

CITY OF SAN BENITO AND SAN BENITO ECONOMIC DEVELOPMENT CORPORATION

INVESTMENT POLICY

PURPOSE

This Policy establishes policies for the cash management and investment of funds of the City of San Benito and the San Benito Economic Development Corporation, collectively referred to as (the “CITY”) in accordance with the Public Funds Investment Act, Chapter 2256, Texas Government Code, (the “Act”), Public Funds Collateral Act, Chapter 2257, Texas Government Code, and other applicable federal, state and local requirements.

SCOPE

This Investment Policy applies to the cash management and investment activities of the CITY. All financial assets of the CITY, including the following fund types, shall be administered in accordance with the provisions of these policies.

- General Fund
- Water Fund
- Waste Water Fund
- Debt Service Fund
- Capital Project Fund
- Economic Development Fund
- All other funds as may be created from time to time

Objectives

The cash management and investment of all funds shall be governed by the following investment objectives, in order of priority:

1. Safety – The primary objective of the CITY’s investment activity is the preservation and safety of principal. Each investment transaction shall seek to first avoid capital losses, whether they arise from issuer defaults or erosion of market value. Credit risk shall be managed through collateralization of bank deposits and prohibition of corporate entity risk.
2. Liquidity – The second objective of the CITY’s investment portfolio is to remain sufficiently liquid to meet operating requirements. Liquidity shall be achieved by matching investment maturities with estimated cash flow requirements, maintaining liquid reserves and by investing in securities with active secondary markets.
3. Diversification – It is the CITY’s policy 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 investment, when appropriate. Cash flow projections shall be utilized to spread investment maturities, smooth market fluctuations, and reduce reinvestment risk.

4. Yield – Subordinate to the safety and liquidity objectives, the CITY's investment activity shall seek to earn competitive market rates of return commensurate with the appropriate level of risk.

Legal Limitations – Direct specific investment parameters for the investment of public funds in Texas are found in the Public Funds Investment Act, Chapter 2256 Texas Government Code. The Public Funds Collateral Act, Chapter 2257, Texas Government Code, specifies collateral requirements for all public funds deposits. All investments will be made in accordance with these statutes.

Responsibility and Control

The San Benito Commission and the San Benito Economic Development Corporation Board of Directors designate the Finance Director, the Assistant Finance Director, and the City Manager as the CITY's Investment Officers, with the Finance Director retaining primary responsibility. The Finance Director shall establish procedures for the operation of the investment program consistent with this Investment Policy. The Finance Director shall be responsible for all transactions undertaken, and shall establish a system of controls to regulate all investment activities. No person may engage in an investment transaction except as provided under the terms of this Investment Policy and the procedures established.

The San Benito Commission and the San Benito Economic Development Corporation Board of Directors shall annually adopt resolutions attesting to its review and approval of the CITY's investment providers and Investment Policy, including investment strategies.

In order to insure the quality and capability of the CITY's Investment Officers, the CITY approves periodic training in investments through courses and seminars. A newly appointed Investment Officer must attend a training session of at least 10 hours of instruction within twelve months of the date the Investment Officer took office or assumed the Officer's duties. Additionally, Investment Officers shall attend an investment training session not less than once in a two year period that begins on the first day of the CITY's fiscal year and consists of the two consecutive fiscal years after that date, and shall receive not less than 10 hours of instruction relating to investment responsibilities. The investment training session shall comply with the investment training requirements of State law and be provided by the following approved independent training sources: Texas Municipal League, Government Finance Officers' Association, Government Finance Officers' Association of Texas, Government Treasurers' Organization of Texas, Council Of Governments, University of North Texas Center for Public Management, and American Institute of Certified Public Accountants.

The CITY shall, in conjunction with its annual financial audit, perform a compliance audit of management controls on investments and adherence to the CITY's Investment Policy.

Prudence

Investments shall be made with judgment and care under prevailing circumstances that a person of prudence, discretion and intelligence would exercise in the management of the person's own affairs, not for speculation, but for investment, considering the probable safety of capital and the probable income to be derived.

Investment Officers shall seek to act responsibly as custodians of the public trust. Investment Officers shall avoid any transactions that might impair public confidence in the CITY's ability to govern effectively. The San Benito Commission and the San Benito Economic Development Corporation Board of Directors recognize that in a diversified portfolio, occasional measured losses due to market volatility are inevitable, and must be considered within the context of the overall portfolio's return and that an Investment Officer acting in accordance with written procedures and exercising prudence shall be relieved of personal liability and responsibility for an individual investment's performance.

Ethics

Investment Officers 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. Investment Officers shall disclose to the San Benito Commission and the San Benito Economic Development Corporation Board of Directors any material financial interests in financial institutions that conduct business with the CITY and they shall further disclose any large personal financial/investment positions that could be related to the performance of the CITY's portfolio. Investment Officers shall subordinate their personal investment transactions to those of this jurisdiction.

If an Investment Officer has a personal business relationship with an entity seeking to sell an investment to the CITY, or is related within the second degree by affinity or consanguinity, to an individual seeking to sell an investment to the CITY, the Investment Officer shall file a statement of disclosure with the San Benito Commission and the San Benito Economic Development Corporation Board of Directors and the Texas Ethics Commission.

Investments

1. Authorized Investment Instruments – Financial assets of the CITY may be invested in:
 - a. Obligations of the United States or its agencies or instrumentalities, excluding all mortgage backed securities;
 - b. Other obligations, the principal and interest on which are unconditionally guaranteed or insured by, or backed by the full faith and credit of the United States or its agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States.
 - c. Financial institution deposits that, are issued by a state or national bank, a savings bank or a state or federal credit union that a) has its main office or a branch office in Texas and is

guaranteed or insured by the Federal Deposit Insurance Corporation or its successor, b) is secured by obligations in a manner and amount provided by law for deposits of the CITY, or c) is placed through a depository institution or approved broker that has its main office or a branch office in Texas that meets the requirements of the Act.

- d. Security and Exchange Commission (the “SEC”) registered, no load, government money market mutual funds that comply with the requirements of State law;
- e. Texas local government investment pools that seek to maintain a stable dollar asset value, would be described as “government” portfolios, are specifically authorized by the San Benito Commission and the San Benito Economic Development Corporation Board of Directors, and comply with the requirements of State law;
- f. Investment pools that provide fixed maturity, fixed yields investments, are specifically authorized by the San Benito Commission and the San Benito Economic Development Corporation Board of Directors , and comply with the requirements of State law; and
- g. Repurchase agreements (direct security repurchase agreements) collateralized by a combination of cash and obligations of the United States or its agencies or instrumentalities and that comply with the requirements of State law.

2. Not Authorized

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

With respect to authorized investments, this Policy is more restrictive than the Public Funds Investment Act.

- 3. All securities transactions shall be executed on a delivery versus payment basis and all securities shall be held in safekeeping by an independent third party institution approved by the CITY.
- 4. Investment Officers may not place any investment with or through an investment provider that has not delivered a written certification to the CITY as required by State law and, for broker/dealers that has not been authorized by the San Benito Commission and the San Benito Economic Development Corporation Board of Directors.
- 5. Competitive Environment – In order to create a competitive pricing environment for each investment transaction, the CITY will solicit quotations from multiple authorized broker/dealers or financial institutions.
- 6. The CITY is not required to liquidate investments that were authorized at the time of purchase.

CREDIT DOWNGRADE PROVISION

Not less than quarterly, the Investment Officers will obtain from a reliable source the current credit rating for each held investment that has a PFIA-required minimum rating. An investment that requires a minimum rating does not qualify as an authorized investment during the period the investment does not have the minimum rating. The CITY shall take all prudent measures that are consistent with its Investment Policy to liquidate an investment that does not have the minimum rating.

STRATEGIES

General

The CITY's basic investment strategy is to utilize investment options that represent suitable risk/return alternatives based on the overall objectives of safety of principal and maintenance of liquidity. Therefore, all financial assets shall seek to preserve principal by restricting the authorized investment instruments to those investments with suitable and limited credit and market risk.

The objective of liquidity stems from the need of the CITY to maintain available cash balances sufficient to cover financial outlays. Since the timing and amount of some financial disbursements are not predictable, fund-type strategies shall adjust for the certainty of projected cash flows.

Security marketability will be maintained based on the fund-type strategies to sufficiently and reasonably assure that investments could be liquidated prior to the maturity, if cash needs dictate.

It is also the policy of the CITY to diversify its investment portfolio. Whenever practical, assets held in the investment portfolio shall be diversified to minimize the risk of loss resulting from concentration of assets in a specific maturity, a specific issuer, or a specific class of investment.

The CITY will group investment instruments into "fund-type investment groups". These groups will reflect similar needs as to maturity limits, diversity, and liquidity.

CITY funds shall seek to achieve a competitive yield appropriate for each strategy. A comparably structured U.S. Treasury security portfolio shall represent the minimum yield objective. Weighted average yield to maturity shall be the portfolio's performance measurement standard. Yield objectives shall at all times be subordinate to the objectives of safety and liquidity. Tax-exempt debt proceeds shall be invested to maximize the interest earnings retained by the CITY, while at the same time fully complying with all applicable State laws and federal regulations, including the arbitrage rebate regulations.

All investment-specific restrictions shall be measured at the time of purchase and based on portfolio book value.

Fund-Types

Short-Term/Operating – Most of the CITY's functional accounts maintain fund balances to

perform normal operations. Cash flow projections are reasonably accurate, but occasional circumstances may create unpredicted cash requirements. To reduce market risk and assure liquidity, investment maturities shall be matched with or shorter than anticipated cash flows. The dollar weighted average maturity of operating funds shall not exceed nine months. The maximum maturity of an individual investment shall not exceed two years. To further offset the risk of unpredictable events and to anticipate market movements, a portion of the fund balances shall be invested in financial institution deposits, investment pools, or money market mutual funds.

Capital Project Funds – Fund balances designated for capital projects may be scheduled for expenditure separate from the flow of operating funds. Bond proceeds (which may be subject to the arbitrage rebate regulations) are a main source of capital project funds. As with operating funds, a key strategy is to assure that investment maturities are matched with anticipated cash flows. The maximum weighted average maturity of capital project funds shall not exceed two years. The maximum maturity of an individual investment shall not exceed three years. To further offset the risk of unpredictable events and to anticipate market movements, a portion of the fund balances shall be invested in financial institution deposits, investment pools, or money market mutual funds.

Bond proceeds subject to the arbitrage regulations may necessitate an altered investment strategy under some market conditions. Investment selection for these funds may be dependent on market conditions, cash flow needs, and State law and federal regulation compliance.

Debt Service Funds – These funds are specifically defined in terms of amount, size and cash flow need. The primary investment strategy for debt service funds is to match investment maturities with debt service payment requirements. The securities need not have an active secondary market. The maximum maturity of an individual investment shall be the next unfunded debt service date.

Debt Service Reserve Funds – These reserves are usually defined in terms of amount and size and may be confined to the particular instruments and parameters specified in the applicable bond documents. A primary investment strategy for debt service reserve funds is to provide emergency funds to meet debt service requirements. Since the investments may be subject to the arbitrage regulations, the secondary investment strategy is to attempt to maximize the amount of retained interest earnings. The maximum maturity of an individual investment shall not exceed the lesser of five years, the call date of the bonds, the maturity date of the bonds, or any applicable restriction in the bond documents.

Economic Development Funds – These fund balances are designated for economic development projects and will be scheduled for expenditure by the San Benito Economic Development Corporation. In addition to considerations addressed in this Investment Policy, the maximum weighted average maturity of Economic Development Funds shall not exceed two years. The maximum maturity of an individual investment shall not exceed three years. To ensure adequate liquidity for unanticipated cash needs, a portion of the fund balances shall be invested in financial institution deposits, constant dollar investment pools, or money market mutual funds. Any term-specific investments shall be matched with anticipated cash requirements and shall require written instructions by the Executive Director of the San Benito Economic Development Corporation.

Bond proceeds subject to the arbitrage regulations may necessitate an altered investment strategy under some market conditions. Investment selection for these funds may be dependent on market conditions, cash flow needs, and State law and federal regulation compliance.

Depository Selection and Collateralization

Selection Process – A primary depository shall be selected through the CITY’s banking services procurement process, which shall include a formal Request for Application (RFA) issued in compliance with applicable State law. In selecting a primary depository, the cost of service, service level, and credit worthiness of institutions shall be considered, and the Finance Director shall conduct a review of prospective depository’s credit characteristics and financial history.

Insurability – Depositories seeking to establish eligibility for deposit of the CITY’s funds shall submit financial statements, evidence of federal deposit insurance and any other information as required by the Finance Director.

Collateralized Deposits – All depository deposits shall be insured or collateralized in compliance with applicable State law. The CITY reserves the right, in its sole discretion, to accept or reject any form of insurance or collateralization pledged towards depository deposits. Financial institutions serving as CITY depositories, that require collateralization, will be required to sign a depository agreement with the CITY. The collateralized deposit portion of the agreement shall define the CITY’s 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, including:

- The agreement must be in writing;
- The agreement has to be executed by the depository and the CITY contemporaneously with the acquisition of the asset;
- The agreement must be approved by the Board of Directors or authorized Committee of the depository and a copy of the meeting minutes must be delivered to the CITY; and
- The agreement must be part of the depository’s “official record” continuously since its execution.

Insurance, Pledged Collateral or Purchased Securities – With the exception of deposits secured with irrevocable letters of credit at 100% of amount, all deposits of CITY funds with eligible depositories shall be secured by pledged collateral with a market value equal to or greater than 102% of the deposits, less any amount insured by the FDIC. Repurchase agreements shall be documented by a specific agreement noting the “purchased securities” in each agreement. Collateral pledged and purchased securities shall be held at an independent safekeeping agent approved by the CITY and reports of said securities reviewed at least monthly to assure the market value equals or exceeds the related CITY investment.

Eligible Securities for Pledged Collateral or Purchased Securities – The CITY shall accept only the following securities as pledged collateral or purchased securities:

- A. U. S. Treasury securities;
- B. Obligations of U. S. Government Agencies and Instrumentalities, including letters of credit, but excluding principal-only and interest-only mortgage backed securities;
- C. Federal Deposit Insurance Corporation (FDIC) coverage;
- D. Direct or unconditionally guaranteed obligations of the State of Texas;
- E. States, agencies, counties, cities, or political subdivisions with an underlying rating of “A” or higher, or its equivalent.

The Depository shall be liable for monitoring and maintaining the collateral and collateral margins at all times. Letters of Credit shall expire not less than two business days after the anticipated deposit withdrawal.

Subject to Audit – All collateral shall be subject to inspection and audit by the CITY or the CITY’s auditors.

Reporting

Each quarter, the Investment Officers shall submit to the San Benito Commission and the San Benito Economic Development Corporation Board of Directors an investment report that complies with the Act and includes (but not limited to):

- Detailed description of the CITY’s investment position,
- Summary statement of each pooled fund group (if applicable),
- Beginning and ending book and market value of each separately invested asset by fund and asset type,
- Maturity date of each asset, and
- Signatures of each Investment Officer attesting to the portfolio’s compliance with the Investment Policy and State law.

The market valuations obtained by the CITY shall be from independent sources believed to be accurate and representative of the securities’ true value. This report shall be prepared jointly by all of the Investment Officers, and each Investment Officer shall sign the report.

At least annually, the CITY’s independent auditor shall formally review each quarterly report in conjunction with the annual audit and report the results of that review to the San Benito Commission and the San Benito Economic Development Corporation Board of Directors.

Authorized Investment Providers

Investment Advisors and Providers – The Investment Officers shall establish criteria to

evaluate Investment Advisors and Providers, including:

- A. Adherence to the CITY's policies and strategies;
- B. Investment performance and transaction pricing within accepted risk constraints;
- C. Responsiveness to the CITY's request for services, information and open communication;
- D. Understanding of the inherent fiduciary responsibility of investing public funds; and
- E. Similarity in philosophy and strategy with the CITY's objectives.

Selected Investment Advisors and Providers shall provide timely transaction confirmations and activity reports.

Selected Investment Advisors must be registered under the Investment Advisors Act of 1940 or with the State Securities Board. A contract with an Investment Advisor may not be for a term longer than two years and must be approved by the San Benito Commission.

Investment Providers and Approved List – A list will be maintained of “primary” dealers or regional dealers that qualify under SEC Rule 15C3-1 (uniform net capital rule). Broker/dealers who desire to become qualified for investment transactions must supply the following as appropriate:

- A. Proof of Financial Industry Regulatory Authority (FINRA) registration.
- B. Proof of State registration.
- C. Certification of having read, understood, and agreed to comply with the Investment Policy in compliance with the Act.

The San Benito Commission and the San Benito Economic Development Corporation Board of Directors shall review, revise, and adopt a list of authorized broker/dealers at least annually (Appendix A).

Eligible Investment Provider Organizations – Organizations eligible to transact investment business with the CITY shall be presented a written copy of this Investment Policy. Additionally, the qualified representative of the organization seeking to transact investment business shall execute a written instrument substantially to the effect that the qualified representative has:

1. Received and thoroughly reviewed this Investment Policy, and
2. Acknowledged that the organization has implemented reasonable procedures and controls in an effort to preclude investment transactions conducted between the CITY and the organization that are not authorized by the CITY's Investment Policy, except to the extent that this authorization is dependent on an analysis of the makeup of the CITY's entire portfolio or requires an interpretation of subjective investment standards.

The CITY shall not enter into an investment transaction with a business organization prior to receiving the written instrument described above.

SAMPLE**Investment Provider Certification**

1. The City of San Benito and the San Benito Economic Development Corporation collectively referred to as (the "CITY") has presented a copy of its Investment Policy to the undersigned.
2. The undersigned has received the Investment Policy and reviewed it.
3. The undersigned has implemented reasonable procedures and controls in an effort to preclude imprudent investment transactions conducted between the CITY and the undersigned that are not authorized by the CITY's Investment Policy, except to the extent that this authorization is dependent on an analysis of the makeup of the CITY's portfolio or requires an interpretation of subjective investment standards.

Signed this _____ day of _____, 20_____.

Organization

Signature – Qualified Representative

Name

Title

Signature – Salesperson

Name

Title

Appendix A
Authorized Broker/Dealers

<u>Firm</u>	<u>Status</u>
Coastal Securities	Secondary
Duncan Williams	Secondary
Rice Financial Products	Secondary
Raymond James	Secondary
FTN Financial	Secondary