

AN ORDINANCE OF THE CITY OF OSAGE BEACH, MISSOURI, AMENDING SECTION 135.020 D. INVESTING, WITHIN THE OSAGE BEACH CODE OF ORDINANCES (INVESTMENT POLICY) TO CHANGE MINIMUM COLLATERALIZATION REQUIREMENT FROM 102% TO 100%.

**WHEREAS**, the Board of Aldermen hereby finds that it is necessary to establish a policy that applies to the investment of all operating and reserve funds of the City of Osage Beach.

NOW, THEREFORE, BE IT ORDAINED BY THE BOARD OF ALDERMEN OF THE CITY OF OSAGE BEACH, MISSOURI AS FOLLOWS:

Section 1 Amending Section 135.020. D of the Osage Beach Code of Ordinances be and is hereby enacted as follows

*Section 135.020 VI. Suitable and Authorized Investments*

**4. Collateralization**

Collateralization in accordance with Section 30.270 of the Revised Statutes of Missouri will be required. Collateralization will be required on certificates of deposit. The market value (including accrued interest) of the collateral should be at least ~~102%~~ 100% unless fully collateralized by a FHLB irrevocable letter of credit.

For certificates of deposit, the market value of collateral must be at least ~~102%~~ 100% or greater of the amount of certificates of deposits plus demand deposits with the depository, less the amount, if any, which is insured by the Federal Deposit Insurance Corporation, or the National Credit Unions Share Insurance Fund. The FHLB letter of credit shall be equal to 100% of the amount of certificate of deposits plus demand deposits less applicable FDIC insurance.

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

The City of Osage Beach 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.

Section 2. Severability

The chapters, sections, paragraphs, sentences, clauses and phrases of this ordinance are severable, and if any phrase, clause, sentence, paragraph or section of this ordinance shall be declared unconstitutional or otherwise invalid by the valid judgment or

degree of any Court of any competent jurisdiction, such unconstitutionality or invalidity shall not affect any of the remaining phrases, clauses, sentences, paragraphs, or sections of this ordinance since the same would have been enacted by the Board of Aldermen without the incorporation in this ordinance of any such unconstitutional or invalid phrase, clause, sentence, paragraph or section.

Section 3. Repeal of Ordinances not to affect liabilities, etc.

Whenever any part of this ordinance shall be repealed or modified, either expressly or by implication, by a subsequent ordinance, that part of the ordinance thus repealed or modified shall continue in force until the subsequent ordinance repealing or modifying the ordinance shall go into effect unless therein otherwise expressly provided; but no suit, prosecution, proceeding, right, fine or penalty instituted, created, given, secured or accrued under this ordinance previous to its repeal shall not be affected, released or discharged but may be prosecuted, enjoined and recovered as fully as if this ordinance or provisions had continued in force, unless it shall be therein otherwise expressly provided.

Section 4. That this Ordinance shall be in full force and effect from and after the date of passage and approval of the Mayor.

READ FIRST TIME: July 16, 2020 READ SECOND TIME: July 16, 2020

I hereby certify that Ordinance No.20.47 was duly passed on July 16, 2020, by the Board of Aldermen of the City of Osage Beach. The votes thereon were as follows:

Ayes: 5 Nays: 0 Abstentions: 0 Absent: 1

This Ordinance is hereby transmitted to the Mayor for his signature.

July 16, 2020  
Date

Tara Berreth  
Tara Berreth, City Clerk

Approved as to form:

Edward B. Rucker  
Edward B. Rucker, City Attorney

I hereby approve Ordinance No.20.47.

John Olivarri  
John Olivarri, Mayor

July 16, 2020  
Date

Tara Berreth  
Tara Berreth, City Clerk

City of Osage Beach, Missouri  
Investment Policy  
Exhibit A to Section 135.020.D.  
**AMENDED JULY 2, 2020**

**I. Governing Authority**

This investment policy shall be operated in conformance with federal, state and local requirements including the Missouri State Statutes governing the investment of public funds.

**II. Scope**

This policy applies to the investment of all operating and reserve funds of the City of Osage Beach.

**1. Pooling of Funds**

Except for cash in certain restricted and special funds, the City of Osage Beach can 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.

**2. External Management of Funds**

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

**III. General 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. 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 of Osage Beach 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 of Osage Beach will do business; and,
- Diversifying the portfolio so that potential losses on individual investments will be minimized.

**b. Interest Rate Risk**

The City of Osage Beach 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.
- Investing operating funds primarily in shorter-term securities

## **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 also may be placed in bank deposits that 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, considering 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 shall 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.

# **IV. Standards of Care**

## **1. 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 City Treasurer and 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.”

The City Treasurer and staff, acting in accordance with this policy and exercising due diligence, shall not be held personally responsible for a specific security’s credit risk or market price changes. The City Treasurer shall report any deviation to the City Administrator and Mayor and Board of Aldermen immediately and ensure that the appropriate action is taken to control adverse developments.

## **2. 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. Employees and officers shall refrain from undertaking personal investment transactions with the same individual with which business is conducted on behalf of the City of Osage Beach.

## **3. Delegation of Authority**

Authority to manage the investment program is granted to City Treasurer and derived from the Section 115.280 of the City Code of Ordinances and Missouri Revised Statutes 30.270, 110.010 and 110.020. Responsibility for the operation of the investment program is hereby delegated to the City Treasurer with approval of the City Administrator, 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, 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 City Treasurer. The City Treasurer shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate staff.

## **V. Investment Transactions**

### **1. Authorized Broker/Dealers and Financial Institutions**

A list will be maintained of financial institutions authorized to provide investment transactions as stated above. In addition, a list may be maintained of approved security broker/dealers selected by creditworthiness as determined by the City Treasurer and approved by the Board of Aldermen. These may include “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.
- Proof of National Association of Securities Dealers (NASD) certification.
- Proof of state registration.
- Resume, reputation and qualifications of sales representatives
- Firm references.
- Certification of having read, understood, and agreeing to comply with this investment policy.

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

## **2. Internal Controls**

The City Treasurer 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 of Osage Beach 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 judgments by management.

The internal controls shall address the following points:

- Control of collusion.
- Separation of transaction authority from accounting and record keeping within staffing constraints.
- Custodial safekeeping.
  - Securities delivered by book entry shall be held in third party safekeeping by the trust department of the bank in the name of the City of Osage Beach. The trust department of the bank will be a third party for the purposes of safekeeping of securities purchased from the bank.
- Avoidance of physical delivery securities.
- Clear delegation of authority to subordinate staff members.
- Written confirmation of transactions for investments and wire transfers.
- Development of a wire transfer agreement with the lead bank and third-party custodian.
- Accounting method. The City shall comply with the Government Accounting Standard Board (GASB) requirements in reporting assets.

## **3. 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 or for the account of the City of Osage Beach and shall be held by a third-party custodian as evidenced by safekeeping receipts. Certificates of deposit, money market, and investment pool purchases that are typically purchased without DVP can be purchased through a wire or other means provided due diligence has been performed on where the funds are being transferred.

## VI. Suitable and Authorized Investments

### 1. Investment Types

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

- a. United States Treasury Securities. The City of Osage Beach 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. These are commonly referred to as “T-Bill.”
- b. United States Agency Securities & Instrumentalities. The City of Osage Beach may invest in obligations issued or guaranteed by any agency of the United States Government as described in VI. (2).
- c. Collateralized Public Deposits (Certificates of Deposit). Instruments issued by financial institutions which state that specified sums have been deposited for specified periods of time and at specified rates of interest. The certificates of deposit are required to be backed by acceptable collateral securities or insured by Government agencies such as FDIC as dictated by State statute.
- d. Local government investment pools either state-administered or developed through joint powers statutes and other intergovernmental agreement legislation.

### 2. Security Selection

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

- a. U.S. Govt. Agency Coupon and Zero-Coupon Securities. Bullet coupon bonds with no embedded options and with final maturities of not greater than five (5) years.
- b. U.S. Govt. Agency Discount Notes. Purchased at a discount with maximum maturities of one (1) year.
- c. U.S. Govt. Agency Callable Securities. Restricted to securities callable at par only with final maturities of not greater than five (5) years.
- d. U.S. Govt. Agency Step-Up and Step-Down Securities. The coupon rate is fixed for an initial term. At coupon date, the coupon rate changes to a new, Predetermined rate for a specified period, restricted to securities with final maturities of not greater than five (5) years.

- e. U.S. Govt. Agency Floating Rate Securities. The coupon rate floats off one index, that resets at least quarterly, with a final maturity of not greater than five (5) years.
- f. U.S. Govt. Mortgage Backed Securities. Restricted to securities with final maturities of not greater than five (5) years.

**3. 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:

- a. Borrowing for investment purposes (“Leverage”) is prohibited.
- b. 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.
- c. 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.

**4. Collateralization**

Collateralization in accordance with Section 30.270 of the Revised Statutes of Missouri will be required. Collateralization will be required on certificates of deposit. The market value (including accrued interest) of the collateral should be at least ~~102%~~ 100% unless fully collateralized by a FHLB irrevocable letter of credit.

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## **VII. Investment Parameters**

### **1. 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 may consist of investments authorized in section VI paragraph 1 herein.

#### **Maximum Maturities**

To the extent possible, the City of Osage Beach shall attempt to match its investments with anticipated cash flow requirements. All investments shall mature and become payable not more than five (5) years from the date of purchase and must be consistent with the City's investment objectives set out in this policy.

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 money market mutual funds.

#### **Maximum Maturities of Debt Service Reserve Funds**

Investments of monies held as Debt Service Reserve Funds (DSRF) in a Certificate of Deposit or any other instrument, may not carry a maturity date that exceeds the final maturity date of the underlying debt issue.

## **VIII. Reporting**

### **1. Methods**

The City Treasurer shall prepare an investment report at least annually, including a management summary that provides an analysis of the status of the current investment portfolio and transactions made over the last year. This management summary will be prepared in a manner that will allow the City of Osage Beach 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 of Osage Beach. 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.
- Average weighted yield to maturity of portfolio on investments.
- Percentage of the total portfolio which each type of investment represents.

### **3. Marking to Market**

The market value of the portfolio shall be calculated annually and reported to the Board of Aldermen of the City of Osage Beach. This will ensure that review of the investment portfolio, in terms of value and price volatility, has been performed.

## **IX. Policy Considerations**

### **1. Adoption**

This policy shall be adopted by ordinance by the Board of Aldermen of the City of Osage Beach. The policy shall be reviewed annually by the City Administrator and City Treasurer and recommended changes will be presented to the Board of Aldermen for consideration.