

CITY OF MERRIAM

CITY COUNCIL POLICY MANUAL

POLICY NO. 121

INVESTMENTS OF CITY FUNDS

- 1.01** It is the policy of the City of Merriam, Kansas to invest public funds in a manner which will provide the highest investment return with the maximum security while meeting the daily cash flow demands of the City and conforming to all Kansas statutes, the City Administrative Code, and all related City Ordinances and Resolutions governing the investment of public funds.
- 1.02** This policy applies to all City of Merriam, Kansas funds, except for debt service accounts held by fiscal agents for bond ordinances.
- 1.03**
- a. Investment shall be made with judgment and care--under circumstances which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probably safety of their capital as well as the probable income to be derived.
 - b. The standard of prudence to be used by investment officials shall be the "prudent person" and shall be applied in the context of managing an overall portfolio. Investment officers acting in accordance with written procedures and the investment policy and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price charges provided deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments.
 - c. The "prudent person" concept discourages speculative transactions, it attaches primary significance to the preservation of capital and secondary importance to the generation of income and capital gains. The "prudent person" is expected to be a reasonable well-informed person, not a professional investor or market maker, who is obligated to act responsibly.
- 1.04** The primary objectives, in priority order, of the City of Merriam, Kansas investments activities shall be:
- 1. **Safety:** Safety of principal is the foremost objective of the investment program. Investments of the City of Merriam, Kansas shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. To attain this objective, diversification is required in order that potential losses on individual securities do not exceed the income generated from the remainder of the portfolio.

2. **Liquidity:** The City of Merriam, Kansas's investment portfolio will remain sufficiently liquid to enable the City of Merriam, Kansas to meet all operating requirements which might be reasonably anticipated.
3. **Return on Investment:** The City of Merriam, Kansas's investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the City of Merriam, Kansas's cash flow characteristics.

- 1.05**
- a. Management responsibility for the investment program is hereby delegated to the Finance Director, who shall establish procedures for the operation of the investment program, consistent with this investment policy. Procedures should include: safekeeping, agreements, wire transfer agreements, collateral/depository agreements and banking service contracts.
 - b. Agreements shall include explicit delegation of authority to persons responsible for investment transactions. No person may engage in an investment transaction except as provided under terms of this policy and the procedures established by the Finance Director. The Finance Director shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of investment officials.
 - c. Oversight of the City's Investment Program will be vested in:
 1. The City Investment Committee, composed of the Mayor, Chairperson of the Finance and Administration Committee, City Treasurer, City Administrator, and Finance Director who will meet on a quarterly basis. The purpose of the Investment Committee is to provide general guidance for city investments. Topics reviewed at Investment Committee meetings include: economic outlook, portfolio diversification and maturity structure, potential risks to the City of Merriam's fund, authorized depositories, brokers and dealers, and the target rate of return on the investment portfolio. A summary report of these meetings will be forwarded to the Mayor and Finance and Administration Committee Chair.
 2. The Investment Committee will review the performance of the City's Investment Portfolio on a quarterly basis as to its value and rate of return. The Committee will review reports of an independent accounting or reporting service to determine the value of the City's Portfolio in keeping with FASB-123, or the latest "Mark to Market" Standards of either the Financial Accounting Standards Board (FASB) or the Governmental Accounting Standards Board (GASB). The Committee will use the most recently published 3-month and 2-year Treasury Bill rates as the benchmarks for assessing the adequacy of the City's current rate of return.
- 1.06** Safety of principal is of the highest priority and can be accomplished by limiting two types of risk: 1) **credit risk**, and 2) **interest rate risk**. **Credit risk** is the risk of loss associated with the failure of a security issuer or backer. **Interest rate risk** is the risk

that the value of the investments will decline due to an increase in the general level of interest rates.

a. Acceptable Investments for all operating funds:

All investments purchased under this policy shall be governed by KSA 12-1675, et.seq, and all amendments thereto. Investments shall be limited to a maximum of two years unless the City's investment policy is approved by the State of Kansas Pooled Money Investment Board (PMIB), in which case investments could be made for up to four years. **The investments outlined in items #4 through #8 may be utilized only if the investments outlined in item #2 are not available to the City at interest rates equal to or greater than the public fund investment rate.** Below is a summary of acceptable investments for idle funds under current law.

1. Temporary Notes or No-Fund Warrants. Temporary notes or no fund warrants issued by the City.
2. Time Deposits, Open Accounts, Certificates of Deposit or Time Certificates of Deposit. Instruments issued by financial institutions which state that specified sums have been deposited for specific periods of time and at specified rates of interest. The certificates of deposit are required to be backed by acceptable collateral securities as dictated by State statute. Maximum maturities for such time deposits are limited to two (2) years unless the City's investment policy is approved by the PMIB, in which case the maturity may be up to four (4) years. **If an eligible (local) financial institution, as described by Kansas Statute K.S.A 12-1675, offers interest rates equal to or greater than the public fund investment rate, the City is obligated (if they elect to make the investment) to place it with that financial institution.**
3. Repurchase Agreements (Repo). The City may invest in contractual agreements between the City and commercial banks, state or federally chartered saving and loan associations, or federally chartered savings banks. The purchaser in a repo enters into a contractual agreement to purchase Treasury and government agency securities while simultaneously agreeing to resell the securities at predetermined dates and prices. Repo's are required to be backed by acceptable collateral securities as dictated by Kansas Statute K.S.A 12-1677b. If the City's investment policy is approved by the PMIB, a repo may be executed with a primary dealer. The City requires collateral to be at least 105% of the original purchase price.
4. United States Treasury. These obligations must mature within two (2) years from the date of purchase and are guaranteed as to principal by the United States Government per K.S.A 12-1677b. If the City's investment policy is approved by the PMIB, the maximum maturity may be for four (4) years.
5. Kansas Municipal Investment Pool Fund (MIP). A pool of investments consisting of Certificates of Deposit, U.S. Treasuries, U.S. Agencies, Commercial Paper, and Repurchase Agreements per K.S.A 12-1677b. The MIP is administered by the State of Kansas Pooled Money Investment Board.

6. Bank Trust Departments with commercial banks. Investments may be made with trust departments of commercial banks with offices located in Johnson County or with trust companies which have contracted to provide trust services under the provisions of K.S.A.9-2107, and amendments thereto. These accounts will be secured as provided for under K.S.A. 9-1402, and amendments thereto. Authorized investments in these pools will be subject to the same terms, conditions and limitations as are applicable to the Kansas Municipal Investment Pool.
7. U.S. Government Agency Securities. Indirect obligations of the federal government such as the Government National Mortgage Association, the Small Business Administration and other qualified agency securities. These securities are backed by the full faith and credit of the United States Government. The maximum maturity is four (4) years from the date of purchase. The City's investment policy must be approved by the PMIB prior to the purchase of these U.S. Government Securities.
8. U.S. Government Sponsored Corporation's Instruments. Obligations and securities of enterprises sponsored by the U.S. Government (such as Federal Farm Credit System, Federal Home Loan Mortgage Association, the Student Loan Marketing Association and other qualified government sponsored corporation's instruments) which under federal law may be accepted as security for public funds, except that such investments shall not be in mortgage-backed securities. **The City's investment policy must be approved by the PMIB prior to the purchase of these U.S. Government Agency Securities.**

b. Acceptable Investments for Bond and Note Proceeds, Equipment Reserve Fund, Capital Improvement Funds:

Moneys credited to the municipal reserve fund or capital improvement funds from annually budgeted transfers may also be invested in accordance with the provisions of K.S.A. 10-131 (as provided by K.S.A. 12-1,117 and K.S.A. 12-1, 118).

Investments outlined by K.S.A. 10-131, et.seq. are not subject to the requirement that such funds be first offered to the financial institutions within the City. The investment options are as follows:

1. Investments authorized by K.S.A. 12-1675, et.seq. (as detailed under operating fund investments).
2. Direct obligations of the United States government or any agency thereof.
3. The City's temporary notes issued pursuant to K.S.A. 10-123 and amendments thereto.
4. Obligations of the Federal National Mortgage Association, Federal Home Loan Banks and Federal Home Loan Mortgage Corporation or other qualified obligations.

5. Repurchase agreements collateralized by direct obligations of the United States government or any agency thereof or obligations of the Federal National Mortgage Association, Federal Home Loan Banks or the Federal Home Mortgage Corporation.
6. Investment agreements with or other obligations of a financial institution the obligations of which at the time of investment are rated in either of the three highest rating categories by Moody's Investors Service or Standard and Poor's Corporation.
7. Investments in shares or units of a money market fund or trust the portfolio of which is comprised entirely of securities in direct obligations of the U.S. government or any agency thereof or obligations of the Federal National Mortgage Association, Federal Home Loan Banks or Federal Home Loan Mortgage Corporation.
8. Receipts evidencing ownership interests in securities or portions thereof in direct obligations of the United States government or any agency thereof or obligations of the Federal National Mortgage Association, Federal Home Loan Banks or Federal Home Loan Mortgage Corporation.
9. Municipal bonds or other obligations issued by any municipality of the State of Kansas as defined in K. S. A. 10-1101, and amendments thereto, which are general obligations of the municipality issuing the same.
10. Bonds of any municipality of the State of Kansas as defined in K.S.A. 10-1101, and amendments thereto, which have been refunded in advance of their maturity and are fully secured as to payment of principal and interest thereon by deposit in trust, under escrow agreement with a bank, or securities in direct obligations of the United States government or any agency thereof or obligations of the Federal National Mortgage Association, Federal Home Loan Banks or Federal Home Loan Mortgage Corporation.
11. The Kansas Municipal Investment Pool established pursuant to K.S.A. 12-1677 a, and amendments thereto.

c. Safekeeping of Securities:

1. Safekeeping Agreement

Collateral will be registered in the City's name. Joint custody receipts will be issued for all securities pledged to certificate of deposits, repurchase agreements, open accounts and other investments by depositing same with the Federal Reserve Bank of Kansas City, the Federal Home Loan Bank of Topeka, or a Kansas bank or trust company not affiliated with the financial institution pledging the securities and in accordance with KSA 9-1405, et.seq. (safekeeping agent(s)).

All security purchases which are eligible for delivery versus payment shall be settled in that manner. All securities shall be perfected in the name of City of Merriam and shall be delivered to the safekeeping agent(s).

i. Handling of Certificate of Deposit Collateral

The collateral for certificates of deposit in banks will be registered in the name of the City of Merriam, Kansas. Custodial receipts will be received and logged by the Administrative Office staff. Letters from custodial agent(s) assigning the collateral and fax transmittals will be acceptable for release of funds.

ii. Handling of Repurchase Agreement Securities

The securities for which repurchase agreements will be transacted will be limited to Treasury and government agency securities which are eligible to be delivered via the Federal Reserve's Fedwire book entry system. Securities will be delivered either to the City's designated Custodial Agent or to a third party custodian agreed upon by the City and the second party to the Repurchase Agreement. Funds and securities will be transferred on a delivery versus payment basis. Confirmations will be received and logged by the Administrative Office.

Securities underlying a repurchase agreement must be maintained at the following levels, with respect to par value accrued interest.

U. S.	U. S. Treasury Securities	Agencies Securities
1 Year or Less	101%	101%
1 Year to 5 Years	102%	102%
Over 5 Years	103%	104%

2. Verification of Security

Verification of collateral and repurchase agreement securities will be part of the City's annual independent audit.

d. Collateral Requirements:

K.S.A. 9-1402, as adopted and amended, requires that all deposits, including those for investment of public funds, must be secured by collateral of the depository institutions. The depository institutions are authorized to use and the City is authorized to accept the following types of collateral as security for deposits:

1. The institution may provide a personal bond in double the amount of the deposits.

2. The institution may provide a corporate surety bond in an amount equal to the amount of deposits.
3. The institution may pledge or assign for the City's benefit sufficient securities the market value of which is equal to 100% of the total deposits and may consist of:
 - i. Direct obligations of, or obligations insured by, the U.S. or any agency thereof;
 - ii. Obligations and securities of U.S. sponsored corporations, which under federal law may be accepted as security for public funds;
 - iii. Bonds of any Kansas municipality which have been refunded and are secured by U.S. obligations;
 - iv. Bonds of the State of Kansas which have a rating of "Aa" or better by Moody's Investors Service or by Standard and Poor's Corporation;
 - v. General obligation bonds of any Kansas municipality which have a rating of "Aa" or better by Moody's Investors Service or by Standard and Poor's Corporation;
 - vi. Revenue Bonds of any Kansas municipality if they meet approval by the state bank (or savings and loan) commissioner and which have a rating of;
 - vii. General Obligation temporary notes of any Kansas municipality which have a rating of "Aa" or better by Moody's Investors Service or by Standard and Poor's Corporation;
 - viii. No-fund warrants of any Kansas municipality;
 - ix. Certain Kansas municipality sponsored revenue bonds rated "Aa" or better by Moody's Investors Service or AA or better by Standard and Poor's Corporation;
 - x. Mortgage anticipation notes of certain not-for-profit corporations.

e. Release of Collateral

At the time the investment is to be liquidated or when other collateral is substituted, the authorization to release the collateral will be telephoned to the safekeeping agent by the Finance Director or his/her designee.

f. Monitoring Collateral/Security Adequacy for Deposits and Repurchase Agreements:

The Finance Director or his/her designee will monitor adequacy of collateral and securitization each time investments mature or are purchased, but at least monthly.

The City requires monthly reports with market values of pledged securities from all financial institutions with which the City has deposits and/or repurchase agreements.

g. Investment Diversification:

The City of Merriam, Kansas will diversify its investments by security type and institution. The following guidelines represent maximum limits established for diversification by instrument.

U.S. Obligations	100%
Certificates of Deposit	50%

A maximum limit of 25% for any one or more (as an aggregate total) of the following types:

State of Kansas Obligations
Johnson County, Kansas Obligations
Shawnee Mission School District Obligations
City of Merriam, Kansas Obligations or Revenue Bonds

1.07 As stated in the Investment Policy, liquidity is second in priority in evaluating investment alternatives. As a function of this procedure, the City's demands for cash must be projected using reliable techniques and investment maturities must be continually evaluated to ensure that funds are available to meet all cash demands. To ensure adequate liquidity of City funds, investments of idle funds shall be structured within the limitations provided in this section.

a. Maturities for Repurchase Agreements and Certificate of Deposits:

Subject to the collateral and authorization requirements of K.S.A. 10-131, as now adopted or hereafter amended, the maximum maturity for certificate of deposits shall be four (4) years. For repurchase agreements with a Kansas financial institution, the maturity shall not exceed two (2) years or such shorter period as may be prescribed by the State Treasurer. Repurchase agreements with primary government security dealers shall be less than 30 days.

b. Security Marketability:

Only U.S. government and agency obligations with active secondary markets will be purchased. Marketability shall be determined by the Finance Director.

1.08 The City of Merriam shall seek to optimize return on investments within the constraints of safety and liquidity. The investment portfolio of the City will be designed to attain a market-average rate of return throughout the budgetary and economic cycles, taking into account the City's investment risk constraints, state statutes, cash flow characteristics of the portfolio, and prudent investment principles. Progress on this objective will be reported to the Investment Committee and City Council Finance and Administration Committee on a quarterly basis at a minimum.

a. Investments Maturity Management:

When structuring the maturity composition of the investments, the Finance Officer shall evaluate current and expected interest rate yields. The longer the time remaining to maturity for a security, the greater the price fluctuation which will occur given a change in interest rate levels.

b. Competitive Placement of Funds:

It is in the interest of the City to solicit competitive rate quotations for all investment purchases, consistent with state statutes. The City will maintain a list of interested bidders. Financial institutions may call the Finance department to request to be added to the list. Financial institutions eligible to bid on the City's investments will consist of banks, trust companies, savings and loan associations, or savings banks with a main or branch office located in the City or Johnson County. Bids received from local financial institutions will be compared to the public funds investment rate. If a bid is greater than or equal to the public funds investment rate, the financial institution with the highest bid is awarded the investment. Financial institutions within the City will take precedence over the county financial institutions. If no bids from eligible financial institutions are greater than or equal to the public funds investment rate, bids from financial institutions offering investment instruments detailed under the investments for operating funds section 1.06 a. will be considered.

1.09 The Ethical Code, as adopted in sections 2-104 through sections 2-109 of the City of Merriam Municipal Code shall apply and provide guidance. Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment program, or which could impair their ability to make impartial investment decisions. Employees and investment officials shall disclose to the City Attorney and Finance Director any material financial interests in financial institutions that conduct business within this jurisdiction and they shall further disclose any large personal financial/investment positions that could be related to the performance of the City of Merriam, Kansas' portfolio. Employees and officers shall subordinate their personal investment transactions to those of the City of Merriam, Kansas, particularly with regard to the timing of purchases and sales.

1.10 a. The City of Merriam Kansas' investment policy shall be adopted by the City Council of Merriam, Kansas.

b. The above policies shall remain in full force and effect until revoked by the City Council. If, after adoption of this policy, there is any conflict of this policy with Kansas' laws and/or statutes, the Kansas laws and/or statutes will dictate.

**APPROVED BY THE GOVERNING BODY ON NOVEMBER 27, 2005
AMENDED BY THE GOVERNING BODY ON DECEMBER 18, 2006**