CITY COUNCIL ACTION REPORT

December 4, 2006

TO: Phillip L. Nelson, City Manager

FROM: John M. Lamerato, Assistant City Manager/Finance and Administration

SUBJECT: City of Troy Investment Policy & Establishment of Investment Accounts

Background:

- The current investment policy was initially approved in November 1999 and each year thereafter with the stipulation that it be reviewed and approved annually by City Council. The current policy has served us well during the past year and is in compliance with Act 20 PA 1943, as amended, therefore I'm not requesting any changes at this time.

  I would also like to update our resolution authorizing the establishment of investment accounts at the following institutions: Charter One, Citizens Bank, Comerica Bank, Fifth Third Bank, Flagstar Bank, Huntington National Bank, Independent Bank, JP Morgan Chase Bank, LaSalle Bank, Merrill Lynch, Michigan Class-MBIA, Michigan Heritage Bank, National City Bank, Republic Bank, Salomon Smith Barney, TCF Bank, and The Private Bank.

Financial Considerations:

- This policy is established in order to provide for the safety and diversification of investment accounts.

Legal Considerations:

- The investment policy is in compliance with Act 20 PA 1943, as amended.

Policy Considerations:

- The annual review of the investment policy is intended to give City Council an update on the financial institutions in which the City invests its money, and also supports City Council's goals to minimize the cost and increase efficiency of City government and for effective, professional communication.

Options:

- It is recommended that City Council approve the attached investment policy and listing of approved investment account locations.

CITY OF TROY INVESTMENT POLICY

To Comply with Act 20 PA 1943, as amended

Purpose: It is the policy of the City of Troy 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.

Scope: This investment policy applies to all financial assets of the City. These assets are accounted for in the various funds of the City and include the general fund, special revenue funds, debt service funds, and capital project funds (unless bond ordinances and resolutions are more restrictive), enterprise funds, internal service funds, trust and agency funds, and any new fund established by the City.

Objectives: The primary objectives, in priority order, of the City's investment activities shall be:

> Safety – Safety of principal is the foremost objective of the investment program. Investments shall be undertaken in a manner that seeks to insure the preservation of capital in the overall portfolio.
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> Diversification – The investments will be diversified by security type and institution in order that potential losses on individual securities do not exceed the income generated from the remainder of the portfolio.
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> Liquidity – The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated.
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> Return on Investment – The investment portfolio shall be designed with the objective of obtaining a rate of return throughout the budgetary and economic cycles, taking into account the investment risk constraints and the cash flow characteristics of the portfolio.

Delegation of Authority to Make Investments: Authority to manage the investment program is derived from the following: City of Troy City Council's most current resolution establishing investment accounts (2005-11- 522- E-5). Management responsibility for the investment program is hereby delegated to the City of Troy Assistant City Manager/Finance and Administration who shall establish written procedures and internal controls for the operation of the investment program consistent with this investment policy. Procedures should include references to safekeeping, cash purchase or delivery vs. payment, investment accounting, repurchase agreements, wire transfer agreements, collateral/depository agreements and banking service contracts. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the Assistant City Manager/Finance and Administration. The Assistant City Manager/Finance and Administration shall be responsible for all transactions

undertaken and shall establish a system of controls. The Investment Policy shall be reviewed and approved by the City Council annually.

List of Authorized Investments: The Assistant City Manager/Finance and Administration is limited to investments authorized by 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 deposit, savings accounts, deposit accounts, or depository of a financial institution. Authorized depositories shall be designated by the City of Troy City Council.
(c) Commercial paper rated at the time of purchase within the two highest classifications 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).
(e) Bankers' acceptances 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 one standard rating service.
(g) Investment pools through an interlocal agreement under the urban cooperation act of 1967, 1987 (Ex Sess) PA 7, MCL 124.501 to 124.512
(h) Investment pools organized under the surplus funds investment pool act, 1982 PA 367, 129.111 to 129.118.
(i) The investment pools organized under the local government investment pool act, 1986 PA 121, MCL 129.141 to 129.150.

Safekeeping and Custody: All security transactions, including collateral for repurchase agreements and financial institution deposits, entered into by the Assistant City Manager/Finance and Administration may be on a cash basis or a delivery vs. payment basis as determined by the Assistant City Manager/Finance and Administration. Securities may be held by a third party custodian designated by the Assistant City Manager/Finance and Administration and evidenced by safekeeping receipts as determined by the Assistant City Manager/Finance and Administration.

Prudence: 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.