minimized by closely monitoring pertinent financial information and rating agency reports that would disclose a weakening financial condition at any firm or institution associated with City investments. Written notice of any adverse changes in financial condition of these institutions shall be immediately forwarded to the City Council by the investment officer for further review and appropriate action.

2. *Liquidity*

The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated. The investment portfolio shall be designed with the objective of attaining the maximum market rate of return throughout budgetary and economic cycles, taking into account the City's investment risk constraints and cash flow characteristics of the portfolio.

3. *Yield*

The City of Pontiac's cash management portfolio shall be designed with the objective of regularly meeting or exceeding a performance benchmark, which could be the average return on three-month U.S. Treasury bills, the state investment pool, a money market mutual fund, or the average rate on Fed funds, whichever is higher. These indices are considered benchmarks for lower risk investment transactions and therefore comprise a minimum standard for the portfolio's rate of return. The investment program shall seek to augment returns above this threshold, consistent with risk limitations identified herein and prudent investment principles. (See Section IX on performance standards and selecting a benchmark.)

IV. Standards of Care

1. *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."

2. *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 Pontiac.

3. Delegation of Authority

Authority to manage the investment program is granted to the City Treasurer, hereinafter referred to as investment officer. 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.

Procedures should include references to: safekeeping, delivery vs. payment, investment accounting, repurchase agreements, wire transfer agreements, and collateral/depository agreements. The investment officer shall follow the GFOA's Investment Procedures Manual, 2003, to the extent that it does not conflict with this policy or state law. 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 establish a system of controls to regulate the activities of subordinate officials.

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

Authorized Financial Institutions, Depositories, and Broker/Dealers

A list will be maintained of financial institutions and depositories authorized by the City Council on an annual basis to provide depository and investment services. In addition, a list will be maintained of approved security broker/dealers selected by creditworthiness (e.g., a minimum capital requirement of \$10,000,000 and at least five years of operation). These may include "primary" dealers or regional dealers that qualify under Securities and Exchange Commission (SEC) Rule 15C3-1 (uniform net capital rule).

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

- Audited financial statements demonstrating compliance with state and federal capital adequacy guidelines
- Proof of National Association of Securities Dealers (NASD) certification (not applicable to Certificate of Deposit counterparties)
- Proof of state registration
- Completed broker/dealer questionnaire (not applicable to Certificate of Deposit counterparties)
- Certification of having read and understood and agreeing to comply with the City of Pontiac's investment policy.
- Evidence of adequate insurance coverage.

An annual review of the financial condition and registration of all qualified financial institutions and broker/dealers will be conducted by the investment officer. The investment officer shall refer to the Appendix for the GFOA Recommended Practice on "Governmental Relationships with Securities Dealers."

No public deposit shall be made except in a qualified public depository as established by State law. An annual analysis of the financial condition, registration, professional institution/bank rating, and Community Reinvestment Act rating of qualified bidders will be conducted by the investment officer. Information indicating a material reduction in ratings, standards, or a material loss or prospective loss of capital on existing investments must be shared with the Council Finance Committee in writing.

Per Section 129.96 of Public Act 40 of 1943, before executing an investment transaction, approved financial intermediaries, brokers/dealers, and investment advisors shall be provided with a copy of the City's investment policy and shall in writing acknowledge receipt, review, and understanding of the investment policy and agree to comply with the terms of the investment policy regarding buying or selling of securities.

The City may purchase commercial paper from direct issuers even though they are not on the approved broker/dealer list as long as they meet criteria outlined in the Suitable and Authorized Investments section of this policy.

VI. Safekeeping and Custody

1. Delivery vs. Payment

All trades of marketable securities will be executed by delivery vs. payment (DVP) to ensure that securities are deposited in an eligible financial institution prior to the release of funds.

2. Safekeeping

Securities will be held by a [centralized] independent third-party custodian selected by the entity as evidenced by safekeeping receipts in the City of Pontiac's name. The safekeeping institution shall annually provide a copy of their most recent report on internal controls (Statement of Auditing Standards No. 70, or SAS 70).

3. Internal Controls

The investment officer shall establish a system of internal controls, which shall be documented in writing. The internal controls and their application shall be reviewed by the investment committee, where present, and with the independent auditor. 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 Pontiac.

VII. Suitable and Authorized Investments

1. Investment Types

Consistent with the Investment of Surplus Funds of Political Subdivisions, the following investments will be permitted by this policy and are those defined by state and local law where applicable:

(a) Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States with a final maturity not exceeding five years from the date of trade settlement.

(b) Certificates of deposit (with a maturity no exceeding one year), savings accounts, or depository receipts of a financial institution, but only if the financial institution complies with MCL 129.16, that are eligible to be a depository of funds for the State of Michigan, and certificates of deposit that are purchased in accordance with MCL 129.91 guidelines. Not more than 25% of the City's total portfolio may be invested in certificates of deposits at any one time.

(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. Commercial paper held in the portfolio which

subsequently received a reduced rating shall be closely monitored by the investment officer and sold immediately if the principal invested may otherwise be jeopardized. Any such downgrade shall be immediately reported to the Council Finance Committee. Not more than 25% of the City's total portfolio may be invested in commercial paper at any one time.

(d) Bankers' acceptances of United States banks with maturities not exceeding 180 days from the date of purchase, rated at least A-1 by Standard & Poor's, P-1 by Moody's, or F1 by Fitch at the time of purchase, issued by a state or nationally chartered bank which has combined capital and surplus of at least \$150 million, whose deposits are insured by the FDIC, and whose senior long-term debt is rated, at the time of purchase A+ by Standard & Poor's, A1 by Moody's, or A+ by Fitch. Not more than 25% of the City's total portfolio may be invested in eligible banker's acceptances at any one time.

(e) 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. Not more than 10% of the portfolio may be invested in municipal securities with no more than 5% held in any one issuer. Maturities in these investments shall not exceed three years for trade settlement.

(f) Mutual funds registered under the investment company act of 1940, 15 USC 80a-1 to 80a-64, with authority to purchase only investment vehicles that are legal for direct investment by a local government in Michigan and which are "no-load" (i.e., no commission or fee shall be charged on purchases or sales or shares); have a constant net asset value per share of \$1.00; and have a maximum stated maturity and weighted average maturity in accordance with Rule 2a-7 of the Investment Company Act of 1940. Not more than 25% of the City's total portfolio may be invested in these pools at any one time.

(g) 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 that are "no-load"; have a constant net asset value per share of \$1.00; limit assets of the fund to securities authorized in MCL 129.91 as legal investments for municipalities; have a maximum stated maturity and weighted average maturity in accordance with Rule 2a-7 of the Investment Company Act of 1940; and are rated either AAAM by Standard and Poor's, Aaa by Moody's, or AAA/VI+ by Fitch. Not more than 25% of the City's total portfolio may be invested in these pools at any one time.

(h) Investment pools organized under the surplus funds investment pool act, 1982 PA 367, MCL 129.111 to 129.118 that are "no-load"; have a constant net asset value per share of \$1.00; limit assets of the fund to securities authorized in MCL 129.91 as legal investments for municipalities; have a maximum stated maturity and weighted average maturity in accordance with Rule 2a-7 of the Investment Company Act of 1940; and are rated either AAAM by Standard and Poor's, Aaa by Moody's, or AAA/VI+ by Fitch. Not more than 25% of the City's total portfolio may be invested in these pools at any one time.

(i) The investment pools organized under the local government investment pool act, 1985 PA 121, MCL 129.141 to 129.150. Not more than 25% of the City's total portfolio may be invested in these pools at any one time.

2. Collateralization

Where allowed by state law and in accordance with the GFOA Recommended Practices on the

Collateralization of Public Deposits, full collateralization will is strongly recommended on all demand deposit accounts, including checking accounts and non-negotiable certificates of deposit. (See GFOA Recommended Practices in Appendix.)

3. *Repurchase Agreements*

Repurchase agreements shall be consistent with GFOA Recommended Practices on Repurchase Agreements. (See GFOA Recommended Practices in Appendix.)

VIII. Investment Parameters

1. *Diversification*

It is the policy of the City of Pontiac to diversify its investment portfolios. To eliminate risk of loss resulting from the over-concentration of assets in a specific maturity, issuer, or class of securities, all cash and cash equivalent assets in all City of Pontiac funds shall be diversified by maturity, issuer, and class of security. Diversification strategies shall be determined and revised periodically by the investment committee/investment officer for all funds under the control of the City.

In establishing specific diversification strategies, the following general policies and constraints shall apply: Portfolio maturities shall be staggered to avoid undue concentration of assets in a specific maturity sector. Maturities selected shall provide for stability of income and reasonable liquidity.

For cash management funds:

- Liquidity shall be assured through practices ensuring that the next disbursement date and payroll date are covered through maturing investments or marketable U.S. Treasury bills.
- Positions in securities having potential default risk (e.g., commercial paper) shall be limited in size so that in case of default, the portfolio's annual investment income will exceed a loss on a single issuer's securities.
- Risks of market price volatility shall be controlled through maturity diversification such that aggregate price losses on instruments with maturities exceeding one year shall not be greater than coupon interest and investment income received from the balance of the portfolio.
- The investment committee/investment officer shall establish strategies and guidelines for the percentage of the total portfolio that may be invested in securities other than repurchase agreements, Treasury bills or collateralized certificates of deposit. The committee shall conduct a quarterly review of these guidelines and evaluate the probability of market and default risk in various investment sectors as part of its considerations.

The following diversification limitations shall be imposed on the portfolio:

- Maturity: No more than 25 percent of the portfolio may be invested beyond 12 months, and the weighted average maturity of the portfolio shall never exceed one year.
- Default risk: No more than 25 percent of the overall portfolio may be invested in the securities of a single issuer, except for securities of the U.S. Treasury.
- Liquidity risk: At least 10 percent of the portfolio shall be invested in overnight instruments or in marketable securities which can be sold to raise cash in one day's notice.

2. Maximum Maturities

To the extent possible, the City of Pontiac shall attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, the City of Pontiac will not directly invest in securities maturing more than five (5) years from the date of purchase or in accordance with state and local statutes and ordinances. The City of Pontiac shall adopt weighted average maturity limitations (which often range from 90 days to 3 years), consistent with the investment objectives.

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. The intent to invest in securities with longer maturities shall be disclosed in writing to the legislative body. (See the GFOA Recommended Practice on "Maturities of Investments in a Portfolio" in Appendix.)

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, money market funds, or overnight repurchase agreements to ensure that appropriate liquidity is maintained to meet ongoing obligations.

3. Competitive Bids

The investment officer shall obtain competitive bids from at least two brokers or financial institutions on all purchases of investment instruments purchased on the secondary market.

IX. Reporting

1. Methods

The investment officer shall prepare an investment report at least quarterly, including a management summary that provides an analysis of the status of the current investment portfolio and the individual transactions executed over the quarter. This management summary will be prepared in a manner which will allow the City Council Finance Committee to ascertain whether investment activities during the reporting period have conformed to the investment policy. The report should be provided to the mayor, the city council, and any pool participants. Each quarterly report shall indicate any areas of policy concern and suggested or planned revision of investment strategies. Copies shall be transmitted to the independent auditor. The report will include the following:

- Listing of individual securities held at the end of the reporting period.
- Realized and unrealized gains or losses resulting from appreciation or depreciation by listing the cost and market value of securities over one-year duration that are not intended to be held until maturity (in accordance with Governmental Accounting Standards Board (GASB) requirements).
- Average weighted yield to maturity of portfolio on investments as compared to applicable benchmarks.
- Listing of investment by maturity date.
- Percentage of the total portfolio which each type of investment represents.

2. Performance Standards

The City of Pontiac's cash management portfolio shall be designed with the objective of regularly meeting or exceeding a selected performance benchmark, which could be the average return on

three-month U.S. Treasury bills, the state investment pool, a money market mutual fund, or the average rate of Fed funds. These indices are considered benchmarks for lower risk investment transactions and therefore comprise a minimum standard for the portfolio's rate of return.

3. Marking to Market

The market value of the portfolio shall be calculated at least quarterly and a statement of the market value of the portfolio shall be issued at least quarterly. This will ensure that review of the investment portfolio, in terms of value and price volatility, has been performed consistent with the GFOA Recommended Practice on "Mark-to-Market Practices for State and Local Government Investment Portfolios and Investment Pools." (See GFOA Recommended Practices in Appendix.) In defining market value, considerations should be given to the GASB Statement 31 pronouncement.

X. Policy Considerations

1. 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.

2. Amendments

This policy shall be reviewed on an annual basis. Any changes must be approved by the investment officer and the City Council. The City's independent auditor shall be provided a draft of any changes to the policy before being adopted by the City Council.

XI. Approval of Investment Policy

The investment policy shall be formally approved and adopted by the Pontiac City Council and reviewed annually.

XII. List of Attachments

The following documents, as applicable, are attached to this policy:

- Listing of authorized personnel,
- Relevant investment statutes and ordinances,
- Listing of authorized broker/dealers and financial institutions,
- Internal Controls
- Glossary

XIII. Other Documentation

- Master Repurchase Agreement, other repurchase agreements and tri-party agreements,
- Broker/Dealer Questionnaire,
- Credit studies for securities purchased and financial institutions used,
- Safekeeping agreements,
- Wire transfer agreements,
- Sample investment reports,
- Methodology for calculating rate of return,
- GFOA Recommended Policies.

List of Authorized Financial Institutions

- Affinity Group Credit Union
- Bank of America
- Chase
- Comerica
- Fifth Third Bank
- Flagstar Bank
- Huntington Bank
- Level One
- PNC
- Private Bank
- Seaway Community Bank
- Talmer Bank & Trust
- TCF Bank
- US Bank
- Wolverine Bank

and such others that may be added to this list by resolution of the City Council.