

# Statement of Investment Policy

City of Kingsport, Tennessee



Adopted September 2, 2014

*Statement of Investment Policy*

CITY OF KINGSPORT, TENNESSEE

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*Statement of Investment Policy*  
**City of Kingsport, Tennessee**

***Purpose***

The purpose of this policy (the "Investment Policy") is to set forth the investment and operational policies for the management of the public funds of the City of Kingsport (the "City").

The Investment Policy is designed to ensure the prudent management of public funds, the availability of operating and capital funds when needed, and an investment return competitive with comparable funds and financial market indices. The Investment Policy is in compliance with T.C.A. Section 6-56-106, regarding the investment of all idle city funds, and all applicable provisions of the City Charter.

***Scope of the Investment Policy***

This policy applies to the investment of all funds of the City of Kingsport, Tennessee. Except for special funds that are otherwise specifically provided for, the City of Kingsport will consolidate the balances from all funds to maximize investment earnings. Investment income will be allocated to the various funds based on their respective participation of capital in the overall portfolio in accordance with generally accepted accounting principles.

***Investment Objectives***

The City Portfolio shall be managed to accomplish the following hierarchy of objectives:

- 1) Preservation of Principal - The single most important objective of the City investment program is the preservation of the principal of those funds within the City Portfolio. The objective will be to mitigate the following risks:

**A. Credit Risk**

The City will minimize credit risk, which is the risk of loss due to the failure of the investment issuer or backer, by:

- Limiting the portfolio to the types of investments pursuant to TCA 6-56-106.
- Pre-qualifying the financial institutions with which the City will do business.
- 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.

**B. Interest Rate Risk**

The City will minimize interest rate risk, which is the risk that the market value of investments in the portfolio will fall due to changes in market interest rates, by:

- Structuring the portfolio to meet the cash requirements of ongoing operations, thereby mitigating the need to liquidate investments at a loss prior to maturity;

- Investing operating funds primarily in shorter-term investments, money market accounts, CDs or similar investment pools and limiting the average maturity of the portfolio in accordance with this policy.

### C. Concentration Risk

The City will minimize Concentration of Credit Risk, which is the risk of loss due to having a significant portion of resources invested in a single issuer, by diversifying the investment portfolio as described in the *Portfolio Diversification* below. Investments issued or explicitly guaranteed by the U.S. government or Tennessee Bank Collateral Pool, Tennessee Local Government Investment Pool (LGIP) and any other external investment pools that are authorized by the State are excluded from this requirement.

### D. Custodial Credit Risk

The City will minimize Custodial Credit Risk for deposits, which is the risk that in the event of the failure of a depository financial institution the deposits or collateralized investments that are in the possession of an outside party would not be able to be recovered. See *Collateralization* below.

The City will minimize Custodial Credit Risk for investments, which is the risk that in the event of the failure of the counterparty to a transaction the value or collateralized investments that are in the possession of an outside party would not be able to be recovered, as addressed in *Safekeeping and Custody* below.

- 2) Maintenance of Liquidity - The City Portfolio shall be managed in such a manner that assures that funds are available as needed to meet those immediate and/or future operating requirements of the City, including but not limited to payroll, accounts payable, capital projects, debt service and any other payments.
- 3) Maximize Return -The City Portfolio shall be managed in such a fashion as to maximize the return on investments but within the context and parameters set forth by objectives 1 and 2 above.

### Organization

The City Recorder/CFO will have responsibility for the investment process, carry out the day-to-day operational requirements and will maintain written administrative procedures for the operation of the investment program consistent with this Investment Policy.

Such procedures will include explicit delegation of authority to persons responsible for investment transactions. The City Recorder/CFO and those to whom he/she has delegated will be charged with the following responsibilities:

- 1) To review and update the Investment Policy at least annually;
- 2) Monitor the investment transactions to insure that proper controls are in place to ensure the integrity and security of the City Portfolio;
- 3) Assure that the City is in compliance with current state law, any applicable City Charter provisions and the Investment Policy;

- 4) Meet periodically to deliberate such topics as economic outlook, portfolio diversification and maturity structure, cash flow forecasts, potential risks and the target rate of return on the City Portfolio.

The City may employ an outside investment manager(s) to assist in managing some or all of the City Portfolio. Such outside investment manager(s) must be registered under the Investment Advisors Act of 1940.

### ***Standard of 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.

The "prudent person" standard states that, "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 from the investment."

While the standard of prudence to be used by Investment Officers who are City officers or employees is the "Prudent Person" standard, any person or firm hired or retained to invest, monitor, or advise concerning these assets shall be held to the higher standard of "Prudent Expert". The standard shall be that in investing and reinvesting moneys and in acquiring, retaining, managing, and disposing of investments of these funds, the Investment Advisor shall exercise: the judgment, care, skill, prudence, and diligence under the circumstances then prevailing, which persons of prudence, discretion, and intelligence, acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of like character and with like aims by diversifying the investments of the funds, so as to minimize the risk, considering the probable income as well as the probable safety of their capital.

### ***Ethics and Conflict of Interest***

City employees involved in the investment process for the City shall refrain from personal business activity that could conflict with the proper execution and management of the City's investment program, or that could impair their ability to make impartial decisions. City employees and investment officials shall disclose any material interests in financial institutions with which they conduct business. They shall further disclose any personal finance or investment positions that could be related to the performance of the City Portfolio. City employees and officers shall refrain from undertaking personal investment transactions with the same individual with whom business is conducted on behalf of the City.

### ***Authorized and Suitable Investments***

The City of Kingsport's investment officers, in order to provide a safe temporary medium for investment of idle funds, shall have the authority to purchase and invest prudently as authorized by TCA 6-56-106 or as it may be amended. (Appendix B)

### ***Portfolio Diversification***

It is the policy of the City of Kingsport to reduce overall risks while attaining average market rates of return by diversifying its investments.

The investments shall be diversified by:

- limiting investments to avoid over concentration in eligible securities from a specific issuer or business sector (excluding U.S. Treasury securities),
- avoiding investment in ineligible securities that have higher credit risks,
- investing in securities with variable maturities, and
- investing a portion of the portfolio in readily available funds such as the Tennessee Local Government Investment Pool (LGIP) or collateralized money market accounts to ensure that appropriate liquidity is maintained in order to meet ongoing obligations.

In establishing specific diversification strategies, the following general policies and constraints shall apply:

Portfolio maturities shall be staggered to avoid undue concentration of assets with similar maturity dates. Maturities selected shall provide for stability of income and reasonable liquidity.

For cash management funds, liquidity shall be assured through practices ensuring that the next disbursement date and payroll date are covered through maturing investments or marketable U.S. Treasury bills.

When the City has engaged the services of an outside investment firm, the funds managed by the firm will be subject to the diversification criteria included in the investment services agreement with the City.

### ***Maximum Maturity***

Maintenance of adequate liquidity to meet the cash flow needs of the City is essential. Accordingly the City Portfolio will be structured in a manner that ensures sufficient cash is available to meet anticipated liquidity needs. Selection of investment maturities must be consistent with the cash requirements of the City in order to avoid the forced sale of securities prior to maturity.

The City Portfolio will be invested in permitted investments with a stated maturity of no more than 4 years from the date of purchase unless the security is matched to a specific obligation or debt of the City. Prior written approval of Comptroller of the Treasury must be obtained to invest in a security with a maturity longer than 4 years.

### ***Monitoring and Adjusting the Portfolio***

Those responsible for the day-to-day management of the City Portfolio will routinely monitor the contents of the City Portfolio, the available markets and the relative values of competing instruments, and will adjust the City Portfolio as necessary to meet the investment objectives listed herein.

### ***Internal Controls***

The City Recorder/CFO shall establish a system of internal controls governing the administration and

management of the City Portfolio, and these controls shall be documented in writing. Such controls shall be designed to prevent and control losses of City funds arising from fraud, employee error, and misrepresentation by third parties, unanticipated changes in financial markets, or imprudent actions by any personnel.

### ***Selection, Approval of Brokers, Qualified Financial Institutions***

The City Recorder/CFO shall maintain a list of financial institutions and broker/dealers that are approved for investment purposes. Written procedures listed below describe the competitive selection process for financial institutions with which investment transactions will be conducted. All brokers, dealers, and depositories deemed to be "qualified institutions" will be provided with current copies of the Investment Policy. Acknowledgement of receipt of this Investment Policy, including confirmation that it has been reviewed by persons dealing directly with the City's account, will be received from an organization prior to it providing investment services to the City. A current audited financial statement is required to be on file for each financial institution and broker/dealer with which the City trades.

### ***Competitive Selection of Investment Instruments***

It will be the policy of the City to transact all securities purchase/sales only with approved financial institutions through a formal and competitive process requiring the solicitation and evaluation of at least three bids/offers from qualified financial institutions. The City will accept the offer that provides (a) the highest rate of return within the maturity required; and (b) optimizes the investment objective of the overall portfolio. When selling a security, the City will select the bid that generates the highest sale price.

It will be the responsibility of the personnel involved with each purchase/sale to produce and retain written records of each transaction including the name of the financial institutions solicited, rate quoted, description of the security, investment selected, and any special considerations that had an impact on the decision. If the lowest priced security (highest yield) was not selected for purchase, an explanation describing the rationale will be included in this record.

### ***Collateralization***

In accordance with State law TCA 9-4-105 and the GFOA Recommended Practices on the Collateralization of Public Deposits, full collateralization will be required on all demand deposit accounts, including checking accounts and non-negotiable certificates of deposit, except when the institution issuing the certificate of deposit belongs to the Tennessee Bank Collateral Pool.

Whenever possible, every attempt should be made to secure City deposits and investments through the State of Tennessee Collateral Pool.

### ***Safekeeping and Custody***

Except as noted below, all investment securities purchased by the City or held as collateral on either deposits or investments shall be held in third-party safekeeping at a financial institution (to be designated as the "Custodian") qualified to act in this capacity. All transactions will be conducted on a delivery-vs.-payment basis. All securities held for the City account will be held free and clear of any lien. The Custodian shall issue a safekeeping receipt to the City listing the specific instrument, rate, maturity and other pertinent information. On a monthly basis, the Custodian will also provide reports which list all securities held for

the City, the book value of holdings and the market value as of month-end.

Certificates of Deposit may be held in physical form by the City providing that said certificates of deposit are collateralized through the State of Tennessee Collateral Pool, or collateral pledged on such deposits is held by the Custodian and a system of internal controls has been established to protect the City against loss.

Appropriate City officials and representatives of the Custodian responsible for, or in any manner involved with, the safekeeping and custody process of the City shall be bonded in such a fashion as to protect the City from losses from malfeasance and misfeasance.

### ***Performance Standards***

The City Portfolio shall be designed and managed with the objective of obtaining a market rate of return throughout budgetary and economic cycles, commensurate with the investment risk constraints and cash flow needs of the City. Short-term funds and other funds that must maintain a high degree of liquidity will be compared to the return on the three-month U. S. Treasury Bill. The core portfolio and other funds that have a longer-term investment horizon will be compared to an index of U. S. Treasury securities having a similar duration or other appropriate benchmark. Performance will be measured over a complete market cycle.

### ***Reporting***

The Investment Officer shall prepare an investment report not less than quarterly of the status of the current investments. The report will include the following:

- Percent invested in each security type (CD, US Treasury, money market funds, etc.).
- Listing of investments by maturity date.

When the City has engaged the services of an outside investment firm, the outside investment manager(s) shall prepare and submit to the City Recorder/CFO a "Quarterly Investment Report" that summarizes the following: (i) recent market conditions, economic developments and anticipated investment conditions, (ii) the investment strategies employed in the most recent quarter, (iii) portfolio return (on a market value basis) versus appropriate benchmarks; (iv) a summary of broker activity, and (v) any areas of policy concern warranting possible revisions of current or planned investment strategies.

On a monthly basis, the outside investment manager(s) will provide the City Recorder/CFO with the following reports: (i) a listing of the existing portfolio in terms of investment securities, amortized book value, maturity date, return, market value and other features deemed relevant, (ii) the total investment earnings for the reporting period and (iii) a listing of all transactions executed during the month.

The report will also include a statement that the investment of the City Portfolio is in compliance with this Investment Policy and any applicable bond resolutions.

***Investment Policy Adoption***

This Investment Policy is adopted by the Board of Mayor and Aldermen this 2nd day of September, 2014.

**Attachment A**

**Currently Authorized Investments**

**City Funds**

Bonds, notes or treasury bills of the United States.

Obligations that are guaranteed as to principal and interest by the United States or any of its agencies.

Nonconvertible debt securities of the following federal government sponsored enterprises that are rated in the highest category by at least two (2) nationally recognized rating agencies:

- Federal Home Loan Bank;
- Federal National Mortgage Association;
- Federal Farm Credit Bank;
- Federal Home Loan Mortgage Corporation.

Certificates of deposit and other evidences of deposit at Tennessee state and federally chartered banks and savings and loan associations, properly collateralized in accordance with state laws.

Tennessee Local Government Investment Pool (LGIP).

Prime commercial paper rated at least A1 or equivalent by at least two (2) nationally recognized rating agencies with a remaining maturity of ninety (90) days or less.

City of Kingsport's bonds or notes issued in accordance with Title 9, Chapter 21, TCA

**Proceeds of City of Kingsport's Issued Bonds, Notes and Other Obligations**

Direct general obligations of a state, political subdivision or instrumentality thereof, of the United States having general taxing powers that are rated in either of the two (2) highest rated categories by a nationally recognized rating agency. The investment shall either have a final maturity of not more than 48 months from the date of investment, or it is able to be tendered to the issuer at not less than 48 months intervals.

**Attachment B**

*Tenn. Code Ann. § 6-56-106*

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\*\*\* Current through the 2013 Regular Session \*\*\*

Title 6 Cities And Towns  
Municipal Government Generally  
Chapter 56 Fiscal Affairs  
Part 1 General Provisions

Tenn. Code Ann. § 6-56-106 (2013)

**6-56-106. Authorized investments.**

(a) In order to provide a safe temporary medium for investment of idle funds, municipalities are authorized to invest in the following:

(1) Bonds, notes or treasury bills of the United States;

(2) Nonconvertible debt securities of the following federal government sponsored enterprises that are chartered by the United States congress; provided, that such securities are rated in the highest category by at least two (2) nationally recognized rating services:

(A) The federal home loan bank;

**(B)** The federal national mortgage association;

**(C)** The federal farm credit bank; and

**(D)** The federal home loan mortgage corporation;

**(3)** Any other obligations not listed in subdivisions (a)(1) and (2) that are guaranteed as to principal and interest by the United States or any of its agencies;

**(4)** Certificates of deposit and other evidences of deposit at state and federally chartered banks, and savings and loan associations. Notwithstanding any other public or private act to the contrary, all investments made pursuant to this subdivision (a)(4) shall be secured by collateral in the same manner and under the same conditions as state deposits under title 9, chapter 4, parts 1 and 4, or as provided in a collateral pool created under title 9, chapter 4, part 5;

**(5)** Obligations of the United States or its agencies under a repurchase agreement for a shorter time than the maturity date of the security itself if the market value of the security itself is more than the amount of funds invested; provided, that municipalities may invest in repurchase agreements only if the comptroller of the treasury or the comptroller's designee approves repurchase agreements as an authorized investment, and if such investments are made in accordance with procedures established by the state funding board;

**(6)** The local government investment pool created by title 9, chapter 4, part 7;

**(7) (A)** Municipalities having a population in excess of one hundred fifty thousand (150,000), according to the 1990 federal census or any subsequent federal census, may also permit investment of idle funds in the following investment instruments:

**(i)** Prime banker's acceptances that are eligible for purchase by the federal reserve system; and

**(ii)** Prime commercial paper that is rated at least A1 or equivalent by at least two (2) nationally recognized rating services;

**(B)** Municipalities having a population of not less than twenty thousand (20,000) nor more than one hundred fifty thousand (150,000), according to the 1990 federal census or any subsequent federal census, may also permit investment of idle funds in prime commercial paper in accordance with the following:

**(i)** Such paper shall be rated in the highest category by at least two (2) commercial paper rating services; and

**(ii)** The paper shall have a remaining maturity of ninety (90) days or less;

**(C)** Investment in the instruments set forth in this subdivision (a)(8) shall first be authorized by the municipality's legislative body, acting by resolution or ordinance. In addition, investment in such instruments shall be prohibited until the legislative body has adopted written policies to govern the use of such instruments, with such policies being no less restrictive than those established by the state funding board to govern state investments in such instruments;

**(8)** The municipality's own bonds or notes issued in accordance with title 9, chapter 21; and

**(9) (A)** Investment in the instruments set forth in subdivision (a)(2), (a)(5), (a)(6), or any type of investment authorized pursuant to a municipality's charter that is of a type that is not included in this part shall require the following:

**(i)** The municipality's legislative body must authorize the investment by ordinance; and

**(ii)** The legislative body must adopt a written enforceable investment policy by ordinance to govern the use of investments, with the policies being no less restrictive than those established by the state funding board to govern state investments in these types of instruments.

**(B)** Investment in instruments covered by this subdivision (a)(9) shall be prohibited until the legislative body has adopted written policies to govern the use of the investments or an ordinance has been passed to authorize the investment.

**(b)** The investments listed in subdivisions (a)(1)-(4) may have a maturity of not greater than four (4) years from the date of investment; however, such investments may have a maturity of greater than four (4) years from the date of investment if such maturity is approved by the comptroller of the treasury or the comptroller's designee.

**(c) (1)** Proceeds of bonds, notes and other obligations issued by municipalities, reserves held in connection therewith and the investment income therefrom, may be invested in obligations that:

**(A)** Are rated in either of the two (2) highest rated categories by a nationally recognized rating agency of such obligation;

**(B)** Are direct general obligations of a state of the United States, or a political subdivision or instrumentality thereof, having general taxing powers; and

**(C)** Have a final maturity on the date of investment of not to exceed forty-eight (48) months or that may be tendered by the holder to the issuer thereof, or an agent of the issuer, at not less than forty-eight-month intervals.

(2) Such proceeds and the investment income thereon may also be invested as otherwise set forth in this section.

(d) The investments authorized by this section are in addition to those authorized in any other general law or in any municipality's charter.

**HISTORY:** Acts 1943, ch. 47, § 1; mod. C. Supp. 1950, § 3516.29 (Williams, § 3516.31); T.C.A. (orig. ed.), § 6-805; Acts 1985, ch. 299, § 1; 1988, ch. 632, § 1; 1990, ch. 814, § 1; 1991, ch. 165, § 1; 1992, ch. 592, § 7; 1993, ch. 448, § 3; 1994, ch. 752, § 7; 1994, ch. 794, § 1; 1994, ch. 806, § 2; 2000, ch. 996, §§ 4-6; 2004, ch. 466, §§ 1, 2; 2006, ch. 693, §§ 5-7; 2010, ch. 868, §§ 14, 15.