

# Hutchinson City Council Policy - 15

Subject: Investment Policy

Date: Adopted: September 28, 1999  
Reviewed: October 1, 2001  
Amended: November 15, 2011

## **I. Governing Authority**

The investment program shall be operated in conformance with federal, state and other legal requirements, including Kansas State Statute (K.S.A.) 12-1675.

## **II. Scope**

This policy applies to the investment of all municipal funds.

Except for cash in certain restricted and special funds, the City of Hutchinson 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 their respective participation and in accordance with Kansas cash basis law.

## **III. General Objectives**

The primary objectives, in priority order, of investment activities shall be safety, liquidity, and yield:

### **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 Hutchinson will minimize credit risk, which is the risk of loss due to the failure of the security issuer or backer, by:

- Limiting investments to the types of securities listed in Section V of this Investment Policy.

- Diversifying the investment portfolio so that the impact of potential losses from any one type of security or from any one individual issuer will be minimized.

## 2. Interest Rate Risk

The City of Hutchinson will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will change due to changes in market interest rates, by staggering investment maturities.

## 3. Safekeeping and Custody

- 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.

- Safekeeping

All investment securities purchased by the City shall be held in third-party safekeeping by an institution designated as primary agent. The primary agent shall issue a safekeeping receipt.

- Internal Controls

The Director of Finance shall establish a system of internal controls, which shall be documented in writing. The internal controls shall be reviewed by an independent auditor. The controls shall be designed to prevent the loss of public funds arising from fraud, employee error, and misrepresentation by third parties, unanticipated changes in financial markets, or imprudent actions by employees and officers of the City of Hutchinson.

- 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. Collateralization may include allowable securities with maturities of four years or less, corporate surety bonds, Federal Home Loan Bank letters of credit or Certificate of Deposit Account Registry Services (CDARS).

- Bonding

All City Council designees that participate in the investment of funds shall be bonded to the extent of \$100,000.

## 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 investments mature 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. Yield is of secondary importance compared to the safety and liquidity objectives described above. The core of investments is limited to relatively low risk securities in anticipation of earning a fair return relative to the risk being assumed. Investments shall generally be held until maturity unless liquidity needs of the portfolio require that the security be sold.

### IV. Standards of Care

#### A. Delegation of Authority

The City Council shall designate, by resolution, those employees that are approved to conduct City investment and banking activities. The Director of Finance shall have the responsibility for the operation of investment activities and shall act in accordance with established written procedures and internal controls.

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. The Director of Finance shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials.

#### B. 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 all investment funds.

The “prudent person rule” states: *Investments shall be made with judgment and care, under circumstances then prevailing, which person 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.*”

### C. 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 material interests in financial institutions with which they conduct business.

## V. Suitable and Authorized Investments

### A. Investment Types

The following investments will be permitted by this policy and are those defined by state and local law where applicable:

- 1) U.S. Treasury obligations, which carry the full faith and credit guarantee of the United States government and are considered to be the most secure instruments available,
- 2) Direct obligations of, or obligations that are insured as to principal and interest by, the United States of America or any agency thereof and obligations and securities of United States sponsored enterprises which under federal law may be accepted as security for public funds, except that such investments shall not be in mortgage-backed securities;
- 3) Time deposit, open accounts, certificates of deposit or time certificates of deposit; in banks, savings and loan associations and savings banks, which have main or branch offices located in the City of Hutchinson,
- 4) Temporary notes or no-fund warrants issued by such investing governmental unit,
- 5) Repurchase agreements with banks, savings and loan associations and savings banks, which have main or branch offices located in the City of Hutchinson, for direct obligations of, or obligations that are insured as to principal and interest by, the United States government or any agency thereof,
- 6) Municipal investment pool fund established in K.S.A. 12-1677a and amendments thereto, and,
- 7) Multiple municipal investment pools managed by the trust departments of banks which have main or branch offices located in Reno County, or with trust companies incorporated under the laws of the state of Kansas which have contracted to provide trust services under the provisions of K.S.A. 9-2107, and amendments thereto, with banks which have main or branch offices located in Reno County.

### **B. Maximum Maturities**

The City of Hutchinson shall attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, the City will not make investments maturing more than four years from date of purchase, in accordance with state and local statutes and ordinances. Authorized investment types in Section V.A.1 and Section V.A.2 shall be limited to maturities of not more than two years from the date of purchase.

### **C. Investment Consolidation Limits**

The City of Hutchinson shall attempt to diversify its investments across types of investments and institutions and will adhere to the following limits. The City shall invest no more than 50% of its investment portfolio with one single institution or one single issuer at any given time. The City shall invest no more than 35% of its investment portfolio in the types of investments listed in Section V.A.1 and Section V.A.2 at any given time.

## **VI. Competitive Bids**

The Director of Finance or authorized designee shall solicit competitive bids from at least two brokers and two financial institutions on all purchases of investment instruments. Funds will be offered first to local banks and other eligible financial institutions and then to brokers, in compliance with K.S.A. 12-1675.

## **VII. Local Considerations**

It is the City's policy to conduct business with all of the banks in Hutchinson as long as competitive rates are being offered and the service received is satisfactory. A rate is considered not competitive when it is lower than the "Minimum Investment Rates Banks Must Offer to Secure Public Funds" published by the Kansas Municipal Investment Pool.

The City will use brokerage firms that have proof of National Association of Securities Dealer (N.A.S.D.) certification and proof of state registration with the Kansas Securities Commission. Preference will be given to local brokerage firms.

## **VIII. Reporting**

The Director of Finance or authorized designee, 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. The report should be provided to the City Manager and City Council.

**IX. Approval of Investment Policy**

The investment policy shall be formally approved and adopted by City Council of the City of Hutchinson and reviewed annually.