

COMMONWEALTH OF KENTUCKY
CITY OF PROSPECT
INVESTMENT COMMITTEE MEETING

April 9, 2024 3:00 p.m.

1. Call to Order

2. Approval of Minutes from the meeting of January 16, 2024

3. Update on Investments as of March 31, 2024
 - a. KLC Investments
 - b. Republic Bank

4. Investment Policy Statement Review
 - a. Review updated draft based on Revised KLC IPS

5. Asset Allocation Discussion
 - a. Review process to date
 - b. Future deposits/withdrawals

6. Other Business
 - a. Next meeting-July 9, 2024

Members of the public may attend in person and see and hear all participating members at Prospect City Hall, Lawrence C. Falk Library, 9200 US Hwy 42, Prospect, Kentucky.

INVESTMENT COMMITTEE

MEETING MINUTES

January 16, 2024

Attending In-Person: Mayor Doug Farnsley; Council Member Don Gibson, Committee Members Bill Brab, Susan Nicholson, Dennis Riggs; City Attorney F. Chris Gorman; City Clerk John S. Carter

Chairperson Nicholson called the meeting to order at 3:00 p.m.

Committee Member Riggs moved to approve the minutes of the November 13, 2023 investment committee meeting, seconded by Committee Member Brabb, and the motion passed unanimously.

The committee discussed the best way to reinvest the Republic CDAR which is to mature on February 2, 2024. The committee compared current rates offered by Republic CDAR and by the Kentucky League of Cities Investment Pool [KLCIP] funds.

Steve Pickarski of KLCIP advised that KLCIP's Money Market interest rate for December was 5.04% Jessica Beatty of Republic Bank advised that the current one-year CDAR rate is 4.1%. The committee recommended that the mayor and city clerk reinvest the redeemed CDAR evenly between KLCIP's Money Market account and Enhanced Income Fund.

Committee Member Brabb moved to approve the 2023 Investment Report, seconded by Council Member Gibson, and the motion passed unanimously.

- The 2023 Investment Report states \$126,736 of interest earned on approximately 3 million dollars invested from February 2, 2023 through December 31, 2023.

Committee Chair Nicholson distributed a draft of an amended Investment Policy statement identifying and explaining the reasons for each suggested change. The committee is to review the amended policy before the next committee meeting to finalize a version that can be recommended for adoption by the city council.

The committee discussed using the "dollar-cost averaging" method to invest a small portion of the interest earned on KLCIP's money market and enhanced income fund in KLCIP's S&P 500 equity fund. The committee recommended that the mayor and city clerk begin investing \$5000 each month beginning in KLCIP's S&P 500 fund; the source of the funds is to be drawn from the money market fund 65% (\$3,250) and the Enhanced Income Fund 35% (\$1,750).

The committee agreed to reconvene in April 2024.

The Committee Chair Nicholson moved to adjourn the meeting, and the motion passed unanimously.

The meeting was adjourned at 4:11 p.m.

Prepared by:

John S. Carter, City Clerk

DRAFT

CITY OF PROSPECT, KENTUCKY
INVESTMENT POLICY

Adopted April 9, 2024

(1) GENERAL INVESTMENT POLICY

It is the policy of the City of Prospect, Kentucky “City” to invest public funds in a manner which will provide the maximum security and highest investment of principal while meeting the daily cash flow demands on the City and conforming to both KRS 91A.060 and KRS 66.480.

(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.

(3) INVESTMENT OBJECTIVES

The City’s primary investment objectives, in order of priority, are the following:

3.1 Safety

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’s investment portfolio shall remain sufficiently liquid to enable the City to meet all operating requirements, which might be reasonably anticipated.

3.3 Return on Investment

The City’s 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’s investment risk constraints and the cash flow characteristics of the portfolio.

(4) STANDARDS OF CARE

4.1 Prudence

The actions of the Mayor and City Clerk (hereinafter “Designated Officials”) in the performance of their duties as managers of the City’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 city council and appropriate action is taken to control adverse developments.

4.2 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 city council. 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.

4.3 Delegation of Authority

a) City Council

The city council will retain ultimate fiduciary responsibility for the portfolios. The city council will receive reports, name the Designated Officials, and review the investment policy making any changes necessary by adoption.

b) Mayor and City Clerk

Authority to manage the investment program is granted to the Designated Officials, the mayor and city clerk, as designated by this City policy. 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. The Designated Officials will prepare 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.

c) 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.

(5) AUTHORIZED FINANCIAL INSTITUTIONS, DEPOSITORIES, AND BROKERS/DEALERS

5.1 The Designated Officials shall determine which financial institutions are authorized to provide investment services to the City by conducting a process of due diligence. These may include primary dealers or regional dealers that qualify under the Securities and Exchange Commission Rule 15C3-1. Institutions eligible to transact investment business with City may 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.

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

5.3 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; and
- Evidence of adequate insurance coverage.

5.4 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; and
- Evidence of adequate insurance coverage.

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

(6) SAFEKEEPING AND CUSTODY

6.1 Delivery vs. Payment

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

6.2 Third-Party Safekeeping

Securities will be held by an independent third-party safekeeping institution selected by the City. All securities will be evidenced by safekeeping receipts in the name of the City. The safekeeping institution shall annually provide a copy of its most recent report on internal controls - Service Organization Control Reports prepared in accordance with the Statement on Standards for Attestation Engagements No. 16.

6.3 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.

(7) SUITABLE AND AUTHORIZED INVESTMENTS

7.1 Investment Types and Credit Guidelines

Consistent with Kentucky laws and City policies concerning investment practices, only investments as defined by KRS 66.480, are allowed, those being:

- 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).

7.2 Credit Considerations

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 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.

7.3 Collateralization

Where required by Kentucky law full collateralization will be required on all demand deposit accounts, including checking accounts and negotiable and non-negotiable certificates of deposit. Acceptable collateral for bank deposits and repurchase agreements shall include only:

- Obligations of the U.S. government, its agencies, and Government-Sponsored Entities, including mortgage-backed securities; or
- Obligations of any state, City, county, or authority rated at least in one (1) of the two (2) highest categories by two nationally recognized competent credit rating organizations.

7.4 Diversification

It is the policy of the City to diversify its investment portfolios. To eliminate the risk of loss resulting from the over-concentration of assets in a specific maturity, issuer, or class of securities, all cash and cash equivalent assets in all City funds shall be diversified by maturity, issuer, and security type. Diversification strategies shall be determined and revised periodically by the Designated Officials and or investment committee for all funds except for the employee retirement fund.

(8) 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 complying with state law.

(9) REPORTING/DISCLOSURE

The Designated Officials 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. This management summary will be prepared in a manner which will allow the City to ascertain whether investment activities during the reporting period have conformed to the investment policy.

(10) POLICY CONSIDERATIONS

10.1 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.

10.2 Amendments

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

(11) APPROVAL OF INVESTMENT POLICY

The investment policy and any modifications to that policy shall be formally approved and adopted by the city council of the City of Prospect.

Approved by Investments Committee on April 9, 2024

Susan Nicholson, Chairperson