

**RESOLUTION NO. 25-105**

**A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF SWEENY, TEXAS APPROVING  
THE CONSOLIDATED FINANCIAL POLICY FOR THE CITY OF SWEENY.**

**WHEREAS,** The City has previously adopted a consolidated financial policy that includes Treasury and Investment procedures and policies in addition to several other areas of municipal finance; and

**WHEREAS,** The City's Audit consultant and various partner agencies have suggested the adoption of the previously adopted Comprehensive set of Accounting and Financial Policies and Procedures; and

**WHEREAS,** The attached document is meant to be a "living document" that shall be reviewed annually and updated regularly to ensure the City's Financial Accountability.

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

The Comprehensive Financial Policy Statements attached hereto as Exhibit A for the City of Sweeny is hereby reviewed, adopted and approved.

**READ, PASSED, AND ADOPTED THIS 15<sup>TH</sup> OF JULY, 2025.**

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Dusty Hopkins, Mayor

ATTEST:

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Kaydi Smith, City Secretary

**City of Sweeny****COMPREHENSIVE FINANCIAL MANAGEMENT POLICY STATEMENTS**

Comprehensive Financial Management Policy Statement (CFMPS) is meant to assemble the City's Financial Policies into one document to be reviewed annually. Financial policies are statements of principles or goals adopted by City Council. Sweeny's CFMPS provides guidelines for operational and long-range planning, ensuring that the City is financially able to meet its immediate and long-term service objectives. The City intends for this document to provide municipal guidance on fiscal management and will make best efforts to comply.

- I. **Account, Auditing and Financial / Fiscal Reporting and Monitoring:** Maintain accounting practices that conform to generally accepted accounting principles (GAAP), the Governmental Accounting Standards Boards (GASB), and with prevailing federal, state, and local statutes and regulations. This document provides guidance on preparation and presentation of reports that analyze and evaluation the City's financial performance and economic condition.
- II. **Financial Consultants:** The City will employ the assistance of qualified, non-biased, independent consultants, auditors, and / or financial advisors as needed in the administration and management of the City's professional financial functions. These areas include but are not limited to audit services, debt administration, and delinquent tax collections. The principal factors in the selection of consultants will include experience/expertise, ability to perform the services, favorable references, methodology, and price.
- III. **Budget and Long-Range Financial Planning:** Establish guidelines for budgeting to ensure a financially sound City and establish a long-range financial planning process that assesses the long-term financial implications of current and proposed operating and capital budgets.
- IV. **Revenues and Resources:** Maintain a balanced and diverse revenue stream that minimizes the City's exposure to economic cycles and risk.
- V. **User Fees:** Design, maintain, administer, regularly review, and update as needed a fee schedule for fee-based services that will assure a reliable, equitable, and diversified, and sufficient revenue stream to support desired City services.
- VI. **Expenditures and Services (non-Capital):** Identify and set priorities for services, establish appropriate service levels, and administer the expenditure of available resources to help ensure fiscal stability and the effective and efficient delivery of services.

- VII. Fund Balance/Working Capital:** Maintain fund balances and net assets of the various operating funds at levels sufficient to protect the City's creditworthiness as well as its ability to withstand emergencies or economic fluctuations.
- VIII. Capital Expenditures and Improvements:** Annually review and monitor the state of the City's capital equipment and infrastructure, setting priorities for its replacement and renovation based on needs, funding alternatives, and availability of resources. Maintain at least a 5-year capital improvement project schedule to ensure appropriate project funding resources are in place to complete projects. CIP should be reviewed annually ahead of the beginning of the annual budget cycle commencement.
- IX. Debt:** Establish guidelines for debt financing that will minimize the impact of debt payments on current revenues and protect the city's creditworthiness.
- X. Cash Management / Investments:** Invest the City's operating cash in a manner that will ensure its absolute safety of principal, provide for the necessary liquidity needs of the City, and optimize yield relative to those restraints. All investment portfolio earnings and balances must be presented to the governing body on a quarterly basis consistent with Chapter 2256 of the Texas Local Government Code.
- XI. Grants:** Seek, apply for, and effectively administer federal, state, and local grants, to support the City's priorities and policy objectives.
- XII. Internal Controls and Purchasing:** Written procedures will be established and maintained by the Finance Director for all functions and financial cycles including cash handling and account procedures. Internal controls related to cash management, financial reporting, treasury management, data systems, and all other areas of finance will be required to be followed by all city employees. The City will adhere to statutory requirements of procurement pursuant to Chapter 252 of the Texas Local Government Code and all purchasing requirements described in the City's Charter. Where applicable, the City will strive to use historically underutilized businesses (HUB).

**I. ACCOUNTING, AUDITING, AND FINANCIAL REPORTING**

Maintain accounting practices that conform to generally accepted accounting principles and comply with prevailing federal, state, and local statutes and regulations. Prepare and present regular reports that analyze and evaluate the City's financial performance and economic condition.

**A. Accounting Practices and Principles**

The City will maintain accounting practices that conform the generally accepted accounting principles (GAAP) as set forth by the Governmental Accounting Standards Board (GASB), the authoritative standard setting body for units of local government. All city financial documents, except monthly interim financial reports, including official statements accompanying debt issues, Annual Comprehensive Financial Reports (ACFR) and continuing disclosure statements will meet standards. Monthly interim financial reports are on a modified accrual basis and will be reported as budgeted. At year-end the general ledger and financials will be concerted to full accrual basis of accounting.

**B. Financial and Management Reports**

Monthly financial reports will be prepared and reviewed by the City Manager and will be made available for the City Council and public to review. Quarterly reports will be prepared and presented to the City Council that explain key economic and fiscal developments, note significant deviations from the adopted budget, and when required, outline and remedial actions necessary to maintain the City's financial position.

**C. Annual Audit**

Pursuant to State Law, the City shall have its records and accounts audited annually and shall have annual financial statements prepared based on the audit and filed with the City Clerk within 180 days after the last day of the fiscal year. The audit shall be performed by a Certified Public Accountant (CPA) firm licensed to practice in the State of Texas. The audit firm shall provide a management letter to the City prior to the filing of the audit. The audit firm shall also provide a Single Audit of Federal and State grants when necessary. An official Annual Comprehensive Financial Report (ACFR) shall be issued no



later than six (6) months following the end of the fiscal year. The Finance Director shall be responsible for establishing a process to ensure timely resolution of audit recommendations.

**D. Annual Financial Disclosure**

As required by the Securities and Exchange Commission (SEC) Rule 15c2-12, with support of the City's financial advisor and bond counsel, will provide certain annual financial information to various information repositories through disclosure documents that include the necessary information within six months of fiscal year end. The City will also provide timely notices, not in excess of ten business days after the occurrence of the material event as defined in Rule 15c2-12, paragraph(b)(5)(i)(c).

**E. Signature of Checks**

All checks shall have two (2) signatures. Four (4) persons shall be authorized sign checks: The Mayor, City Manager, Finance Director, and City Secretary. Only individuals who have been authorized as a bank signatory by resolution approved by the City Council may sign checks.

**II. FINANCIAL CONSULTANTS**

The City will employ the assistance of qualified financial advisors and consultants as needed in the administration and management of the City's financial functions. These areas include but are not limited to audit services, debt administration, and delinquent tax collections. The principal factors in the selection of these consultants will include experience/expertise, ability and capacity to perform services, references, methodology, and price.

**A. Selection of Auditors**

Periodically, the City shall request proposals from qualified firms, including the current auditors if their past performance has been satisfactory. The City Council shall select an independent firm of certified public accountants to performance an annual audit of the accounts and records and render an opinion on the financial statements of the City.

- The City may rotate auditor firms every five years to ensure that the City's financial statements are reviewed and audited from an objective, impartial, and unbiased point of view. The rotation of the audit firm will be based upon the statements of qualifications received, the firms'

qualifications, capacity to perform, and the firm's ability to perform a quality audit within the city's availability of resources.

- When an incumbent auditor firm is selected after soliciting for statements of qualifications from qualified firms, the City may request the lead audit partner and lead reviewer to be rotated after a maximum of five years.
- Annually, the independent auditor will provide a letter of engagement to the City Council for annual audit services within a timeframe to meet 180-day fiscal year-end closing requirements for securities reporting.

**B. Delinquent Tax Collection Attorney**

Due to the nature of services and expertise required, the City shall hire a delinquent tax collections attorney to collect delinquent taxes, represent the City in filing bankruptcy claims, foreclose on real property, seize personal property and represent the City in court cases and property sales.

- If the City chooses to contract directly for delinquent tax collection services, requests for proposals or statements of qualifications are to be solicited periodically.
- The City may contract with the same firm used previously if based on the review process, it is determined it offers the best value.

**C. Bond Counsel**

Bond Counsel to the City has the role of an expert who provides an objective legal opinion concerning the issuance and sale of bonds and other debt instruments. As bond counsel are specialized attorneys who have developed necessary expertise in a broad range of practice areas, the City will contract such counsel for these services. Generally, bonds are not marketable without an opinion of bond counsel stating that the bonds are valid and binding obligations, stating the sources of payment and security for the bonds and that the bonds are exempt from state and federal income taxes.

- Due to the complexity of the City's financial structure and the benefits that come with a working historical knowledge of the City, the City may use the same bond counsel for many years.

**D. Financial Advisory Services.**

The City issues various types of financial securities to finance its Capital Improvement Program and other long term capital assets. Debt structuring and issuance required a comprehensive list of services associated with municipal transactions, including but not limited to: sale, analysis of market conditions, size and structure of the issues, preparation of disclosure documents, coordinating rating agency relations, evaluation of and advice on the pricing of securities, assisting with closing and debt management, calculating debt service schedules, and advising on financial management.

- As financial advisors to government entities have developed the necessary expertise in a broad range of services, the City will use a consultant for these services.
- Due to the complexity of the City's financial structure and the benefits that come with a working, historical knowledge of the City, the contract with the financial advisor shall be considered evergreen, however, with a termination clause.

### **III. BUDGET AND LONG-RANGE FINANCIAL PLANNING**

Established guidelines for budgeting to ensure a financially sound City and to establish a long-range financial planning process that assesses the long-term financial implications of current and proposed operating and capital budgets.

#### **A. Balanced Budget**

The City Manager shall file annual with City Council, structurally balanced budget for the ensuing fiscal year pursuant to the prevailing state and local law. A structurally balanced budget is defined as a budget in which recurring revenues fund recurring expenditures and adherence to fund balance policies. Any structurally imbalanced budget proposal shall be accompanied by a plan to return the budget to structural balance.

#### **B. Current Funding Basis**

The City shall budget and operate on a current funding basis. Revenues and expenditures shall be budgeted on a cash basis. Expenditures shall be budgeted and controlled so as not to exceed current revenues. Recurring expenses will be funded exclusively with recurring revenue sources to facilitate operations on a current funding. Basis.

#### **C. Use of Non-Recurring Revenues**

Non-recurring revenue sources, such as a one-time revenue remittance or fund balance in excess of policy should only be budgeted and used to fund non-recurring expenditures, such as capital purchases or capital improvement projects. This will ensure that recurring expenditures are not funded by non-recurring sources. Large deposits of unanticipated revenue (such as sales tax) not forecasted in regular, recurring cash flow projections or in the annual budget, shall be moved to a high interest yielding savings or investment account.

**D. Tax Rate**

The City Manager will recommend a tax rate that the City requires in order to operate efficiently and effectively and to pay its Debt Service for current and anticipated capital projects. The City shall strive to maintain stable, predictable tax revenues that do not fluctuate from year to year.

The tax rate will be adopted by the City Council in full compliance with Truth in Taxation Requirements pursuant to the Texas Constitution.

**E. Revenue Forecasting**

To protect the City from revenue shortfalls and to maintain a stable level of services, the City shall use a conservative, objective and analytical approach when preparing revenue estimates. The process shall include analysis of probable economic changes and their impacts on revenues, and historical collection rates and trends. This approach should reduce the likelihood of actual revenues falling short of budget estimates and should avoid mid-year services changes.

**F. Reporting During the Fiscal Year**

The Finance Director will present fiscal year-to-date budget to actual reports to City Council quarterly detailing any budget concerns and corrective actions plans.

**G. Avoidance of Operating Deficits**

The City shall take immediate corrective action if at any time during the fiscal year expenditure and revenue projections are such that an operating deficit is projected at year end. Corrective actions in order of precedence are as identified in the Fund Balance Policy:

1. Budget amendment from Unassigned Fund Balance in excess of 60-day requirements.
2. Reduce transfers to Capital Improvement Fund if project timing allows.
3. Defer purchases of Capital items.
4. Reduce budget expenditures to only what is critically necessary to operate.
5. Increase fees.
6. Use a minimum unassigned fund balance – 60 day of normal operating expenditures.

Excess fund balance, which is a one-time revenue sources, may be used to fund an annual operating deficit only with prior approval of a plan to replenish the fund balance if it is brought down below policy level of 90-day operational cost.

#### H. Budget Amendment or Adjustment

Under the provisions of State law and City Charter, the budget may be amended or adjusted.

Amendment of the adopted budget involves an addition to or reduction of existing appropriations. At the request of the City Manager, the City Council may by Ordinance make supplemental appropriations for the fiscal year up to the amount of excess. A budget amendment changes the overall budget total, whereas a budget adjustment does not.

The City Manager is authorized to make budget adjustments which area a transfer of budgeted amounts within and among departments; however, any revisions that alter the total expenditures / expense must be approved by the City Council.

#### I. Central Control

Unspent funds in salary and capital allocation may not be spent for any purpose other than their specifically intended purpose without prior authorization of the City Manager.

#### J. Budget Participation

The City Manager is responsible for filing a proposed budget with the City Clerk's office according to statute. Ahead of that required date, individual city departments and city-supported boards and commissions will be required to

participate in the annual budget process and present individual budgets to City Council for review.

#### **IV. REVENUES AND RESOURCES**

The City will maintain a balanced and diverse revenue stream that minimizes the City's exposure to economic cycles and risk.

##### **A. User Fees**

For services that benefit specific users (private / individual or mixed services), the City shall establish and collect fees to recover the cost of those services.

##### **B. Property and Sales Tax**

Where services provide a general public benefit, the City shall finance those services through property and sales taxes.

##### **C. Administrative Services Charges**

The City shall establish a method to determine annually the administrative services charges due to the General Fund from the Enterprise Fund for overhead and staff support. Where appropriate, the Enterprise Fund shall pay the General Fund for direct services rendered. Personnel costs shall be equitably split among funds in the annual budget.

##### **D. Fund Transfers for funding Capital Improvement Projects**

Annually during the budget and capital improvement development process, the amount to be transferred from the Enterprise and other funds for Capital funding will be determined and budgeted accordingly.

##### **E. CIP Planning**

At least annually, the City Manager shall conduct a Capital Project Planning workshop with the City Council, department directors, and other stakeholders, ahead of the annual budget process. The CIP plan will be updates regularly by the City Manager or his / her designee.

##### **F. Fund Transfers to the Debt Service Fund**

When debt is issued for Enterprise Fund and / or other fund projects, the amount will be determined, and an annual allocation of debt service will be

calculated and transferred from the said funds to the debt service fund for debt repayment.

**G. Water/ Wastewater Revenue Billings**

Water and wastewater revenues are billed in arrears, as customer meters are read monthly for the previous month's water usage. At year end, revenue is accrued to adjust revenues to a full accrual basis of accounting but during the year, revenues are recorded on a cash basis.

**H. Write-off Uncollectible and Receivables Excluding Court Fines, Fees, and Warrants**

Receivables shall be considered for write-off as follows:

- Undeliverable mail – accounts that remain outstanding for 12 months and all steps have been exhausted.
- The release or extinguishment in whole or in part, or any indebtedness, liability, or obligations as authorized by State Law.
- Accounts outstanding for 7 years, identified as uncollectible, and all attempts to collect have been taken.
- The write-off of uncollected accounts is a bookkeeping entry only and does not release the debtor from any debt owed to the City.

**V. USER FEES**

Design, maintain and administer a fee structure for fee-based services that will assure a reliable, equitable, diversified, and sufficient revenue stream to support desired City services.

For services that benefit specific users, the City shall establish and collect fees to recover the costs of those services. The City Council shall determine, with the recommendation of the City Manager or his / her designee, the appropriate cost recovery level and establish fees. Where feasible and desirable, the City shall seek to recover full direct and indirect costs. User fees shall be reviewed on a regular basis to calculate their full cost recovery levels, to compare them to the current fee structure, and to recommend adjustments where necessary. The City shall make every effort to avoid subsidizing costs of services.

1. In determining a charge or fee, each department should identify what factors are to be taken into account when pricing services. They should

determine whether the City intends to recover the full cost of providing services. If the full cost of a service not received, then an explanation of the department's rationale for this deviation should be provided.

2. The full cost of providing a service should be calculated in order to provide a basis for setting the charge or fee. Full cost incorporates direct and indirect costs, including operations and maintenance, overhead, man hours, and charges for the use of capital facilities.
3. Changes and fees should be reviewed and updated periodically based on factors such as the impact of inflation, other cost increases, the adequacy of the coverage of costs, and current competitive rates.
4. User Fees – General Fund
  - a. For services that benefit specific users (private / individual or mixed services), the City shall establish and collect fees to recover the costs of those services. Where services provide a general public benefit, the City shall finance those services through property and sales taxes.
  - b. Costs of services are defined as full cost – direct, indirect, and overhead.
  - c. Factors to include when setting fees should include but not be limited to: market and competitive pricing, effect on demand for services, and impact of users, which may result in recovering something less than full cost.
5. User Fees – Enterprise Fund
  - a. Utility rates and other fund user fees shall be set at levels sufficient to cover operating expenditures (direct and indirect), meet debt obligations, and debt service coverage, and provide adequate levels of working capital.
  - b. The City shall seek to eliminate all forms of subsidization to the Enterprise Fund from the General Fund.
  - c. If necessary, revenue forecasts shall be built around smaller rate increases annually versus higher rate increases periodically.

Once a fee has been proposed for a particular service, the fee will be compared to market, evaluated for potential effects on users such as low-income households, market demands of service, etc. A fee will then be recommended to the City Manager



and presented to City Council based on all information gathered through the fee evaluation.

**VI. EXPENDITURES AND SERVICES (NON-CAPITAL)**

Identify and set priorities for services, establish appropriate service levels and administer the expenditure of available resources to help ensure fiscal stability and the effective and efficient delivery of services.

**A. Annual Expenditures**

The City will only propose operating expenditures which can be supported from on-going operating revenues. Before the City undertakes any agreement with that would create fixed on-going expenses, the cost implications of such agreements will be fully determined for current and future years. Capital expenditures may be funded from one-time revenues, but the operating budget expenditure impacts of capital expenditures will be reviewed for compliance with this policy.

**B. Departmental Service Plans**

Each department will prepare a business plan with department-specific performance metrics beginning in Fiscal Year 2024 – 2025, or as soon as practicable, to measure service delivery. Business plans will define services, service levels, and describe the resources necessary to provide current (base) level of service. A projection of resources needed to provide identified service will be prepared. Any anticipated changes in services or service levels will be listed. Every effort shall be made to link services to Council priorities defined in the Strategic Plan. Service plans developed in a given year will be presented to City Council prior to the development of the City Manager's proposed annual budget.

**C. Maintenance of Capital Assets**

Within the resources available each fiscal year, the City shall maintain Capital assets and infrastructure at a sufficient level to protect the City's investment, to minimize future replacement and maintenance costs, to maintain service levels, to extend the useful lives of capital assets, and to anticipate a reasonable replacement schedule and associated funding necessary to support maintenance and replacement of capital assets.

**D. Inter-Fund Administrative Services**

The City will assess administrative services provided by the General Fund to other Funds. The cost of the services provided will be budgeted as a transfer to / transfer from each Fund's budgeted year. Anticipated costs for services will be budgeted and costs allocated to appropriate budgets to minimize the number of transfers to allocate costs to appropriate funds.

**E. Purchasing**

The City shall conduct its purchasing and procurement functions in accordance with applicable local, State, and Federal laws. Staff shall make every effort to capitalize on savings available through competitive processes and "best value" purchasing.

**VII. FUND BALANCE / WORKING CAPITAL**

Maintain the fund balance and net assets of the various operating funds at levels sufficient to protect the City's creditworthiness as well as its ability to withstand emergencies or economic fluctuations.

1. The City will strive to maintain a minimum unassigned fund balance in the General Fund equal to 120 days of normal operating expenditures but not less than 90 days of operating expenditures. This amount is projected each year at the end of the fiscal year, recognizing that Fund Balance levels can fluctuate from month to month in normal course of operations. During each budget process, the level of unassigned fund balance will be reviewed and if based on current economic and financial conditions a change is determined to be in the best interest of the City, it will be proposed during the budget process for City Council approval.
2. The City will strive to maintain working capital sufficient to provide for reserves for emergencies and revenue shortfalls in the Enterprise Fund. The reserve will be a minimum of 90 days of normal operating expenditures in funds that have major infrastructure or assets. Funds without major infrastructure or assets will have no minimum balance requirement.
3. The City shall maintain sufficient reserved in its Debt Service Fund, which shall equal or exceed the requirements dictated by its bond ordinances.

## **VIII. CAPITAL EXPENDITURES AND IMPROVEMENTS**

Annually review and monitor the state of the City's capital equipment and infrastructure, setting priorities for its replacement and renovation based on needs, funding alternatives, and availability of resources.

### **A. Capitalization Threshold for Tangible Capital Assets**

Tangible Capital items should be capitalized only if they have an estimated useful life of at least three years following the date of acquisition or significantly extend the useful life of an existing capital asset and cannot be consumed, unduly altered, or materially reduced in value immediately by use and have a cost of not less than \$5,000 for an individual item.

The capitalization threshold of \$5,000 will be applied to individual items rather than to a group of similar items (i.e., desks, chairs, etc.).

Computer software, regardless of cost, will not be capitalized.

### **B. Five-Year Capital Improvement Plan (CIP)**

The City shall annually prepare a five-year Capital Improvement plan based on the needs for Capital improvements and equipment, the status of the City's infrastructure, replacement and renovation needs, and potential new projects. For every project identified in the plan, a project scope and project justification will be provided. Also, project costs shall be estimated, funding sources identified, and annual operation and maintenance costs computed.

Citizens, Parks and Recreation Board, Planning and Zoning Board, Sweeny Economic Development Corporation, etc., will be provided opportunities to review the list of CIP projects for the 5-Year CIP and may suggest additions and/or changes to the plan as appropriate before it is presented to City Council, or a joint working session may be conducted among City Council and stakeholders with advanced posting on quorums as applicable.

The City Manager is charged with recommending a Capital Improvement Plan to City Council. Projects submitted, either by staff, through a neighborhood or citizen request, or through joint participation of stakeholder groups, will be reviewed in conjunction with the entire Capital Improvement Project program

and submitted to City Council for final considerations. The Five-Year CIP shall be filed and adopted with the Annual Budget.

The Five-Year CIP shall be limited to the affordability limits identified in the long-range financial plans of the City, taking into considerations available cash, bond issuances, operating costs, etc.

Projects that requested but cannot be funded in the Five-Year CIP may be include in the CIP for future reference as an appendix of unfunded requests.

Annually, through the budget process and at year-end, projects are to be reviewed and if identified as complete, will be closed by Finance and any remaining funds will be applied to Fund Balance. Funds remaining from bond proceeds will only be used in accordance with the legal use of those funds pursuant to bond covenants.

Appropriations for Capital Projects are for the life of the project; therefore, re-appropriation of Capital funding for budgeted projects will not be necessary.

**C. Capital Expenditure Financing**

The City recognizes that there are three basic methods of financing its Capital requirements: funding from current revenues, funding from Fund Balance as allowed by the Fund Balance Policy, or funding through the issuance of debt. Types of debt and guidelines for issuing debt are set forth in the Debt Policy Statements below.

**D. Capital Improvement Project Reporting**

Capital project status reports shall be updated quarterly and included in quarterly leadership updates to City Council, or as often as needed to keep the governing body informed on project work and status. These reports will be presented by individual department directors.

**IX. DEBT**

Establish guidelines for debt financing that will minimize the impact of debt payments on current revenues and protect the City's creditworthiness.

**A. Use of Debt Financing**

Debt financing to include General Obligation Bonds, Revenue Bonds, Certificates of Obligations, Lease/Purchase Agreements, and other Obligations permitted to be issued or incurred under Texas Law, shall only be used to acquire capital assets and refinance existing debt obligations. In deliberations to issue debt, the City will first consider whether it is prudent to finance such assets from other available sources including current revenues or fund balance. Such deliberations will consider the effect on the City's Fund Balance Policy and liquidity, particularly in the context of prudent financial management and credit rating implications. When possible, the City will pay cash for Capital expenditures and improvements within the financial affordability of each fund versus issuing debt. Debt maturing beyond current fiscal year will not be used to fund current operating expenditures. The City, when appropriate, may issue short-term obligations maturing within the current fiscal year for cash flow management purposes.

**B. Debt Financing**

**1. Affordability**

The City shall use an objective analytical approach to determine whether it can afford to issue new general-purpose debt, both General Obligation Bonds and Certificates of Obligation. This process shall compare standards of affordability of the current values for the City. For tax-backed debt, such standards of affordability may include debt per capita, debt as a percent of taxable value per capita, and tax rate. The process shall also examine the direct costs and benefits of the proposed expenditures. The decision on whether or not to issue new debt shall be based on the costs and benefits, current condition of the municipal bond market, City's ability to "afford" new debt as determined by the aforementioned standards, and a review of the project's cash requirements as determined by the project's proposed timeline.

**2. Debt Capacity**

The City shall complete a debt capacity assessment to ensure that proposed debt is affordable and contributes to the financial strength of the City. The debt capacity is the upper limit on the dollar amount of capital improvements that the City can afford to fund from debt.

Debt capacity calculations for long-term planning shall assume market rates or higher for the average annual interest costs at the time the capacity is determined. The analysis shall not assume future refunding of any outstanding bonds and shall consider debt service requirements on both current and proposed debt.

For tax supported debt, maximum capacity shall be determined by an amount of annual debt service that the City can absorb within the current or proposed tax rate allocation for debt based on assumed growth in assessed valuation.

For revenue debt, maximum capacity shall be determined by the amount of annual debt service the City can absorb within a proposed rate structure that has been reviewed with City Council and which can support the proposed debt within the additional bonds test as defined in the revenue bond covenants. The City shall not exceed debt capacity as defined through bond covenants or fall below bond coverage ratios for additional revenue bonds. The City may choose to maintain target coverage margins in excess of legal requirements under bond covenants.

Factors that will be included in the annual debt capacity determination shall include:

- Existing debt obligations
- Evaluation of revenue and expenditure trends
- Debt per capita
- Debt to assessed value ratio
- Taxable value per capita
- Statutory or constitutional requirements
- Market factors such as interest rates, credit rating, or market status

#### **C. General Obligation Bonds (GO)**

General Obligation bonds require voter approval except for refunding bonds.

1. GO Bonds must be issued to accomplish projects identified in the Bond referendum and associated material.
2. GO Bonds must be issued for projects that are in accordance with the wording in the bond propositions.

**D. Certificates of Obligation**

Certificates of Obligation may be issued without voter approval to finance any Public Works project or Capital Improvement, as permitted by State Law. Should the City's capital funding evaluation support the issuance of Certificates of Obligations, they shall be issued only after determining the City's ability to assume additional debt based on the standards identified above.

Circumstances in which Certificates of Tax Notes might be issued can include but are not limited to the following:

- The City may issue CO's when there is insufficient funding on the General Obligation bond-financed capital improvement projects in progress;
- The City may issue CO's when emergency (urgent, unanticipated) conditions require a capital improvement to be funded rapidly;
- The City may issue CO's for projects when there is no other funding source available and the project is determined to be in the interest of the City or in the interest of public health and safety;
- The City may issue CO's or Tax Notes for a project to comply with regulatory mandates.

**E. Revenue Bonds**

For the City to issue Revenue Bonds, revenues as defined in the ordinance authorizing the Revenue Bonds in question shall be established and maintained to provide debt service coverage at least to comply fully with all bond covenants. Annual adjustments to the City's rate structures for enterprise funds shall be considered during the budget process and will be made as necessary to maintain the coverage factor. The City may choose to maintain target coverage margins in excess of legal requirements under bond covenants.

**F. Debt Structures**

The City shall normally issue bonds with a life not to exceed 25 years for General Obligation Bonds and Revenue Bonds, but in no case longer than the useful life of the asset.

1. The City shall seek level or declining debt repayment schedules.

2. The City shall seek to retire its debt with as short an average life as possible.
3. There should be no debt structures that include increasing debt service levels in years beyond the first and second year, except as special situations may warrant.
4. There shall be no “balloon” bond repayment schedules which consist of low annual payments and one large payment of the balance due at the end of the term.
5. The City shall seek debt instruments allowed by applicable law that do not restrict early pay off.
6. There shall always be at least interest paid in the first fiscal year after a bond sale and principal payments starting generally no later than the second fiscal year after the bond issue.

**G. Refunding**

The City’s financial advisor shall monitor the municipal bond market for opportunities to obtain interest savings by refunding outstanding debt. As a general rule, the net present value savings of a particular refunding should exceed 3.0% of the refunded maturities unless (1) a debt restructuring is necessary, or (2) bond covenant revisions are necessary to facilitate the ability to provide services or to issue additional debt.

**H. Interest Earnings on Debt Proceeds**

The expenditure of interest earnings on debt issued will be limited to funding changes to the bond financed capital improved plan in compliance with the voted propositions, cost overruns on bond projects, or be applied to debt service payments on the bonds issued.

**I. Bond Elections**

Timing of General Obligation Bond elections shall generally be determined by the inventory of current authorized unused bonds remaining to be sold and the five-year capital improvement program. The total dollar amount of bond election propositions recommended to the voters may not exceed the City’s estimated ability to issue the bonds within a 10-year period.



An analysis showing how the new debt combined with current debt impacts the City's tax rate and debt capacity will accompany every future bond issue proposal.

**J. Sale Process**

The City shall use a competitive bidding process in the sale of debt unless the nature of the issue warrants a negotiated sale. The City may utilize a negotiated process when the issue is, or contains, a refinancing that is dependent on market/interest rate timing. The City may issue certain issues as direct placements to state or federal agencies. Except for direct placements to state or federal agencies, the City shall award the bonds based on a true interest cost (TIC) basis.

**K. Rating Agency Presentations**

Full disclosure of operations and open lines of communications shall be maintained with the rating agencies. City staff, with the assistance of financial advisors, shall prepare the necessary materials and presentation to the rating agencies. Credit rating will be sought from one or more of the nationally recognized municipal bond rating agencies, currently Moody's Investor Services, Standard & Poor's, and Fitch Inc., as recommended by the City's financial advisor.

**L. Bond Ratings**

The City will prudently manage the General and Enterprise Funds and attempt to issue and structure debt to help maintain or increase the current bond rating.

**M. Lease/Purchase Agreements**

The City will use lease/purchase agreements when it is cost-efficient and provides for more attractive terms than other alternatives.

**N. Compliance**

The City will comply with its continuing disclosure obligations to inform the Municipal Securities Rulemaking Board through the EMMA website (Electronic Municipal Market Access) of any and all continuing disclosure document and annual financial statements.

## **X. CASH MANAGEMENT AND INVESTMENTS**

Invest the City's operating cash in a manner that will ensure its absolute safety of principal, provide necessary liquidity needs of the City, and optimize yield relative to those constraints.

### **A. Investment Management**

1. All aspects of cash/investment management shall be designed to ensure safety and integrity of the City's financial assets.
2. Cash/investment management activities shall be conducted in full compliance with prevailing local, state, and federal regulations.
3. The City will utilize competitive bidding practices wherever practical, affording no special advantage to any individual or corporate member of the financial or investment community.
4. The City will only do business with City authorized broker/dealers approved by the City Council and/or financial institutions that have executed written certification of their review of the City's Investment Policy.
5. Only employees authorized by City Council may perform treasury and investment duties. Each of the employees designated to serve as Investment Officers shall be bonded.
6. The City shall design and establish policies relating to a variety of cash/investment management issues, such as the eligibility and selection of various broker/dealers, safekeeping requirements, collateral requirements, delivery versus payment requirements, weighted average maturity requirements and such other aspects of the program (See Investment Policy).
7. Investments of the City shall be made with the exercise of judgement and care which persons of prudence, discretion, and intelligence exercise in the management of their own affairs, not for speculation, but for investment.
8. The City's Treasury and Investment Officer will present a quarterly investment report to the governing body which will contain signatures of at least two bonded treasury employees pursuant to Chapter 2256 of Texas Local Government Code.
9. Treasury staff will retain as much fund balance as practicable in high interest bearing, low risk accounts approved by the State of Texas pursuant to Chapter 2256 of Texas Local Government Code (such as TexPool, Logic,

Tex Class, etc.) to maximize interest earnings and transfer funds as required to meet current obligations.

**B. Treasury and Investment Strategy**

The City's investment program seeks to achieve safety of principal, adequate liquidity to meet cash needs, and reasonable yield commensurate with the preservation of principal and liquidity. Refer to the City's Investment Policy (Exhibit A) as adopted by City Council annually for detail.

1. Funds will be transferred from pool accounts to pay capital costs of projects for which the debt was issued when due.
2. City staff members with treasury and investment responsibility are required to take and maintain current Public Funds Investment Act training by an approved provider (TML, North Central Texas Council of Governments, etc.) every two years.

**C. Interest Income**

Interest earned from investments shall be distributed to the funds from which the funds were provided.

1. When debt is issued, the proceeds will be put into a high interest earning approved account such as TexPool, TexPool Prime, Tex Star, Logic, etc. to maximize interest earnings.

**D. Arbitrage Investments and Reporting**

The City's investment position as it related to arbitrage is as follows: Investments on bond proceeds will be made with safety of principal and liquidity in mind but with a competitive rate of return. Bond proceeds will be invested in separate instruments and not comingled with other investment purchases. Arbitrage rebate calculations will be performed as required in all debt issues and funds set aside annual for any positive arbitrage. Arbitrage will be rebated to the Internal Revenue Service as needed.

**E. Depository**

The City of Sweeny will select its official bank depository through a formal bidding process to provide the City with the most comprehensive, flexible, and cost-effective banking services available. The City will, at a minimum, bid depository services every five years.

**F. Collateralization of Deposits**

1. The City shall have pledged collateral held at an independent third-party institution and evidenced by a written receipt.
2. The value of the pledged collateral should be marked to market monthly and shall be at least 103percent of par of market value of the investments, whichever is greater.
3. Substitutions of collateral shall meet the requirements of the collateral agreement and have prior written approval. Collateral shall not be released until the replacement collateral has been received.
4. The pledge of collateral shall comply with the City's Investment Policy.

**XI. GRANTS**

The City will seek, apply for, and effectively administer federal, state, and local grants, to support City's priorities and policy objectives.

**A. Grant Guidelines**

The City shall apply and facilitate the application for only those grants that are consistent with the objectives and high priority needs identified by the City Manager and City Council.

Grant funding will be considered to leverage City funds. Inconsistent and/or fluctuating grants should not be used to fund ongoing programs.

The potential for incurring ongoing costs, to include assumptions of support for grant-funded position from local revenues, will be considered prior to applying for a grant.

**B. Grant Review**

All grant submittals shall be reviewed for their cash match requirements, their potential impact on the operating budget, and the extent to which they meet the City's goals. If there is a cash match requirement, the source of funding shall be identified prior to application.

The City Manager shall approve all grant submissions and City Council shall approve all grant acceptance \$50,000 or more and any grant acceptance regardless of the dollar amount if a budget amendment is required.

**C. Grant Termination and /or Reduced Grant Funding**

In the event of reduced grant funding, City resources will be substituted only after all program priorities and alternatives are considered during the budget process, unless the City is obligated through the terms of the grant to maintain the positions.

The City shall terminate grant-funded programs and associated positions when grants funds are no longer available, and it is determined that the program no longer supports City goals, and/or is no longer in the best interest of the City, unless the City has obligated itself through the terms of the grant to maintain the positions.

**XII. INTERNAL CONTROLS AND PURCHASING**

Internal controls are procedures that all employees and members of city-supported boards and commission are required to follow to support best management practices and safeguard the City's assets related to cash management and control, management of public funds and budgetary allocations, and protection of city interests.

**A. Segregation of duties and Internal Controls**

It is the responsibility of department directors and board chairpersons to implement internal controls that segregate duties so that not one single person has complete control of cash management or other transactions that carry potential for miscounting or misappropriation. Chairpersons of city supported boards will abide by this finance policy and any questions or need for clarity will be directed to the City's Finance Director.

1. All checks for City accounts and city-supported boards will require two signatures from authorized bank signatories.
2. All bank signatories must be approved by City Council. City employees serving as bank signatories must be bonded.
3. When cash collections are prepared for bank deposits, at least two people will separately count the collected proceeds in the presence of the other, and both will sign attesting to the amount of

the deposit prepared. All bank deposits will be prepared in sealed bags or envelopes. Deposit slips will be submitted to the City's Finance Department for regular banking reconciliations.

4. No department of the City will have debit cards or cash liquidity. Credit cards will be authorized with appropriate credit levels by the City's Finance Director, and individual department directors shall be responsible for the monthly reconciliation of a credit card statements and submitted to the Finance Department for payment in a timely manner to avoid late payments. Officers of applicable boards and commissions may be authorized a credit card, and all receipts and backup documentation must be submitted in a timely manner to the Finance Department for payment.
5. All invoices will be sent to [accountspayable@sweenytexas.gov](mailto:accountspayable@sweenytexas.gov).
6. All staff members and elected officials with access to a city-owned computer or smart device will be required to take Cyber Security Training pursuant to Texas Government Code Section 2054.5191
7. No City employee, elected official, or representative of any City-sponsored board or committee shall use smart applications attached to personal funds, such as Cash App, Venmo, Zelle, or other application or instrument required to be supported by any personal checking account for the collection of proceeds from city events, boards, commissions, etc. No public funds shall ever be intermingled with any personal funds of any individual or other organization.

**B. Encumbrances and Requisition to Purchase Order**

Once the City finalizes migration to a full web-based enterprise resource planning (ERP) system inclusive of all transaction procedures into one uniform software, all transactions will be encumbered so as to maintain a budget-to-actual information in real time.

1. Transactions will be encumbered utilizing the accounting system. All vendors must be previously registered with completed W-9 information in the system prior to payment being issued.
2. A transaction is encumbered when it is initiated through a requisition in the system, and the funds for said transaction are "earmarked" for that transaction. Requisition do not constitute authorization to make the purchase. Requisitions initiate the

transaction with a sequential number and the request is then routed in the workflow to the authorizing agent – department director, supervisor, etc.

3. When the supervisor or director has approved the requisition, it then becomes a purchase order, and a specific number is assigned to the purchase order.
4. Certain transactions may not be approved without additional authority if not budgeted in the approved budget or if they exceed purchasing thresholds.

#### **C. Purchasing Thresholds and Procurement**

The City Manager will set the thresholds for purchasing power of individual department directors consistent with the City's Charter and all applicable state and local guidelines.

1. City Manager may make purchases up to \$49,999.99 pursuant to the City's Charter and applicable state law. Purchases should be included in the City's adopted budget, and if not, a budget amendment or adjustment may be required. Budget amendments require Council approval.
2. Department Directors may make purchases for up to \$1,000. Purchases between \$1000 and \$3500 required the Finance Director's approval, and for purchases exceeding \$3500, the City Manager's approval is required.
3. For any purchases of \$3500 or more, the City should seek at least three quotes and all bids should be included with the purchase order back up documentation. Some circumstances will not require 3 bids such as emergency purchases, sole source providers, and use of approved state procurement cooperatives to acquire goods and services, construction, technology, and other purchases not deemed to be a specialized professional service.
4. The City will utilize the competitive sealed bid process for purchases of at least \$50,000 pursuant to Chapter 252 of Texas Local Government Code. This only applies to goods and services not deemed professional services. Every effort will be made to seek bids from Historically Underutilized Businesses (HUBs) and Veteran, Minority and Women Owned Businesses.

5. Professional services such as City general counsel, financial auditing, and engineering will be procured by solicitation of professional qualifications. Consideration will be based on credentials, references, capacity to perform, and other considerations that the City may find pertinent to seeking a professional services provider.

**D. Cryptocurrency and Blockchain Technology**

This section assumes at a later time, the City will need expand the Comprehensive Finance Policy to include cryptocurrency and blockchain technology. This section is reserved for the purpose of expanding this section of the policy as more best management practices related to these subjects become available from municipal finance authorities such as Generally Accepted Accounting Principles (GAAP), Government Accounting Standards Board (GASB), Government Finance Officers Association (GFOA), etc.

1. Currently, no cryptocurrency, such as Bitcoin or other form of online currency, is recognized by the City of Sweeny for methods of payment. Only the US Dollar is utilized by the City of Sweeny for exchange of goods and services.
2. Blockchain technology is not currently utilized, however, the City has the option to utilize this technology to prevent fraud or other malicious activity.



**CITY OF SWEENEY**

# **INVESTMENT POLICY**

**Reviewed January 2011**

**CITY OF SWEENEY, TEXAS- INVESTMENT POLICY**

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## **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 designed 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 excess 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. 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, 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. Tax-exempt securities within the portfolio shall be utilized primarily for compliance with arbitrage regulations. Arbitrage, as referred to in this policy, concerns 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.

### **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 the investment strategy for each fund. The maximum allowable stated maturity of any individual investment owned by the City is five (5) 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.

### **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) not to exceed five 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 of the following authorized investment instruments consistent with governing law (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 include only Treasury Bills, Treasury Notes, and Treasury Bonds;
  - 2. Obligations of State of Texas 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. Certificates of Deposit or Money Market Accounts if issued by a state or national bank domiciled in this state that are:
  - 1. Guaranteed or insured by the Federal Deposit Insurance Corporations or its successor:
  - 2. Secured by eligible collateral as listed in Section IV.
- C. Eligible investment pools (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.
  - 1. Must be continuously rated on lower than "AAA," "AAA-M," or an equivalent rating by a nationally recognized rating agency;
  - 2. A Public Fund Investment Pool created to function as a Money Market Mutual Fund must mark its portfolio to market daily, and to extent reasonably possibly, stabilize at a \$1.00 net asset value; the ratio of the market value to book value of the fund must be maintained between 0.995 and 1.005; and
  - 3. The pool must establish an advisory board composed of qualified members representing participants and non participants.

**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:

- A.** Depository bank;
- B.** Other state or national banks domiciled in Texas that are instructed by FDIC;
- C.** Government securities brokers and dealers who are licensed under the Texas Securities Act and reporting to the Market Reporters division of the Federal Reserve Bank of New York, also known as the "primary government securities dealers." *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, as approved by the City Council. Said depositories shall be subject to all restrictions set forth in City Bond Resolutions and in this policy for all types of investments.

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 accrue interest, of the amount of funds on deposit plus interest accrued and to accrue thereon, to the extent not covered by the FDIC or by other authorized collateral pursuant to the Public Funds Investment Act.

##### **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 person (other than the Federal Government and Bureau of Public Debt in the acquisition of securities under the State and Local Government Series ("SLGS") program) seeking to sell the City an authorized investment for any of the funds identified herein under "Investment

Strategies." The registered principal of the business organization seeking to sell an authorized investment shall execute a written instrument substantially to the effect that the registered principal 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 imprudent investment activities arising the City and the organization.

An Investment Officer may not buy any securities from a person who has not delivered to the City an instrument in substantially the form provided above according to Section 2256.005(I) of the Public Funds Investment Act.

City Council members, Financial Officers and Consultants will evaluate the institution of brokers/dealer's soundness to the extent the Council considers necessary prior to establishing any accounts with the broker/dealer or financial institution. Investigation may include a review of appropriate public documents, rating agency reports and call reports sent to the comptroller of the currency or other appropriate regulator.

Recommendations will be made to Council bi-annually to review and approve the updated list. An institution or 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 defined herein and as provided by State Statute. The bids may be solicited orally. The City must attempt to solicit bids initially from qualified investment institutions defined herein located within the territorial limits of the City of Sweeny.

**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.

### **Delivery vs. Payment**

All investments 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.

The City must have confirmation from a 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 24 hours with the original safekeeping receipt if additional pledging was required.

### **Audit Control**

The City will have an annual financial audit of all funds by an independent auditing firm, which will include 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).

### **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 personally indemnified 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 a written report of investment transactions 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.**

### **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 that all are 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. Certificates of Deposit issued by state and national banks domiciled in State of Texas to the extent same are insured by the FDIC;**
- C. Direct obligations of the United States including only Treasury Bills, treasury Notes, and Treasury Bonds;**
- D. Obligations of State of Texas 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;**
- E. Other obligations of the United States or its agencies and instrumentalities, the principal of and interest on which are unconditionally guaranteed by the full faith and credit of the United States.**
- F. Personal bonds or surety bonds as contemplated under Local Government Code Chapter 105(b).**

### **Safekeeping**

All purchased securities including Certificates of Deposit shall be held in safekeeping by the City, or City account in a third part non-affiliated financial institution, or with the Federal Reserve Bank. All pledged securities by the Depository Bank shall be held in safekeeping by the City or a City account in a 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 (par value);**
- D. Maturity date and rate of interest;**
- E. Coupon rate;**
- F. Nationally recognized investment firm rating**



**Securities are to remain pledged to the City until written notification to release same is received by the safekeeping bank from the City. After Staff has obtained Council approval, written notification for the release or substitution of pledged security will be sent from one of the Investment Officers.**

**Securities owned by the City and collateral securities pledged to the City must be maintained in safekeeping at a third party institution which is not owned and controlled by, or affiliated with, the same bank or holding company from which the security is purchased or from which the collateral is pledged.**

**Attachment A: Certification of Council Action to Approve Investment Policy**

At its regular meeting of December 19, 1995, 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 Dan Ellis, seconded by Leo Finley, and was unanimously approved.

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Mayor  
City of Sweeny, Texas

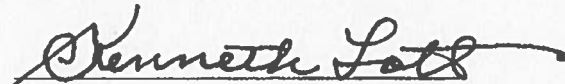
**Attachment B: Certification of Council Action to Designate Authorized Investment Officers**

At a regular 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.

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

A handwritten signature in black ink, reading "Kenneth Lott", with a long horizontal flourish extending to the right.

**Mayor  
City of Sweeny**

**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.

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Mayor  
City of Sweeny, Texas

**Attachment D: Certification of Council Action to Approve Eligible Investment Institutions**

At its regular meeting of December 19, 1995, the City Council approved the following list of authorized of eligible investment institutions:

**Banking Institutions**

- First State Bank

**Government Securities Brokers/Dealers**

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

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Mayor  
City of Sweeny, Texas

**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."

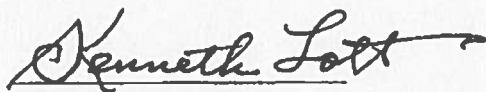
The City of Sweeny hereby amends Schedule D to approve the following eligible investment institutions:

**Banking Institutions**

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

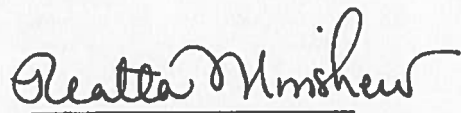
PASSED AND ADOPTED by the City Council of the City of Sweeny, Texas, this the 18 th day of January, 2011

Approved:



Kenneth Lott, Mayor

Attest:



Reatta Minshew, City Secretary