Sec. 2-10. Investment policy.

(a) *Scope of investments.* The city hereby establishes the following investment policy to apply to non-trusteed financial assets of the city not currently required for the operating expenses of the city. Any and all funds currently existing or anticipated are included unless specifically excluded by the board of aldermen or set aside in a special escrow account. The total investment portfolio is defined as cash and investments, less cash requirements for forecasted next quarter operating expenditures, capital commitments, and debt service.

The city will consolidate cash and reserve balances from all funds to maximize investment earnings and to increase efficiencies with regard to investment pricing, safekeeping and administration. Investment income will be allocated to the various funds based on their respective participation and in accordance with generally accepted accounting policies.

(b) *Investment objectives.* The primary objectives, in priority order, of investment activities shall be safety, liquidity, and yield:

(1) *Safety.* Safety of principal is the foremost objective of the investment program. All investments shall 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.

a. Credit risk. The city will minimize credit risk, the risk of loss due to the failure of the security issuer or backer, by:

1. Pre-qualifying the financial institutions, broker/dealers, intermediaries, and advisers with which the city will do business.

2. Diversifying the investment portfolio so that the impact of potential losses on individual securities, from any one (1) type of security, or from any one (1) individual issuer will be minimized.

3. Limiting investments to the types of securities listed in subsection (g).

b. Interest rate risk. The city will minimize the risk that the market value of securities in the portfolio will fall due to changes in market interest rate by:

1. Structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity.

2. Maintaining a sufficient balance in liquid funds to adequately cover forecasted cash requirements.

(2) *Liquidity.* The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated. This is accomplished by structuring the portfolio so that securities mature concurrent with cash needs to meet anticipated demands (static liquidity). Furthermore, since all possible cash demands cannot be anticipated, the portfolio should consist largely of securities with active secondary or resale markets (dynamic liquidity). A portion of the portfolio may also be placed in repurchase agreements that offer same-day liquid funds.

(3) *Yield.* The investment portfolio shall be designed with the objective of attaining market rate of return throughout budgetary and economic cycles, taking into account the city's investment risk constraints and liquidity needs. Return on investment is of secondary importance compared to the safety and liquidity objectives described above. The core of investments are limited to relatively low risk securities in anticipation of earning a fair return relative to the risk being assumed. Securities shall generally be held until maturity with the following exceptions;

a. A security with declining credit may be sold early to minimize loss of principal.

b. A security swap which would improve the quality, yield, or target duration in the portfolio.

c. Liquidity needs of the portfolio require that the security be sold.

(c) *Delegation of authority.* Management responsibility for the investment program is hereby delegated to the city clerk, acting as finance director, who shall act in accordance with established procedures and internal controls for the operation of the investment program consistent with this investment policy. The finance director shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate personnel.

(d) *Standards of care.*

(1) *Prudence.* The standard of care to be used by investment officials shall be the "prudent person" standard and shall be applied in the context of managing an overall portfolio. An internal investment committee consisting of the city administrator, finance director, and assistant finance director shall be established. That committee will review recommendations made by the investment advisor on proposed liquidations and new investment amounts and maturities. The standard of care to be used by finance committee, investment advisor and internal investment committee shall be the "prudent person" standard and shall be applied in the context of managing an overall portfolio. These three (3) parties acting in accordance with this investment policy and exercising due diligence shall be relieved of personal responsibility of an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion 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."

(2) *Ethics and conflicts of interest.* Officers, elected officials, members of the finance committee and employees involved in the investment process shall refrain from personal business activity that could conflict with the proper execution and management of the investment program, or that could impair their ability to make impartial decisions. They shall disclose any material interests in financial institution with which they conduct business. They shall further disclose any personal financial/investment positions that could be related to the performance of the investment portfolio. Officers, elected officials, members of the finance committee and employees placing, approving and/or overseeing the investments of the city shall refrain from undertaking personal investment transactions with the same individual with which business is conducted on behalf of the city.

(3) *Internal controls.* The finance director is responsible for establishing and maintaining an internal control structure that will be reviewed annually with the city's independent auditor. The internal control structure shall be designed to ensure that the assets of the city are protected from loss, theft or misuse and to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that:

a. The cost of control should not exceed the benefits likely to be derived; and

b. The valuation of costs and benefits require estimates and judgments by management.

The internal controls shall address the following points:

a. Control of collusion.

b. Separation of transaction authority from accounting and record keeping.

c. Custodial safekeeping.

d. Avoidance of physical delivery securities.

e. Clear delegation of authority to subordinate staff members.

f. Written confirmation of transactions for investments and wire transfers.

g. Development of a wire transfer agreement with the lead bank and third party custodian.

(e) *Authorized financial dealers and institutions.* The city shall obtain investment services from financial institutions and broker/dealers approved by the city's board of aldermen that are primary government dealers qualifying under Securities and Exchange Commission Rule 15C3-1. Those financial institutions and broker/dealers shall be selected by credit worthiness and must be a qualified public depository as established by state law. A current audited financial statement is required to be on file for each financial institution and broker/dealer with which the city invests.

All financial institutions and securities brokers/dealers who desire to become qualified for investment transactions must supply the following as appropriate:

(1) Audited financial statements.

(2) Proof of current National Association of Securities Dealers (NASD) certification in good standing.

(3) Proof of state registration.

(4) Certification of having read and understood and agreeing to comply with the city's investment policy.

An annual review of the financial conditions of the qualified institutions and broker/dealers will be conducted by the finance director.

(f) *Approved instruments.* Investment of city funds shall be limited to:

(1) U.S. Treasury bills, notes and bonds (including zero coupon bonds).

(2) U.S. government agency and instrumentality obligations:

a. Federal Farm Credit Banks (FFCB).

b. Federal Home Loan Banks (FHLB).

c. Federal National Mortgage Association (FNMA).

d. Federal Home Loan Mortgage Company (FHLMC).

e. Student Loan Marketing Association (SLMA).

f. Small Business Administration (SBA).

(3) Re[-]purchase agreements collateralized by government securities.

(4) Certificates of deposit meeting provisions of RSMo 30.270.

(5) Commercial paper issued by domestic corporations having total assets in excess of five hundred million dollars ($500,000,000.00), which has received the highest rating issued by Moody's Investor Services, Inc. or Standard and Poor's Corporation.

(g) *Investment restrictions.* To provide for the safety and liquidity of the city's funds, the investment portfolio will be subject to the following restrictions in addition to those listed elsewhere in this policy:

(1) Borrowing for investment purposes is prohibited.

(2) Contracting to sell securities not yet acquired in order to purchase other securities for purposes of speculating on developments or trends in the market is prohibited.

(3) No more than ten (10) percent of the total market value of the portfolio may be invested in commercial paper of the top two (2) rated issuers.

(4) Instruments known as variable rate demand notes, floaters, inverse floaters, leveraged floaters, and equity-linked securities are not permitted. Investment in any instrument, which is commonly considered a "derivative" instrument (e.g. options, futures, swaps, caps, floors, and collars), is prohibited.

(5) Investment in any form of mutual fund is prohibited.

(h) *Collateralization.* Collateralization will be required on all certificates of deposit and repurchase agreements as well as on time and demand deposits. Securities deposited shall be in an amount valued at market equal at least to one hundred (100) percent of the aggregate amount with the particular financial institution less the amount, if any, which is insured either by the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation or by the National Credit Unions Share Insurance Fund.

Securities acceptable as collateralization are those meeting the provisions of RSMo 30.270, subsection I. Any securities deposited pursuant to this section may from time to time be withdrawn and other securities as described in RSMo 30.270 may be substituted in lieu of the withdrawn securities with the consent of the city's finance committee.

Collateral will always be held by an independent third party. Safekeeping receipts must be supplied to the city and retained as long as legally required.

(i) *Safekeeping and custody.* Securities shall be held by a third party custodian designated by the city officials. Securities shall be evidenced by safekeeping receipts in the city's name. All security transactions entered into by the city shall be executed on a delivery-versus-payment (DVP) basis to ensure that securities are deposited in eligible financial institutions prior to the release of funds.

(j) *Investment parameters.*

(1) *Maximum maturities.* Investments shall be made to insure the availability of funds on a timely and adequate basis for payments of general expenditures and capital outlay projects, both short and long term, in an expeditious manner. All investments shall mature and become payable as stated in the chart below.

(2) *Diversification.* The investments shall be diversified to minimize the risk of loss resulting from over concentration of assets in specific maturity, specific issuer, or specific class of securities. Diversification strategies shall be established and periodically reviewed. At a minimum, diversification standards by security type and issuer shall be limited to the following maximum percentages of the total portfolio.

Investment Type	Not More Than	Maturity
a. U.S. Treasury bills, notes and bonds (incl. zero coupon)	100%	≤10 years
b. U.S. government agency and instrumentality obligations*	100%	≤7 years
c. Collateralized repurchase	50%	≤90 days
d. Certificates of deposit	100%	≤5 years
e. Commercial paper	~~10%~~ 15%	≤270 days

*Instruments in any single issuer of U.S. agency securities must be AAA rated.

(k) *Reporting.*

(1) *Methods.* The finance director 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 transactions made over the last quarter. This management summary will be prepared in a manner that will allow the city to ascertain whether investment activities during the reporting period have conformed to the investment policy. The report should be provided to the board of aldermen of the city. The report will include the following:

a. Listing of individual securities held at the end of the reporting period.

b. Realized and unrealized gains or losses resulting from appreciation or depreciation by listing the cost and market value of securities over one (1) year duration (in accordance with government accounting standards board (GASB) 31 requirements). [Note, this is only required annually]

c. Average weighted yield to maturity of portfolio on investments as compared to applicable benchmarks.

d. Listing of investment by maturity date.

e. Percentage of the total portfolio which each type of investment represents.

f. Listing of each financial institution and security broker/dealer handling city investments.

g. Copies of the most recent statements from each financial institution and security broker/dealer handling city investments.

(2) *Performance standards.* The investment portfolio will be managed in accordance with the parameters specified within this policy. The portfolio should obtain a market average rate of return during a market/economic environment of stable interest rates. A series of appropriate benchmarks may be established against which portfolio performance shall be compared on a regular basis.

(3) *Marking to market.* The market value of the portfolio shall be calculated at least quarterly and a statement of the market value of the portfolio shall be issued at least annually to the board of aldermen of the city. This will ensure that review of the investment portfolio, in terms of value and price volatility, has been performed.

(l) *Exemption.* Any investment held on the effective date of this policy that does not meet the guidelines of this policy shall be exempted from the requirements of this policy. At maturity of liquidation, such monies shall be reinvested only as provided by this policy.

(m) *Annual review.* The city's investment policy shall be reviewed at least annually by the finance committee and any modifications made thereto must be approved by the board of aldermen.

(Ord. No. 1833, § I—XIV, 6-12-2012; Ord. No. 1921, § 1, 8-12-2014 ; Ord. No. 1974, § 1, 7-14-2015 ; Ord. No. 2090 , § 1, 3-13-2018; Ord. No. 2229 , § 1, 12-14-2021)