

City of Northville
CITY COUNCIL SPECIAL MEETING MINUTES
November 20, 2017

Mayor Roth called the special meeting to order at 6:15 p.m. in the Northville City Hall Council Chambers, 215 West Main Street, Northville, Michigan.

Present: Mayor Ken Roth, Mayor Pro Tem Nancy Darga, Councilmembers Sam Ekong, Patrick Giesa, and Marilyn Price

Absent: None

Also

Present: City Manager Patrick Sullivan, City Clerk Dianne Massa, Finance Director/Treasurer Sandi Wiktorowski, representatives from PFM Asset Management, and one citizen.

Citizen Comments None

APPROVAL OF AGENDA

Motion Darga, seconded by Ekong to approve the agenda as presented. **Motion carried unanimously.**

DISCUSSION ON CITY INVESTMENTS

At its October 2, 2017 special meeting, City Council discussed the cemetery expansion. During that meeting, Staff was directed to investigate long-term investment options for the Cemetery Perpetual Care Fund. These funds are not limited to PA20 investment constraints. There was discussion about other investment options outside of PA20 for the cemetery funds of approximately \$980,000. It was also noted that the overriding principle of the City's Investment Policy has been safety and protection of principal. For several years, it has been a pretty lean investment environment. There are other investment options to consider, which could take small parts of the portfolio and invest those funds aggressively. Doing so would require City Council authorization and possibly an amendment to the Investment Policy.

Review of PA20 of 1943 – Investment of Surplus Funds of Political Subdivisions

PFM Asset Management reviewed PA20 of 1943, which pertains to the investment of surplus funds of political subdivisions. PA20 pertains to the City's investment of its surplus funds. It defines where funds may be invested, and requires approval of an investment policy and minimum requirements. It also requires the public corporation, a financial intermediary, broker, or dealer to receive a copy of the investment policy, acknowledge receipt and agree to comply with the policy. The investment officer must provide quarterly reports to the governing body. The statute ensures that public entities do not take inordinate risks with public money.

PFM reviewed the types of investments allowed under PA20. They also explained the allowable investment bank products, FDIC coverage, and noted that public entities are not allowed to invest in bank products where the bank does not have a physical place of deposit in the State of Michigan. Corporate bonds, equities, or risky asset investments are not allowed under PA20.

PA20 outlines what is required in an adopted investment policy. It was noted that the City's Investment Policy is well aligned with PA20, and changes are not recommended. PFM explained the advisor/broker relationship. PFM looks at yield and potential gain and loss, which is the total return concept. Everything is based off the US Treasury curve. It is important to take steps to mitigate risk through informed investing. Historically, the yield curve provides higher earnings long term. Cash flow analysis is fundamental to manage public funds.

Discussion ensued pertaining to the underlying security level of banks due to the FDIC rating, and that CDs are outperforming bonds by 20-30 basis points. A comment from Council voiced concern that PFM is not breaking down the City's investments into \$250,000 lots as the CD yields are higher than Treasuries. The City is not invested in CDs. Cash flow issues could be worked out by selling CDs on the secondary market.

PFM explained that the US Treasury is the highest quality security and most liquid – it can be sold. Rated banks will not let the CD touch a Treasury. Because they have so much cash, the higher rated banks do not need the City's deposits. It was noted that the public entity cannot invest in secondary market CDs (unless through CDARS – and the rates are not good) unless the bank has a physical deposit location/branch in Michigan. Explanation was given pertaining to how a CDARS program (Certificate of Deposit Account Registry) operates. Other investment scenarios were discussed pertaining to marketable securities and how those make money for the client.

Review PA215 of 1937 – Cemetery or Burial Grounds

Unlike the General Fund operations funds, Cemetery Funds are not subject to PA20 of 1943. Investment options for Cemetery Funds fall under Public Act 215 of 1937. PA215 allows for a cemetery's perpetual care fund for a cemetery owned or controlled by a municipality to be invested in mutual funds consisting of fixed income securities, equity securities, or both. The equity position of the perpetual care fund cannot exceed 60% of the perpetual care fund balance, and the equity position cannot contain more than 40% in any given asset category. The perpetual care fund may be invested in mutual funds, fixed equities, etc.

The perpetual care fund is "perpetual" in nature, and the income generated from that fund is used to take care of the cemetery operations and maintenance costs. There needs to be a long-term focus to grow the principle value of the fund to generate income today to support care of the cemetery.

PA215 also allows the City to open an account in a community foundation. The community foundation must have been in existence for 10 years and have at least \$10M in assets. The Community Foundation for Southeast Michigan would be an investment alternative for the City. The City would open an account and cede control of its money to the community foundation.

PFM summarized that for the cemetery fund, the three investment options are: 1) Invest in accordance with PA20 of 1943, 2) Invest in accordance with PA215 of 1937, and 3) Cede control of funds to a community foundation.

Discussion ensued pertaining to PA20 which governs surplus funds investments, PA215 which governs Cemetery Fund investments, and other investment strategies.

City Council questioned whether the Police and Fire Capital Equipment Funds would be considered a "perpetual" fund that could follow PA215 investment guidelines. Section 129.97 of PA20 lays out an exception for long-term perpetual trust funds. It was questioned as to what defines a "trust fund" and

does it formally have to be declared “perpetual.” PFM explained that while they do not have experience with capital equipment funds, the Police and Fire Capital Equipment Funds would not be considered “perpetual” as those are a 20-year plan.

PFM explained that the perpetual care funds are limited to 60% equity fund and 40% in fixed income. If the City wanted to invest in stocks and bonds, it could directly work with Vanguard Fidelity, Scottrade, or another mutual fund company. These would be internally managed by City staff, not PFM.

The City could also stay more conservative within the parameters of PA20. GovMIC (Governments in Michigan Investing Cooperatively) is a Michigan liquid asset fund for government. Discussion ensued pertaining to the current GovMIC investment rates, term rates, seven day yield, and net return. In response to a question from Council, Staff noted that the City has not used GovMIC as an investment option. Should the City wish to expand its investment options for the Cemetery Fund, it needs to amend its Investment Policy to specifically mention “cemetery funds.”

City Council discussed the option of going outside of PA20 for investing the cemetery funds. The earliest the cemetery funds would be needed is 16 years from now. Right now, the current cemetery funding is planned out with the upcoming cemetery expansion plan. A laddered investment approach that is diverse with CDs, bonds, and other government-issued products might afford the City a 2-3% yield with a rotating maturity. Parsing the \$900,000 into \$25,000 lots would allow for diversification across the portfolio. Since the funds are not needed for at least 16 years, splitting the portfolio into a fixed income component with a longer time and higher yield might provide the City with an extra 100-200 basis points.

PFM explained that the cemetery funds may be invested in mutual funds; the statute doesn't say the City may buy individual bonds. In order to get 2-3% lock, the City would need to invest its funds for 15 to 30 years. Markets indicate that rates will move up. A laddering investment approach would give up the opportunity to reinvest as we go up the curve. A comment from City Council suggested a four-to-five year laddered approach. PFM explained that for a four-year security, rates would be at 1.25-1.5%, not 2-3%. As rates rise, the City would want to have PA20 or fixed-income exposure to ride up the yield curve when it is anticipated that rates will rise. Locking in a 1.5% rate could lose a 2-3% rate opportunity. PFM did not recommend parsing the \$900,000 in the Perpetual Care Fund as the math would not work out to the City's benefit. Costs increase when buying \$25,000 chunks.

It was also noted that PFM and the Finance Director have discussed investing funds into a short-term account, watching the market, and moving funds when rates improved. There is a downside risk for short-term investments as the economic improvements from the past 10 years will not go on forever. Rates could go down and the City would lose its opportunity for a higher yield.

City Council questioned the rate of return if it invested the cemetery funds in an endowment fund. PFM explained that an endowment fund has a payout policy, which is typically capped at a 5% distribution. If the endowment fund makes 1%, it pays out 1%. If the endowment fund makes more than 5%, the 5% cap is the most it will pay out.

City Council asked Staff to explore 1) Endowment fund opportunities; 2) Pros and cons of the Michigan Fund; 3) Availability of the GovMIC fund; and 4) Comfort level in operating any of other investment alternatives discussed.

A comment from Council noted it was not comfortable in directing the Finance Director to open a Scottrade account.

Mayor and Council Comments None

Being no further business to come before Council, the meeting was adjourned.

Adjournment: 7:03 p.m.

Respectfully submitted,

Dianne Massa, CMC
City Clerk

Ken Roth
Mayor

Approved as submitted: 12/18/17