

INVESTMENT POLICY

CITY OF MANHATTAN, KANSAS

PURPOSE AND GOALS

It is the purpose of the Finance Department to set forth the public policies of the City of Manhattan relating to the investment of idle funds of the city and to establish procedural requirements as to investment management practices in accordance with Section 2-252 of the City of Manhattan Code of Ordinances, K.S.A. 10-131, and K.S.A. 12-1675 through 12-1677b.

POLICY STATEMENT

It is the policy of the City of Manhattan that minimizing the risk and protecting the safety of any investment instrument is the highest priority of the city's investment portfolio program maintained by the Finance Department. A cash management program and investment portfolio policy is recognized as an essential component of good fiscal management and each will be implemented to secure investment earnings as additional revenue to operating and capital funds.

All available funds shall be invested in conformance with these legal and administrative guidelines at the highest rates possible at the time of investment and to the maximum extent possible. The city's investment portfolio program shall be designed, managed, and consistent with Kansas statutes and local laws and always in a manner that acknowledges the public trust placed in such a program.

APPLICABILITY

The investment policies adopted by the city of Manhattan shall apply uniformly to all officials, employees, departments, agencies, boards, commissioners, representatives and authorized agents in the performance of their official duties and to the processing and management of all investment transactions of the city's pooled funds. 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 erode public confidence in the effectiveness of the government of the City of Manhattan.

SCOPE

This investment policy applies to all funds of the City of Manhattan. The following is a list of the city's funds:

- A. General Fund
- B. Special Revenue Funds
- C. Project Funds

- D. Enterprise Funds
- E. Trust and Agency Funds
- F. Any new fund created by the Governing Body unless specifically exempted.

INVESTMENT OBJECTIVES

Investments shall be made with the primary objectives as follows:

- A. *Safety*: Safety of principal is the most important objective of the city's investment program. All investments shall be secured in a manner that seeks to ensure preservation of capital in the overall investment portfolio.
- B. *Liquidity*: The city's investment portfolio will remain sufficiently liquid to meet all operating requirements by utilizing a cash management report.
- C. *Return on Investment*: The city's investment portfolio will be managed and invested to maximize net earnings, consistent with any constraints imposed by safety and liquidity objectives, state laws, and city priorities.

DELEGATION OF AUTHORITY

Authority to manage the City of Manhattan's investment program is derived from city ordinances, the city resolution approving this policy, and Kansas statutes. The Director of Finance has management responsibility for the investment program. The Director of Finance shall establish written procedures for the operation of the investment program consistent with this investment policy.

No person may engage in an investment transaction for the City of Manhattan except as provided under the terms of this policy and the procedures established by the Director of Finance. The Director of Finance shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of other Finance staff members involved in cash management activities.

INVESTMENT COMMITTEE

The Investment Committee for the City of Manhattan shall consist of the Director of Finance, the Assistant Director of Finance, the City Controller/Treasurer, and the Senior Operations and Budget Officer. The committee shall meet quarterly to review the city's investment portfolio, or at the discretion of the Director of Finance, conduct analysis on existing investment instruments, examine the cash management report, review monthly report formats distributed by the City Controller/Treasurer, and discuss any other issue related to the city's investment portfolio program.

On an annual basis, the Investment Committee shall review the city's investment policy and prepare a memorandum to City Management and the City Commission for concurrence and approval.

SKILLS AND TRAINING OF INVESTMENT STAFF

The Finance Department staff assigned as members of the Investment Committee shall meet all skill levels, experience and training requirements established by the Director of Finance. These requirements include, but are not limited to, the following:

- A. A college degree in finance/accounting/business or related field.
- B. Prior experience and/or training in making investments.
- C. Periodic attendance at investment seminars and/or training sessions.
- D. Any other requirements as deemed appropriate by the Director of Finance.

PRUDENCE

The general standard to be used by the Investment Committee shall be the "prudent person" standard and shall be applied in the context of managing the overall investment portfolio. The prudent person standard 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 Finance Department staff assigned as members of the Investment Committee, while acting in accordance with the procedures of 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, however, that serious deviations from investment expectations are reported in a timely fashion by the committee and appropriate action is taken to control any adverse development.

ETHICS AND CONFLICTS OF INTEREST

The Finance Department staff assigned as members of the Investment Committee shall refrain from personal business activity that could conflict with proper execution of the city's investment program, or which could impair their ability to make impartial investment decisions. The Director of Finance shall disclose to the City Manager any material financial interests that any Finance staff member may hold in financial institutions that conduct business within the City of Manhattan.

Further, the Director of Finance shall disclose any large personal financial/investment positions that could be related to the performance of the City of Manhattan's investment portfolio. The Investment Committee members involved in the investment process shall subordinate their personal investment transactions to those of the City of Manhattan, particularly with regard to the timing of purchases and sales.

AUTHORIZED FINANCIAL DEALERS AND INSTITUTIONS

The Director of Finance shall maintain a list of local financial institutions eligible to bid on city investments. In addition, the Director of Finance shall also maintain a list of approved security broker/dealers licensed to conduct business in the state of Kansas. These may include "primary" dealers or regional dealers that, as a minimum, qualify under Securities and Exchange Commission Rule 15C3-1 (uniform net capital rule). No public deposit shall be made except in a qualified public depository as established by Kansas statutes.

AUTHORIZED DEPOSITS AND INVESTMENTS

The City of Manhattan is authorized by Kansas statutes to place public funds in the following types of deposits:

- A. Certificates of Deposit (including the CDARs program)
- B. NOW Accounts and Pass Book Savings Accounts
- C. Money Market Accounts

The City of Manhattan is authorized by Kansas statutes to place public funds in the following types of investments:

- A. U.S. Treasury Instruments
- B. Municipal Investment Pool
- C. Temporary Notes Issued by the City of Manhattan
- D. Bank Trust Departments with Commercial Banks
- E. Direct obligations of the United States or obligations that are insured as to principal and interest by the United States or any agency thereof.
- F. Obligations and securities of United States sponsored enterprises which, under federal law, may be accepted as security for public funds.
- G. Repurchase Agreements

DIVERSIFICATION

The City of Manhattan shall diversify its investment portfolio to the best of its ability based on the type of funds invested and the cash flow needs of each fund. Diversification includes the type of investment, the number of financial institutions holding investments, and the length of maturity of each investment. Generally, the City of Manhattan will minimize any restraints to investment diversification based on type of investment or financial institution in order to meet the city's investment objectives.

However, the city will limit its investment in repurchase agreements to no more than 50% of the city's investment portfolio. All other eligible investments may make up 100% of the investment portfolio.

Investment maturities shall be scheduled to coincide with projected cash flow needs. Cash flow needs will be projected each warrant period based upon the amount of claims paid, the biweekly payroll, and anticipated revenues deposited.

MATURITIES

The City of Manhattan will set maturities for investments, which may extend to four years, by utilizing the cash management report to ensure that cash flow needs will be met. Maturities will not exceed the limits as set forth by Kansas statute, and will be staggered to avoid undue concentration of assets in a specific maturity sector. Surplus monies in city checking accounts will be kept to a minimum, as determined by the Director of Finance.

LIQUIDITY

The city's investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated. The use of a cash management report will help structure the portfolio so that investments mature concurrently with cash needs to meet anticipated depository demands.

Since all possible cash demands cannot be anticipated, the investment portfolio may also contain investments with active secondary markets. Further, a portion of the city's investment portfolio may be placed in investments which offer one-day liquidity, such as repurchase agreements, sweep investment arrangements, or the Kansas Municipal Investment Pool.

Distribution by Maturity

The city's investment portfolio will include a listing of all investments according to their date of maturity. Distribution by maturity will be one way of testing the interest rate risk of the city's investment portfolio. The fewer investments within the portfolio exceeding eighteen months until maturity, the less likely that negative changes in prevailing interest rates will adversely affect anticipated revenue yields.

Selling Prior to Maturity

As a matter of policy, the city will not incur penalties by redeeming an investment prior to its date of maturity. In the event of an unforeseen liquidity crisis, the current holdings of the portfolio shall be reviewed by the Investment Committee to determine particular investment securities suitable for sale prior to maturity, taking into consideration existing future cash flow requirements, to minimize potential losses. However, no redemption shall occur without the authorization of the Director of Finance.

COLLATERALIZATION AND SAFEKEEPING OF DEPOSITS AND INVESTMENTS

Deposits

Collateralization equal to 100 percent of all deposits less the FDIC insured will be required. Collateral may be a letter of credit from the Federal Home Loan Bank or securities authorized by law. Securities must be held by the Federal Reserve Bank or the Federal Home Loan Bank. The city shall enter into a security agreement for deposits with a depository bank for all deposits.

The city will receive a joint-custody receipt and, periodically, a statement of pledged holdings from the Federal Home Loan Bank or a deposit advice from the Federal Reserve Bank. The maximum federal insurance (FDIC or FSLIC) provided for account customers can be considered a part of an institution's pledged collateral. The collateralization level will be 100 percent of market value of principal and accrued interest at all times, including peak periods. At the end of each month, the depository bank will provide the market value of each pledged security to the city.

Pledged collateral shall not be released until an acceptable re-pledging of collateral is made by the depository bank and confirmed to the Director of Finance or his/her designee in the event of a transfer of collateral.

Investments

Collateralization of investments shall be by the actual investment instrument. All investments of the City of Manhattan shall be confirmed and safekeeping receipts identifying the investment security shall be issued as required by this policy.

The city will utilize a third-party custodian to issue joint-custody receipts and monitor and maintain the joint-custody of pledged collateral against the investment instrument issued. In accordance with Kansas statutes, city investments will be settled on a delivery-versus-payment basis where the city's payment for securities is due at the same time the security or investment instrument is delivered. A third-party custodian cannot have an owner-relationship or affiliation with the depository bank.

Applicable to both Deposits and Investments

The joint-custody receipt, deposit advice, or safekeeping receipt shall list the following:

- A. Specific instrument (par/face and type of instrument)
- B. Interest rate
- C. Maturity date

- D. Cusip number
- E. Other pertinent information

Note: Kansas statutes do not require that investments placed in the Municipal Investment Pool will provide safekeeping receipts or written collateral confirmation.

INTERNAL CONTROLS

The Director of Finance shall establish procedures that separate the internal responsibility for management and accounting of the city's investment portfolio. As part of the city's independent audit that is conducted annually, a review of internal controls, account activity, and compliance with policies and procedures of the city's investment portfolio will be conducted.

PERFORMANCE STANDARD

It is the City of Manhattan's goal to exceed the investment rate as defined by the Pooled Money Investment Board (PMIB) for every deposit or investment. A performance report will be compiled on a monthly basis comparing the actual interest earned against the interest that may have been earned based on the State investment rate at the time the investment was made.

REPORTING

The Director of Finance or his/her designee shall maintain investment reports showing type of investment, institution, rate of interest, amount invested, term, maturity date, collateral pledged, and projected interest earnings at maturity. The City Controller/Treasurer shall prepare and deliver monthly investment reports to City Management and the City Commission.

INTEREST EARNINGS

The Director of Finance will designate which funds are to receive interest earnings from the city's investment portfolio. Interest earnings will be credited to those funds based on the fund's cash balance at the end of each month.

OFFICIAL BANKING DEPOSITORY

Every five years, or as the Director of Finance deems necessary, the City of Manhattan will receive proposals from local financial institutions for the purpose of acting as the official depository bank by administering the city's checking accounts and to serve as the city's safekeeping agent. The local financial institutions will be evaluated based on a process established by the Director of Finance.

PERFORMANCE OF FINANCIAL INSTITUTIONS

The Director of Finance or his/her designee may obtain when deemed necessary, a financial performance report for each eligible financial institution. [See <https://www5.fdic.gov/idasp/main.asp>]

This report should summarize each institution's financial condition and will be used by the Investment Committee to help determine the financial stability and eligibility of each institution. A financial institution's failure to submit public disclosure reports regarding financial conditions upon request may result in its ineligibility to bid on public funds.

COMMUNITY REINVESTMENT ACT

The City of Manhattan will have a Community Reinvestment Act (CRA) performance evaluation on file for all local banks. A bank must receive a rating of satisfactory or better in order to conduct business with the city. The CRA Performance Evaluations are completed by the Federal Deposit Insurance Corporation (FDIC) at least once every five years. CRA ratings will be obtained online from the Federal Financial Institutions Examination Council (FFIEC) at <http://www.ffiec.gov/%5C/craratings/default.aspx>.

COMPLIANCE WITH KSA 12-1675

The following procedures will be followed when investing public moneys in order to comply with the requirements of subsection (c) of K.S.A. 12-1675. These procedures may be subject to change on an annual basis as legislative changes to this statute are made.

- A. The “investment rate” will be determined by reference to the Pooled Money Investment Board (PMIB) website or the Wall Street Journal if a specific investment term not referenced on the PMIB website is sought.
- B. An “offering request” will be sent to all banks, savings and loan associations, and savings banks with main or branch offices in the city of Manhattan (local institutions) by fax or email to notify them that the city is seeking bids for an investment and to provide the specific terms of that investment. The “offering request” will also be sent to selected broker/dealers.
- C. Bids will be tabulated to determine if any local institutions have offered time deposits, open accounts, certificates of deposit, time certificates of deposit or repurchase agreements at interest rates equal to or greater than the “investment rate”. If so, the investment will be awarded to the local institution offering the highest interest rate. If not, the investment will be awarded to the entity (local institution or broker/dealer) offering the highest interest rate.

BOND PROCEEDS AND BUILDING FUNDS

The City of Manhattan has been authorized by K.S.A. 10-131 and may take the option to invest the proceeds from bond sales or temporary note sales in the following investments without first offering them to local banks:

- A. Any of the investments as deemed authorized and suitable in the preceding sections of this policy and pursuant to K.S.A. 10-131.
- B. Bonds of any municipality of the State of Kansas.

ADOPTION

The City of Manhattan's Investment Policy shall be adopted by resolution by the City Commission and submitted to the Director of Investments for the Pooled Money Investment Board (PMIB) for approval. This policy shall be reviewed annually by the Director of Finance or his/her designees and any modifications made thereto shall be approved by City Management and the City Commission.

DEFINITIONS

Active Funds: Money which is immediately required for purposes for which it was received or collected.

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: Instruments issued by banks that state specified sums have been deposited for specified rates of interest. Certificates of deposits are required to be backed by acceptable collateral securities as directed by State and local law.

City: City of Manhattan, Kansas

Collateral: An asset pledged as security to ensure return of principal of original investment

Credit Risk: The risk of loss of principal due to failure of the security issuer or backer. The higher the perceived credit risk, the higher the rate of interest that investors will demand for lending their capital.

Diversification: A process of investing assets among a range of security types by sector, maturity and/or quality rating.

Idle Funds: Money which is not immediately required for the purposes for which it was collected or received.

Interest Rate Risk: The risk that the market value of securities in the portfolio will fall due to changes in market interest rates.

Investment: Commitment of money to gain profit or interest, such as by purchasing securities.

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.

Maturity: The length of time an investment is held.

Municipal Investment Pool (MIP): A public funds Investment pool administered by the Kansas State Treasurer and overseen by the Pooled Municipal Investment Board.

Principal: The face amount or par value of a debt security.

Return on Investment: The amount gained on an investment in addition to the principal.

Repurchase Agreements: Contractual agreements between the city and banks. The repurchase agreement issuer receives cash and in turn provides securities to the city as collateral for cash. There must be a signed master repurchase agreement on file before the city will enter into any repurchase agreements with the issuer.

Safekeeping: The holding of securities by a financial institution on behalf of the securities owners.

Security: Documents that can be traded for value; and instrument of ownership or debt used to finance government and corporate entities.

Secondary Market: A market where investors purchase securities or other assets from other investors rather than from the issuing company itself.

Safety: Absence of risk.

United States Treasury Securities: Short term (less than 2 years) obligations of the United States government. This includes treasury bills, notes and bonds.

Yield: The current rate of return on an investment security generally expressed as a percentage of the security's current price.