

guaranteed or insured by the Federal Deposit Insurance Corporation (“FDIC”), National Credit Union Share Insurance Fund (“NCUSIF”) or by the explicit full faith and credit of the United States per Texas State Code 2256.009.

- (2) Obligations of the Federal Home Loan Bank (FHLB) per Texas State Code 2256.009.
- (3) Municipal Securities per Texas State Code 2256.009
- (4) Fully insured or collateralized certificates of deposit at commercial banks, savings banks and credit unions per Texas State Code 2256.010.
- (5) Repurchase agreements collateralized by U.S. Treasury or U.S. Government Agency securities per Texas State Code 2256.011
- (6) Securities and Exchange Commission (the “SEC”) registered, no load money market funds as permitted by Texas State Code 2256.014.
- (7) Texas local government investment pools per Texas State Code 2256.016. Although this Investment Policy does not permit direct purchase of commercial paper, investment pools that contain commercial paper as well as any investment specifically authorized within the Act are permitted.

The City’s ownership share of any public funds investment pool shall be limited to 10% of the overall pool balance.

Exemption of Existing Investments

The City is not required to liquidate investments that were authorized investments at the time of purchase. Any investments held that do not meet the guidelines of the Investment Policy shall be reviewed to determine ability to liquidate. If the security cannot be liquidated because of material adverse changes in value since the time of purchase, and holding the security to maturity does not negatively affect disbursement or cash flow, a recommendation of holding the security to maturity is acceptable. At all times, liquidations shall be effected taking into account the prudent person standard.

Certain Prohibited Investments

The City is prohibited from investing in companies that do business in Sudan, Iran, or with Foreign Terrorist Organizations (collectively known as “Listed Companies”).

V. Incorporation of the Public Funds Investment Act

- (1) **Competitive Bidding.** All individual security transactions shall require at least three competitive bids/offers where practicable.
- (2) **Delivery versus Payment.** Transactions must be settled on a delivery-versus-payment (DVP) basis to a City approved depository except for transactions involving mutual funds or investment pool

funds. This assures City control of all its funds and assets. No securities shall be held by transaction counterparty.

- (3) **Independent Third-Party Safekeeping.** Collateral provided for bank time and demand deposits as well as repurchase agreements will be held by an independent third-party safekeeping agent approved by the City and providing the City with original safekeeping receipts. Authorized collateral will include:
- a. Obligations of the U.S. Government and its agencies and instrumentalities, including mortgage-backed securities.
 - b. Municipal obligations of any state or subdivision, rated no less than AA or equivalent by a Nationally Recognized Statistical Rating Organization (“NRSRO”).

All City-owned securities will be registered and held in the name of the City in a segregated third-party safekeeping account through the City’s contracted depository. Financial institutions serving as City depositories will be required to sign a tri-party depository agreement with the City and the independent safekeeping agent (custodian) in compliance with the Financial Institutions reform, Recover, and Enforcement Act (“FIRREA”). The agreement shall define the collateral and City rights to the collateral in case of default, bankruptcy, or closing and shall establish a perfected security interest in compliance with Federal and State regulations, which require that:

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- a. The Agreement be in writing;
 - b. The Agreement be approved by the Board of Directors or the Loan Committee of the Depository and a copy of the meeting minutes or resolution reference must be delivered to the City; and
 - c. No listing of pledged collateral shall be part of the written agreement.

- (4) **Collateral Policy.** Collateralization is required for all uninsured collected balances. Collateral will be equal to or exceed 110% of the total deposit amount of all operating accounts, with accrued interest, if any. Substitution will be granted with prior City approval. Counterparties will be contractually liable for monitoring and maintaining the required margin levels on all collateral at all times. The City will value the collateral securities monthly unless market conditions warrant more frequent valuation. If the market value of collateral is deficient, additional collateral must be requested.

Collateral will be equal to or exceed 102% of the daily repurchase sweep agreement amount.

VI. Diversification and Maximum Maturities

(1) **Diversification.** Diversification will be used to minimize risk of loss by over-investment in a particular market sector, maturity or security. The City will strive for portfolios with laddered maturities and securities in accordance with the authorized investments and maximum maturity constraints. To assure diversification in the portfolio the following limits will be imposed:

<u>Investment Type</u>	<u>Max. % in Portfolio</u>
US Treasury Obligations	100%
US Agency and Instrumentality Obligations	80%
SEC Registered Money Market Funds	50%
Repurchase Agreements	50%
Flex Repurchase (Bond Funds)	50%
Municipal Securities	20%
Local Government Investment Pools	100%
Collateralized, FDIC or NCUSIF-insured CDs	50%

(2) **Maximum Maturities.** The maximum maturity for investments designated for operations, current debt service, and construction funds shall not exceed 36 months. The maturity for debt service reserve holdings can be extended to the life of the bond maturity or five years, whichever is less.

(3) **Weighted Average Maturity for Pooled Fund Groupings.** The maximum dollar weighted average maturity of the entire portfolio shall be no greater than 18 months based on the stated maturity date.

VII. Finance, Fiscal Affairs and Investment Advisory Committee (the “Committee”)

Ordinance No. 19-042 established the reconstituted Finance and Fiscal Affairs Committee which is now charged with the duties of the Investment Advisory Committee. The committee shall be composed of seven voting members, and one non-voting ex-officio member of city council. All members shall be appointed by the city council. There shall be appointed additional non-voting, advisory members as deemed necessary and as appointed by the city council.

The committee is established to review and evaluate for the purpose of making recommendations to council, review of the city’s financial statements and reports, audit, budget and budget performance, fund accounting and fund balances, and financial management policies. The Committee’s responsibilities also include the review of the City’s Investment Policy annually, review investment recommendations, review investment reports, oversee the City’s investment portfolio to ensure compliance with State law, adopt a list of qualified brokers authorized to engage in investment

transactions and approve the independent source providing state mandated investment training.

VIII. Designation of Investment Officers

- (1) **Delegation of Investment Authority.** The Assistant City Manager of Finance, Executive Director/City Controller and Accounting Manager shall be designated as Investment Officers to execute the investment management process of local revenues. Investments of five (5) million or more will require authorization by two investment officers. The Assistant City Manager of Finance may temporarily designate another qualified staff individual to function as Investment Officer in his or her place if and when necessary. That individual will also attend the state mandated training described below.

The Investment Officers shall review investment positions at least once per quarter for conformance to this Investment Policy and the needs of the City.

The Investment Officers shall develop and maintain written administrative procedures for the operation of the investment program, which are consistent with this Investment Policy. Procedures will include safekeeping, settlement, documentation, agreements, contracts, and other investment related activities.

- (2) **Investment Training.** The Investment Officers shall attend ten (10) hours of investment training within twelve (12) months of assuming duties, and subsequently shall attend 10 hours of training within every succeeding two-year period following the initial 10 hours of training completed within the first 12 months of assuming duties, as required by the Act. The training cycle becomes concurrent with the City's fiscal year.

The training sessions shall be provided by the Texas Municipal League, the Government Finance Officers Association of Texas (GFOAT), the Government Treasurers Organization of Texas (GTOT), the University of North Texas Center for Public Management, the Texas Society of Certified Public Accountants, or any other independent source approved by the Committee.

Training must include education in investment controls, security risks, strategy risks, market risks, diversification of investment portfolio, and compliance with PFIA.

Capability of Investment Management. Professional services may be used to provide expertise in the areas of Investments, cash management, bonded indebtedness, and other areas deemed appropriate by City Council and the Executive Management Team

(EMT). The EMT addresses quality and capability of investment management through the utilization of State laws pertaining to these services. These services shall be subordinate to City Management and this Investment Policy, as applicable.

The City may contract with an Investment Advisor, who shall adhere to the spirit, philosophy and specific term of this Investment Policy and shall invest within the same standard of prudence. The Investment Advisor must be registered with the SEC under the Investment Advisor's Act of 1940 as well as with the Texas State Securities Board. Advisors may assist the City with the management of its funds and other responsibilities including, but not limited to: review of investment policy, development of appropriate investment strategies, security analysis, trade execution, security clearance, broker dealer compliance, investment reporting and security documentation.

- (3) **Ethics Disclosure and Conflicts of Interest.** If an Investment Officer has a personal business relationship as defined in the Act, with a business organization engaging in investment transactions with the City or, the officer is related within the second degree by affinity or consanguinity to an individual seeking to transact with the City, the Investment Officer must disclose the relationship and file a disclosure with the City Secretary and the Texas Ethics Commission.

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IX. Establishment and Annual Review of Qualified Bidders list

Investments shall be executed through broker/dealers and/or banks only. The Committee will review, revise and approve the list of authorized broker/dealers annually. The Investment Officers or investment advisor will obtain and maintain information on each authorized broker/dealer.

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

- provision of an audited financial statement for the most recent period,
- proof of registration with the Financial Industry Regulatory Authority (FINRA), and
- proof of current registration with the Texas State Securities Commission.

If the City has contracted with an Investment Advisor, the Advisor shall be responsible for performing due diligence on broker/dealers and shall provide a list of approved broker/dealers to the City no less than annually. The Investment Advisor shall meet the requirements of Texas State Code 2256.003.

X. Investment Policy Certification

The City shall present a copy of this Investment Policy to any business organization offering to engage in an investment transaction with the City. An authorized representative of an investment pool or Investment Advisory firm acting in a discretionary capacity shall execute a Policy Certification form substantially to the effect that the representative has received and thoroughly reviewed the Investment Policy, and acknowledged that the organization has implemented reasonable procedures and controls in an effort to preclude investment transactions that are not authorized by this Investment Policy, except to the extent that the authorization is dependent on an analysis of the makeup of the City's primary commingled portfolio or requires an interpretation of subjective investment standards.

XI. Investment Reporting

Quarterly Reporting. The Investment Officers and Investment Advisor shall provide to City Council, not less than quarterly, a written report of investment positions and activity in accordance with Section 2256.023 of the Act.

Marking to Market. The quarterly investment report shall include the market value of the portfolio. Market values shall be obtained from the Investment Advisor or other independent sources such as a safekeeping institution or industry publications. If market values are unavailable from independent sources, the City may obtain market values from its authorized brokers, provided the broker providing the market price is not the same broker that sold the security to the City. The market price of investments acquired with public funds is monitored by a third party Investment Advisor firm (engaged by the City) with access to pricing applications (e.g. Bloomberg).

XII. Internal Controls

The Assistant City Manager of Finance shall establish a system of internal controls designed to prevent losses due to fraud, employee error, negligence, collusion, third party misrepresentation, and unanticipated market changes as well as other foreseeable circumstances arising in the investment function. The controls are to safeguard City assets and securities throughout the investment process. The internal control structure shall be designed to provide reasonable assurance that these Investment Policy objectives are met and controls shall be reviewed annually with the independent auditor of the City.

Transactions shall, in all cases, comply with established internal controls especially as regards the transfer of funds.

The concept of reasonable assurance recognizes that:

- a. The cost of a control should not exceed the benefits likely to be derived, and
- b. The valuation of costs and benefits requires estimates and judgments by management.

The controls shall address, at a minimum, the functions of documentation; competitive bidding practices; delivery and custody of securities; perfected ownership; collateralization; timely reconciliation of transactions, receipts and statements; required audits; and financial counter-parties. The controls shall address these functions with attention to potential collusion, separation of duties, and clear delegation of authority.

XIII. Review by Independent Auditor

The City's audit engagement shall include a compliance audit of management controls on investments and adherence to the City's established investment policies. The compliance audit shall be performed annually in conjunction with the City's financial audit and will include a review of the quarterly reports.

XIV. Annual Review and Adoption of Investment Policy and Strategies

The City Council of the City of Galveston shall review and adopt this Investment Policy and its incorporated investment strategies not less than annually. The approving resolution will list all changes being made to the Policy.

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Appendix A – Texas Government Code 2256

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Attachment A - Policy Certification

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