

Investment Policy

Section 1: Purpose

It is the policy of the City of Arkansas City to invest public funds in a manner that, giving first regard to safety, suitability and liquidity, will maximize long-term yield in conformance with State Statutes, Federal Regulations and the City's Municipal Code.

Section 2: Scope

- a) This policy applies to all investments of municipal funds.
- b) Except for cash in certain restricted and special funds, the City of Arkansas City will consolidate cash and reserve balances from all funds to maximize investment earnings and to increase efficiencies with regard to investment pricing, safekeeping, and administration. Investment income will be allocated to the various funds based on the respective participation and in accordance with Kansas Cash basis law.
- c) All idle funds investments will be made in accordance with K.S.A. 12-1675.
- d) All Bond Proceed investments will be made in accordance with K.S.A. 10-131.

Section 3: Objectives

Investments shall be made with the primary objective of safety of principal, followed by liquidity needs, and then rate of return on said investments. The city's portfolio shall be sufficiently liquid to meet operating requirements that can be reasonably anticipated.

A. Safety

Safety of principal is the foremost objective of the investment program. Investments will be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. The objective will be to mitigate credit risk and interest rate risk.

1. Credit Risk

The City of Arkansas City will minimize credit risk, which is the risk of loss due to failure of the security issuer or backer, by limiting investments to only the investment types listed in this document as suitable investments.

2. Interest Rate Risk

The City of Arkansas City will minimize the risk of interest rate changes due to changes in market value of securities in the portfolio by laddering investment maturities.

3. Collateralization

Where allowed by state law, full collateralization will be required on all demand deposit accounts, including checking accounts and non-negotiable certificates of deposit.

B. Liquidity

The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated, thereby avoiding the need to sell securities on the open market prior to maturity. This is accomplished by structuring the portfolio so that investment's maturity dates are concurrent with cash needs to meet anticipated demands.

C. Yield

The investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints and liquidity needs of the city. Yield is of secondary importance compared to the safety and liquidity objectives previously described.

Section 4: Portfolio Management

The City Manager and the Finance Director/Treasurer will structure investments to meet the primary objectives as set forth in this policy. The City Manager authorizes the Finance Director/Treasurer to engage in investment-related transactions within this policy without prior approval.

As idle funds needing to be invested are available, the Finance Director/Treasurer shall seek a competitive bid from all of the financial institutions that meet the requirements of KSA 12-1675. If a specific maturity date is required for cash flow purposes, bids will be requested for instruments which meet the maturity requirements. If no specific maturity date is required, the Finance Director/Treasurer will request bids from the financial institutions for various options with regard to term, instrument and bank concentration.

Section 5: Standards of Care

A. Prudence

The standard of prudence to be used by investment officials shall be the "prudent person rule" and shall be applied to the management of the entire portfolio. Investment officials 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.

The "prudent person rule" states: "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."

B. Ethics

Officers and employees involved with city investments shall refrain from engaging in any outside matters of financial or personal interests incompatible with the impartial and objective performance of duties. Officers and employees involved with city investments shall disclose any personal material interests in financial institutions with which they conduct business on behalf of the city.

Section 6: Suitable and Authorized Investments

The following investments will be permitted by this policy and are those defined by Kansas State Statutes K.S.A. 12-1675, K.S.A. 12-1675a, K.S.A. 10-131, and any other applicable statutes or ordinances and amendments thereto.

A. Acceptable Investment of General Idle Funds

1. Certificates of Deposit (CDs)

Instruments issued by banks, savings and loan associations and savings banks, that state specified sums have been deposited for specified periods of time and at specified rates of interest. Certificates of deposit are required to be backed by acceptable collateral securities as dictated by Kansas Statutes. The maximum maturity is two years.

2. Repurchase Agreements (REPOs)

Repurchase agreements are contractual agreements between the City and commercial banks, trust companies, state or federally chartered savings and loan associations or federally chartered savings banks. The repurchase agreement issuer receives cash and, in turn, sells securities to the City. The City agrees to resell the securities to the issuer on a specific future date at the original purchase price plus a negotiated interest payment. Repurchase agreements are required to be backed by acceptable collateral securities as dictated by Kansas Statutes. If the City's investment policy is approved by the PMIB, a repurchase agreement may be executed with a primary dealer or a broker-dealer registered in accordance with K.S.A.17-12a401.

3. Temporary Notes of the City

In temporary notes or no-fund warrants issued by the City of Arkansas City.

If the banks, savings and loan associations and savings banks eligible for investments authorized in paragraphs (1), (2) and (3) cannot or will not make the investments authorized in said paragraphs available to the City of Arkansas City at interest rates equal to or greater than the investment rate, as defined in subsection (g) of K.S.A 12-1675a, and amendments thereto, then the following types of investments may be considered:

4. United States Treasury Obligations

These obligations must mature within two years from date of purchase and are guaranteed as to principal by the United States Government.

5. United States Government Agency Securities

United States Government Agency securities include indirect obligations of the federal government, issued by the Government National Mortgage Association and the Small Business Administration. These securities are backed by the full faith and credit of the United States Government. The maximum maturity is four years. The City's investment policy must be approved by the PMIB prior to the purchase of United States Government Securities. Investment in these securities is limited to those that have no more interest rate risk than United States Government obligations of similar maturities.

6. Government Sponsored Corporations Instruments

Obligations of enterprises sponsored by the United States Government, such as Federal Farm Credit System, Federal Home Loan Mortgage Association, Federal National Mortgage Association and the Student Loan Marketing Association. To participate, the City's investment policy must be approved by the PMIB. Investment in these securities is limited to those that have no more interest rate risk than United States Government obligations of similar maturities and are not mortgage backed.

7. Kansas Municipal Investment Pool

A pool of investments consisting of CDs, United States Treasuries, United States Agencies, Commercial Paper, and Repurchase agreements. The pool is administered by the Pooled Money Investment Board, established by K.S.A 12-1677a, 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, primary dealers and the State Treasurer's Office.

B. Acceptable Investment of Bond Proceeds

The City of Arkansas City may invest any bond or temporary note proceeds which are not immediately needed, in accordance with Kansas Statute 10-131 and the specific bond or note resolution. Funds will be invested as required by federal regulations regarding arbitrage on tax-exempt bond proceeds.

The interest received on the investment of bond and note proceeds shall be used for the purpose of paying interest on the bonds or notes issued, or for paying the cost of the project for which the bonds or notes were issued.

C. Maturity Limitations

The maximum maturity on investment transactions shall not exceed a maximum of two years unless Expanded Investment Authority is applied for and granted by the Pooled Money Investment Board, in which case, the maximum maturity on investment transactions shall not exceed a maximum of four years. Composition of the range in maturities may change in nature due to market conditions and the current investment strategy.

Section 7: Local Considerations

It is the city's policy to conduct business with the banks in Arkansas City as long as competitive rates are being offered and the service received is satisfactory. Investments shall be offered to Arkansas City financial institutions with knowledge that these financial institutions will in turn invest in the local community.

Section 8: Approval of Investment Policy

This investment policy shall be formally approved and adopted by the City Commission for the City of Arkansas City. This policy can be reviewed at any time at the request of City Commission or City Staff. Any revisions must be approved by City Commission.