Policy Number:	GB-Finance-2	**Effective Date:**	10/5/2021
Approved By:	Governing Body	**Sunset Date:**	11/30/2022
Approval Date:	10/5/2021	**Prepared By:**	Finance Dept.
Repeals/Replaces:	Current Investment Policy (Resolution 2020-92)		
Statutory Authority:	K.S.A. 9-1402, 9-1403, 10-131, 12-1675, 12-1677b		
Cross References:	None		
Policy Purpose:	To establish the objectives and practices for investment of the City's operating fund and bond proceeds.		

1. Introduction.

The Governing Body of the City of Lenexa ("the City") has authority to invest all funds of the City pursuant to K.S.A. 12-1675. The purpose of this policy is to identify the investment objectives of the City and to establish procedures to achieve those objectives. This policy applies to all City employees.

This policy applies to all funds eligible for investment by the City pursuant to K.S.A. 12-1675 or other applicable law. The City Defined Benefit Pension Fund is excluded from this policy and shall be subject to the Pension Fund investment policy adopted by the City Retirement Committee pursuant to Section 1-6-G-3 of the City Code.

The Governing Body delegates responsibility for the implementation of this policy to the Chief Financial Officer (CFO). The CFO shall establish written procedures and internal controls to implement this policy and regulate the activities of subordinate employees involved in the investment process. The CFO shall manage the City's investments in a manner consistent with federal, state, and local law. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the CFO.

The CFO shall possess the following minimum qualifications:

- Hold a bachelor's degree in business, finance, public administration, or a related field;
- Have achieved ten (10) years of experience in municipal finance administration, including the investment of idle funds;
- Have achieved five (5) years of supervisory experience.

City employees acting pursuant to this policy shall be subject to the "prudent investor rule," as set forth in the Uniform Prudent Investors Act, K.S.A. 58-24a01 *et seq.* and amendments thereto. Except as provided by the Kansas Tort Claims Act, K.S.A. 75-6101 *et seq.* and amendments thereto, 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.

2. Ethics, Integrity and City Values.

Section 1-6-H-1 *et seq.* of the City Code establishes a Code of Ethics for all City employees. This Code of Ethics is reinforced through the City's Personnel Policies/Procedures and the City's values. The City's values are:

- Make every decision with integrity
- Deliver results through teamwork
- Provide exceptional service
- Lead into the future with vision
- Be dedicated to excellence
- We Care

All City employees involved with investment activities shall act in an honest and professional manner in accordance with the City's values, Code of Ethics, and Personnel Policies/Procedures. Employees involved in the investment process shall refrain from personal business activity that could be perceived as a conflict with the proper execution and management of the investment process, or that could impair their ability to make impartial decisions. In addition, employees involved in the investment process shall disclose any material interests in financial institutions with which they conduct business and shall not undertake personal investment transactions with the same individual with whom business is conducted on behalf of the City.

3. Investment Objectives.

The objectives of this investment policy, in order of priority, are: safety of principal; maintenance of adequate liquidity; and maximizing rate of return (yield).

<u>Safety of Principal</u>: Safety of principal is the most important objective of this policy. The CFO shall invest funds covered by this policy in a manner that seeks to ensure preservation of principal while managing both credit risk and interest rate risk.

The City will minimize credit risk (the risk of loss due to the failure of the security issuer or backer) by:

- Following state statute, which limits investment options to high-quality securities; and
- Working with broker/dealers and advisors registered to do business in the State of Kansas; and
- Diversifying the investment portfolio to minimize potential losses on individual securities.

The City will minimize the risk that the market value of securities in the portfolio will decline due to the changes in general interest rates by:

- Structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations and debt service payments, thereby minimizing the need to sell securities on the open market prior to maturity;
- Investing the majority of cash funds in securities with maturities of twenty-four (24) months or less and utilizing an eligible sweep investment program of the main operating bank; and
- Limiting investments to a maximum stated maturity of four years.

Adequate Liquidity: The CFO shall invest funds covered by this policy in a manner that seeks to maintain liquidity to meet all cash requirements that may be reasonably anticipated. The CFO will structure the investment portfolio so that securities mature concurrently with anticipated cash flow needs. Furthermore, since all possible cash flow needs cannot be anticipated, the investment portfolio will contain securities with active secondary resale markets. A portion of the portfolio may be placed in investments which offer one-day liquidity for short-term funds, such as repurchase agreements and eligible sweep investment arrangements.

Rate of Return (Yield): The CFO shall structure the investment portfolio with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account investment risk constraints and liquidity needs. Return on investment is a lower priority than the safety and liquidity objectives.

4. Competitive Placement of Funds.

To the extent required by applicable law, all investments made pursuant to this policy should be bid to ensure competitive pricing. In accordance with K.S.A. 12-1675, funds will first be offered to banks and other eligible financial institutions located within the City. Annually, the City will send letters to banks and other eligible financial institutions located within the City to determine if any of these entities wish to bid on the City's investments during the upcoming 12 months. Those institutions which respond as willing to bid on the City's investments will be added to the City's authorized list of financial institutions (for certificates of deposit, the financial institutions must comply with the collateral and safekeeping requirements). For certificate of deposit transactions, the City will solicit bids from the authorized list of financial institutions. For other competitive investment transactions, the City will generally solicit bids from multiple security broker/dealers.

There are exceptions to the competitive bid policy. An example of an exception is when the City purchases new issue government agency securities where the price is the same through all brokers and the issuing agency pays the selling commission directly to the broker. In that case the City will rotate through the list of brokers when purchasing such securities. In addition, eligible sweep repurchase agreements with the main operating bank are not considered competitive biddable securities.

5. Authorized Security Broker/Dealers.

The CFO shall maintain a list of security broker/dealers authorized to provide investment services. All broker/dealers who desire to become qualified for investment transactions (excluding bank certificates of deposit) shall register with the Kansas Securities Commissioner or the Federal Reserve Bank (if FINRA registration is not required by the entity's regulatory structure). Annually, the CFO will verify all broker/dealers for City investment transactions are registered with the Kansas Securities Commissioner or the Federal Reserve Bank.

Concurrent with the first instance of trading with a broker/dealer and then not less than annually, the CFO will convey a copy of this investment policy to each broker/dealer with which it does business. Any additional documentation required by a broker/dealer must be approved by the City before the City enters into an investment transaction with the broker/dealer.

6. Safekeeping and Custody of Investments.

The CFO is responsible for establishing and maintaining an internal control structure designed to ensure the investments of the City are protected from loss, theft or misuse. The internal control structure shall be designed to provide reasonable assurance 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.

The internal controls should address the following points:

- Control of collusion;
- Separation of transaction authority from accounting and record keeping;
- Custodial safekeeping;
- Avoidance of physical delivery securities other than certificates of deposit;
- Clear delegation of authority to subordinate staff members;
- Written confirmation of transactions for investments and wire transfers; and
- Development of a wire transfer agreement with the main operating bank and third-party custodian.

<u>Delivery vs. Payment</u>: All trades will be executed by delivery vs. payment (DVP) to ensure that securities are deposited in an eligible financial institution simultaneously with the release of funds. Securities will be held by a third-party custodian (as evidenced by safekeeping receipts) in the City's name.

<u>Safekeeping of Securities</u>: To protect against potential fraud or embezzlement, the investments of the City shall be secured through third-party custody and safekeeping procedures. Ownership shall be protected through third-party custodial safekeeping. The City shall contract with a single financial institution for custodial and safekeeping services for the City's investment portfolio.

All securities owned by the City shall be held by a single safekeeping agent in the name of the City of Lenexa, Kansas. The exception to this may be when participating in tri-party repurchase agreements by which the broker and the City jointly select a safekeeping agent.

Security for deposits with financial institutions will be held in a third-party entity and registered jointly to the City and to the depository financial institution as required by Kansas law. Securities purchased on or after the effective date of this policy are to be held in the City's tri-party sub-custodial safekeeping account by the City's primary safekeeping agent.

Securities which serve as security for repurchase agreements must be delivered to a third-party custodian with whom the City has established a third-party safekeeping agreement.

The authorization to release City securities and transfer City funds will be accomplished by authorized City staff.

The investment process shall be subject to an annual independent review by an external auditor to assure adequate internal controls (including the verification of securities and collateral).

7. Collateral Requirements.

As detailed in K.S.A. 9-1402, a bank, trust company, savings and loan association, or savings bank must collateralize City deposits (the amount of money on deposit with an institution at any given time) to qualify as a depository. Allowable collateral includes:

- <u>Securities</u>: The financial institution may pledge or assign for the City's benefit sufficient securities, the market value of which is at least 105% of the total deposits. Peak period collateral agreements permitted under K.S.A. 9-1403 and securities that cannot be priced using the Bloomberg Professional Service will not be accepted by the City. The allowable securities acceptable to the City are limited to: direct obligations of, or obligations insured by, the U.S. Government or any agency thereof, and obligations and securities of U. S. government-sponsored corporations, which, under federal law, may be accepted as security for public funds.

- <u>Corporate Surety Bond</u>: The financial institution may provide a corporate surety bond of a surety corporation authorized to do business in Kansas in an amount equal to the amount on deposit including interest accrued.

- <u>Federal Home Loan Bank Letters of Credit</u>: The financial institution may provide a letter of credit from any Federal Home Loan Bank in an amount equal to the funds on deposit including interest accrued.

- Personal Bond: The financial institution may provide a personal bond in double the amount of the funds on deposit including interest accrued.

The depository institution shall provide reports on a monthly basis (or more often if requested by the CFO) to allow for the verification of collateral eligibility and amounts.

8. Investment Parameters.

The investments authorized for cash funds under this policy shall be in conformance with K.S.A. 10-131, K.S.A. 12-1675, K.S.A. 12-1677b, and any other applicable statutes and amendments thereto. The investments authorized for the proceeds of bonds or temporary notes under this policy shall be in conformance with K.S.A. 10-131 and amendments thereto.

The CFO shall diversify the investment portfolio by:

- Avoiding over-concentration in securities from a specific issuer or business sector (excluding U.S. Treasury securities);
- Limiting investment in securities that have higher credit risks;
- Investing in securities with varying maturities; and
- Continuously investing a portion of the portfolio in readily available funds such as the Kansas Municipal Investment Pool or eligible overnight repurchase agreements to ensure that appropriate liquidity is maintained in order to meet ongoing obligations.

In addition, no single financial institution should hold demand or time deposits which will constitute more than 10% of the City's total portfolio value and no more than 33% of the total portfolio value in any investment type of the City should be placed with a single issuer other than the United States Treasury.

The following maximum limits, by instrument, are established for the City's total investment portfolio:

Investment Type	Maximum Percentage of Portfolio
Repurchase Agreements	30%
Collateralized Time & Demand Deposits	100%
U.S. Treasury Notes & Bills	100%
U.S. Government Agency Securities*	90%
Kansas Municipal Investment Pool	30%
Bank Trust Department Municipal Pools	10%
Kansas General Obligation Bonds	10%
Temporary Notes or No-Fund Warrants	10%

*The City does not invest in subordinated agency securities (which rank below other securities with regard to claims on assets).

The limit on repurchase agreements and Kansas MIP deposits may exceed 60%, but not more than 75%, of the portfolio for a maximum of forty-five (45) days during each of the January and June property tax distributions, and prior to debt service payments on March 1st and September 1st.

Investment Portfolios: The City's funds shall be separated into two portfolios for efficient investment management. The short-term operating portfolio is defined as maturities less than 1 year. The long-term operating portfolio has maturities 1 year or greater and would be considered "core" investments that the City would own for a longer period of time. Funds will be allocated to the portfolios based on the projected cash flow needs of the City.

Maturity Schedule/Sale of Securities: In general, the City's philosophy is to ladder the portfolios with investments maturing each month in order to meet cash flow requirements. The maturities will usually occur each month over a period ranging from the current date up to forty-eight (48) months from the current date. Bond and temporary note proceeds will be invested to match anticipated capital project expenditures and will generally mature within eighteen (18) months.

The sale of securities before maturity may occur for the following reasons:

- A security with declining credit may be sold early to minimize loss of principal;
- A security swap would improve the quality, yield, or target maturity of the portfolio; or
- Liquidity needs require that the security be sold. In this situation, the City will generally look first to sell securities maturing within the next month in order to minimize realized losses from the sale of securities.

Approval of the CFO is required before a security is sold prior to maturity.

9. Reporting.

The CFO shall prepare a quarterly investment report for review by the City Manager and Governing Body. The quarterly investment report shall include the following information:

- Listing of individual securities held at the end of the reporting period.
- Realized and unrealized gains or losses resulting from market value changes for securities held in the long-term operating portfolio that are not intended to be held until maturity.
- Average weighted yield to maturity of portfolios as compared to applicable benchmarks.
- Percentage of total portfolio which each type of investment represents.
- Percentage of total portfolio which each banking institution holds.

The CFO may also include other relevant information in the quarterly investment report.

Portfolio Performance Benchmarks: The operating investment portfolios should equal or exceed a market average rate of return during periods of stable interest rates. The City's performance benchmarks are:

- Short-term portfolio: equal or exceed the average 91-day U.S. Treasury Bill yield.
- Long-term portfolio: equal or exceed the average 1-year U.S. Treasury Note yield.

Marking to Market: The market value of the investment portfolios shall be calculated at least monthly and formal statements of market value shall be issued at least monthly by the safekeeping agent. The formal statement will include the market value, book value, and unrealized gains or losses for the securities in the portfolios. Also, the statement will include monthly transaction information.

The City will record mark to market information in the financial statements at the end of each fiscal year.

10. Other Provisions.

The City has elected to use expanded investment powers granted by the Pooled Money Investment Board (PMIB). The PMIB grants the use of investment powers annually to the City by reviewing the City's investment policy (including any amendments to the investment policy) and other investment information. In addition, the Governing Body is required to review and approve the investment policy annually in order to use expanded investment powers.

11. Definitions.

The following is a glossary of key investing terms which appear in the investment policy.

AGENCY SECURITIES: A debt security issued by a United States sponsored enterprise or government agency. The City will only invest in obligations and securities of United States sponsored enterprises or agencies that under federal law may be accepted as security for public funds. The City will not invest in mortgage-backed securities of such enterprises, which include the Government National Mortgage Association.

BOND PROCEEDS: The money paid to the issuer by the purchaser or underwriter of a new issue of municipal securities. These monies are used to finance a capital project.

BROKER: A broker brings buyers and sellers together for a commission paid by the initiator of the transaction or by both sides. In the money market, brokers are active in markets in which banks and others buy and sell securities.

CERTIFICATE OF DEPOSIT: A time deposit in a bank with a specific maturity evidenced by a certificate. Generally CD's are not marketable.

COLLATERALIZATION: A process by which a borrower pledges securities, deposits, letters of credit, or surety bonds for the purpose of securing the repayment of a loan and/or security. Securities of United States sponsored enterprises or government agencies may be pledged as collateral as allowed by federal law.

COLLUSION: A secret agreement between two or more persons for a fraudulent purpose.

COMMERCIAL BANK: A bank, the principal functions of which are to receive demand deposits and to make loans.

CORPORATE SURETY BOND: A contractual arrangement between the surety, the depositor and depository institution, whereby the surety agrees to protect the depositor if the depository institution defaults in performing the depository institution's contractual obligations. The bond is the instrument which binds the surety.

CREDIT RISK: The risk to an investor that an issuer will default in the payment of interest and/or principal on a security.

CUSTODIAL AGENT: An entity that holds collateral for deposits with financial institutions, investment securities, or securities underlying repurchase agreements.

DEMAND DEPOSIT: A bank deposit that can be withdrawn by the depositor and without advance notice.

DEPOSITORY FINANCIAL INSTITUTION (Depository): The place where a deposit is placed and kept.

DEPOSITORY SECURITY: Collateral pledged by a financial institution to guarantee deposits on hand that exceeds depository insurance.

DIVERSIFICATION: A process of investing assets among a range of security types by sector, maturity and quality rating.

DELIVERY VERSUS PAYMENT (DVP): A type of securities transaction in which the purchaser pays for the securities when they are delivered to either the purchaser or his/her custodian. Payment is made simultaneously with the delivery of securities so the purchaser is never without either cash or securities.

FANNIE MAE: Fannie Mae (the Federal National Mortgage Association (FNMA)) is a private stockholder-owned corporation working under the auspices of the Department of Housing and Urban Development (HUD). It is the largest single provider of residential mortgage funds in the United States. The corporation's purchases include a variety of adjustable mortgages and second loans, in addition to fixed-rate mortgages. Fannie Mae's securities are also highly liquid and are widely accepted. Fannie Mae assumes and guarantees that all security holders will receive timely payment of principal and interest. This is an example of an agency security.

FEDERAL AGRICULTURAL MORTGAGE CORPORATION (FARMER MAC): A government sponsored enterprise which purchases newly originated and seasoned agricultural loans from lenders, issues long-term standby commitments to purchase agricultural mortgage loans, exchanges loans for mortgage-backed securities through a swap program, and purchases and guarantees mortgage bonds backed by eligible agricultural mortgage loans. This is an example of an agency security.

FEDERAL FARM CREDIT BANKS FUNDING CORPORATION (FFC): A government sponsored enterprise responsible for issuing and marketing debt securities to finance the loans, leases, and operations of the Farm Credit System. This is an example of an agency security.

FEDERAL HOME LOAN BANK (FHLB): Government-sponsored wholesale banks, which lend funds and provide correspondent banking services to member commercial banks, thrift institutions, credit unions and insurance companies. The mission of the FHLB is to liquify the housing-related assets of its members who must purchase stock in their district Bank. This is an example of an agency security.

FEDERAL HOME LOAN MORTGAGE CORPORATION (FHLMC): A federal agency which purchases first mortgages from members of the Federal Reserve System and the Federal Home Loan Bank System. Commonly called "Freddie Mac." This is an example of an agency security.

GENERAL OBLIGATION (G.O.) BONDS OR NOTES: Bonds or notes secured by the "full faith and credit" of the issuing government and backed by revenues from its taxing power.

IDLE FUNDS: Money which is not immediately required for the purposes for which it was collected or received and may be invested.

INTEREST RATE: The annual rate of interest received by an investor from the issuer of fixed-income securities. The percentage of an amount of money which is paid for its use for a specified time.

INTEREST RATE RISK: The risk associated with declines or rises in interest rates which cause an investment in a fixed-income security to increase or decrease in value.

INVESTMENT: Commitment of money to gain profit or interest, such as by purchasing securities.

KANSAS MUNICIPAL INVESTMENT POOL (MIP): The State of Kansas offers a Local Government Investment Pool (LGIP) entitled "State of Kansas Municipal Investment Pool," which is governed by the State of Kansas Pooled Money Investment Board (PMIB). It is a pooled investment vehicle (available to public entities in the state of Kansas) investing in US Treasury and Agency securities, certificates of deposit in Kansas banks, commercial paper, and corporate bonds. Investments range from overnight to two years at the option of the investor.

LIQUIDITY: Refers to the ability of an instrument to be converted into cash rapidly without substantial loss of value.

MARKET VALUE: The price at which a security is traded and could be purchased or sold on a given day.

MARKING TO MARKET: The process whereby the book value or collateral value of a security is adjusted to reflect its current market value.

MATURITY: The length of time an investment is offered.

MATURITY DATE: The date on which payment of a financial obligation is due. The final stated maturity date is the date on which the issuer must retire an investment instrument and pay the face value to the investor.

MONEY MARKET FUND: Mutual funds that invest solely in money market instruments (short-term debt instruments, such as Treasury bills, commercial paper, bankers' acceptances, repurchase agreements, agency securities, and federal funds).

MUNICIPAL NOTE: Short-term notes issued by municipalities in anticipation of tax receipts, proceeds from a bond issue, or other revenues.

PAR VALUE: The amount of principal which must be paid at maturity, also referred to as the face amount of a bond.

PORTFOLIO: Collection of securities held by an investor.

PRINCIPAL: The face amount or par value of a debt security.

REALIZED GAIN OR LOSS: The amount of realized gain from the sale or other disposition of property is the excess of the amount realized over the adjusted basis of the property. The amount of realized loss is the excess of the property's adjusted basis over the amount realized.

REPURCHASE AGREEMENT (Repo): An agreement of one party to sell securities at a specified price to a second party and a simultaneous agreement of the first party to repurchase the securities at a specified price at a specified later date.

SAFEKEEPING: The holding of securities by a financial institution on behalf of the securities owners.

SECURITY: Documents that can be traded for value; an instrument of ownership or debt used to finance government and corporate entities.

SECURITIES SWAP: Trading one asset for another.

TIME DEPOSIT: Another term for a savings account or certificate of deposit in a commercial bank.

TRUST DEPARTMENT: A department of a bank, which is authorized to serve in a fiduciary capacity.

UNITED STATES GOVERNMENT SECURITIES (Treasuries): Bonds, notes, treasury bills or other securities constituting direct obligations of the United States of America, or obligations that principal of and interest on which are fully and unconditionally guaranteed as to the full and timely payment by, the United States of America.

UNREALIZED GAIN OR LOSS: A profit or loss that has not yet materialized. An example of an unrealized gain would be an appreciated stock in which the price has increased but, if the stock is not sold, the profit is considered an unrealized gain.

YIELD: The current rate of return on an investment security generally expressed as a percentage of the security's current price.