

CITY OF LEVELLAND INVESTMENT POLICY

INTRODUCTION

The purpose of this document is to set forth specific investment policy and strategy guidelines for the City of Levelland in order to achieve the goals of safety, liquidity, yield, and public trust for all investment activity. The City Council of the City of Levelland shall review and adopt, by resolution, its investment strategies and policy not less than annually. The resolution shall include a record of changes made to either the investment policy or strategy. This policy serves to satisfy the statutory requirement (specifically the Public Funds Investment Act, VTCA, Government Code, Chapter 2256 (the “Act”) to define, adopt and review a formal investment strategy and policy.

INVESTMENT STRATEGY

The City of Levelland maintains portfolios, which utilize four specific investment strategy considerations, designed to address the unique characteristics of the fund groups represented in the portfolios:

- A. Investment strategies for operating funds and commingled pools containing 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 the primary objective the assurance of investment liquidity adequate to cover the debt service obligation on the required payment date. Securities purchased shall not have a stated final maturity date that exceeds the debt service payment date.
- C. Investment strategies for debt service reserve funds shall have as the primary objective the ability to generate a dependable revenue stream to the appropriate debt service fund from securities with a low degree of volatility.
- D. Investment strategies for special projects or special purpose fund portfolios will have as their primary objective to assure that anticipated cash flows are matched with adequate investment liquidity. The stated final maturity dates of securities held should not exceed the estimated project completion date.

Investment Policy

I. SCOPE

This investment policy applies to all financial assets of the City of Levelland. These funds are accounted for in the City’s Annual Financial Report (AFR) and include:

- General Fund
- Special Revenue Funds
- Debt Service Funds
- Capital Projects Funds
- Proprietary Funds
- All Other Funds

II. OBJECTIVES

The City of Levelland shall manage and invest its cash with four objectives, listed in order of priority: Safety, Liquidity, Yield, and Public Trust. 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.

The City shall maintain a comprehensive cash management program that includes collection of accounts receivable, vendor payment in accordance with invoice terms, and prudent investment of available cash. Cash management is defined as the process of managing monies in order to insure maximum cash availability and maximum yield on short-term investment of pooled idle cash.

Safety

The primary objective of the City's investment activity is the preservation of capital in the overall portfolio. Each investment transaction shall be conducted in a manner to avoid capital losses, whether they are from securities defaults or erosion of market value.

Liquidity

The City's investment portfolio shall be structured such that the City is able to meet all obligations in a timely manner. This shall be achieved by matching investment maturities with forecasted cash flow requirements and by investing in securities with active secondary markets. No individual investment of the City shall have more than a stated maturity of one year except as may be approved by the City Council. However, investments for which the Act states a shorter maturity, such shorter limitation shall govern.

Yield

The City's cash management portfolio shall be designed with the objective of regularly exceeding the average rate of return on U. S. Treasury Bills at a maturity level comparable to the City's weighted average maturity in days. The investment program shall seek to augment returns above this threshold consistent with risk limitations identified herein and prudent investment policies.

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.

III. RESPONSIBILITY AND CONTROL

Investment Committee

The City Council hereby establishes an Investment Committee consisting of the Director of Finance, the City Manager, and the City Attorney, to advise and assist the Director of Finance in the implementation of this Investment Policy, and to establish practices and procedures as necessary. This does not constitute either the City Manager or the City Attorney as investment officers of the City.

Delegation of Authority and Training

Authority to manage the City's investment program is derived from a resolution of the City Council. The Director of Finance is designated as investment officer of the City and is responsible for investment decisions and activities. The Director of Finance is given the authority to deposit, withdraw, invest, transfer and manage the City's funds. This grant of authority is subject to the supervision and oversight of the City Council acting through the City Manager. The Director of Finance shall establish written procedures for the operation of the investment program, consistent with this investment policy. The investment officer shall attend at least one training session relating to the officer's responsibility under the Act within 12 months after assuming duties. A training session not less than once every two years and receive the state required hours of training. Such training from an independent source shall be approved or endorsed by either one of the following: the Government Finance Officers Association of Texas, the Government Treasurers Organization of Texas, the Texas Municipal League, or the North Central Texas Council of Governments.

Internal Controls

The Director of Finance is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the entity 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 not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgements by management. The internal controls shall address the following points:

- A. Control of collusion.
- B. Separation of transaction authority from accounting and record keeping.
- C. Custodial safekeeping.
- D. Avoidance of physical delivery securities.
- E. Clear delegation of authority to subordinate staff members.
- F. Written confirmation for telephone (voice) transactions for investments and wire transfers.
- G. Development of a wire transfer agreement with the depository bank or third party custodian.

Accordingly, if investments are made in other than money market mutual funds, investment pools or accounts offered by its depository bank in the form of certificates of deposit, or money market accounts or similar accounts, the quarterly reports prepared by the investment officer shall be formally reviewed at least annually by an independent auditor and the result of the review shall be reported to the City Council by that auditor.

Prudence

The standard of prudence to be applied by the investment officer shall be the "prudent investor" 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." This rule shall be applied in the context of managing an overall portfolio. Investment officers acting in accordance with written procedures and the investment policy and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments. All investment officials involved in investment transactions will be bonded.

Ethics and Conflicts of Interest

City staff 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. Employees and investment officials shall disclose to the City Manager any material financial interests in financial institutions that conduct business within this jurisdiction, and they shall further disclose any large personal financial/investment positions that could be related to the performance of the City of Levelland.

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.

IV. REPORTING

Quarterly Reporting

The Director of Finance shall submit a signed quarterly investment report to the City Council that provides a clear picture of the status of the current investment portfolio. The management report should include comments on current market conditions, economic developments and anticipated investment conditions. The written report must:

- (1) describe in detail the investment position of the City on the date of the report;
- (2) be prepared and signed by the investment officer of the City;
- (3) contain a summary statement, prepared in compliance with generally accepted accounting principles, of each pooled fund group that states :
 - (A) beginning market value for the reporting period;
 - (B) additions and changes to the market value during the period;
 - (C) ending market value for the period; and
 - (D) fully accrued interest for the reporting period;
 - (E) if applicable the average weighted yield to maturity of portfolio on entity investments as compared to applicable benchmarks (The benchmark for performance that is appropriate for the City's cash flow cycle will be the average monthly TexPool Rate.) of ;
 - (F) if applicable the percentage of the total portfolio which each type of investment represents;
- (4) the book value and market value of each separately invested asset at the beginning and end of the reporting period by the type of asset and fund type invested;
- (5) the maturity date of each separately invested asset that has a maturity date;
- (6) the account or fund or pooled group fund in the City for which each individual investment was acquired; and
- (7) the compliance of the investment portfolio as it relates to:
 - (A) the investment strategy expressed in the agency's or local government's investment policy; and
 - (B) the relevant provisions of this chapter.

Annual Report

The Director of Finance shall present an annual report on the investment program and investment activity. This report may be presented as a component of the fourth quarter report to the City Manager and City Council.

V. INVESTMENT PORTFOLIO

Active Portfolio Management

The City may pursue an active versus a passive portfolio management philosophy. That is, securities may be sold before they mature if market conditions present an opportunity for the City to benefit from the trade. The investment officer will routinely monitor the contents of the portfolio, the available markets, and the relative value of competing instruments, and may adjust the portfolio accordingly.

Investments

Assets of the City of Levelland may be invested in the following instruments; provided, however, that at no time shall assets of the City be invested in any instrument or security not authorized for investment under the Act, as the Act may from time to time be amended. The City is not required to liquidate investments that were authorized investments at the time of purchase.

I. Authorized

- A. Obligations of the United States of America, its agencies and instrumentalities, which have a liquid market with a readily determinable market value.
- B. Direct obligations of the State of Texas and agencies thereof.
- C. Certificates of Deposit of state and national banks, savings and loan associations, or a state or federal credit union that has its main office or a branch office in Texas, if guaranteed or insured by either the Federal Deposit Insurance Corporation, National Credit Union Share Insurance Fund or the successor to either of them.
- D. Other obligations, the principal of and interest on which are unconditionally guaranteed by the State of Texas or United States of America.
- E. Fully collateralized direct repurchase agreements with a defined termination date secured by obligations of the United States or its agencies and instrumentalities pledged with a third party, selected by the Director of Finance, other than an agency for the pledgor. Repurchase agreements must be purchased through a primary government securities dealer, as defined by the Federal Reserve, or a bank domiciled in Texas. A Master Repurchase Agreement must be signed by the bank/dealer prior to investment in a repurchase agreement.
- F. Joint pools of political subdivisions in the State of Texas which invest in instruments and follow practices allowed by current law. A pool must be continuously rated no lower than AAA or AAA-m or at an equivalent rating by at least one nationally recognized rating service. This includes the Joint Pools investments in authorized commercial paper.
- G. Obligations of the States, agencies thereof, Counties, Cities, and other political subdivisions of any state having been rated as investment quality by a nationally recognized investment rating firm, and having received a rating of not less than "A" or its equivalent.

II. Unauthorized

State law specifically prohibits investment in the following securities:

- A. Obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal.
- B. Obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security collateral and bears no interest.
- C. Collateralized mortgage obligations that have a stated final maturity date of greater than ten years.
- D. Collateralized mortgage obligations, the interest rate of which is determined by an index that adjusts opposite to the changes in a market index.

VI. SELECTION OF BANKS AND DEALERS

Depository

The City shall select a Depository through the City's banking services procurement process, which shall include a formal request for proposal (RFP). The depository and collateral agreement shall be for a three year period with the City having the option to extend the contract a year at a time for a total of two extensions. The contract including extensions cannot exceed five years. In selecting a depository, the credit worthiness of institutions shall be considered, and the Director of Finance shall conduct a comprehensive review of prospective depositories' credit characteristics and financial history. The financial institutions shall submit for review its annual financial statements including the opinion letter report by the independent CPA auditors, evidence of federal deposit insurance and other information as required by the Director of Finance. All deposits of the City in a depository financial institution shall follow this investment policy and the rules in the Safekeeping and Custody section as outlined in this policy. The depository and collateral agreement must be executed in compliance with FIRREA wherein the agreement is approved by the bank board or loan committee via a formal resolution and be recorded in the banks related minutes records. The depository bank must certify that a qualified representative has read the City's investment policy.

Certificates of Deposit

Banks seeking to establish eligibility for the City's certificate of deposit purchase program for deposits in excess of federal deposit insurance shall submit for review such information as its annual financial statements including the opinion letter report by the independent CPA auditors, evidence of federal deposit insurance and other information as required by the Director of Finance. All Certificates of Deposit are an investment and thus must follow this investment policy and the rules in the Safekeeping and Custody section as outlined in this policy. Each bank must enter into a collateral agreement with the City that has been accepted and authorized by a formal resolution of the Board of Directors of the Bank or its Loan Committee, which resolution has been signed and entered into the minutes of the bank in compliance with FIRREA. Each bank must certify that a qualified representative has read the City's investment policy. The Director of Finance has the authority to purchase Certificates of Deposit from any bank without prior City Council approval, provided the total Certificate of Deposit investment(s) will either be within the banks federal deposit insurance coverage or that City Council has already approved and accepted a collateral agreement with the bank wherein the bank shall provide the appropriate pledged collateral to secure the City's deposits in excess of the banks federal deposit insurance in accordance with the collateral agreement. Under this same policy the Director of Finance may also invest in bank money market or savings accounts. The Director of Finance must use prudence and adhere to this investment policy.

Securities Dealers

For brokers and dealers of government securities, the City shall select only those dealers reporting to the Market Reports Division of the Federal Reserve Board of New York, also known as the "Primary Government Security Dealers", unless a comprehensive credit and capitalization analysis reveals that other firms are adequately financed to conduct public business. Investment officials will not knowingly conduct business with any firm with whom public entities have sustained losses on investments. All securities dealers shall provide the City with references from public entities that they are currently serving. The Investment Officer and City Manager may adopt and annually review a list of qualified brokers authorized to engage in investment transactions with the entity.

All financial institutions and broker/dealers who desire to become qualified bidders for investment transactions must supply the following as appropriate:

- audited financial statements
- proof of National Association of Securities Dealers (NASD) certification
- proof of state registration
- completed broker/dealer questionnaire
- certification of having read the City's investment policy signed by a qualified representative of the organization
- acknowledgement that the organization has implemented reasonable procedures and controls in an effort to preclude imprudent investment activities arising out of investment transactions conducted between the City and the organization

Qualified representative means a person who holds a position with a business organization, who is authorized to act on behalf of the business organization, and who is one of the following:

- A. For a business organization doing business that is regulated by or registered with a securities commission, a person who is registered under the rules of the National Association of Securities Dealers;
- B. For a state or federal bank, a savings bank, or a state or federal credit union, a member of the loan Committee for the bank or branch of the bank or a person authorized by corporate resolution to act on behalf of and bind the banking institution; or
- C. For an investment pool, the person authorized by the elected official or board with authority to Administer the activities of the investment pool to sign the certification on behalf of the investment pool.

Investment Pools

A thorough investigation of the pool is required prior to investing, and on a continual basis. All investment pools must supply the following information in order to be eligible to receive funds:

- the types of investments in which money is allowed to be invested
- the maximum average dollar-weighted maturity allowed, based on the stated maturity date, of the pool
- the maximum stated maturity date any investment security within the portfolio has
- the objectives of the pool
- the size of the pool
- the names of the members of the advisory board of the pool and the dates their terms expire

- the custodian bank that will safekeep the pool's assets
- whether the intent of the pool is to maintain a net asset value of one dollar and the risk of market price fluctuation
- whether the only source of payment is the assets of the pool at market value or whether there is a secondary source of payment, such as insurance or guarantees, and a description of the secondary source of payment
- the name and address of the independent auditor of the pool
- the requirements to be satisfied for an entity to deposit funds in and withdraw funds from the pool and any deadlines or other operating policies required for the entity to invest funds in and withdraw funds from the pool
- the performance history of the pool, including yield, average dollar-weighted maturities, and expense ratios
- a description of interest calculations and how interest is distributed, and how gains and losses are treated

An annual review of the financial condition and registration of qualified bidders will be conducted by the Director of Finance.

VII. SAFEKEEPING AND CUSTODY

Insurance or Collateral

All deposits and investments of City funds, other than direct purchases of U. S. Treasuries or Agencies or other authorized investment securities and investment pools, shall be secured at all times by collateral as follows: pledged securities collateral owned by the financial institution at market value, surety bonds, or letters of credit that meet the requirements of the Public Funds Collateral Act and the City's Investment Policy. In order to anticipate market changes and provide a level of security for all funds, the Required Collateral Value will be 102% of principal and accrued interest of the deposits or investments in excess of an amount insured by the FDIC or other federal deposit insurance. Evidence of the pledged securities collateral at market value, surety bonds or letters of credit shall be maintained by the Director of Finance and a third party custodian: permitted institution as applicable A securities collateral report from the custodian: permitted institution shall be submitted directly to the City with a full description of the securities promptly after the end of each month with a report date as of the end of each month. Repurchase agreements, if any, shall be documented by a specific agreement noting the collateral pledge in each agreement.

Collateral Agreement

Collateral securities pledged to secure deposits of the City shall be held by a custodian: permitted institution in accordance with a Collateral Agreement which clearly defines the procedural steps for maintaining and/or gaining access to the collateral securities should the City of Levelland determine that the City's funds are in jeopardy. The custodian: permitted institution, or Trustee, shall be the Federal Reserve Bank or a permitted institution not affiliated with the financial institution pledging the securities collateral. The Collateral Agreement shall include the signatures of authorized representatives of the City of Levelland, the financial institution pledging the collateral, and the Custodian Trustee.

Collateral Defined

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

- A. Obligations, including letters of credit, of the United States or its agencies and instrumentalities;
- B. Direct obligations of this state or its agencies and instrumentalities;
- C. 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;
- D. Other obligations, the principal and interest of which 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;
- E. Surety Bonds that meet the requirements of the Public Funds Investment Act;
- F. Obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent; and that have sufficient liquidity to meet the City's requirements regarding availability.

Subject to Audit

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

Delivery vs. Payment

Treasury Bills, Notes, Bonds, Repurchase Agreements and Government Agencies' securities shall be purchased using the delivery vs. payment method. That is, funds shall not be wired or paid until verification has been made that the correct security was received by the Trustee. The security shall be held in the name of the City or held on behalf of the City. The Trustee's records shall assure the notation of the City's ownership of or explicit claim on the securities. The original copy of all safekeeping and trust receipts shall be delivered directly to the City.

VIII. INVESTMENT POLICY ADOPTION

The City of Levelland investment policy shall be reviewed for effectiveness on an annual basis by the Director of Finance and any modifications will be recommended for approval to the City Council. The City council shall review these investment policies and strategies not less than annually.