

# City of Lee's Summit Investment Policy

It is the policy of the City of Lee's Summit and the duty of the Cash Management Officer to invest the public funds in the custody of the Cash Management Officer to provide the highest investment return consistent with maximum security while meeting the daily cash flow demands of the City in conformance with the constitution and laws of the State of Missouri and the Charter of the City of Lee's Summit.

## I. Scope

This policy applies to the investment of all operating funds of the City of Lee's Summit.

1. **Pooling of Funds** Except for cash in certain restricted and special funds, the City of Lee's Summit will consolidate cash balances from all funds to maximize investment earnings. Investment income will be allocated to the various funds based on their respective participation and in accordance with Generally Accepted Accounting Principles by using prior end of month cash balances.

## II. General Objectives

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

1. **Safety of principal** is the foremost objective of the investment program. Investments shall 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.

- a. **Credit Risk** The City of Lee's Summit will minimize credit risk, the risk of loss due to the failure of the security issuer or backer, by:

Pre-qualifying the financial institutions, broker/dealers, intermediaries, and advisers with which the City of Lee's Summit will do business.

Diversification of the investment portfolio so that potential losses on individual securities will be minimized.

- b. **Interest Rate Risk** The City of Lee's Summit will minimize the risk that the market value of securities in the portfolio will fall due to changes in general interest rates, by:

Structuring the investment portfolio; so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity.

- c. **Maturity based on "laddered approach"** The City of Lee's Summit will base maturities on a "laddered" approach. Maturity dates will be chosen: 1) to match debt payment dates; 2) laddered to meet expenses and ensure availability of funds. Yield curves will be examined to attain the best yield and while ensuring liquidity to meet anticipated cash flow requirements.

2. **Liquidity** The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated. This is accomplished by structuring the portfolio so that securities mature concurrent with cash needs to meet anticipated demands. Investments must also be maintained within the allowed allocation diversification. A portion of the portfolio also is placed in bank deposits/ repurchase agreements that offer same day liquidity for short term funds.

3. **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. Return on investment 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. Securities shall not be sold prior to maturity with the following exceptions:

- A security with declining credit may be sold early to minimize loss of principal.
- A security swap would improve the quality, yield, or target duration in the portfolio.
- Liquidity needs of the portfolio require that the security be sold.

4. **Mark to Market** An adjustment to the total investment portfolio shall be made quarterly to revalue the portfolio to the prevailing market prices.

### ***III. Standards of Care***

1. **Prudence** The standard of prudence to be used by investment officials shall be the “prudent person” standard and shall be applied in the context of managing an overall portfolio. Investment officers 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.

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.

2. **Ethics and Conflicts of Interest** Officers and employees 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. Employees and investment officials shall disclose any material interests in financial institutions with which they conduct business. They shall further disclose any personal financial/investment positions that could be related to the performance of the investment portfolio. Employees and officers shall refrain from undertaking personal investment transactions with the same individual with whom business is conducted on behalf of the City of Lee’s Summit.

3. **Delegation of Authority** Authority to manage the investment program is granted to the Cash Management Officer, hereinafter referred to as investment officer. Responsibility for the operation of the investment program is hereby delegated to the investment officer, who shall act in accordance with established written procedures and internal controls for the operation of the investment program consistent with this investment policy. Procedures should include references to: safekeeping, delivery vs. payment, investment accounting, repurchase agreements, wire transfer agreements, and collateral/depository agreements. 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. The investment officer shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials.

#### **IV. Safekeeping and Custody**

**1. Authorized Financial Dealers and Institutions** A list will be maintained of financial institutions authorized to provide investment services. In addition, a list also will be maintained of approved security broker/dealers selected by creditworthiness (e.g., a minimum capital requirement of \$10,000,000 and at least five years of operation). These may include “primary” dealers or regional dealers that qualify under Securities and Exchange Commission (SEC) Rule 15C3-1 (uniform net capital rule).

All financial institutions and broker/dealers who desire to become qualified for investment transactions shall supply the following as appropriate:

- Audited financial statements

- Completed broker/dealer application/information form

- Certification of having read and understood and agreeing to comply with the City of Lee's Summit investment policy.

The City of Lee’s Summit may also request:

- Proof of National Association of Securities Dealers (NASD) certification

- Proof of state registration

An annual review of the financial condition and registration of qualified financial institutions and broker/dealers may be conducted by the investment officer.

To maximize yield the City of Lee's Summit will limit the number of authorized institutions and broker/dealers to (10) ten. This list may be reviewed annually and if any institution has not submitted a bid, it may be removed from the current list.

All approved financial institutions and broker/ dealers will be required to have a presence within the State of Missouri (preferably local).

**2. Internal Controls** The investment officer is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the City of Lee's Summit are protected from loss, theft or misuse. The internal control structure shall be 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.

Accordingly, the investment officer shall make available all records and transactions for review as a part of the external auditors normal audit procedures. Including the following internal control points:

Control of collusion

- Custodial safekeeping

- Avoidance of physical delivery securities

- Written confirmation of transactions for investments and wire transfers

- Development of a wire transfer agreement with the lead bank and third-party custodian

**3. Delivery vs. Payment** All trades where applicable 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. Securities will be held by a third-party custodian as evidenced by safekeeping receipts.

## **V. Suitable and Authorized Investments**

**1. Investment Types** Consistent with the GFOA Policy Statement on State and Local Laws Concerning Investment Practices, the following investments will be permitted by this policy and are those defined by state and local law where applicable:

U.S. government obligations, U.S. government agency obligations, and U.S. government instrumentality obligations, which have a liquid market with a readily determinable market value;

Certificates of deposit and other evidences of deposit at financial institutions;

Investment-grade obligations of the states of Missouri or Kansas that are "A" rated or better;

Repurchase agreements whose underlying purchased securities consist of the foregoing;

Money market mutual funds regulated by the Securities and Exchange Commission and whose portfolios consist only of dollar-denominated securities;

and Local Government Investment Pools, either state-administered or through joint powers statutes and other intergovernmental agreement legislation.

Investment in derivatives of the above instruments or leveraging shall be prohibited per Missouri Revised Statutes.

**2. Collateralization** All deposits placed in financial institutions must be at least 105% collateralized with securities that are acceptable to the Finance Director, City of Lee's Summit.

All securities, which serve as collateral against deposits of a depository institution, must be safekept at a non-affiliated custodial facility. Depository institutions pledging collateral against deposits must, in conjunction with the custodial agent, furnish necessary custodial receipts.

**3. Repurchase Agreements** Repurchase agreements shall be consistent with Government Finance Officers Association (GFOA) Recommended Practices on Repurchase Agreements. The City of Lee's Summit will enter into a repurchase agreement (repo) to investment funds on a short-term basis. The City will purchase securities from the bank and at the same time, the bank contractually agrees to repurchase the securities at the same price (plus interest). The Repo is purchased at the close of business each day and sold at the start of business the next business day. This provides a secure money market rate of interest and is an integral part of the investment program.

## **VI. Investment Parameters**

**1. Diversification** The investments shall be diversified by:

- limiting investments to avoid overconcentration in securities from a specific issuer or business sector (excluding U.S. Treasury securities),

- limiting investment in securities that have higher credit risks,
- investing in securities with varying maturities, and
- continuously investing a portion of the portfolio in readily available funds such as Local Government Investment Pools (LGIPs),
- money market funds or overnight repurchase agreements to ensure that appropriate liquidity is maintained in order to meet ongoing obligations.

<b>Investment Type</b>	<b>Minimum Allocation</b>	<b>Maximum Allocation</b>
General Time Deposits/Certificates of Deposit	0%	30%
US Treasury Securities having principal and interest guaranteed by the US Gov't	15%	100%
US Government Agencies & Government Sponsored Enterprises	0%	75%
US Government Agency Callable Securities	0%	15%
Missouri/Kansas State or Municipal Debt	0%	25%

**2. Maximum Maturities** To the extent possible, the City of Lee's Summit shall attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, the City of Lee's Summit will not directly invest in securities maturing more than five (5) years from the date of purchase or in accordance with state and local statutes and ordinances.

Reserve funds and other funds with longer-term investment horizons may be invested in securities exceeding five (5) years if the maturity of such investments is made to coincide as nearly as practicable with the expected use of funds. The intent to invest in securities with longer maturities shall be disclosed in writing to the legislative body.

Because of the inherent difficulties in accurately forecasting cash flow requirements, a portion of the portfolio should be continuously invested in readily available funds including but not limited to overnight repurchase agreements, Local Government Investment Pools (LGIPs) or money market funds to ensure that appropriate liquidity is maintained to meet ongoing obligations.

**3. Competitive Selection of Investment Instruments** Before investments of surplus funds are placed, a competitive "Bid" process (consisting of quoted interest or yield rates, dollar prices, or

discount rates) may be conducted. Bids will be requested from at least three approved institutions. Bidders are required to bid a firm price or yield, which will remain effective for a reasonable time period (approximately 15 minutes or less), given market fluctuations, to allow further bids to be received. Typically, award will be made to the bidder offering the highest effective yield consistent with this Policy; however, transaction costs, diversification requirements, extraordinary events and other factors may be considered by the Cash Management Officer when awarding investments.

## VII. Reporting

1. **Methods** The Cash Management 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 transactions made over the last quarter. This management summary will be prepared in a manner which will allow the City of Lee's Summit to ascertain whether investment activities during the reporting period have conformed to the investment policy. The report should be provided to the legislative body. The report will include the following:

- Listing of individual securities purchased during the reporting period.

- Listing of securities matured during the reporting period.

- Cash flow percentage of the total portfolio by maturity year.

- Average portfolio yield.

- Summary of cash balances, showing current period and three prior periods.

- A full list of securities held with maturity dates, purchase date, type of security and yield is available by request.

2. **Performance Standards** The investment portfolio will be managed in accordance with the parameters specified within this policy. The portfolio should obtain a market average rate of return during a market/economic environment of stable interest rates. A series of appropriate benchmarks shall be established against which portfolio performance shall be compared on a regular basis.

## VIII. Policy Considerations

1. **Exemption** Any investment currently held that does not meet the guidelines of this policy shall be exempted from the requirements of this policy. At maturity or liquidation, such monies shall be reinvested only as provided by this policy.

2. **Amendments** This policy shall be reviewed on an annual basis. Any changes must be approved by the City Manager.

## **City of Lee's Summit Safekeeping Procedure**

### **Safekeeping and Custody**

All investment securities purchased shall be held in safekeeping at a designated third party custodian currently UMB Bank. The institution shall issue a safekeeping receipt for each security, listing the specific instrument, par value, rate, CUSIP number and other pertinent information.

### **Delivery vs Payment (DVP)**

Written delivery instructions are provided to approved broker/ dealers. All security transactions should be accomplished on a delivery versus payment (DVP) basis. Securities being purchased shall be delivered to the City of Lee's Summit's safekeeping agent, in the name of the City, before payment is released.

### **Collateralization**

Deposit type securities shall be collateralized for any amount exceeding FDIC coverage. Other investments shall be collateralized by the actual security held in safekeeping. The collateral for repurchase agreements will, at all times, be no less than 105% of the value of the repurchase agreement. Notification will be received from third party custodian, currently UMB Bank, requesting the release of maturing or over pledged securities. The Cash Management Officer will authorize the release and the Federal Reserve Bank will call to confirm the release with the Finance Director, Assistant Finance Director or the Financial Analyst.

### **Repurchase Agreements**

The Repo is a contractual transaction between the City and an issuing financial institution. The City of Lee's Summit changes cash for temporary ownership or control of collateral securities, with an agreement between parties that on a future date, the financial institution will repurchase the securities. The City's funds are swept into an overnight repo which is written for one day.

### **Payment by Wire Transfer**

The City of Lee's Summit makes payments by wire transfer for debt obligations, payroll expenses, Jackson County tax payments, etc. The bank (UMB Bank) is telephoned and given wire instructions for the transfer of funds. The bank will make a return call to another authorized person to confirm the wire instructions received.