

AN ACT relating to investments made by local governments or political subdivisions.

***Be it enacted by the General Assembly of the Commonwealth of Kentucky:***

➔Section 1. KRS 66.480 is amended to read as follows:

- (1) The governing body of a city, county, urban-county, charter county, school district (provided that its general procedure for action is approved by the Kentucky Board of Education), or other local governmental unit or political subdivision, may invest and reinvest money subject to its control and jurisdiction in:
  - (a) Obligations of the United States and of its agencies and instrumentalities, including obligations subject to repurchase agreements, if delivery of these obligations subject to repurchase agreements is taken either directly or through an authorized custodian. These investments may be accomplished through repurchase agreements reached with sources including but not limited to national or state banks chartered in Kentucky;
  - (b) Obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States or a United States government agency, including but not limited to:
    1. United States Treasury;
    2. Export-Import Bank of the United States;
    3. Farmers Home Administration;
    4. Government National Mortgage Corporation; and
    5. Merchant Marine bonds;
  - (c) Obligations of any corporation of the United States government, including but not limited to:
    1. Federal Home Loan Mortgage Corporation;
    2. Federal Farm Credit Banks;
    3. Bank for Cooperatives;

4. Federal Intermediate Credit Banks;
  5. Federal Land Banks;
  6. Federal Home Loan Banks;
  7. Federal National Mortgage Association; and
  8. Tennessee Valley Authority;
- (d) Certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation or similar entity or which are collateralized, to the extent uninsured, by any obligations, including surety bonds, permitted by KRS 41.240(4);
- (e) Uncollateralized certificates of deposit issued by any bank or savings and loan institution rated in one (1) of the three (3) highest categories by a nationally recognized rating agency;
- (f) Bankers' acceptances for banks rated in one (1) of the three (3) highest categories by a nationally recognized rating agency;
- (g) Commercial paper rated in the highest category by a nationally recognized rating agency;
- (h) Bonds or certificates of indebtedness of this state and of its agencies and instrumentalities;
- (i) Securities issued by a state or local government, or any instrumentality of agency thereof, in the United States, and rated in one (1) of the three (3) highest categories by a nationally recognized rating agency;~~[and]~~
- (j) Shares of mutual funds ***and exchange traded funds***, each of which shall have the following characteristics:
1. The mutual fund shall be an open-end diversified investment company registered under the Federal Investment Company Act of 1940, as amended;

2. The management company of the investment company shall have been in operation for at least five (5) years; and
3. All of the securities in the mutual fund shall be eligible investments pursuant to this section;

**(k) Individual equity securities if the funds being invested are managed by a professional investment manager regulated by a federal regulatory agency. The individual equity securities shall be included within the Standard and Poor's 500 Index, and a single sector shall not exceed twenty-five percent (25%) of the equity allocation; and**

**(l) Individual fixed-income securities that are managed by a professional investment manager, and which may include high quality corporate bonds that:**

- 1. Are issued, assumed, or guaranteed by a solvent institution created and existing under the laws of the United States;**
- 2. Have a standard maturity of no more than ten (10) years; and**
- 3. Are rated in the three (3) highest rating categories by at least two (2) nationally recognized credit rating agencies.**

(2) The investment authority provided by subsection (1) of this section shall be subject to the following limitations:

(a) The amount of money invested at any time by a local government or political subdivision in one (1) or more of the categories of investments authorized by subsection (1)(e), (f), (g), ~~and (i)~~ **(k), and (l)** of this section shall not exceed twenty percent (20%) of the total amount of money invested by the local government; ~~and~~

(b) **The amount of money invested at any one (1) time by a local government or a political subdivision in the categories of investments authorized in subsection (1)(j), (k), and (l) of this section shall not, aggregately, exceed**

forty percent (40%) of the total money invested;

(c) No local government or political subdivision shall purchase any investment authorized by subsection (1) of this section on a margin basis or through the use of any similar leveraging technique; and

(d) At the time the investment is made, no more than five percent (5%) of the total amount of money invested by the local governments or political subdivisions shall be invested in any one (1) issuer unless:

1. The issuer is the United States government or an agency or instrumentality of the United States government, or an entity which has its obligations guaranteed by either the United States government or an entity, agency, or instrumentality of the United States government; or

2. The money is invested in a certificate of deposit as authorized by subsection (1) of this section.

(3) The governing body of every local government or political subdivision that invests or reinvests money subject to its control or jurisdiction according to the provisions of subsection (1) of this section shall by January 1, 1995, adopt a written investment policy that shall govern the investment of funds by the local government or political subdivision. The written investment policy shall include but shall not be limited to the following:

- (a) A designation of the officer or officers of the local government or political subdivision who are authorized to invest and oversee the investment of funds;
- (b) A list of the permitted types of investments;
- (c) Procedures designed to secure the local government's or political subdivision's financial interest in the investments;
- (d) Standards for written agreements pursuant to which investments are to be made;

- (e) Procedures for monitoring, control, deposit, and retention of investments and collateral;
  - (f) Standards for the diversification of investments, including diversification with respect to the types of investments and firms with whom the local government or political subdivision transacts business;
  - (g) Standards for the qualification of investment agents which transact business with the local government, such as criteria covering creditworthiness, experience, capitalization, size, and any other factors that make a firm capable and qualified to transact business with the local government or political subdivision; and
  - (h) Requirements for periodic reporting to the governing body on the status of invested funds.
- (4) Sheriffs, county clerks, and jailers, who for the purposes of this section shall be known as county officials, may invest and reinvest money subject to their control and jurisdiction, including tax dollars subject to the provisions of KRS Chapter 134 and 160.510, as permitted by this section.
- (5) The provisions of this section are not intended to impair the power of a county official, city, county, urban-county, charter county, school district, or other local governmental unit or political subdivision to hold funds in deposit accounts with banking institutions as otherwise authorized by law.
- (6) The governing body or county official may delegate the investment authority provided by this section to the treasurer or other financial officer or officers charged with custody of the funds of the local government, and the officer or officers shall thereafter assume full responsibility for all investment transactions until the delegation of authority terminates or is revoked.
- (7) All county officials shall report the earnings of any investments at the time of their annual reports and settlements with the fiscal courts for excess income of their

offices.

- (8) The state local debt officer is authorized and directed to assist county officials and local governments, except school districts, in investing funds that are temporarily in excess of operating needs by:
- (a) Explaining investment opportunities to county officials and local governments through publication and other appropriate means; and
  - (b) Providing technical assistance in investment of idle funds to county officials and local governments that request that assistance.
- (9) (a) The state local debt officer may create an investment pool for local governments, except school districts, and county officials; and counties and county officials and cities may associate to create an investment pool. If counties and county officials and cities create a pool, each group may select a manager to administer their pool and invest the assets. Each county and each county official and each city may invest in a pool created pursuant to this subsection. Investments shall be limited to those investment instruments permitted by this section. The funds of each local government and county official shall be properly accounted for, and earnings and charges shall be assigned to each participant in a uniform manner according to the amount invested. Charges to any local government or county official shall not exceed one percent (1%) annually on the principal amount invested, and charges on investments of less than a year's duration shall be prorated. Any investment pool created pursuant to this subsection shall be audited each year by an independent certified public accountant, or by the Auditor of Public Accounts. A copy of the audit report shall be provided to each local government or county official participating in the pool. In the case of an audit by an independent certified public accountant, a copy of the audit report shall be provided to the Auditor of Public Accounts, and to the state local debt officer.

The Auditor of Public Accounts may review the report of the independent certified public accountant. After preliminary review, should discrepancies be found, the Auditor of Public Accounts may make his or her own investigative report or audit to verify the findings of the independent certified public accountant's report.

- (b) If the state local debt officer creates an investment pool, he or she shall establish an account in the Treasury for the pool. He or she shall also establish a separate trust and agency account for the purpose of covering management costs, and he or she shall deposit management charges in this account. The state local debt officer may promulgate administrative regulations, pursuant to KRS Chapter 13A, governing the operation of the investment pool, including but not limited to provisions on minimum allowable investments and investment periods, and method and timing of investments, withdrawals, payment of earnings, and assignment of charges.
  - (c) Before investing in an investment pool created pursuant to this subsection, a local government or county official shall allow any savings and loan association or bank in the county, as described in subsection (1)(d) of this section, to bid for the deposits, but the local government or county official shall not be required to seek bids more often than once in each six (6) month period.
- (10) (a) With the approval of the Kentucky Board of Education, local boards of education, or any of them that desire to do so, may associate to create an investment pool. Each local school board which associates itself with other local school boards for the purpose of creating the investment pool may invest its funds in the pool so created and so managed. Investments shall be limited to those investment instruments permitted by this section. The funds of each local school board shall be properly accounted for, and earnings and charges

shall be assigned to each participant in a uniform manner according to the amount invested. Charges to any local school board shall not exceed one percent (1%) annually on the principal amount invested, and charges on investments of less than a year's duration shall be prorated. Any investment pool created pursuant to this subsection shall be audited each year by an independent certified public accountant, or by the Auditor of Public Accounts. A copy of the audit report shall be provided to each local school board participating in the pool. In the case of an audit by an independent certified public accountant, a copy of the audit report shall be provided to the Auditor of Public Accounts, and to the Kentucky Board of Education. The Auditor of Public Accounts may review the report of the independent certified public accountant. After preliminary review, should discrepancies be found, the Auditor of Public Accounts may make his or her own investigative report or audit to verify the findings of the independent certified public accountant's report.

- (b) The Kentucky Board of Education may promulgate administrative regulations governing the operation of the investment pool including but not limited to provisions on minimum allowable investments and investment periods, and methods and timing of investments, withdrawals, payment of earnings, and assignment of charges.