

AN ORDINANCE amending Chapter 2, Administration, of the Joplin City Code by repealing Division 3. Investment Policy in its entirety and enacting a new Division 3. Investment Policy in lieu thereof.

WHEREAS, the Council of the City of Joplin adopted an investment policy on March 20, 1995 (Ordinance 95-38); and,

WHEREAS, the investment environment has changed substantially in the last seven (7) years; and,

WHEREAS, the current policy restricts investments to either U.S. Government Treasuries or collateralized bank certificates of deposits; and,

WHEREAS, the City has had difficulty attracting bids on investments due to the reduction in the number of bonds available for collateralization; and,

WHEREAS, in order to protect public investments the Council of the City of Joplin hereby finds it necessary to amend the City's investment policy.

NOW, THEREFORE, BE IT ORDAINED BY THE COUNCIL OF THE CITY OF JOPLIN,
As follows:

Section 1. That Division 3. Investment Policy of Chapter 2 of the Joplin Municipal Code be repealed in its entirety and enacting a new Division 3. Investment Policy of Chapter 2 of the Joplin Municipal Code to read as follows:

“Division 3. INVESTMENT POLICY.

Sec. 2-221. Generally.

It is the policy of the City of Joplin, Missouri to invest public funds in a manner which will provide the highest investment return with the maximum security while meeting the daily cash flow demands of the City and while conforming to the Constitution of the State of Missouri, and the City Charter of the City of Joplin, Missouri.

Sec. 2-222. Applicability of division.

This investment policy applies to the investment activities of the City of Joplin, Missouri except for the Policeman/Fireman's Pension Trust Fund, Employee Deferred Compensation Plan Funds, Barbee Trust Fund, Connor Trust Fund and Hager Book Trust Fund, which were organized

and administered separately. The financial assets of all other funds, including the General Fund, Special Revenue Funds, Capital Projects Funds, Proprietary Funds, Internal Service Funds and Fiduciary Funds, and any other funds that may be created from time to time, shall be administered in accordance with the provisions of this **policy**.

Sec. 2-223. Standard of prudence.

(a) The standard, of prudence to be used by investment officials shall be that of a “prudent person”, which states, “investments shall be made with the judgment and care, under circumstances then prevailing, which persons of prudence, discretion, and intelligence exercise in their management of their own affairs, not for speculation, but investment, considering the probable safety of their capital as well as the probable income to be derived” and shall be applied in the context of managing the entire portfolio.

(b) Investment officers, acting in accordance with the “prudent person” standard shall be relieved of personal responsibility for an individual security’s credit risks or market price changes, provided deviations from the expectations are reported in a timely fashion and appropriate actions are taken promptly to control adverse developments.

Sec. 2-224. Objective of investment program.

(a) Safety of principal is the foremost objective of the investment program. The cash investments of the City of Joplin, Missouri shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. To obtain this objective, diversification of issuers, securities and maturities **may be needed** in order to reduce overall portfolio risk. **Speculative investments or trading in the pursuit of gain or profit is prohibited.**

(b) The investment portfolio shall be designed with the objective of obtaining a market rate of return throughout the budgetary and economic cycles, taking into account the City’s investment risk constraints and cash flow characteristics of the portfolio. The **guideline** used by the Director of Finance to determine whether the market rate of return is being achieved will normally be the 91-day U.S. Treasury Bill rate. **If the 91-day U.S. Treasury Bill rate is not being achieved (an inverted yield curve being an example), the Finance Director should document the reason.**

(c) The City of Joplin’s investment portfolio will remain sufficiently liquid to enable the City to meet all operating and capital requirements, which might be reasonably anticipated.

Sec. 2-225. Duties of director of finance; investment committee.

(a) The Charter provides that the Director of Finance acts as city treasurer and has custody of all public funds belonging to the City. The responsibility for the day-to-day management of the City’s investment portfolio is delegated to the Director of Finance. The Director of Finance shall establish written procedures for the operation of the investment program, consistent with this division and approved by the Investment Committee. Such procedures shall

include explicit delegation of authority to persons responsible for investment transactions. No person may engage in an investment transaction except as provided under the terms of this **policy** and the procedures established by the Director of Finance. The Director of Finance shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials.

(b) The investment committee is created and composed of the Director of Finance, the City Manager or designee, the City Attorney or designee, and one private sector investment professional **that** shall be appointed by the Mayor. Members of the investment committee shall meet at least quarterly to determine general strategies and monitor results. The investment committee shall include in its deliberations such topics as: economic outlook, portfolio diversification and maturity structure, potential risks to the City of Joplin's funds, expected cash flow requirements, authorized depositories, brokers and dealers, and the target rate of return on the investment portfolio.

Sec. 2-226. Ethics and Conflicts of Interests.

(a) Officers and employees involved in the investment process shall refrain from personal business activity that would conflict with proper execution of the investment program, or which would impair their ability to make impartial investment decisions. Employees and investment officials shall disclose to the City Manager any material financial interests in financial institutions that conduct business with the City of Joplin and they shall further disclose any personal financial investment positions that could be related to the performance of the City's portfolio. Employees and officers shall subordinate their personal investment transactions to those of the City particularly with regard to the timing of purchases and sales.

(b) All participants in the investment process shall seek to act responsibly as custodians of the public trust. Investment officials shall avoid any transaction that might impair public confidence in the City's ability to govern effectively.

Sec. 2-227. Depositories and brokers.

(a) Depositories shall be selected through the government's banking service procurement process, which shall include formal requests for proposals every four years. In selecting depositories, the credit worthiness of the institution shall be considered, and the Director of Finance shall conduct a comprehensive review of prospective depositories' credit characteristics and financial history. Included in the depository and banking services is the bid and evaluation of the overnight investment account.

(b) Banks and Savings and Loan Associations seeking to establish eligibility for the City's competitive certificate of deposit purchase programs shall submit bids as required in the formal bid process which shall be reviewed by the investment committee.

(c) Before accepting funds or engaging in investment transactions with the City of Joplin, the supervising officer at each depository and recognized securities broker/dealer shall

submit a certification. The document will certify that the officer has reviewed the investment policies and objectives and agrees to disclose potential conflicts or risks to public funds that might arise out of the business transactions between the firms/depository and the City of Joplin. All financial institutions shall agree to undertake responsible efforts to preclude imprudent transactions involving the City's funds.

(d) The supervising officers shall agree to exercise due diligence in monitoring the activities of other officers and subordinate staff members engaged in transactions with the City. Employees of any firm or financial institution offering securities or investments to the City shall be trained in precautions appropriate to public sector investments and should be required to familiarize themselves with the City's investment objectives, policies and constraints.

(e) The Director of Finance will maintain a list of financial institutions authorized to provide investment services. In addition, a list will also be maintained of approved security broker/dealers selected by credit worthiness, reputation, and experience who are authorized to provide investment services in the State **of Missouri**. These may include "primary dealers" or regional dealers that qualify under Securities and Exchange Commission Rule 15C3-1 (Uniform Net Capital Rule). No public deposit shall be made except in a qualified public depository as established by the State **of Missouri** laws.

(f) All financial institutions and broker/dealers who desire to become qualified bidders for investment transactions must supply the Director of Finance with the following: audited financial statements, proof of National Association of Security Dealers certification, trading resolution, proof of State **of Missouri** registration, completed broker/dealer questionnaire, certification of having read the entities' investment policy and depository contracts.

(g) An annual review of the financial condition and registrations of qualified bidders will be conducted by the Director of Finance.

(h) A current audited financial statement is required to be on file for each financial institution and broker/dealer, with which the City invests.

Sec. 2-228. Authorized and Suitable Investments.

(a) The Director of Finance shall have the authority to purchase the following securities as investment instruments for the City of Joplin's investment portfolio:

1. United States Treasury Obligations.
 - a. **Maturity of five years or less.**
2. Collateralized Certificates of Deposit in Commercial Banks and Savings and Loan Associations.
 - a. **Maturity of five years or less.**
3. Collateralized Deposits in Commercial Banks and Savings and Loan Associations.

- a. **Maturity of five years or less.**
 - 4. **U.S. Government Agency and U.S. Government Sponsored Entities**
 - a. **Maturity of five years or less.**
 - b. **Includes only those specific debt instruments listed below:**
 - i. **Stated maturity coupon bonds with no embedded options and with final maturities of five (5) years or less.**
 - ii. **Discount Notes. Purchased at a discount with maximum maturities of one (1) year.**
 - iii. **Callable Securities. Restricted to securities callable at par only with final maturities of five (5) years or less.**
 - iv. **Step-Up Securities. The coupon rate is fixed for an initial term. At coupon date, the coupon rate rises to a new, higher fixed term. Restricted to securities with final maturities of five (5) years or less.**
 - v. **Floating Rate Securities. The coupon rate floats off one index and resets at least quarterly with final maturities of three (3) years or less.**
 - c. **U.S. Government Agency and U.S. Government Sponsored Entities shall include only the following: Government National Mortgage Association (GNMA), Federal Farm Credit Banks (FFCB), Federal Home Loan Bank (FHLB), Federal National Mortgage Association (FNMA), and Federal Home Loan Mortgage Association (FHLMC).**
 - 5. **U.S. Government Agency and U.S. Government Sponsored Entities Mortgage Backed Securities.**
 - a. **Restricted to securities with stated final maturities of five (5) years or less.**
 - b. **Mortgage backed securities refers to straight pass through securities. It specifically does not include Collateralized Mortgage Obligations.**
- (b) To provide for the safety and liquidity of the City of Joplin's funds, the investment portfolio will be subject to the following restrictions:
- 1. **Only direct investments are permitted.**
 - 2. **Borrowing for investment purposes (leverage) is prohibited.**
 - 3. **Instruments known as Structured Notes (e.g. 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.**
 - 4. **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.**
 - 5. **Collateralized Mortgage Obligations (CMO) will not be considered by the City of Joplin.**
 - 6. **In no event shall more than 50% of the total investment portfolio of the City be invested in U.S. Government Agencies and U.S. Government Sponsored Entities including a maximum of 25% of the investment portfolio in U.S**

Government Agency and U.S. Government Sponsored Entities Mortgage Backed Securities. Additionally, in no event shall more than 50% of collateralized certificates of deposit be collateralized by obligations of U.S. Government Agencies or U.S. Government Sponsored Entities except that funds collateralized by obligations of GNMA shall not be included in this calculation.

Sec. 2-229. Competitive Selection of Investment Instruments.

(a) **Prior to placing any investment funds**, a competitive “bid” process shall be conducted. If a specific maturity date is required, either for cash flow purposes or for conformance to maturity guidelines, bids will be required for instruments which meet the maturity requirement. If no specific maturity is required, a market trend (yield curve) analysis will be conducted to determine which maturities would be the most advantageous.

(b) A bid will be requested from financial institutions for various options with regard to term and instrument. The City will accept the bid, which provides the highest rate of return within the maturity required and within the parameters of this **policy**.

(c) Records will be kept of the bids offered, the bids accepted and a brief explanation of the decision, which was made regarding the investment.

Sec. 2-230 **Authorized and Suitable** Collateralization.

(a) Section 15.14 of the Joplin City Charter states “The Council shall require all funds of the City in any City depository to be adequately secured by a deposit of obligations of the U.S. government in an amount satisfactory to the Council.” **Any non-investment funds held by the City Depository shall be collateralized by a deposit of United States Treasuries, Government National Mortgage Association (GNMA) securities or other securities backed by the full faith and credit of the United States.** In order to anticipate market changes and provide a level of security for all funds, the collateralization level will be **105%** of market value of principal and accrued interest.

(b) Collateral will always be held by an independent third party with whom the City has a current custodial agreement. A clearly marked evidence of ownership (safe keeping receipt) must be provided to the City and retained.

(c) No change or substitution of securities or **any part of same** shall be made unless approved in writing by the Director of Finance. The securities to deposit under the provisions of this section shall be approved by the Director of Finance.

(d) **Collateral for investment Certificates of Deposit will be limited to investments that Joplin is permitted to invest in directly and for the same length of maturity. (refer to Section 2-228. Authorized and Suitable Investments). An exception to the length of maturity may be made on direct US Treasury obligations and bullet agency / GSE (2-157 4.b.1.) upon**

approval of the investment committee. In order to anticipate market changes and provide a level of security for all funds, the collateralization level will be 106% of market value of principal and accrued interest.

(e) The City reserves the right to approve or reject collateral, after review, based upon the collateral evaluation, existing market and financial conditions.

Sec. 2-231. Safekeeping and custody of securities.

Securities will be held by a third party custodian designated by the Director of Finance and evidenced by safe keeping receipts. Safe keeping procedures shall be reviewed annually by the independent external auditor.

Sec. 2-232. Diversification.

(a) It is the policy of the City of Joplin to diversify its investment portfolio. Assets held in the cash funds and in the other investment funds shall be diversified to eliminate the risk of loss resulting from over concentration of assets in a specific maturity, a specific issuer or a specific class of securities.

(b) In establishing specific diversification strategies the following general policies and constraints shall apply: portfolio maturities will be staggered to avoid undue concentration of assets in a specific maturities sector. Maturities selected shall provide for stability of income and reasonable liquidity.

Sec. 2-233. Maturity of investments.

To the extent possible, the City of Joplin will attempt to match its investments with anticipated cash flow requirements. The City will not directly invest in securities maturing more than **three (3)** years from the date of purchase unless there is a specific project for which the funds are earmarked that will not be used for a longer period, but in no case over five (5) years. **Funds with longer-term investment horizons may only be invested in securities if the maturities of such investments are made to coincide as nearly as practicable with the expected use of funds. The intent to invest in securities with longer maturities must be disclosed in writing to the legislative body at least five (5) days prior to placing the investments.**

Sec. 2-234. Internal controls.

The Director of Finance has established a system of written internal controls, which shall be reviewed annually by the independent external auditor. The controls shall be designed to prevent the loss of public funds due to fraud, error, misrepresentation, and unanticipated market changes or imprudent actions. The independent audit review shall provide internal control by **assuring** compliance with policies and procedures.

Sec. 2-235. Performance standards; investment monitoring.

(a) The investment portfolio will be designed to obtain a market average rate of return during budgetary and economic cycles taking into account the City's investment risks, constraints and cash flow needs.

(b) The Director of Finance will routinely monitor the contents of the portfolio; the available markets and relative values of competing instruments, and with the consent of the Investment Committee will adjust the portfolio accordingly.

Sec. 2-236. Basis for evaluation of performance.

The City's investment strategy is passive. Given this strategy, the **guideline** used by the Director of Finance to determine whether the market rate of return is being achieved will normally be the 91-day U.S. Treasury Bill rate. **If the 91-day U.S. Treasury Bill rate is not being achieved (an inverted yield curve being an example), the Finance Director should document the reason.**

Sec. 2-237. Reports.

(a) *Quarterly reports.* The Director of Finance in consultation with the Investment Committee shall submit quarterly an investment report to the City Council that summarizes investment instruments being held, maturities, purchase price and dates, par values and yield. The quarterly investment report will summarize recent market conditions, economic developments and anticipated investment conditions. The report shall explain the quarter's total investment return and compare the return to budgetary expectations.

(b) *Annual Report.* An annual report will be submitted to the City Council within **ninety (90)** days of the end of the fiscal year on the investment program. The annual report will contain information stated in the interim report, twelve (12) month performance information, a comparison between interest incomes earned for fiscal year with budgeted figures, and suggestions on policies that might be made to the investment program.

Sec. 2-238. Adoption, review and modifications of investment policy.

The investment policy of the City of Joplin shall be adopted by the ordinance of the City Council. **The investment committee shall review the policy on an annual basis and any modifications made thereto must be approved by the City Council."**

Section 2. That this Ordinance shall be in full force and effect from and after the 27th day of April, 2003.

PASSED BY THE COUNCIL OF THE CITY OF JOPLIN, MISSOURI, this 7th day
of April, 2003.

Richard H. Russell, Mayor

ATTEST:

Barbara Hogelin, City Clerk

APPROVED AS TO FORM:
Brian W. Head, City Attorney