

**INVESTMENT POLICY  
CITY OF ANGLETON, TEXAS  
MAY 27, 2008**

**I. POLICY STATEMENT**

It is the policy of the City of Angleton, 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 law and the Texas Public Funds Investment Act (the “Act”). The earnings from investment will be used in a manner that best serves the public trust and interest of the City.

**II. SCOPE**

This investment policy applies to all the financial assets and funds held by the City. The City may commingle its funds into one pooled investment fund for investment purposes for efficiency and maximum investment opportunity. These funds are accounted for in the City’s Comprehensive Annual Financial Report (CAFR) and include:

- General Fund
- Street Fund
- Water/Wastewater Fund
- Debt Service Fund
- Special Funds
- Capital Funds
- ABLC Funds

And any new funds created by the City unless specifically exempted by the City Council and this policy.

**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:

1. Safety

Safety of principal is the foremost objective of the investment policy of the City. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. The objective will be to

manage The objective will be to mitigate credit risk and interest rate risk. Credit Risk is the risk of loss due to the failure of the security issuer or backer. Credit risk may be mitigated by:

- Limiting investments to the safest types of securities;
- Pre-qualifying the financial institutions, broker/dealers, intermediaries, and advisors with which an entity will do business; and
- Diversifying the investment portfolio so that potential losses on individual securities will be minimized.

Interest Rate Risk is the risk that the market value of securities in the portfolio will fall due to changes in general interest rates. Interest rate risk may be mitigated 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, and
- By investing operating funds primarily in shorter-term securities.

## 2. Liquidity

The investment portfolio shall remain 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).

## 3. Diversification

The investment portfolio shall be divided among multiple banking or investment institutions in order to minimize the risk that potential losses on individual securities may exceed the income generated from the remainder of the portfolio.

## 4. Yield

The investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints and liquidity needs. “Market rate of return” may be defined as the average yield of the current six month U.S. Treasury Bill or such other index that most closely matches the average maturity of the portfolio. Return on investment is of least importance compared to the safety and liquidity objectives described above.

Effective cash management is recognized as essential to good fiscal management. 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 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.

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

The Finance Director, acting under the direction of the City Administrator on behalf of the City, is designated as the Investment Officer of the City and is responsible for investment management decisions and activities. The Finance Director is also responsible for considering the quality and capability of staff, investment advisors, and consultants involved in the 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. Procedures will include reference to safekeeping, require and include the Bond Market Master Purchase Agreements (as applicable), wire transfer agreements, banking service 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. The Investment Officer shall designate a staff person as a liaison/deputy in the event circumstances require timely action and 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.

##### Authorization Resolution

A Trading Resolution is established with this investment policy, and attached hereto, authorizing the Investment Officer to engage in investment transactions on behalf of the City. The persons authorized by the Trading Resolution to transact business for the City are also authorized to approve wire transfers used in the process of investing.

#### **VI. PRUDENCE**

The standard of prudence to be used by investment officials 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 judgement 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.”

The Investment Officer and those delegated with investment authority under this policy, when acting in accordance with written procedures and this investment policy and in accord with the Prudent Person Rule, shall be relieved of personal liability in the management of the portfolio provided that deviations from expectations for a specific securities 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.

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 institutions with which they conduct business. They shall 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 whom business is conducted on behalf of their entity.

## **VII. INTERNAL CONTROLS**

The City Administrator shall establish a system of written internal controls, 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, and misrepresentation by third parties, unanticipated market changes, or imprudent actions by employees of the City.

### 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 position 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 of market sector and maturity. The choice of high-grade government investments and high-grade, money market investments are designed to assure the marketability of those investments should liquidity needs arise.

- A. Obligations of the United States Government, its agencies and instrumentalities, and government sponsoring enterprises, not to exceed two

years to stated maturity, excluding collateralized mortgage obligations (CMOs);

- B. Fully insured or collateralized certificates of deposit from a bank doing business in the State of Texas and under the terms of a written depository agreement with that bank, not to exceed one year to the stated maturity;
- C. Commercial Paper rated A-1/P-1 or the equivalent by at least two nationally recognized rating agencies not to exceed 180 days to stated maturity;
- D. Repurchase agreement and reverse repurchase agreements as defined by the Public Funds Investments Act, not to exceed 180 day to stated maturity, provided an executed Bond Market Master Repurchase Agreement is on file with the City and the counter party bank or primary dealer. Flex repurchase agreements used specifically for capital projects may extend beyond two years but only to match the expenditure plan of the projects;
- E. No-load, SEC registered money market funds, each approved specifically before use by the City Council;
- F. Constant Dollar Texas Local Government Investment Pool as defined by the Public Funds Investment Act.

If additional types of securities are approved for investment by public funds by state statutes, they will not be eligible for investment by the City until this policy has been amended and the amended version approved by the City Council.

#### Competitive Bidding Requirement

All security, including certificates of deposit, will be purchase or sold after three (3) offers/bids are taken to verify that the City is receiving fair market value/price for the investment.

#### Delivery Versus Payment

All security transactions, including collateral for repurchased 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 or a primary dealer. The City Council or Investment Committee will review the list of authorized broker/dealers annually if broker/dealers are used. A list of at least three broker/dealers will be maintained in order to assure competitive bidding.

Securities broker/dealers must meet certain criteria as determined by the Investment Officer. The following criteria must be met by those firms on the list:

- ❖ provision of an audited financial statement each year,

- ❖ proof of certification by the National Association of Securities Dealers (NASD) and provision of CRD number,
- ❖ proof of current registration with the State Securities Commission, and
- ❖ completion of a City questionnaire.

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 investment program. A representative of the firm will be required to return a signed certification stating that the Policy has been received and reviewed and that controls are in place to assure that only authorized securities are sold to the City.

## **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:

<u>Security Type</u>	<u>Max % of Portfolio</u>
U.S. Treasury obligations	100%
U.S. Government agencies and instrumentalities	not to exceed 50%
Fully insured or collateralized CDs	not to exceed 50%
Commercial Paper	not to exceed 30%
Repurchase agreements	100%
Money Market Funds	100%
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 investment 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 more than 20% of the portfolio for a period greater than one (1) year. Unless matched to specific requirements, the Investment Officer may not invest any portion of the portfolio for a period greater than two (2) years.

## **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 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 certificates of deposit of demand deposits shall be held by an independent third party bank doing business in Texas. The safekeeping bank may be within the same holding company as the bank from which the securities are pledged.

#### Collateralization

Collateralization shall be required on two types of investments: certificates of deposits over the FDIC insurance coverage of \$100,000, and repurchase agreements.

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.

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

The Investment Officer shall submit monthly reports to the City Administrator and quarterly reports to the City Council containing sufficient information to permit an informed outside reader to evaluate the performance of the investment program and consistency with statutory requirements. All reports shall be in compliance with the Act. Market prices for market evaluations will be obtained from an independent source.

### **XIII. DEPOSITORIES**

The City will designate one banking institution through a competitive process as its central banking services provider at least every three years. This institution will be used for normal banking services including disbursements, collections, and safekeeping of securities. Other banking institutions from which the City may purchase certificates of deposit will also be designated as a depository 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 City Council. The policy shall be reviewed on an annual basis by the City Council, City Administrator and Investment Officer. A written resolution approving that review and changes to the policy from the review will be passed and recorded by the City.

**APPROVED BY CITY COUNCIL BY RESOLUTION NO. 2008-R- 5A  
ON May 27, 2008.**

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**Amanda Davenport, City Secretary**

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**Date**

**EXHIBIT B**  
**BROKER/DEALER CERTIFICATION FORM**  
**As required by Texas Government Code 2256.005 (k)**

**CITY OF ANGLETON, TEXAS (the “City”)**

The City acknowledges that the only means the firm has to preclude “imprudent investment activities arising out of transactions between the firm and the City” is to confirm that all provisions of the City’s investment policy are followed in investment transactions conducted between the firm and the City, and , the second paragraph below should read accordingly.

I, as a registered principal for the firm \_\_\_\_\_  
do hereby certify that I, and the broker covering this account, \_\_\_\_\_  
\_\_\_\_\_, have received and both have thoroughly reviewed the  
investment policy of the City.

We acknowledge that this firm has implemented reasonable internal procedures and controls in an effort to preclude imprudent investments between this firm and the City arising from transactions between the City and the firm.

\_\_\_\_\_  
Signature

Name: \_\_\_\_\_

Title: \_\_\_\_\_

Date: \_\_\_\_\_

