RESOLUTION NO. 21-24

A RESOLUTION REVISING THE INVESTMENT POLICY OF THE CITY OF LEE'S SUMMIT, MISSOURI.

WHEREAS, the City receives taxes, fees and charges at different times throughout the year that are not immediately needed to pay for goods and services; and,

WHEREAS, the different funds of the City have varying thresholds for minimum fund balances; and,

WHEREAS, the City occasionally receives proceeds from the sale of bonds for the purpose of financing capital projects over extended periods of time; and,

WHEREAS, the Office of the Missouri State Treasurer publishes a recommended model investment policy for local governments as required by Section 30.950, RSMo.; and,

WHEREAS, Section 30.950, RSMo. requires every political subdivision that is responsible for the management and investment of public funds and has authority to invest such funds in a manner other than in depositary accounts at financial institutions in Missouri to promulgate, formally adopt and comply with a written investment policy; and,

WHEREAS, the City desires to comply with the provisions of Section 30.950, RSMo.; and,

WHEREAS, the City wishes 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 in conformance with applicable state and local statutes and ordinances regarding investments.

NOW, THEREFORE BE IT RESOLVED BY THE COUNCIL OF THE CITY OF LEE'S SUMMIT, MISSOURI, as follows:

SECTION 1. The City of Lee's Summit, Missouri Investment Policy, attached as Exhibit A and incorporated by reference, which guides the City on investing public funds for the highest investment return and with the maximum security is adopted by the City Council, and such policy shall replace and supersede all prior investment policies adopted by the City of Lee's Summit.

PASSED AND ADOPTED by the City Council for the City of Lee's Summit, Missouri this 9th day of November, 2021.

Mayor *William A. Baird*

ATTEST:

City Clerk *Trisha Fowler Arcuri*

APPROVED AS TO FORM:

City Attorney *Brian W. Head*

LEE'S SUMMIT
MISSOURI

INVESTMENT POLICY

I. Scope

This policy applies to the investment of all operating funds of the City of Lee's Summit, hereinafter referred to as City. Longer-term funds, including proceeds from certain bond issues, are covered by a separate policy.

A. Pooling of Funds

Except for cash in certain restricted and special funds, the City will consolidate cash balances from all funds to maximize investment earnings. Investment income will be allocated to the various funds based on their respective participation and in accordance with generally accepted accounting principles.

B. External Management of Funds

Investment through external programs, facilities and professionals operating in a manner consistent with this policy will constitute compliance.

II. General Objectives

The primary objectives, in priority order, of investment activities shall be safety, liquidity, and yield:

A. 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. The objective will be to mitigate credit risk and interest rate risk.

1. Credit Risk

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

- Pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the City will do business.
- Diversifying the portfolio so that potential losses on individual securities will be minimized.

2. Interest Rate Risk

The City will minimize the risk that the market value of securities in the portfolio will fall due to changes in general interest rates, by:

- 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.
- Emphasizing investment of operating funds in shorter-term securities.

B. 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 also may be placed in bank deposits or repurchase agreements that offer same-day liquidity for short-term funds.

C. 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. Return on investment is of secondary importance compared to the safety and liquidity objectives described above. The core of investments is limited to relatively low risk securities in anticipation of earning a fair return relative to the risk being assumed. Securities should not be sold prior to maturity with the following exceptions:

- A security with declining credit may be sold early to minimize loss of principal.
- A security swap would improve the quality, yield, or target duration in the portfolio.
- Liquidity needs of the portfolio require that the security be sold.

III. Standards of Care

A. Prudence

All participants in the investment process shall act responsibly as custodians of the public trust. The standard of prudence to be applied by the investment staff is the "prudent investor" rule, 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."

B. Ethics and Conflicts of Interest

Officers 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. Employees and investment officials shall disclose any material interests in financial institutions 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. Such disclosure shall be made to the Finance Director or, in the case of the Finance Director, to the City Manager. Employees and officers shall refrain from undertaking personal investment transactions with the same person at any financial institution with which business is conducted on behalf of the City.

C. Delegation of Authority

Authority to manage the investment program is granted to the Finance Director and designated staff, hereinafter referred to as investment officer, and derived from the City Charter and Code of Ordinances, Article IV. Responsibility for the operation of the investment program is hereby delegated to the investment officer, who shall act in accordance with the established written procedures and internal controls for the operation of the investment program consistent with this investment policy.

Procedures should include references to: safekeeping, delivery vs. payment, investment accounting, repurchase agreements, wire transfer agreements, and collateral/depository agreements. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the investment officer. The investment officer shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials.

IV. Investment Transactions

A. Authorized Financial Dealers and Institutions

A list will be maintained of approved financial institutions and security broker/dealers selected by creditworthiness as determined by the investment officer and approved by the Finance Director or designee. These may include financial institutions, "primary" dealers or regional dealers that qualify under Securities and Exchange Commission (SEC) Rule 15C3-1 (uniform net capital rule).

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

- Audited financial statements.
- Certification of having read and understood and agreeing to comply with the City's investment policy.

The City may also request the following documents:

- Proof of National Association of Securities Dealers (NASD) certification.
- Proof of state registration.
- Completed broker/dealer questionnaire.

An annual review of the financial condition and registration of qualified financial institutions and broker/dealers will be conducted by the investment officer.

To maximize efficiency, the City will limit the number of authorized financial institutions and broker/dealers to (10) ten. This list may be reviewed annually and if any institution has not submitted a bid in response to recent requests, it may be removed from the current list. The approved financial institutions and broker/dealers will be required to have a presence within the State of Missouri (preferably local).

B. 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 (1) the cost of control should not exceed the benefits likely to be derived and (2) the valuation of costs and benefits require estimates and judgements by management.

The internal controls shall address the following points:

- Control of collusion.
- Separation of transaction authority from accounting and record keeping.
- Custodial safekeeping.

- Avoidance of physical delivery securities.
- Clear delegation of authority to subordinate staff members.
- Written confirmation of transactions for investment and wire transfers.
- Development of a wire transfer agreement with the lead bank and third party custodian.

C. Delivery vs. Payment

All trades where applicable will be executed by delivery vs. payment (DVP) to ensure that securities are deposited in eligible financial institutions prior to the release of funds. All securities shall be perfected in the name for the account of the City and shall be held by a third-party custodian as evidenced by safekeeping receipts.

V. Suitable and Authorized Investments

A. Investment types

In accordance with and subject to restrictions imposed by current statues, the following list represents the entire range of investments that the City will consider and which shall be authorized for the investments of funds by the City.

1. Governmental and Agency Debt – those securities issued by and or guaranteed by the Federal Government or an Agency or Instrumentality of the Federal Government:

a. **United States Treasury Securities**. The City may invest in 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.

b. **United States Agency Securities**. The City may invest in obligations issued or guaranteed by any agency of the United States Government as described in Section V., B.

2. Fixed Income Investments secured by the FDIC insurance and/or Collateral:

a. **Repurchase Agreements**. The City may invest in contractual agreements between the City and commercial banks or government securities dealers. The purchaser in a repurchase agreement (repo) enters into a contractual agreement to purchase U.S Treasury and government agency securities while simultaneously agreeing to resell the securities at predetermined dates and prices.

b. **Collateralized Public Deposits (Certificates of Deposit).** Instruments issued by financial institutions which state that specified sums have been deposited for specific periods of time and at specified rates of interest. The certificates of deposit are required to be backed by acceptable collateral securities as dictated by State statute.

B. Security Selection

The following list represents the entire range of United States Agency Securities that the City will consider and which shall be authorized for the investment of funds by the City. Additionally, the following definitions and guidelines should be used in purchasing the instruments:

- U.S Govt. Agency Coupon and Zero Coupon Securities. Bullet coupon bonds with no embedded options with maturities of five (5) years or less.

- U.S Govt. Agency Discount Notes. Purchased at a discount with maximum maturities of one (1) year.
- U.S Govt. Agency Callable Securities. Restricted to securities callable at par only with final maturities of five (5) years or less.
- U.S Govt. Agency 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.

C. Investment Restrictions and Prohibited Transactions

To provide for the safety and liquidity of the City's funds, the investment portfolio will be subject to the following restrictions:

- Borrowing strictly for investment purposes ("Leverage") is prohibited.
- 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.
- Contracting to sell securities not yet acquired in order to purchase other securities for purpose of speculating on developments or trends in the market is prohibited.

D. Collateralization

Collateralization will be required on two types of investments: certificates of deposit and repurchase agreements. The market value of the collateral should be maintained at a value of at least 105% of the amount of the deposit or repurchase agreement plus accrued interest to maturity, less the amount, if any, which is insured by the Federal Deposit Insurance Corporation, or the National Credit Unions Share Insurance Fund.

All securities, which serve as collateral against the deposits placed with a depository institution, must be held in safekeeping at a non-affiliated custodial facility. Depository institutions pledging collateral against deposits must, in conjunction with the custodial agent, furnish the necessary custodial receipts with five business days from the settlement date.

The City shall have a depository contract and pledge agreement with each safekeeping bank that will comply with the Financial Institutions, Reform, Recovery, and Enforcement Act of 1989 (FIRREA). This will ensure that the City's security interest in collateral pledged to secure deposits is enforceable against the receiver of a failed financial institution.

E. Repurchase Agreements

The securities for which repurchase agreements will be transacted will be limited to U.S Treasury and government agency securities that are eligible to be delivered via the Federal Reserve Fedwire book entry system. Securities will be delivered to the City's designated Custodial Agent. Funds and securities will be transferred on a delivery vs. payment basis when applicable.

VI. Investment Parameters

A. Diversification

The investments shall be diversified to minimize the risk of loss resulting from over

concentration of assets in a 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:

Investment Type	Minimum Allocation	Maximum Allocation
Collateralized Time Deposit/Certificates of Deposit	0%	50%
US Treasury Securities	15%	100%
US Government Agencies & Government Sponsored Enterprises	0%	50%
US Government Agency Callable Securities	0%	15%

B. Maximum Maturities

To the extent possible, the City shall attempt to match its investments with anticipated cash flow requirements. Investments in repurchase agreements shall mature and become payable not more than ninety days (90) from the date of purchase. All other investments shall mature and become payable not more than 5 years from the date of purchase.

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 in bank deposits or overnight repurchase agreements to ensure that appropriate liquidity is maintained to meet ongoing obligations.

VII. Reporting

A. Methods

The investment officer 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 governing body of the City. The report will include the following:

- Listing of individual securities held at the end of the reporting period.
- Realized and unrealized gains or losses resulting from appreciation or depreciation by listing the cost and market value of securities over one-year duration (in accordance with Government Accounting Standards Board (GASB) 31 requirements). [Note, this is only required annually]
- Listing of investment by maturity date.
- Percentage of the total portfolio which each type of investment represents.

B. Performance Standards

The investment portfolio will be managed in accordance with the parameters specified within this policy. Appropriate benchmarks may be established against which portfolio performance shall be compared on a regular basis.

C. 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 governing body of the City. This will ensure that review of the investment portfolio, in terms of value and price volatility, has been performed.

VIII. Policy Considerations

A. Exemption

Any investment currently held that does not meet the guidelines of this policy shall be exempt from the requirements of this policy. At maturity or liquidation, such monies shall be reinvested only as provided by this policy.

B. Adoption of policy

This policy shall be adopted by action of the City of Lee's Summit's governing body. The policy shall be reviewed annually by the investment officer and recommended changes will be presented to the governing body for consideration. Changes in investment procedure/direction will be reported in the quarterly investment report in the recommendations section.