

ORDINANCE NO. 112

**A ORDINANCE ADOPTING AN INVESTMENT POLICY FOR THE CITY OF  
UHLAND, TEXAS.**

WHEREAS, the City of Uhlund, Texas ("City") desires to re-adopt an investment policy in accordance with the Texas Public Funds Investment Act, Chapter 2256, Texas Government Code; and

WHEREAS, the City Council of the City has reviewed the Investment Policy attached hereto and incorporated herein as Exhibit "A" and desires to re-adopt said Investment Policy; NOW THEREFORE,

BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF UHLAND, TEXAS  
THAT:

1. The Investment Policy attached hereto and incorporated herein as Exhibit "A" is hereby re-adopted by the City Council as the City's Investment Policy in accordance with the Texas Public Funds Investment Act, Chapter 2256, and Texas Government Code.

ADOPTED this the 15 day of February, 2011.

  
MAYOR

ATTEST

  
CITY SECRETARY

# **CITY OF UHLAND, TEXAS**

## **INVESTMENT POLICY**

### **I. INVESTMENT POLICY STATEMENT**

It is the policy of the City of Umland, Texas ("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 and City statutes governing the investment of public funds. The receipt of a market rate of return will be secondary to the requirements for safety and liquidity. It is the intent of the City to be in complete compliance with local and state law. The earnings from investment will be used in a manner that best serves the public trust and interests of the City.

### **II. SCOPE**

This investment policy applies to all the financial assets and funds held by the City. These funds are defined in the City's annual financial report and include:

- General Fund
- Special Revenue Funds
- Debt Service Funds
- Capital Project Funds
- Proprietary Funds
- All Other Funds

### **III. OBJECTIVES AND STRATEGY**

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. These objectives encompass:

#### Safety of Principal

Safety of principal is the foremost objective of the City. Investments of the City shall be undertaken in a manner that seeks to insure the preservation of capital in the overall portfolio. To obtain this goal, diversification is required in the portfolio's composition. The suitability of each investment decision will be made on the basis of these objectives.

#### Liquidity

The City's investment portfolio will remain sufficiently liquid to enable it to meet all operating requirements which might be reasonably anticipated.

### Diversification

Diversification of the portfolio will include diversification by maturity and market sector and may include the use of a number of broker/dealers for diversification and market coverage. If applicable to the particular investment, competitive bidding will be used on each sale and purchase.

### Yield

The City's investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the City's risk constraints and the cash flow of the portfolio. "Market rate of return" may be defined as the average yield of the current three month U.S. Treasury Bill or such other index that most closely matches the average maturity of the portfolio.

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. The City shall maintain a comprehensive cash management program which includes collection of accounts receivable, prudent investment of its available cash, disbursement of payments in accordance with invoice terms and the management of banking services.

## **IV. LEGAL LIMITATIONS, RESPONSIBILITIES AND AUTHORITY**

Direct specific investment parameters for the investment of public funds in Texas are found in the Texas Public Funds Investment Act, Chapter 2256, Texas Government Code.

## **V. DELEGATION OF INVESTMENT AUTHORITY**

The Treasurer of the City of Uhland, acting on behalf of the City Council, is designated as the Investment Officer of the City and is responsible for investment management decisions and activities.

The City Council is responsible for considering the quality and capability of staff, investment advisors, and consultants involved in investment management and procedures. All participants in the investment process shall seek to act responsibly as custodians of the public trust.

The Investment Officer shall develop and maintain written administrative procedures for the operation of the investment program which are consistent with this investment policy and state law. If applicable to the current or near-term (less than 90 days) investment needs of the City, procedures will include reference to safekeeping, require and include PSA Master Repurchase Agreements, wire transfer agreements, banking services contracts, and other investment related activities.

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.

No officer or designee may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the Investment Officer and approved by the City Council.



## **VI. 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.”

### **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.

### **Ethics and Conflicts of Interest**

City staff and involved with the investment process shall refrain from personal business activity that could conflict with proper execution of the investment program, or which could impair the ability to make impartial investment decisions. City staff shall disclose to the Mayor and City Council any material financial interests in financial institutions that conduct business with the City and they shall further disclose positions that could be related to the performance of the City’s portfolio. City staff shall subordinate their personal financial transactions to those of the City, particularly with regard to timing of purchases and sales.

An Investment Officer of the City who has a personal business relationship with an organization seeking to sell an investment to the City 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 shall file a statement disclosing that relationship. A statement required under this subsection must be filed with the Texas Ethics Commission and the governing body of the City.

The Mayor and City Council shall be bound by the contents of the above paragraphs relating to Ethics and Conflicts of Interest and shall be held to the same standards as those of the Investment Officer and city staff.

## **VII. INTERNAL CONTROLS**

The Investment Officer shall establish a system of written internal controls which will be reviewed annually with the independent auditor of the City. The results of this review shall be reported to the City Council.

The controls shall be designed to prevent loss of public funds due to fraud, theft, loss, misuse, employee error, misrepresentation by third parties, unanticipated market changes, or imprudent actions by employees of the City. The internal control structure shall be designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that 1) the cost of a control should not exceed the benefits likely to be derived; and 2) the valuation of costs and benefits requires estimates and judgments by management.

### 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 maintain a cash flow forecasting process designed to monitor and forecast cash positions for investment purposes. Cash flow will include the historical researching and monitoring of specific cash flow items, payables and receivables as well as overall cash position and patterns.

## **VIII. AUTHORIZED INVESTMENTS**

Acceptable investments under this policy shall be limited to the instruments listed below. The investments are to be chosen in a manner which promotes diversity or market sector and maturity. The choice of high-grade government investments and high-grade, money market instruments is designed to assure the marketability of those investments should liquidity needs arise.

- A. Obligations, including letters of credit, of the United States Government, its agencies and instrumentalities, and government sponsoring enterprises, not to exceed two years to stated maturity;
- B. Fully insured or collateralized certificates of deposit from a bank domiciled in the State and under the terms of a written depository agreement with that bank, not to exceed one year to the stated maturity;
- C. Repurchase agreements and reverse repurchase agreements not to exceed 180 days to stated maturity, secured by the delivery of obligations of the United States or its agencies or instrumentalities, provided an executed PSA Master Repurchase Agreement is on file with the City or primary dealer. The repurchase and reverse repurchase agreement transactions shall be placed only with primary government securities dealers, as recognized by the Federal Reserve, or state or national banks doing business in the State of Texas.;
- D. No-load money market mutual fund which (1) is registered with and regulated by the United States Securities and Exchange Commission (SEC), (2) is rated "AAA" or the equivalent by at least one nationally recognized investment rating firm, (3) maintains a dollar-weighted average stated maturity of 90 days or fewer and a dollar-weighted average maturity of 60 days or fewer, (4) includes in its investment objectives the maintenance of a stable net asset value of \$1.00 per share, and (5) provides a prospectus and other information required by the Securities Exchange Act of 1934 and the Investment Company Act of 1940 to the co-administrator that provides investment management services.;
- E. Local Government Investment Pools as defined by State law; and,

### Competitive Bidding Requirement

All certificates of deposit, will be purchased or sold only after three (3) offers/bids are taken (orally, in writing, electronically, or any combination thereof) to verify that the City is receiving fair market value/price for the investment.

### 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.



## **IX. AUTHORIZED FINANCIAL DEALERS AND INSTITUTIONS**

All investments made by the City will be made through either the City's banking services bank, Local Government Investment Pool, or a primary dealer.

The City shall maintain a list of financial institutions which are authorized to provide investment services. Banks shall provide their most recent "Consolidated Report of Condition" (call report) or the equivalent at the City's request. At a minimum the City shall conduct an annual evaluation of the creditworthiness of each bank where an investment is held, and determine whether it should be on the "Qualified Institution" listing.

Securities broker/dealers not affiliated with a bank, shall be required to be classified as reporting dealers affiliated with the New York Federal Reserve as primary dealers, and meet certain other criteria as determined by the Investment Officer. A list of no more than five (5) authorized primary dealers will be established and maintained. The following criteria must be met by those firms on the list: provision of an 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, and completion of a City questionnaire.

Every dealer 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 investment program.

As investments are made, the Investment Officer shall rotate from the authorized bidder's list for bids/offers. An attempt will be made to alternate all names on the list.

## **X. DIVERSIFICATION AND MATURITY LIMITATIONS**

It is the policy of the City to diversify its investment portfolio. Invested funds shall be diversified to minimize risk or 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:

- US Government Securities, Agencies and Instrumentalities - 100%

- Fully insured or collateralized CD's - not to exceed 50%

- Repurchase agreements - 100%

- Money Market funds – 80% of operating funds

- Local Government Investment Pools – 100%

The Investment Officer shall be required to diversify maturities. The Investment Officer, to the extent possible, will attempt to match investments with anticipated cash flow requirements.

Matching maturities with cash flow dates will reduce the need to sell securities prior to maturity, thus reducing market risk. Unless matched to a specific requirement, the Investment Officer may not invest any portion of the portfolio for a period greater than two (2) years.

### Maximum Maturities

The investment maturity schedule shall correspond with the City's projected cash flow needs. Remaining stated maturities in investments purchased shall be no longer than two (2) years except as specifically authorized by the City Council. Securities with maturities exceeding one year shall not exceed fifteen percent (15%) of the total portfolio.

## **XI. SAFEKEEPING AND COLLATERALIZATION**

The laws of the State and prudent treasury management require that all purchased securities be bought on a delivery versus payment 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 original safekeeping receipts to the City listing each specific security, rate, description, maturity, and cusip number. 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 certificates of deposit or demand deposits shall be held by an independent third party bank. The safekeeping bank may not be within the same holding company as the bank from which the securities are pledged.

The Investment Officer must approve release and/or substitution of collateral before such action is taken.

### Collateralization

The City requires all bank deposits to be federally insured or collateralized with securities approved for investment under Section VIII of this policy. Bank demand deposits and certificates of deposit plus accrued interest up to \$100,000 per bank do not need to be collateralized pursuant to this policy as long as FDIC insurance is provided.

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.

## **XII. PERFORMANCE EVALUATION AND REPORTING**

The Investment Officer shall submit annual reports to the Mayor and the City Council containing sufficient information to permit an informed outside reader to evaluate the performance of the investment program.

At a minimum, this report must:

- 1) Describe in detail the investment position of the City on the date of the report;
- 2) Be prepared jointly by all investment officers of the City;
- 3) Be signed by each investment officer of the City;
- 4) Contain a summary statement of each pooled fund group that states:
  - a) beginning market value for the reporting period;
  - b) additions and changes to the market value during the period;



- c) ending market value for the period; and
  - d) fully accrued interest for the reporting period.
- 5) state the book value and market value of each separately invested asset at the beginning and end of the reporting period by the type of asset and fund type invested;
  - 6) state the maturity date of each separately invested asset that has a maturity date;
  - 7) state the account or fund or pooled fund group in the City for which each individual investment was acquired; and
  - 8) state the compliance of the investment portfolio of the City as it relates to:
    - a) the investment strategy expressed in the City's investment policy; and
    - b) relevant provisions of the Texas Public Funds Investment Act, Chapter 2256, Texas Government Code.

### **XIII. DEPOSITORIES**

The City will designate one banking institution through a competitive process as its central banking services provider at least every Five years. This institution will be used for normal banking services including disbursements, deposits, lockbox, and safekeeping of securities. Other banking institutions from which the City may purchase certificates of deposit or use for the safekeeping of securities will also be designated after they provide their latest audited financial statements to the City.

### **XIV. INVESTMENT POLICY ADOPTION BY CITY COUNCIL**

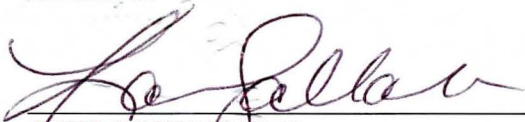
The City's investment policy shall be adopted by the City Council. The policy shall be reviewed on an annual basis by the City Council.

READ, APPROVED AND ADOPTED this the 15 day of February, 2011.



MAYOR

ATTEST:



CITY SECRETARY