

**CITY OF TOMBALL
ADMINISTRATIVE POLICIES, RULES AND PROCEDURES**

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	REVISED: September 5, 2023	APPROVED BY CITY MANAGER: September 5, 2023	
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CITY OF TOMBALL
INVESTMENT POLICY

I. SCOPE OF POLICY

PURPOSE:

This policy is developed to be in accordance with the Public Funds Investment Act, Chapter 2256 and with the Public Funds Collateral Act, Chapter 2257 of the Texas Government Code, as amended. This investment policy applies to the investment activities of the City of Tomball (City) and serves to satisfy the statutory requirement to define and adopt a formal investment policy. The investment portfolio shall be designed and managed in a manner to be responsive to public trust and to be in compliance with legal requirements and limitations.

INVESTMENT FUNDS:

All financial assets of all funds of the City at the present time and any funds to be created in the future shall be administered in accordance with the provisions of this policy. For investment purposes, all funds of the City shall be combined in a common pool, except as provided by applicable federal or state statutes, City ordinance, or other law. Investment income will be allocated to the various funds based on their respective participation and in accordance with generally accepted accounting principles.

II. PRIMARY OBJECTIVES

SAFETY OF PRINCIPAL:

The safety of the principal invested always remains the primary and foremost objective. All investments shall be designed and managed in a manner responsive to the public trust and consistent with state and local law. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. The objective will be to mitigate credit risk, the risk of loss due to the failure of the security issuer or backer, and interest rate risk, the risk that the market value of securities in the portfolio will fall due to changes in general interest rates.

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LIQUIDITY:

The City’s investment portfolio will remain sufficiently liquid to enable the City to meet operating requirements that might be reasonably anticipated. Liquidity shall be achieved by structuring the portfolio so that investments mature concurrent with forecasted cash flow requirements. Since all possible cash demands cannot be anticipated, the portfolio should consist largely of securities with active secondary or resale markets. A portion of the portfolio will also be placed in interest bearing accounts, which offer same day liquidity for short-term funds.

DIVERSIFICATION:

Invested funds shall be diversified to minimize risk resulting from over-concentration of assets in a specific maturity, specific market sector, or specific instruments.

YIELD:

The City’s cash management portfolio shall be designed with the objective of attaining reasonable market rates of return on investments, while remaining within the objective of safety and liquidity, throughout budgetary and economic cycles. The investment program shall seek to augment these returns consistent with risk limitations identified herein and prudent investment principles, also taking into account the risk constraints associated with the protection of capital.

MATURITY:

The investment maturity schedule shall correspond with the City’s projected cash flow needs. Market risk shall be minimized by diversification of maturity dates. The City has a “buy and hold” portfolio strategy. Maturity dates are matched with cash flow requirements and investments are purchased with the intent to be held until maturity. However, securities may be sold before they mature should it be in the City’s best interest. No City investments shall exceed a maturity of more than four years.

INVESTMENT MANAGEMENT:

All participants in the investment process shall seek to act responsibly as custodians of the public trust. They shall avoid any transactions that might impair public confidence in the City’s ability to govern effectively. The system of internal controls will be reviewed annually with the independent auditor of the City. The controls shall be designed to prevent loss of public funds due to fraud, employee error, misrepresentation by third parties, unanticipated market changes, or imprudent actions by employees of the City.

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III. AUTHORIZED INVESTMENTS

Assets of funds of the government of the City may be invested in:

- A. Obligations of the United States or its agencies and instrumentalities;
- B. Direct obligations of the State of Texas or its agencies and instrumentalities;
- C. Collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States;
- D. Other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, the State of Texas or the United States or their respective agencies and instrumentalities;
- E. Obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent;
- F. Certificates of Deposit issued by state or national banks with its main office or a branch in the State of Texas, a savings bank with its main office or a branch in the State of Texas, or a state or federal credit union with its main office or a branch in the State of Texas and are guaranteed or insured by the Federal Deposit Insurance Corporation or its successor or the National Credit Union Share Insurance Fund or its successor and are secured by the obligations named within this policy under items A through E above.
- G. Repurchase agreements which are fully collateralized, have a defined termination date, are secured by obligations of the United States or its agencies and instrumentalities; are purchased and pledged to the City; are held in the City's name; are deposited with third-party safekeeping of collateral at the time the investment is made; and are purchased through a primary government securities dealer or state or national bank doing business in the State of Texas evidenced by a fully executed Master Repurchase Agreement on file with the City. The repurchase agreement is a simultaneous agreement to buy, hold for a specified time, and sell back at a future date obligations of the United States or its agencies and instrumentalities, at a market value at the time the funds are disbursed of not less than the principal amount of the funds disbursed.

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H. Commercial paper is an authorized investment if the commercial paper:

- a. Has a stated maturity of 270 days or fewer from the date of its issuance; and
- b. Is rated not less than A-1 or P-1 or an equivalent rating by at least:
 - i. Two nationally recognized credit rating agencies; or
 - ii. One nationally recognized credit rating agency and is fully secured by an irrevocable letter of credit issued by organized and existing under the laws of the United States or any state.

I. An eligible investment pool authorized by the governing body, which must furnish to the City an offering circular or other similar disclosure instrument that contains, at a minimum, the types of investments in which money is allowed to be invested; the maximum average dollar-weighted maturity allowed, based on the stated maturity date, of the pool; the maximum stated maturity date of any investment within the portfolio; the objectives of the pool; the size of the pool; the names of the members of the advisory board of the pool and the dates their terms expire; the custodian bank that will safe-keep the pool's assets; whether the intent of the pool is to maintain a net asset value of one dollar and the risk of market price fluctuation; whether the only source of payment is the assets of the pool at market value or whether there is a secondary source of payment, such as insurance or guarantees, and a description of the secondary source of payment; the name and address of the independent auditor of the pool; the requirements to be satisfied for an entity to deposit funds in and withdraw funds from the pool and any deadlines or other operating policies required for the entity to invest funds in and withdraw funds from the pool; and the performance history of the pool, including yield, average dollar-weighted maturities, and expense ratios.

To maintain eligibility to receive funds from and invest funds on behalf of the City, an investment pool must furnish to the City investment transaction confirmations; and a monthly report that contains, at a minimum, the types and percentage breakdown of securities in which the pool is invested, the current average dollar-weighted maturity based on the stated maturity date of the pool, the current percentage of the pool's portfolio in investments that have stated maturities of more than one year, the book value versus the market value of the pool's portfolio, using amortized cost valuation, the size of the pool, the number of participants in the pool, the custodian bank that is safekeeping the assets of the pool, a listing of daily transaction activity of the entity participating in the pool, the yield and expense ratio of the pool, the portfolio managers of the pool and any changes or addenda to the offering circular.

Investment pool yield shall be calculated in accordance with regulations governing the registration of open-end management investment companies under the Investment Company Act of 1940, as promulgated from time to time by the Federal Securities and Exchange Commission.

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To be eligible to receive funds from and invest funds on behalf of the City, a public funds investment pool created to function as a money market mutual fund must mark its portfolio to market daily, and, to the extent reasonably possible, stabilize at a \$1 net asset value.

If the ratio of the market value of the portfolio divided by the book value of the portfolio is less than 0.995 or greater than 1.005, portfolio holdings shall be sold as necessary to maintain the ration between 0.995 and 1.005.

A public funds investment pool must have an advisory board composed: equally of participants in the pool and other persons who do not have a business relationship with the pool and are qualified to advise the pool, for a public funds investment pool created and managed by a state agency; or of participants in the pool and other persons who do not have a business relationship with the pool and are qualified to advise the pool, for other investment pools.

To maintain eligibility to receive funds from and invest funds on behalf of the City, an investment pool must be continuously rated no lower than AAA or AAA-m or at an equivalent rating by at least one nationally recognized rating service or no lower than investment grade by at least one nationally recognized rating service with a weighted average maturity no greater than 90 days.

Although allowed under State Law, Prime Domestic Bankers' Acceptances, and Money-market mutual funds are not considered suitable investments of the City, and the City will refrain from making such investments or allowing such instruments to be pledged to the City's deposits or serve as underlying collateral.

IV. RESPONSIBILITY AND CONTROL

DELEGATION OF AUTHORITY:

Management responsibility for the investment program is hereby delegated to the Finance Director, or in the absence of such, Assistant City Manager, or such other person specifically designated by the City Manager or Assistant City Manager. The Finance Director, or designated person by such, shall be responsible for all transactions, compliance with internal controls, and insuring that all safekeeping, custodial, and collateral duties are in compliance with this investment policy and other applicable laws and regulations.

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TRAINING REQUIREMENT:

The Finance Director, and any person designated by the Finance Director, City Manager, and/or Assistant City Manager to be responsible for the investment of City funds shall attend an independent and approved source of investment training session no less often than once every two fiscal years and shall receive not less than 10 hours of instruction relating to investment responsibilities under the state statutes. Any person newly designated to duties relating to the investment program shall be required to attend an independent and approved source of investment training session within 12 months of such designation. Training must include education in investment controls, security risks, strategy risks, market risks, diversification of the investment portfolio, and compliance with the Public Funds Investment Act under the Texas Government Code Chapter 2256.

QUARTERLY REPORTS:

The Finance Director, and the person or persons designated by such, shall submit quarterly an investment report that summarizes the investment portfolio for all funds to the City Council. The report shall describe in detail the investment position of the City on the date of the report; be prepared and signed by all investment officers of the City; contain a summary statement, prepared in compliance with generally accepted accounting principles; provide the beginning market value for the reporting period, the additions and changes to the market value during the period, the ending market value for the period, and fully accrued interest for the reporting period; 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; state the maturity date of each separately invested asset that has a maturity date; state the account, fund or pooled group fund in City for which each individual investment was acquired; and state the compliance of the investment portfolio of the City's policy as it relates to the strategy. The reports shall be formally reviewed at least annually by an independent auditor, and the result of the review shall be reported to the governing body by that auditor.

CONFLICTS OF INTEREST:

The Finance Director, or any person designated by such to be responsible for investments, shall not be designated as an investment officer for any investing entity other than the City. Any person responsible for investments for the City who has a personal business relationship with a business organization offering to engage in an investment transaction with the entity shall file a statement disclosing that personal business interest. Any person responsible for investments for the City who is related within the second degree by affinity or consanguinity to an individual seeking to sell an investment to the City shall file a statement disclosing that relationship.

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This statement must be filed with the Texas Ethics Commission and the City. A personal business relationship is defined as owning 10 percent or more of the voting stock or shares of the business organization or owns \$5,000 or more of the fair market value of the business organization; funds received from the business organization exceed 10 percent of the person’s gross income for the previous year; or the acquisition of investments from the business organization during the previous year have a book value of \$2,500 or more for the person’s personal account. Any person involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment program, or which could impair their ability to make impartial investment decisions. Employees and investment officials shall disclose to the City Secretary any material financial interest in financial institutions that conduct business within this jurisdiction, and they shall further disclose any large personal financial and/or investment positions that could be related to the performance of the City’s portfolio. Any person responsible for investments shall subordinate their personal investment transactions to those of the City, particularly with regard to the timing of purchases and sales.

V. COLLATERAL AND SAFEKEEPING

COLLATERAL REQUIRED:

Funds of the City of Tomball shall be secured by collateral, whereby the market value of such collateral shall not be less than the total amount of the sum of the City’s deposits, investments and accrued interest less the amount of insurance provided by the United States or an instrumentality of the United States, such as Federal Deposit Insurance Corporation (FDIC) insurance. All items held for collateral for the City shall be qualified investments as stated in items III.A. through III.E. of the City’s investment policy.

SECURITY OF COLLATERAL:

All securities owned by thy City or pledged to the City shall be held in safekeeping by the City; in a City approved account in a third party financial institution with a main office in the State of Texas and capital stock and permanent surplus of \$5 million or more; the Texas Treasury Safekeeping Trust Company; a Federal Home Loan Bank; or with a Federal Reserve Bank. A third party custodian shall be required to issue original safekeeping receipts directly to the City and monthly provide a listing of each specific security, rate description, maturity, Committee on Uniform Securities Identification Procedures (CUSIP) number, and other information as may be deemed necessary and appropriate by the City. Each safekeeping receipt will be clearly marked that the security is pledged to the City. It shall be the sole responsibility of the financial institution to immediately, without notice from the City or cost to the City, replace any nonconforming pledged security.

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DELIVERY VS. PAYMENT:

Treasury Bills, Notes and Bonds and Government Agencies' securities shall be purchased using the delivery vs. payment method. That is, funds shall not be wired or paid until verification has been made that the correct security was received by the City or its designated Trustee. The security shall be held in the name of the City. The Trustee's records shall reflect that the City owns such securities. In the event that the security is held by Trustee, the original copy of all safekeeping receipts shall be delivered to the Finance Director, or person designated by such.

VI. AUTHORIZED BROKERS

The City shall annually review, revise, and adopt a list of qualified brokers that are authorized to engage in investment transactions with the City. Following are authorized brokers for the City of Tomball:

FHN Financial
Wells Fargo Securities, LLC
Hilltop Securities