# City of La Porte, Texas Investment Policy

Adopted by the City Council Of the City of La Porte On January 13, 1992, by Ordinance No. 1802



# Amended:

November 1995 August 1997 November 2000 February 2003 February 2005 October 2005 July 2009 May 2011

# City of La Porte, Texas

Michael G. Dolby, CPA Director of Finance

Shelley Wolny Treasurer

# I. POLICY

It is the policy of the City of La Porte, Texas (the "City") to administer and invest its funds in a manner which will preserve the principal and maintain the liquidity through limitations and diversification while meeting the daily cash flow requirements of the City. The City will invest all available funds in conformance with legal and administrative guidelines, seeking to optimize interest earnings to the maximum extent possible.

The purpose of this investment policy is to comply with all statutes governing the investment of the City's funds, including the Public Funds Investment Act, Chapter 2256 of the Texas Government Code (the "Act"), which requires the City to adopt a written investment policy regarding the investment of its funds and funds under its control. The Investment Policy addresses the methods, procedures and practices that must be exercised to ensure effective and judicious fiscal management of the City's funds.

#### II. SCOPE

The City will strive to earn a return on funds invested at the highest investment return possible after taking in consideration the primary goals of preservation of principal and liquidity of funds invested, consistent with the policy objectives described below. This investment policy applies to the investment activities of the government of the City of La Porte, Texas.

<u>FUNDS INCLUDED</u> The City's funds, which are pooled together and constitute the investment portfolio, include all financial assets of all funds managed by the City, including but not limited to receipts of tax revenues, charges for services, bond proceeds, interest incomes, loans and funds received by the City where the City performs a custodial function. These funds are accounted for in the City's Comprehensive Annual Financial Report (CAFR) and include:

General Fund Special Revenue Funds Debt Service Funds Capital Projects Funds Enterprise Funds Internal Service Funds

Investment income will be allocated to the various funds based on their respective participation and in accordance with generally accepted accounting principles.

#### III. OBJECTIVES

<u>SAFETY</u> The primary objective of the City's investment activity is the preservation of capital and the protection of investment principal in the overall portfolio. Each investment transaction shall seek first to ensure that capital losses are avoided, whether they are from securities defaults or erosion of market value. The City will strive to minimize credit risk by limiting investments to the safest types of investments, prequalifying the financial institutions and broker/dealers with which the City conducts business, and diversify the investment portfolio so that potential losses on individual issuers will be minimized. To minimize interest rate risk, the City will ladder the portfolio and match investments with future cash requirements and invest operating funds in shorter, more liquid securities and investments.

<u>LIQUIDITY</u> The City's investment portfolio will remain sufficiently liquid to enable the City to meet operating requirements that might be reasonably anticipated. Liquidity shall be achieved by matching investment maturities with forecasted cash flow requirements and by investing in securities with active secondary markets. Because all possible cash demands cannot be anticipated, a portion of the portfolio will be invested in shares of money market mutual funds or local government investment pools that offer same day liquidity.

<u>PUBLIC TRUST</u> 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. The governing body recognizes that in a diversified portfolio, occasional measured losses due to market volatility are inevitable, and must be considered within the context of the overall portfolio's investment return, provided that adequate diversification has been implemented.

<u>YIELD (Optimization of Interest Earnings)</u> The City's cash management portfolio shall be designed with the objective of regularly meeting or exceeding the average rate of return on U.S. Treasury Bills at a maturity level comparable to the City's weighted average maturity in days. The investment program shall seek to augment returns above this threshold consistent with risk limitations identified herein and prudent investment principles.

# IV. RESPONSIBILITY AND CONTROL

Oversight Responsibility for the investment activity of the City of La Porte shall rest with the Fiscal Affairs Committee and the City Manager.

<u>DELEGATION</u> Management responsibility for the investment program is hereby delegated to the Director of Finance, who shall establish written procedures for the operation of the investment program, consistent with this investment policy. Such procedures shall include explicit delegation of authority to persons responsible for investment transactions.

<u>SUBORDINATES</u> All persons involved in investment activities will be referred to as "Investment Officers." No person shall 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 Investment Officers. All investment officers, including the Director of Finance, will demonstrate competence in the execution of the city's investments. All Investment Officers will insure compliance with the investment program with ongoing training and evaluation by management.

<u>PRUDENCE</u> Investments shall be made with the exercise of due care, 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 own capital as well as the probable income to be derived. Investment Officers acting in accordance with written procedures and this investment policy and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and the liquidity and the sale of securities are carried out in accordance with the terms of this policy.

<u>IMDEMNIFICATION</u> The Director of Finance and the Investment Officer, acting in accordance with written procedures and exercising due diligence, shall not be held personally responsible for

a specific investment's credit risk or market price changes, provided that these deviations are reported immediately and the appropriate action is taken to control adverse developments.

ETHICS DISCLOSURE AND CONFLICTS OF INTEREST Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with proper execution and management of the investment program, or which could impair their ability to make impartial investment decisions. Employees and Investment Officers shall disclose to the City Manager any material interests in financial institutions that conduct business with the City of La Porte, and shall further disclose any personal financial or investment positions that could be related to the performance of the City's investment portfolio. Employees and Investment Officers shall refrain from undertaking personal investment transactions with the same individual with which business is conducted on behalf of the City of La Porte.

An Investment Officer of the City of La Porte who has a personal business relationship with an organization seeking to sell an investment to the City of La Porte shall file a statement disclosing that personal business interest. An Investment Officer who is related within the second degree by affinity or consanguinity to an individual seeking to sell an investment to the City of La Porte shall file a statement disclosing that relationship. A statement required under subsection 2256.005(i) of the Act must be filed with the Texas Ethics Commission and the governing body of the City of La Porte.

TRAINING Investment Officers shall attend 10 hours of investment training within 12 months after taking office or assuming duties, and 10 hours every succeeding two years. The investments training shall be provided from an independent source approved by the Fiscal Affairs Committee to insure the quality and capability of investment management in compliance with the Act. For the purposes of this policy, an "independent source" is defined as a professional organization, an institute of higher learning or any other sponsor other than a Business Organization with whom the City may engage in investment transactions. Training shall be in accordance with the Act and shall include education in investment controls, security risks, strategy risks, market risks, diversification of investment portfolio, and compliance with statutes governing the investment of public funds.

#### V. **REPORTING**

Investment reports shall be prepared quarterly and be signed and submitted by the Investment Officers, in a timely manner. These reports will be submitted to the City Manager and City Council. This report shall describe in detail the investment position of the City, disclose the market value and book value of each fund group as well as each separate investment, and state the maturity date of each security and accrued interest for the reporting period. The report shall include all information as required by Section 2256.023 of the Act. It must also express compliance of the portfolio to the investment strategy contained in the City's Investment Policy, the Act, and Generally Accepted Accounting Principles (GAAP).

<u>MONITORING</u> The market price of each investment shall be obtained monthly from a source such as the Wall Street Journal newspaper, a reputable brokerage firm or security pricing service and reported on the investment reports.

# VI. **INVESTMENTS**

<u>ACTIVE PORTFOLIO MANAGEMENT</u> The City intends to pursue active versus passive portfolio management philosophy. That is, securities may be sold before they mature if market conditions present an opportunity for the City to benefit from the trade.

<u>AUTHORIZED INVESTMENTS</u> The following are authorized investments for the City and all are authorized and further defined by the Act:

A. Obligations, including letters of credit, of the United States or its agencies and instrumentalities; direct obligations of this state or its agencies and instrumentalities; other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, this state or the United States or their respective agencies and instrumentalities; and obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent. (Section 2256.009 (a) of the Act)

The following are not authorized investments under Section 2256.009 (b) of the Act:

- obligations whose payment represents the coupon payment on the outstanding principal balance of the underlying mortgage-backed security collateral and pays not principal (Interest only bonded);
- obligations whose payment represents the principal stream of cash from the underlying mortgage-backed security collateral and pays no interest (Principal only bonds);
- collateralized mortgage obligations that have a final stated maturity date of greater than 10 years; and
- collateralized mortgage obligations, the interest rate of which is determined by an index that adjusts opposite to the changes in a market index.
- B. Fully collateralized certificates of deposit issued by a depository institution that has its main office or branch office in Texas and, guaranteed or insured by the Federal Deposit Insurance Corporation or its successor or the National Credit Union Share Insurance Fund or its successor; secured by obligations authorized by this subchapter, or secured in any other manner and amount provided by law for deposits of the City. (Section 2256.010 of the Act)
- C. Fully collateralized repurchase agreements with a defined termination date; and secured by obligations described by the Act (Section 2256.009 (a)(1)); such collateral, held in the City's name, and deposited at the time the investment is made with the City or an independent third party selected and approved by the City. Repurchase agreements must be purchased through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in this Texas. Repurchase agreements and reverse repurchase agreements shall be entered into only with dealers who have executed a Master Repurchase Agreement with the City. The term of any reverse security repurchase agreement may not exceed 90 days after the date the reverse security repurchase agreement is delivered. Money received by the City under the terms of a reverse security repurchase agreement shall be used to acquire additional authorized investments, but the term of the authorized–investments acquired must mature no later than the expiration date stated in the reverse security repurchase agreement. (Section 2256.011 of the Act)

- D. Bankers' acceptances with a stated maturity of 270 days or fewer from the date of its issuance; liquidated in full at maturity; eligible for collateral for borrowing from a Federal Reserve Bank; and accepted by a bank organized and existing under the laws of the United States or any state, if the short-term obligations of the bank, or of a bank holding company of which the bank is the largest subsidiary, are rated not less that A-1 or P-1 or an equivalent rating by at least one nationally recognized credit rating agency. (Section 2256.012 of the Act)
- E. Commercial Paper with a stated maturity of 270 days or fewer from the date of its issuance; and is rated not less than A-1 or P-1 or an equivalent rating by at least two nationally recognized credit rating agencies. (Section 2256.013 of the Act)
- F. AAA-rated, no-load money market mutual funds registered with and regulated by the Securities and Exchange Commission; having a dollar-weighted average stated maturity of 90 days or fewer; and includes in its investment objectives the maintenance of a stable net asset value of \$1 for each share. (Section 2256.014 of the Act) The Fund must provide the City with a prospectus and other information required by the Securities and Exchange Act of 1934 (15 U.S.C. Section 80a-1 et seq.);

The City is not authorized by Section 2256.014 (c) of the Act to:

- invest in the aggregate more than 15 percent of its monthly average fund balance, excluding bond proceeds and reserves in other funds held for debt service, in mutual funds described in the Act (Section 2256.014);
- invest any portion of bond proceeds, reserves and funds held for debt service, in mutual funds described in the Act (Section 2256.014); or
- invest its funds or funds under its control, including bond proceeds and reserves and other funds held for debt service, in any one mutual fund described in the Act (Section 2256.014) in an amount that exceeds 10 percent of the total assets of the mutual fund.
- G. Guaranteed Investment Contracts (GICS) with a defined termination date; secured by obligations described in the Act (Section 2256.009) in an amount at least equal to the amount of bond proceeds invested under the contract; and pledged to the City and deposited with the City or with a third party selected and approved by the City. GICS are further subject to the limitations contained in Section 2256.015 of the Act.
- H. AAA-rated, constant dollar, investment pools with a weighted average maturity of no greater than 90 days as authorized by the City Council and as further defined by the Act, which invests in eligible securities as authorized by Section 2256.016 of the Act.

<u>EXISTING INVESTMENTS</u> The Investment Officer is not required to liquidate investments that were authorized investments at the time of purchase. Any investments currently held that do not meet the guidelines of this policy shall be reviewed to determine the ability to liquidate. If the investment cannot be liquidated because of material adverse change in the value since the time of purchase, and holding the investment to maturity does not negatively affect disbursements or cash flow, a recommendation of holding said investment to maturity is acceptable.

<u>MAXIMUM MATURITIES</u> The maximum stated maturity, from the date of purchase, for any individual investment may not exceed 5 years and the maximum dollar-weighted average maturity for the pooled fund group (investment portfolio) may not exceed 2 years.

<u>DIVERSIFICATION</u> It is the policy of the City to diversify its investment portfolios. Assets held in the pooled investment portfolio shall be diversified to eliminate 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 determined and revised periodically by the Fiscal Affairs Committee.

<u>FINANCIAL INSTRUMENTS</u> Maximum allowable percentages of the total portfolio for investments are stated as follows:

	Investment Type	Maximum Limit
1.	Investment Pools	100%
2.	Money Market Accounts	10%
3.	Certificates of Deposit	60%
4.	U.S. Government Securities	80%
5.	U.S. Agency Securities	80%
6.	Repurchase Agreements	50%
7.	Bankers' Acceptances	20%
8.	Commercial Paper	25%

# VII. SELECTION OF FINANCIAL INSTITUTIONS AND BROKER DEALERS

<u>SELECTION OF FINANCIAL INSTITUTIONS</u> Depositories shall be selected through the City's banking services procurement process, which shall include a formal request for proposal (RFP) issued every five (5) years. In selecting depositories, the services available, service costs, and credit worthiness of institutions shall be considered, and the Director of Finance shall conduct a comprehensive review of prospective depositories' credit characteristics and financial history.

The City shall select financial institutions from which the City may purchase certificates of deposit in accordance with the Act and this policy and will have a written depository agreement with the selected institution. The Investment Officer shall monitor the fiscal condition of financial institutions where certificates of deposit are held.

AUTHORIZED FINANCIAL BROKER/DEALERS AND INSTITUTIONS The Investment Officer shall maintain a list of broker/dealers and financial institutions authorized to provide investment services. These may include primary dealers or regional dealers that qualify under Securities & Exchange Commission Rule 15C3-1 (uniform net capital rule). All financial institutions and broker/dealers who desire to become qualified bidders for investment transactions must submit: audited financial statements, proof of National Association of Security Dealers certification, and proof of state registration.

Before engaging in investment transactions with a financial institutions or broker/dealers, the Investment Officer shall have received, from a Qualified Representative of said firm, a signed Certification Form. (Exhibit B) This form shall attest that the individual responsible for the City's account with that firm has (1) received and reviewed the investment policy of the City; and (2) acknowledged that the business organization has implemented reasonable procedures and controls in an effort to preclude investment transactions conducted between the City and the organization that are not authorized by the City's investment policy, except to the extent that this authorization is dependent on an analysis of the makeup of the City's entire portfolio or requires an interpretation of subjective investment standards. Investment Officers of the City may not acquire or otherwise obtain any authorized investment described in the investment policy from a

person who has not delivered a signed Certification Form. The Fiscal Affairs Committee shall at least annually review, revise, and adopt a list of qualified broker/dealers and other financial institutions that are authorized to engage in investment transactions with the City. (Exhibit A)

<u>COMPETITIVE BIDDING All</u> investment transactions must be competitively transacted and executed with broker/dealers or financial institutions that have been authorized by the City. The City will obtain at least three competitive offers. Exception: New issues will not be required to be competitively transacted as all broker/dealers would show the same price and yield.

# VIII. COLLATERAL

COLLATERALIZATION OF PUBLIC DEPOSITS Collateralization requirements are governed by the Texas Government Code Chapter 2257 (Public Funds Collateral Act). All bank deposits, certificates of deposit, and repurchase agreements shall be secured by pledged collateral. In order to anticipate market changes and provide a level of security for all funds, the required minimum collateral level will be a market value equal to no less than 102% of the deposits. Collateral levels should be monitored and maintained by the financial institution. Repurchase agreements shall be documented by specific agreement noting the collateral pledged in each agreement and should be monitored daily. Collateral shall be reviewed monthly to assure the market value of the securities pledged equals or exceeds the related bank balances.

Collateral shall always be held in the City's name by an independent third party with whom the City of La Porte has a current custodial agreement. Evidence of the pledged collateral shall be maintained by a written agreement. A safekeeping receipt must be supplied to the City of La Porte for any transaction involving sales/purchases/maturities of securities and/or underlying collateral, which the City of La Porte will retain. The right of collateral substitution is granted provided the substitution has prior approval of the City and is followed by the delivery of an original safekeeping receipt to the City, and replacement collateral is received prior to the release of original collateral.

COLLATERAL DEFINED The City shall accept only the following securities as collateral:

- A. FDIC insurance coverage;
- B. United States Treasuries and Agencies;
- C. Obligations, including letters of credit, of the United States or its agencies and instrumentalities.
- D. Other securities as approved by the Fiscal Affairs Committee.

<u>SUBJECT TO AUDIT</u> All collateral shall be subject to inspection and audit by the Director of Finance or the City's independent auditors.

### IX. SAFEKEEPING AND CUSTODY

<u>SAFEKEEPING AGREEMENT</u> All securities owned by the City shall be held in the City's designated third party safekeeping. The third party custodian shall be required to issue safekeeping receipts to the City listing each specific security, description, maturity, cusip number yield and/or coupon and other pertinent information. Each safekeeping receipt shall clearly indicate that the instrument is held for the City of La Porte. All safekeeping arrangements shall be documented by the Investment Officer.

<u>DELIVERY VERSUS PAYMENT</u> All investment transactions shall be executed on a delivery versus payment basis. That is, funds shall not be wired or paid until verification has been made that the collateral was received by the Trustee. The collateral shall be held in the name of the City. The Trustee's records shall assure the notation of the City's ownership of or explicit claim on the securities. The original copy of all safekeeping receipts shall be delivered to the City.

# X. MANAGEMENT AND INTERNAL CONTROLS

The Director of Finance shall establish a system of internal controls, which shall be reviewed by an independent auditor. The controls shall be designed to prevent losses of public funds arising from fraud, employee error, misrepresentation by third parties, unanticipated changes in financial markets, or imprudent actions by employees or Investment Officers of the City.

Controls and managerial emphasis deemed most important that shall be employed where practical are:

- A. Control of collusion
- B. Separation of duties
- C. Separation of transaction authority from accounting and record keeping
- D. Custodian safekeeping receipts records management
- E. Avoidance of physical delivery securities
- F. Clear delegation of authority to subordinate staff members
- G. Documentation on investment bidding events
- H. Written confirmation of transactions for investments and wire transfers
- I. Reconcilement and comparisons of security receipts with the investment subsidiary records
- J. Compliance with investment policies
- K. Accurate and timely reports
- L. Validation of investment maturity decisions with supporting cash flow data
- M. Adequate training and development of Investment Officers
- O. Review of financial condition of all brokers, dealers and financial institutions
- P. Staying informed about market conditions, changes, and trends that require adjustments in investment strategies

<u>COMPLIANCE AUDIT</u> The City shall perform, in conjunction with its annual financial audit, a compliance audit of management controls on investments and adherence to the entity's established investment policies. The audit shall include a formal review of the quarterly investment reports by an independent auditor and the results reported to the governing body by the independent auditor. Also, the governing body shall review its investment policy and investment strategy not less than annually and adopt a written instrument by rule, order, ordinance, or resolution stating that it has reviewed the investment policy and strategy, and recorded any changes made to them.