

# THE CITY OF GALVESTON

## INVESTMENT POLICY

March 2016

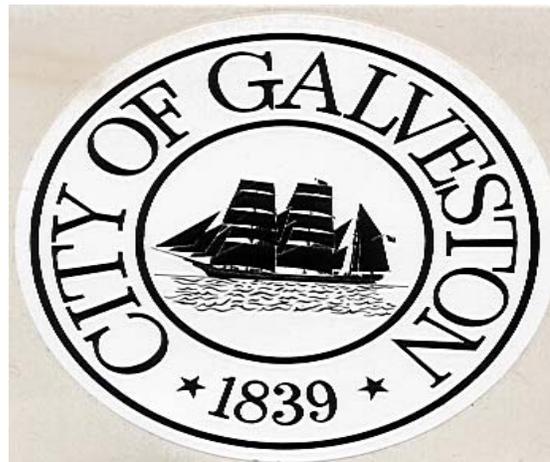


Table of Contents

- I. Scope and Purpose
- II. Objectives
  - Safety, Liquidity, Diversification and Yield
  - Maximum Maturities
  - Prudent Person Standard
- III. Investment Strategy
- IV. Authorized Investments
  - Competitive Bidding
  - Delivery versus Payment
  - Collateralization and Safekeeping
- V. Incorporation of the Public Funds Investment Act
- VI. Diversification
- VII. Investment Advisory Committee
- VIII. Designation of Investment Officers
- IX. Financial Counter-parties
- X. Investment Reporting
- XI. Internal Control
- XII. Audits
- XIII. Loss of Required Ratings
- XIV. Annual Review Policy

Appendix A – Texas Government Code 2256

## Investment Policy City of Galveston, Texas

The following Investment Policy, known as “The Investment Policy of the City of Galveston” (Investment Policy) shall govern the Investment management process with respect to investments managed by the Finance Department of the City of Galveston for the General Fund, Special Revenue Funds, Debt Service Funds, Capital Project Funds and Enterprise Funds. The Policy complies with and incorporates the Public Funds Investment Act, (the “Act”), Chapter 2256, Texas Government Code and the Public Funds Collateral Act, Chapter 2257, Texas Government Code. All participants in the investment process shall act responsibly as custodians of the public trust.

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

The Investment Policy is based on standards of prudent money management. Effective cash flow management and cash investment practices are recognized as essential to good fiscal management and have been incorporated into the investment program.

### **I. Scope and Purpose.**

The Investment Policy shall apply to all financial assets and funds of the City and govern the management of Investments by the Finance Department of the City of Galveston (“the City”). The investments will meet the cash flow requirements of the City as established by City Council and City management. These funds are defined in the City’s Comprehensive Annual Financial Report (CAFR). This Policy applies to any new fund created by the City unless specifically exempted by the City Council and this Policy.

### **II. Objectives.**

The emphasis of all investment activity shall be safety, liquidity, diversification and yield.

**Safety.** The primary emphasis shall be on safety and preservation of principal. Adherence to the preferred investments listed in the investment policy will maximize safety. Whenever practical, assets held in the common investment portfolio shall be diversified to minimize the risk of loss resulting from one concentration of assets in a specific maturity, a specific issuer, or a specific class of securities. Whenever possible, the City will avoid purchase of callable securities in order to ensure the laddering of maturities and balancing of classes of securities. The City’s investments shall be reviewed and rebalanced with respect to diversification at least once per calendar quarter. The emphasis shall be on maintaining a prudent level of cash (money market) balances, relative to security types and maturities.

**Liquidity.** The goal of liquidity is to maintain available cash balances sufficient to cover anticipated and unexpected cash demands. The City’s investment portfolio will remain sufficiently liquid to meet all daily operating requirements.

**Diversification.** Whenever practical, assets held in the portfolio(s) shall be diversified to minimize the risk of loss resulting from the concentration of assets in a specific maturity, a specific issuer, or a specific market sector. The City’s investments shall be reviewed and rebalanced with respect to diversification at least once per calendar quarter.

**Yield.** Yield considerations shall be subordinate to safety and liquidity requirements but shall be maximized within those constraints through prudent and active management.

### **Maximum Maturities**

The maximum maturity for investments designated for operations, current debt service, and construction funds shall not exceed 36 months. The maturity for debt service reserve holdings can be extended to the life of the bond maturity or five years, whichever is less. The maximum dollar weighted average maturity of the entire portfolio shall be no greater than 3 years.

### **Prudent Person Standard**

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."

In determining whether Investment Personnel exercised prudence with respect to an investment decision, the determination shall be made taking into consideration:

- a. the investment of all funds over which Investment Personnel had responsibility rather than a consideration as to the prudence of a single investment, and
- b. whether the investment decision was consistent with the written Investment Policy.

Investment Personnel involved in investment decisions, when acting in accordance with this Policy and exercising due diligence, shall be held responsible, but not personally liable, for a specific credit risk or market price change, provided deviation from expectations are reported in a timely manner and appropriate action is taken to control adverse developments.

### **III. Investment Strategy.**

The City commingles its operating and reserve funds into one investment portfolio for investment purposes of efficiency, accurate distribution of interest, and maximum investment opportunity. Bond funds are managed separately in accordance with their anticipated expenditure schedule. Although commingled, the City recognizes the unique characteristics and needs of the individual funds in its strategy statement and management of the funds. The maximum dollar weighted average maturity of the entire portfolio shall be no greater than three (3) years.

#### **A. Operating Funds**

The investment strategy for operating funds has as its primary objective assurance that anticipated liabilities are matched and adequate investment liquidity provided. This may be accomplished by purchasing high quality, short- to medium-term maturity securities, which will complement each other in a laddered maturity structure permitting some extension for yield enhancement.

#### **B. Debt Service Funds**

The investment strategy for debt service funds shall have as its primary objective the assurance of available funds adequate to fund the debt service obligations on a timely basis. Successive debt service dates will be fully funded before extension.

#### **C. Bond Reserve Funds**

The investment strategy for debt service funds shall have as its primary objective the ability to generate a revenue stream to the debt service funds from high quality securities with a low degree of volatility. Securities should be high credit quality and, except as may be required by a bond ordinance specific to an individual issue, of short to intermediate-term maturities. Reserve portfolios will utilize securities with a maximum maturity of five years and have a maximum weighted average maturity, if managed as a separate portfolio, of three years.

#### **D. Capital Project Funds**

The investment strategy for capital projects or capital project funds will have as its primary objective assurance that anticipated cash flows are matched for adequate liquidity. The stated final maturity dates of securities held may not exceed the estimated project completion date.

Separately managed portfolios are to be managed with the specific expenditure schedules and legal requirements of those funds. The portfolios will be guided by the provisions of this Policy.

#### **Cash Management**

Effective cash management is recognized as essential to a prudent investment strategy and overall fiscal management. Cash management is defined as the process of managing monies in order to ensure maximum cash availability and use. 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.

As a part of this comprehensive cash management program, the City recognizes that there is the potential need for unexpected cash draw downs during the hurricane season which commences in June and concludes in November of each year. The portfolio should be structured so that adequate investments mature during this period.

#### **IV. Authorized Investments.**

Authorized investments shall be limited to the following, as further defined by the Act:

1. Obligations of the United States or its agencies and instrumentalities to include obligations in which the principal and interest are unconditionally guaranteed or insured by, or backed by the full faith and credit of, this state or the United States or their respective agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation, NCUSIF or by the explicit full faith and credit of the United States per Texas State Code 2256.009
2. Municipal Securities per Texas State Code 2256.009
3. Fully insured or collateralized certificates of deposit at commercial banks, savings banks and credit unions per Texas State Code 2256.010
4. Repurchase agreements collateralized by U.S. Treasury or U.S. Government Agency securities per Texas State Code 2256.011
5. Banker's Acceptances as permitted by Texas State Code 2256.012
6. Commercial paper as permitted by Texas State Code 2256.013. No direct commercial paper purchases are permitted. Commercial paper may be used in approved money market funds and local government investment pools.
7. SEC registered, no load money market funds as permitted by Texas State Code 2256.014
8. Texas local government investment pools per Texas State Code 2256.016

#### **V. Incorporation of the Public Funds Investment Act.**

All applicable provisions of the Act, as amended, are adopted by incorporation of Appendix A, the Act, adopted and incorporated in its entirety.

In the event of a conflict with these investment policies and the Act, the Act shall control.

#### **Competitive Bidding Requirement**

All security transactions will be made on a competitive bid/offer basis where practicable.

#### **Delivery versus Payment**

Transactions must be settled on a delivery versus payment (DVP) basis to a City approved depository except for transactions involving mutual funds or investment pool funds. This assures City control of all its funds and assets. No securities shall be held by transaction counter-party.

**Collateralization and Safekeeping**

Collateral provided for bank time and demand deposits as well as repurchase agreement collateral will be safe-kept by an independent third party approved by the City and providing the City with original safekeeping receipts. Authorized collateral will include:

1. Obligations of the US Government, its agencies and instrumentalities including mortgage-backed securities.
2. Municipal obligations of any state or subdivision, rated AA by a Nationally Recognized Statistical Rating Organization (“NRSRO” or equivalent by another recognized rating agency.)

Financial institutions serving as City depositories will be required to sign a tri-party depository agreement with the City and the independent safekeeping agent (custodian) and in compliance with FIRREA. The agreement shall define the collateral and City rights to the collateral in case of default, bankruptcy, or closing and shall establish a perfected security interest in compliance with Federal and State regulations, which require that:

- The Agreement be in writing;
- The Agreement be approved by the Board of Directors or the Loan Committee of the Depository and a copy of the meeting minutes or resolution reference must be delivered to the City; and
- No listing of pledged collateral be part of the written agreement.

Collateral will be equal to or exceed 102% of the total deposit amount, with accrued interest, to be collateralized. Substitution will be granted with prior City approval. Counter-parties will be contractually liable for monitoring and maintaining the required margin levels on all collateral at all times. Monitoring: The City will value the collateral securities monthly unless market conditions warrant more frequent valuation and require that if additional collateral is required then that collateral must be delivered within one business day (if a collateral deficiency is not corrected within this time frame, the collateral securities will be liquidated.).

All City-owned securities will be held in third party safekeeping at the City’s contracted depository.

**VI. Diversification.**

Diversification will be used to minimize risk of loss by over-investment in a particular market sector, maturity or security. The City will strive for portfolios with laddered maturities and securities in accordance with the authorized investments and maximum maturity constraints. To assure diversification in the portfolio the following limits will be imposed:

<b><u>Investment Type</u></b>	<b><u>Max. % in Portfolio</u></b>
US Treasury Obligations	100%
US Agency and Instrumentality Obligations	80%
SEC Registered Money Market Funds	50%
Repurchase Agreements	50%
Flex Repurchase (Bond Funds)	50%
Municipal Securities	20%
Local Government Investment Pools	100%
Participation per pool	10% of pool
Commercial Paper	35%
Limit per issuer	10%
Collateralized, FDIC or NCUSIF insured certificates of deposit	50%

**VII. Investment Advisory Committee.**

An Investment Advisory Committee (the “Committee”) is created. Voting members of the Committee will consist of the City Manager or designee, and two residents, one appointed by the City Council and one appointed by the Mayor. The Director of Finance shall be a non-voting member of the Committee. The appointees shall serve the same term as the City Council or Mayor who appointed them.

The Committee is responsible for:

- reviewing and updating the Investment Policy annually,
- reviewing investment recommendations,
- reviewing investment reports,
- overseeing the City’s portfolio to ensure compliance with State law,
- adopting a list of qualified brokers authorized to engage in investment transactions, and
- approving the independent source providing state mandated investment training.

**VIII. Designation of Investment Officers.**

The Director of Finance, Controller and Supervisor of Accounting shall be designated as Investment Officers to execute the investment management process of local revenues. Investments of five (5) million or more will require authorization by two investment officers. The Investment Officer shall attend 8 hours of training in the responsibilities of the position within twelve months of assuming those duties and within every succeeding two-year period as required by the Act. The training sessions shall be provided by Texas Municipal League, Government Finance Officers Association of Texas, Government Treasurers Organization of Texas, the University of North Texas, the Texas Society of Certified Public Accountants, PFM Asset Management, or any other independent source approved by the Committee.

Professional services may be used to provide expertise in the areas of Investments, Cash Management, bonded indebtedness, and other areas deemed appropriate by Council and Management. State law pertaining to these services shall apply. These services shall be subordinate to City Management and this Investment Policy, as applicable.

The Director of Finance may temporarily designate another qualified staff individual to function as Investment Officer in his or her place if and when necessary. That individual will also attend the state mandated training described above.

If an Investment Officer has a personal relationship as defined in the Act, with a business organization engaging in investment transactions with the City, the Investment Officer must disclose the relationship and file a disclosure with the City Secretary and the Texas Ethics Commission.

The Investment Officers shall review investment positions at least once per quarter for conformance to this Investment Policy and the needs of the City.

The Investment Officers shall develop and maintain written administrative procedures for the operation of the investment program, which are consistent with this Investment Policy. Procedures will include safekeeping, settlement, documentation, agreements, contracts, and other investment related activities.

**IX. Financial Counter-parties.**

Investments shall be executed through dealers and/or banks only. The Committee will review and approve the list of authorized broker/dealers annually. The Investment Officers or investment advisor will obtain and maintain information on each authorized broker/dealer.

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

- provision of an audited financial statement for the most recent period,
- proof of registration with the National Association of Securities Dealers (NASD), and
- proof of current registration with the Texas State Securities Commission.

### **Certification**

The City must present a copy of this Policy to any firm or person offering to engage in an investment transaction with the City. An authorized representative of the firm shall execute the City's Policy Certification (Attachment A) substantially to the effect that the representative has received and thoroughly reviewed the Investment Policy, and acknowledged that the organization has implemented reasonable procedures and controls in an effort to preclude investment transactions that are not authorized by this Policy except to the extent that the authorization is dependent on an analysis of the makeup of the City's primary commingled portfolio or requires an interpretation of subjective investment standards.

### **X. Investment Reporting.**

The Investment Officers and Investment Advisor shall provide to City Council, not less than quarterly, a written report of investment positions and activity in accordance with Section 2256.023 of the Act.

Market values shall be obtained from the Investment Advisor or other independent sources such as a safekeeping institution or industry publications. If market values are unavailable from independent sources, the City may obtain market values from its authorized brokers.

### **XI. Internal Controls.**

The Finance Director shall establish a system of internal controls designed to prevent losses due to fraud, employee error, negligence, collusion, third party misrepresentation, and unanticipated market changes as well as other foreseeable circumstances arising in the investment function. The controls are to safeguard City assets and securities throughout the investment process. The internal control structure shall be designed to provide reasonable assurance that these Policy objectives are met and controls shall be reviewed annually with the independent auditor of the City.

Transactions shall in all cases comply with established internal controls especially as regards the transfer of funds.

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.

The controls shall address at a minimum the functions of documentation; competitive bidding practices; delivery and custody of securities; perfected ownership; collateralization; timely reconciliation of transactions, receipts and statements; required audits; and financial counter-parties. The controls shall address these functions with attention to: potential collusion, separation of duties, and clear delegation of authority.

### **XII. Audits.**

The City's audit engagement shall include a compliance audit of management controls on investments and adherence to the City's established investment policies. The compliance audit shall be performed annually in conjunction with the City's financial audit and will include a review of the quarterly reports.

### **XIII. Loss of Required Ratings.**

The Investment Officers shall take all prudent measures consistent with this Investment Policy to liquidate an investment that does not meet any minimum specified rating. Investment Officers or the Advisor will monitor the credit ratings of all rated investments at all times. Should any investment requiring minimum ratings be placed on market watch, downgraded or placed on credit watch by any nationally recognized rating agency, Investment Officers shall notify the Finance Director immediately. Liquidation of the security may, but need not be, effected. Evaluation of the cause of the action, the maturity of the security, and the position of the security in the portfolio will be considered and prudent measures taken to protect City funds.

**XIV. Annual Review of Policy.**

The City Council of the City of Galveston shall review and adopt this Investment Policy and its incorporated investment strategies not less than annually. The approving resolution will list all changes being made to the Policy.