

CITY OF ROLLA INVESTMENT POLICY

- 1) **Scope:** This investment policy applies to activities of the City of Rolla (the City) with regard to investing the financial assets of all funds.

- 2) **General Objectives:**
 - a) Funds of the City shall be invested in accordance with Missouri Revised Statute 30.270. The City's investment portfolio shall be managed in a manner to attain a market rate of return throughout budgetary and economic cycles while preserving and protecting capital in the overall portfolio. Investments shall be made based on statutory constraints and subject to available designated staffing capabilities.

 - b) 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. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio.

 - 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 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). Alternatively, a portion of the portfolio may be placed in money market mutual funds or local government investment pools which offer same-day liquidity for short-term funds.

 - 3) **Yield:** The investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints and liquidity needs. The core of investments is limited to relatively low risk securities in anticipation of earning a fair return relative to the risk being assumed.

- 3) **Delegation of Authority:** The Finance Director is designated as the investment officer of the City and is responsible for investment decisions and activities, under the direction of the City Administrator. The Finance Director shall develop and maintain written administrative procedures for the operations of the investment program, consistent with these policies. In order to optimize total return through active portfolio management, resources shall be allocated to the cash management program. This commitment of resources shall include financial and staffing considerations.

- 4) **Standards of Care:**
 - a) **Prudence:**
 - 1) The standard of prudence to be applied by investment officials shall be the "prudent investor" standard which states, "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."

The prudent investor standard shall be applied in the context of managing the overall portfolio.

- 2) The investment officer, acting in accordance with written procedures and exercising due diligence, shall not be held personally responsible for a specific security's credit risk or market price changes, provided that these deviations are reported immediately and appropriate action is taken to control adverse developments.
 - b) **Ethics and Conflicts of Interest:** Investment officials and employees involved in the investment process shall refrain from personal business activities which could conflict with the proper execution and management of the investment program, or which could impair their ability to make impartial decisions. Investment officials and employees shall disclose any material interests in financial institutions in which they conduct business. Disclosures of any personal financial/investment positions related to the performance of the investment City portfolio shall also be made.
- 5) **Investment Transactions:**
- a) **Authorized Financial Dealers and Institutions:** A list shall be maintained of financial institutions authorized to provide investment services. Financial institutions shall provide their most recent Consolidated Report of Condition ("call" report) at the request of the City. In addition, a list shall be maintained of approved security broker/dealers. At minimum, the City shall conduct an annual evaluation of each financial dealer and institution's to determine whether it should be on the "Authorized Financial Dealers and Institutions" listing. Securities dealers not affiliated with a bank shall be required to have an officer located in Missouri which qualifies under Securities and Exchange Commission (SEC) Rule 15C3-1 (uniform net capital rule).
 - b) **Local Considerations:** Where possible, funds may be invested for the betterment of the local economy or that of local entities within the State. The City may accept a proposal from an eligible institution, which provides for a reduced rate of interest provided such institution, documents the use of deposited funds for community development projects. In order for an organization to receive local consideration, the qualified vendor must have a physical location within Phelps County.
- 6) **Internal Controls:** The City shall establish a system of written internal controls, which shall be reviewed annually by the finance/audit committee and independent auditor. The controls shall be designed to prevent loss of public funds due to fraud, error, misrepresentation, unanticipated market change or imprudent actions.
- 7) **Authorized Investments:** In accordance with and subject to restrictions imposed by current state statutes, Chapter 110 RSMO, the following list represents the entire range of investments the City shall consider and be authorized for the investment of funds by the City.
- a) **United States Treasury Securities:** Obligations of the United States government for which the full faith and credit of the United States are pledged for the payment of principal and interest. No collateralization required.
 - b) **United States Agency Securities:** Obligations issued or guaranteed by any agency of the United States Government. No collateralization required.
 - c) **Certificates of Deposit (CD):** Instruments issued by financial institutions which state the specified sums have been deposited for specified periods of time and at specified rates of interest. Collateralization required.

- d) Bankers' Acceptances (BA): Time drafts drawn on and accepted by a commercial bank. The City may invest in bankers' acceptances issued by domestic commercial banks possessing the highest rating issued by Moody's Investor Services, Inc. or Standard & Poor's Corporation. No collateralization required.
- e) Commercial Paper (CP): Instruments issued by domestic corporations receiving the highest rating issued by Moody's Investor Services, Inc. or Standard & Poor's Corporation. Eligible paper is further limited to issuing corporations having total assets in excess of five hundred million dollars (\$500,000,000). No collateralization required.
- 8) **Portfolio Diversification:** The City will diversity use of investment instruments to avoid incurring unreasonable risks inherent in over investing in specific instruments, individual financial institutions or maturities.

<u>Diversification of Instrument</u>	<u>Max. % of Portfolio</u>
U.S. Treasury Securities	100%
U.S. Agency Securities and instrumentalities of Government Sponsored Corporations	100%
Certificates of Deposits (CD's) Commercial Banks Savings and Loan Associations	100%
Bankers' Acceptances (BA's)	30%
Commercial Paper (CP's)	30%

Diversification by Financial Institution:

Certificates of Deposit (CD's) – Commercial Banks: No more than 75% of the total portfolio with any one institution. The City Administrator shall have the authority to waive the condition and when waived shall advise the City Council.

Certificates of Deposit (CD's) – Savings and Loan Associations: No more than 50% of the total portfolio with any one institution.

Bankers' Acceptance (BA's): No more than 30% of the total portfolio.

Diversification by Private Corporation:

Commercial Paper (CP's): No more than 30% of the total portfolio. Single issuer of CP not to exceed 20% of the CP portfolio.

- 9) **Collateralization and Safekeeping:**

- a) All investment securities, requiring collateralization, purchased by the City shall be held in third party safekeeping by the Federal Reserve Bank or unaffiliated custodian banks which are subject to City of Rolla approval. Acceptable securities include any securities which the City may invest under applicable state statutes.
- b) Pledges shall be considered at market value not face value and collateralization shall be at the rate of 100% of the investment.
- c) The primary agent shall issue a safekeeping receipt to the City listing the specific instrument, rate, maturity and other pertinent information. All pledges shall be registered through the City, both confirming the pledge and for the security's release from pledging.

10) **Maturity Scheduling:**

- a) Investment maturities for operating funds shall be scheduled to coincide with project cash flow needs, taking into account large routine expenditures (payroll, bond payments), as well as considering sizable blocks of anticipated revenue (real estate tax turnover, franchise fees, sales tax payments). Investments in bankers' acceptances and commercial paper shall mature and become payable not more than one hundred eighty days (180) from the date of purchases. All other investments shall mature and become payable not more than five (5) years from the date of purchase.
- b) Because of inherent difficulties in accurately forecasting cash flow requirements, a portion of the portfolio should be continuously invested in readily available funds such as local government investment pools, money market funds or overnight repurchase agreements to ensure appropriate liquidity is maintained to meet ongoing obligations.

11) **Competitive Selection of Investment Instruments:**

- a) A competitive bid process shall be conducted before the City invests any surplus funds. If a specific maturity date is required, either for cash flow purposes or conformance to maturity guidelines, bids will be requested for instruments which meet the maturity requirement. If no specific maturity is required, a market trend (yield curve) analysis may be conducted to determine which maturities would be most advantageous.
- b) Bids will be requested from authorized financial institutions and dealers for various options with regard to term and instrument via email or fax. The City will accept the bid which provides the highest rate of return within the maturity required and within the parameters of those policies.
- c) The winning bid will be determined as follows:
 - 1) If a local financial institution is within 1/5 of 1% (.20) of the winning quote, the local financial institution will win the quote over a financial institution located outside of Phelps County. However, if a financial institution outside of Phelps County submits a quote is greater than the 1/5 of 1% (.20), the outside financial institution shall be awarded the bid.
 - 2) In no circumstance may more than 50% of the City's total investment portfolio be invested in a financial institution located outside of Phelps County.
 - 3) If collateralization is required, the winning financial institution shall sufficiently pledge City investments. However, if in the past required pledging has not occurred, the bid may be awarded to the next highest bidder.

- 4) If two (2) institutions quote the same, the investment will remain with the institution where the funds are invested as long as the investment policy's diversification guidelines are met.
 - 5) If two (2) institutions quote the same and the investment is not currently invested with one institution, the bid shall be awarded based on the strongest financial institution financially, based on the latest analysis by the Finance Director per the City investment policy.
 - 6) A transfer of funds shall be made available to the winning bidder within two (2) business days from the bid award date.
 - 7) Interest paid on the investment shall be from the date the quote was awarded to the day of maturity. Payment of interest shall be determined at the time of investment and the terms for payment shall be at the discretion of the investment officer, unless provided for by City Council.
- d) The City will contact each bidding institution regarding the investment bid results. This notification will be by email or fax and will contain the names of the bidding institutions and the interest rate bid.
 - e) Records shall be kept for the bids offered, bids accepted and a brief explanation of the decision which was made regarding the investment.
- 12) **Reporting Requirements:** The investment officer shall generate monthly reports for management purposes. In addition, the City Council shall be provided quarterly reports which will include data on investments held, as well as any narrative necessary for clarifications.
- 13) **Policy Considerations:**
- a) 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 investments shall be reinvested only as provided by this policy.
 - b) Approval of Investment Policy: This policy shall be formally approved and adopted by City Council. This policy shall be reviewed on an annual basis and any changes must be submitted to City Council for approval and re-adoption.