

CITY OF SAN ANGELO, TEXAS
INVESTMENT POLICY

2014

It is the policy of the City of San Angelo (the “City”) to invest public funds in a manner which will provide the highest reasonable market return with the maximum security while meeting the daily cash flow demands of City and conforming to all state and local statutes governing the investment of public funds.

This policy satisfies the requirement of Texas Government Code 2256, the Public Funds Investment Act (the “Act”), which requires the creation and annual adoption of a written investment policy and its addendums. The City Council shall review and adopt, no less than annually, the Investment Policy and its incorporated strategies. Any changes to the Policy will be detailed in the adopting resolution.

Section One: Scope

This investment policy applies to all the financial assets of City except funds of Lake Nasworthy. The funds are accounted for in City's Comprehensive Annual Financial Report and include:

- Operating Funds
- Debt Service Funds
- Bond, Capital and Special Project Funds
- Reserve Funds
- Non-expendable Trust Funds

Section Two: Investment Objectives and Standard of Care

The objectives of City's investment program shall be, in order of priority, safety, liquidity and yield. Safety of principal shall be the foremost objective of City's investment program. Each investment transaction shall seek to first insure that capital losses are avoided, whether they are from securities, defaults or erosion of market value. The portfolio shall be managed with the objective of obtaining a reasonable market yield.

The standard of prudence to be used by investment officers shall be the *prudent person standard* and shall be applied in the context of managing the overall portfolio. Investments shall be made with judgment and care under circumstances then prevailing which a person of prudence, discretion and intelligence would exercise in the management of his/her own affairs with consideration given to the probable safety of capital as well as the probable income to be derived. Investments shall not be made for speculative purposes.

Investment officers acting in accordance with written procedures and the Investment Policy and exercising due diligence shall be relieved of personal liability for an individual security's credit or market risk, provided that deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments.

Section Three: Investment Strategy

City funds shall be commingled for investment purposes recognizing the cash flow needs of the individual funds which makeup the portfolio. The total portfolio will maintain a maximum weighted average maturity of one (1) year which is based on the cash flow analysis and cash requirements of City.

City's investment portfolio shall be diversified for safety and shall consist of a variety of securities and maturities which may include any or all of the authorized investments listed in Section Four, Authorized Investments, of this Policy. In order to meet Policy objective, securities will be of the highest credit quality and marketability. The portfolio's objectives can be attained by utilization of high credit quality securities and a modified ladder structure in the short-term area to match known liabilities.

- (1) Operating Funds - Operating funds assure that anticipated cash flows are matched for adequate liquidity on major payment obligations such as payroll.
- (2) Debt Service Funds - Debt service funds must cover the upcoming debt service obligations on the required payment dates.
- (3) Bond, Capital and Special Project Funds - Bond proceeds and special project funds are used for anticipated liabilities on the projects.
- (4) Reserve Funds - Reserve funds provide liquidity for fund obligations and generate a dependable revenue stream from securities.
- (5) Non-expendable Trust Funds - Non-expendable trust funds generate dependable revenue streams for their designated uses.

It is City's intent to hold purchased securities to maturity, investing in such a manner as to insure both the safety and liquidity of such transactions. However, under conditions defined and procedures approved by the Oversight Committee securities may be sold or "swapped" before maturity to capture capital gains and allow for reinvestment into the portfolio. Securities purchased specifically for non-expendable trust funds shall be valued continuously and may be sold prior to the stated maturity date in order to capture capital gains.

City's investment officers, or designated investment advisors, will evaluate City's cash position daily to determine the amount of funds available for investment and to project the term for such investments and will then decide on placement of the investment based on fund type and market conditions, fund cash flow, the offering yield for eligible investment and diversity in the portfolio.

Section Four: Authorized Investments

City shall invest only in those instruments authorized by the Act as further defined by this policy. Insofar as they meet this requirement, City may invest in the following:

- (1) Depository certificates of deposit issued by state and national banks doing business in Texas that do not exceed one (1) year to maturity from date of issue, and:

- a. are guaranteed or insured by the Federal Deposit Insurance Corporation or its successor; or
- b. are collateralized at 102% by obligations of the United States or its agencies and instrumentalities (excluding letters of credit) or direct obligations of any state, its subdivisions, or its agencies which have been rated as to investment quality by a nationally recognized investment rating firm and have received a rating of not less than "A" or the equivalent.

(2) Obligations of the United States Government, its agencies and instrumentalities not to exceed 3 years to their stated maturity date;

(3) Fully collateralized repurchase agreements having a defined termination date not to exceed six (6) months, secured by obligations of the United States or its agencies and instrumentalities, collateralized at 102%, executed under a written Master Repurchase Agreement, with securities safe-kept with a third party selected or approved by City, and placed through a bank doing business in Texas or a primary government securities dealer as defined by the Federal Reserve. Flex repurchase agreements used for bond funds or special project funds may have a stated termination date not to exceed the estimated completion date of the project(s).

(4) Constant dollar, local government investment pools as defined by the Act, which are rated as to investment quality by a nationally recognized credit rating agency and have received a rating of not less than "AAA" or its equivalent. Investment in each pool must be specifically authorized by Resolution of the City Council.

(5) AAA-rated, SEC registered money market mutual funds striving to maintain a \$1 net asset value.

(6) General obligation bonds of states, agencies, counties, cities and other political subdivisions of any state rated A or better or its equivalent by two nationally recognized rating agencies and with a stated maturity not to exceed two (2) years.

(7) FDIC insured brokered certificate of deposit securities from banks in any US state, delivered versus payment to City's safekeeping depository, not to exceed one year to maturity. Before purchase, the Investment Officer or advisor must verify the FDIC status of the bank on www.fdic.gov to assure that bank is FDIC insured.

(8) Fully insured or collateralized, interest bearing accounts of any bank doing business in Texas.

In order to provide diversification in the portfolio which reduces market and credit risk exposures the following diversification parameters are established for the Portfolio. Diversification parameters must be met at the time of purchase although cash flows may change the percentages over time. Effort will be made to maintain the diversification guidelines through cyclical cash flow periods.

<u>Security Type</u>	<u>Max. % in Overall Portfolio</u>
CDs	40 %

Per bank	10 %
US Treasuries	80 %
US Agencies & Instrumentalities	80 %
Repurchase Agreements	50 %
Flex for bond funds	100 %
Constant Dollar LGIP	80 %
Ownership of the pool	10 %
Money Market Mutual Funds	75 %
Municipal and State Obligations	40 %
Issuer limitation	5 %
FDIC Brokered CDs	20 %

Delivery versus Payment

All security transactions (with the exception of pool or fund participation) by City shall be purchased "delivery versus payment". That is, City shall authorize release of its *funds* only after a purchased security has been received by its safekeeping agent or after City has received notification from its safekeeping agent that a purchased security has been received in City's safekeeping account.

Competitive Bidding Required

All investments shall be purchased or sold on a competitive basis with bids or offers from three City authorized broker/dealers for the best yield and maturity. Offers of new issue agencies need not be competitively bid but must be made from City authorized broker/dealers.

Loss of Rating

City is not required to liquidate investments that were authorized investments at the time of purchase. (2256.017) However, should a security that requires a minimum rating under state law not have that required rating, the investment officer shall take all prudent measures to liquidate the security. (2256.021)

Monitoring FDIC Coverage

The Investment Officer or Investment Advisor shall monitor, on no less than a weekly basis, the status and ownership of all banks issuing brokered CDs owned by City 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 Advisor shall immediately liquidate any brokered CD which places City above the FDIC insurance level.

Monitoring Credit Ratings

The Investment Officer or investment advisor 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 Investment Officer or advisor shall notify the Finance Director and City Manager of the loss of rating, conditions affecting the rating and possible loss of principal with liquidation options available, within two weeks after the loss of the required rating.

Section Five: Collateral and Safekeeping

Time and Demand Bank Deposits Pledged Collateral

Collateralization is required on all bank time and demand deposits over the applicable FDIC insurance coverage. All securities pledged to City for these deposits shall be held by an independent third party institution outside the holding company of the pledging bank.

In order to anticipate market changes and provide a level of additional security for all funds, the market value of the collateral will be maintained at 102% of total principal and accrued interest. The depository will be responsible for monitoring and maintaining the collateral and margins at all times. The custodian will provide monthly reports to City detailing the collateral.

Collateral will be pledged under the terms of a written depository agreement addressing acceptance, substitution and valuation of collateral, executed under the terms of FIRREA¹. (If the custodian is the Federal Reserve, City will execute as an alternate a FRB Pledge Agreement of Circular 7 form.) The agreement shall be approved by resolution of the bank's board or loan committee.

Acceptable collateral shall include only obligations of the U.S. Government, its agencies and instrumentalities, including mortgage backed securities passing the bank test, municipal securities rated A or better by two nationally recognized rating agencies and letters of credit. A monthly report of collateral will be provided directly from the custodian.

Repurchase Agreements Owned Collateral

Collateral under a repurchase agreement is owned by City. It will be held by an independent third party safekeeping agent approved by City under an executed SIFMA² Master Repurchase Agreement. Collateral with a market value totaling 102% of the principal and accrued interest is required and the counter-party is responsible for the monitoring and maintaining of collateral and margins at all times.

Safekeeping

The laws of the State, this Policy, and prudent treasury management require that all securities be settled on a delivery versus payment basis and be held in safekeeping by an independent third party financial institution approved by City.

Securities shall not be bought from the banking services bank in order to perfect delivery versus payment separation in the transaction.

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

¹ The Financial Institutions Resource and Recovery Enforcement Act (FIRREA) governs the deliberations of the FDIC in the case of default or bankruptcy of the bank.

² Security Industry and Financial Markets Association, formerly the Bond Market Association.

Section Six: Investment Officer Designation

The City Council hereby designates the Finance Director, or his designated representative, and the Finance Department position handling the daily treasury functions (currently the Operations Manager), as duly authorized investment officers of City and grants to them the authority to invest City funds as outlined herein. City may further contract with a registered investment advisor to advise in the management of City's portfolio. No person may engage in an investment transaction except as provided under the terms of this Policy and supporting procedures. Any disbursement of City funds for the purchase of investment instruments must bear the signature of two investment officers.

The investment officers will establish written procedures for the operation of the investment program consistent with this Investment Policy.

Officers, employees and advisors involved in the investment process shall refrain from personal business activity that could conflict with proper and unbiased execution of the investment program or which could impair their ability to make impartial investment decisions. Any business or personal relationship shall be disclosed to the City Council. If relationships fall within the second degree of blood or marriage, disclosure should also be sent to the Texas Ethics Commission.

Section Seven: Training

All City officials designated herein as investment officers and their designated representatives within the parameters of this Policy shall attend ten hours of training within twelve months of taking the position and ten hours in each succeeding two year fiscal period (beginning on the first day of the fiscal year) relating to investment responsibilities. The training must include investment controls, security risks, strategy risks, market risks, portfolio diversification and compliance with the Act.

The training provider must be an independent source approved by the Investment Oversight Committee. A list of approved training sources is attached as Addendum A.

Section Eight: Investment Activity Reporting

Reporting for investments will be made in accordance with the Act. (Chapter 2256.023) Reports of investments should be prepared and presented at least quarterly to the City Council and City Manager and should reflect the cost, term, yield, market value, purchase date, maturity date, description and cusip number for each investment. Market values shall be obtained at least monthly from the trust department of City's depository bank or other independent source as approved by the Oversight Committee.

On a quarterly basis the investment officer, or his designee, shall prepare a series of detailed and management level signed investment reports in accordance with the Act, disclosing at a minimum:

- 1) The investment activity for the previous quarter;
- 2) The book and market value of investments at the beginning and end of the quarter;
- 3) Assessments of the market value of each investment and change in market value;
- 4) Fully accrued interest and earnings for the period in accordance with generally accepted accounting principles;
- 5) The change in market value, and
- 6) Compliance with the Act and this Policy.

Prices for the valuation of securities' market value shall be obtained from an independent source.

Section Nine: Investment Oversight Committee

The City Council shall appoint an Investment Oversight Committee to review City's investment portfolio with the Finance Director and City Manager, or his designee, at least quarterly and to then report to the City Council. The Committee shall be comprised of two City Council members, two citizens with experience as investment advisors or analysts, City's independent auditor (as a non-voting member), the City Manager or his designee, and City's Finance Director. The duties of the Oversight Committee shall include:

- 1) Review of the quarterly report submitted by the Investment Officers of City,
- 2) Review and adoption of a list of authorized qualified brokers and counter-parties that have provided the required certification and are authorized to engage in investment transactions with City,
- 3) Review of the list of authorized brokers at least annually, and
- 4) Approval of the independent training provider as required in this Policy (Addendum A).

The Oversight Committee shall have the authority, subject to City Council review, to make such rules as deemed necessary for the orderly operation of the Committee. All changes to the Policy must be reviewed and adopted by the City Council before changes are made in the investment process.

Section Ten: Audit

City's independent auditor shall formally review the quarterly investment reports prepared in accordance with this Policy and the Act (Chapter 2256.023). The review shall be conducted annually and the results of the review shall be reported to the City Council. In addition, in conjunction with the annual audit City shall perform a compliance audit of management controls on investments and adherence to this Policy. Results of this audit will be reported to the oversight Committee. [Chapter 2256.005(m)].

Section Eleven: Authorized Financial Institutions and Broker/Dealers

The Investment Officer will maintain a list of financial institutions and brokers/dealers certified to do business with City. These firms will be selected according to creditworthiness and service. Brokers may include "primary dealers" or regional dealers that qualify under the SEC's Rule 15C3-1 (uniform net capital rule). All brokers/dealers must provide the Investment Officer with:

Proof of Financial Industry Regulatory Authority (FINRA) registration,
Proof of registration with the Texas State Securities Commission,
Completed City questionnaire, and
Certification of having read City's Investment Policy.

In accordance with the Act [Chapter 2256.005(k)] a copy of City's Investment Policy shall be presented to any firm offering to engage in an investment transaction with City. The firm must execute a written certificate in a form acceptable to City that they have (1) reviewed the Investment Policy and (2) acknowledged that they have implemented reasonable procedures and controls to preclude investment transactions conducted between City and the firm which are not authorized by the Policy.

The City Council or the Investment Oversight Committee will at least annually review, revise and adopt a list of certified brokers authorized to engage in investment transactions. The list of certified counter-parties is shown as Addendum B of this Policy and approved with adoption of this Policy.

Section Twelve: Policy Adoption and Revisions

The City Council will review the Policy not less than annually and adopt a resolution stating that the Policy and incorporated strategies have been reviewed and including all changes to the Policy. This Policy may be amended only by action of the City Council.

The City Manager and Oversight Committee are authorized to recommend revisions to the Policy to the City Council whenever such revisions are necessary and prudent due to changes in State Law, the needs of City, or the economy and market opportunities. All changes to the Policy must be reviewed and adopted by the City Council before changes are made in the investment process.

PASSED, APPROVED and ADOPTED on this the _____ day of _____, 2015.

CITY OF SAN ANGELO, TEXAS

Dwain Morrison, Mayor

ATTEST:

Bryan Kendrick, Interim City Clerk

APPROVED AS TO CONTENT:

Tina Bunnell, Finance Director

APPROVED AS TO FORM:

Lysia H. Bowling, City Attorney

ADDENDUM A

By adoption of this Investment Policy, the following associations and organizations are approved for Investment Officer training.

- Texas Municipal League
- Government Finance Officers Association of Texas
- Government Treasurers Organization of Texas

ADDENDUM B

Brokers/Dealers List

The certified list for City is shown below. Each of these firms, and the individual covering the account, are sent the current Investment Policy. In accordance with the Act [TX Gov't Code 2256.005(k)] before any broker/dealer transacts business with City it will have had to certify in writing to a review of the Policy and have certified that procedures are in place to assure compliance with that Policy.

City's Policy establishes specific criteria for the brokers and requires that the list of brokers/dealers be approved annually by the City Council or Investment Committee established by the Council. A standardized City certification form is used for certification purposes. City's investment advisor, Patterson & Associates, maintains the brokerage compliance files for City.

When any material changes are made to the Investment Policy the new Policy is sent out for re-certification.

The brokers/dealers certified by City are:

- Bank of America/Merrill Lynch
- Cantor Fitzgerald
- Morgan Stanley
- G.X. Clarke & Co.
- Mizuho Securities
- Raymond James
- Mutual Securities
- Stifel Nicolaus
- Vining Sparks
- Wells Fargo