

## **1.0 POLICY**

It is the policy of the City of Lawrence 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 of Lawrence and conforming to all state, county, and local statutes governing the investment of public funds. The policy will be reviewed and approved at least annually by the City Commission, or sooner when there are either changes to this policy, or in Kansas State Statutes that relate to the City's investments.

## **2.0 SCOPE**

The Director of Finance 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.

## **3.0 DELEGATION OF AUTHORITY**

Responsibility for the management of the City's investment portfolio is delegated to the Director of Finance by the City Manager. This policy applies to the cash management and investment activities of the City of Lawrence, Kansas, 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.

## **4.0 OBJECTIVES**

The City of Lawrence 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. Investments shall be at the highest rates obtainable at the time of investment, within the limitations of the law and our prudent investment policy. The City's investment portfolio shall be designed and managed in accordance with the responsibility of ensuring the public's trust and consistent with state, county, and local laws.

## **4.1 Safety**

The primary tenet of the City of Lawrence investment strategy is ensuring the safety of principal. Cash investments of the City of Lawrence shall be undertaken in a manner that seeks to maximize investment income while ensuring the preservation of capital in the portfolio.

## **4.2 Return on Investment**

The investment portfolio shall be designed to attain, at a minimum, a market-based rate of return throughout budgetary and economic cycles, taking into account the City's investment risk constraints, Kansas State Statutes, and the cash flow needs of the City's operations. Investments will be made at the highest rates obtainable at the time of investment, within the limitations of the law, and the City's prudent investment policy.

## **4.3 Liquidity**

The City of Lawrence's investment portfolio shall remain sufficiently liquid to enable the City to meet all operating requirements and expenses without early redemption of securities. In a situation where an unforeseen event arises that creates the need for securities in the portfolio to be sold, the following procedure will be followed. The amount and timing of the cash requirements will first be determined. A compilation of anticipated revenue and maturing investments will be made. The net amount of any cash shortage will then be calculated. The City's portfolio will be reviewed and those investments that can be sold prior to maturity will be evaluated to determine the order that the investments should be sold. Consideration will be given to the size of the investment, interest rate on the investment, and maturity date. In most cases, any investments that have gained in value will be sold first. In some cases, it may be necessary to negotiate the early liquidation of certificates of deposit. If those deposits are with more than one financial institution, the institution that requires the lowest penalty will be sold first. The Director of Finance must approve all such sales.

## **5.0 INTERNAL CONTROL**

### **5.1 Written Process**

The Director of Finance shall establish a system of written internal controls, which shall be reviewed annually by the independent auditor. These controls shall be designed to

prevent loss of public funds due to fraud, error, misrepresentation, or imprudent actions. No security will be purchased without the approval of the Director of Finance, or their designee

## **5.2 Delivery vs. Payment**

All securities purchased under this policy will be on a delivery versus payment basis.

## **5.3 Investment Staff**

Investments will be made either by the Director of Finance, or employees, or third parties with experience and knowledge of investments by Kansas local governments. The quality and capability of the investment staff will be demonstrated by having prior experience in investing funds in accordance with K.S.A.12-1677b, prior employment with a broker-dealer, or registered investment adviser that involved investing funds in United States Government Agencies or Sponsored Corporations, or participating in training sponsored by an agency such as the Government Finance Officers Association that is familiar with governmental investing.

## **6.0 PRUDENCE**

All participants in the investment process shall seek to act responsibly as custodians of the public trust. Investment officials shall avoid any transaction that might impair public confidence in the effectiveness of the government of the City of Lawrence.

The standard of prudence to be used by investment officials shall be the “prudent investor” rule, which 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.”

The rule shall be applied in the context of managing the entire portfolio.

Investment officers acting in accordance with written procedures and exercising due diligence shall be relieved of personal responsibility for a specific security’s credit risk or market price changes, providing deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments.

## **7.0 LEGAL AUTHORITY AND LIMITATIONS OF INVESTMENT INSTRUMENTS**

All investments purchased for operating portfolios (i.e., not including bond proceeds or moneys held for expenditure pursuant to a multi-year capital improvement program) under this policy shall be governed by K.S.A. 12-1675, et. seq. and all revisions thereto, as may be made by the Kansas Legislature. Investments are limited to a maximum maturity of two years unless the City's investment policy is approved by the State of Kansas Pooled Money Investment Board (the "PMIB"), in which case the maximum maturity of investments can be for up to four years.

### **7.1 Presumption of Bank Deposits for Idle Operating Funds**

With respect to operating portfolios (that is, not including bond proceeds or moneys to be used with respect to a multi-year capital improvement program), Kansas law makes a presumption that idle funds will be deposited with commercial banks. As a result, the deposits below are permitted at any time:

#### **7.1.1 Commercial Bank Deposits**

All bank deposits that qualify for protection from Federal deposit insurance also qualify as permitted investments.

#### **7.1.2 Certificates of Deposit (CDs)**

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. Certificates of deposit are required to be backed by acceptable collateral securities as dictated by K.S.A 9-1402.

### **7.2 Alternative Investments**

To the extent commercial banks with main offices or branches located within the City's corporate boundaries are unable or unwilling to provide deposits at rates meeting or exceeding those set forth by Kansas law, the City may, at its discretion, invest idle operating funds in the alternative investment provided by state law.

### **7.2.1 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 K.S.A 9-1402. 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.

### **7.2.2 United States Treasury Obligations**

These are direct obligations that are insured as to principal and interest by the United States Government.

### **7.2.3 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.

### **7.2.4 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.

### **7.2.5 Kansas General Obligation Bonds**

General obligation municipal bonds or other general obligations issued by any municipality of the state of Kansas as defined in K.S.A. 10-1101.

### **7.2.6 Kansas Municipal Investment Pool**

A pool of investments consisting of CD's, United States Treasuries, United States

Agencies, Commercial Paper, and Repurchase agreements. The pool is administered by the Pooled Money Investment Board.

#### **7.2.7 Temporary Notes of the City**

Although the City is permitted to hold its own temporary notes as investments, in most cases, the City's purchase of its own notes will result in the cancellation of such notes.

### **7.3 Modifications to Permitted Investments**

The Director of Finance may add other types of investments or modify this list at his/her reasonable discretion as changes to the statutes governing such investments are revised. The above instruments may be purchased from any financial institution permitted by Kansas law.

### **8.0 BOND AND TEMPORARY NOTE PROCEEDS**

The City of Lawrence may invest any bond or temporary note proceeds, as well as the balances in a multi-year capital improvement fund designated by ordinance pursuant to K.S.A. 12-1,118, 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.

### **9.0 CONTRACTS WITH FINANCIAL INSTITUTIONS**

The City of Lawrence may place funds with depositories having their main offices or branch locations located in the City of Lawrence as provided by K.S.A. 9-1401. All depositories of the City of Lawrence shall execute a contract with the City of Lawrence 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 shall have a separate contract with the "operating bank" which will execute a contract once every three years in accordance with the practice of bidding banking services every three years. Any financial institution in which the City has funds shall provide such financial data to the Director of Finance

as may be required by the City to evaluate the financial condition of the institution. Such data will be in the form of audited financial statements, Federal Deposit Insurance Corporation regulatory reports, and shall be provided at least annually by the financial institutions to the Director of Finance. Any refusal to provide such information to the City may be cause for termination of the depository contract with such institution.

### **9.1 Safekeeping of Securities**

All securities will be perfected in the name of the City and held by the City or a third party custodian. A third party institution will hold securities pledged as collateral by the City's financial institutions. The City is authorized to use the Federal Reserve Bank of Kansas City as a custodian, but may use other custodians as permitted by state law.

Safekeeping records of pledged securities may be mailed, faxed or emailed to the City in order to accommodate timely and legal investment transactions.

### **9.2 Collateralization**

The City requires full collateralization of all deposits held by commercial banks that exceed the FDIC coverage limit, as required by Kansas State Statutes. Collateral underlying repurchase agreements is limited to obligations of the United States Government and its agencies. The City will accept as collateral for such deposits those securities listed in K.S.A. 9-1402 in the following manner:

- A. All deposits shall carry FDIC insurance (current protection extends to deposits up to a maximum of \$250,000 per institution), or
- B. If deposits on-hand at any eligible depository of the City exceed the then applicable FDIC insurance limit, such depository is required to pledge securities with a market value equal to not less than 100% of City deposits on hand (less \$250,00 per institution).
- C. Securities eligible to be pledges against City deposits include those listed below. The City may, at its sole discretion, reject any pledged securities proposed by any institution:
  - 1. Direct obligations of or obligations insured by the United States Government (By policy, market value equal to or exceeding 100% of

deposits on hand.)

2. Bonds of any Kansas municipality or quasi-municipality that have been refunded in advance of their maturity and are fully secured by an irrevocable escrow consisting of non-callable US Treasury and Agency securities. (By policy, market value equal to or exceeding 100% of deposits on hand.)
3. Bonds of the State of Kansas. (By policy, market value equal to or exceeding 102% of deposits on hand.)
4. General obligation bonds of any Kansas municipality. (By policy, market value equal to or exceeding 105% of deposits on hand.)
5. Revenue bonds of any Kansas municipality or quasi-municipality. (By policy, market value equal to or exceeding 105% of deposits on hand.)
6. Temporary notes of any Kansas municipality or quasi-municipality. (By policy, market value equal to or exceeding 102% of deposits on hand.)

The Director of Finance or his/her designee will monitor the adequacy of collateralization weekly. The City requires monthly reports with market values of pledged securities from all financial institutions with which the City has certificates of deposit or repurchase agreements.

## **10.0 [RESERVED]**

## **11.0 INVESTMENT PROCEDURES**

As required by K.S.A. 12-1675, the City of Lawrence gives preference to local financial institutions when investing idle operating funds. Before investing any funds, the City shall conduct a competitive bid process. Investment bids will be taken by the Director of Finance, or his/her designee, at times when investment of idle funds would be in the best interest of the City.

Such bid requests may be made in writing and any required collateral forwarded to the City prior to the investment being purchased. All of the financial institutions within the



City limits will be notified annually of the City's investment policy, and requirements for investing if they wish to participate in the bid process.

If one or more qualified financial institution is unable to meet or exceed the state calculated benchmark investment rate for a given maturity, the City may invest in the alternate permitted investments listed in Section 7.2 above.

## **12.0 INVESTMENT DIVERSIFICATION**

Investment maturities shall be scheduled to coincide with projected cash flow needs. Cash flow needs will be projected based upon the weekly amount of claims paid, the biweekly payroll and anticipated revenue.

### **12.1 Investment Limitations per Institution**

Pursuant to current policy of the Pooled Money Investment Board, the City may not limit the amount of bank deposits (including certificates of deposit) that can be held in its investment portfolio. In order to protect the City from the failure of any one financial institution, the City shall not invest more than 50% of idle funds with any one financial institution. The 50% limitation does not apply to securities held in safekeeping by an institution on behalf of the City. The 50% limitation shall be determined prior to the solicitation of bids. If an institution exceeds the 50% limitation after the bids have been awarded, no further bids will be accepted from the financial institution until sufficient maturities have occurred to reduce their share of the portfolio to below 50%.

### **12.2 Investment Type**

- A. The City imposes no restrictions on the amount of Bank Deposits it can hold in its investment portfolio.
- B. The City imposes no restrictions of the amount of U.S. Treasury or Agency obligations (including receipts evidencing ownership in such securities) it can hold in its investment portfolio.
- C. The City limits the amount of repurchase agreements it can hold to no more than 50% of its portfolio.
- D. The City limits the amount of investments in the Municipal Investment Pool to no

more than 30% of its portfolio, except in January, February, July, and August each year (during which months the City may use the MIP to hold funds pending deposit with the State Treasurer for payment of principal and interest on its bonds.)

- E. The City imposes no restrictions on the amount of municipal refunding bonds with principal and interest fully secured by an irrevocable deposit of U.S. Treasury and Agency securities it can hold in its portfolio.
- F. The City limits the amount of Kansas general obligation bonds with a credit rating below “A3”, “A-“, or “A-“ from Moody’s, Standard and Poor’s, or Fitch, respectively, to no more than 5% of its portfolio.
- G. The City limits the amount of Kansas general obligation bonds with a credit rating of “A3”, “A-“, or “A-“ or higher from Moody’s, Standard and Poor’s, or Fitch, respectively, to no more than 30% of its portfolio.

### **12.3 Maturity**

If the City maintains its expanded investment powers, the maximum maturity of an investment for an operating fund is four years; otherwise the maximum maturity for an investment for an operating fund is two years. The maximum maturity for an investment of bond proceeds or moneys to be used for a multi-year capital improvement program coincides with the expected timing of expenditure of such moneys. Investment maturities shall be distributed to coincide with projected cash flow needs to meet the objectives of Section 4.3.

### **13.0 DAILY CASH MANAGEMENT PRACTICES AND POLICIES**

The City of Lawrence Finance Department requires that all departments collecting cash receipts, whether in cash or other forms of payment, must turn in such receipts to the Finance Department on a daily basis together with records required to verify the accuracy of such collections. No receipts will be held overnight at any location for any reason. All receipts shall be deposited daily by the Finance Department. Investment of any idle funds will be made in accordance with this policy. Any violation of this section of this policy by any employee of the City may result in disciplinary action.

## **14.0 REPORTING REQUIREMENTS**

The investment officer shall generate investment reports for management purposes at least quarterly. The reports will be made available to the Lawrence City Commission as part of the quarterly financial report. If the City maintains its expanded investment powers, reports will be generated annually to show the average portfolio size, anticipated maturity distribution, and expected yield to maturity on a monthly basis. In addition, the auditors will be provided a report on the City's investments that shows the investment type, rating, and maturity. The report will also discuss interest rate risk, credit risk, concentration of credit risk, and custodian credit risk.

## **15.0 ETHICS AND CONFLICTS OF INTEREST**

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 Manager any material financial interests in financial institutions that conduct business within their jurisdiction, and they shall further disclose any large personal financial/investment positions that could be related to the performance of the City of Lawrence.

## **16.0 SEPARATE PROVISIONS OF POLICY AND CONFLICTS WITH KANSAS LAW**

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

## **17.0 GLOSSARY**

The following is a glossary of key investing terms that appear in The City of Lawrence's Investment Policy.

**Cash Flow**—Cash receipts minus disbursements from a given asset, or group of assets, for a given period. An analysis of the movement of cash through a venture as contrasted with the earnings of the venture.

**Certificate of Deposit**—A time deposit with a commercial bank with a specific maturity evidenced by a certificate.

**Collateralization**—Process by which a borrower pledges securities or deposits for the purpose of securing the repayment of a loan and/or security.

**Cost**—An amount paid or required in payment for a purchase of an investment.

**Fannie Mae**—Fannie Mae (formerly the Federal National Mortgage Association) 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.

**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 liquefy the housing-related assets of its members who must purchase stock in their district Bank.

**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, referred to as "Freddie Mac."

**Interest Rate**—The interest rate is the annual rate of interest received by an investor from the issuer of fixed income securities. It is also the percentage of an amount of money that is paid for its use for a specified time.

**Internal Controls**—An internal control structure designed to ensure that the assets of the entity are protected from loss, theft, or misuse. The internal control structure is designed to provide reasonable assurance that 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.

**Investment**—Commitment of money to gain profit or interest as by purchasing securities.

**Investment Agreements**—An agreement with a financial institution to borrow public funds subject to certain terms and conditions regarding collateralization, liquidity and interest rates.

**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.

**Kansas Statutes**—A written law enacted by the Kansas State Legislature.

**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 trading and could be purchased or sold on a given day.

**Portfolio**—Collection of securities held by an investor.

**Principal**—(1) The face amount or par value of a debt security. (2) One who acts as a dealer buying and selling for his own account.

**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.

**Safety**—The measure of the degree of freedom from risk.

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

**Time Deposits**—Another term for a savings account or certificate of deposit in a commercial bank.

**United States Government Securities (Treasuries)** —Bonds, notes, treasury bills or other securities constituting direct obligations of, or obligations the principal of and interest on which are fully and unconditionally guaranteed as to the full and timely payment by the United States of America.