

CITY OPERATING PROCEDURE 245

INVESTMENT AND CASH MANAGEMENT POLICY

May 9, 2002

Policy/Procedure Reference

K.S.A. 9-701, K.S.A. 9-1401, K.S.A. 9-1402, K.S.A. 9-1405, K.S.A. 9-1408, K.S.A. 9-2107, K.S.A. 10-131, K.S.A. 12-1675 et seq., K.S.A. 12-1677 et seq., OPMC 2.27.010 to 2.27.060, OPMC 3.28.010 to 3.28.050, Resolution No. 2714.

Policy/Procedure Purpose

This policy applies to the cash management and investment activities of the City of Overland Park, Kansas (City), except for the debt service funds, reserve funds and other financial assets held by various fiscal agents and trustees as provided by the appropriate bond ordinance. The financial assets of all other funds shall be administered in accordance with the provisions of this policy.

Policy/Procedure Objectives

The City of Overland Park recognizes that effective cash management is an integral component of good financial management. Therefore, it is the policy of the City that funds deemed idle, based on projected cash flow, be invested in a manner that seeks to maximize their productivity until such time as they are needed for the operations of the city. To expand the investment options available to meet this objective, the City applied for and received Expanded Investment Powers from the State of Kansas on June 29, 2002. The city's investment portfolio shall be designed and managed in accordance with this policy to ensure public trust and be consistent with state and local laws. Investments shall be at the highest rates obtainable at the time of the investment, within the limitations of the law and the city's prudent investment policy in accordance with the following criteria.

1. Safety: Safety of principal and accrued interest is the foremost objective. Each investment will be made in a manner, which ensures that capital losses are avoided, whether from security defaults, or erosion of market value.
2. Prudent Investor Rule: The prudent investor rule will be adhered to at all times. The rule 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."

Investment officers acting in accordance with written procedures 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 appropriate action is taken to control adverse developments.

3. Liquidity: The cash position of the City will experience fluctuations throughout the year that requires that a portion of the investment portfolio emphasize liquidity. The City will consider

liquidity as a priority, while still recognizing the need to maximize yield.

4. Return on Investment: 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.
5. Diversification: The management of investments will be directed toward an active rather than passive investment role. Market risk shall be minimized by diversification of investment types. The City shall diversify (where prudent judgment dictates) its investments so that reliance on any one issuer (financial institution) or investment type will not place an undue burden on the City.

The following maximum limits, by instrument, are established for the City's total investments. These limits are subject to change based on market conditions and the approval by the City's Investment Committee:

- A. Collateralized Time and Demand Deposits50%
- B. Repurchase Agreements.40%
- C. U.S. Treasury Notes and Bills100%
- D. Kansas Municipal Investment Pool Fund (MIP)25%
 - To allow efficient and effective placement of proceeds from bond sales, the limit on the MIP may be exceeded for up to five consecutive days, per bond issue, following the receipt of bond proceeds.
- E. Temporary Notes of the City25%
- F. U.S. Gov't Agency Discount & Coupon Obligations80%
 - Callable obligations are limited to 20% of total U.S. Gov't Agency Obligations.
 - U.S. Gov't Agencies allowed for purchase:
 - Federal Home Loan Bank (FHLB)
 - Federal National Mortgage Association (FNMA)
 - Federal Home Loan Mortgage Corporation (FHLMC)
 - Federal Farm Credit Bank (FFCB)
- G.. Money Market Funds and Instruments25%
 - The portfolio of such funds or instruments shall be comprised entirely of direct obligations of the United States Government or agency thereof or obligations of the Federal National Mortgage Association, Federal Home Loan Bank, Federal Home Loan Mortgage Corporation or Federal Farm Credit Bank.

6. Maturity Limitations: The maximum maturity on investment transactions shall not exceed a maximum of four years. The following chart shows the portion of the portfolio targeted in each range of maturities. Targets are subject to change based on market conditions and the approval of the City's Investment Committee.

Maturity Range	Target Percentage of Portfolio
Total securities less than 6 months	Up to 100%
Total securities between 6 and 18 months	Up to 25%
Total securities 18 and 48 months	Up to 15%

7. Local Emphasis: Subject to requirements of the above objectives, and regulations of the State of Kansas, it is the policy of the City to offer financial institutions within the City the opportunity to bid on investments. However, the City will seek the best investment yields through a competitive bid process as legally allowable. Financial institutions outside of the City may also bid on investments in accordance with State statutory provision KSA 12-1675.
8. Public Trust: The investment portfolio is subject to public review and evaluation, and as such, the investment program will be designed and managed with professionalism that is worthy of the public trust. Investment officials will conduct themselves as good stewards of public funds that will promote public confidence in the City's ability to govern effectively.

Investment Safeguards

1. Cash Flow: Investment staff* of the City will maintain a cash flow analysis which identifies the present and future cash requirements. The investment portfolio (utilizing the cash flow analysis) will be structured such that the selling of securities prior to maturity for the purpose of meeting daily cash needs would be on an exception basis only.
2. Internal Controls: Management staff** are responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the City 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 the cost of a control should not exceed the benefits likely to be derived, and the valuation of costs and benefits requires estimates and judgments by management. Investment staff of the City will be responsible for maintaining the cash flow analysis, determining the amount eligible for investment, and all other administrative duties necessary in executing and tracking the investments. Management staff will be responsible for the actual investment decisions.
3. Investment Review Committee: The Investment Review Committee will meet quarterly to discuss investment reports, investment strategy and investments. Members of the Investment Review Committee shall include the Mayor, City Manager and the Director of Finance, Budget and Administration.
4. Reporting: Investment performance shall be continually monitored and evaluated by the Director of Finance, Budget and Administration. Investment performance statistics and activity reports shall include but shall not be limited to:
 - Purchase and maturities of investments by financial institution
 - Collateral adequacy for certificates of deposits and repurchase agreements
 - Distribution by financial institution and by investment type

In addition, a quarterly report will be prepared for the Investment Review Committee, relating actual performance to policy objectives. This report will include but is not limited to:
Cash availability

Performance measurement
Collateral adequacy for certificates of deposits and repurchase agreements
Distribution by financial institution and investment type

All investments purchased will be presented to the City Council on the next Council agenda for acknowledgement.

5. Marking to Market: Investment staff of the City will determine the market value of all securities held by the City of Overland Park. These values will be determined using an independent source on at least a monthly basis.
6. Ethics and Conflict of Interest: Investment and management staff involved in the investment process are prohibited from undertaking personal business activity that could conflict with the proper executions and management of the investment program, or that could impair their ability to make impartial decisions. Investment and management staff shall refrain from undertaking personal investment transactions with the same individual with which business is conducted on behalf of the City. In addition, investment and management staff are subject to the City's existing policies and ordinances relating to ethical behavior.
7. Liability: Investment and management staff acting in accordance with written procedures and this investment policy and exercising due diligence shall be relieved of personal responsibility for market price changes, provided deviations from expectations are reported in a timely fashion and the liquidity and the sale of the securities are carried out in accordance with the terms of this policy.
8. Review: Investment and management staff will review this investment policy on an annual basis and recommend changes as deemed necessary to the governing body.

* *Investment staff* is defined as the Accountant II and Senior Accounting Clerk.

** *Management staff* is defined as the Director of Finance, Budget and Administration and Manager of Finance & Accounting.

Permitted Operating Fund Investments

All investments purchased under this policy shall be governed by KSA 12-1675, and all amendments thereto, as may be made by the Kansas Legislature. Investments shall be limited to a maximum of four years. Securities shall be purchased on the Delivery vs. Payment method with the City's safekeeping agent.

Below is a summary of acceptable investments for idle funds under the current law:

1. Collateralized Certificates of Deposits (CD's): Instruments issued by banks or savings and loans that state specified sums have been deposited for specified periods of time and at specified rates of interest. CD's are required to be backed by acceptable collateral securities as dictated by Kansas Statute KSA 12-1677b. The maximum maturity is two years unless the City's investment policy is approved by the PMIB, in which case the maturity may be up to four years.

If a local financial institution offers interest rates equal to or greater than the equivalent yield for US government securities having a maturity date as published in the Wall Street Journal (the public funds investment rates), the City is obligated (if they elect to make the investment) to place it with that financial institution.

2. Collateralized Repurchase Agreements: Contractual agreements between the City and commercial banks, trust companies, state or federally chartered savings and loan associations, federally chartered savings banks. The Repo issuer sells acceptable securities to the City and, in turn, the City agrees to resell the securities on a specific date at a specified amount (original cost plus interest). The maximum maturity for repurchase agreements is 91 days and will be used when Certificates of Deposits for less than 91 days are not available.

Repurchase agreements are required to be backed by acceptable collateral securities as dictated by Kansas Statute KSA 12-1677b. If the City's investment policy is approved by the PMIB, a repurchase agreement may be executed with a primary dealer. The City requires collateral for this option to be at least 105% of the original purchase price.

3. U.S. Treasury Obligations: These obligations must mature within four years from the date of purchase and are guaranteed as to principal by the United States Government per KSA 12-1677b.
4. Kansas Municipal Investment Pool (MIP): A pool of investments consisting of CD's, U.S. Treasuries, U.S. Agencies, Commercial Paper, and Repurchase Agreements per KSA 12-1677b. The State of Kansas Pooled Money Investment Board administers the MIP.
5. Temporary Notes of the City
6. Commercial Bank Savings Accounts
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 years from the date of purchase.
8. U.S. Government Sponsored Corporation's Instruments: Obligations of enterprises sponsored by the U.S. Government, such as Federal National Mortgage Association, Federal Home Loan Bank, Federal Home Loan Mortgage Corporation, Federal Farm Credit System, the Student Loan Marketing Association, and other qualified government sponsored corporation's instruments.
9. Multiple Municipal Client Investment Pools: Managed by the trust department of banks which have main or branch offices located in the county or with trust companies incorporated under the laws of the state which have contracted to provide services under provisions of K.S.A. 9-2107, and amendments thereto. Public moneys invested under this paragraph shall be secured in the same manner as provided for under K.S.A. 9-1402, and amendments thereto.

Other types of investments may be added to this list as changes to the statutes governing such investments are revised. The above instruments may be purchased from eligible banks, savings and loans, and primary dealers. The City has defined an "eligible" financial institution as one with

a minimum rating of 20 in the most recent published Sheshunoff national “President’s” rating. This standard is consistent with the investment objectives of the City and is intended to eliminate potentially insolvent financial institutions from consideration for City investments.

Short Term Investment Procedures

Investments in this category may range from one day to one week. Upon maturity, the funds will be used to satisfy current obligations or as a portion of a long-term investment. Investments will be awarded on the basis of competitive bids.

The following guidelines will be utilized in the investment process:

1. City investment staff will maintain a spreadsheet of cash available for investments that are updated on a daily basis. The daily accumulation of balances provides the cash available for the City’s normal bi-weekly investment.
2. Idle funds available at the end of any given day may be transferred to the Municipal Investment Pool or other accounts based on highest yield.

Long Term Investment Procedures

Investments in this category may range (in length) from one week to four years. All investments will be awarded on the basis of competitive bids.

Certificates of Deposit

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 Kansas banks, trust companies, savings and loan associations, or federally chartered savings banks with a main office in the state and an office located in the City or Johnson County. The financial institutions within the City will take precedence over the county financial institutions.

The following guidelines will be utilized in the investment bidding process: (guidelines could vary depending on circumstances).

1. City staff will invest funds bi-weekly. On the Monday of an investment week, City staff will determine the amount of funds available to be invested.
2. City staff will contact (by fax) each prospective bidder on Monday afternoon with information on the amount available and the desired maturities.
3. The City will normally accept bids (written, or fax) until noon on Tuesday. All bids will be expressed on an interest yield basis.

4. The City will make an award based on competitive bids.
 - A. City staff will acquire the public funds investment rates from the State on the day preceding the investment transaction.
 - B. The bids received from the 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.
 - C. If no bids from the local financial institutions are greater than or equal to the public funds investment rate, bids from financial institutions offering investment instruments detailed under the OPERATING FUND INVESTMENTS section of this document will be considered.
 - D. The award will go to the highest bidder. Financial institutions submitting a bid will be notified of the results Wednesday morning.
5. In the case of a tie for the highest bid, City investment staff will make the award based on the following criteria:
 - A. If a financial institution with an office located in the City is involved in the tie, that institution will be offered the award.
 - B. If two or more financial institutions with offices in the City are involved in the tie, the investment will be offered to the financial institution that has the least amount of the City's idle funds investment dollars. This action is consistent with the principles of diversification as set forth in this policy.
 - C. If none of the financial institutions involved in the tie have offices located in the City, the institution that submitted the first bid shall be asked to break the tie. If they agree, they will receive the award. If they refuse, the next institution will be asked to break the tie. If they refuse, the institution that has gone the longest without receiving an investment will be offered the award.
6. The investment transaction will be completed on or before noon on Thursday. The monies will be wired from the City's bank to the financial institution(s) receiving the investment. If collateral is required, it must be confirmed prior to the exchange of funds.

U.S. Treasuries and U.S. Agencies

The City will maintain a list of broker/dealers qualified to do business with the City, as determined by the Investment Committee.

The following guidelines will be utilized in the bidding process: (guidelines could vary depending on circumstances).

1. City staff will invest funds bi-weekly. On the Monday of an investment week, City staff will determine the amount of funds available to be invested.
2. City staff will fax a bid sheet to three broker/dealers on the list. At least one of the broker/dealers contacted shall be a primary dealer.
3. The City will accept bids until 9:00 AM Thursday.
4. The city will make an award based on competitive bids, comparing the actual maturity date to the target maturity date and the bond-equivalent yield expressed as a percentage.
5. In the case of a tie, the bid that was submitted first will be offered the award.

Permitted Investments of Bond and Temporary Note Proceeds

All investments purchased under this policy shall be governed by KSA 10-131, et.seq. and all revisions thereto, as may be made by the Kansas Legislature. Investments of proceeds from bonds or temporary notes 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 KSA 12-1675, and amendments thereto (as detailed under Permitted Operating Fund Investments)
2. Municipal investment pool
3. Direct obligations of the United States government or agency thereof
4. Temporary notes of the City
5. Interest-bearing time deposits in commercial banks located in Johnson County
6. Obligations such as the Federal National Mortgage Association, Federal Home Loan Banks, the Federal Home Loan Mortgage Corporation, Federal Farm Credit Bank or other qualified obligations.
7. Repurchase agreements for securities described in 3. or 6. above. Collateral for this investment option will be at least 100%.
8. 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.
9. Investments in shares or units of a money market fund or trust the portfolio of which is comprised entirely of securities described in 3 or 6 above.
10. Receipts evidencing ownership interests in securities or portions thereof described in 3 or 6 above.
11. Municipal bonds or other obligations issued by any municipality of the state of Kansas

12. Bonds of any municipality of the state of Kansas that have been refunded in advance of their maturity and are fully secured as to payment of principal and interest.

The interest received on these investments shall be used for the purpose of paying interest on the bonds or notes issued or used for paying the cost of the project for which the bonds or notes were issued.

No moneys authorized to be invested under this section shall be invested in a derivative. For the purpose of defining “derivative” means any investment instrument whose market price is derived from the fluctuating value of an underlying asset, index, currency, futures contract including futures, options and collateralized mortgage obligations.

Security for Deposits

The bank, trust company, savings and loan, or federally chartered savings bank pursuant with KSA 9-1402, et.seq will secure all deposits of City monies, in the following manner:

1. Pledged securities shall have a market value equal to at least 105% of the amount of the total deposits of public funds including all accrued interest earned. Such securities shall consist of:
 - A. Direct obligations of, or obligations insured as to principal and interest by, the United States Government or any agency thereof and obligations and securities of United States sponsored corporations which under federal law may be accepted as security for public funds.
 - B. Surety bonds issued by a highly rated insurance corporation as determined by a nationally recognized insurance rating agency. Surety bonds are subject to review and approval by the City’s Director of Finance, Budget & Administration.

FDIC insurance of \$100,000 will not be credited toward the aggregate total of all time deposits, open accounts and certificate of deposits.

Collateral for certificates of deposits and repurchase agreements will be registered in the City’s name. The Director of Finance Budget and Administration will hold all safekeeping receipts of pledged securities used as collateral. The City’s safekeeping agent will hold pledged securities in trust on behalf of the financial institution.

On a weekly basis, the Director of Finance, Budget and Administration will monitor the adequacy of collateralization.

The above policies shall remain if 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.

Banking Services

Per K.S.A. 9-1401 as amended, applies to active funds of municipalities and requires that the governing body of any municipality must designate the financial institutions, which may serve as depositories of its funds. The City utilizes the State and National Banks, including holding corporation affiliate banks, with offices located in Overland Park, and home offices in the state of Kansas, as its depository of active funds.

The City will execute a contract with its financial depository which shall designate the requirements of serving as a depository for the City, including collateralization of City funds invested at such depository and the related safekeeping requirements of the pledged securities. The City will execute a contract once every four years in accordance with the practice of bidding banking services every four years.

Responsibility for Enforcement

The responsibility for the management of the City’s investment portfolio is delegated to the Director of Finance, Budget and Administration. The Director of Finance, Budget and Administration will establish and maintain written procedures for the operation of the cash management and investment program consistent with this policy. Such procedures shall include explicit delegation of authority to persons responsible for investment transactions. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the Director of Finance, Budget and Administration.

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Glossary

1. Description of Agencies:

Federal Home Loan Bank – FHLB A system created in 1932 after many bank failures, supplying credit reserves for savings & loans and other mortgage lenders. When Congress reorganized the entire industry in 1989, the newly created Federal Housing Finance Board assumed direction of the Home Loan Bank System.

The Federal National Mortgage Association – FNMA (Fannie Mae) - is a publicly owned, government-sponsored corporation which purchases mortgages from lenders and resells them to investors.

The Federal Home Loan Mortgage Corporation – FHLMC (Freddie Mac) – is a publicly chartered agency that buys residential mortgages from lenders, packages them into new securities backed by those pooled mortgages, provides certain guarantees, then resells the securities on the open market.

Federal Farm Credit Bank - FFCB – provides mortgage loans, credit and related services to farmers, ranchers, producers, agricultural cooperatives, and rural utilities.

2. Definitions of Various Structured Debt Securities:

Callable – a security that can be redeemed before maturity by the issuer under specified conditions.

Coupon-bearing notes – fixed-rate security.

Discount notes – like Treasury bills, pay “interest” at maturity since they are sold at a discount but redeemed at par.