

<p style="text-align: center;">CITY OF OLATHE</p> <p style="text-align: center;">COUNCIL POLICY STATEMENT</p>		Policy No.:	F-2
General Scope: Finance		Date Issued:	09-17-19
Specific Subject: Investment and Cash Management Policy		Effective Date:	09-17-19
		Cancellation Date:	NA
		Supersedes No.:	Listed Below

Purpose:

To set forth the general public policy objectives of the city as it relates to establishing investment and cash management.

Statement of Policy:

The statement of policy is hereby incorporated with Resolution No. 19-XXXX. Establishment of previous Investment and Cash Management Policy were incorporated by Resolutions 18-1081, 17-1061, 16-1073, 15-1083, 14-1078, 14-1007, 12-1080, 10-1061, 09-1058, 01-1064, 00-1017, and 95-1146.

RESOLUTION NO. 19-1055

A RESOLUTION ESTABLISHING A POLICY FOR INVESTMENT AND CASH MANAGEMENT IN THE CITY OF OLATHE, KANSAS.

WHEREAS, the Governing Body of the City of Olathe, Kansas is authorized to investment and manage cash in accordance with K.S.A. 12-1675 *et. seq.*, and all revisions thereto, as may be made by the Kansas Legislature; and

WHEREAS, the City entrusts its Investment Staff to determine conformance with its investment and cash management policy and to provide recommendations to the Governing Body regarding proposed investment and cash management activities.

NOW THEREFORE BE IT RESOLVED BY THE GOVERNING BODY OF THE CITY OF OLATHE, KANSAS:

SECTION ONE: The City of Olathe hereby adopts the following investment and cash management policy.

I. SCOPE

This policy applies to the cash management and investment activities of the City of Olathe, 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.

II. AUTHORITY

A. The responsibility for the management of the City's investment portfolio is delegated to the Director of Resource Management, hereafter referred to as the Investment Officer. The Investment Officer 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 Investment Officer.

B. **Investment Advisor:** The City may engage the services of one or more external investment advisors to assist in the management of the City's investment portfolio in a manner consistent with the City's objectives. Such external investment advisors may be granted discretion to purchase and sell investment securities in accordance with this Investment Policy for up to 50% of the City's investment portfolio. Such advisors must be registered under the Investment Advisers Act of 1940 with the US Securities and Exchange Commission. If the firm is regulated, instead, by a state securities commission, the firm must also qualify as a "municipal advisor" pursuant to the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010.

III. OBJECTIVES

The City of Olathe 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 obtain the highest rates of return with appropriate risk until such time as they are needed for the operations of the City. 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:

A. **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. The objective will be to mitigate credit risk and interest rate risk.

1. Credit Risk: The City will minimize credit risk (the risk of loss due to failure of the security issuer) by the following actions:

- a) Limiting investments to the types permitted in Section VI of this Policy.
- b) Pre-qualifying financial institutions and broker-dealers with which the City will purchase securities, according to Section V of this Policy.
- c) Diversifying the investment portfolio in order to minimize the impact of potential losses from any one type of security or individual issuer.

2. Interest Rate Risk: The City will minimize interest rate risk (the risk that the market value of securities in the portfolio will fall due to changes in market interest rates) by the following actions:

- a) Structuring the investment portfolio so that investments mature in appropriate intervals, avoiding the need to sell securities prior to maturity.
- b) Ensuring that funds needed for future operations in the near future be invested in short-term maturities, money market mutual funds, and investment pools, as well as managing the average maturity of the portfolio.

- B. **Liquidity:** The investment portfolio shall remain sufficiently liquid to meet all operating requirements that might be reasonably anticipated. This is accomplished by structuring the portfolio so that securities mature concurrent with cash needs to meet anticipated demands. 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.

Return on Investment/Yield: 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. The City's portfolio shall be designed with the objective of meeting or exceeding the average return on three-month U.S. Treasury bills. This index is considered to be a benchmark for lower risk investment transactions, and therefore comprises a minimum standard for the portfolio's rate of return. The investment program will seek to improve investment yields beyond these thresholds, consistent with risk limitations defined in the Policy. The maturity of T-bill used as the benchmark for return on investment will be subject to periodic review and modification by the City Council based upon changing market conditions.

- C. **Maturity Distribution:** The investment portfolio will be designed to distribute maturity dates to address the cash flow needs of the City. The maturity distribution guidelines are as follows:

- Up to 100% up to 1 year
- Up to 30% from 1-2 years
- Up to 30% from 2-3 years
- Up to 20% from 3-4 years

Periodically, for a temporary period, the City may exceed the targeted percentage of maturity distribution. This may be necessary in order to make bond payments or because of timing related to large cash flows or disruptions in the securities markets.

- D. **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 provisions K.S.A. 12-1675. Financial institutions and broker-dealers that were pre-qualified according to Section

V of this Policy will be sent a bid request. The City will maintain a list of all bids received during each calendar year.

If the City's Investment Policy is approved by the Pooled Money Investment Board, financial institutions outside the City are eligible to bid on investments in accordance with KSA 12-1677b.

- E. **Management and Investment Staff:** The Management staff consists of the Investment Officer and the Assistant Director of Finance Services. The investment staff consists of the Accountant. The Investment Officer is required to have a Masters Degree or equivalent, 8-10 years of experience in government affairs including cash management and investment activities. The Assistant Director of Finance Services is required to have a Bachelors Degree or equivalent, at least 5 years of experience in financial management, experience in cash flow analysis and investment activities, and a Certified Public Accountant certification. The Accountant is required to have an Associates degree, 3-5 years of experience in accounting and cash management and experience in the accounting for the purchase and sale of investments.

IV. **STANDARDS OF CARE**

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".

- A. **Ethics and Conflict of Interest:** Investment and management staff involved in the investment process shall refrain from personal business activity that could conflict with the proper execution 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.
- B. **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 avoid any transaction that might impair public confidence in the City's ability to govern effectively.
- C. **Term:** The City will limit all investment transactions to maturities of a maximum of two years unless the City's investment policy is approved by the State of Kansas Pooled Money Investment Board, in which case investments could be for a term of up to four years.

- D. **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.
- E. **Separation of Duties:** 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.
- F. **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.

* Investment staff – non-managerial staff authorized to perform routine functions of the investment and cash management process.

** Management staff – management level staff in the Financial Management department, specifically the Investment Officer and Assistant Director of Finance Services.

V. **AUTHORIZED FINANCIAL INSTITUTIONS, DEPOSITORIES, AND BROKER/DEALERS**

A list will be maintained of financial institutions and depositories authorized to provide investment services. In addition, a list will be maintained of approved security broker/dealers selected by creditworthiness. Eligible broker/dealers must have a minimum of \$10 million in capital, and at least five years of operation. They may include “primary” dealers or regional dealers that qualify under SEC Rule 15C3-1 (uniform net capital rule).

All financial institutions, or their parent/holding companies, who desire to become qualified for investment transactions shall provide the following:

- A. The most recent audited financial statements;
- B. For Broker/Dealers - Proof of Financial Industry Regulatory Authority (FINRA) certification, and/or proof of registration with a bank regulatory organization to provide broker/dealer services if a bank;
- C. For Broker/Dealers - Proof of state registration with the Kansas Securities Commission;

- D. Documentation showing qualifications of individuals who will provide services to the City; and
- E. Certification that the financial institution and/or broker/dealer has read, understands, and agrees to comply with this policy.

Deviations from this Policy must be approved by a vote of the City Council.

VI. **PERMITTED OPERATING FUND INVESTMENTS**

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

- A. **Collateralized Certificates of Deposits (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. CDs are required to be backed by acceptable collateral securities as dictated by Kansas Statute K.S.A. 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.
- B. **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). Repurchase agreements 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 repurchase agreement may be executed with a primary dealer. The City requires collateral for this option to be at least 103% of the original purchase price.
- C. **U.S. Treasury Obligations:** These obligations must mature within two 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 years.
- D. **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 K.S.A. 12-1677b. The MIP is administered by the State of Kansas Pooled Money Investment Board.

E. Commercial Bank Savings Accounts.

F. 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 (excluding mortgage-backed securities). These securities are backed by the full faith and credit of the United States Government. The maximum maturity is two years from the date of purchase, unless the City's investment policy is approved by the PMIB, in which case the maturity may be up to four years.

G. U.S. Government Sponsored Corporation's Instruments: Obligations of enterprises sponsored by the U.S. Government, such as Federal Farm Credit System, Federal Home Loan Mortgage Association and other qualified government sponsored corporation's instruments.

H. 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.

I. Kansas General Obligation Bonds.

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 broker/dealers.

VII. INVESTMENT PARAMETERS

A. Diversification: It is the policy of the City to diversify its investment portfolio. To eliminate risk of loss resulting from the over-concentration of assets in a specific maturity, issuer, or class of securities, all cash and cash equivalent assets shall be diversified by maturity, issuer, and class of security. No more than 30% of the City's funds may be placed in any one financial institution. Prior to each investment purchase, the Management Staff will review the investment types to ensure the City's funds remain diversified between the different types. Diversification strategies shall be determined and revised periodically by the Investment Officer.

In establishing specific diversification strategies, the following general policies and constraints shall apply: portfolio maturities shall be staggered to avoid undue concentration of assets in a particular maturity sector. Maturities selected shall provide for stability of income and reasonable liquidity.

1. Liquidity shall be ensured through the practice of covering the next disbursement date and payroll date through maturing investments or investments with same-day liquidity.
2. Risks of market price volatility shall be controlled through maturity diversification such that aggregate price losses on instruments with maturities exceeding one year shall not be greater than coupon interest and investment income received from the balance of the portfolio.

B. 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 ledger of cash available for an investment that is updated on a daily basis. The daily accumulation of balances provides the cash available for the City's normal weekly investment.
2. The investment staff of the City will annually contact, in writing, each financial institution with an office in the City asking if they would like to be included on the bid list to secure temporary idle funds of the City. Financial institutions which meet the requirements set forth in Section V of this Policy will be added to the list of eligible bidders. Eligible bidders will be notified of any available funds through the investment bidding process.
3. 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.

C. Long Term Investment Procedures: Investments in this category may range (in length) from one week to two years (four years if the City's investment policy is approved by the State of Kansas). All investments will be awarded on the basis of competitive bids.

The City will maintain a list of interested and eligible bidders and broker/dealers, as defined in Section V of this Policy. Financial institutions and broker/dealers will be asked to complete an application to participate in the bidding process. The application will require that bidders provide updated financial information along with each bid. Eligible bidders may be removed from the list if they fail to submit a bid for at least 13 consecutive

weeks; upon request, any financial institution removed from the bidder list can be reinstated.

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 contact each prospective bidder with information on the amount available and the desired maturities.
2. The City will accept bids (written or electronic) until the date and time specified on the bid request. All bids will be expressed on an interest yield basis.
3. 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 in Section VI of this document will be considered.
 - d) The award will go to the highest bidder.
4. 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.
5. The investment transaction will be completed based on the date agreed upon between the City and the financial institution. 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.

D. Bond And Temporary Note Proceeds: K.S.A. 10-131, et.seq. provides that the investment 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 K.S.A. 12-1675, et.seq. (as detailed under Operating Fund Investments).
- 2. Municipal investment pool.
- 3. Qualified money market accounts pursuant with K.S.A. 10-131(9).
- 4. Direct obligations of the United States government or agency thereof.
- 5. Temporary notes of the City.
- 6. Interest-bearing time deposits in commercial banks located in Johnson County.
- 7. Obligations such as the Federal National Mortgage Association, Federal Home Loan Banks, the Federal Home Loan Mortgage Corporation or other qualified obligations.
- 8. Repurchase agreements for securities described in (4) or (6). Collateral for this investment option will be at least 103%.

9. Municipal bonds or other obligations issued by any municipality of the state of Kansas.
10. 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.
11. Investment agreements with or other obligations of a financial institution the obligations of which at the time of investment are rated in any of the three highest rating categories by Moody's investors service or Standard and Poor's corporation.

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.

The bond proceeds will be invested in accordance with the City's investment policy. Adherence to the IRS guidelines on arbitrage shall be followed, which at times, may require that the investment yield be restricted. In most cases, the investment will be selected to maximize interest with the assumption that the City will meet the IRS spend down requirement that allows for an exemption from arbitrage calculations.

E. Liquidity Procures: If the City has completed a cash flow analysis and determined additional cash is needed the following guidelines will be utilized in the investment liquidation process: (guidelines could vary depending on the circumstances).

1. The investment staff will prepare a list of investments showing the cost, current market value, yield and maturity date.
2. The investment staff and management staff will review the investments to determine which investments to liquidate based on the following:
 - a) The City will prepare a list of investments showing those with the lowest yields and are closest to maturity and determine current market value.
 - b) The City will prepare an analysis of the investments showing the cost of the investment, interest received to date, estimated market price, gain on sale, and interest lost due to selling prior to maturity to determine the net gain (loss) on sale.
 - c) The investment staff and management staff will select the investments with the best net gain (loss) while considering

the total investment value to sell the smallest number of investments needed to achieve the required cash flow.

- d) The investments selected will be approved by the Assistant Director of Finance and the Investment Officer.

VIII. **SAFEKEEPING AND CUSTODY**

- A. **Delivery vs. Payment:** All trades of marketable securities will be executed by delivery vs. payment (DVP) to ensure that securities are deposited in an eligible financial institution prior to the release of funds.
- B. **Safekeeping:** All deposits of City monies will be secured by the bank, trust company, savings and loan, or federally chartered savings bank pursuant with K.S.A. 9-1402, et.seq. in the following manner:
 - 1. Pledged securities that 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, including but not limited to letters of credit, and securities of United States sponsored corporations which under federal law may be accepted as security for public funds.
 - b) Bonds of the state of Kansas.
 - c) Surety bonds issued by surety corporations authorized to do business in the State of Kansas.

FDIC (BIF or SAIF)*** insurance up to the legal maximum in effect may be credited toward the aggregate total of all time deposits, open accounts and certificate of deposits.

All securities will be perfected in the name of the City and be delivered to the purchaser or a third party custodian which may be the state treasurer.

Market valuations must be provided monthly by all pledging institutions.

Joint custody receipts will be issued for all securities pledged to certificate of deposits 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 K.S.A. 9-1405, et.seq. When treasury bills or

notes are purchased, they will be held (safekept) in the trust department of the City's primary banking institution.

Exceptions to any of the above collateral custody requirements must be approved in writing by the Investment Officer.

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.

*** BIF = Bank Insurance Fund
 SAIF = Savings Association Insurance Fund

- C. **Internal Controls:** The Investment Officer shall establish a system of internal controls, which shall be documented in writing. The internal controls shall be reviewed by the City's Internal Auditor and independent audit firm. The controls shall be designed to prevent the loss of public funds arising from fraud, employee error, misrepresentation by third parties, unanticipated changes in financial markets, or imprudent actions by employees and officers of the City.

IX. **REPORTING AND REVIEW**

- A. The Investment Officer shall prepare an investment report at least quarterly, including a management summary that provides an analysis of the status of the current investment portfolio and the individual transactions executed over the last quarter. This management summary will be prepared in a manner which will allow the City to ascertain whether investment activities during the reporting period have conformed with the Investment and Cash Management Policy. The report should be provided to the City Manager and City Council. The report will include the following:
- Listing of individual securities held at the end of the reporting period, by maturity date.
 - Average weighted yield to maturity of portfolio on investments as compared to applicable benchmarks.
 - Percentage of total portfolio which each type of investment represents.
 - Percentage of certificates of deposit held by any one financial institution.
 - Analysis indicating that sufficient collateral is held on behalf of each security to protect the City from potential loss.

- Analysis regarding compliance with the City's Investment and Cash Management Policy over the reporting period.

B. **Marking to Market:** Investment staff of the City will determine the market value of all securities held by the City of Olathe. These values will be determined using an independent source on at least a monthly basis.

The investment policy will be reviewed and updated by the Management Staff annually. The investment policy will be approved annually by the City Council prior to the annual review submission to the PMIB.

X. **DOCUMENTATION**

The following documents must be updated and readily available for review:

- Listing of personnel authorized to conduct investment activity for the City.
- Relevant statutes and ordinances.
- Listing of authorized financial institutions and broker/dealers.
- Documentation of Internal Controls.

SECTION TWO: Resolution No. 18-1081 and all other resolutions in conflict with this resolution are hereby repealed.

SECTION THREE: This Resolution shall take effect immediately.

ADOPTED by the Governing Body this 17th day of September, 2019.

SIGNED by the Mayor this 17th day of September, 2019.

Mayor

ATTEST:

City Clerk

(SEAL)

APPROVED AS TO FORM:

City Attorney