

RESOLUTION NO. 11-06

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF WESTON LAKES, TEXAS, ADOPTING THE CITY OF WESTON LAKES INVESTMENT POLICY AND INVESTMENT STRATEGY GUIDELINES IN ACCORDANCE WITH THE PUBLIC FUNDS INVESTMENT ACT; AND PROVIDING FOR THE EFFECTIVE DATE THEREOF:

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WHEREAS, the Public Funds Investment Act, Article 342a – 2V.T.C.S. requires the municipalities of Texas collecting and distributing public funds to have a written investment policy for said funds;

WHEREAS, THE City of Weston Lakes wishes to be in full compliance with this requirement;

THEREFORE, BE IT RESOLVED BY CITY COUNCIL OF THE CITY OF WESTON LAKES, TEXAS:

Section 1. That the City Council of the City of Weston Lakes, Texas, hereby adopts the Investment Policy and Strategy Guidelines is attached hereto as Exhibit "A" and incorporated herein for all intents and purposes.

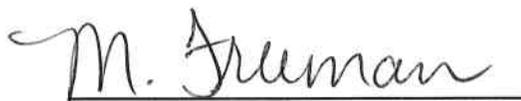
Section 2. This resolution shall take effect immediately from and after its passage by the City Council of the City of Weston Lakes.

INTRODUCED, READ and PASSED by the affirmative vote of the City Council of the City of Weston Lakes on **this 12th** day of July 2011.

ATTEST:



Mary Rose Zdunkewicz, Mayor



M. Freeman, City Secretary

Investment Policy & Strategy Guidelines



CITY OF WESTON LAKES

EXHIBIT "A"

INVESTMENT POLICY and STRATEGY GUIDELINES

City of Weston Lakes, Texas

I. POLICY STATEMENT

It is the policy of the City of Weston Lakes (the "City") 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 Local Government Code 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 Texas Public Funds Investment Act (the "Act"). The earnings from investment will be used in a manner that best serves the interests of the City.

II. SCOPE

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

- ★ General Fund
- ★ Special Revenue Funds

III. OBJECTIVES AND STRATEGY

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 by market sector, credit and maturity. The choice of high-grade government investments and high-grade, money market instruments is designed to assure the marketability of those investments should liquidity needs arise.

★ Safety of Principal

Investment Policy & Strategy Guidelines

Safety of principal is the foremost objective of the City. Investments of the City shall be undertaken in a manner that seeks to insure the preservation of capital in the overall portfolio.

★ **Liquidity**

The City's investment portfolio will be based on a cash flow analysis of needs and will remain sufficiently liquid to enable it to meet all operating requirements which might be reasonably anticipated.

★ **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. Competitive bidding will be used on each sale and purchase.

★ **Yield**

The City's investment portfolio shall be designed with the objective of attaining a market rate of return, taking into account the City's risk constraints and the cash flow needs of the portfolio. The City will use the average yield of the six -month U.S. Treasury Bill during the same period as its benchmark for risk.

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.

IV. LEGAL LIMITATIONS, RESPONSIBILITIES AND AUTHORITY

Direct specific investment parameters for the investment of public funds in Texas are found in the Public Funds Investment Act, Chapter 2256, Texas Local Government Code (the "Act"). The Act is attached as Exhibit A. All investments will be made in accordance with this statute. The Public Funds Collateral Act, Chapter 2257, Texas Government Code, specifies collateral requirements for all public funds deposits.

V. DELEGATION OF INVESTMENT AUTHORITY

★ **The Investment Committee**

The Investment Committee (the "Committee") shall consist of an Investment Officer, the Mayor and the city secretary. The Committee shall meet at least annually to determine operational strategies and monitor results. The Investment Committee shall include in its deliberation such topics as: performance, economic outlook, portfolio diversification, maturity structure, potential risk to the City's funds, authorized brokers and dealers, and the target rate of return on the investment portfolio. After any Committee meeting, the Committee shall report its findings to the City Council at the next regular meeting of the Council.

★ **Delegation of Authority and Training**

Investment Policy & Strategy Guidelines

The City Council will by resolution or order designate the Investment Officers for the City. The Investment Officer of the City is responsible for recommending investment management decisions and activities to the City Council. The City Council retains ultimate fiduciary responsibility for all decisions and activities.

If deemed necessary, the Investment Officer shall develop and maintain written administrative procedures for the operation of the investment program that are consistent with this Investment Policy. All written procedures must be approved by City Council and will include reference to safekeeping, wire transfer agreements, banking services contracts, and other investment related activities. The Investment Officers shall attend at least one training session relating to the officer's responsibility under the Act within 12 months after assuming duties.

All participants in the investment process shall seek to act responsibly as custodians of the public trust. City Council or any such designee may not engage in an investment transaction except as provided for under the terms of this Policy and the procedures established.

★ **Limitation of Personal Liability**

The City Council members and the Investment Officer, 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.

VI. 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 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 expected income to be derived."

VII. INTERNAL CONTROLS

If deemed necessary, the Investment Officer shall establish written controls to be approved by City Council and reviewed annually with the independent auditor of the City. The controls shall be designed to prevent loss of public funds due to fraud, employee error, misrepresentation by third parties, unanticipated market changes, or imprudent actions.

★ **Ethics and Conflicts of Interest**

City Council members and the Investment Officer 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 the ability to make impartial investment decisions. City Council members and the Investment

Investment Policy & Strategy Guidelines

Officer shall disclose any material financial decisions. City Council members and Investment Officer shall disclose any material financial interests in financial institutions that conduct business with the City and they shall further disclose positions that could be related to the performance of the City's portfolio. City Council members and the Investment Officer shall subordinate their personal financial transactions to those of the City, particularly with regard to timing of purchases and sales.

Any City Council member or Investment Officer of the City who has a personal business relationship with an organization seeking to sell an investment to the City shall file a statement disclosing that personal business interest. Any City Council member or Investment Officer who is related within the second degree by affinity or consanguinity to an individual seeking to sell and investment to the City shall file a statement disclosing that relationship. A statement required under this subsection must be filed with the Texas Ethics Commission and the governing body of the entity.

VIII. AUTHORIZED INVESTMENTS

Acceptable investments under this policy shall be limited to the instruments listed below and as further described by the Public Funds Investment Act. 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 adopted by the City Council.

1. Obligations of the United States Government, its agencies and instrumentalities, not to exceed two years to stated maturity, excluding mortgage-backed securities;
2. Fully insured or collateralized certificate of deposit from any bank doing business in the State of Texas and under the terms of a written depository agreement with that bank, not to exceed two years to stated maturity, to include certificates of deposit purchased through the CDARS program with a Texas bank;
3. Repurchase agreements as defined by the Act, not to exceed 180 days to stated maturity, provided an executed Master Repurchase Agreement is on file with the City and the counterparty bank or primary dealer as defined by the Federal Reserve. Flex repurchase agreements used specifically for capital projects may extend beyond two years but only to match the expenditure plan of the projects;
4. AAA-rated, no-load, SEC registered money market funds; and
5. AAA- rated, constant dollar Texas Local Government Investment Pools as defined by the Public Funds Investment Act.

★ **Competitive Bidding Requirement**

All securities, including certificates of deposit, will be purchased or sold only after three (3) competitive offers/bids are taken to verify that the City is receiving fair market value/price for the investment. The information concerning the competitive prices offered shall be documents on the trade documentation.

Investment Policy & Strategy Guidelines

★ **Delivery versus Payment**

All security transactions, including collateral for repurchase agreements, entered into by the City, shall be conducted on a delivery versus payment (DVP) basis assuring that no city funds are released before the security is received by the custodian.

IX. AUTHORIZED FINANCIAL DEALERS AND INSTITUTIONS

All investments made by the City will be made through either the City's banking services or approved broker/dealer. To the extent that investments are made through a broker/dealer, the City Council will approve a list of broker/dealers the City wishes to conduct business with annually. A list of at least three broker/dealers will be maintained in order to assure competitive bidding.

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

- Proof of certification by the Financial Industry Regulatory Association (FINRA) and provision of FINRA CRD number,
- City certification, and
- Proof of current registration with the Texas State Securities Board.

Every broker/dealer and bank with which the City transacts business will be provided a copy of this Investment Policy for review to assure that they are familiar with the goals and objectives of the investment program.

X. DIVERSIFICATION AND MATURITY LIMITATIONS

It is the policy of the City to diversify its investment portfolio. Invested funds shall be diversified to minimize risk or loss resulting from over-concentration of assets in a specific maturity, specific issuer, or specific class of securities. Diversification strategies shall be established and periodically reviewed.

The City, to the extent possible, will attempt to match investments with anticipated cash flow requirements. Matching maturities with cash flow dates will normally increase yield, will lock in higher yields, and reduce the need to sell securities prior to maturity, thus reducing market risk. Unless matched to a specific requirement, the City may not invest more than 20% of the portfolio for a period greater than one (1) year. The City may not invest any portion of the portfolio for a period greater than two (2) years except in a flex repurchase agreement tied to the expenditure schedule of a bond fund.

XI. SAFEKEEPING AND COLLATERALIZATION

★ **Safekeeping of City Owned Securities**

The laws of the State and this Policy require that all purchased securities be cleared to safekeeping on a delivery versus payment (DVP) basis and be held in safekeeping by an independent third party financial institution, or the City's banking services depository.

Investment Policy & Strategy Guidelines

All safekeeping arrangements shall be recommended by the Investment Officer and approved by the City Council, and an agreement of the terms shall be 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. Each safekeeping receipt will be clearly marked that the security is held for the City of pledged to the City.

★ Securities Pledged as Collateral to the City

All securities pledged to the City for all bank time or demand deposits shall be held by an independent third party bank doing business in Texas. The safekeeping bank may not be within the same holding company as the bank from which the securities are pledged.

Collateralization is required on all time and demand deposits over the FDIC insurance coverage. In order to anticipate market changes and provide a level of additional security for all funds, the collateralization level required will be 102% of the market value of the principal and accrued interest. Collateral will be held by an independent third party custodian. The custodian shall provide a written quarterly report directly to the City listing all pledged collateral by description and par at a minimum.

★ Authorized Collateral

The only types of collateral authorized by the City are:

- Obligations of the US Government, its agencies and instrumentalities including mortgage-backed securities which pass the bank test.
- Obligations of a state or subdivision, city, county, school district of any state which is rated A or better by two nationally recognized rating agencies.

If the depository proposes a collateral pooling program the Investment Officer will review and evaluate the program's risk and cost to the City for presentation to and approval by the City Council. The pooling of collateral allows a bank to create a pool of securities for collateral purposes for multiple governments and will not result in securities pledged directly/specifically to each government.

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

XII. PERFORMANCE EVALUATION AND REPORTING

The Investment Officer shall submit Quarterly financial reports for review and acceptance by the City Council, containing sufficient information to permit an informed outside reader to evaluate the performance of the investment program and consistent with statutory requirements. All reports shall be in compliance with the Act.

Within 60 days of the end of the fiscal year, the Investment Officer shall present an annual report on the investment program and investment activity for review and acceptance by the City Council. This report may be presented as a component of the fourth quarter report to the City Council.

XIII. DEPOSITORIES

Investment Policy & Strategy Guidelines

The City will designate one banking institution through a competitive process as its central banking services provider at least every five years. This bank will be used for normal banking services including disbursements, collections, and safekeeping of securities.

Other banking institutions from which the City may purchase certificates of deposit will also be designated as a depository for collateral purposes and shall submit annual financial reports to the City.

XIV. INVESTMENT POLICY ADOPTION

This Investment Policy, as adopted by Resolution 11-06 has been reviewed and approved by the City Council.

This Investment Policy shall be reviewed for effectiveness on an annual basis by the Investment Committee and any suggested modifications will be recommended to the City Council for consideration and approval.



Mayor Mary Rose Zdunkewicz

7/12/2011

Date

Attest: