

**CITY OF MIDDLETOWN
ORDINANCE 08-08-19-B
AN ORDINANCE REPEALING AND REPLACING THE INVESTMENT AND
FINANCIAL MANAGEMENT POLICY SECTIONS 34.60 THROUGH 34.69 FOR
THE CITY OF MIDDLETOWN**

WHEREAS, the City of Middletown desires to update its investment and financial management policies to match recent changes in Kentucky law,

NOW THEREFORE, BE IT ORDAINED BY THE CITY OF MIDDLETOWN, KENTUCKY,

Section 1: The City Commission hereby repeals sections 34.60 through 34.69 of the Investment and Financial Management Policy in the City of Middletown. The City Commission hereby adopts a new investment policy as follows:

(1) GENERAL INVESTMENT POLICY.

1.1 It is the policy of The City of Middletown to invest public funds in a manner which will provide the maximum security and highest investment of principle while meeting the daily cash flow demands on the City of Middletown and conforming to both KRS 91A.060 and KRS 66.480. This investment policy applies to all financial assets held directly by the City of Middletown. These financial assets are accounted for in the City of Middletown annual financial report and include all moneys in investment fund accounts.

(2) SCOPE

This investment policy applies to all financial assets held directly by the city. These financial assets are accounted for in the city's annual financial report and include all moneys in the following funds:

- General Fund
- Special Revenue Fund
- Capital Projects Fund
- Enterprise Fund
- Utility Depreciation Fund
- Agency Fund
- Any new fund created by the governing body

Financial assets of the city held and invested by trustees or fiscal agents are excluded from these policies; however, such assets shall be invested in accordance with state laws applicable to the investment of local government funds and in accordance with the City of Middletown's primary investment objectives.

(3) INVESTMENT OBJECTIVES. The City of Middletown primary investment objectives, in order of priority, are the following:

3.1 Safety. Safety of principle is the foremost objective of the City of Middletown's investment program. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. The goal is to mitigate credit risk and interest rate risk

3.2 Liquidity. The City of Middletown's investment portfolio shall remain sufficiently liquid to enable the City of Middletown to meet all operating requirements which might be reasonably anticipated.

3.2 Return on Investment. The City of Middletown investment portfolio shall be designed with the objective of attaining a market rate of return throughout the budgetary and economic cycles, taking into account the City of Middletown's investment risk constraints and the cash flow characteristics of the portfolio.

(4) INVESTMENT AUTHORITY. Management's responsibility for the City of Middletown investment program is the joint responsibility of the Designated Officials which shall be the City Treasurer, Mayor and/or his designees. The Designated Officials shall share the authority, subject to the final approval of the governing body, to recommend additional specific written procedures for the operation of the investment program that are consistent with this investment policy. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures recommended by the Designated Officials, which procedures have been approved by the City Commission. These Designated Officials, along with the City Commission, shall be ultimately responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials and employees. The controls shall be designed to prevent and control losses of public funds arising from fraud, employee error, misrepresentation by third parties, unanticipated changes in financial markets or imprudent actions by officers and employees. The Designated Officials shall maintain all records related to the entity's investment program.

(5) STANDARDS OF CARE

5.1 Prudence. The actions of the Designated Officials in the performance of their duties as manager of the City of Middletown's funds shall be evaluated using the "prudent person" standard. Investments shall be made with judgment and care under prevailing circumstances 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 Designated 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 performance, provided that deviations from expectations are reported in a timely fashion to the governing body and appropriate action is taken to control adverse developments.

5.2 Ethics and Conflicts of Interest. Officers and employees involved in the investment process shall refrain from personal activity that could conflict with the proper execution and management of the investment program, or that could impair their ability to make impartial investment decisions. Employees and investment officials shall disclose any material interests in financial institutions with which they conduct business. Disclosure shall be made to the governing body. 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 any personal investment transactions with the same individual with whom business is conducted on behalf of the city.

5.3 Delegation of Authority.

- Governing Body

The governing body will retain ultimate fiduciary responsibility for the portfolios. The governing body will receive monthly reports, designate Designated Officials and review the investment policy making any changes necessary by adoption.

- Designated Officials

Authority to manage the investment program is granted to the Mayor and the City Treasurer, hereinafter referred to as Designated Officials as designated by this city ordinance. Responsibility for the operation of the investment program is hereby delegated to the Designated Officials who shall act in accordance with established written procedures and internal controls for the operation of the investment program consistent with this investment policy. Officers will prepare monthly investment reports and other special reports as may be deemed necessary. All participants in the investment process shall seek to act responsibly as custodians of the public trust. No officer or designee may engage in an investment transaction except as provided under the terms of this policy and supporting procedures.

- Investment Adviser

The city may engage the services of one or more external investment managers to assist in the management of the entity's investment portfolio in a manner consistent with the city's objectives. Such external managers may be granted discretion to purchase and sell investment securities in accordance with this investment policy. Such managers must be registered under the Investment Advisers Act of 1940.

(6) AUTHORIZED FINANCIAL INSTITUTIONS, DEPOSITORIES, AND

BROKERS/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 conducting a process of due diligence. These may include "primary" dealers or regional dealers that

qualify under Securities and Exchange Commission (SEC) Rule 15C3-1 (uniform net capital rule).

6.1 The Designated Officials shall determine which financial institutions are authorized to provide investment services to city. Institutions eligible to transact investment business with city include:

- Primary government dealers as designated by the Federal Reserve Bank;
- Nationally or state-chartered banks;
- The Federal Reserve Bank;
- Direct issuers of securities eligible for purchase; and
- Kentucky League of Cities Investment Pool Plus.

6.2 Selection of financial institutions and broker/dealers authorized to engage in transactions with the City of Middletown shall be at the sole discretion of the city.

6.3 All brokers/dealers who desire to become qualified for investment transactions must supply the following (as appropriate):

- Audited financial statements demonstrating compliance with state and federal capital adequacy guidelines
- Proof of state registration
- Completed broker/dealer questionnaire (not applicable to Certificate of Deposit counterparties)
- Certification of having read and understood and agreeing to comply with the entity's investment policy. Evidence of adequate insurance coverage.

6.4 All financial institutions who desire to become depositories must supply the following (as appropriate):

- Audited financial statements demonstrating compliance with state and federal capital adequacy guidelines
- Proof of state registration
- Evidence of adequate insurance coverage

6.5 A periodic review of the financial condition and registration of all qualified financial institutions and broker/dealers will be conducted by the Designated Officials.

1. Minority, Emerging and Community Financial Institutions

From time to time, the Designated Officials may choose to invest in instruments offered by minority, emerging, and community financial institutions. All terms and relationships will be fully disclosed prior to purchase and will be reported to the appropriate entity on a consistent basis and should be consistent with Kentucky law and city ordinance.

2. Competitive Transactions

a) The Designated Officials shall obtain competitive bid information on

all purchases of investment instruments purchased on the secondary market. A competitive bid can be executed through a bidding process involving at least three separate brokers/financial institutions or through the use of a nationally recognized trading platform.

- b) If the city is offered a security for which there is no readily available competitive offering on the same specific issue, then the Designated Officials shall document quotations for comparable or alternative securities. When purchasing original issue instrumentality securities, no competitive offerings will be required as all dealers in the selling group offer those securities as the same original issue price.
- c) If the city hires an investment adviser to provide investment management services, the adviser must provide documentation of competitive pricing execution on each transaction. The investment adviser will retain documentation and provide upon request.

(7) SAFEKEEPING AND CUSTODY

7.1 Delivery vs. Payment

All trades of marketable securities will be executed (cleared and settled) on a delivery vs. payment (DVP) basis to ensure that securities are deposited in the entity's safekeeping institution prior to the release of funds.

7.2 Third-Party Safekeeping

Securities will be held by an independent third-party safekeeping institution selected by the City of Middletown. All securities will be evidenced by safekeeping receipts in the name of the City of Middletown. The safekeeping institution shall annually provide a copy of its most recent report on internal controls - Service Organization Control Reports (formerly 70, or SAS 70) prepared in accordance with the Statement on Standards for Attestation Engagements (SSAE) No. 16 (effective June 15, 2011).

7.3 Internal Controls

Management shall establish a system of internal controls, which shall be documented in writing. The internal controls shall be reviewed by the investment committee, where present, and with the 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.

(8) SUITABLE AND AUTHORIZED INVESTMENTS

8.1 Investment Types and Credit Guidelines

Consistent with the GFOA Policy Statement and Kentucky laws and city ordinances concerning investment practices, the investments as defined by KRS 66.480, are allowed. KRS 66.480 (2) restricts overall investment in (e), (f), (g), (k), and (l) of the following types of securities to 20% of total local government investments:

- a. U.S. government obligations and instrumentalities including obligations subject to repurchase, if delivery of these obligations is taken directly or through an authorized custodian. KRS 66.480(1)(a).
- b. U.S. Treasury and other U.S. government obligations that carry the full faith and credit guarantee of the United States for the payment of principal and interest. KRS 66.480(1)(b).
- c. Federal Agency or U.S. government-sponsored enterprises (GSE) obligations, participations or other instruments. KRS 66.480(1)(c).
- d. CDs issued by or other interest-bearing accounts of any bank or savings and loan institution having a physical presence in Kentucky and that are insured by the Federal Deposit Insurance Corporation or similar entity or that are collateralized by any obligations, including surety bonds, permitted by KRS 41.240. KRS 66.480(1)(d).
- e. Uncollateralized CDs issued by any bank or savings and loan having a physical presence in Kentucky rated in one of three highest categories by a competent rating agency. KRS 66.480(1)(e).
- f. Bankers' acceptances, which must be rated in one of the three highest categories by a competent rating agency. KRS 66.480(1)(f).
- g. Commercial paper, rated in the highest tier (e.g., A-1, P-1, F-1, or D-1 or higher) by a competent rating organization. KRS 66.480(1)(g).
- h. Bonds or certificates of indebtedness of this state and of its agencies and instrumentalities. KRS 66.480(1)(h).
- i. Investment-grade obligations of state or local governments or instrumentality thereof rated one of three highest categories by a competent rating agency. KRS 66.480(1)(i).
- j. Shares of mutual funds and exchange traded funds as identified by KRS 66.480(1)(j).
- k. Individual equity securities if the funds are managed by a professional investment manager regulated by a federal regulatory agency and are included within the S&P 500 pursuant to KRS 66.480(1)(k).
- l. Individual high-quality corporate bonds managed by a professional investment manager pursuant to KRS 66.480(1)(l).

IMPORTANT NOTE: If the credit rating of a security is subsequently downgraded below the minimum rating level for a new investment of that security, the Designated Officials shall evaluate the downgrade on a case-by-case basis in order to determine if the security should be held or sold. The Designated Officials will apply the general objectives of safety, liquidity, yield and legality to make the decision.

8.2 Collateralization

Where allowed or required by Kentucky law full collateralization will be required on all demand deposit accounts, including checking accounts and negotiable (as authorized by respective state statutes) and non-negotiable certificates of deposit.

1. Authorized Collateral

Acceptable collateral for bank deposits and repurchase agreements shall include only:

- Obligations of the U.S. government, its agencies and GSEs, including mortgage-backed securities
- Obligations of any state, city, county or authority rated at least AA by two nationally recognized statistical rating organizations

(9) INVESTMENT PARAMETERS. Credit risk is the risk that a security or a portfolio will lose some or all of its value due to a real or perceived change in the ability of the issuer to repay its debt. The city shall mitigate credit risk by adopting the following:

9.1 Diversification

It is the policy of the City of Middletown to diversify its investment portfolios within the restrictions of state and federal law. KRS 66.480(2)(a) limits local government investment in securities to 20% of total investment with no more than 5% of total investment in a single issuer absent exceptions in KRS 66.480(2)(d) (1-4). Furthermore, local governments are restricted from investing 40% of allowed securities investment total in mutual funds and exchange traded funds, individual equity securities, and individual high-quality corporate bonds by KRS 66.480(2)(b).

(10) PERFORMANCE STANDARDS/EVALUATION. The city's investment management portfolio shall be designed with the levels of risk appropriate to conform to performance benchmarks while meeting cash flow demands and comply with state law.

(11) REPORTING/DISCLOSURE

11.1 Methods

The Designated Officials shall submit, at least, quarterly an investment report that summarizes recent market conditions, economic developments and anticipated investment conditions. The report shall summarize the investment strategies employed in the most recent quarter, and describe the portfolio in terms of investment securities, maturities, risk characteristics and other features. The report shall explain the quarter's total investment return and compare the return with budgetary expectations. The report shall include an appendix that discloses all transactions during the past quarter. The report shall be in compliance with Kentucky law and shall be distributed to the investment committee and others as required by law. Each quarterly report shall indicate any areas of policy concern and suggested or planned revision of investment strategies. Copies shall be transmitted to the independent auditor. Within 40 days of the end of the fiscal year, the Designated Officials shall present a comprehensive annual report on the investment program and investment activity. The annual report shall include both 12-month and quarterly comparisons of return and shall suggest policies and improvements that might be made in the investment program. Alternatively, this

report may be included within the [entity] annual Comprehensive Annual Financial Report.

(12) POLICY CONSIDERATIONS

12.1 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.

12.2 Amendments

This policy shall be reviewed on an annual basis. Any changes must be approved by the Designated Officials and any other appropriate authority, as well as the individuals charged with maintaining internal controls.

(13) APPROVAL OF INVESTMENT POLICY

The investment policy and any modifications to that policy shall be formally approved and adopted by the governing body of the City of Middletown

(14) MISCELLANEOUS. The following documents, as applicable, are attached to this policy. This will be city-specific and many cities will not have some of the below documents:

- Listing of authorized personnel
- Relevant investment statutes and ordinances
- Listing of authorized broker/dealers and financial institutions
- Internal controls
- Investment Guidelines Manual

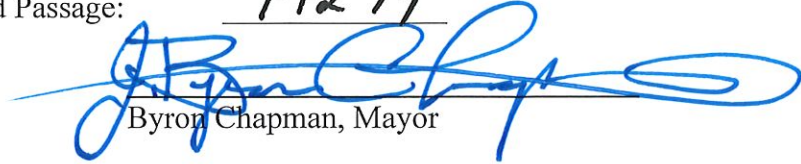
Section 2: Effective date

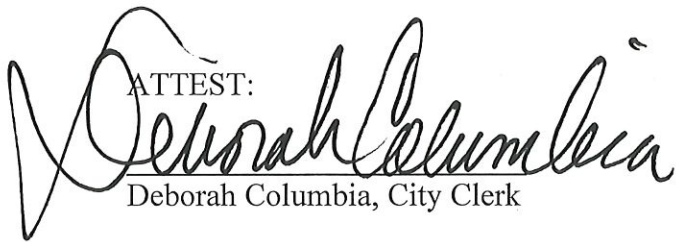
This ordinance shall take effect upon is reading, adoption and publication according to law.

Adopted this 12 day of Sept, 2019.

Introduction and First Reading: 8-8-19

Second Reading and Passage: 9-12-19


Byron Chapman, Mayor

ATTEST:

Deborah Columbia, City Clerk

Aye votes: 5

Nay votes: 0

Final: 9/9/19 11:00 a.m.