

## **CITY OF ANDREWS INVESTMENT POLICY**

### **I. POLICY**

It is the policy of the City of Andrews (Entity) that after allowing for the anticipated cash flow requirements of the Entity and giving due consideration to the safety and risk of investment, all available funds shall be invested in conformance with these legal and administrative guidelines, seeking to optimize interest earnings to the maximum extent possible.

Effective cash management is recognized as essential to good fiscal management. Investment interest is a source of revenue to Entity funds. The Entity's investment portfolio shall be designed and managed in a manner designed to maximize this revenue source, to be responsive to public trust, and to be in compliance with legal requirements and limitations.

Investments shall be made with the primary objectives of:

- Safety and preservation of principal
- Maintenance of sufficient liquidity to meet operating needs
- Public trust from prudent investment activities
- Optimization of interest earnings on the portfolio

### **II. PURPOSE**

The purpose of this investment policy is to comply with Chapter 2256 of the Government Code ("Public Funds Investment Act") which requires each Entity to adopt a written investment policy regarding the investment of its funds and funds under its control. The Investment Policy addresses the methods, procedures and practices that must be exercised to ensure effective and judicious fiscal management of the Entity's funds.

### **III. SCOPE**

This Investment Policy shall govern the investment of all financial assets of the Entity. These funds are accounted for in the Entity's Comprehensive Annual Financial Report (CAFR) and include:

- General Fund
- Special Revenue Funds
- Capital Projects Funds
- Enterprise Funds
- Trust and Agency Funds to the extent not required by law or existing contract to be kept segregated and managed separately
- Debt Service Funds, including reserves and sinking funds, to the extent not required by law or existing contract to be kept segregated and managed separately
- Andrews Economic Development Corporation Funds

- Any new fund created by the entity, unless specifically exempted from this Policy by the City Council or by law.

The entity may consolidate cash balances from all funds to maximize investment earnings. Investment income will be allocated to the various funds based on their respective participation and in accordance with generally accepted accounting principles.

This Investment Policy shall apply to all transactions involving the financial assets and related activity for all the foregoing funds. However, this policy does not apply to the assets administered for the benefit of the Entity by outside agencies under deferred compensation programs.

#### **IV. INVESTMENT OBJECTIVES**

The Entity shall manage and invest its cash with four primary objectives, listed in order of priority: **safety, liquidity, public trust, and yield, expressed as optimization of interest earnings.** The safety of the principal invested always remains the primary objective. All investments shall be designed and managed in a manner responsive to the public trust and consistent with state and local law.

The Entity shall maintain a comprehensive cash management program, which includes collection of account receivables, vendor payments in accordance with invoice terms, and prudent investment of available cash. Cash management is defined as the process of managing monies in order to insure maximum cash availability and maximum earning on short-term investment of idle cash.

##### **Safety (PFIA 2256.005(b)(2))**

Safety of principal is the foremost objective of the investment program. 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 and interest rate risk.

Credit Risk--The Entity will minimize credit risk, the risk of loss due to the failure of the issuer or backer of the investment, by:

- Limiting investments to the safest types of investments
- Pre-qualifying the financial institutions and broker/dealers with which the Entity will do business
- Diversifying the investment portfolio so that potential losses on individual issuers will be minimized.

Interest Rate Risk—The Entity will minimize the risk that the interest earnings and the market value of investments in the portfolio will fall due to changes in interest rates, by:

- Structuring the investment portfolio so that investments mature to meet cash requirements for ongoing operations, thereby avoiding the need to liquidate investments prior to maturity

- Investing operating funds primarily in certificates of deposit, shorter-term securities, or local government investment pools functioning as money market mutual funds.
- Diversifying maturities and staggering purchase dates to minimize the impact of market movements over time.

**Liquidity (PFIA 2256.005(b)(2))**

The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated. This is accomplished by structuring the portfolio so that investments mature concurrent with cash need to meet anticipated demands. Because all possible cash demands cannot be anticipated, a portion of the portfolio will be invested in local government investment pools that offer same-day liquidity. In addition a portion of the portfolio will consist of securities with active secondary or resale markets.

**Public Trust**

All participants in the entity's investment process shall seek to act responsibly as custodians of the public trust. Investment officers shall avoid any transaction that might impair public confidence in the entity's ability to govern effectively.

**Yield (Optimization of Interest Earnings) (PFIA 2256.005 (b) (3))**

The investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints and liquidity needs. Return on investment is of secondary importance compared to the safety and liquidity objectives described above.

**V. RESPONSIBILITY AND CONTROL**

**Delegation of Authority (PFIA 2256.005(f))**

In accordance with the Public Funds Investment Act, the City Council designates the Chief Financial Officer as the Entity's Investment Officer. An Investment Officer is authorized to execute investment transactions on behalf of the Entity. No person may engage in an investment transaction or the management of Entity funds except as provided under the terms of this Investment Policy as approved by the City Council. The investment authority granted to the investing officer is effective until rescinded by the Council.

**Quality and Capability of Investment Management (PFIA 2256.005(b)(3))**

The Entity shall provide periodic training in investment for the designated investment officer and other investment personnel through courses and seminars offered by professional organizations, associations, and other independent sources in order to insure

the quality and capability of investment management in compliance with the Public Funds Investment Act.

### **Training Requirement (PFIA 2256.008)**

In accordance with provisions of the Public Funds Investment Act, the designated Investment Officer shall attend an investment training session not less than once in a two-year period that begins on the first day of that local government's fiscal year and consists of the two consecutive years after that date, and shall receive not less than 10 hours of instruction relating to investment responsibilities. A newly appointed Investment Officer must attend a training session of at least 10 hours of instruction within twelve months of the date the officer took office or assumed the officer's duties. The investment training session shall be provided by an independent source approved by the City Council. For purposes of this policy, an "independent source" from which investment training shall be obtained shall include a professional organization, an institution of higher education or any other sponsor other than a business organization with whom the Entity may engage in an investment transaction.

### **Internal Controls**

The Chief Financial Officer is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the entity are protected from loss, theft, or misuse. The internal control structure shall be designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgments by management.

Accordingly, the Chief Financial Officer shall establish a process for annual independent review by an external auditor to assure compliance with policies and procedures. The internal controls shall address the following points (within the parameters of maintaining an office with few employees).

- Control of collusion
- Separation of transactions authority from accounting and record keeping.
- Custodial safekeeping
- Avoidance of physical delivery securities
- Clear delegation of authority to subordinate staff members
- Written confirmation for telephone (voice) transactions for investments and wire transfers
- Development of a wire transfer agreement with the depository bank or third party custodian

The Chief Financial Officer shall monitor, on no less than a weekly basis, the credit rating on all authorized investments in the portfolio based upon independent information from a nationally recognized rating agency. If any security falls below the minimum rating required by Policy, the Chief Financial Officer shall notify the City Manager of the

loss rating, conditions affecting the rating and possible loss of principal with liquidation options available, within two weeks after the loss of the required rating.

The Investment Officer or Investment Adviser shall monitor, on no less than a weekly basis, the status and ownership of all banks issuing brokered CDs owned by the Entity based upon information from the FDIC. If any bank has been acquired or merged with another bank in which brokered CDs are owned, the Investment Officer or Adviser shall immediately liquidate any brokered CD which places the Entity above the FDIC insurance level.

### **Prudence (PFIA 2256.006)**

The standard of prudence to be applied by the Investment Officer shall be the “prudent investor” rule. This rule states that “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.” In determining whether an Investment Officer has exercised prudence with respect to an investment decision, the determination shall be made taking into consideration:

- The investment of all funds, or funds under the Entity’s control, over which the officer had responsibility rather than a consideration as to the prudence of a single investment
- Whether the investment decision was consistent with the written approved investment policy of the Entity.

### **Indemnification**

The Investment Officer, acting in accordance with written procedures and exercising due diligence, shall not be held personally responsible for a specific investment’s credit risk or market price changes, provided that these deviations are reported immediately and the appropriate action is taken to control adverse developments.

### **Ethics and Conflicts of Interest (PFIA 2256.005(i))**

Officers and employees involved in the investment process shall refrain from personal business activity that would conflict with the proper execution and management of the investment program, or that would impair their ability to make impartial decisions. Employees and Investment Officers shall disclose any material interests in financial institutions with which they conduct business. They shall further disclose any personal financial/investment positions that could be related to the performance of the investment portfolio. Employees and officers shall refrain from undertaking personal investment transactions with the same individual with which business is conducted on behalf of the Entity.

An Investment Officer of the Entity who has a personal business relationship with an organization seeking to sell an investment to the Entity shall file a statement disclosing that personal business interest. An Investment Officer who is related within the second degree by affinity or consanguinity to an individual seeking to sell an investment to the Entity shall file a statement disclosing that relationship. A statement required under this subsection must be filed with the Texas Ethics Commission and City Council.

## **VI. SUITABLE AND AUTHORIZED INVESTMENTS**

### **Portfolio Management**

The Entity currently 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, investments may be liquidated prior to maturity for the following reasons:

- An investment with declining credit may be liquidated early to minimize loss of principal.
- Cash flow needs of the Entity require that the investment be liquidated.

### **Investments**

Entity funds governed by this policy may be invested in the instruments described below, all of which are authorized by Chapter 2256 of the Government Code (Public Funds Investment Act). Investment of Entity funds in any instrument or security not authorized for investment under the Act is prohibited. The Entity will not be required to liquidate an investment that becomes unauthorized subsequent to its purchase.

#### **I. Authorized**

- Obligations of the United States of America, its agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States.
- Certificates of Deposit or Share Certificates
  - (1) invested through a depository institution organized under Texas law, the laws of another state, or federal law, that has as its main office or a branch office in Texas, or
  - (2) from a bank in any U.S. State, delivered versus payment to the Entity’s safekeeping agent invested through a broker that has its main office or a branch office in Texas and is selected from a list adopted by the investing entity as required by Section 2256.025, and
  - (3) the full amount of the principal and accrued interest is guaranteed or insured by the Federal Deposit Insurance, the National Credit Union Share Insurance Fund, or its successor or secured by obligations in a manner and amount provided by law for deposits of the Entity,

- Local government investment pools, which (1) meet the requirements of Chapter 2256.016 of the Public Funds Investment Act, (2) are rated no lower than AAA or an equivalent rating by at least one nationally recognized rating service, and (3) are authorized by resolution or ordinance by the City Council.

All prudent measures will be taken to liquidate an investment that is downgraded to less than the required rating.

## **II. Not Authorized**

Investments including interest-only or principal-only strips of obligations with underlying mortgage-backed security collateral, collateralized mortgage obligations with an inverse floating interest rate or a maturity date of over 10 years are strictly prohibited.

## **VII. INVESTMENT PARAMETERS**

### **Maximum Maturities (PFIA 2256.005(b)(4)(B))**

The longer the maturity of investments, the greater is their price volatility. Therefore, it is the Entity's policy to concentrate its investment portfolio in shorter-term securities in order to limit principal risk caused by changes in interest rates.

The Entity attempts to match its investments with anticipated cash flow requirements. The Entity will not directly invest in securities maturing more than two (2) years from the date of purchase for any group except General Fund Capital Trust; however, the above described obligations, certificates, or agreements may be collateralized using longer dated investments. At the discretion of the investment committee, the long-term funds of the General Fund Capital Trust may be laddered over a period not to exceed five (5) years.

### **Diversification (PFIA 2256.005(b)(3))**

The Entity recognizes that investment risks can result from issuer defaults, market price changes or various technical complications leading to temporary illiquidity. Risk is controlled through portfolio diversification that shall be achieved by the following general guidelines:

- Investing in investments with varying maturities.
- Continuously investing a portion of the portfolio in readily available funds such as local government investment pools to ensure that appropriate liquidity is maintained in order to meet ongoing obligations.

The following maximum limits, by instrument, are established for the Entity's total portfolio:

- U. S. Treasury Securities 80%
- Certificates of Deposit 80%
- Local Government Pools 100%

## **VIII. STRATEGY**

The entity manages its investment portfolio utilizing specific investment considerations designed to address the unique characteristics of the fund groups represented in the investment portfolio. Each group of funds—general, utility and sanitation, share the same characteristics. Operating funds are included with long-term “core” funds that will provide for capital improvements and replacement of assets no longer serviceable. The strategy has as its primary objective to assure that anticipated cash flows are matched with adequate investment liquidity. A secondary objective is to maintain an investment portfolio which experiences minimal volatility during economic cycles. Preservation of principal may be accomplished by purchasing high quality, short to medium term securities from Fed that complement each other in a laddered or barbell portfolio structure. Within each pooled fund group, all investments shall be timed so that a part of each fund’s investment mature no less often than each quarter, thus insuring availability of funds. To further insure liquidity cash balances will be maintained (fully collateralized) in the depository bank and in the local government pools in interest-bearing accounts for each fund group. Purchased securities will have a stated final maturity of two years or less.

The investment strategy for Andrews Economic Development Corporation has as its primary objective to assure that anticipated cash flows are matched with adequate investment liquidity. Since this is a new organization, the strategy at this time is to place funds in local government pools to assure availability of funds and market interest earnings. If funds accumulate, secondary objectives to maintain an investment portfolio which experiences minimal volatility during economic cycles and preservation of principal may allow for purchasing high quality, short to medium term securities that complement each other in a laddered or barbell portfolio structure. Purchased securities will have a stated final maturity of two years or less.

## **IX. SELECTION OF BANKS AND DEALERS**

At least every three (3) years a Depository shall be selected through the Entity’s banking services procurement process, which shall include a formal request for proposal (RFP). The selection of a depository will be determined by competitive bid and evaluation of bids will be based on the following selection criteria:

- The ability to qualify as a depository for public funds in accordance with state law.
- The ability to provide requested information or financial statements for the periods specified.
- The ability to meet all requirements in the banking RFP.
- Complete response to all required items on the bid form.
- Lowest net banking service cost, consistent with the ability to provide an appropriate level of service evaluated in conjunction with highest interest rate paid on accounts.
- Credit worthiness and financial stability of the bank.

**Authorized Brokers/Dealers (PFIA 2256.025)**

The Investment Committee appointed by the City Council may adopt and annually review a list of qualified broker/dealers should the services of broker/dealers be necessary. These firms that request to become qualified bidders for securities transactions will be required to provide a completed broker/dealer questionnaire and certification stating the firm has received, read and understood the entity's investment policy and agrees to comply with the policy. Authorized firms may include primary dealers or regional dealers that qualify under Securities & Exchange Commission Rule 15C3-1 (Uniform Net Capital Rule), and qualified depositories. (All investment providers, including financial institutions, banks and local government investment pools, must sign a certification acknowledging that the organization has received and reviewed the Entity's investment policy and that reasonable procedures and controls have been implemented to preclude investment transactions that are not authorized by the Entity's policy). (PFIA 2256.005 (k-1)).

**Competitive Bids**

It is the policy of the Entity to require competitive bidding for all individual security purchases and sales except for (a) transactions with local government investment pools and (b) treasury securities purchased directly from the Federal Reserve Bank. The Chief Financial Officer shall develop and maintain procedures for ensuring a competition in the investment of the Entity's funds.

**Delivery vs. Payment (PFIA 2256.005(b)(4)(E))**

Securities shall be purchased using the delivery vs. payment method with the exception of investment pools and treasury securities purchased directly from the Federal Reserve Bank. Funds will be released after notification that the purchased security has been received.

**Safekeeping and Custodian Agreements**

The Entity shall contract with a broker(s) and/or bank(s) for the safekeeping of securities either owned by the Entity as part of its investment portfolio or held as collateral to secure demand or time deposits. Securities owned by the Entity shall be held in the entity's name as evidenced by safekeeping receipts of the institution holding the securities.

Collateral for deposits will be held by a third party custodian designated by the Entity and pledged to the Entity as evidenced by safekeeping receipts of the institution with which the collateral is deposited. Original safekeeping receipts shall be obtained. Collateral may be held by a Federal Reserve Bank or branch of a Federal Reserve Bank, a Federal Home Loan Bank, or a third party bank approved by the Entity.

### **Collateral Policy (PFIA 2257.023)**

Consistent with the requirements of the Public Funds Collateral Act, it is the policy of the Entity to require full collateralization of all Entity funds on deposit with a depository bank other than investments. In order to anticipate market changes and provide a level of security for all funds, the collateralization level (effective with new banking contract 10-1-2006) will be 102% of market value of principal and accrued interest on the deposits or investments less an amount insured by the FDIC. At its discretion, the Entity may require a higher level of collateralization for certain investment securities. Securities pledged as collateral shall be held by an independent third party with which the Entity has a current custodial agreement. The Chief Financial Officer is responsible for entering into collateralization agreements with third party custodians in compliance with this Policy. The agreements are to specify the acceptable investment securities for collateral, including provisions relating to possession of the collateral, the substitution or release of investment securities, ownership of securities, and the method of valuation of securities. A clearly marked evidence of ownership (safekeeping receipt) must be supplied to the Entity and retained. Collateral shall be reviewed at least monthly to assure that the market value of the pledged securities is adequate.

### **Collateral Defined**

The Entity shall accept only the following types of collateral:

- Obligations of the United States or its agencies and instrumentalities
- Direct obligations of the State of Texas or its agencies and instrumentalities
- 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.

### **Subject to Audit**

All collateral shall be subject to inspection and audit by the Chief Financial Officer or the Entity's independent auditors.

## **X. PERFORMANCE**

The Entity's investment portfolio will be managed in accordance with the parameters specified within this policy. The portfolio shall be designed with the objective of obtaining a rate of return through budgetary and economic cycles, commensurate with the investment risk constraints and the cash flow requirements of the Entity.

### **Performance Benchmark**

It is the policy of the Entity to purchase investments with maturity dates coinciding with cash flow needs or laddered for availability. Through this strategy, the Entity shall seek to optimize interest earnings utilizing allowable investments available on the market at that time. Market value will be calculated on a quarterly basis on all securities owned

and compared to current book value. The Entity's portfolio shall be designed with the objective of regularly meeting or exceeding the average rate of return of U. S. Treasury Bills at a maturity level comparable to the Entity's weighted average maturity in days.

## **XI. REPORTING**

### **Methods**

The Investment Officer shall prepare an investment report on a quarterly basis that summarizes investment strategies employed in the most recent quarter and describes the portfolio in terms of investment securities, maturities, and shall explain the total investment return for the quarter.

The quarterly investment report shall include a summary statement of investment activity prepared in compliance with generally accepted accounting principals. This summary will be prepared in a manner that will allow the Entity to ascertain whether investment activities during the reporting period have conformed to the Investment Policy. The report will be provided to the City Council. The report will include the following:

- A listing of individual securities held at the end of the reporting period.
- Unrealized gains or losses resulting from appreciation or depreciation by listing the beginning and ending book and market value of securities for the period.
- Additions and changes to the market value during the period.
- Average weighted yield to maturity of portfolio as compared to applicable benchmark.
- Listing of investment by maturity date.
- Fully accrued interest for the reporting period.
- The percentage of the total portfolio that each type of investment represents.
- Statement of compliance of the Entity's investment portfolio with state law and the investment strategy and policy approved by the City Council

An independent auditor will perform a formal annual review of the quarterly reports with the results reported to the governing body.

### **Monitoring Market Value**

Market value of all securities in the portfolio will be determined on a quarterly basis. These values will be obtained from a reputable and independent source and disclosed to the governing body quarterly in a written report.

## **XI. INVESTMENT POLICY ADOPTION**

The Entity's investment policy shall be adopted by resolution of the City Council. It is the Entity's intent to comply with state laws and regulations. The Entity's investment policy shall be subject to revisions consistent with changing laws, regulations, and needs of the Entity. The Council shall adopt a resolution stating that it has reviewed the policy and investment strategies annually, approving any changes or modifications.