

# Investment Policy for the City of College Station

The Public Funds Investment Act, Chapter 2256, Texas Government Code, as Amended (“PFIA” herein), prescribes that each City is to adopt rules governing its investment practices and to define the authority of the investment officer. The following Investment Policy addresses the methods, procedures, and practices that must be exercised to ensure effective and judicious fiscal management of the City’s funds.

## I. POLICY

It is the policy of the City of College Station, Texas (“City”) to invest public funds in a manner which will provide the highest investment return with the maximum security while meeting the daily cash flow demands of the entity and conforming to all federal, state and local statutes governing the investment of public funds.

## II. SCOPE

This investment policy applies to all the financial assets held by the City. These funds are defined in the City’s Comprehensive Annual Financial Report (CAFR) and include:

General Fund	Special Revenue Funds
Debt Service Fund	Capital Projects Funds
Enterprise Funds	Internal Service Funds
Trust Funds	

Any new funds created by the City will be subject to this policy unless specifically exempted by the City Council. To maximize the effective investment of assets, all funds mentioned above will pool their cash balances for investment purposes. The income derived from investing activities will be distributed to the various funds based on calculation of their average balances.

## III. STANDARD OF CARE

Investments shall be made with the judgement and care 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.

The standard of prudence to be used by investment officials shall be the “prudent person” standard and 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.

#### **IV. OBJECTIVE**

The primary objectives of the City’s investment activities shall be (in order of priority):

##### Safety of Principal

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 remain sufficiently liquid to enable the City to meet all operational requirements that might reasonably be anticipated.

##### Yield

The City’s investment portfolio shall be designed with the objective of attaining the maximum rate of return throughout budgetary and economic cycles, taking into account the City’s risk constraints and the cash flow characteristics of the portfolio.

#### **V. DELEGATION OF INVESTMENT AUTHORITY**

The Director of Finance and Strategic Planning or his Designee is designated the City’s Investment Officer. The Investment Officer shall be responsible for the investment of funds consistent with this Policy, and shall have the authority necessary to carry out such responsibilities. An investment committee consisting of the Investment Officer and at least two other staff members designated by the City Manager will also be formed. This committee will be responsible for selecting eligible broker/dealers and reviewing and updating the investment policy annually. All participants in the investment process shall seek to act responsibly as custodians of the public trust.

The Investment Officer shall establish written procedures for the operation of the investment program consistent with this investment policy. No person may engage in an investment transaction except as provided under the terms of this policy and the

procedures established by the Investment Officer. The Investment Officer shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials.

## **VI. ETHICS AND CONFLICTS OF INTEREST**

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. Employees and investment officials shall disclose to the City Manager any material financial interest 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, particularly with regard to the time of purchases and sales.

## **VII. CASH FLOW ANALYSIS**

Supplemental to the financial and budgetary systems, the Investment Officer will maintain a cash flow forecasting process designed to monitor and forecast cash positions for investment purposes. Cash flow analysis will include the historical researching and monitoring of specific cash flow items, payables and receivables as well as overall cash position and patterns.

## **VIII. AUTHORIZED FINANCIAL DEALERS AND INSTITUTIONS**

The Investment Officer shall maintain a list of financial institutions authorized to provide investment services. In addition, a list will also be maintained of approved security broker/dealers selected by credit worthiness who are authorized to provide investment services in the State of Texas. These may include “primary” or regional dealers that qualify under SEC rule 15C3-1. No public deposit shall be made except in a qualified public depository as established by state laws.

All financial institutions and broker/dealers who desire to become qualified bidders for investment transactions must supply the Investment Officer with a completed Broker/Dealer Questionnaire and Certification which shall include the following:

- An audited financial statement for the most recent period.
- Proof of certification by the National Association of Securities Dealers (NASD).
- Proof of current registration with the State Securities Commission.
- A signed certificate stating they have read the City’s investment policy.

An annual review of the financial condition and registrations of qualified bidders will be conducted by the Investment Committee.

A current audited financial statement is required to be on file for each financial institution and broker/dealer with which the City invests.

#### **IX. AUTHORIZED INVESTMENTS**

Acceptable investments under this policy shall be limited to the instruments as described by the Government Code; Chapter 2256, Sections 2256.009 through 2256.011 and Sections 2256.013 through 2256.016 of the PFIA, which include:

- A. Obligations of the United States Government, its agencies and instrumentality's
- B. Direct obligations of this state or its agencies and instrumentality's
- C. Certificates of deposit
- D. Repurchase agreements and reverse repurchase agreements
- E. Commercial paper
- F. Mutual funds
- G. Guaranteed investment contracts
- H. Investment pools

#### **X. SECURITY PURCHASES/TRADES**

Securities will be purchased or sold after three (3) offers/bids are taken to verify that the City is receiving fair market value/price for the investment. New securities still in syndicate and priced at par may be purchased without competitive offers.

#### **XI. COLLATERALIZATION**

Collateralization will be required on two types of investments: certificates of deposit and repurchase (and reverse repurchase) agreements. In order to anticipate market changes and provide a level of security for all funds, the collateralization level will be 102% of market value of principal and accrued interest.

The City chooses to limit collateral to the following:

- Obligations of the United States Government, its agencies and instrumentality's, and government sponsored enterprises.

Collateral will always be held by an independent third party with whom the City has a current custodial agreement. A clearly marked evidence of ownership (safekeeping receipt) must be supplied to the City and retained.

The right of collateral substitution is granted.

**XII. SAFEKEEPING AND CUSTODY**

All security transactions, including collateral for repurchase agreements, entered into by the City shall be conducted on a Delivery-Versus-Payment (DVP) basis, with the exception of investment pool funds and mutual funds. Securities will be held by a third party custodian designated by the Investment Officer and evidenced by safekeeping receipts.

**XIII. DIVERSIFICATION**

With the exception of U.S. Treasury securities and authorized pools, no more than 30% of the City's total investment portfolio will be invested in a single security type or with a single financial institution. Additionally, total Federal Agency securities will not exceed 70% of the total portfolio.

**XIV. MAXIMUM MATURITIES**

To the extent possible, the City will attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, the City will not directly invest in securities maturing more than five years from the date of purchase. Additionally, the City will maintain a dollar-weighted average maturity of two years or less.

**XV. INTERNAL CONTROL**

The Investment Officer shall establish an annual process of independent review by an external auditor. This review will provide internal control by assuring compliance with policies and procedures.

## **XVI. PERFORMANCE STANDARDS**

The investment portfolio shall be designed with the objective of obtaining a rate of return throughout budgetary and economic cycles, commensurate with the investment risk constraints and cash flow needs.

Given the passive investment strategy of the City, the benchmark to be used by the Investment officer to determine whether market yields are being achieved shall be the U.S. Treasury with a maturity that most closely matches the portfolios dollar-weighted average maturity.

## **XVII. REPORTING**

The Investment Officer shall provide to the City Council quarterly investment reports that provide a clear picture of the status of the current investment portfolio. The management report should include:

- Comments on the fixed income markets and economic conditions.
- Discussion regarding restrictions on percentage of investment by categories.
- Possible changes in the portfolio structure going forward and thoughts on investment strategies.

Schedules in the quarterly report should include the following:

- A listing of individual securities held at the end of the reporting period.
- Average life and final maturity of all investments listed.
- Coupon, discount or earnings rate.
- Par value, Amortized Book Value and Market Value.
- Percentage of the Portfolio Represented by each investment category.

The report prepared by the Investment Officer in compliance with this section shall be formally reviewed by an independent auditor as provided under Section XV of this policy.

## **XVIII. INVESTMENT TRAINING**

The Director of Finance and Strategic Planning and the Investment Officer shall:

- attend at least one training session within 12 months of assuming duties *and* containing not less than 10 hours of instruction from an independent source approved by the governing board or a designated investment committee;

- receive training which includes education in investment controls, security risks, strategy risks, market risks, *diversification of the investment portfolio*, and compliance with the PFIA; and
- attend a training session once every two years and receive not less than 10 hours of training from an independent source approved by the governing board or a designated investment committee.

**XIX. INVESTMENT POLICY ADOPTION**

The City's investment policy shall be adopted by resolution of the City Council. The policy shall be reviewed annually by the City Council and any modifications made thereto must be approved by the City Council.