

CITY OF HAWLEY

INVESTMENT POLICY

I. PURPOSE

It is the objective of the City of Hawley to invest public funds in a manner which will provide maximum security and the best commensurate yield while meeting the daily cash flow demands of the City and conforming to all federal, state, and local statutes, rules, and regulations governing the investment of public funds. This Policy serves to satisfy the statutory requirements of defining and adopting a formal investment policy. The Policy and investment strategies shall be reviewed annually by the Audit/Finance Committee and City Council who will formally approve any modifications. This Investment Policy, as approved, is in compliance with the provisions of the Public Funds Investment Act of Tex. Gov't. Code Chapter 2256.

II. SCOPE

- A. This Investment Policy applies to the investment activities of the City of Hawley, Texas. All financial assets of all funds, including the General Fund and any other accounts of the City not specifically excluded in these policy guidelines are included. These funds are accounted for in the City's Comprehensive Annual Financial Report (CAFR). These funds, as well as funds that may be created from time-to-time, shall be administered in accordance with the provisions of this Policy.
- B. These funds are accounted for in the City's Annual Financial Statements and include:
 - 1. General Fund- used to account for resources traditionally associated with government, which are not required to be accounted for in another fund.
 - 2. Special Revenue Funds- used to account for the proceeds from specific revenue sources which are restricted to expenditures for specific purposes.
 - 3. Debt Service Fund used to account for resources to be used for the payment of principal, interest and related costs on general obligation debt.
 - 4. Capital Project Funds – used to account for resources to enable the acquisition or construction of major capital facilities which are not financed by enterprise funds, internal service funds, or trust funds.
 - 5. Enterprise Funds – used to account for operations that are financed and operated in a manner similar to private business enterprises.
 - 6. Internal Service Funds – used to account for the cost of providing goods or services between City departments.

7. Trust and Agency Funds – used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, other governments, and/or other funds.
8. Bond Reserve Funds – funds set at a prescribed level by certain bond ordinances to pay principal and/or interest if required to prevent default.
9. New funds available for investment by the City, such as (but not limited to) resources associated with Public Improvement Districts or Tax Increment Financing zones, unless specifically excluded herein and exempted from the Policy by the City Council or by law.

III. INVESTMENT OBJECTIVES & STRATEGIES

It is the policy of the City of Hawley (City) that, giving due regard to the safety and risk of investments, all available funds shall be invested in conformance with State and Federal Regulations, applicable Bond Ordinance requirements, adopted Investment Policy and adopted Investment Strategies.

In accordance with the Public Funds Investment Act, the following prioritized objectives (in order of importance) in accordance with the Tex. Gov't. Code Sec. 2256.005(d) apply for each of the City's investment strategies.

- A. *Suitability*-Understanding the suitability of the investment to the financial requirements of the City is important. Any investment eligible in the Investment Policy is suitable for all City funds.
- B. *Safety*-Preservation and safety of principal are the primary objectives of the Investment Policy. All investments will be in high quality securities with no perceived default risk.
- C. *Liquidity*-The City's investment portfolio will remain sufficiently liquid to meet operating requirements that might be reasonably anticipated. Liquidity shall be achieved by matching investment maturities with forecasted cash flow requirements and by investing in securities with active secondary markets. Short-term investment pools and money market mutual funds provide daily liquidity and may be utilized as a competitive yield alternative to fixed income investments.
- D. *Public Trust*- All participants in the City's investment process shall seek to act responsibly as custodians of the public trust. Investment officials shall avoid any transaction, which might impair public confidence in the City's ability to govern effectively.
- E. *Marketability*-Securities with active and efficient secondary markets are necessary in the event of an unanticipated cash requirement. Historical market "spreads" between the bid and offer prices of a particular security type of less than a quarter of a percentage point shall define an efficient secondary market.

- F. *Diversification*-Investment maturities shall be staggered throughout the budget cycle to provide cash flow based on the anticipated needs of the City. Diversifying the appropriate maturity structure will reduce market cycle risk.

- G. *Yield*-Attaining a competitive market yield, commensurate with the City's investment risk constraints and the cash flow characteristics of the portfolio, is the desired objective. The goal of the City's investment portfolio is to regularly meet or exceed the average rate of return on U.S. Treasury Bills at a maturity level comparable to the portfolio's weighted average maturity in days. The yield of an equally weighted, rolling six-month Treasury Bill portfolio shall be the minimum yield objective or "benchmark". Six-month U.S. Treasury Bill information is derived from the Federal Reserve Statistical Release H.15 for constant maturities. A secondary objective will be to obtain a yield equal to or in excess of a local government investment pool or money market mutual fund.

The first measure of success in this area will be the attainment of enough income to offset inflationary increases. Although steps will be taken to obtain this goal, the City's staff will follow the "Prudent Person" statement relating to the standard of care that must be exercised when investing public funds as expressed in the Tex. Gov't. Code Sec. 2256.006(a-b). The Investment Officers shall avoid any transactions that might impair public confidence in the City's ability to govern effectively. The governing body recognizes that in diversifying the portfolio, occasional measured unrealized losses due to market volatility are inevitable and must be considered within the context of the overall portfolio's investment return, provided that adequate diversification has been implemented. The prudence of the investment decision shall be measured in accordance with the tests set forth in the Tex. Gov't. Code Sec. 2256.006(b).

IV. INVESTMENT STRATEGY FOR SPECIFIC FUND GROUPS

In order to better diversify, maximize interest earnings and otherwise meet stated objectives, fund groups may be combined into one or more internal investment pools. Although fund monies may be combined into a single asset portfolio, proportional fund ownership will be accounted for separately. The City maintains separate portfolios for some individual funds or groups of funds (as listed under Section II) that are managed in accordance with the terms of this Policy and by the corresponding investment strategies listed below.

- A. *Investment Pool Strategy*-The City's Investment Pool is an aggregation of the majority of City funds which includes tax receipts, enterprise fund revenues, fine and fee revenues, as well as some, but not necessarily all, bond proceeds, grants, gifts and endowments. This portfolio is maintained to meet anticipated daily cash needs for the City's operations, capital projects and debt service. In order to ensure the ability of the City to meet obligations and to minimize potential liquidation losses, the dollar-weighted

average stated maturity of the Investment Pool shall not exceed 1.5 years or 550 days. The objectives of this portfolio are to:

1. Ensure safety of principal by investing in only high-quality securities for which a strong secondary market exists.
2. Ensure that anticipated cash flows are matched with adequate investment liquidity.
3. Limit market and credit risk through diversification.

Attain the best feasible yield commensurate with the objectives and restrictions set forth in this Policy by actively managing the portfolio to meet or exceed the six-month moving average yield on a six-month U.S. Treasury Bill as derived from the Federal Reserve Statistical Release H.15 for constant maturities.

- B. *Bond Funds Strategy*-Occasionally, separate non-pooled portfolios are established with the proceeds from bond sales in order to maximize earnings within the constraints of arbitrage regulations. The objectives of the portfolios are to:

1. Ensure safety of principal by investing in only high-quality securities for which a strong secondary market exists.
2. Ensure that anticipated cash flows are matched with adequate investment liquidity.
3. Limit market and credit risk through diversification.
4. Attain the best feasible yield commensurate with the objectives and restrictions set forth in this Policy and the bond ordinance by actively managing the portfolio to meet or exceed the bond yield.

- C. *Endowment Fund Strategy*-Funds received as gifts to the City with instructions that the income generated by the investment of said funds be used for specified purposes are invested as separate non-pooled portfolios in order to maximize return. The objectives of the portfolios are to:

1. Ensure safety of principal by investing in only high-quality securities for which a strong secondary market exists.
2. Ensure that anticipated cash flows are matched with adequate investment liquidity.
3. Limit market and credit risk through diversification.
4. Attain the best feasible yield commensurate with the objectives and restrictions set forth in this Policy.

V. **INVESTMENT OFFICER**

Designation- Through the adoption of this policy, the person agreed upon by the City Mayor and City council will be deemed the “**Chief Financial Investment Officer**” who is responsible for the investment of the City's funds. No person may engage in an investment transaction or the management of funds except as provided under the terms of this Investment Policy

as approved by the City Council. The investment authority granted to the **Chief Financial Investment Officer** is effective until rescinded by the governing body.

Scope-The **Chief Financial Investment Officer** determines general strategies, investment guidelines and to monitor results. Included in deliberations will be such topics as: economic outlook, portfolio diversification, maturity structure, potential risk to the City's funds, authorized broker/dealers (if applicable), and the target rate of return on the investment portfolio.

VI. RESPONSIBILITY AND STANDARD OF CARE

- A. *Delegation & Training*- The management responsibility for the investment program is delegated to the Chief Financial Investment Officer. The Chief Financial Investment Officer and department designees will use this Policy as the primary guideline for the City's investment program, procedures, and internal control issues. The City Mayor who oversees financial operations and the Chief Financial Investment Officer are designated as the Investment Officers, pursuant to Tex. Gov't. Code Sec. 2256.005(f). Accordingly, the Investment Officers and persons authorized to execute investment transactions shall attend an investment training session not less than once in a two-year period that begins on the first day of the school district's or municipality's fiscal year and consists of the two consecutive fiscal years after that date, and receive not less than eight hours of instruction relating to investment responsibilities under this subchapter from an independent source approved by the governing body of the school district or municipality pursuant to Tex. Gov't. Code CHAPTER 2256 Sec. 2256.008 (a) (1). The training must include education in investment controls, security risks, strategy risks, market risks, and compliance with the Public Funds Investment Act. The investment training session shall be provided by an independent source (such as: UNT-University of North Texas, Center for Public Management) approved by the Investment Officer. For purposes of this policy, an "independent source" from which investment training shall be obtained shall include a professional organization, an institute of higher learning or any other sponsor other than a business organization with whom the City may engage in an investment transaction. No persons may engage in investment transactions except as provided under the terms of this Policy. The City Mayor shall require an annual compliance review by an external auditor that will consist of an audit of management controls on investments, adherence to the City's Investment Policy and a review of their annual investment reports. The reviews will provide internal control by assuring compliance with policies and procedures. The City Mayor, Chief Financial Investment Officer, City Council, and other Finance Department employees shall be personally indemnified in the event of investment loss provided the Investment Policy has been followed.
- B. *Conflicts of Interest*- All participants in the investment process shall seek to act responsibly as custodians of public assets. Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with

proper execution of the investment program, or which could impair their ability to make impartial investment decisions.

- C. *Disclosure*- Anyone involved in investing City funds shall file with the Chief Financial Investment Officer a statement disclosing any personal business relationship with a business organization offering to engage in investment transactions with the City or is related within the second degree by affinity or consanguinity as determined under the Tex. Gov't. Code Ch. 573, to an individual seeking to transact investment business with the City. A disclosure statement must also be filed with the Texas Ethics Commission and the City Council. An Investment Officer or other employee has a personal business relationship with a business organization if any one of the following three conditions are met:
1. The Investment Officer or employee owns 10% or more of the voting stock or shares of the business organization or owns \$5,000.00 or more of the fair market value of the business organization.
 2. Funds received by the Investment Officer or employee from the business organization exceed 10% of the investment officer's gross income for the prior year.
 3. The Investment Officer or employee has acquired from the business organization during the prior year investments with a book value of \$2,500.00 or more for their personal account.
- D. *Prudence*- The standard of prudence to be used by the investment officials shall be the "Prudent Person Rule", as set forth in Tex. Gov't. Code Sec. 2256.006 and will be applied in the context of managing an overall portfolio: "Investments shall be made with judgment and care under prevailing circumstances, that a person of prudence, discretion and intelligence would exercise in the management of the person's own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived."
- E. *Indemnification*-Investment officials acting in accordance with the Investment Policy and exercising due diligence shall be relieved of personal responsibilities for an individual security's credit risk or market price change, provided deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments. In determining whether an investment official has exercised prudence with respect to an investment decision, the determination shall be made taking into consideration the investment of all funds over which the official had responsibility rather than consideration as to the prudence of a single investment and whether, the investment decision was consistent with the City's Investment Policy.

F. *Reporting*

1. The Chief Financial Investment Officer shall list the City's investment securities along with their date of maturity and return over the reporting period in the City's monthly Financial Statement as provided to the Council in the Regular Meeting Packet. The information provided will be presented in a manner, which will allow the City to ascertain whether investment activities during the reporting period have conformed to the Investment Policy. The report will be provided to the City Administrator and City Council. The report will include the following:
 - a. A listing of individual securities held at the end of the reporting period.
 - b. Unrealized gains or losses resulting from appreciation or depreciation by listing the beginning and ending book and market value of securities for the period.
 - c. Additions and changes to the market value during the period.
 - d. Listing of investments by maturity date.
 - e. Fully accrued interest for the reporting period
 - f. The percentage of the total portfolio, which each type of investment represents.
 - g. Statement of compliance of the City's investment portfolio with state law and the investment strategy and policy approved by the City Council.

VII. AUTHORIZED INVESTMENT OPTIONS

- A. City funds governed by this Policy may be invested in the instruments described below, all of which are authorized by the Public Funds Investment Act.
 1. Direct obligations of the United States of America, its agencies and instrumentalities.
 2. Fully insured or collateralized certificates of deposit/share certificates issued by state and national banks or savings bank or a state or federal credit union (having its main or branch office in Texas) guaranteed or insured by the Federal Deposit Insurance Corporation or its successor or the National Credit Union Share Insurance Fund or its successor.
 3. Money Market Mutual funds that: 1) are registered and regulated by the SEC, 2) have a dollar weighted average stated maturity of 90 days or less, 3) include as an investment objective the maintenance of a stable net asset value of \$1 for each share, and 4) are rated no lower than "AAA" by at least one nationally recognized rating service.
 4. Government investment pools which: 1) meet the requirements of Chapter 2256.016 of the Public Funds Investment Act; and 2) are rated no lower than "AAA" or "AAA-m" or an equivalent rating by at least on nationally recognized rating service; and, 3) seek to maintain a \$1.00 net asset value.

5. Quarterly, market values and ratings shall be obtained from financial institutions or portfolio reporting services independent from the broker/dealer from which the security was purchased. All prudent measures will be taken to liquidate an investment that is downgraded to less than the required minimum rating.
- B. *Portfolio Management*- Investment Maturity dates are matched with cash flow requirements and investments are purchased with the intent to be held until maturity. However, securities may be sold before they mature if market conditions present an opportunity for the City to benefit from the trade. Securities may be sold for the following reasons:
1. A security with declining credit may be sold early to minimize loss of principal.
 2. Liquidity needs of the portfolio require that the security be sold.
- C. *City Council Approval Required*- Decisions to commit City funds to time sensitive investments and decisions to liquidate investments prior to maturity must be approved by formal action of the City Council.

VIII. INVESTMENT PARAMETERS

- A. *Maximum Maturities*- The longer the maturity of investments, the greater their price volatility. Therefore, it is the City's policy to concentrate its investment portfolio in shorter-term securities in order to limit principal risk caused by changes in interest rates. The City attempts to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, the City will not directly invest in securities with maturity more than three (3) years from the date of purchase; however, the above described obligations, certificates, or agreements may be collateralized using longer dated investments.
- B. *Diversification*- The City of Hawley 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 to be achieved by the following general guidelines:
1. Investing in securities with varying maturities, and
 2. Continuously investing a portion of the portfolio in readily available funds such as local government investment pools (LGIPs) and money market funds to ensure that appropriate liquidity is maintained in order to meet ongoing obligations.

IX. SELECTION OF BANKS, BROKER/DEALERS, AND INVESTMENT ADVISORS

- A. *Depository*- City Council shall, by ordinance, "select and designate one or more banking institutions as the depository for the monies and funds of the City" in accordance with the requirement of Tex. Loc. Gov't. Code Ch. 105. At least every five years a depository shall be selected through the City's banking services procurement process, which shall include a formal request for proposal (RFP). The selection of a depository will be

determined by a competitive process and evaluated on the following criteria:

1. Qualified as a depository for public funds in accordance with state and local laws.
 2. Provided requested information or financial statements for the periods specified.
 3. Complied with all requirements in the banking RFP.
 4. Completed responses to all required items on the proposal form.
 5. Offered lowest net banking service cost, consistent with the ability to provide an appropriate level of service.
 6. Met credit worthiness and financial standards.
- B. *Investment Broker/Dealers*- If the City has not retained an investment advisor, then the Investment Officer shall be responsible for adopting the list of qualified brokers/dealers and financial institutions authorized to engage in investment transactions with the City. Authorized firms may include primary dealers or regional broker/dealers that qualify under SEC Rule 15C3-1 (uniform net capital rule) and qualified depositories as established by the Tex. Loc. Gov't. Code Ch. 105. The Investment Officer shall base its evaluation of security broker/dealers and financial institutions upon:
1. Financial condition, strength and capability to fulfill commitments.
 2. Overall reputation with other broker/dealers or investors.
 3. Regulatory status of the broker/dealer.
 4. Background and expertise of the individual representatives.
 5. Ability to provide additional advisory services.

The Chief Financial Investment Officer must annually review the list of qualified broker/dealers authorized to engage in investment transactions with the City. Investment Officers, or their authorized representatives, shall not conduct business with any firm with whom public entities have sustained realized losses on investments or whose name the Chief Financial Investment Officer has removed from an approved list.

X. COLLATERALIZATION AND SAFEKEEPING

- A. *Collateralization*- Consistent with the requirements of the Public Funds Collateral Act, it is the policy of the City to require full collateralization of all City investments and funds on deposit with a depository bank, other than investments, which are obligations of the U.S. government and its agencies and instrumentalities. Securities pledged as collateral should be held by an independent third party with whom the City has a current custodial agreement.

The City of Hawley shall accept only the following securities as collateral:

1. FDIC and FSLIC insurance coverage.
2. A bond, certificate of indebtedness, or Treasury Note of the United States, or other evidence of indebtedness of the United States that is guaranteed as to principal and interest by the United States.
3. Obligations, the principal and interest on which, are unconditionally guaranteed or insured by the State of Texas.

4. A bond of the State of Texas or of a county, city or other political subdivision of the State of Texas having been rated as investment grade (investment rating no less than "A" or its equivalent) by a nationally recognized rating agency with a remaining maturity of ten (10) years or less.

- B. *Safekeeping*- The City shall contract with a bank or banks for the safekeeping of securities either owned by the City as part of its investment portfolio or held as collateral to secure demand or time deposits.

All securities owned by the City shall be held by its safekeeping agent, except the collateral for certificates of deposits in banks. The collateral for certificates of deposit in banks will be registered in the City's name in the bank's trust department or, alternatively, in a Federal Reserve Bank account in the City's name, or a third-party bank in the City's name, at the City's discretion. Original safekeeping receipts shall be obtained.

All collateral shall be subject to inspection and audit by the Director of Finance or the City's independent auditors.

XI. ADOPTION AND REVIEW REQUIREMENTS

Annually- The City Council shall review and approve the Investment Policy and investment strategies at least annually and be documented by rule, order, ordinance or resolution which shall include any changes made Policy and in accordance with the provisions of the Public Funds Investment Act of the Texas Government Code Chapter 2256.

Compliance Audit-The City's external independent auditor will conduct an annual review of the reports in conjunction with the annual financial audit. The results of the audit will be reported to the City Council. The audit will also review compliance with management controls on investments and adherence to this Policy and in accordance with the provisions of the Public Funds Investment Act of the Texas Government Code Chapter 2256.