



Village of Decatur
114 N Phelps Street
Decatur, MI 49045

MEMORANDUM

TO: Village Council
FROM: Megan Duncan, Clerk/Treasurer
REVIEWED BY: Christopher Tapper, Village Manager
DATE: August 7, 2023

SUBJECT: Request to adopt the updated Village of Decatur's Investment Policy

Action Requested:

It is requested that the Village Council adopt the updated Village of Decatur's Investment Policy.

Background:

The State of Michigan has made it a statutory requirement that all municipalities must have an Investment Policy. Public Act 20 of 1943 is an act relative to the investment of funds of public corporations of the state, and to validate certain investments. This investment policy was created to reflect those validated investments.

Attachment(s):

Village of Decatur Investment Policy



Village of Decatur Investment Policy

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 for the Village of Decatur. 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 Village 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 Village Council as changes occur in legislation, Village investments and the Village's economic needs.

Scope

The investment policy applies to all investment activities of the Village of Decatur. These assets are accounted for in the various funds of the Village and include the general fund, special revenue funds, debt service funds, capital project funds, enterprise funds, internal service funds, trust and agency funds and any new fund established by the Village Council.

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 Village's reasonably expected operating needs.
- D. Return on Investment – The Investment portfolio shall be designed with the objective of obtaining a rate of return throughout the budgetary and economic cycles, considering the investment risk constraints and the cash flow characteristics of the portfolio.

Delegation of Authority

The Village of Decatur Council shall set forth all policies regarding investments. The Village Manager shall direct the Village Treasurer in the implementation of those policies. Day to day management of the Village's investments will be the responsibility of the Treasurer. The Treasurer 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 the terms of this policy and in accordance with the procedures established by the Treasurer. The Treasurer 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 Treasurer (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 Village subject to the provisions of this policy.

Authorized Investments

The Village of Decatur 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.

Prudence

The following standard of prudence shall be applied in managing the Village'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,

Village of Decatur Investment Policy

considering the probable safety of their capital as well as the probable income to be derived.

Village investment officials 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, if deviations from expectations are reported in a timely fashion, and appropriate action is taken to control adverse developments.

Ethics

Officials 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 Village Manager any material financial interests in financial institutions that conduct business within the Village, and they shall further disclose any large personal financial/investment positions that could relate to the performance of the Village's portfolio. Employees and officials shall subordinate their personal investment transactions to those of the Village, particularly regarding the timing of purchases and sales.

Financial Institutions, Intermediaries & Issuers Selection Criteria

- A. A financial institution, as identified in Michigan Public Act 20 of 1943, with which the Village 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 Village in the event of material adverse events affecting their capital adequacy.

Safekeeping and Custody

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

All security transactions, including collateral for repurchase agreements and financial institution deposits, entered by the Village shall be on a cash (or delivery vs. payment) basis. Securities may be held by a third-party custodian designated by the Village 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 Village Treasurer annually shall provide a written report to the Village 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 Village Manager.



Acknowledgment of Eligibility as a Public Fund Depository and Receipt of Village of Decatur'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 Village of Decatur has been received and reviewed by our representatives. It is understood that the sole purpose of this investment policy is to provide the Village of Decatur 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 Village of Decatur upon request and subject to this institution's standard operating procedures. To aid the Village of Decatur's implementation of its investment policy, annual financial statements of this institution will be provided to the Village of Decatur.

The acknowledgment of receipt and review of the Village of Decatur'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