

City of Mission

Investment Policy and Strategy

As Approved by City Council Resolution Number _____, Dated _____.

Introduction

The purpose of this document is to set forth specific investment policy and strategy guidelines for the City of Mission in order to achieve the goals of safety, liquidity, yield, and public trust for all investment activity. The City Council of the City of Mission shall review and adopt, by resolution, its investment policy and strategies on an annual basis. The resolution shall include a record of changes made to either the investment policy or strategy. This policy serves to satisfy the statutory requirement set forth by the Public Funds Investment Act, V.T.C.S. Government Code Chapter 2256 to define, adopt and review a formal investment strategy and policy.

Investment Strategy

The City of Mission maintains a portfolio which utilizes four specific investment strategy considerations designed to address the unique characteristics of the fund groups represented in the portfolio.

- A. Investment strategies for operating funds and commingled pools containing operating funds have as their primary objectives to assure that anticipated cash flows are matched with adequate investment liquidity. The secondary objective is to create a portfolio structure which will experience minimal volatility during economic cycles. This may be accomplished by purchasing high quality, short-to medium-term securities which will complement each other in a laddered or barbell maturity structure. The dollar weighted average maturity of 365 days or less will be calculated using the stated final maturity date of each security.
- B. Investment strategies for debt service funds shall have as the primary objective the assurance of investment liquidity adequate to cover the debt service obligation on the required payment date. Securities purchased shall not have a stated final maturity date which exceeds the debt service payment date.
- C. Investment strategies for debt service reserve funds shall have as the primary objective the ability to generate a dependable revenue stream to the appropriate debt service fund from securities with a low degree of volatility. Securities should be of high quality and, except as may be required by the bond ordinance specific to an individual issue, of short to intermediate-term maturities. Volatility shall be further controlled through the purchase of securities carrying the highest coupon available, within the desired maturity and quality range, without paying a premium, if at all possible.
- D. Investment strategies for special projects or special purpose funds will have as their objective to assure that anticipated cash flows are matched with adequate

investment liquidity. These investments should include at least 10% in highly liquid securities to allow for flexibility and unanticipated project outlays. The stated final maturity dates of securities held should not exceed the estimated project completion date.

Investment Policy

SECTION I: SCOPE

This investment policy applies to all financial assets of the City of Mission. 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
- Proprietary Funds
- All Other Funds

SECTION II: OBJECTIVES

The City of Mission shall manage and invest its cash with four objectives, listed in order of priority: Safety, Liquidity, Yield, and Public Trust. The safety of the principal invested always remains the primary objective. All investments shall be designed and managed in a manner responsive to the public trust and consistent with State and Local law.

The City shall maintain a comprehensive cash management program which includes collection of accounts receivable, vendor payment in accordance with invoice terms, and prudent investment of available cash. Cash management is defined as the process of managing monies in order to insure maximum cash availability and maximum yield on short-term investment of pooled idle cash.

A. Safety

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

B. Liquidity

The City's investment portfolio shall be structured such that the City is able to meet all obligations in a timely manner. This shall be achieved by matching investment maturities with forecasted cash flow requirements and by investing in securities with active secondary markets.

C. Yield

The City's cash management portfolio shall be designed with the objective of regularly 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 policies.

D. Public Trust

All participants in the City's investment process shall seek to act responsibly as custodians of the public trust. Investment officials shall avoid any transaction which might impair public confidence in the City's ability to govern effectively.

SECTION III: RESPONSIBILITY AND CONTROL

A. Delegation of Authority and Training

Authority to manage the City's investment program is derived from a resolution of the City Council. The City Manager, Finance Director, and Assistant Finance Director are designated as investment officers of the City and are responsible for investment decisions and activities. The City Manager and Finance Director shall establish written procedures for the operation of the investment program, consistent with this investment policy. The investment officers shall attend at least one training session relating to the officer's responsibilities under the Act within 12 months after assuming duties and a training session not less than once every two years and receive 10 hours of training. Such training from an independent source shall be approved or endorsed by either, the Government Finance Officers Association of Texas, the Government Treasurers Organization of Texas, the Texas Municipal League, or the North Central Texas Council of Governments.

B. Internal Controls

The Finance Director is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the entity are protected from loss, theft or misuse. 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.

Accordingly, the Finance Director shall establish a process for annual independent review by an external auditor to assure compliance with policies and procedures. The results of this review shall be reported to the City Council. The internal controls shall address the following points:

1. Control of collusion
2. Separation of transaction authority from accounting and record keeping.
3. Custodial safekeeping.

4. Avoidance of physical delivery securities.
5. Clear delegation of authority to subordinate staff members.
6. Written confirmation for telephone (voice) transactions for investments and wire transfers.
7. Development of a wire-transfer agreement with the City's depository bank or third party custodian.
8. The investment officer will monitor any position/security requiring a credit rating on a monthly basis from an independent source.

C. Prudence

The standard of prudence to be applied by the investment officer shall be the "prudent investor" rule, which 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 probable income to be derived." In determining whether an investment officer has exercised prudence with respect to an investment decision, the determination shall be made taking into consideration:

1. The investment of all funds, or funds under the City's control, over which the officer had responsibility rather than a consideration as to the prudence of a single investment.
2. Whether the investment decision was consistent with the written investment policy of the City.

The investment officer, acting in accordance with written procedures and exercising due diligence, shall not be held personally responsible for a specific security's credit risk or market price changes, provided that these deviations are reported immediately and that appropriate action is taken to control adverse developments.

D. Ethics and Conflicts of Interest

City staff involved in 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 City Manager 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 entity.

SECTION IV: REPORTING

A. Quarterly Reporting

The Finance Director shall submit a signed quarterly investment report that summarizes current market conditions, economic developments and anticipated investment conditions. The report shall summarize investment strategies employed in the most recent quarter, and describe the portfolio in terms of investment securities, maturities, and shall explain the total investment return for the quarter.

B. Methods

The quarterly investment report shall include a sufficient management summary that provides a clear picture of the status of the current investment portfolio and transactions made over the last quarter. This management summary will be prepared in a manner which will allow the City to ascertain whether investment activities during the reporting period have conformed to the investment policy. The report will be prepared in compliance with generally accepted accounting principles. The report will be provided to the City Council. The report will include the following:

1. A listing of individual securities held at the end of the reporting period. This list will include the name of the fund or pooled group fund for which each individual investment was acquired.
2. Fully accrued interest for the reporting period.
3. Listing of investments by maturity date.
4. Statement of compliance of the City's investment portfolio with State Law and the investment strategy and policy approved by the City Council.

SECTION V: INVESTMENT PORTFOLIO

A. Active Portfolio Management

The City may pursue an active versus a 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. The investment officer will routinely monitor the contents of the portfolio, the available markets, and the relative value of competing instruments, and will adjust the portfolio accordingly.

B. Investments

Assets of the City of Mission may be invested in the following instruments; provided, however, that at no time shall assets of the City be invested in any instrument or security not authorized for investment under the Act, as the Act may from time to time be amended. The City is not required to liquidate investments that were authorized investments at the time of purchase.

1. Authorized

- a. Obligations of the United States of America, its agencies and instrumentalities, which have a liquid market with a readily determinable market value.
- b. Direct obligations of the State of Texas and agencies thereof.
- c. Other obligations, the principal of and interest on which are unconditionally guaranteed by the State of Texas or United States of America.
- d. Obligations of the States, agencies thereof, Counties, Cities, and other political subdivisions of any state having been rated as investment quality by a nationally recognized investment rating firm, and having received a rating of not less than "A" or its equivalent.
- e. Certificates of Deposit of state and national banks domiciled in Texas, guaranteed or insured by the Federal Deposit Insurance or its successor or secured by obligations described in A through D above, which are intended to include all direct agency or instrumentality issued mortgage backed securities rated AAA by a nationally recognized rating agency, or by Article 2529b-1, V.T.C.S., and that have a market value of not less than the principal amount of the certificates.
- f. In addition to the authority to invest funds in certificates of deposit, an investment in certificates of deposit made in accordance with the following conditions is an authorized investment under this subchapter:
 - (1) the funds are invested by an investing entity through a depository institution that has its main office or a branch office in this state and that is selected by the investing entity;
 - (2) the depository institution selected by the investing entity under Subdivision (1) arranges for the deposit of the funds in certificates of deposit in one or more federally insured depository institutions, wherever located, for the account of the investing entity;
 - (3) the full amount of the principal and accrued interest of each of the certificates of deposit is insured by the United States or an instrumentality of the United States;
 - (4) the depository institution selected by the investing entity under Subsection (1) acts as custodian for the investing entity with respect to the certificates of deposit issued for the account of the investing entity;
 - (5) at the same time that the funds are deposited and the certificates of deposit are issued for the account of the investing entity, the depository institution selected by the investing under Subdivision (1) receives an amount of deposits from customers of other federally insured depository institution, wherever located, that

is equal to or greater than the amount of the funds invested by the investing entity through the depository institution selected under Subdivision (1).

- g. Fully collateralized direct repurchase agreements with a defined termination date secured by direct obligations of the United States or its agencies and instrumentalities pledged with a third party, selected by the Finance Director, other than an agency for the pledgor. Repurchase agreements must be purchased through a primary government securities dealer, as defined by the Federal Reserve, or a bank domiciled in Texas. A Master Repurchase Agreement must be signed by the bank/dealer prior to investment in a repurchase agreement.
- h. Joint pools of political subdivisions in the State of Texas which invest in instruments and follow practices allowed by current law. A pool must be continuously rated no lower than AAA or AAA-m or at an equivalent rating by at least one nationally recognized rating service.

2. Not Authorized

The City's authorized investment options are more restrictive than those allowed by State law. State law specifically prohibits investment in the following investment securities.

- a. Obligations whose payment represents the coupons payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal.
- b. Obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security collateral and bears no interest.
- c. Collateralized mortgage obligations that have a stated final maturity date of greater than 10 years.
- d. Collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in a market index.

C. Holding Period

The City of Mission intends to match the holding periods of investment funds with liquidity needs of the City. In no case will the average maturity of investments of the City's operating funds exceed three years. The maximum final stated maturity of any investment shall not exceed five years.

D. Risk and Diversification

The City of Mission recognizes that investment risks can result from issuer defaults, market price changes or various technical complications leading to temporary illiquidity. Risk is

controlled through portfolio diversification, which shall be achieved by the following general guidelines:

1. Limiting investments to those instruments allowed by the Act controls risk of issuer default, which are described herein.
2. Risk of market price changes shall be controlled by avoiding over-concentration of assets in a specific maturity sector, limitation of average maturity of operating funds investments to one year, and avoidance of over-concentration of assets in specific instruments other than U.S. Treasury Securities and Insured or Collateralized Certificates of Deposits.
3. Risk of illiquidity due to technical complications shall be controlled by the selection of securities dealers as described herein.

SECTION VI: SELECTION OF BANKS AND DEALERS

A. Depository

At least every four years a depository shall be selected through the City's banking services procurement process, which shall include a formal request for proposal (RFP). In selecting a depository, the credit worthiness of institutions shall be considered, and the Finance Director shall conduct a comprehensive review of prospective depository's credit characteristics and financial history.

B. Certificates of Deposit

Banks seeking to establish eligibility for the City's competitive certificate of deposit purchase program shall submit for review annual financial statements, evidence of federal insurance and other information as required by the Finance Director.

C. Authorized Financial Dealers and Institutions

All investments made by the City will be made through either the City's banking services bank or approved broker/dealer. The Investments Officers will review the list of broker/dealers annually. A list of at least three qualified broker/dealers will be maintained in order to assure competitive bidding. All broker/dealers shall provide the City with references from public entities which they are currently serving.

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:

- Audited financial statements
- Proof of certification by the Financial Industry Regulatory Association (FINRA) and provision of FINRA CRD number
- Proof of current registration with the Texas State Securities Board
- Completed broker/dealer questionnaire

- Certification of having read the City's investment policy signed by a qualified representative of the organization
- Acknowledgment that the organization has implemented reasonable procedures and controls in an effort to preclude imprudent investment activities arising out of investment transactions conducted between the City and the organization

Qualified representative means a person who holds a position with a business organization, who is authorized to act on behalf of the business organization, and who is one of the following:

1. For a business organization doing business that is regulated by or registered with a securities commission, a person who is registered under the rules of the Financial Industry Regulatory Association
2. For a state or federal bank, or a state or federal credit union, a board of directors for the bank or branch of the bank or a person authorized by corporate resolution to act on behalf of and bind the banking institution; or
3. For an investment pool, the person authorized by the elected official or board with authority to administer the activities of the investment pool to sign the certification on behalf of the investment pool.

D. Investment Pools

A thorough investigation of the pool is required prior to investing, and on a continual basis. All investment pools must supply the following information in order to be eligible to receive funds:

- The types of investments in which money is allowed to be invested
- The maximum average dollar-weighted maturity allowed, based on the stated maturity date, of the pool
- The maximum stated maturity date any investment security within the portfolio has
- The objectives of the pool
- The size of the pool
- The names of the members of the advisory board of the pool and the dates their terms expire
- The custodian bank that will safekeep the pool's assets
- Whether the intent of the pool is to maintain a net asset value of one dollar and the risk of market price fluctuation

- Whether the only source of payment is the assets of the pool at market value or whether there is a secondary source of payment, such as insurance or guarantees, and a description of the secondary source of payment
- The name and address of the independent auditor of the pool
- The requirements to be satisfied for an entity to deposit funds in and withdraw funds from the pool and any deadlines or other operating policies required for the entity to invest funds in and withdraw funds from the pool
- The performance history of the pool, including yield, average dollar-weighted maturities, and expense ratios
- A description of interest calculations and how interest is distributed, and how gains and losses are treated

SECTION VII: SAFEKEEPING AND CUSTODY

A. Insurance or Collateral

All deposits and investments of City funds other than direct purchases of U.S. Treasuries or Agencies shall be secured by pledged collateral. In order to anticipate market changes and provide a level of security for all funds, the collateralization level will be 102% of market value of principal and accrued interest on the deposits or investments less an amount insured by the FDIC or FSLIC. Evidence of the pledged collateral shall be maintained by the Finance Director or a third party financial institution. Repurchase agreements shall be documented by a specific agreement noting the collateral pledge in each agreement. Collateral shall be reviewed weekly to assure that the market value of the pledged securities is adequate.

B. Safekeeping Agreement

Collateral pledged to secure deposits of the City shall be held by a safekeeping institution in accordance with a Safekeeping Agreement which clearly defines the procedural steps for gaining access to the collateral should the City of Mission determine that the City's funds are in jeopardy. The safekeeping institution, or Trustee, shall be the Federal Reserve Bank or an institution not affiliated with the firm pledging the collateral. The safekeeping agreement shall include the signatures of authorized representatives of the City of Mission, the firm pledging the collateral, and the Trustee.

C. Collateral Defined

The City of Mission shall accept only the following securities as collateral:

1. FDIC insurance coverage.

2. A bond, certificate of indebtedness, or Treasury Note of the United States, or other evidence of indebtedness of the United States that is guaranteed as to principal and interest by the United States.
3. Obligations, the principal and interest on which, are unconditionally guaranteed or insured by the State of Texas.
4. A bond of the State of Texas or of a county, city or other political subdivision of the State of Texas having been rated as investment grade (investment rating no less than “A” or its equivalent) by a nationally recognized rating agency with a remaining maturity of ten (10) years or less.

D. Subject to Audit

All collateral shall be subject to inspection and audit by the Finance Director or the City’s independent auditors.

E. Delivery vs. Payment

Treasury Bills, Notes, Bonds, Repurchase Agreements and Government Agencies’ securities shall be purchased using the delivery vs. payment method. That is, funds shall not be wired or paid until verification has been made that the Trustee received the correct security. The security shall be held in the name of the City or held on behalf 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.

SECTION VIII: INVESTMENT POLICY ADOPTION

The City’s Investment Policy shall be adopted by resolution on an annual basis by the City Council. The Investment Officers shall review the policy for effectiveness on an annual basis and any modifications will be recommended for approval to the City Council.