



**Resolution Authorizing Investment of
City Funds and Approving City Investment Policy**

Because, pursuant to the provisions of Act No. 20 of the Public Acts of Michigan of 1943, as amended, ("Act 20") the Board of Commissioners of the City of Traverse City may authorize the City Treasurer to invest City funds in certain investments; and

Because, this Board wishes to authorize such investments as are permitted by Act 20; and

Because, section 5 of Act 20 requires this Board of Commissioners in conjunction with the City Treasurer to adopt an investment policy which complies with the provisions of Act 20; and

Because, the City Treasurer has submitted a revised Investment policy which complies with provisions of Act 20; and

Because, this revised Investment policy addresses Deposit and Risk Disclosures as required by Governmental Accounting Standards Board statement number 40; now therefore, be it

Resolved, by the Board of Commissioners of the City of Traverse City as follows:

1. The City Treasurer is authorized to invest funds of the City of Traverse City in investments authorized by Act 20.
2. The revised Investment Policy attached hereto as Appendix 1 is approved and shall take effect on October 17, 2006.
3. Before executing an order to purchase or trade the funds of the City of Traverse City, a financial intermediary, broker or dealer shall be provided with a copy of the City's Investment Policy and shall acknowledge receipt of the Investment Policy and agree to comply with the terms of the Investment Policy regarding the buying or selling of securities by executing the form attached as Appendix 2.
4. The City Treasurer is authorized to rely on the continuing effect of this resolution until and unless it is specifically amended or rescinded by a future resolution of the Board of Commissioners.

I hereby certify that the above Resolution was adopted by the Traverse City City Commission at its regular meeting held on October 16, 2006, in the Commission Chambers, Governmental Center, 400 Boardman Avenue, Traverse City, Michigan.



Benjamin C. Marentette, CMC
City Clerk

City of Traverse City
Investment Policy
(Not Including ACT 345 Pension Investments)
To Comply with Public Act 20 of 1943, as amended, and GASB Statement 40

Section 1. Purpose

It is the policy of the City of Traverse City to invest its funds in a manner, which will provide the highest investment return with the maximum security while meeting the daily cash flow needs of the City and comply with all state statutes governing the investment of public funds.

Section 2. Scope

The investment policy applies to all transactions involving the financial assets and related activity of the City except for its employee pension funds and its employee deferred compensation funds, which are organized and administered separately. These assets are accounted for in the various funds of the City, which include the General Fund, Special Revenue Funds, Debt Service Funds, Capital Project Funds (unless bond ordinances and resolutions are more restrictive), Enterprise Funds, Internal Service Funds, Permanent Funds, and Trust and Agency Funds and any new fund established by the City, unless specifically exempted by the governing body or unless more restrictive by City Charter. In addition any future revenues, which have statutory investment requirements conflicting with this Investment Policy and funds held or controlled by Federal or State agencies are not subject to the provisions of this policy.

Section 3. Investment Objectives

A. Safety of Principal

The foremost objective of the investment program is the safety of principal of funds. Investments transactions shall be undertaken in a manner to ensure the preservation of capital in the overall 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 Section 7 of this policy. In addition, the City Treasurer will prequalify all financial institutions, broker/dealers, intermediaries and advisors with which the City will do business by performing some but maybe not all of the following criteria:

- Utilizing the Michigan County Associations Financial Institution Rating Formula, which takes into consideration asset quality, liquidity, profitability and capital and only dealing with those institutions, which rate higher than 16.
- Primary and regional dealers must qualify under securities and Exchange Commission Rule 15C3-1 (uniform net capital rule).
- Entity must have capital of no less than \$10,000,000.
- Registered as a dealer under the Securities and Exchange Act of 1934.
- Regulatory status of the dealer.
- A member of the National Association of Securities Dealer (NASD).
- Registered to sell securities in Michigan.
- Background and expertise of the individual dealer.

- The firm and assigned broker have been engaged in U.S. government and agency obligations transaction for at least five consecutive years.
- Overall reputation with other dealers within the industry.
- Entity has agreed to comply with the City's investment policy by affidavit.

The City will minimize the concentration of credit risk, which is the risk of loss attributed to the magnitude of the City's investment in a single issuer. The City will minimize the concentration of credit risk for investments not backed by the full faith and credit of the United States government, by diversifying the investment portfolio so the impact of potential losses from any one type of security or issuer will be minimized.

b. Interest Rate Risk

The City will minimize the interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in the 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 in the open market and, investing operating funds primarily in shorter-term securities, liquor asset funds, money market mutual funds, or similar investment pools and limiting the average maturing with the City's cash requirements.

c. Foreign Currency Risk

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

B. Maintenance of Liquidity

The funds shall be managed such that they are available to meet reasonably anticipated cash flow requirements.

C. Yield/Return on Investment

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 probably income to be derived from the investment.

Section 4. Management of Investments

Authority to manage the investment program is derived from MCL 87.11 requiring the City Treasurer to be the custodian of the City's funds. Management responsibility for the investment program is hereby delegated to the City Treasurer who will establish 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 under the terms of this policy and the procedures established by the City Treasurer. The City Treasurer shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials.

Section 5. Prudence

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

Section 6. Ethics and Conflict of Interest

The City Treasurer shall refrain from personal business activity that could conflict with proper execution of the investment program, or which could impair one's ability to make impartial investment decisions. Also, the City Treasurer shall disclose to the Commission any material financial interests in Qualified Institutions that conduct business with the City and the City Commissions shall further disclose annually any material financial/investment positions that could be related to the performance of the City's investment program.

Material financial/investment positions will be defined as owning more than 10% or greater of the client outstanding equity securities or other ownership interests.

Section 7. Authorized Investments

The City of Traverse City, City Treasurer is limited to investments authorized by Public Act 20 of 1943 as amended, and may invest in the following:

- A. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
- B. Certificates of deposits, savings accounts, deposit accounts, or depository receipts of a financial institution, but only if the financial institutions is eligible to be a depository of funds belonging to the State under a law or rules of this State or the United States.
- C. Commercial paper rated at the time of purchase within the highest classification established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.
- D. Repurchase agreements consisting of instruments listed in (A.) above. Repurchase agreements shall be negotiated with dealers or financial institutions with whom the City has negotiated a Master Repurchase Agreement. Repurchase Agreements must be signed with the bank or dealer and must contain provisions comparable to those outlined in the Public Security Association model Master Repurchase Agreement.
- E. Bankers' acceptance of United States Banks.
- F. Obligations of this state or any of its political subdivisions that at the time of purchase are rated investment grade by not less than 1 standard rating service.
- G. Mutual funds registered under the Investment Company Act of 1940 Title 1 Chapter 686, 54 Stat. 789, 15 U.S.C . 80a-1 to 80a-3 and 80a-4 t0 80a64, with the authority to purchase only investment vehicles that are legal for direct investment by the City. This authorization is limited to securities whose intention is to maintain a net asset value of \$1.00 per share.
- H. Investment pools organized under the Surplus Funds Investment Pool Act, 1982 PA 367, 129.111 to 129.118.

- I. Obligations described in subdivisions (a) through (f) as named above if purchased through an interlocal agreement under the Urban Cooperation Act of 1967. 1967 (ExSess) PA 7, MCL 124.501-124.512.

Section 8. Third Party Custodial Agreements

Securities shall be held with a third-party custodian. All securities purchased by and all collateral obtained by the City should be properly designated as an asset of the City. The securities must be held in an account to separate and apart from the assets of the financial institution. The custodian shall accept transaction instructions only from those persons who have been duly authorized by the Commission and which authorization has been provided, in writing, to the custodian. No withdrawal of securities, in whole or in part, shall be made from safekeeping or permitted unless by a duly authorized person.

Monthly, the custodian shall provide the City Treasurer with detailed information on the securities held by the custodian. Security transactions between a broker/dealer and the custodian involving the purchase or sale of securities by transfer of money or securities must be made on a delivery vs. payment basis, if applicable, to ensure that the custodian shall have the security or money as appropriate, in hand at the conclusion of the transaction. Only after receiving written and or verbal authorization from the City shall authorized securities be delivered. Securities held as collateral shall be held free and clear of any liens.

Section 9. Reporting

Annually, the Treasurer shall prepare a written report to the governing body concerning the investments of the funds.

Section 10. Effective Date

The policy shall become effective on October 17, 2006.