

ORDINANCE 2014-O-11C

**ORDINANCE AMENDING THE CITY OF MARBLE FALLS
INVESTMENT POLICY**

AN ORDINANCE AMENDING CHAPTER 18.5 (PUBLIC FUNDS INVESTMENT POLICY) OF THE CODE OF ORDINANCES OF THE CITY OF MARBLE FALLS; ESTABLISHING POLICIES GOVERNING THE INVESTMENT AND SECURITY OF PUBLIC FUNDS; COMPLYING WITH THE PROVISIONS OF CHAPTER 2256, AS AMENDED, TEXAS GOVERNMENT CODE; AND REPEALING ALL PREVIOUS INVESTMENT POLICIES AND ORDINANCES.

WHEREAS, the City of Marble Falls, Texas (the “City) has had a prudent and formal Policy in place governing the investment and management of the City’s funds and financial resources; and

WHEREAS, the City Council of the City of Marble Falls (City Council) desires to amend the current policy as required by Chapter 2256, as amended, Texas Government Code (the “Act);

NOW, THEREFORE, be it ordained by the City Council of the City of Marble Falls, Texas that Chapter 18.5 (Public Funds Investment Policy) hereby be amended as follows:

SECTION I. SCOPE & OBJECTIVES.

1.1 SCOPE

This investment policy applies to all financial assets and funds of the City of Marble Falls, Texas, held in all funds.

1.2 STATEMENT OF CASH MANAGEMENT PHILOSOPHY

The City of Marble Falls will maintain a comprehensive cash management program to include the effective collection of all accounts receivable, the prompt deposit of receipts to the City’s bank accounts, the payment of obligations to comply with state law and in accord with vendor invoices, and the prudent investment of idle funds in accord with this policy.

1.3 OBJECTIVES

The City’s investment program will be conducted to accomplish the following objectives, listed in priority order:

1. *Safety*. The City will give priority to the preservation and safety of the principal invested. Investments will be made in a manner that will mitigate credit risk and interest rate risk.

2. *Liquidity.* The City will maintain the availability of sufficient cash to pay obligations of the City when they are due.
3. *Diversification.* Diversification of the portfolio will include diversification by maturity and market sector and will include the use of a number of broker/dealers for diversification and market coverage.
4. *Yield.* The City will invest idle cash at the highest possible rate of return, consistent with state and local laws and the objectives of safety and liquidity listed above.

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.

SECTION 2. STANDARD OF CARE.

2.1 PRUDENCE

Investments will be made with judgment and care, under circumstances then prevailing, that 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 and the probable income to be derived. The City Council recognizes that in maintaining a diversified portfolio occasional measured losses due to market volatility are inevitable and must be considered within the contest of the overall portfolio's investment return, provided that adequate diversification has been implemented.

2.2 ETHICS AND CONFLICT OF INTEREST

Officers and employees involved in the investment process will refrain from personal business activity that could conflict with the proper execution of the investment program, or which could impair their ability to make impartial investment decisions. The Officer and his/her employees will comply with all disclosure and reporting requirements of Section 2256.005 (1) of the Texas Government Code.

2.3 DELEGATION OF AUTHORITY

The City's Director of Finance is responsible for overall management of the City's investment program and is designated as the City's Investment Officer. In the event the Director of Finance is unavailable, the City Manager may conduct day-to-day emergency investment operations, provided he has been designated an Investment Officer and has met the requirements as such under Chapter 2256.008 of the Texas Government Code. Accordingly, the Director of Finance and City Manager are responsible for day-to-day administration of the investment program and for the duties listed below:

1. Maintain current information as to available cash balances in City accounts, and as to the amount of idle cash available for investment;
2. Make investments and maintain written procedures for the operation and internal control of the investment program consistent with this policy;
3. Ensure that all investments are adequately secured; and
4. Attend training as required by Section 2256.08 (a) of the Texas Government Code and ensure that any staff executing transactions covered by this policy attends the required training. The investment training shall be attended not less than once in a two-year period and receive not less than 10 hours of instruction relating to investment responsibilities under this policy. The training must be sponsored by a recognized professional trade association or accredited college or university or its affiliate including, but not limited to:

Texas Municipal League
Government Finance Officers Association of Texas (GFOAT)
Government Finance Officers Association of US and Canada
Government Treasurers Organization of Texas
University of North Texas
Texas Tech University for Professional Development
Texas State University

5. Establish an Investment Committee and conduct quarterly meetings to deliberate and prepare for the governing body items such as: performance reports, economic outlook, portfolio diversification, maturity structure, potential risk, compile list of authorized brokers/dealers, and the target rate of return on the investment portfolio. The Investment Committee shall consist of, but is not limited to, the Director of Finance, the City Manager, and selected staff.

SECTION 3. INVESTMENT STRATEGIES.

3.1 OPERATING FUNDS

Operating Funds are defined as cash and investments used for day-to-day operations that do not fall into one of the other categories. Operating funds will be invested in a manner suitable for funds requiring a high degree of liquidity. Investments of Operating Funds shall be limited to a weighted average maturity no greater than one year, and all investment instruments must meet credit and safety criteria as required by the Public Funds Investment Act and this policy. Involuntary liquidation of Operating Fund investments is unlikely due to their short term nature. However, should a liquidation of investments prior to maturity be necessary, their short term nature will make material losses unlikely. Operating Fund investments will be diverse and include Certificates of Deposit, U.S. treasuries and agencies, investment pools and money market mutual funds. Investment of Operating Funds will be structured to attain the highest possible yield given the liquidity and safety requirements.

3.2 CONTINGENCY RESERVES (or operating reserves)

Contingency Reserves are the minimum fund balance/working capital requirements as defined by Council in the Annual Budget Document. Contingency Reserve balances may be used to cover any cash operating shortfalls due the timing of bond issues, revenue receipts, etc. Investment of these funds may exceed 24 months with prior approval of the City Manager if short term cash flow needs are not evident. Any one security may not exceed 24 months in maturity length. The weighted average maturity for these funds may not exceed 12 months. Involuntary liquidation of Contingency Reserve investments is unlikely due to their nature. However, should a liquidation of investments prior to maturity be necessary, the comparatively longer term nature of some of the investments could result in material losses depending on financial and economic conditions. Contingency Reserve investments will be diverse and include C.D.'s, U.S. treasuries and agencies, investment pools and money market mutual funds. Investment of Contingency Reserves will be structured to attain the highest possible yield given the liquidity and safety requirements.

3.3 DEBT

3.3.1 **Reserves.** Debt reserves are defined as bond reserve funds required to be set aside in accordance with bond covenants. The City's revenue bond covenants permit the City to accumulate a reserve fund or to fund the required amount with a surety or other insurance policy; therefore, the City's investments are not adversely affected by any reserve requirement conditions. Currently the City funds its required bond reserves with a surety policy. In the event the City has bonds that require bond reserves, the reserves will be issued according to this policy.

3.3.2 **Interest and Sinking (or debt service funds).** Interest and sinking funds are defined as those funds accumulated to meet periodic payments required by bond and note maturity schedules. The investment maturities are limited by pertinent debt service requirements and tax laws limiting accumulation and earnings for such funds. Involuntary liquidation of investments is highly unlikely due to the nature of these funds. Interest and sinking fund investments will be diverse and include C.D.'s, U.S. treasuries and agencies, investment pools or money market mutual funds.

3.4 BOND PROCEEDS (capital improvement funds)

Bond proceed funds are defined as those funds received from the sales of City of Marble Falls bonds or notes and not otherwise set aside for debt service or reserve purposes. These funds typically include money to fund infrastructure construction or other large projects. The investment maturities are limited by pertinent project draw requirements and tax laws governing earnings for such funds, but may not have a weighted average maturity in excess of one year, with no single security greater than 24 months. Involuntary liquidation of investment is highly unlikely. Bond proceed investments will be diverse and include C.D.'s, U.S. treasuries and agencies, investment pools or money market mutual funds.

SECTION 4. AUTHORIZED INVESTMENTS.

4.1 ALLOWABLE INVESTMENTS

The City of Marble Falls funds may be invested in the following instruments:

4.1.1 Certificates of Deposit. Certificates of deposit that are issued by a state or national bank domiciled in the State of Texas and are guaranteed or insured by the Federal Deposit Insurance. All certificates of deposit in excess of the FDIC insured amount must be collateralized as described by Section 2257.023 of the Public Funds Collateral Act. Collateral must be held by a third party and in accordance with Section 5.4 and 5.5 of this policy.

4.1.2 U.S. Treasuries and Agencies. Obligations of the United States of America, its agencies and instrumentalities.

4.1.3 Investment Pools. Investment pools that meet the following criteria:

- a. An investment pool must provide an offering circular or other similar disclosure instruments and provide monthly and transaction reporting as required by Section 2256.016 of the Texas Government Code.
- b. Investment pools authorized by City Council are TexPool and Logic.
- c. Investment in a new pool will require the approval of the City Council.
- d. A public funds investment pool created to function as a money market mutual fund must (1) mark its portfolio to market daily, (2) include in its investment objectives the maintenance of a stable net asset value of \$1 for each share and (3) be continuously rated no lower than AAA or at an equivalent rating by at least one nationally recognized rating service.

4.1.4 Money Market Mutual Funds. No-load money market mutual funds if the fund:

- a. Is regulated by the Securities and Exchange Commission;
- b. Marks its portfolio to market daily;
- c. Includes in its investment objectives the maintenance of a stable net asset value of \$1 for each share;
- d. Has a dollar-weighted average stated maturity of 90 days or fewer;
- e. Is continuously rated no lower than AAA or at an equivalent rating by at least one nationally recognized rating service.

4.1.6 Other Investments. 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.

4.2 COMPLIANCE WITH STATE LAW

All authorized investments outlined above must meet the requirements of the Public Funds Investment Act, Section 2256 of the Texas Government Code. No investment may be made in any instrument except as provided above. In accordance with Section 2256.025 of the Texas Government Code, the City may only engage in investment transactions with qualified brokers/dealers that are hereby authorized by the governing body, as listed in Exhibit "A", attached.

4.3 CASH ON HAND

Cash resources required for the immediate needs of the City and not otherwise available for longer term investment will be placed in checking account(s) at the City's Depository/Depositories. Such checking account(s) will earn interest at the highest rate(s) provided in the respective depository contract(s).

4.4 LENGTH OF INVESTMENTS

The following general constraints will apply. Maturities exceeding 12 months will require authorization by the City Manager, with no single maturity greater than 24 months. Maturities will be staggered to avoid undue concentration of assets in a specific maturity sector and maturities selected will provide for stability of income and reasonable liquidity. In no instance shall the maximum stated maturity be greater than its longest stated debt service requirement unless further restricted in Section 3, Investment Strategies, of this policy; bond covenants or state law.

SECTION 5. SAFEKEEPING AND CUSTODY.

5.1 AUTHORIZED DEALERS

Authorized investments in U.S. treasuries and agencies may be purchased only through brokers/dealers who are licensed and in good standing with the Texas Department of Securities, the Securities Exchange Commission, the National Association of Securities Dealers or other applicable self-regulatory organization.

The Investment Officer will maintain a list of approved security brokers/dealers principally on the basis of evidenced credit worthiness that are authorized to provide investment services. Before engaging in investment transactions with a broker/dealer, Investment Pool or Money Market Mutual Funds, the Investment Officer will have received from said firm a signed Certification Form. This form will attest that the individual responsible for the City's account with that firm has received and reviewed the City's Investment Policy and that the brokerage firm has implemented reasonable procedures and controls in an effort to preclude imprudent activities arising out of investment transactions conducted between City and the brokerage firm. The letter must be signed by a qualified representative as defined by Section 2256.002 of the Texas Government Code.

"Qualified Representative" means a person who holds a position with a business organization who is authorized to act on behalf of the business organization and who is one of the following:

(1) A business organization doing business that is regulated by or registered with a securities commission, a person who is registered under the rules of the National Association of Securities Dealers;

(2) for a state or federal bank, a savings bank or state or federal credit union, a member of the loan committee for the bank or branch of the bank or a person authorized by corporate resolution to act on behalf of and bind the banking institution.

(3) For an investment pool, the person authorized by the elected official or board with authority to administer the activities of the investment pool to sign the written instrument on behalf of the investment pool, or

(4) For an investment management firm registered under the Investment Advisers Act of 1940 or, if not subject of registration under the Act, registered with the State Securities Board, a person who is an officer or principal of the investment management firm.

5.2 AUTHORIZED FINANCIAL INSTITUTIONS

Certificates of Deposit may be purchased at a qualified bank. The City must have a written agreement with the qualified bank and that bank must meet all State Law for deposit of public funds.

5.3 ACKNOWLEDGEMENT OF INVESTMENT POLICY

Every dealer and financial institution with whom 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.

5.4 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 judgement 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.

5.5 INTERNAL CONTROLS

All investment transactions will be documented by the Investment Officer. The Investment Officer may make investments orally, but will follow promptly with a written confirmation to the financial institution or broker/dealer, with a copy of such confirmation retained in the City's files.

On investments in U.S. treasuries and agencies, the Investment Officer will take competitive bids. At least two (2) quotations will be taken for each such investment made.

Market value of the portfolio and each security will be monitored at least quarterly through industry standard publications/sources for market data such as, but not limited to, The Wall Street Journal.

Cash Flow Forecasting

Cash flow forecasting is designed to protect and sustain cash flow requirements of the City. Supplemental to the financial and budgetary systems, the Investment Officer will maintain a cash flow forecasting process designed to monitor and forecast cash positions for investment purposes.

5.6 SAFEKEEPING

All securities purchased by the City under this policy must be designated as assets of the City, must be conducted on a delivery-versus-payment (DVP) basis, and must be protected through the use of a third-party custody/safekeeping agent. The City will enter into a formal agreement with an institution of such size and expertise as is necessary to provide the services needed to protect and secure the investment assets of the City.

5.7 COLLATERALIZATION

To the extent not insured by federal agencies that secure deposits, City of Marble Falls funds (including cash on hand and C.D.'s) must be collateralized by collateral securities in compliance with the Texas Public Funds Collateral Act and pertinent federal banking regulations. Only securities prescribed as eligible investments under the Public Funds Investment Act qualify as pledged securities.

Securities pledged as collateral must be retained in a third party bank in the State of Texas or with a Federal Reserve Bank in the City's name. The City will provide the original safekeeping receipt on each pledged security. The City, financial institution, and the safekeeping bank(s) will operate in accordance with a master safekeeping agreement signed by each of the parties. Collateral pledged to the City must be approved by the financial institution's board or directors or loan committee, and documented as pledged to the City in the minutes of the meeting. The City's Investment Officer must approve in writing the release of collateral prior to its removal from the safekeeping account in accordance with the terms of depository agreement.

The financial institution(s) with which the City invests and/or maintains deposits will provide monthly a listing of the collateral pledged to the City marked to current market prices. The listing will include total pledged securities itemized by name, type and description of the

security; safekeeping receipt number; par value; current market value; maturity date, if available; and Moody's or Standard & Poor's rating, if available.

SECTION 6. REPORTING.

6.1 QUARTERLY REPORTING

The Investment Officer shall prepare and submit to the Council a quarterly report on investment transactions for all funds covered by this policy. The report will be prepared in compliance with the Public Funds Investment Act, and generally accepted accounting practices. The report will cover the investment position of the City at the end of each fiscal quarter. The contents will include at a minimum:

- a. Beginning, ending and significant changes in market value of the portfolio;
- b. Beginning and ending market value and book value, maturity date, type of funds, interest coupon, accrued interest and yield for each separate security; and
- c. A statement as to the compliance with this policy and state law.

6.2 ANNUAL REPORTING

Within 90 days following the end of the fiscal year, the Investment Officer will present to the City Council a comprehensive annual report on the investment program and investment activity. In addition to the information required for quarterly reporting, the annual report will include a review of the activities and return for the twelve months, suggest policy revisions and improvements that might enhance the investment program, and include an investment plan for the ensuing fiscal year.

6.3 PERFORMANCE STANDARDS

In order to evaluate portfolio performance of funds subject to this policy, the City of Marble Falls portfolio will be compared against appropriately competitive and reasonable benchmarks, including money market mutual funds or investment pools of similar make-up and maturities.

6.4 COMPLIANCE

A compliance audit of management controls and adherence to this policy as it relates to the City of Marble Falls' investments and investing activity will be performed on an annual basis in conjunction with the City's annual financial audit if the criteria of Section 2256.023 (d) LGC are met.

SECTION 7. POLICY REVIEW and AMENDMENTS.

This investment policy will be reviewed by the City Council of the City of Marble Falls on at least an annual basis as required by the Public Funds Investment Act and make amendments as necessary. The Council will review the policy as part of the annual investment report presented by staff.

READ, PASSED, APPROVED AND ADOPTED this 18th day of November, 2014.

George Russell, Mayor

ATTEST:

APPROVED AS TO FORM:

Christina McDonald, TRMC
City Secretary

Patty Akers, City Attorney

EXHIBIT A

SELECTION OF AUTHORIZED BROKERS/DEALERS

BANKS

American Bank of Texas
BBVA Compass Bank
First State Bank of Central Texas
Grand Bank of Texas
IBC Bank
Northstar Bank of Texas
Security State Bank and Trust

INVESTMENT POOLS

Logic
Tex-Pool