



Governing Body Adoption: 08/15/2023

CITY OF VALLEY CENTER INVESTMENT POLICY

SECTION 1: SCOPE

- 1.1 This policy applies to all the investments of municipal funds.
- 1.2 Except for cash in certain restricted and special funds, the City of Valley Center will consolidate cash and reserve balances from all funds to maximize investment earnings and increase efficiencies regarding investment pricing, safekeeping, and administration. Investment income will be allocated to the various funds based on the respective participation and in accordance with Kansas cash-basis law.
- 1.3 All idle fund investments will be made in accordance with K.S.A. 12-1675.
- 1.4 All Bond Proceed investments will be made in accordance with K.S.A. 10-131.

SECTION 2: OBJECTIVES

- 2.1 Investments shall be made with the primary objective of the safety of the principal, followed by liquidity needs and then the rate of return on said investments. The city's portfolio shall be sufficiently liquid to meet operating requirements that can be reasonably anticipated.
- 2.2 **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.
- 2.3 **Credit Risk**
 - The City of Valley Center will minimize credit risk. In the case of this policy, credit risk is the risk of loss due to failure of the security issuer or backer, by limiting investments to only the investment types listed in this document as suitable investments and by diversifying the investment portfolio to minimize the impact of potential losses.
- 2.4 **Interest Rate Risk**
 - The City of Valley Center will minimize the risk of interest rate changes due to changes in market value of securities in the portfolio by staggering investment maturities.
- 2.5 **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.
- 2.6 **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 an investment's maturity date(s) are concurrent with cash needs to meet anticipated demands.

2.7 Rate of Return

- The investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles while considering the investment risk constraints and liquidity needs of the City. Rate of return is of secondary importance compared to the safety and liquidity objectives previously described.

SECTION 3: STANDARDS OF CARE

3.1 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 the entire portfolio. Investment officials acting in accordance with written procedures, 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.
- The “prudent person rule” expresses that 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.

3.2 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 personal material interests in financial institutions with which they conduct business on behalf of the city.

SECTION 4: SUITABLE AND AUTHORIZED INVESTMENTS

4.1 This policy will permit the following investments and are those defined by Kansas State Statutes K.S.A. 12-1675 and K.S.A. 10-131.

4.2 Acceptable Investment of General Idle Funds

- **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 interest rates.
 - Certificates of deposit are required to be backed by acceptable collateral securities as dictated by Kansas Statutes.
 - The maximum maturity is two years unless the City’s investment policy is approved by the State of Kansas Pooled Money Investment Board (PMIB), in which case the maturity may be up to four years.
- **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 Kansas Statutes. 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.

- **United States Treasury Obligations**
 - These obligations must mature within two years from date of purchase and are guaranteed as to principal by the United States Government.
 - The maximum maturity may be four years, if and when the City's investment policy is approved by the PMIB.
- **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.
 - The City's investment policy must be approved by the PMIB prior to the purchase of United States Government Securities.
 - Investment in these securities is limited to those that have no more interest rate risk than United States Government obligations of similar maturities. The maximum maturity is four years.
- **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.
 - Investment in these securities is limited to those that have no more interest rate risk than United States Government obligations of similar maturities and are not mortgage backed.
 - To participate, the City's investment policy must be approved by the PMIB.
- **Kansas Municipal Investment Pool**
 - A pool of investments consisting of CDs, United States Treasuries, United States Agencies, Commercial Paper, and Repurchase agreements.
 - The pool is administered by the Pooled Money Investment Board.
- **Temporary Notes of the City**
- **Commercial Bank Savings Accounts**
 - 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, primary dealers and the State Treasurer's Office.

4.3 Acceptable Investment of Bond Proceeds

- The City of Valley Center may invest proceeds from any bond or temporary note 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.

SECTION 5: LOCAL CONSIDERATIONS

5.1 The city's policy is to conduct business with all the banks in Valley Center, pending competitive investment rates are being offered and the service received is satisfactory. Rates are considered not competitive if lower than the "Minimum Investment Rates Banks Must Offer to Secure Public Funds" published by the Kansas Municipal Investment Pool.

SECTION 6: REPORTING

6.1 City of Valley Center finance staff will prepare a quarterly report on the City's investment portfolio status. This report will be provided to the City Administrator and City Council.

SECTION 7: APPROVAL OF INVESTMENT POLICY

7.1 This investment policy shall be formally approved and adopted by the City Council for the City of Valley Center. This policy can be reviewed at any time at the request of the City Council or City Staff. City Council must approve any and all revisions.

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GLOSSARY

As used in this policy, and amendments thereto, the following words and phrases shall have the following meanings unless a different meaning clearly appears from the context:

BANK — Any bank incorporated under the laws of this state or any other state or organized under the law of the United States, which has a main or branch office in this state.

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 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 security.

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

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. Commonly called "Freddie Mac".

INTEREST RATE — The annual rate of interest received by an investor from the issuer of fixed-income securities. The percentage of an amount of money which 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.

INVESTMENT RATE — A rate which is the equivalent yield for United States government securities having a maturity date as published in the Wall Street Journal, nearest the maturity date for equivalent maturities. The 0-90 day rate shall be computed on the average effective federal funds rate as published by the federal reserve system for the previous week.

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.

MUNICIPAL BONDS — Unless otherwise expressly provided, when used in chapter 10 of the Kansas Statutes Annotated, and amendments thereto, "municipal bonds" means and includes all bonds issued by any municipality which constitute a general obligation of the municipality, except railroad aid bonds.

PORTFOLIO — Collection of securities held by an investor.

PRINCIPAL — 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 — Freedom from risk.

SAVINGS AND LOAN ASSOCIATION — Any savings and loan association incorporated under the laws of this state or any other state, or organized under the laws of the United States and which has a main or branch office in this state.

SAVINGS BANK — Any savings bank organized under the laws of the United States, and which has a main or branch office in this state.

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.