

CITY OF SWEENY

INVESTMENT POLICY

CITY OF SWEENEY, TEXAS- INVESTMENT POLICY

TABLE OF CONTENTS

	<u>PAGE</u>
I. <u>INVESTMENT AUTHORITY AND SCOPE POLICY</u>	
Policy Statement.....	3
Funds Included.....	4
Investment Officers.....	4
 II. <u>INVESTMENT OBJECTIVES</u>	
General Statements.....	5
Safety and Maintenance of Adequate Liquidity	5
Diversification.....	5
Yield.....	5
Maturity.....	5
Quality and Capability of Investment Management.....	6
Investment Strategies.....	7
 III. <u>INVESTMENT TYPES</u>	
Authorized.....	9
Prohibited.....	10
 IV. <u>INVESTMENT RESPONSIBILITY AND CONTROL</u>	
Investment Institutions Defined.....	11
Depository Restrictions and Security of Funds.....	11
Qualifications for Approval of Broker/Dealers.....	11

Standards and Operation.....	12
Delivery vs. Payment.....	13
Audit Control.....	13
Standard of Care.....	13

V. INVESTMENT REPORTING AND PERFORMANCE EVALUATION

Quarterly Report.....	14
Policy Revisions.....	14

VI. INVESTMENT COLLATERAL AND SAFEKEEPING

Collateral or Insurance.....	15
Safekeeping.....	15

I. INVESTMENT AUTHORITY AND SCOPE OF POLICY

POLICY STATEMENT

This policy is designed to serve as a guide for the investment of all City of Sweeny (City) funds by the individuals designated by the City Council as having the authority and responsibility for making such investments. The policy reflects the concept that the City, by the law, manages funds. The City is public trust for those assets acquired pursuant to City Charter and Statutes.

This policy is served to satisfy the statutory requirements of Texas Government Code Chapter 2256 (The Public Funds Investment Act) to define and adopt a formal investment policy. See attachments A: *Certification City Council Action to Approve Investment Policy*. This policy will be reviewed and approved by the City Council at least annually according to Section 2256.005(e).

It is the policy of the City that all funds shall be kept invested until required for payment of operating and maintenance expenses, debt services, construction costs, claims not covered by insurance, or any other debt or amount rightfully due owed by the City. 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 its available cash.

Provisions and restrictions set forth in State and Federal Laws, in bond Ordinances for each of the separate funds and in other ordinances (including subsequently adopted Bond Ordinances or State or Federal laws enacted), shall govern administration and investment of City funds all of which are incorporated into this policy. If there should ever be conflicts between this policy and other laws and ordinances, such other laws and ordinances will control.

To assure optimum investment return within cash flow constraints, funds shall be invested on the basis of the highest dollar return, through competitive bid or offer process; however, first consideration shall be given to preservation and safety capital. When determining the term of an investment, market trends and economic conditions shall be recognized factors within the parameters of projected expenditure due dates. Arbitrage regulations shall be strictly observed.

Portfolio composition and eligible investments shall be set forth in this policy.. Arbitrage regulations, as referred to in this policy, concern the investment of bond proceeds (construction funds), interest and sinking funds, and reserve funds.

It shall be recognized that speculation is inappropriate, and the volatile instruments are to be avoided any circumstances. The portfolio is basically a buy-and-hold structure to serve City needs.

Funds Included

This investment policy applies to all financial assets of all of the City at the present time and any funds to be created in the future.

Investment Officers

In accordance with Chapter 2256, Sec. 2256.005(f), the City Council shall designate the as Investments Officers of The City. See *attachment B: Certificate of Council Action to Designate Authorized Investment officers*. Each of the employees designated to serve as Investment Officers shall be bonded employees.

If an Investment officer has a personal relationship with an entity—or is related within the second degree by affinity or consanguinity to an individual—seeking to sell investment to the City, the Investment Officer must file a statement disclosing that personal business interest—or relationship—with the Texas Ethics Commission and the City Council in accordance with the Government Code 2256.005(i).

Investment Officers shall refrain from personal business activity that could conflict with proper execution of the investment programs, or which could impair their ability to make impartial investment decisions. Investment Officers shall disclose to the City Manager any material financial interests in financial institutions that conduct business with the City, and shall disclose any large personal financial or investment positions that could be related to the performance of the City's portfolio. Investment Officers shall subordinate their personal investment transactions to those of the city, particularly with the regard to the timing of the purchase and sales.

The Investment Officers have the authority to purchase or sell, and approved securities without limitation as to dollar amount, subject to this policy. Procedures shall provide for dual signature authorization for the purchase or sale of any security. The Investment Officers shall participate in and properly account for investments and pledged collateral in order to maintain appropriate internal controls.

II. INVESTMENT OBJECTIVES

General Statements

City funds will be invested in accordance with federal and state laws, this investment policy and applicable written administrative procedures. The City will invest according to investment strategies for each fund as approved by the City Council in accordance with Sec. 2256.005(d).

Safety and Maintenance of Adequate Liquidity

The City is concerned about the return of its principal; therefore, safety is a primary objective in any investment transaction. The City's investment portfolio must be structured in conformance with an asset/liability management plan which provides for liquidity necessary to pay obligations as they come due.

Diversification

It will be the City's policy to diversify its portfolio to eliminate the risk of loss resulting from overconcentration of assets in a specific maturity, or a specific issuer, or a specific class of investments. Investments shall always be selected that provide for stability of income and reasonable liquidity.

Yield

It will be the City's objective to earn the maximum rate in return allowed on its investments within the policies imposed by its safety and liquidity objectives, investment strategies for each fund, arbitrage regulations, and state and federal law governing investment of public funds.

Maturity

Portfolio maturities will be structured to meet the City's financial obligations first and then to achieve the highest return of interest. When making investment decisions, maturity restraints will be determined based upon cash flow needs and the

investment strategy for each fund. The maximum allowable stated maturity of any individual investment owned by the City is three (3) years.

Quality and Capability of Investment Management

It is the City's policy to provide training required by the Public Funds Act Sec. 2256.008 and periodic training in investments for each Investment Officer through courses and seminars offered by professional organizations and associations in order to insure the quality, capability and currency of the Investment Officers in making sound investment decisions. A newly appointed Investment Officer must attend at least one training session within twelve (12) months of their appointment. Eight hours of training each subsequent two fiscal year period will also be required in accordance with law.

Investment Strategies

Bond Reserve Funds

The City's Bond Reserve Fund shall include investments appropriate to provide reserves to meet and shortfalls in the City's debt service funds. As the Bond Reserve Fund is not anticipated to be utilized except in the case of extreme situations, maturities in the fund is generally expected to be invested for longer terms (one to three years). However, in no instance should an investment maturity exceed the latest establishment debt service requirement/payment date for that particular bond issuance. All bond Reserve Fund investment instruments liquidations are unlikely, however should they be necessary, the comparatively longer-term nature of the instruments could result in material losses depending on the financial and economic conditions existing. Bond Reserve Fund investments will be structured to achieve the most competitive yields attainable, given appropriate diversification and safety requirements.

Bond Debt Service Funds (Interest and Principal Funds)

The City's Debt Service Funds shall include investments appropriate to meet periodic payments required by bond amortization schedules. As such, investment maturities are limited by pertinent debt service requirements and by related tax law addressing maximum funding levels for such funds (arbitrage considerations). All Debt Service Fund investment instruments must meet credit and safety criteria as required by the Public Funds Investment Act instruments must meet credit and safety criteria as required by the Public Funds Investment Act and the City's Investment Policy. Due to their specific purpose and short-term nature, involuntary investment liquidations are unlikely in these funds, however should they be

necessary, their short-term nature would make material losses highly unlikely. Investments will be structured to achieve the most competitive yields attainable, given the pertinent liquidity requirements. Appropriately competitive and reasonable investment instruments will be compared prior to making an investment.

General Fund

The General Fund shall include investments suitable for a fund requiring a high degree of liquidity. All investment instruments must meet credit and safety criteria as required by the Public Funds Investment Act and the City's Investment Policy. Additionally, General Fund investments shall be diverse and include a variety of investment instruments. Due to their short-term nature, involuntary investment liquidations are unlikely for the General Fund, however should they be necessary, the short-term nature of the instruments would make material losses highly unlikely. General Fund investments will be structured to achieve the most competitive yields attainable, given the pertinent liquidity requirements. Appropriately competitive and reasonable investment instruments will be compared prior to making an investment.

Enterprise Fund

The Enterprise Fund shall include investments suitable for a fund requiring a high degree of liquidity. All investment instruments must meet credit and safety criteria as required by the Public Funds Act and Enterprise Fund shall include investments suitable for a fund requiring a high degree of liquidity. All investment instruments must meet credit and safety criteria as required by the Public Funds Act and the City's Investment Policy. Additionally, General Fund investments shall be diverse and include a variety of investment instruments. Due to their short-term nature, involuntary investment liquidations are unlikely for the Enterprise Fund, however should they be necessary, the short-term nature of the instruments would make material losses highly unlikely. Enterprise Fund investments will be structured to achieve would make material losses highly unlikely. Enterprise Fund investments will be structured to achieve the most competitive yields attainable, given the pertinent liquidity requirements. Appropriately competitive and reasonable investment instruments will be compared prior to making an investment.

Construction Funds

The City's Construction Funds shall include investments appropriate to meet construction expenditure requirements for which the funds were acquired. Maturities are also limited by related tax law addressing required spending terms. Construction Funds'

investment instruments must meet credit and safety criteria as required by the Public Funds Investment Act and the City's Investment Policy. Because involuntary investment liquidations are unlikely. Investments will be structured to achieve the most competitive yields attainable, given the pertinent liquidity requirements. Appropriately competitive and reasonable investment instruments will be compared prior to making an investment.

Other Miscellaneous City of Sweeny Funds (Special Revenue Fund)

Other City funds shall include investments suitable for their particular purposes, including their unique liquidity requirements. Similarly, the average maturity of investments will be tailored to the individual fund's purposes and requirements. All investment instruments must meet credit and safety criteria as required by the Public Funds Investment Act and the City's Investment Policy. Because investments are made in accordance with specific fund expenditure requirements, involuntary investment liquidations are unlikely. Investments will be structured to achieve the most competitive yields attainable, given the pertinent requirements. Appropriately competitive and reasonable investment instruments will be compared prior to making an investment.

III. INVESTMENT TYPES

Authorized

The City's Investment Officer's shall use only the following authorized investment instruments consistent with governing law and with a maximum maturity of three (3) years (Government Code 2256):

- A. Except as provided by Government Code 2256.009(b), the following are authorized investments:
 - 1. Direct obligations of the United States Government, its agencies and instrumentalities excluding mortgage-backed securities;
 - 2. Obligations of any US state including its agencies, counties, cities, and other political subdivisions rated as to investment by a nationally recognized investment rating firm not less than "A" or its equivalent"
 - 3. Other obligations, the principal and the interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of the United States.
- B. Time and demand deposits
 - 1. Depository Certificates of Deposit issued by a state or national bank domiciled in this state that areGuaranteed or insured by the Federal Deposit Insurance Corporations or its successor: orSecured by eligible collateral as listed in Section IV with a 102% margin.
 - 2. Deposits in Texas credit unions which are insured by the National Credit Union Share Insurance Fund.
- C. Eligible investment pools which strive to maintain a \$1 net asset value (as discussed in the Public Funds Investment Act, Sec. 2256.016-2256.019) as authorized by the Council. An investment pool shall invest the funds it receives from entities in authorized investments permitted by the Public Funds Investment Act. *See Attachment B: Certification of Council Action to Approve Authorized Investment Pools.* In order to be eligible, an investment pool must meet the following conditions.

Prohibited

The City's Investment Officers have no authority to use any of the following investment instruments which are strictly by the Public Funds Investment Act, Section 2256.009(b):

- A. Obligations whose payment represents the coupon 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 stand final maturity date of greater than ten
- D. Collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in a market index.

IV. INVESTMENT RESPONSIBILITY AND CONTROL

Investment Institutions Defined

Investment Officers shall invest City funds with any or all of the following institutions or groups consistent with federal and state law and the current Depository Bank Contract:

Banks

City designated banking services depository bank; and,
Other state or national banks doing business in Texas that are members of the FDIC and will, if required, provide collateral above the FDIC insurance coverage.

Broker/dealers

FINRA registered securities brokers and dealers who are registered in Texas and licensed under the Texas Securities Act. Broker/dealers may be primary dealers or regional broker/dealers. The list of Council annually authorized broker/dealers is attached and made part of this policy. *See attachment D: Certification of Council Action to Approve Eligible Investment Institutions.*

Depository Restrictions and Security of Funds

Other than for paying agent purposes, the City shall utilize as depositories only federally or state chartered banks or trust companies in the State of Texas in which deposits are fully insured by the FDIC. Said depositories shall be subject to all restrictions set forth in City Bond Resolutions and in this policy for all time and demand deposits.

At a public meeting held at a designated time, the City Council will review applications from one or more banks for deposit of City funds. Notice the Council Meeting at which applications are to be reviewed shall be published as required by law.

To the extent not covered by the FDIC, funds held at a bank or trust company shall be collateralized at all times. Investment securities pledged as collateral shall at all times be at least equivalent to 102% in aggregate market value, excluding accrued interest, of the amount of funds on deposit plus interest accrued, to the extent not covered by the FDIC or by other authorized collateral pursuant to the Public Funds Investment Act.

Authorized collateral is to be held by an independent third party financial institution and monthly reports stating the collateral and its market value is to be sent monthly to the Investment Officers. Collateral shall include only:

- Obligations of the US Government, its agencies and instrumentalities including mortgage backed securities,
- State and government debt rated A or better,
- FHLB letters of credit

Qualifications for Approval of Broker/Dealers

In accordance with Public Funds Investment Act Sec. 2256.005(k), a written copy of this investment policy shall be presented to any pool in which the City chooses to participate. The representative of the pool shall execute a written instrument substantially to the effect that the pool has:

- A. Received and thoroughly reviewed the City's investment policy; and
- B. Acknowledged that the organization has implemented reasonable procedures and controls in an effort to preclude investment of City funds not authorized by this policy.

Annually the City Council will review and approve the list of authorized broker/dealers with whom the City may transact investment business. A copy of the City Policy shall be sent to each authorized broker/dealer.

City Council members, Financial Officers and investment officers will evaluate the brokers/dealer's financial soundness. All security transactions will be settled on a Delivery Versus Payment (DVP) basis so that no City funds are released until the security has been received and safekept by the City's custodian or safekeeping agent.

Recommendations will be made to Council annually to review and approve the updated broker/dealer list. A broker/dealer must be approved in this manner and added to the approved list before any business can be transacted.

The City will conduct an ongoing review of publicly available financial records, reports, rating service information and any other data relevant to the financial soundness of the institution or broker/dealer with whom the City is doing business.

Standards of Operation

Bidding procedure: Investment of City funds may be made only after competitive bids are solicited from at least three qualified investment institutions or broker/dealers as defined herein and as provided by State Statute. The bids may be solicited orally. The City must attempt to solicit bids initially from qualified deposit institutions defined herein located within the territorial limits of the City of Sweeny or from authorized broker/dealers.

Documentation of Investments: All investment decisions shall be internally documented and approved before execution by any two Investment Officers. Any of these Officers may order investments orally, but shall follow up the investment order with a written

confirmation to the financial institution or broker/dealer. Written investment instructions shall contain information relative to the name and account number of the fund from which the investment was placed disposition of interest to be earned, term, invested amount, rate of interest, yield, purchase date, and maturity date of the investment. Documentation should also note prices from the competitive bidding process.

Delivery vs. Payment

All securities purchased by the City and held in safekeeping in a third party safekeeping institution shall be purchased "delivery versus payment." That is, the City shall authorized the release of its funds only after it has received notification from the safekeeping institution that purchased security has been received in the City's safekeeping account. This notification may be oral, but the safekeeping institution must follow up with original safekeeping receipt to the City within 24 hours.

Depository time and demand deposit over the FDIC coverage must have collateral pledged and safekept before any funds are transferred. Collateral confirmation shall be from the third party safekeeping institution that adequate collateral has been pledged to the City before releasing funds for the investment. This confirmation may be oral, but must be confirmed in writing within 24 hours with a original safekeeping receipt .

Audit Control

The City will have an annual financial audit of all funds by an independent auditing firm as part of the annual audit. An annual compliance audit of management controls on investments and adherence to the City's established investment policies in accordance with the Government Code 2256.005(m) shall be made by the investment officers annually.

Standard of Care

In accordance with Government Code 2256.006, investments shall be made with judgment and care, under prevailing circumstances, that a person of prudence, discretion, and intelligence would exercise in the management of the person's own affairs, not for speculation, but for investment, considering the probable safety of capital and the probable income to be derived. Investment of funds shall be governed by the following investment objectives, in order of priority: preservation and safety of principal; liquidity; and yield.

In determining whether an Investment Officer has exercised prudence with respect to an investment decision, the determination shall be made taking into consideration.

- A. 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; and

- B. Whether the investment decision was consistent with the written Investment Policy of the City.

The City Council, Investment Officers, and other Accounting Division personnel shall be not be held responsible in the event of investment loss, provided the Investment Policies of the City Council have been followed.

V. INVESTMENT REPORTING AND PERFORMANCE EVALUATION

Quarterly Report

In accordance with the government code 2256.023, not the less than quarterly, the Investment Officers shall prepare and submit to the Council and City Manager a written report of investment transactions and holdings for all funds for the preceding reporting period within a reasonable time after the end of the period. The report must:

- A. Describe in detail the investment position of the City on the date of the report;
- B. Be prepared jointly by all Investment Officers;
- C. Be signed by each Investment Officer;
- D. Contain a summary statement of each pooled fund group that states the:
 - 1. Beginning market value for the reporting period
 - 2. Additions and changes to the market value during the period; and
 - 3. Ending market value for the period;
- E. 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;
- F. State the maturity date of each separately invested asset that has a maturity date;
- G. State the account of fund or pooled group fund for which each individual investment was acquired: and
- H. State the compliance of the investment portfolio as it relates to:
 - 1. The investment strategy expressed in the City's investment strategy document: and
 - 2. Relevant provisions of this policy.

Monitoring of Investment Ratings

In accordance with the government code 2256.021, the Investment Officers shall monitor ratings changes in investments held by public funds. On a quarterly basis, the Investment Officers will review and verify that investments meet the policy required investment

ratings. If required investment ratings are not met the security must be liquidated as soon as practical.

Policy Previsions

This policy may only be amended by action of the City Council of the City of Sweeny. Investment Policy revisions may become necessary with changes in state law, City needs, the economy, and investment opportunities.

VI. INVESTMENT COLLATERAL AND SAFEKEEPING

Collateral or Insurance

City Investment Officers shall assure and monitor that all are depository funds are fully collateralized or insured consistent with federal and state law, including the Public Funds Collateral Act, and the Bank Depository Contract in one or more of the following manners:

- A. FDIC Coverage
- B. Direct obligations of the United States Government, its agencies and instrumentalities including mortgage-backed securities;
- C. Obligations of any US State including Agencies, Countries, Cities, and other political subdivisions having been rated as to investment quality by a nationally recognized investment rating firm, and having received a rating of not less than "A" or its equivalent;
- D. FHLB irrevocable letters of credit.

Safekeeping

All purchased securities shall be held in safekeeping by the City, or City account in a third part non-affiliated financial institution.

Custody All pledged collateral securities for time and demand accounts in any bank shall be held in safekeeping by an independent third party non-affiliated financial institution, or with the Federal Reserve Bank.

Safekeeping receipts must be issued to the City in a timely manner and must provide the following information:

- A. Effective date of the safekeeping receipt;
- B. Description of pledged security;
- C. Amount pledged (market value);
- D. Maturity date;
- E. Coupon rate;

Securities are to remain pledged to the City until written notification to release same is received by the safekeeping bank from the City.

Attachment A: Certification of Council Action to Approve Investment Policy

At its regular meeting of February 17, 2015, the City Council approved the City of Sweeny Investment Policy. The Policy was written in accordance with recent revisions to Texas Government Code Chapter 2256.

The motion was made by Ray Bailey, seconded by Rachel Wells, and was unanimously approved.

Mayor
City of Sweeny, Texas

Attachment B: Certificate of Council Action to Designate Authorized Investment Officers

At their meeting of MAY 18, 2010 the City Council approved the City of Sweeny Investment Policy. Page 2 of the policy designates the authorized Investment Officers

The employees presently serving in the positions designated as Investment Officers are as follows: CINDY KING , City Manager and REATTA MINSHEW, City Secretary.

This motion was made by Ray Bailey, seconded by Dale Lemon, and was unanimously approved.

Kenneth Lott

Mayor

City of Sweeny, Texas

Attachment C: Certification of Council Action to Approve Authorized Investment Pools

At its regular meeting of December 19, 1995, the City Council approved the following list of authorized Investment Pools:

- Texas Local Government Investment Pool (TexPool)

The motion was named by Dale Thames, seconded by Dan Ellis and was unanimously approved.

Mayor
City of Sweeny, Texas

Attachment D: Certification of Council Action to Approve Broker Dealers

At its regular meeting of December 19, 1995, the City Council approved the following list of authorized of broker/dealers:

Government Securities Brokers/Dealers

The motion was made by Dale Thames, seconded by Dan Ellis, and was unanimously approved.

Mayor
City of Sweeny, Texas

NO. 106-03

A RESOLUTION AMENDING THE CITY OF SWEENY INVESTMENT POLICY

WHEREAS, the City of Sweeny, Texas, has adopted an investment policy pursuant to Chapter 2256 of the Texas Government Code, commonly known as the Public Funds Investment Act; and

WHEREAS, the City of Sweeny, Texas, desires to amend its investment policy to include credit unions in the definition of eligible investment institutions and to make additions to the list of approved eligible investment institutions;

NOW THEREFORE, BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF SWEENY, TEXAS:

The City of Sweeny hereby amends Section IV. Of said policy to add a subpart D. to Investment Institutions Defined, as follows:

“D. a credit union domiciled in the State of Texas which is insured by the NUCA.”

The City of Sweeny hereby amends Schedule D to approve the following eligible investment institutions:

Banking Institutions

- First State Bank of Louise
- Prosperity Bank
- Old Ocean Federal Credit Union
- Sweeny Teachers Federal Credit Union

PASSED AND ADOPTED by the City Council of the City of Sweeny, Texas, this the 16th day of September, 2003.

Approved:

Attest:

Larry Piper, Mayor

Reatta Minshew, City Secretary

NO. 103-11

A RESOLUTION AMENDING THE CITY OF SWEENEY INVESTMENT POLICY

WHEREAS, the City of Sweeny, Texas, has adopted an investment policy pursuant to Chapter 2256 of the Texas Government Code, commonly known as the Public Funds Investment Act; and

WHEREAS, the City of Sweeny, Texas, desires to amend its investment policy to include credit unions in the definition of eligible investment institutions and to make additions to the list of approved eligible investment institutions;

NOW THEREFORE, BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF SWEENY, TEXAS:

The City of Sweeny hereby amends Section IV. Of said policy to add a subpart D. to Investment Institutions Defined, as follows:

“D. a credit union domiciled in the State of Texas which is insured by the NUCA.”

The City of Sweeny hereby amends Schedule D to approve the following eligible investment institutions:

PASSED AND ADOPTED by the City Council of the City of Sweeny, Texas, this the 18th day of January, 2011.

Approved:

Attest:

Kenneth Lott, Mayor

Reatta Minshew, City Secretary