

Investment Policy

To Comply with Public Act 20 of 1943, As Amended
Effective December 31, 1998
Revised January 1, 2006
Revised October 1, 2007
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Purpose

It is the policy of the City of Hastings to invest its funds in a manner which will provide the highest investment return consistent with optimal security while meeting the daily cash flow needs of the City and complying with all state statutes and the requirements of this policy governing the investment of public funds.

Scope

This investment policy applies to all financial assets of the City of Hastings. These assets are accounted for in the various funds of the City of Hastings and include the general fund, special revenue funds, debt service funds, component unit funds, enterprise funds, internal service funds, trust and agency funds and any new fund established by the Hastings City Council.

Delegation of Authority to Make Investments

In accord with Section 8.10 of the Hastings City Charter, the Clerk/Treasurer, under the direction of the City Manager, is designated as the investment officer of the City and is responsible for depositing City funds and carrying out investment decisions and activities. The Clerk/Treasurer, under the direction of the City Manager, will develop and maintain written administrative procedures for the operation of the investment program, consistent with these policies. In the absence of the Clerk/Treasurer, all duties will be performed by the City Manager.

Objectives

The primary objectives, in priority order, of the City Clerk/Treasurer's investment activities will be:

- 1) **Safety:** Safety of principal is the foremost objective of the investment program. Investments will be undertaken in a manner that seeks to avoid losses of capital in the overall portfolio, whether from securities defaults or erosion of market value. To attain this objective, investments will be diversified to the extent practicable to control the risk of loss resulting from over concentration of assets in a specific maturity, issuer, instrument, dealer, or financial institution in order that potential losses on individual

securities do not exceed the income generated from the remainder of the portfolio. The objective will be to minimize credit risk and interest rate risk.

a. Credit Risk (Custodial Credit Risk and Concentration Credit Risk)

The City will minimize Custodial 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 this Investment Policy; and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the City will do business in accord with this Investment Policy.

The City will minimize Concentration of Credit Risk, which is the risk of loss attributed to the magnitude of the City's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

b. Investment Rate Risk

The City 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: a) structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and, b) investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the City's cash requirements and the specific limits of this policy.

c. Foreign Currency Risk

The City is not authorized to invest in investments which have this type of risk.

From time to time, securities may be traded for other similar securities to improve yields, adjust maturity or reduce risk. For these transactions, a loss may be incurred for accounting purposes, provided any of the following occurs with respect to the replacement security:

- i. The net projected yield has been increased;
- ii. Maturity has been favorably adjusted, or
- iii. Quality of the investment has been improved.

- 2) Liquidity: The investment portfolio will remain sufficiently liquid to meet all operating requirements that can be reasonably anticipated.
- 3) Return on Investment: The investment portfolio will be designed with the objective of obtaining a positive rate of return throughout the budgetary and economic cycles, taking into account the investment risk constraints and the cash flow characteristics of the portfolio.

Prudence

The standard of prudence to be applied by an investment officer who is an employee or official of the City will be the "prudent investor" rule, which states:

"Investments will 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 investment officer acting in accordance with written procedures and exercising due diligence will be relieved of personal responsibility for an individual security's performance provided that deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments.

Any person or firm hired or retained to invest, monitor, or advise concerning these assets will be held to the higher standard of "Prudent Expert." This is a revised version of the Prudent Person standard required by ERISA to guide managers of pension and profit sharing portfolios. The main addition is that the manager must act as someone with familiarity with matters relating to the management of money, not just prudence. The standard is that:

". . . in investing and reinvesting moneys and in acquiring, retaining, managing, and disposing of investments of these funds, the person or firm will exercise the judgment, care, skill, prudence, and diligence under the circumstances then prevailing, which persons of prudence, discretion, and intelligence, acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of like character and with like aims by diversifying the investments of the funds, so as to minimize the risk, considering the probable income as well as the probable safety of their capital."

Ethics

The investment officer will 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. The investment officer will disclose to the public any material financial interest in financial institutions that conduct business within the City, and they will further disclose any large personal financial/investment positions that could be related to the performance of the City's portfolio. The investment officer will subordinate their personal investment transactions to those of the City, particularly with regard to the timing of purchases and sales.

Monitoring and Adjusting the Portfolio

The investment officer will routinely monitor the contents of the portfolio, the available markets and the relative values of competing instruments, and will adjust the portfolio accordingly.

Arbitrage

The Tax Reform Act of 1986 provides limitations on the City's yield from investing the proceeds of tax-exempt General Obligation and Utility bond and debt service funds. These restrictions require extreme precision in the monitoring and record keeping of investments, particularly in computing yields to ensure compliance. The investment officer will take all necessary action to comply with these requirements.

The City's policy relative to arbitrage restrictions is to continue pursuing the maximum yield on applicable investments while ensuring the safety of capital and liquidity. It is a fiscally sound position to continue maximization of yield and to rebate excess earnings if necessary.

Internal Controls

The investment officer will propose to City Council a system of written internal controls and administrative procedures covering investment activity and transactions for their approval. These controls and procedures will be reviewed annually by the independent auditors. The controls will be designed to prevent loss of public funds due to fraud, error, misrepresentation, unanticipated market changes or imprudent actions.

Instruments

The investment officer will invest surplus funds of the City in the following instruments only, subject to the concentration limits specified:

- (a) Certificates of deposit, savings accounts, and deposit accounts of a bank which is a member of the Federal Deposit Insurance Corporation and which is also eligible to be a depository of surplus funds belonging to the state under section 6 of Act No. 105 of the Public Acts of 1855, as amended, being section 21.146 of the Michigan Compiled Laws. No maturity will extend beyond five years.

No individual banking institution will hold more than \$1,500,000 or 25% of the total volume invested in certificates of deposit (whichever is less).

No individual banking institution for which the average of the ratings of Bauer Financial Services and bankRate.com is less than or equal to 2.0 will hold more than \$500,000 or 10% of the total volume invested in certificates of deposit (whichever is less).

No individual banking institution will hold more than \$750,000 in savings or money market type deposit accounts. Savings or money market type deposits will not be placed in banking institutions for which the average of the ratings of Bauer Financial Services and bankRate.com is less than or equal to 2.0.

Excepting amounts in the Tax Collection restricted account, no individual banking institution will hold more than \$1,500,000 in cash equivalent accounts. Cash equivalent deposits will not be placed in banking institutions for which the average of the ratings of Bauer Financial Services and bankRate.com is less than or equal to 2.0.

The combined total of all deposits in any individual banking institution (including cash equivalents, savings or money market type accounts, and certificates of deposits) will not exceed \$2,500,000.

- (b) Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States which will have remaining maturities of two years or less on the date of purchase. Total investment in such instruments, taken collectively, will not exceed 30% of the City's portfolio.
- (c) Investment pools composed of investment vehicles which are legal for direct investment by local units of government in Michigan organized in accordance with Act No. 367 of the Public Acts of 1982. Total investment in such pools, taken collectively, will not exceed 60% of the City's portfolio.
- (d) Investment vehicles which are legal for direct investment by local units of government in Michigan purchased through an interlocal agreement under the Urban Cooperation Act of 1967, 1967 (Ex Sess) PA 7, MCL 124.501 to 124.512. Total investment in such pools, taken collectively, will not exceed 60% of the City's portfolio.
- (e) 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. Total investment in such instruments, taken collectively, will not exceed 30% of the City's portfolio.

The City will not invest more than \$500,000 in the offerings of any individual issuing entity.

Diversification

Whenever possible, the investment officer will diversify use of investment instruments to avoid incurring unreasonable risks inherent in over-investing in specific instruments, individual financial institutions, or maturities.

Maturity Scheduling

Investment maturities will be scheduled to coincide with projected cash flow needs, taking into account large routine expenditures, as well as considering sizeable blocks of anticipated revenue.

Qualified Institutions

The City will maintain a list of financial institutions which are approved for investment purposes. In addition, a list of approved security broker/dealers selected by creditworthiness will also be maintained. All financial institutions who desire to become qualified for investment must supply the following as appropriate:

-Audited financial statements

- Proof of state registration
- Completed broker/dealer questionnaire
- Certification of having read and understood and agreeing to comply with the City's investment policy.

An annual review of the financial condition and registration of qualified financial institutions and broker/dealers will be conducted by the investment officer.
All qualified institutions will be approved annually by the City Council.

Safekeeping and Custody

Securities will be in the custody of the investment officer and placed in a locked safe located with the main vault of City Hall or held in safekeeping by the financial institution.

Performance Evaluation and Reporting

The Clerk/Treasurer will produce monthly reports for the City Council listing each investment by fund. The report will show the amount of investment, the institution, maturity date, and interest rate. A summary of all investments will be shown at the end of each report, listed by institution and type of investment. The monthly report will comply with the requirements of the quarterly report specified by law. An annual summary of investment activity and performance will be prepared and presented after the completion of the annual independent audit.