

ORDINANCE NO. 2020-04-13-A

AN ORDINANCE OF THE BOARD OF ALDERMEN OF THE CITY OF TEAGUE, TEXAS, ("CITY") APPROVING THE INVESTMENT POLICY FOR FUNDS FOR THE CITY OF TEAGUE AND PROVIDING AN EFFECTIVE DATE.

WHEREAS, Chapter 2256 of the Texas Government Code, also known as the Public Funds Investment Act ("PFIA"), requires the governing body of an investing entity to adopt by rule, order, ordinance, or resolution, a written investment policy regarding the investment of its funds; and

WHEREAS, once an investment policy has been adopted, the PFIA also requires the governing body to review the investment policy and investment strategies annually; and

WHEREAS, the PFIA states that the governing body shall adopt a written instrument by rule, order, ordinance, or resolution stating that it has reviewed the investment policy and investment strategies: and

WHEREAS, the City's Investment committee has reviewed the current investment policy and recommends approval with no material changes at this time; and

WHEREAS, the Board of Aldermen desires to approve the Investment Policy;

NOW, THEREFORE, BE IT RESOLVED BY THE BOARD OF ALDERMEN OF TEAGUE, TEXAS:

SECTION 1.

THAT the Board of Aldermen has reviewed the attached Investment Policy for the City of Teague and the policies and strategies contained therein (**Attachment "A"**).

SECTION 2.

THAT the Board of Aldermen hereby adopts the attached Investment Policy as the City's Investment Policy.

SECTION 3.

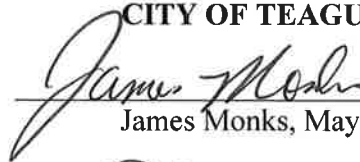
THAT all resolutions, or parts of resolutions in force with provisions relating to this resolution, which are inconsistent or in conflict with the terms or provisions contained herein, are hereby repealed to the extent of any such conflict only. The non-conflicting sections, sentences, paragraphs, and phrases shall remain in full force and effect.

SECTION 4.

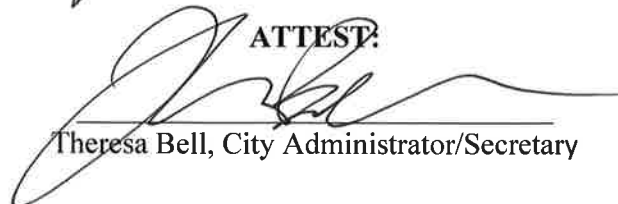
THAT this resolution shall become effective immediately upon its passage and approval.

PASSED, APPROVED AND ADOPTED this, the 13th day of April 2020, by a vote of 4 (ayes) to 0 (nays) to 0 (abstentions) of the Board of Aldermen of Teague, Texas.

CITY OF TEAGUE


James Monks, Mayor

ATTEST:


Theresa Bell, City Administrator/Secretary



**Exhibit A
CITY OF TEAGUE, TEXAS**

INVESTMENT POLICY AND STRATEGY

I. INTRODUCTION

It is the policy of the City of Teague that the administration of its funds and the investment of those funds shall be handled as its highest public trust. Investments shall be made in a manner which will provide the maximum security of principal invested through limitations and diversification while meeting the daily cash flow needs of the City and conforming to the Public Funds Investment Act (the "Act") Texas Government Code Chapter 2256.

The receipt of a market rate of return will be secondary to the requirements for safety and liquidity. It is the intent of the City to be in complete compliance with local law and the Act. The earnings from investment will be used in a manner that best serves the interests of the City.

The purpose of this Policy is to set specific investment policy and strategy guidelines. All investments will be made in accordance with this Policy, the Act and the Public Funds Collateral Act, Chapter 2257, Texas Government Code, which specifies collateral requirements for all public Texas funds deposits.

II. SCOPE

This investment policy applies to all financial assets of the City and any new funds created unless specifically exempted by the City Council and this Policy.

III. OBJECTIVES

It is the policy of the City that all funds shall be managed and invested with four primary objectives, listed in order of their priority: safety, liquidity, diversification and yield. Investments are to be chosen in a manner which promotes diversity. To match anticipated cash flow requirements the maximum weighted average maturity (WAM) of the overall portfolio may not exceed six months.

Safety

The primary objective of the investment activity is the preservation of capital. Each investment transaction shall be conducted in a manner to avoid capital losses, whether from security defaults, safekeeping, or erosion of market value.

Liquidity

The investment portfolio shall be structured to meet all expected obligations in a timely manner. This shall be achieved by matching investment maturities with forecasted cash flow liabilities and maintaining additional liquidity for unexpected liabilities.

Diversification

The portfolio shall be diversified by institution, market sector and maturity as much as possible.

Yield

The benchmark for the commingled portfolio shall be the comparable period ___-month U.S. Treasury Bill, designated for its comparability to the expected average cash flow pattern. The investment program shall seek to augment returns above this threshold consistent with risk limitations identified and the City's prudent investment strategy.

Cash management is the process of managing funds in order to insure maximum cash availability and reasonable yield on short-term investments. The City shall strive for a cash management program which includes timely collection of accounts receivable, vendor payments in accordance with invoice terms, and prudent investment of assets.

IV. INVESTMENT STRATEGY

The City maintains one commingled portfolio for investment purposes which incorporates the specific uses and the unique characteristics of the funds in the portfolio. The investment strategy has as its primary objective assurance that anticipated liabilities are matched and adequate investment liquidity provided. The City shall pursue conservative portfolio management strategy. This may be accomplished by creating a laddered maturity structure with some extension for yield enhancement. The maximum dollar weighted average maturity of six months or less will be calculated using the stated final maturity date of each security.

V. DELEGATION OF RESPONSIBILITY

Investment Officer(s)

The City Administrator will be designated by the City Council by resolution as Investment Officer responsible for investment decisions and activities. [The City may further contract with a registered investment advisor to advise in the management of the portfolio.] No person may engage in an investment transaction except as provided under the terms of this Policy and supporting procedures.

All investment officers shall attend at least one 10-hour training session, in accordance with the Act, within 12 months after assuming investment duties and shall attend ten hours of training every two successive fiscal years.

Investment Officers shall refrain from personal and business activity that could conflict with proper execution of the investment program or which could impair their ability to make impartial investment decisions. An Investment Officer who has a personal business relationship within two levels of blood or marriage with an organization seeking to sell an investment to the City shall file a statement disclosing that relationship to the City Council and the Texas Ethics Commission.

City Council Responsibilities

The City Council holds ultimate fiduciary responsibility for the portfolio. It will designate investment officer(s), receive and review quarterly reporting, approve and provide for investment officer training, approve broker/dealers, and review and adopt the Investment Policy and Strategy at least annually.

VI. PRUDENCE AND CONTROLS

The standard of prudence to be applied to all City investments shall be the "prudent person" rule, which states:

"Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived."

In determining whether an investment officer has exercised prudence with respect to an investment decision, the determination shall be made taking into consideration the investment of all funds under the City's control, over which the officer has responsibility rather than a consideration as to the prudence of a single investment.

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

Internal Controls

The Investment Officer is responsible for establishing and maintaining internal controls to reasonably assure that assets are protected from loss, theft, or misuse. The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits likely to be derived, and, the valuation of costs and benefits requires ongoing estimates and judgments by management.

Cash Flow Forecasting

Cash flow forecasting is designed to protect and sustain cash flow requirements of the City. The Investment Officer will analyze and maintain a cash flow plan to monitor and forecast cash positions for investment purposes.

Competitive Bidding

All security transactions will be made on a competitive basis to assure the City is receiving good market rates. When-issued securities should be compared to other securities available in the secondary market.

Monitoring Credit Ratings

The Investment Officer shall monitor, on no less than a monthly 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 shall notify the City Manager of the loss of rating, and liquidate the investment within one week.

Monitoring FDIC Status for Mergers and Acquisitions

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

VII. AUTHORIZED INVESTMENTS

Assets of the City may be invested only in the following instruments as further defined by the Act. If changes are made to the Act they will not be authorized until this Policy is modified and adopted by the City Council. All investment transactions will be made on a competitive basis.

- A. Obligations of the United States Government, its agencies and instrumentalities with a maximum stated maturity of two years excluding mortgage backed securities
- B. Fully insured or collateralized depository certificates of deposit from banks in Texas, with a maximum maturity of one year insured by the Federal Deposit Insurance Corporation, or its successor, or collateralized in accordance with this Policy.
- C. AAA-rated, constant-dollar Texas Local Government Investment Pools as defined by the Act and authorized by resolution of the City Council.
- D. AAA-rated, SEC registered money market mutual funds striving to maintain a \$1 net asset value.
- E. FDIC insured, brokered certificates of deposit securities from a bank in any US state, delivered versus payment to the City's safekeeping agent, not to exceed one year to maturity. Before purchase, the Investment Officer must verify the FDIC status of the bank on www.fdic.gov to assure that the bank is FDIC insured.
- F. FDIC insured or collateralized interest bearing and money market accounts from any FDIC insured bank in Texas.

Delivery versus Payment

All securities shall be purchased on a delivery versus payment (DVP) settlement basis. Funds shall not be released until receipt of the security by the City's approved custodian. The custodian shall provide the City with proof of ownership or claim by an original document delivered to the City.

VIII. REPORTING

Quarterly Reporting

The Investment Officers shall submit a signed quarterly investment report to the governing body in accordance with the Act giving detail information on each portfolio and bank position and summary information to permit an informed outside reader to evaluate the performance of the investment program. The report will include the following at a minimum:

- A full description of each individual security or bank/pool position held at the end of the reporting period including the amortized book and market value at the beginning and end of the period,
- Unrealized gains or losses (book value minus market value),
- Overall change in market value during the period as a measure of volatility,
- Weighted average yield of the portfolio and its applicable benchmarks,
- Earnings for the period,
- Allocation analysis of the total portfolio by market sector and maturity, and
- Statement of compliance of the investment portfolio with the Act and the Investment Policy signed by the Investment Officer(s).

Market prices for the calculation of market value will be obtained from independent sources.

IX. FINANCIAL COUNTER-PARTIES

Depository

At least every five years, a banking services depository shall be selected through a competitive request for proposal or bid process in accordance with the Texas Government Code 105. In selecting a depository, the services, cost of services, credit worthiness, earnings potential, and collateralization by the institutions shall be considered. If securities require safekeeping, the RFP/bid will request information on safekeeping services. The depository contract will provide for collateral if balances exceed the FDIC insurance balance, currently \$250,000 per tax identification number.

All time and demand deposits in any depository of the City shall be insured or collateralized at all times in accordance with this Policy.

Other banking institutions from which the City may purchase certificates of deposit will also be designated as a depository for depository/collateral purposes. All depositories will execute a depository agreement and have the Bank's Board or Bank Loan Committee pass a resolution approving the agreement if collateral is required.

Security Broker/Dealers

All pools, financial institutions, and broker/dealers who desire to transact business with the City must supply the following documents to the Investments Officer(s).

- (if brokers) Financial Industry Regulatory Authority (FINRA) certification and CRD #
- (if brokers) proof of Texas State Securities registration
- policy review certification

Each pool/bank/broker must be provided a copy of the City's current Investment Policy and certify to a review of the Policy stating that the firm has controls in place to assure only Policy approved investments will be sold to the City.

A list of qualified broker/dealers will be reviewed at least annually by the City Council. In order to perfect the DVP process the banking services depository, or its brokerage subsidiary, will not be used as a broker.

XI. COLLATERAL

Time and Demand Deposits Pledged Collateral

All bank time and demand deposits shall be collateralized above the FDIC coverage by pledged collateral. In order to anticipate market changes and provide a level of security for all funds, collateral will be maintained and monitored by the pledging depository at 102% of market value of principal and accrued interest on the deposits. The bank shall monitor and maintain the margins on a daily basis.

Collateral pledged to secure deposits shall be held by an independent financial institution outside the holding company of the depository. The collateral agreement with the depository shall be approved by resolution of the Bank Board or Bank Loan Committee. The Custodian shall provide a monthly report of collateral directly to the City.

All collateral shall be subject to inspection and audit by the City or its independent auditors.

Authorized Collateral

Only the following securities are authorized as collateral for time and demand deposits or repurchase agreements:

- A. FDIC insurance coverage.
- B. Obligations of the United States, its agencies or instrumentalities, or evidence of indebtedness of the United States guaranteed as to principal and interest including MBS and CMO which pass the bank test.
- C. Obligations of any US state or of a county, City or other political subdivision of any state having been rated as investment grade (investment rating no less than "A" or its equivalent) by two nationally recognized rating agencies.
- D. Letter of Credit from the FHLB.

XI. SAFEKEEPING

All purchased securities are to be cleared to the City's safekeeping agent on a delivery versus payment (DVP) basis. All safekeeping arrangements shall be approved by the Investment Officer and an agreement of the terms executed in writing. The independent third party custodian shall be required to issue safekeeping receipts to the City listing each specific security, rate, description, maturity, cusip number, and other pertinent information.

XII. INVESTMENT POLICY ADOPTION

The City's Investment Policy shall be reviewed and adopted by resolution of the City Council no less than annually. Any changes made to the Policy must be noted in the adopting resolution.