**Resolution of the City of Port Lavaca, Texas**
**No. R-090913-3**
Amended Resolution No.R-83012-2 on September 9, 2013

# Investment Policy and Strategy

## I. POLICY STATEMENT

It is the policy of the City that the administration of its funds and the investment of those funds shall be handled as its highest public trust. Investments shall be made in a manner which will provide the maximum security of principal invested through limitations and diversification while meeting the daily cash flow needs of the City and conforming to all applicable state statutes governing the investment of public funds.

## II. SCOPE

This investment policy applies to all the financial assets and funds of the City. The City commingles its funds into one pooled investment fund for investment purposes to provide efficiency and maximum investment opportunity. These funds are defined in the City's Comprehensive Annual Financial Report (CAFR).

Any new funds created by the City shall be included unless specifically exempted by the City Council and this policy.

## III. OBJECTIVES

It is the policy of the City that all funds shall be managed and invested with four primary objectives, listed in order of their priority: safety, liquidity, diversification and yield.

Effective cash management is recognized as essential to good fiscal management. Cash management is defined as the process of managing monies in order to ensure maximum cash availability/flow.

Safety

The primary objective of the City's investment activity is the preservation of capital. Each investment transaction shall be conducted in a manner to avoid capital losses, whether from security defaults, safekeeping, or erosion of market value.

Liquidity
The City's investment portfolio shall be structured to meet all cash flow obligations in a timely manner. This shall be achieved by matching investment maturities with forecasted cash flow liabilities and maintain additional liquidity for unexpected liabilities.

Cash Flow Forecasting
Cash flow forecasting is designed to protect and sustain cash flow requirements of the City. Supplemental to the financial and budgetary systems, the Investment Officer will develop and use a cash flow forecasting process as needed to monitor and forecast cash positions for investment purposes.

Diversification
The City's portfolio shall be diversified by market sector and maturity in order to avoid market risk.

Yield
The benchmark of the City's portfolio shall be the 3 month or 6 month U.S. Treasury, designated for its comparability to the City's expected average cash flow pattern. The benchmark will serve as a risk measurement of the portfolio.

## IV. STRATEGY

The City maintains one commingled portfolio for investment purposes which incorporates the specific investment strategy considerations and the unique characteristics of the fund groups represented in this portfolio. The investment strategy has as its primary objective assurance that anticipated liabilities are matched and adequate investment liquidity provided. The City shall pursue a conservative portfolio management strategy. This may be accomplished by creating a ladder maturity structure with some extension for yield advancement. **The maximum weighted average maturity (WAM) of the portfolio shall not exceed 1 year.**

## V. LEGAL LIMITATIONS, RESPONSIBILITIES AND AUTHORITY

Direct specific investment parameters for the investment of public funds in Texas are found in the Public Funds Investment Act, Chapter 2256, Texas Government Code, (the "Act"). The Public Funds Collateral Act, Chapter 2257, Texas Government Code, specifies collateral requirements for all public funds deposits. All investments will be made in accordance with these statutes.

## VI. INVESTMENT COMMITTEE

An Investment Committee, consisting of the City Manager, Finance Director, and at least one Council Member shall meet at least quarterly to determine operational strategies and to monitor results. The Investment Committee shall discuss things such as economic outlook, portfolio diversification, maturity structure, and any potential risk of the City's funds. In addition, this committee shall review investment purchases that occurred since the last investment committee meeting and approve new brokers.

## VII. DELEGATION OF INVESTMENT AUTHORITY

The Finance Director, Scotty Jones, acting on behalf of the City, is designated as the Investment Officer of the City and is responsible for investment management decisions and activities. All participants in the investment process shall seek to act responsibly as custodians of the public trust.

The Investment Officer shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials and staff. The Investment Officer shall attend at least one training session relating to the Officer's responsibility under this act within 12 months after assuming duties and thereafter, a training session should be attended not less than once every two years with at least 10 hours of instruction from an independent source. The Investment Officer shall designate a staff person as a liaison/deputy in the event circumstances require timely action and the Investment Officer is not available.

No officer or designee may engage in an investment transaction except as provided under the terms of this Policy and the procedures established.

Limitation of Personal Liability

The investment Officer and those delegated investment authority under this Policy, when acting in accordance with the written procedures and this Policy and in accord with the Prudent Person Rule, shall be relieved of personal responsibility and liability in the management of the portfolio provided that deviations from expectations for a specific security's credit risk or market price change or portfolio shifts are reported in a timely manner and that appropriate action is taken to control adverse market effects.

## VIII. PRUDENCE

The standard of prudence to be used in the investment function shall be the "prudent person" standard and shall be applied in the context of managing the overall portfolio. This standard 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 expected income to be derived."

## IX. INTERNAL CONTROLS

The Investment Officer shall establish and maintain an internal control structure which will be reviewed annually with the independent auditor of the City. The controls shall be designed to prevent loss of public funds due to fraud, employee error, misrepresentation by third parties, unanticipated market changes, or imprudent actions by employees of the City. The internal controls shall address the following points at a minimum:

- Control of collusion,
- Separation of transaction authority from accounting and record keeping,
- Custodial safekeeping,
- Clear delegation of authority,
- Documentation of all transactions,

Monitoring Credit Ratings

The Investment Officer will monitor, on at least a monthly basis, the credit rating on all authorized investments in the portfolio that require a credit ratings based upon independent information from a nationally recognized credit agency. If any security falls below the minimum rating required by this Policy; the Investment Officer will immediately advise the Investment Committee of the loss of rating and the possible loss of principal. The Investment Committee and Investment Officer will decide on the prudent liquidation of the security.

## X. AUTHORIZED INVESTMENTS

Acceptable investments under this policy shall be limited to the instruments listed below and as further defined and described by the Public Funds Investment Act. If changes are made to the Act, they are not authorized until this Policy is modified and adopted by City Council.

A. Obligations of the United States Government, its agencies and instrumentalities, and government sponsoring enterprises, not to exceed five years to stated maturity, including collateralized mortgage obligations (CMOs); CMO's cannot be either an Interest-Only or Principal-Only CMO nor can it be an inverse floater.

B. Fully insured or collateralized certificates of deposit from a bank doing business in the State of Texas, with a maximum maturity of 18 months, collateralized with 102% coverage with:

- In accordance with 2256.010 of the Act, certificates of deposit may be purchased from a Texas depository institution through a nationally coordinated program in which (a) the depository arranges for deposits in one or more federally insured depositories allowing for full FDIC coverage and (b) the depository receives comparable deposits from other linked depositories.
- Collateral agreements must be in writing and require a bank resolution of approval.

C. FDIC insured *brokered certificates of deposit securities* from a bank in any US State, delivery versus payment to the safekeeping agent, not to exceed two years to maturity. Before purchase, the Investment Officer must verify FDIC status of the bank on www.fdic.gov to assure that the bank is FDIC insured.

D. Commercial paper rated A-1/P-1 or the equivalent by at least two nationally recognized rating agencies not to exceed 90 days to stated maturity.

E. AAA-rated money market mutual funds as defined by the Public Funds Investment Act.

F. Obligations of the States, agencies thereof, Counties, Cities, and other political subdivisions of any state, with a maximum maturity not to exceed five years, and having been rated as investment quality by a nationally recognized investment rating firm of not less than "A" or its equivalent.

G. AAA-rated, constant dollar Texas Local Government Investment Pools as defined by the Public Funds Investment Act - must be approved by City Council.

No additional security will be eligible for investment by the City until this policy has been amended and the amended version approved by the City Council. *Exceptions* to investment maturities may be approved by council in order to meet debt service requirements.

Competitive Bidding Requirement

Generally, the City will seek competitive offerings for all securities, including certificates of deposit before it invests to verify that the City is receiving fair market value/price for the investment with the *exception* of new issues that are still in syndicate.

The City recognizes that a competitive offering process is not always necessary or is not always in the best interest of the City. On these occasions, the Investment Officer is authorized to purchase a security without seeking competitive offerings. Examples of these occasions are:

A. Market conditions are changing rapidly.
B. The security is a "new issue" that is still in the primary market.
C. A specific type of security, maturity date, or rate of return is sought that may not be immediately available.

Delivery versus Payment

All security transactions, including collateral for repurchase agreements, entered into by the City, shall be conducted on a delivery versus payment (DVP) basis. Funds shall not be released until receipt of the security by the City's approved custodian.

Diversification

The City recognizes that investment risks can result from issuer defaults, and market price changes. Risk is controlled through portfolio diversification. The maximum limits for diversification will be:

| **Security Type** | **Max % of Portfolio** |
|---|---|
| US Obligations | not to exceed 80% |
| US Agencies/Instrumentalities | not to exceed 80% |
| -MB Securities | not to exceed 50% |
| Certificates of Deposits* | not to exceed 40% |
| Brokered CD* | not to exceed 20% |
| Commercial Paper | not to exceed 25% |
| Bank Accounts | not to exceed 60% |
| Money Market Funds* | 100% |
| Local Government Investment Pools | 100% |

*Limit per bank up to $250,000 without collateralization agreement.

## XI. AUTHORIZED FINANCIAL DEALERS AND INSTITUTIONS

Depository

The City will designate one banking institution through a competitive process as its central banking services provider at least every five years in accordance with the Texas Government Code 105. Other banking institutions from which the City may purchase certificates of deposit will also be designated after they provide their latest audited financial statements to the City. All depositories will execute a depository agreement and have the Bank's Board or Bank Loan Committee pass a resolution approving the agreement if collateral is required.

Security Broker/Dealers

The Investment Committee will review the list of authorized broker/dealers annually. The Investment Officer will obtain and maintain information on each broker/dealer.
Securities broker/dealers not affiliated with a bank, who desire to transact business with the City must supply the following documents to be maintained by the Finance Department:

-audited financial statement for the most recent period,
-proof of certification by the National Association of Securities Dealers (NASD),
-proof of current registration with the State Securities Commission

Every broker/dealer and bank with whom the City transacts business will be provided a copy of this Investment Policy to assure that they are familiar with the goals and objectives of the City's investment program. A representative of the firm will be required to return a signed certification stating the Policy has been received and reviewed and that controls are in place to assure that only authorized securities are sold to the City.

## XII. SAFEKEEPING AND COLLATERALIZATION

The laws of the State and prudent treasury management require that all purchased securities be bought on a delivery versus payment (DVP) basis and be held in safekeeping by either the City, an independent third party financial institution, or the City's designated depository.

All safekeeping arrangements shall be designated by the Investment Officer and an agreement of the terms executed in writing. The third party custodian shall be required to issue safekeeping receipts to the City listing each specific security, rate, description, maturity, cusip number, and other pertinent information. Each safekeeping receipt will be clearly marked that the security is held for the City or pledged to the City.

All securities pledged to the City for time or demand deposits shall be held by an independent third party bank doing business in Texas. The safekeeping bank may not be within the same holding company as the bank where the securities are pledged. The bank is responsible for monitoring collateral.

Collateralization

Collateralization shall be required on certificates of deposits over the FDIC insurance coverage of $250,000. In order to anticipate market changes and provide a level of additional security for all funds, the collateralization level required will be 102% of the market value of the principal and accrued interest. Collateral will be held by an independent third party safekeeping agent.

## XIII. PERFORMANCE EVALUATION AND REPORTING

The Investment Officer shall submit quarterly reports to the City Council containing sufficient information to permit an informed outside reader to evaluate the performance of the investment program and consistent with statutory requirements. The Investment officer will report to the Investment Committee a report that will include the following at a minimum:

- A full description of all securities held at the end of the reporting period,
- Overall change in market value for each security and the change during the period as a measure of volatility (obtained by an independent source),
- Weighted average maturity (WAM) of the portfolio,
- Total earnings for the period,
- Compare market value of pledged securities to the ending balance of the City's portfolio,
- Analysis of the total portfolio by maturity, by book value, and
- Statement of the compliance of the investment portfolio with the Act and the Investment Policy and Strategy of the City.

## XIV. INVESTMENT POLICY AMENDMENTS

The Director of Finance and the Investment Committee shall review the Investment Policy and Strategy on an annual basis. Future recommended changes will be approved by the City Council amending the current Investment Policy and Strategy resolution on record.

WITNESS MY HAND AND SEAL OF OFFICE this 9th day of August, 2013.

PASSED AND APPROVED this the 9th day August, 2013.

Jack Whitlow, Mayor

ATTEST:

Mandy Grant, City Secretary