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State Laws Pertaining to Acceptable Investments

Missouri State Treasurer Eric Schmitt's Office

General Overview

- Not an all-inclusive list
- Order of significance
 - Missouri Constitution
 - Missouri Statutes (RSMo)
 - Both the constitution and statutes are available online
 - <http://www.moga.mo.gov/const/moconstn.htm>
 - <http://www.moga.mo.gov/statutes/statutes.htm>
 - AGO Opinions – 26-88 and 64-95
 - SB 769 and HB 1879
- Acceptable Investments vs. Collateral
 - Understanding the difference

Constitutional References

Local Governments

- Article VI, Section 23

- Prohibits stock ownership in corporations and/or associations → No equities or mutual funds

- Article VI, Section 25

- Prohibits lending money or granting credit to aid any corporation, association or individual
 - Exception is bond issues with a prevailing public purpose

Constitutional References

Local Governments, continued

- Article VI, Section 16
 - Allows cooperation with other political subdivisions for a common service → Investment pools ???
- Little or no reference to investments
- Article VI, Section 19(a)
 - Limits home rule powers to those consistent with constitution

Constitutional References

State Treasurer's office

- Article IV, Section 15
 - Identifies investment authority of State Treasurer
 - Five-year maximum maturity
 - Time deposits in Missouri financial institutions
 - U.S. Treasuries
 - U.S. government agencies
 - Repurchase agreements
 - Up to 90 days
 - Commercial paper and banker's acceptances
 - Up to 180 days

Investment Types

State Treasurer's office

- Time deposits – must be collateralized in excess of FDIC insurance
- Treasuries – “Risk-free” from a credit/liquidity standpoint
- Agencies – Fannie, Freddie, FFCB, Home Loan, Ginnie
 - Bullet, callable, step-up, mortgage-backed
 - Credit risk
- Repurchase Agreements – major consideration is counterparty risk
- Commercial Paper – must understand corporate credit risk

Statutory References

Local Governments

- Section 165.051, RSMo → School Districts
 - Allows school districts to place funds in time deposits (CDs), Missouri or U.S. bonds, or in any instrument allowed by Art. IV – Sect. 15
- Section 110.270, RSMo → Counties
 - Article IV – Sec. 15 Securities through a local financial institution. Also allows repo.
- Section 110.010, RSMo →
 - Express authority to place funds in financial institutions
 - Gives authority for financial institution to place funds in any allowable investment under Article IV, Section 15

Statutory References

City of St. Louis/Others

- Section 95.530, RSMo → City of St. Louis
 - Time deposits in financial institutions approved by Funds Commission
 - Article IV, Section 15 Securities
- Other References
 - Chapter 67, RSMo – CDARS, Misc Powers
 - SB 769 and HB 1879 made changes to this law
 - Allows purchase of fully insured brokered CD's from ANY institution with reciprocal agreement
 - Chapter 70, RSMo – Govt Cooperation
 - Chapter 182, RSMo – County/City Libraries

Statutory References

Written Investment Policy

- Section 30.260, RSMo
 - Written investment policy required for STO
- Section 30.950, RSMo
 - Any political subdivision responsible for investment of public funds shall develop and adhere to a written investment policy
 - Lack of written policy limits a political subdivision to authorized investments as of January 1, 1997 (maximum of 3 years, no commercial paper)
 - STO required to prepare Model Investment Policy
 - Adoption constitutes compliance with section
 - Available online at <http://www.treasurer.mo.gov/content/for-local-governments>

Statutory References

Collateral Provisions

- Section 110.010, RSMo
 - Requires all public funds be collateralized
- Section 110.020, RSMo
 - Market value of collateral shall be at least 100% of amount on deposit (Less FDIC Ins.)
- Section 30.270, RSMo
 - Lists acceptable collateral

Statutory References

Section 30.270 - Acceptable Collateral

- Treasuries
- U.S. govt. agencies
- State of Missouri bonds
- State agency bonds, including revenue bonds
- Missouri cities with population > 2000
- Missouri counties
- Missouri school districts
- Special road districts
- **Out of State muni's as long as they rated Investment Grade**
- FHLB letters of credit
- Tax anticipation notes (first class counties)
- Surety bonds
- **Brokered CD's (fully insured)**

<https://www.treasurer.mo.gov/link/time.pdf>

Summary

- Raise the professional standard
 - Understand laws that govern your institution
 - Seek advice from your counsel
 - AGO opinions <http://ago.mo.gov/opinions>
 - Manage your risks vs. your returns
 - Gain a comfort level with acceptable investments and collateral
 - Maintain commitment to legality, safety and yield
- Questions?