

RESOLUTION NO. R-21-09-12

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF REDWATER, TEXAS, ADOPTING THE CITY'S INVESTMENT POLICY

WHEREAS, Chapter 2256 of the Texas Government code, commonly known as the "Public Funds Investment Act", requires the City to adopt a written investment policy by rule, order, ordinance, or resolution; and

WHEREAS, the City Council has appointed the Stephen L. Whelchel, Council Member Place 5, as Investment Officer of the city; and

WHEREAS, the City Council has approved of investment training courses sponsored by the University of North Texas Center for Public Management and the Government Treasurers' Organization of Texas; and

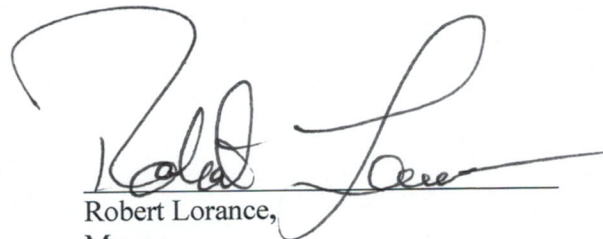
WHEREAS, Section 2256.008 (f) (2) states that "Subsection (a) (2) [regarding training requirements for local government officials] does not apply to an officer of a municipality or housing authority if the municipality or housing authority only deposits those funds in (A) interest-bearing deposit accounts; or (B) certificates of deposit as authorized by Section 2256.010"; and

WHEREAS, the City Council has reviewed the attached investment policy and investment strategy, and the incorporated revisions comply with the Public Funds Investment Act, as amended, authorizing the investment of City funds in safe and prudent investments.

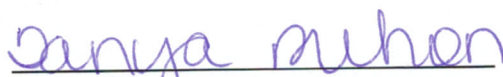
NOW, THEREFORE, BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF REDWATER, TEXAS:

That the City Council of the City of Redwater has complied with the requirements of the Public Funds Investment Act, and the Investment Policy, as amended, attached hereto as "Exhibit A", is hereby adopted as the investment policy of the City effective September 13, 2021.

PASSED, APPROVED AND ADOPTED by the City Council of the City of Redwater this the 13th day of September, 2021.


Robert Lorance,
Mayor

ATTEST:


Tanya Duhon,
City Secretary



INVESTMENT POLICY

Exhibit A

CITY OF REDWATER, TEXAS INVESTMENT POLICY



Effective 9/13/2021

**CITY OF REDWATER, TEXAS
INVESTMENT POLICY**

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**CITY OF REDWATER, TEXAS
INVESTMENT POLICY**

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CITY OF REDWATER, TEXAS INVESTMENT POLICY

POLICY

It is the policy of the City of Redwater, Texas (hereinafter referred to as the “City”) that, after allowing for the anticipated cash flow requirements of the City and giving due consideration to the safety and risk of investment, available funds shall be invested in conformance with these legal and administrative guidelines, seeking to optimize interest earnings to the maximum extent possible.

Investments shall be made with the primary objectives of (a) safety and preservation of principal, (b) maintenance of sufficient liquidity to meet operating needs, (c) public trust from prudent investment activities, and (d) optimization of interest earnings on the portfolio.

PURPOSE

The purpose of this investment policy is to comply with Chapter 2256 of the Government Code (hereinafter referred to as the “Public Funds Investment Act”), which requires each municipality to adopt a written investment policy regarding the investment of its funds and funds under its control. The investment policy addresses the methods, procedures, and practices that must be exercised to ensure effective and judicious fiscal management of the City’s funds.

SCOPE

This investment policy shall govern the investment of all financial assets of the City of Redwater accounted for in the General Fund, Water & Sewer Fund, Water & Sewer Maintenance Fund, Capital Fund, Debt Service Funds, and Debt Service Reserve Funds; as well as any other funds created in the future and not specifically prohibited by law unless it is in contravention of any depository contract between the City and the depository bank.

INVESTMENT OBJECTIVES

The City shall manage and invest its cash with four primary objectives, listed in order of priority: **safety, liquidity, public trust, and yield, expressed as optimization of interest earnings.** The safety of the principal invested always remains the primary objective. All investments shall be designed and managed in a manner responsive to the public trust and consistent with state and local law.

Safety

Safety of principal is the foremost objective of the investment program. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. This will be accomplished by (a) limiting investments to the safest types of investments, (b) pre-qualifying the financial institutions with which the City will do business, and (c) diversifying the investment portfolio so that potential losses on individual issuers will be minimized.

The City will minimize the risk that the interest earnings and the market value of investments in the portfolio will fall due to changes in general interest rates by (a) structuring the investment portfolio so that investments mature to meet cash requirements for ongoing operations, thereby avoiding the need to liquidate investments prior to maturity, (b) investing operating funds primarily

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in certificates of deposit and money market deposit accounts, and (c) diversifying maturities and staggering purchase dates to minimize the impact of market movements over time.

Liquidity

The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated.

Public Trust

All participants in the City's investment process shall seek to act responsibly as custodians of the public trust. Investment Officers shall avoid any transaction that might impair public confidence in the City's ability to govern effectively.

Yield (Optimization of Interest Earnings)

The investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints and liquidity needs. Return on investment is of secondary importance compared to the safety and liquidity objectives described above.

RESPONSIBILITY AND CONTROL

Delegation of Authority

In accordance with the Public Funds Investment Act, the City Council designates Stephen L. Whelchel (City Council, Place 5) as the City's Investment Officer. The Investment Officer is authorized to execute investment transactions on behalf of the City. Councilmember Whelchel, Mayor Robert Lorange, and City Administrator / Finance Director Dessie Whelchel will make up the Investment Committee. No other person may engage in an investment transaction or the management of City funds except as provided under the terms of this investment policy as approved by the City Council. The investment authority granted to investing officers is effective until rescinded by the City Council.

Training Requirement

All investment officers shall attend at least one 10 hour training session provided by an independent source approved by the City Council within 12 months of assuming investment duties. No further training is required (see PFIA Section 2256.008 (f)(2)) so long as municipal funds are only invested in interest-bearing deposit accounts or certificates of deposit as authorized by PFIA Section 2256.010.

Internal Controls

The Investment Officer is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the City are protected from loss, theft, or misuse. The internal control structure shall be designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that (1) the cost of a control should

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not exceed the benefits likely to be derived, and (2) the valuation of costs and benefits requires estimates and judgments by management.

Prudence

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.

Indemnification

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

Ethics and Conflicts of Interest

Officers and employees involved in the investment process shall refrain from personal business activity that would conflict with the proper execution and management of the investment program or that would impair their ability to make impartial decisions. Employees and Investment Officers shall disclose any material interests in financial institutions with which they conduct business. They shall further disclose any personal financial/investment positions that could be related to the performance of the investment portfolio.

An 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. An Investment Officer who is related within the second degree by affinity or consanguinity to an individual seeking to sell an 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 City Council.

SUITABLE AND AUTHORIZED INVESTMENTS

Portfolio Management

The City shall pursue proactive portfolio management strategy. Securities may be sold before they mature if market conditions present an opportunity for the City to benefit from the trade, but the strategy will be primarily buy-and-hold. The investment officer will continuously monitor the contents of the portfolio, the available markets, and the relative value of competing instruments to adjust the portfolio in response to market conditions.

Investments

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. Investments not specifically listed below are not authorized.

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Authorized

A. Bank / Credit Union Investments

- Fully collateralized or insured Certificates of Deposit or Share Certificates issued by an approved depository institution that has its main office or a branch office in the state of Texas
- Fully collateralized or insured interest-bearing accounts with an approved depository institution that has its main office or a branch office in the state of Texas

Not Authorized

Investments including interest-only or principal-only strips of obligations with underlying mortgage-backed security collateral and collateralized mortgage obligations with an inverse floating interest rate or a maturity date of over 10 years are strictly prohibited.

INVESTMENT PARAMETERS

Maximum Maturities

The City attempts to match its investments with anticipated cash flow requirements. The City will not directly invest in securities maturing more than 12 months from the date of purchase; however the above described certificates of deposit may be collateralized using longer dated investments.

Diversification

The City 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 that shall be achieved by the following general guidelines:

- Limiting investments to avoid over-concentration in investments from a specific issuer or business sector (excluding certificates of deposit that are fully insured and collateralized in accordance with state and federal law), and
- Continuously investing a portion of the portfolio in readily available funds such as interest-bearing depository institution accounts to ensure that appropriate liquidity is maintained in order to meet ongoing obligations.

SELECTION OF FINANCIAL INSTITUTIONS

Depository

At least every ten (10) years, a depository shall be selected through a formal request for proposal (RFP) process in accordance with the Texas Government Code 105.017. In selecting a depository, the services, cost of services, credit worthiness, earnings potential, and collateralization by the institutions shall be considered; as well as the institution's ability to qualify as a depository for public funds in accordance with state law.

Authorized Investment Providers

CITY OF REDWATER, TEXAS INVESTMENT POLICY

The City shall, at least annually, review, revise, and adopt a list of qualified financial institutions and brokers authorized to engage in investment transactions with the City. All investment providers must sign a certification acknowledging that the organization has received and reviewed the City's investment policy and that reasonable procedures and controls have been implemented to preclude investment transactions that are not authorized by the City's policy.

Delivery vs. Payment

Securities shall be purchased using the **delivery vs. payment** method with the exception of investment pools. Funds will be released after notification that the purchased security has been received.

SAFEKEEPING OF SECURITIES AND COLLATERAL

Safekeeping and Custodian Agreements

Collateral pledged to secure deposits of the City shall be held by a safekeeping institution in accordance with a Safekeeping Agreement which clearly defines the procedural steps for gaining access to the collateral should the Investment Officer determine that the City's funds are in jeopardy. The safekeeping institution, or Trustee, shall be the Federal Reserve Bank or an institution not affiliated with the firm pledging the collateral. The safekeeping agreement shall include the signatures of authorized representatives of the City, the firm pledging the collateral, and the Trustee.

Collateral Policy

All deposits and investments of City funds above the insured amount shall be secured by pledged collateral. Total market value of collateral will equal 102% of principal and accrued interest on the deposits or investments. The depository institution will be responsible for monitoring and maintaining collateral margins on a daily basis. Evidence of the pledged collateral shall be maintained by the Investment Officer or a third party financial institution. Collateral shall be reviewed monthly to assure that the market value of the pledged securities is adequate. All pledged securities must be pledged to the City of Redwater, Texas.

Collateral Defined

The City shall accept only the following types of collateral:

- Obligations of the United States or its agencies and instrumentalities,
- Direct obligations of the state of Texas or its agencies and instrumentalities,
- Collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States,
- Obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized rating firm not less than A or its equivalent with a remaining maturity of ten (10) years or less,
- A letter of credit issued to the City by the Federal Home Loan Bank

Subject to Audit

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

REPORTING

Methods

The Investment Officers shall submit to the City Council a written investment report on a quarterly basis that summarizes investment strategies employed in the most recent quarter and describes the portfolio in terms of investment securities, maturities, and shall explain the total investment return for the quarter. The report will include:

- A full description of all investments listed by fund or account,
- Beginning and ending book and market value,
- Interest accrued during the quarter,
- Maturity dates for each investment, and
- A statement of compliance with approved investment policy, investment strategy, and the Public Funds Investment Act.

Monitoring Market Value

Market value of all securities in the portfolio will be determined on a quarterly basis. These values will be obtained from a reputable and independent source and disclosed to the governing body quarterly in a written report.

INVESTMENT POLICY ADOPTION

The City's investment policy shall be subject to revisions consistent with changing laws, regulations, and needs of the City. The City Council shall adopt a resolution stating that it has reviewed the policy and investment strategies annually, approving any changes or modifications.

INVESTMENT STRATEGY

The City shall maintain portfolios that utilize specific investment strategy considerations designed to address the unique characteristics of its various fund groups. The portfolios will be diversified to avoid market and credit risks. Diversification and full liquidity requirements will be met through the use of money market accounts, other interest-bearing depository institution accounts, certificates of deposit, and local government investment pools. Investment guidelines by fund type are as follows:

- A. Investment strategies for operating funds have as their primary objective to assure that anticipated cash flows are matched with adequate investment liquidity. The secondary objective is to create a portfolio structure which will experience minimal volatility during economic cycles.
- B. Investment strategies for debt service funds shall have as their primary objective the assurance of investment liquidity adequate to cover the debt service obligation on the

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required payment date. Certificates of deposit shall not have a stated final maturity date which exceeds the debt service payment date.

- C. Investment strategies for debt service reserve funds shall have as their primary objective the ability to generate additional interest income to supplement the appropriate debt service fund from highest possible yield certificates of deposit with staggered maturity dates.
- D. Investment strategies for water & sewer maintenance fund and capital funds will have as its primary objective to assure that anticipated cash flows are matched with adequate investment liquidity. The majority of the fund will remain liquid by placing in interest-bearing money market accounts, with the remainder placed in certificates of deposit with staggered maturity dates.

APPROVED INVESTMENT PROVIDERS

Financial Institutions (Banks, Credit Unions, Savings & Loans)

Any bank, credit union, or savings and loan association organized under Texas law, the laws of another state, or federal law, that has its main office or a branch office in Texas, and that is guaranteed or insured by the Federal Deposit Insurance Corporation or National Credit Union Share Insurance Fund or its successors, and will secure by obligations any fund amounts not covered by insurance in a manner and amount provided by law for deposits of the City.

Authorized Brokers

Any broker that has its main office or a branch office in Texas and is selected from a list adopted by the City as required by Section 2256.025 of the Public Funds Investment Act.