

**“EXHIBIT A”****INVESTMENT POLICY  
CITY OF SHOREACRES, TEXAS****I. POLICY STATEMENT**

It is the policy of the City that the administration of its funds and the investment of those funds shall be handled as its highest public trust. Investments shall be made in a manner which will provide the maximum security of principal invested through limitations and diversification while meeting the daily cash flow needs of the City and conforming to all applicable state statutes governing the investment of public funds.

The receipt of a market rate of return will be secondary to the requirements for safety and liquidity. It is the intent of the City to be in complete compliance with local law and the Texas Public Funds Investment Act (the “Act”). The earnings from investment will be used in a manner that best serves the interests of the City.

**II. SCOPE**

This investment policy applies to all the financial assets and funds of the City. The City commingles its funds into one pooled investment fund for investment purposes for efficiency and maximum investment opportunity. These funds are defined in the City’s Comprehensive Annual Financial Report (CAFR) and include General Fund, Utility Fund, Water Deposit Fund, and any new funds created by the City unless specifically exempted by the City Council and this policy.

**III. OBJECTIVES AND STRATEGY**

It is the policy of the City that all funds shall be managed and invested with four primary objectives, listed in order of their priority: safety, liquidity, diversification and yield. Investments are to be chosen in a manner which promotes diversity by market sector, credit and maturity. The choice of high-grade government investments and high-grade, money market instruments are designed to assure the marketability of those investments, should liquidity needs arise. To match anticipated cash flow requirements the maximum weighted average maturity of the overall portfolio may not exceed six months.

Safety of Principal

Safety of principal is the foremost objective of the City. Investments of the City shall be undertaken in a manner that seeks to insure the preservation of capital in the overall portfolio.

Liquidity

The City’s investment portfolio will be based on a cash flow analysis of needs and will remain sufficiently liquid to enable it to meet all operating requirements which might be reasonably anticipated.

Diversification

Diversification of the portfolio will include diversification by maturity and market sector.

Yield

The City’s investment portfolio shall be designed with the objective of attaining a market rate of return taking into account the City’s risk constraints and the cash flow needs of the portfolio. “Market rate of return” may be defined as the average yield of the current six month U.S. Treasury Bill.

Effective cash management is recognized as essential to good fiscal management. Cash management is defined as the process of managing monies in order to ensure maximum cash availability. The City shall maintain a comprehensive cash management program which includes

collection of accounts receivable, prudent investment of its available cash, disbursement of payments in accordance with invoice terms and the management of banking services.

#### **IV. LEGAL LIMITATIONS, RESPONSIBILITIES AND AUTHORITY**

Direct specific investment parameters for the investment of public funds in Texas are found in the Public Funds Investment Act, Chapter 2256, Texas Government Code, (the "Act"). The Act is attached as Exhibit A. The Public Funds Collateral Act, Chapter 2257, Texas Government Code, specifies collateral requirements for all public funds deposits. All investments will be made in accordance with these statutes.

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

The Mayor, acting on behalf of the City, is designated as the Investment Officer of the City and is responsible for investment management decisions and activities. The Mayor is also responsible for considering the quality and capability of staff, investment advisors, and consultants involved in investment management and procedures. All participants in the investment process shall seek to act responsibly as custodians of the public trust.

The Investment Officer shall develop and maintain written administrative procedures for the operation of the investment program which are consistent with this Investment Policy.

The Investment Officer shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials and staff. The Investment Officer shall designate a staff person as a liaison/deputy in the event circumstances require timely action and the Investment Officer is not available.

No officer or designee may engage in an investment transaction except as provided under the terms of this Policy and the procedures established.

The Mayor will also serve as the designated officer for dealing with depository institutions.

#### **VI. PRUDENCE**

The standard of prudence to be used in the investment function shall be the "prudent person" standard and shall be applied in the context of managing the overall portfolio. This standard states:

"Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion, and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the expected income to be derived."

##### Limitation of Personal Liability

The Investment Officer and those delegated investment authority under this Policy, when acting in accordance with the written procedures and this Policy and in accord with the Prudent Person Rule, shall be relieved of personal liability in the management of the portfolio provided that deviations from expectations for a specific security's credit risk or market price change or portfolio shifts are reported in a timely manner and that appropriate action is taken to control adverse market effects.

#### **VII. INTERNAL CONTROLS**

The Investment Officer shall establish a system of written internal controls which will be reviewed annually with the independent auditor of the City. The controls shall be designed to prevent loss of public funds due to fraud, employee error, misrepresentation by third parties, unanticipated market changes, or imprudent actions by employees of the City.

## **VIII. AUTHORIZED INVESTMENTS**

Acceptable investments under this policy shall be limited to the instruments listed below and as further described by the Public Funds Investment Act.

- A. Obligations of the United States Government, its agencies and instrumentalities, and government sponsoring enterprises, not to exceed two years to stated maturity, excluding collateralized mortgage obligations (CMOs);
- B. Fully insured or collateralized certificates of deposit from a bank doing business in the State of Texas and under the terms of a written depository agreement with that bank, not to exceed two years to stated maturity;
- C. No-load, SEC registered money market funds, each approved specifically before use by the City.
- D. Constant dollar Texas Local Government Investment Pools as defined by Public Funds Investment Act; and,

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

### Competitive Bidding Requirement

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

### Delivery versus Payment

All security transactions, including collateral for repurchase agreements, entered into by the City, shall be conducted on a delivery versus payment (DVP) basis.

## **IX. AUTHORIZED FINANCIAL DEALERS AND INSTITUTIONS**

All investments made by the City will be made through either the City's banking services bank or a primary dealer. A list of at least three broker/dealers will be maintained in order to assure competitive bidding.

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

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

Every broker/dealer and bank with which the City transacts business will be provided a copy of this Investment Policy to assure that they are familiar with the goals and objectives of the investment program. A representative of the firm will be required to return a signed certification stating that the Policy has been received and reviewed and that controls are in place to assure that only authorized securities are sold to the City.

## **X. DIVERSIFICATION AND MATURITY LIMITATIONS**

It is the policy of the City to diversify its investment portfolio. Invested funds shall be diversified to minimize risk or loss resulting from over-concentration of assets in a specific maturity, specific class of securities. Diversification strategies shall be established and periodically reviewed. At a minimum, diversification standards by security type and issuer shall be:

Security Type	Max % of Portfolio
U.S. Treasury obligations	100%
U.S. Government agencies and instrumentalities	not to exceed 50%
Fully insured or collateralized CDs	not to exceed 50%
Money market funds	100%
Bond funds	80%
Local Government Investment Pools or Liquidity Pools	100%
Maximum percent ownership of pool	not to exceed 20%
For Bond Funds	not authorized

The Investment Officer shall be required to diversify maturities. The Investment Officer, to the extent possible, will attempt to match investment with anticipated cash flow requirements. Matching maturities with cash flow dates will reduce the need to sell securities prior to maturity, thus reducing market risk. Unless matched to specific requirements, the Investment Officer may not invest more than 20% of the portfolio for a period greater than one (1) year. Unless matched to specific requirements, the Investment Officer may not invest any portion of the portfolio for a period greater than two (2) years.

**XI. SAFEKEEPING AND COLLATERALIZATION**

The laws of the state and prudent treasury management require that all purchased securities be bought on a delivery versus payment basis and be held in safekeeping by either the City, and independent third party financial institution, or the City’s designated Banking services depository.

All safekeeping arrangements shall be designated by the Investment Officer and an agreement of the terms executed in writing. The third party custodian shall be required to issue safekeeping receipts to the City listing each specific security, rate, description, maturity, cusip number, and other pertinent information. Each safekeeping receipt will be clearly marked that the security is held for the City or pledged to the City.

All securities pledged to the City for certificates of deposit or demand deposits shall be held by an independent third party bank doing business in Texas. The safekeeping bank may not be within the same holding company as the bank from which the securities are pledged.

Collateralization on time and demand deposits over the FDIC insurance coverage of \$100,000 is required. In order to anticipate market changes and provide a level of additional security for all funds, the collateralization level required will be 102% of the market value of the principal and accrued interest. Collateral will be held by an independent third party safekeeping agent.

**XII. PERFORMANCE EVALUATION AND REPORTING**

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

**XIII. DEPOSITORIES**

The City will designate one banking institution through competitive process as its central banking service provider at least every five years. This institution will be used for normal banking services including disbursements, collections, and safekeeping of securities. Other banking institutions from which the City may purchase certificates of deposit will also be designated as a depository after they provide their latest audited financial statements to the City. The City may select a banking institution outside the City of Shoreacres.

**XIV. INVESTMENT POLICY ADOPTION BY CITY COUNCIL**

The City's Investment Policy shall be reviewed and adopted annually by City Council. A written resolution approving that review and changes to the policy will be passed and recorded by the City Council.

ADOPTED AND APPROVED THIS 20TH DAY OF FEBRUARY, 2013.

( CITY SEAL )

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Dolly Arons, Mayor

ATTEST:

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David K. Stall, CFM  
City Administrator / City Secretary