

Section Name: Financial Management
Section Number: 300
Policy Number: 306

Effective Date: September 9, 1997
Date of Revision: October 19, 2021

Subject: Investment Policy

Purpose:

The purpose of this policy is to guide the actions in making investment decisions, formally re-designate the Monroe County Treasurer as the Investment Officer, define the approved types of investments and maturities the County Board of Commissioners desires to authorize the Treasurer to invest in, to communicate with brokers, dealers, bond rating agencies, investors, general public and others with respect to investments.

Scope:

This policy applies to Monroe County's general investments and not retirement fund, employee benefit fund assets or insurance funds.

Statement of Policy:

- A. Objectives: The primary objectives of this policy, in compliance with Act 20 of Public Act of 1943, as amended (MCL 129.91), in order of priority of the County's investment objectives shall be:
1. **SAFETY:** Safety of principal is the foremost objective of the investment program. Investments undertaken on behalf of the County must seek to ensure the preservation of principal in the overall portfolio after consideration of credit worthiness of the specific security. To attain this objective, diversification is required in order that losses on individual securities do not exceed the income generated from the remainder of the portfolio.
 2. **LIQUIDITY:** Investment maturities should be matched to the cash needs of the County allowing for sufficient liquid assets in order to enable the County to meet all cash management and operating requirements which might be reasonably anticipated. The County will strive to invest daily all of its available cash.
 3. **MARKET RATE OF RETURN:** Investments should yield a rate of return commensurate with a recognized level of risk for like investments. The County's investment portfolio shall be designed with the specific objective of attaining a market rate of return through the various economic cycles taking into account the County's investment risk, legal constraints on investments, policy constraints on investments and cash flow requirements.

4. **LEVERAGE AVAILABLE CASH:** The County's cash management and investment objectives include utilizing available funds to achieve the most impactful outcomes possible. The goal of simply generating interest income through market rates of return is measured against other opportunities to utilize cash for overall financial management of the organization. This includes advanced payments to achieve credits that result in lower overall operating expenses to the County that have a value higher than interest income. This includes advanced payments of the employer's annual pension contribution or advancing cash to the County's internal service funds for insurance where more value is obtained over market rates than return from certificates of deposit.

B. **Diversification:** No more than \$10 million, or twenty percent (20%) of the investment portfolio shall be invested in certificates of deposit, of any one depository at one time. The County funds invested in certificates of deposits or in a depository may not exceed ten percent (10%) of the equity capital of the depository at any one time. No more than \$25 million or fifty percent (50%) of the investment portfolio shall be invested through repurchase agreements with any one institution. Repurchase agreements may not have a term in excess of thirty (30) days and are restricted to the following:

Bonds, notes or other obligations of or guaranteed by the United States; and

1. Those for which the full faith in credit of the United States is pledged for the payment of principal thereon; and
2. Commercial paper must be rated prime one (1) A-1 or its equivalent by not less than two nationally recognized credit rating services at the time of purchase and maturing not more than 270 days after purchase. Not more than 50% of any fund may be invested in commercial paper at any one time pursuant to Act 20 of 1943, as amended (MCL 129.91).

No obligations of any of the Government Agencies or Instrumentality's as set forth in Act 20 of 1943 as amended (MCL 129.91) shall be purchased, if such purchase would cause more than twenty-five (25%) of the aggregate principal amount of the County's Investment portfolio as of the settlement date to be invested in the obligation of that individual Government Agency or Instrumentality.

The County Treasurer will attempt to match the maturity of its investments with anticipated cash requirements. Unless matched to a specific cash requirement, the County will not invest directly into authorized investments, which mature more than three (3) years after the date of purchase.

At all times, the County shall maintain investments in conformance with Public Act 20, of the Public Acts of 1943, as amended, other State and Federal laws are applicable.

C. Delegation Of Authority To Invest:

1. The authority to manage the County's investment program is derived from the following:
2. The State of Michigan, Act No 40 of the Michigan Public Acts of 1932, 1st Extra Session, as amended (MCL 129.12).
3. Management responsibility for the overall investment program is hereby delegated exclusively to the County Treasurer. The County Treasurer shall be responsible for carrying out the banking investment policies of the County.
4. Pursuant to Act 20 of Michigan Public Acts of 1943, the Treasurer shall have an approved investment resolution passed by the Board of Commissioners for all funds other than the Delinquent Tax Revolving Fund. Further, the Road Commission must adopt its own resolution. Pursuant to Act 264, Section 211.87b of the Michigan Public Acts of 1984, the Treasurer is the statutory agent for the Delinquent Tax Revolving Fund.
5. The Treasurer will prepare a list of Treasurer employees as provided by MCL 48.40 and the Attorney General Opinion 1931-32, page 89, who are authorized to make and approve deposits and investments of County funds, which list shall be filed with the County Clerk. The Treasurer may from time to time specify the maximum amount, types of deposits, investments which employees are authorized to make, the period of time during which such authority to make, approve deposits and investments of County funds may be exercised.
6. The Treasurer shall maintain a listing of the depositories, custodians, securities dealers and financial institutions from which it may acquire authorized investments.
7. On or before the twenty-fifth day of each month, the Treasurer shall prepare a summary of the investment portfolio held at the end of the prior calendar month. Copies of this report shall be delivered to the Board of Commissioners as a quarterly report. This report shall include the amount of each authorized investment, security type name of issuer, maturity, portfolio yield, yield for each security and custodian of the authorized investment.
8. The lists provided in this article may be revised from time to time by the Treasurer.

D. Authorized Financial Dealers And Institutions:

The Treasurer shall maintain a list of financial institutions authorized to provide investment services. In addition, a list will also be maintained of approved security broker/dealers selected by credit worthiness, who maintain an office in the State of Michigan. These may include primary dealers or regional dealers that qualify under Securities & Exchange Commission Rule 15C3-1 (uniform net capital rule). No public deposit shall be made except in a qualified public depository as established by State law.

All financial institutions and brokers/dealers who desire to become qualified bidders for investment transactions must supply the Treasurer with the following:

- Audited financial statements
- Consolidated reports of condition and income as reported to Federal Reserve Board.

Security broker/dealers must maintain insurance requirements of a minimum of \$500,000 (cash claims limited to \$100,000) for brokerage accounts carrying securities for the County through the Security Investor Protection Corporation (SIPC). An annual review of the financial condition and registrations of qualified bidders will be conducted by the Treasurer.

A current audited financial statement is required to be on file for each financial institution and broker/dealer in which County invests.

E. Authorized And Suitable Investments:

The County is empowered by the State of Michigan, Act 20 of Michigan Public Acts of 1943 (MCL 129.91), as amended by the following public acts, which provide for investment of surplus funds in bonds and other direct obligations of the United States of America or in certificates of deposit or depository receipts of any financial institution which is a member of a federal insurance program.

The Treasurer is directed to deposit and invest all moneys in the following types of Authorized Investments as permitted by Act 20, as amended:

- Certificates of deposit
- Negotiable interest-bearing time certificates of deposit
- Non-negotiable interest-bearing time certificates of deposit
- Demand deposits which bear interest
- Government Agencies and Instrumentalities
- Repurchase Securities
- Non-demand saving accounts
- Commercial paper
- Mutual funds

As per the State of Michigan, Act 66 of Michigan Public Acts of 1977 (MCL 129.91), bonds and other direct obligations of the United States or an agency or instrumentality of the United States in which the principal and interest are fully guaranteed by the United States; certificates of deposit, savings accounts, or depository receipts of a bank which is a member of the Federal Deposit Insurance Corporation; commercial paper rated prime one (1) A-1 or its equivalent by not less than two nationally recognized rating agencies. Not more than 50% of any fund to be invested in commercial paper at any one time and limited to 270 days or less.

As per the State of Michigan, Act 500 of Michigan Public Acts of 1978 (MCL 129.91), certificates of deposit, savings accounts or depository receipts of a savings account or depository receipts of a savings and loan association which is a member of the Federal Deposit Insurance Corporation.

As per the State of Michigan, Act 500 of Michigan Public Acts of 1978 (MCL 129.91), certificates of deposit, savings accounts or depository receipts of a credit union which is insured by the National Credit Union Administration.

As per the State of Michigan, Act 217 of Michigan Public Acts of 1982, as amended (MCL 129.91), United States government or federal agency obligation repurchase agreements and bankers acceptances of United States banks; in mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

As per the State of Michigan, Act 367 of Michigan Public Acts of 1982 as amended (MCL 129.91), investment pools by financial institutions.

The Treasurer is advised not to invest in Certificates of Deposit in out-of-state financial institutions without a written opinion from the County Legal Advisor. Without an opinion on file, the Treasurer could be personally liable. (Refer to Attorney General Opinion #6168).

F. Investment And Banking Objectives:

1. As funds become available from time to time for deposit or investment, the Treasurer shall determine, consistent with the objectives of this policy and Board resolutions, whether such funds shall be deposited in demand deposits or deposited or invested in Authorized Investments to be made or acquired.
2. The Treasurer shall seek to obtain quotations for the purpose of selecting each Authorized Investment.
3. The Treasurer shall, whenever possible, accept the quotation providing the County with the greatest return on its investment. However, the Treasurer's foremost responsibility is to comply with the objectives, safety, liquidity and diversification requirements set forth in this policy.

Definitions:

- A. Central Depository - A single bank or trust company to be so designated and utilized for the purpose of enhancing the County's cash management activities through the centralization of banking services and which are the qualifications of a Depository.
- B. Certificates of Deposit - "Negotiable interest-bearing time certificates of deposit" means certificates of deposit in negotiable form representing deposits of the County placed in an institution having all of the qualifications of a Depository except that it need only have an office located in the State.

- C. “Non-negotiable interest-bearing time certificates of deposit” means certificates of deposit in non-negotiable form representing deposits of the County placed in an institution having all of the qualifications of a Depository except that it need only have an office located in the State.
- D. Commercial Paper - Commercial paper is an unsecured promissory note (270 days or less) generally issued by large corporations and traded between them to meet their short- term cash requirement. In recent years, commercial paper has been issued by public utilities and governmental units also. This market is open for investment purposes by the general public.

In some cases, commercial paper is issued with a bank letter of credit or line of credit. This guarantees that should the issuer be unable to redeem the note at maturity, the bank will make good. This is especially important with weaker companies. In the case of governmental units issuing paper, redemption may depend upon timely collection of taxes.

Credit worthiness of the issuers is rated by several nationally recognized and rating agencies: Moodys Investors Services, Standard & Poors, Fitch, and Duff & Phelps.

Commercial paper can be tailored to the needs of the issuer. The amount to be offered, the time and rate can be easily adjusted. It is not uncommon for some issuers to change rates or maturities several times during the day to assure that they obtain the needed funds as cheaply as possible. This is also an advantage to fit their needs. Commercial paper is not insured and generally is traded in large denominations (\$25,000).

- E. Custodian - The County Treasurer is the custodian of all County funds pursuant to MCL 48.40.
- F. Demand Deposits - Those funds of the County which are deposited with a Depository and payable on demand of the County. Such deposits may include interest-bearing and non- interest-bearing checking accounts, savings accounts or other similar accounts authorized by the Federal Reserve Board of the Federal Home Loan Bank Board. These accounts must be insured by the Federal Deposit Insurance Corporation.
- G. Depository - A bank or savings and loan association organized under the laws of the State or under the laws of the United States, doing business and situated in the State which:
- Has an office located in the County which is capable of providing those banking services which the County requests.
 - Has deposits which are insured by the Federal Deposit Insurance Corporation.
 - Has Equity Capital in excess of fifty million (\$50,000,000).

H. Equity Capital - Ownership interest in a Depository which is represented by the par value of common and preferred stock if any, additional paid-in capital and, retained earnings or retained income.

I. Securities Dealers -

- Institutions having all of the qualifications of a Depository except that they only need an office located in the State rather than in the County.
- Classified as Primary Securities Dealers which is determined by the Federal Reserve Bank.
- Firms which are members of both the National Association of Securities Dealers and the Securities Investor Protection Corporation and also have an office located in the State.

J. U.S. Treasury Bills - These are direct obligations of the United States Government sold at a discount from par value with a specific maturity date up to a maximum maturity of one year. The interest comes from a discount which is calculated using actual number of days on a 360 day year.

K. U.S. Treasury Bonds - These are similar to notes except the first original maturities are ten years or longer.

L. U.S. Treasury Notes - These are direct obligations of the United States Government bearing interest payable at six month intervals until maturity. Maturities are from one to ten years.

M. Financial Assets of the County - These funds are accounted for in the County's Comprehensive Annual Financial Report and include:

1. Governmental Fund Classifications:

- General Fund
- Special Revenue Fund
- Debt Service Fund
- Capital Projects Fund

2. Proprietary Fund Classifications:

- Internal Service Fund
- Enterprise Fund

3. Fiduciary Fund Classifications:

- Trust and Agency

N. Government Agencies and Instrumentalities - These obligations are issued by various independent federal agencies which are separate corporate entities and which are not direct obligations of the United States Government. The following agencies issue obligations which may be backed by the full faith and credit of the U.S. Government:

1. Export Import Bank Debentures and Participating Certificates
2. Farmers Home Administration Insured Notes
3. General Services Administration Participation Certificates

4. Government National Mortgage Association (GNMA)
5. GNMA Bond
6. GNMA Participation Certificates
7. GNMA Pass Through

The actual securities vary from notes and debentures to participation certificates.

- O. Investment Portfolio - Those authorized investments made by the County for the purpose of earning a monetary return, including interest, on the amount invested.

- P. Mutual Funds - Mutual funds are comprised of pools of investors with express purpose of purchasing larger diversified portfolios than if they could invest individually.
 1. The State, under Act 217 of Public Acts of 1982, Section 1.1(f) states that it is appropriate to invest County funds “In mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan”.
 2. The State of Michigan, Act 20 of Michigan Public Acts of 1943 (MCL 129.91) states that a mutual fund which includes only those investments enumerated in 1(a) through 1(e) would be appropriate. If the mutual fund includes any other instrument, it would not be appropriate.

- Q. Non-demand Savings Accounts - Those savings accounts of the County in a Depository which are not payable on demand but, instead, are payable at a certain date. These accounts must be insured by the Federal Deposit Insurance Corporation.

- R. Ratings Services -
 1. Keefe Bankwatch: Provides evaluation of the financial condition of banks and savings and loans.
 2. Moody’s Investors Services, Inc.: Provides evaluation of the financial condition of banks and savings and loans.
 3. Sheshunoff Information Services, Inc.: Provides evaluation of the financial condition of banks and savings and loans.
 4. Standard and Poor’s Corporation: Provides evaluation of securities credit worthiness.

- S. Repurchase Agreements - Those securities which are the subject of a Repurchase Agreement are:

1. Bonds, notes for other obligations of or are guaranteed by the United States.
2. Those for which the faith of the United States is pledged for the payment of principal thereon.

Repurchase Securities shall mature or be redeemable at the option of the holder within five years from the date of their sale to the County and shall have at the time of purchase by the County a market value at least equal to one hundred percent (100%) of the price at which the Repurchase Securities are to be repurchased from the County, or such greater percentage as is agreed upon by the seller and the County prior to or upon entering into a particular agreement.

Bankruptcy courts have held that repurchase agreements handled in the way described are not purchases, but are collateralized loans. Thus, when a bank or broker files for bankruptcy protection, the holders of repurchase agreements are treated as priority creditors and are not entitled to the securities they supposedly owned. You must have a third party take actual possession of the securities to protect your investment.

Responsibility:

- A. The County Treasurer is the custodian of all County funds pursuant to MCL 48.40. The County Administrator/Chief Financial Officer shall be responsible for administering this policy.

Administrative Procedure:

- A. Investments shall be made by the County Treasurer based on his/her best judgment under circumstances then prevailing, which persons of prudence, discretion and intelligence exercised in the management of their own affairs, not for speculation, but for investment, considering the probable safety of the principal, as well as, liquidity and probable income to be derived from the respective investments.
- B. 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. The Treasurer shall act in accordance with written procedures and the investment policy and exercise due diligence and shall be relieved of personal responsibility for an individual risk or market price changes.
- C. 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 County of Monroe.

- D. Banking institutions who provide banking or investment services to the County are prohibited from providing gratuities, gifts or other monetary incentives with a value exceeding fifteen dollars (\$15.00) to any elected or appointed county official, or members of the family or office staff of any elected or appointed county official as an incentive to induce county officials to provide business to their institution. Any banking institution found to be in violation of this policy will be subject to termination of their banking relations with the County of Monroe.

Legislative History of Authority for Creation or Revision:

Adopted pursuant to action of the Monroe County Board of Commissioners, dated September 9, 1997.

Revised pursuant to action of the Monroe County Board of Commissioners, dated July 7, 1998, dated July 29, 2014 and October 19, 2021.