

**Fiscal Policy - Investments**

**I. POLICY**

- 1. Policy:** Kent County will invest funds in a manner which will ensure the preservation of capital while providing the highest investment return with maximum security, meeting the daily cash flow demands of the County and conforming to all state statutes governing the investment of public funds.

**II. PRINCIPLES**

- 1. Statutory References:** Public Act 20 of 1943 [MCLA 129.91], as amended, requires the County to have a written investment policy which, at a minimum, includes the purpose, scope and objectives of the policy, including safety, diversification and return on investment; a delegation of authority to make investments; a list of authorized investment instruments; and statements addressing safekeeping, custody and prudence.
- 2. County Legislative or Historical References:** Resolution 6-26-97-89, adopted by the Board of Commissioners on June 26, 1997, established rules and guidelines for managing the financial interests of the County. Such a resolution has been adopted annually since 1987.
  - 2.a. Conflicts:** This document restates, clarifies, expands or alters the rules set forth in the Resolution 6-26-97-89. This Policy and the procedures promulgated under it supersede all previous regulations regarding County investments.
- 3. Scope:** This policy applies to the investment of all funds, excluding the investment of employees' retirement funds.
  - 3.a. Pooling of Funds:** Except for cash in certain restricted and special funds, the County will consolidate cash and reserve balances from all funds to maximize investment earnings and to increase efficiencies with regard to investment pricing, safekeeping and administration. Investment income will be allocated to the various funds based on their respective participation and in accordance with generally accepted accounting principles.
- 4. General Objectives:** The primary objectives, in priority order, of investment activities shall be safety, liquidity, and yield:
  - 4.a. Safety:** Safety of principal is the foremost objective of the investment program. Investments shall be undertaken in a manner that seeks to ensure the preservation of

capital in the overall portfolio. The objective will be to mitigate credit risk and interest rate risk.

**4.a.1 Credit Risk:** The County will minimize credit risk, which is the risk of loss due to the failure of the security issuer or backer, by:

**4.a.1.a.** Limiting investments to the types of securities authorized by PA 20 of 1943 (MC: 129.91), as amended, except commercial paper investments must have a rating of not less than P1 from Moody's or A1 from Standard & Poor's and mutual fund investments must have a par share value intended to maintain a net asset value of at least \$1.00 per share. **For purposes of this policy, such investments are referred to as securities.**

**4.a.1.b.** Diversifying the investment portfolio so that the impact of potential losses from any one type of security or from any one individual issuer will be minimized. With the exception of U.S. Treasury Securities and authorized pools, no more than 25 percent of the total investment portfolio will be invested in a single security type or with a single financial institution.

**4.a.2. Interest Rate Risk:** The County 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:

**4.a.2.a.** Structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity.

**4.a.2.b.** Investing operating funds primarily in shorter-term securities, money market mutual funds, or similar investment pools and limiting the average maturity of the portfolio in accordance with this policy.

**4.a.2.c.** The County stratifies its pooled investments by maturity (less than one year, 1-2 years, 2-3 years and 3-5 years). Investments maturing in less than one year shall represent at least 40% of the total value of the portfolio. No other maturity band may represent more than 30% of the portfolio and the total of all investments greater than one year shall represent no more than 60 percent of the total portfolio.

**4.b. Liquidity:** The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated. This is accomplished by structuring the portfolio so that securities mature concurrent with cash needs to meet anticipated demands. **To that end**, a portion of the portfolio may be placed in money market mutual funds or local government investment pools which offer same-day liquidity for short-term funds.

**4.c. Yield:** The investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints and liquidity needs. Return on investment is of secondary importance compared to the safety and liquidity objectives described above. The core of investments is limited to relatively low risk securities in anticipation of earning a fair return relative to the risk being assumed. Securities shall generally be held until maturity with the following exceptions:

**4.c.1.** A security with declining credit may be sold early to minimize loss of principal

**4.c.2.** A security swap would improve the quality, yield, or target duration in the portfolio.

**4.c.3.** Liquidity needs of the portfolio require that the security be sold.

## **5. Standards of Care:**

**5.a. Prudence:** The standard of prudence to be used by the Treasurer shall be the “prudent person” standard and shall be applied in the context of managing an overall portfolio. Investment officers acting in accordance with written procedures and this investment policy and exercising due diligence shall be relieved of personal responsibility for an individual security’s credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and the liquidity and the sale of securities are carried out in accordance with the terms of this policy.

The “prudent person” standard states that, “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.”

**5.b. Ethics and Conflicts of Interest:** The Treasurer and other 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.

## 6. Safekeeping and Custody

**6.a. Delivery vs. Payment:** All trades of marketable securities will be executed by delivery vs. payment (DVP) to ensure that securities are deposited in an eligible financial institution prior to the release of funds.

**6.b. Safekeeping: Marketable** securities will be held by an independent third-party custodian selected by the Treasurer as evidenced by safekeeping receipts in the County's name. The safekeeping institution shall annually provide a copy of their most recent report on internal controls (Statement of Auditing Standards No. 70, or SAS 70).

**6.c. Internal Controls:** The Treasurer is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the County are protected from loss, theft or misuse. The internal control structure shall be designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that (1) the cost of a control should not exceed the benefits likely to be derived and (2) the valuation of costs and benefits requires estimates and judgments by management.

**7. Reporting Methods:** The Treasurer shall prepare quarterly investment reports, including a **certification regarding compliance with all applicable laws and policies**. These reports shall be **filed with** the Board of Commissioners **not later than sixty days following the end of each calendar quarter**.

**8. Implementation Authority:** Upon adoption of this Statement of Policy and Principles, the Kent County Board of Commissioners delegates to the County Treasurer the management responsibility for the investment program as required by state statute.

**9. Periodic Review:** The County Administrator/Controller shall review this policy at least every two years and make any recommendations for changes to the Finance and Physical Resources Committee.