

**Overview of  
Public Act 20  
and  
Understanding  
Applicable  
Municipal  
Investments**



**Ken Parrish - Kent County Treasurer  
Glenn Getschow – Huntington Bank**

February 11, 2013

**Prior to PA20 of 1943 these were  
acceptable Investments . . .**



Eiffel Tower

The Brooklyn Bridge



## Not exactly risk-free investments . . .



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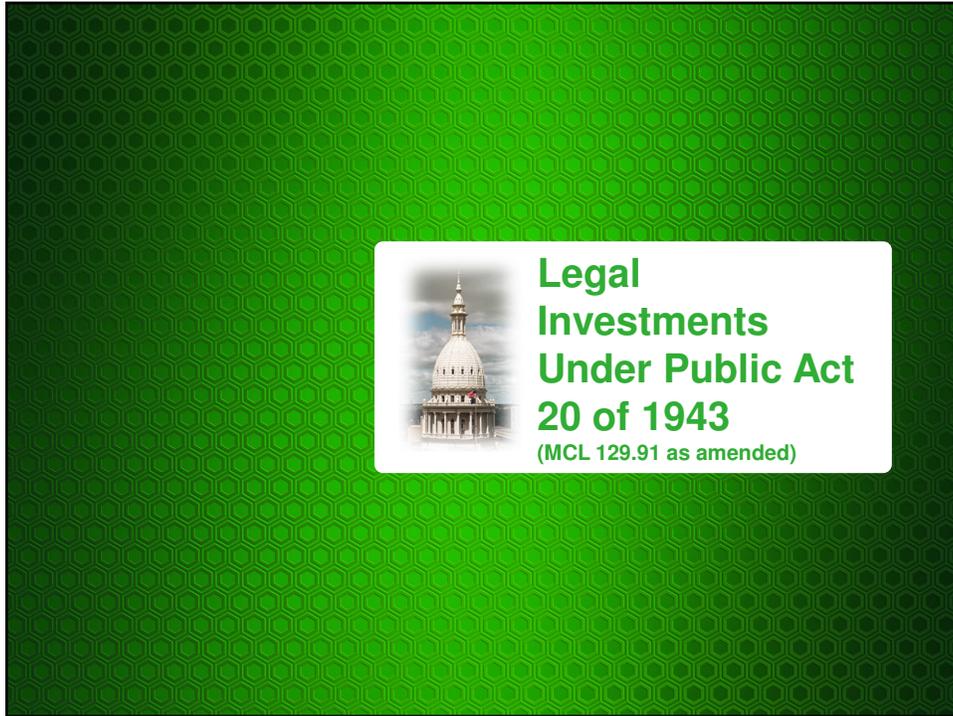
## What is Public Act 20 of 1943?

PA 20 of 1943 regulates investment of surplus funds of public corporations of the State.

- The law defines the investments that may be purchased by public corporations.
- The law also requires public corporations to adopt an investment policy, and for any financial brokers or dealers to agree to comply with the policy.



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## Summary of Legal Investments Under PA 20 of 1943 (MCL 129.91 as amended)

- Bonds, securities or other obligations of the United States or an agency or instrumentality of the United States.

*In July 2008 Freddie & Fannie moved from implied to direct U.S. Treasury backing.*



## Definition

### Government Obligations

- U.S. Treasury Bills – sold at a discount from par with a specific maturity date up to a maximum maturity of one year. Available in minimum denominations of \$10,000 and increments of \$5,000 thereafter, interest is discounted and calculated using actual number of days on a 360 day year.
- U.S. Treasury Notes – bears interest payable at six month intervals until maturity. Maturities are from one to ten years. Denominations, after a minimum of \$5,000, are in \$1,000 multiples.
- U.S. Treasury Bonds – similar to notes except original maturities are ten years and longer. Interest is generally payable on February and August 15 or May and November 15.



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## Summary of Legal Investments Under PA 20 of 1943 (MCL 129.91 as amended)

- Certificates of deposit, savings accounts, deposit accounts or depository receipts of a financial institution. The financial institution where the funds are initially invested must be:
  - A state or nationally chartered bank or a state or federally chartered savings and loan association, savings bank or credit union whose deposits are insured by an agency of the United States government, and
  - That maintains a principal office or branch office located in the State of Michigan under the laws of this state or the United States.



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## Definition

### Certificate of Deposit

- A receipt of funds deposited in a financial institution for a specified period at a specified rate of interest. Denominations can be any agreed amount, and interest is normally calculated using actual number of days on a 360 day year. However, each financial institution's calculations vary, and the investor should ask to avoid misunderstanding.



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## Summary of Legal Investments Under PA 20 of 1943 (MCL 129.91 as amended)

- Commercial paper rated at the time of purchase within the two highest classifications by not less than two standard rating services and that matures not more than 270 days after the date of purchase.



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## Definition

### Commercial Paper

- Short term unsecured debt obligation issued by a bank holding company, finance company, utility or industrial company to raise short term cash.
  - S&P and Moodys Ratings
- |                   |     |               |
|-------------------|-----|---------------|
| • Highest quality | A-1 | Prime-1 (P-1) |
| • High quality    | A-2 | Prime-2 (P-2) |



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## Summary of Legal Investments Under PA 20 of 1943 (MCL 129.91 as amended)

- Repurchase Agreements of the United States or an agency or instrumentality of the United States.



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## Definition

### Repurchase Agreement

- Is not a security but a contractual arrangement between a financial institution or dealer and an investor. The investor puts up his funds for a certain number of days at a stated yield. In return he takes title to a given block of securities as collateral. At maturity the securities are returned and the funds repaid plus interest. Interest is calculated the same as certificates of deposit. The securities are held for you in safekeeping; they should be held in a customer-segregated safekeeping account, preferably by a third party.



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## Summary of Legal Investments Under PA 20 of 1943 (MCL 129.91 as amended)

- Bankers' Acceptances of the United States banks.



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## Definition

### Bankers' Acceptance

- A negotiable time draft drawn on and accepted by a commercial bank. Acceptance of the draft irrevocably obligates the bank to pay the bearer the face amount of the draft at maturity.
- Bankers' acceptances are usually created to finance the import and export of goods.
- Bankers' acceptances are sold at a discount from par similar to U.S. Treasury Bills, the amount and maturity of the acceptance are fixed.



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## Summary of Legal Investments Under PA 20 of 1943 (MCL 129.91 as amended)

- Obligations of the State of Michigan or any of its political subdivisions that at the time of purchase are rated as **investment grade** by not less than one rating service.
  - “Investment grade” are bonds rated BBB/Baa or higher.
  - Includes DTANs, if rated



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## Summary of Legal Investments Under PA 20 of 1943 (MCL 129.91 as amended)

- Mutual funds registered under the federal Investment Company Act of 1940, composed of the investment vehicles described previously.



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## Definition

### Money Market Mutual Funds

- A money market mutual fund or money fund, carries no FDIC insurance and is simply a collection of short-term debt investments held by that mutual fund. Money market investments are debt securities that mature in 13 months or less. Money market investments are also called cash investments because of the short maturities.
- Shares in a mutual fund represent fractional interest in the investments held by the mutual fund. The value of a share of a money market fund should always be \$1 – only interest rates changes not share price.



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## Summary of Legal Investments Under PA 20 of 1943 (MCL 129.91 as amended)

- Obligations described previously if purchased through an interlocal agreement under the Urban Cooperation Act of 1967

Examples:

MBIA Michigan CLASS program  
JP Morgan Chase MI Gov't MMF  
Comerica J Fund  
MILAF+ Cash Management Class  
MILAF+ Max Class



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## Definition

### Interlocal Agreement

- Section 28 of Article 7 of the Michigan Constitution of 1963 provides, among other things, that the Legislature may authorize two or more local governmental entities to enter into contractual agreements to provide for the joint administration of functions which each entity would have the power to perform independently, and to share in the related costs and responsibilities with each other. In accordance with this constitutional provision and certain statutory provisions incorporated in the Urban Cooperation Act of 1967 of the State of Michigan, these agreements constitute an interlocal trust agreement creating a legal entity established for the purpose of facilitating the joint investment of public sector surplus funds.



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## Summary of Legal Investments Under PA 20 of 1943 (MCL 129.91as amended)

- Investment pools organized under the Surplus Funds Investment Pool Act, Public Act 367 of 1982 (e.g. bank pools).
- Investment pools organized under the Local Government Investment Pool Act, Public Act 121 of 1985 (e.g. the Kent County and Oakland County investment pools).



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## Definition

### Investment Pools

- Those investment pools organized under the authority of the Urban Cooperation Act, PA 7 of 1982, the Surplus Funds Investment Pool Act, PA 367 of 1982, and the Local Government Investment Pool Act, PA121 of 1985.
- Those pools are managed by contractual agreement contained in the inter-local agreement, banks and a county treasurer, respectively. All of the pools are limited to investments described previously.



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## Pop Quiz

Speaking of pool . . .



**If it takes 9 balls to play 9-ball,  
how many balls does it take to  
play 8-ball?**



**Recent Legislation  
Amending Public  
Act 20**

## Recent Legislation Amending PA 20

- Public Act 308 of 2008 and Public Act 21 of 2009 allow school districts, intermediate school districts, and public corporations to invest funds in certificates of deposit with financial institutions (PA 308) and insured credit unions (PA21) that participate in programs such as the Certificate of Deposit Account Registry Service program (CDARS).
- Public Act 152 of 2012 expanded on PA308 and PA21 to include deposit accounts, as well.



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**Requirements of  
an Investment  
Policy**  
(MCL 129.95)

## Requirements of an Investment Policy

Public Act 20 of 1943 (as amended) requires an investment policy. The investment policy must include the following minimum requirements:

- A statement of the purpose, scope and objectives of the policy, including safety, diversification, liquidity and return on investment.
- A delegation of authority to make investments.
- A list of authorized investment instructions.
- A statement concerning safekeeping, custody and prudence.



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## Requirements of an Investment Policy

- The Investment Act also requires that any financial intermediary, broker or dealer (that is, the banker or broker selling the securities):
  - Be provided with a copy of the investment policy;
  - Acknowledge receipt of the policy; and
  - Agree to comply with the terms of the policy regarding the buying or selling of securities.
- Finally, the Act requires the investment officer to provide a written quarterly report to the board concerning the investment of the funds. (MCL 129.96 Sec. 6.)



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# Sample Quarterly Report

**OFFICE OF THE TREASURER**  
 COUNTY ADMINISTRATION BUILDING • P.O. BOX 1 • GRAND RAPIDS, MICHIGAN 49501-4925  
 TELEPHONE: (616) 632-7500  
 FACSIMILE: (616) 632-7505



KENNETH D. PARRISH  
 Treasurer

**Kent County Investments as of 9/30/12 by Type/Institution**

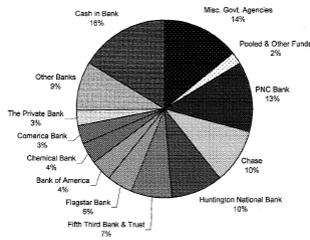
<b>Governmental Securities</b>		
Misc. Govt. Agencies	53,641,123.22	
Total Governmental Securities		\$53,641,123.22
<b>Pooled &amp; Other Funds</b>		
MUAF	8,209,045.84	
MSIA Class	507,875.64	
Total Pooled Funds		\$8,716,921.48
<b>Certificates of Deposit &amp; Money Market</b>		
PNC Bank	49,266,011.57	
Chase	38,057,401.72	
Huntington National Bank	36,443,529.26	
Fifth Third Bank & Trust	27,914,283.22	
Flagstar Bank	18,000,000.00	
Bank of America	15,000,218.87	
Chemical Bank	14,698,887.62	
Comerica Bank	13,196,056.65	
The Private Bank	10,480,491.70	
Bank of Holland	8,109,306.49	
Mercantile Bank	6,530,144.96	
Talmer Bank	5,002,868.06	
Founders Trust	4,663,448.14	
United Bank	3,201,931.17	
ChoiceOne Bank	2,454,000.57	
West Michigan Community Bank	1,843,326.20	
First National Bank of America	1,008,137.50	
Independent Bank	1,000,000.00	
Select Bank	179,335.03	
Total Certificates of Deposit & Money Market		\$257,061,375.52
Cash in Bank		\$52,491,470.44
<b>Total Cash &amp; Investments</b>		<b>\$381,610,890.66</b>
<b>Investment Income (YTD):</b>		
General Fund		\$472,294.13
Total Investment Pool		\$2,379,294.72

I hereby certify that the investment activities for Kent County in 2012 have conformed to the Investment Policy adopted by the Kent County Board of Commissioners on May 21, 1988.

*Kenneth D. Parrish*  
 Kenneth D. Parrish CPA  
 Treasurer  
 November 29, 2012

# Sample Quarterly Report

**Kent County Investments as of 9/30/12 by Type/Institution**



## Sample Quarterly Report

T1 01/10/12 10:09		COUNTY OF REBT FUND SUMMARY 09/01/12 THROUGH 09/30/12				PAGE: 31
FUND NUMBER	FUND NAME	BEGINNING BALANCE	TOTAL DEBITS	TOTAL CREDITS	ENDING BALANCE	
01	COUNTY	54,855,945.99	42,347,474.87	22,554,599.88	76,536,725.55	
01 028	REG - HALLING PERSONALS	-751,184.78	11,189.15	.00	-869,998.43	
01 339	DEFERRED REVENUE	701,184.78	.00	11,189.15	889,998.63	
	<b>SUBTOTAL</b>	<b>54,845,945.99</b>	<b>42,358,664.02</b>	<b>22,565,789.03</b>	<b>76,536,725.60</b>	
03	COUNTY ROADS	11,605,098.45	3,189,960.26	5,494,814.62	11,011,244.09	
	<b>SUBTOTAL</b>	<b>11,605,098.45</b>	<b>3,189,960.26</b>	<b>5,494,814.62</b>	<b>11,011,244.09</b>	
04	FIRE PROMOTION	270,594.23	110.44	11,520.01	259,143.08	
05 341 7866	FIRE PREVENTION-CARFIELD	.00	.00	.00	.00	
11	41ST DIST CT - SECURITY	.00	.00	.00	.00	
14	JOHN BULL PARK	.00	.00	.00	.00	
15	FRIENDS OF THE COURT	-461,841.75	530,703.09	763,456.32	-514,595.16	
	<b>SUBTOTAL</b>	<b>-461,841.75</b>	<b>530,703.09</b>	<b>763,456.32</b>	<b>-514,595.16</b>	
21	HEALTH	-1,382,144.37	4,970,810.40	2,243,786.46	1,353,267.57	
21 482 2253	COM MASHING CT-LEAD BEND	-61,313.35	92,226.93	.00	4,896.88	
	<b>SUBTOTAL</b>	<b>-1,443,457.72</b>	<b>5,063,037.33</b>	<b>2,243,786.46</b>	<b>1,358,164.45</b>	
26 254	HOVEL/MOTEL	3,176,173.88	826,413.04	116,301.42	3,885,685.60	
29 808	REVENUE STABILIZATION	.00	.00	.00	.00	
42	PUBLIC EMPLOYMENT	2,051,633.47	3,862,885.90	127,393.44	5,792,144.81	
45 003	CIP - 2002	.00	.00	.00	.00	
45 004	CIP - 2004	.00	.00	.00	.00	
45 005	CIP - 2005	.00	.00	.00	.00	
45 005 9742	FD H-6 TRAIL	149,408.48	.00	6,290.47	143,118.01	
45 006 9895	CIP	.00	.00	.00	.00	
45 006 9928	CIP	39,298.14	.00	.00	29,298.14	
45 006 9707	CIP	.00	.00	.00	.00	
45 006 9794	CIP	.00	.00	.00	.00	
45 006 9706	CIP	75,258.06	.00	.00	75,258.06	
45 006 9710	CIP	45,072.51	.00	.00	45,072.51	
45 006 9713	CIP	.00	.00	.00	.00	
45 007 9718	CIP	.00	.00	.00	.00	
45 007 9720	CIP	.00	.00	.00	.00	
45 007 9722	CIP	55,178.82	.00	.00	55,178.82	
45 007 9723	CIP	.00	.00	.00	.00	
45 007 9724	CIP	.00	.00	.00	.00	
45 007 9725	CIP	.00	.00	.00	.00	

## Sample Quarterly Report

T1 01/10/12 10:09		COUNTY OF REBT FUND SUMMARY 09/01/12 THROUGH 09/30/12				PAGE: 32
FUND NUMBER	FUND NAME	BEGINNING BALANCE	TOTAL DEBITS	TOTAL CREDITS	ENDING BALANCE	
42 053 0891	LITTLE PINE ISLAND	.00	.00	.00	.00	
42 053 0941	PINE LAKE LEVEL	.00	.00	.00	.00	
42 053 0962	SINGLE LAKE LEVEL	-1,944.00	.00	.00	-1,944.00	
	<b>SUBTOTAL</b>	<b>-1,944.00</b>	<b>0.00</b>	<b>0.00</b>	<b>-1,944.00</b>	
	<b>TOTAL</b>	<b>332,461,224.84</b>	<b>128,435,799.38</b>	<b>79,384,134.53</b>	<b>281,311,886.66</b>	



**Sometimes, a  
Good Investment  
Policy Is Not  
Enough**



Dante DeMiro (September 20, 2010)



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## Dante DeMiro's fraud reaches \$13 million, nets him 10 years in prison.

Published: Tuesday, July 12, 2011, 5:24 PM (Source M-Live)

DeMiro, who [admitted in April to defrauding five victims](#) was ordered to pay \$12.9 million in restitution to a long list of victims beyond the five named in the criminal case against DeMiro.

“The defendant in this case exploited the market downturn to convince conservative clients that their money was safe with him in low-risk certificates of deposit. We have seen more and more of these investment schemes, which prey upon school districts, municipalities, and unions,” said U.S. Attorney Barbara McQuade.



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## Safety, Liquidity, and Yield

- Diversify Investments
- Manage to Cash Flow
- Public Trust/Reputational Equity



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## Cash Forecasting

### Matching Investments to Cash Needs

- Why is it important?
  - You want the cash available when you need it
  - Invest too long and you may lose principal or incur penalty
  - Invest too short and you may lose yield

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## Cash Forecasting

### Determining Cash Flow Needs

- Bank statements
- Known information
  - Pay dates
  - Debt payment dates
  - Tax collection due dates
  - SET payment dates

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## Cash Forecasting

### Determining Cash Flow Needs

- Unknown information
  - Keep your ear to the door of the BoC chambers
- Tax revenue doesn't arrive until year is 60+% over
  - How will you pay for that 60%
  - Fund balance policy???

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## Cash Forecasting

### Invest According to the Needs

- Use this information as your basis for timing your investment maturities
- Keep an adequate reserve as liquid investment (refer back to “unknown information”)

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## Cash Forecasting

### Keep an Eye on Lansing

- Stay informed of possible legislative changes that could adversely affect your bottom line
  - Revenue sharing
  - PPT elimination
  - PILT/Swamp tax payments
- No one ever made the front page of the paper for earning an extra 5 basis points!

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## Free Tools to Help You Manage

- Organizational Oversight

- |  |   |
|--|---|
| <ul style="list-style-type: none"> <li>– FFIEC <a href="http://www.ffiec.gov">www.ffiec.gov</a></li> <li>– FDIC <a href="http://www.fdic.gov">www.fdic.gov</a></li> <li>– FRB <a href="http://www.federalreserve.gov">www.federalreserve.gov</a></li> <li>– OCC <a href="http://www.occ.gov">www.occ.gov</a></li> <li>– OTS <a href="http://www.ots.gov">www.ots.gov</a></li> <li>– NCUA <a href="http://www.ncua.gov">www.ncua.gov</a></li> </ul> | <ul style="list-style-type: none"> <li>Chartered Banks</li> <li>State chartered banks not FRB member</li> <li>State chartered banks FRB member, bank holding companies</li> <li>National chartered banks</li> <li>Federal savings banks (FSB) and Thrifts</li> <li>Credit Unions</li> </ul> |
|--|---|

- Quarterly Reporting

- Public Information



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## Other Management Tools Using The Same Quarterly Report Data

- FREE – [www.bankrate.com](http://www.bankrate.com)
  - Bauer [www.bauerfinancial.com](http://www.bauerfinancial.com)
- For a fee – *a few examples*
  - FIS [www.fedfis.com](http://www.fedfis.com)
  - IRS [www.institutionalriskanalytics.com](http://www.institutionalriskanalytics.com)
  - Ambest [www.ambest.com](http://www.ambest.com)
  - Highline Financial [www.highlineinet.com](http://www.highlineinet.com)



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## Other Management Tools Using The Same Quarterly Report Data

- MACT Investment Committee Spreadsheet



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## MACT Investment Committee Spreadsheet

1. Liquid assets , as a percentage of total assets, must be 25% or more. (Five points)
2. Total Loans, net of loan loss reserve, as a percentage of total assets must be 75% or less. (Five Points)
3. Loan loss reserves, as a percentage of total loans must be 1% or more. (Three points)
4. Core deposits, as a percentage of total deposits must be 40% or more. (Four points)
5. Borrowed funds, as a percentage of total assets must be 15% or less. (Three points)
6. Tier 1 Leverage Ratio must exceed bank regulators standard by 1%. ( Four points)



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## MACT Investment Committee Spreadsheet

7. Loan loss reserves, as a percentage of total loans must be 1% or more. (Three points)
8. Total Risk-Based Capital Ratio must exceed bank regulators standard by 1%. (One point)
9. Equity Growth must be 8% or more. (Two points)
10. Return on assets must equal or exceed minimum for assets range as listed below: (Three points)
11. Operations for current YTD quarter and average of two years immediately preceding years must be profitable. (Four points)
12. Net Non-Performing Loans as a percentage of total loans must be 2.5% or less. (Four points)



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## MACT Investment Committee Spreadsheet

A Bank must accumulate a total of 26 points or more in order to pass the Minimum Required Bank Standards. Such banks are not as strong as others and should be reviewed at least quarterly.

A total of 30 points or more will not require quarterly reviews, but do it anyway.



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## Be a Sound Financial Player. Your Investment Policy is Your Playbook.



- Know your team
- Set defined expectations  
(Quarterly update from Bank)
- Maintain benchmarks and resources



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## Be Confident.

- Be in control
- Follow a sound and current investment policy
- Regular due diligence
- Active communication
- Established expectations of your partners



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## Any Questions?

