

RESOLUTION 2012-40

**A RESOLUTION OF THE CITY OF LA FERIA, TEXAS
APPROVING THE INVESTMENT POLICY OF THE CITY, ITS
APPLICABLE COMPONENTS, SUBDIVISIONS, AND AGENCIES.**

WHEREAS, the City of La Feria, Texas is a Home-Rule Municipality; and

WHEREAS, the 74th Legislature of the State of Texas approved the Public Funds Investment Act; and

WHEREAS, the City of La Feria is required to adopt an Investment Policy to conform to Chapter 2256 Subchapter A of the Government Code; and

WHEREAS, the City Commission of the City of La Feria is the authorized body to approve such policy; and

WHEREAS, the City Commission approved an Investment Policy on November 12, 1998 and amended thereafter; and

WHEREAS, the City Commission is required to review and approve an Investment Policy annually; and

WHEREAS, the City Commission has reviewed the Investment Policy and Investment Strategies contained in the Policy,

**NOW, THEREFORE, BE IT RESOLVED BY THE CITY COMMISSION OF THE
CITY OF LA FERIA, TEXAS THAT:**

1. The Investment Policy and Investment Strategies of the City of La Feria are hereby approved.
2. The Investment Policy and Investment Strategies will be applicable to the City of La Feria, its applicable components, subdivisions, and agencies.

PASSED AND APPROVED by the City Commission of the City of La Feria, Texas on this the 25th day of September 2012.

APPROVED:



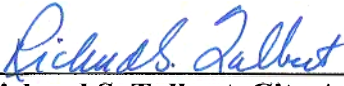
Steve Brewer, Mayor

ATTEST:



Olga Oberwetter, City Secretary

APPROVED AS TO FORM:



Richard S. Talbert, City Attorney

**CITY OF LA FERIA
115 EAST COMMERCIAL AVENUE
LA FERIA, TEXAS 78559**

INVESTMENT POLICY

**Approved by the City Commission on
September 25, 2012**

(Resolution Number 2012-40)

CITY OF LA FERIA¹
115 East Commercial Avenue, La Feria, Texas 78559

INVESTMENT POLICY

1.0 Policy:

It is the policy of the City to invest public funds in a manner consistent with this policy and conforming to all state and local statutes governing the investments of public funds. Specifically, Chapter 2256 Subchapter A. of the Government Code, cited as the Public Funds Investment Act as amended. Investments shall be made in accordance with this written policy approved by the City Commission.

2.0 Scope:

This investment policy applies to all financial assets of the City. These funds are accounted for in the City's **Annual Financial Report** and now include:

2.1 Funds:

- 2.1.1 General Fund**
- 2.1.2 Debt Service Fund**
- 2.1.3 Special Revenue Funds**
- 2.1.4 Capital Project Funds**
- 2.1.5 Enterprise Funds**
- 2.1.6 Trust and Agency Funds**

As part of the investment policy, the Commission shall adopt a separate written investment strategy of each of the funds under the Commission's control. Each investment strategy must describe the investment objectives for the particular fund under the following priorities in order of importance:

1. Understanding of the suitability of the investment to the financial requirements of the City;
2. Preservation and safety of principal;
3. Liquidity;
4. Marketability of the investment if the investment needs to be liquidated before maturity
5. Diversification of the investment portfolio; and

¹This includes all applicable components, subdivisions, and agencies of the City

6. Yield.

7. Impact on Credit Rating of responsible cash management.

2.2. Investment Strategy:

In general the investment strategy for the City is developed by a specific fund or group of funds which are similar in the operation and use of cash flow. The specific funds and strategies are defined in **Schedule A**, which is an integral part of this policy, and may be modified by the Commission and approved independently from this policy to meet changing cash flow and market conditions.

The major influence on a fund strategy will be the required need for liquidity and as such the priorities as defined in 2.1 above will be applicable in order of importance which relate specifically to a fund or group of funds. As a result of maintaining high liquidity, yield and diversification are generally impacted. It may be necessary, in order to maintain a high level of liquidity, to invest in shorter term or in one specific group of authorized investments from time to time which will reduce the yield or diversification of those investments.

3.0 Prudence:

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

The standard of prudence to be used by investment officials shall be the "**prudent person**" standard and shall be applied in the context of managing an overall portfolio. Investment officers acting in accordance with written procedures and the investment policy and exercising due diligence shall be relieved of personal responsibility and liability for an individual security's credit risk or market price changes.

Investment of funds shall be governed by the following investment objectives, in order of priority:

- a. preservation and safety of principal;
- b. liquidity; and
- c. 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 this or the then current investment policy of the City.

3.1 Investing Officers:

The City identifies by position those persons authorized to invest on behalf of the City. These positions are the City Manager and Finance Director. Authority is granted to the person in those positions effective immediately on employment in that position and effective until rescinded by the Commissioners or termination of the person's employment by the City.

4.0 Objective:

The primary objectives, in priority order, of the City's investment activities shall be:

4.1 Safety: Safety of principal is the foremost objective of the investment program. Investments of the City shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio.

4.2 Liquidity: The City's investment portfolio will remain sufficiently liquid to enable the City to meet all operating requirements which might be reasonably anticipated.

4.3 Return on Investments:

The City's investment portfolio shall be designed with the objective of attaining a rate of return throughout budgetary and economic cycles, commensurate with the City's investment risk constraints and the cash flow characteristics of the portfolio.

4.4 Local Community:

The City recognizes that it plays an important role in the community and will when possible try to invest its excess cash flow back into the community according to this policy. This policy authorizes the City, to invest most or all of its funds with local Banks in the form of collateralized deposits.

5.0 Delegation of Authority:

Authority to manage the City's investment program is derived from the following: trading resolutions, code citations, ordinances, statutes, etc. Management responsibility for the investment program is hereby delegated to one or more officers or employees. The designated investment officer(s) defined by position (see section 3.1) shall attend at least one training session relating to their respective responsibilities under the Public Funds Investment Act within twelve (12) months after taking office or assuming duties. In addition, the investing officers will attend an investment training program not less than once in a two year period and receive not less than 10

hours of instruction relating to investment controls, security risks, strategy risks, market risks and compliance with Chapter 2256 of the Government Code. The Commission will approve an independent source for training.

6.0 Ethics and Conflicts of Interest:

Officers and employees 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 Manager any personal business relationships as defined in Sec. 2256.005 (i) or as amended. The City Manager will disclose any personal relationship with a business organization wishing to do business with the City as defined in/by Sec. 2256.005 (i), or as amended, to the City Commission.

7.0 Authorized Financial Dealers and Institutions:

The investment officer(s) will maintain a list of financial institutions authorized to provide investment services. In addition, a list will also be maintained of approved security **broker/dealers** who are authorized to provide investment services in the State of Texas. These may include "**primary**" dealers or regional dealers that qualify under **Securities & Exchange Commission Rule 15C3-1 (uniform net capital rule)**. No public deposit shall be made except in a **qualified public depository** as established by state laws.

All financial institutions and broker/dealers who desire to become qualified bidders for investment transactions must supply the investment officer at his discretion with the following: audited financial statements, proof of National Association of Security Dealers certification, trading resolution and certification of having read city's investment policy and depository contracts. Representatives of brokers/dealers shall be registered with the Texas State Security Commission and must have membership in the Securities Commission and must have membership in the Securities Investor Protection Corporation (SIPC).

A written copy of the investment policy shall be presented to any person offering to engage in an investment transaction with the City. A qualified representative (as defined in Sec. 2256.002 definitions (10), shall execute a written instrument which indicates that he has received on behalf of himself and business organization, reviewed and acknowledges the investment policy of the City. The business organization must acknowledge in writing that it has implemented reasonable procedures and controls in an effort to preclude investment transactions that are not authorized by this policy.

The Investment officers will compile a list of qualified representative and business organizations which the City is authorized to do business. This list will be reviewed, revised and adopted annually by the City Commissioners.

8.0 Authorized & Suitable Investments:

The Commission may purchase, sell, and invest its funds and funds under its control in investments described below, in compliance with its adopted investment policies and according to the standard of care set out in this policy. Investments may be made directly by the City or by a non-profit corporation acting on behalf of the City or an investment pool acting on behalf of two or more local governments, state agencies or a combination of the two. The following investments are authorized:

1. Obligations of, or guaranteed by, governmental entities:
 - 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, 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 it's equivalent.
2. Collateralized deposits including Certificate of Deposit issued by a state or national bank or a savings and loan association or a state or federal credit union that is guaranteed or insured by the FDIC or its successor or the National Credit Union Share Insurance Fund or its successor and is secured by obligations described in item 1 above, including mortgage-backed securities directly issued by a federal agency or instrumentality that have a market value of not less than the principal amount of the certificates or secured in any other manner and amount provided by law for the deposits of the City.
3. Fully collateralized repurchase agreements that have defined termination date, are secured by obligations of the United State or its agencies and instrumentalities, are pledged to the City, held in the City's name, and deposited with the City or a third party selected and approved by the Commission
4. The following types of mutual funds are authorized:
 - a. A no-load money market mutual fund that:
 - (1) Is regulated by the SEC.

- (2) Has a dollar-weighted average stated maturity of 90 days or fewer.
- (3) Includes in its investment objectives the maintenance of a stable net asset value of \$1 for each share.

b. A no-load mutual fund is the fund:

- (1) Is registered with the SEC.
- (2) Has an average weighted maturity of less than two years.
- (3) Is invested exclusively in obligations approved by Government Code Chapter 2256, Subchapter A, regarding authorized investments (Public Funds Investment Act).
- (4) Is continuously rated as to investment quality by at least one nationally recognized investment rating firm of not less than AAA or its equivalent.
- (5) Conforms to the requirements in Government Code Section 2256.016(b) and (c) relating to the eligibility of investment pools to receive and invest funds of investing entities.

Investments in either type of mutual fund shall be limited to the percentages authorized by Government Code 2256-014(c).

5. A public funds investment pool meeting the requirements of Government Code 2256.016-2256.019, if the Commission authorizes the investment in the particular pool by resolution.

9.0 Collateralization:

Collateralization will be required on two types of investments: certificates of deposit and repurchase (and reverse) agreements. In order to anticipate market changes and provide a level of security for all funds, the collateralization level will be (102%) of market value of principal and accrued interest.

The City chooses to limit collateral to the following: Those investments listed in Sec.8.0 1(a) or 1(d). Collateral will always be held by an independent third party with whom the city has a current custodial agreement. A clearly marked evidence of ownership (safekeeping receipt) must be supplied to the City and retained.

The right of collateral substitution is granted.

10.0 Safekeeping and Custody:

All security transactions, including collateral for repurchase agreements, entered in to by the City shall be conducted on a **delivery-versus-payment (DVP)** basis. Securities will be held by a third party custodian designated by the investment officer and evidenced by safekeeping receipts.

Certificates of deposit purchased by the City in local depository banks, where the City has control over the certificate will not be required to be held by a third party custodian.

11.0 Diversification:

The City will diversify its investments by security type and institution. With the exception of U.S. Government securities and authorized pools and local bank deposits, normally no more than 50% of City's total investment portfolio will be invested in a single security type or with a single financial institution. The investing officers will, as part of their quarterly reports submit to the Commission an explanation for those situations in which diversity is not maintained.

12.0 Maximum Maturities:

To the extent possible, the City will attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, the City will not directly invest in securities maturing more than (three) years from the date of purchase.

Reserve funds may be invested in securities exceeding (three) years if the maturity of such investments are made to coincide as nearly as practicable with the expected use of the funds.

13.0 Dollar Weighted Average Maturity

The dollar weighted average maturity for the portfolio in any internally created fund pool group of the City shall not exceed 180 days.

14.0 Monitoring Market Prices:

Monitoring shall be done at least quarterly as required by law, and more often as economic conditions warrant by using appropriate reports, indices, or bench marks for the type of investment. The investment officers shall keep the Commission informed of significant declines in the market value of the City's investment portfolio. Information sources may include financial/investment publications and electronic media, available software for tracking investments, depository banks, commercial investment banks, financial advisors, and representatives/advisors of investment pools or money market funds.

15.0 Internal Control:

The investment officer shall establish an annual process of independent review by an external auditor. This review will provide internal control by assuring compliance with policies and procedures. A system of internal controls shall be established and documented in writing and must include specific procedures designating who has authority to withdraw funds. Also, they shall be

designed to protect against losses of public funds arising from fraud, employee error, misrepresentation by third parties, unanticipated changes in financial markets, or imprudent actions by employees and officers of the City. Controls deemed most important shall include:

1. Separation of transaction authority from accounting and record keeping.
2. Avoidance of collusion.
3. Custodial safekeeping.
4. Clear delegation of authority.
5. Written confirmation of telephone transactions.
6. Documentation of dealer questionnaire, quotations and bids, evaluations, transactions and rationale.
7. Avoidance of bearer-form securities.

These controls shall be reviewed by the City's independent auditing firm.

The investment officer shall establish an annual process of independent review by an external auditor. This review will provide internal control by assuring compliance with policies and procedures. The compliance audit shall be performed in conjunction with the annual financial audit.

16.0 Performance Standards:

The investment portfolio shall be designed with the objective of obtaining a rate of return throughout budgetary and economic cycles, commensurate with the investment risk constraints and the cash flow needs.

16.1 Market Yield (Benchmark):

The City's investment strategy is passive. Given this strategy, the basis used by the Treasurer to determine whether market yields are being achieved shall be the three-month U.S. Treasury Bill.

17.0 Reporting:

The investment officer(s) shall have the responsibility of including a market report on investment activity and returns in the City's Financial Report. Reports will include performance, market sector breakdown, number of trades, interest earnings, etc.

Not less than quarterly, the City's investment officer(s) shall prepare and submit to the Commission a written report of investment transactions for all funds covered by the Public Funds Invest-

ment Act of the preceding reporting period. This report shall be presented to the Commission not less than quarterly, within a reasonable time after the end of the period. This report must:

1. Contain a detailed description of the investment position of the City on the date of the report.
2. Be prepared jointly and signed by all City investment officers.
3. Contain a summary statement of each pooled fund group that states:
 - a. Beginning market value of the reporting period.
 - b. Additions and charges to the market value during the period.
 - c. Ending market value for the period.
 - d. Fully accrued interest for the reporting period.
4. 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.
5. State the maturity date of each separately invested asset that has maturity date.
6. State the account or fund or pooled group fund in the City for which each individual investment was acquired.
7. State the compliance of the investment portfolio of the City as it relates to the City's investment strategy expressed in the City's investment policy and relevant provisions of law.
8. If the City invests in other than money market mutual funds, investment pools or accounts offered by its depository bank, or money market accounts, the reports prepared by this section shall be formerly reviewed at least annually by an independent auditor reporting directly to the Commissioners.
9. The City, in conjunction with its annual financial audit, shall perform a compliance audit of management's controls on investments and adherence to the entity's established investment policies.

18.0 Investment Policy Adoption:

The City's investment policy shall be adopted by resolution of the City Commission. The policy shall be reviewed annually by the City Commission and any modifications made thereto must be approved by the City Commission. The City shall adopt by a resolution, recorded in the minutes

of the meeting of City Commissioners stating that the Commission has reviewed the investment policy & strategies covered by this policy.

This policy is meant to comply with the Public Funds Investment Act and subsequent amendments, without conflicting with other applicable State law. If any conflict exists or develops then the State law will be given precedence.

19.0 Electronics Funds Transfer:

The City may use electronic means to transfer or invest all funds collected or controlled by the City.

Schedule A.

Investment Strategy

The Strategies described in this section are a framework which is intended to assist the Investing Officers in the proper management of cash flow and investments. The City recognizes that the prudent, consistent, well analyzed cash flow management is an integral part of the overall management of City Finances which is reviewed when rating the City for credit worthiness.

A. General, Trust & Agency & Special Revenue Funds:

The primary factor impacting the strategy for this group of similar funds is liquidity. The investments suitable for these funds are any of the authorized investments listed in this policy. To maintain liquidity, the maximum maturity of any individual investment will not exceed 180 days, with one exception, which allows for restricted purpose monies to be invested to comply with the criteria and restrictions applicable to those monies. Normally, the investments within this fund will range from overnight to 60 days. Safety and marketability of a particular investment will be considered when investing in order to maintain a high level of liquidity. Yield and diversification of the investments in these funds will be considered after proper liquidity is maintained.

B. Debt Service, Enterprise & Capital Projects:

The cash flow uses of these funds will be analyzed and authorized investments will be purchased to match up the dates and amounts of the required cash outlays. Any excess cash will be invested in authorized investments not to exceed 3 years. Since the cash flow in these funds is not used to meet the day-to-day needs of the City, suitable investments will be made to maximize yield and preserve principal. The investments in these funds will generally be more impacted by the changes in market conditions, however since all investments made will be made with the ability to hold the investment to maturity, marketability, although important, will not be given highest priority in these funds. Diversification within these funds should be easily maintained because of the nature of forecasting the necessary cash flow requirement.