

CITY OF PFLUGERVILLE, TEXAS INVESTMENT POLICY

I. POLICY STATEMENT

It is the policy of the City of Pflugerville ("City") that the administration of its funds and the investment of those funds shall be handled in a manner which will provide the maximum security of principal invested through limitations and diversification while meeting the daily cash flow needs of the City and conforming to all applicable state and City statutes and ordinances governing the investment of public funds. The receipt of a market rate of return will be secondary to the requirements for safety and liquidity. The Policy is adopted in accordance with the Texas Public Funds Investment Act, Chapter 2256 of the Texas Government Code, as amended and establishes guidelines for periodic review and reporting of the investments.

II. SCOPE

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

- General Fund
- Special Revenue Fund
- Utility Fund
- Debt Service Fund
- Capital Project Fund
- Trust and Agency Fund
- Any new fund created by the City unless specifically
exempted by the City Council and this policy.

All funds covered by this Investment Policy shall be invested in accordance with the Public Funds Investment Act as amended from time to time. (Texas Government Code, Ch. 2256.)

III. INVESTMENT OBJECTIVES AND STRATEGY

A. Objective

It is the policy of the City that all funds shall be managed and invested in conformance with State and Federal Regulations, applicable bond covenants and ordinances, and this adopted Investment Policy. The primary objectives for investment activities are listed below in priority order

1. Suitability

Understanding the suitability of the investment to the financial requirements of the City is important. The needs and limitations of each group of funds must be considered. Any investment eligible in the Investment Policy should be suitable for all City funds.

2. Safety of Principal

The primary objective of all investment activity is the preservation of capital and the safety of principal in the overall portfolio. Each investment transaction shall seek to ensure first that capital losses are avoided, whether they have resulted from securities defaults or erosion of market value. All investments are to be of high-quality instruments with no perceived default risk. Market price fluctuations will, however, occur.

With foremost emphasis on safety of principal (i.e. avoidance of capital losses), the Investment Officers will ensure that preservation of capital and protection of principal in the overall portfolio is maintained. Speculation is prohibited.

3. Maintenance of Adequate Liquidity

The City's investment portfolio will remain sufficiently liquid to enable it to meet all operating requirements which might be reasonably anticipated. Liquidity shall be achieved by maintaining appropriate cash equivalent balances, matching investment maturities with anticipated cash flow requirements, investing in securities with active secondary markets, and maintaining appropriate portfolio diversification.

4. Marketability

Securities with active and efficient secondary markets are necessary in the event of an unanticipated cash requirement. An efficient market is generally defined as having a bid-asked price relationship being no greater than $\frac{1}{4}$ of 1 percent of principal value.

5. Diversification

Diversified investment maturities shall provide monthly cash flow based on anticipated operating needs of the City. Short term financial institution deposits, investment pools, money market mutual funds and staggered maturities of securities shall provide timely liquidity and may be utilized.

6. Yield

The City's investment portfolio shall be designed with the objective of attaining a rate of return throughout budgetary and economic cycles, commensurate with the City's investment risk constraints and the cash flow characteristics of the portfolio.

B. Strategy

The investment objectives above apply to all funds covered by this Policy. Investment strategies and guidelines by fund-type are as follows:

1. Pooled Funds

These Funds comprise the majority of the City's portfolio and include all operating funds and long term reserves. Investment strategies for these funds have as their primary objective to assure that anticipated cash flows are matched with adequate investment volatility while providing competitive yields on City funds. Daily liquidity for operations is required first. Reserves established in accordance with the City's cash reserves policy or designated for specific purposes and time frames may be invested for longer terms.

2. Debt Service Funds

Investment strategies for Debt Service Funds have as their primary objective the assurance of investment liquidity to cover the debt service obligations on the required dates. Surplus funds outside the debt service dates will be invested in longer term maturities within the overall guidelines of this Policy.

3. Debt Service Reserve Funds

Debt Service Reserve Funds are reserves required by bond covenant or other contractual requirements to be maintained through the life of the debt issuance. These funds generally do not have a need for liquidity and may be invested in longer term maturities within the overall guidelines of this Policy.

4. Capital Project and Special Purpose Funds

These funds include both bond proceeds and operating funds set aside for identified Capital Projects or Special Purposes. These funds should be invested to match projected cash flow requirements of projects with sufficient liquidity to meet unanticipated project outlays. In general, the final maturity dates of investments should not exceed the expected project completion date(s) and meet all underlying bond covenants, where applicable,

IV. LEGAL LIMITATIONS, RESPONSIBILITIES AND AUTHORITY

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 "Act"), as amended. The Public Funds Collateral Act, Chapter 2257, Texas Government Code, as amended, specifies collateral requirements for all public funds deposits.

The Interlocal Cooperation Act, Chapter 791, Texas Government Code, as amended, authorizes local governments in Texas to participate in an investment pool established thereunder. That statute and reference to authorized investment in investment pools in the Act is primary authority for use of investment pools by political subdivisions of the State of Texas.

V. STANDARD OF CARE

A. Prudence

The standard of prudence to be used in the investment function shall be the “prudent person” standard and shall be applied in the context of managing the overall portfolio. This standard 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 expected income to be derived.”

B. Limitation of Personal Liability

The Investment Officer and those delegated investment authority under this policy, when acting in accordance with the written procedures and this policy and in accord with the Prudent Person Rule, shall be relieved of personal responsibility and liability in the management of the portfolio provided that deviations from expectations for a specific security’s credit risk or market price change or portfolio shifts are reported in a timely manner and then appropriate action is taken to control adverse market effects.

C. Delegation of Authority

The Deputy City Manager, Finance Director and Assistant Finance Director, acting on behalf of the City Council, are designated as the Investment Officers of the City and are responsible for investment management decisions and activities. The Council is also responsible for considering the quality and capability of staff, investment advisors, and consultants involved in investment management and procedures. All participants in the investment process shall seek to act responsibly as custodians of the public trust.

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 reference to safekeeping, require and include PSA Master Repurchase Agreements, wire transfer agreements, banking services contracts, and other investment related activities.

The Investment Officers shall be responsible for all transactions and shall establish a system of controls to regulate the activities of subordinate officials and staff. The Investment Officers shall designate a staff person as a liaison/deputy in the event circumstances require timely action and the Investment Officer is not available.

No officer or designee may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the Investment Officer and approved by the City Manager.

D. Training

It is the City’s policy to provide training required by the Public Funds Investment Act Section 2256.008(a) through courses and seminars offered in compliance with the Act to ensure the quality and capability of the Investment Officers in making investment decisions. In

accordance with State Law, Investment Officers must accumulate ten hours of investment training within twelve months of attaining the position of Investment Officer. Thereafter, eight hours of training must be accumulated every two-years within the period that begins on the first day of the City's fiscal year and ends on the last day of the next fiscal year.

All investment training shall be from an independent source approved by the City Council. The following sponsors are hereby approved:

- 1) Government Finance Officers Association (GFOA and GFOAT);
- 2) Texas Society of Certified Public Accountants (TSCPA);
- 3) Texas Municipal League (TML);
- 4) Government Treasurers' Organization of Texas (GTOT);
- 5) Sponsors approved by the TSCPA and GFOA, GFOAT, GTOT, to provide CPE credits;
- 6) Center for Public Management at the University of North Texas; or
- 7) Alliance of Texas Treasury Associations (ATTA)

E. Ethics

The Investment Officers 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. Furthermore, in accordance with the Public Funds Investment Act, an Investment Officer who has a personal business relationship with a firm or is related within the second degree by consanguinity or affinity to individuals seeking to sell investments to the City must disclose such relationships in accordance with Section 2256.005(i) of the Public Funds Investment Act. Such disclosure should be made to the Texas State Ethics Commission and to the City Council.

F. Internal Controls

The Investment Officer shall establish a system of written internal controls which will be reviewed annually with the independent auditor of the City in accordance with accepted industry practices. The controls shall be designed to prevent loss of public funds due to fraud, employee error, misrepresentation by third parties, unanticipated market changes, or imprudent actions by employees of the City.

The Investment Officer shall monitor the credit rating on all authorized investments in the portfolio based upon independent information from a nationally recognized rating agency. If any security falls below the minimum rating required by policy, the Investment Officer shall immediately solicit bids for and sell the security, if possible, regardless of a loss of principal.

G. Cash Flow Forecasting

Cash flow forecasting is designed to protect and sustain cash flow requirements of the City. 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 will include the historical researching and monitoring of

specific cash flow items, payables and receivables as well as overall cash positions and patterns.

VI. AUTHORIZED INVESTMENTS

Acceptable investments under this policy shall be limited to the instruments listed below. The investments are to be chosen in a manner which promotes diversity or market sector and maturity.

- A. Obligations of the United States Government, its agencies and instrumentalities, and government sponsoring enterprises, not to exceed two years to the stated maturity;
- B. Direct obligations of the State of Texas or its agencies.
- C. Certificates of deposit issued by an FDIC insured financial institution, not to exceed the current FDIC limit per institution and with a maximum maturity length of one year.
- D. Obligations of states, agencies, counties, cities, and other political subdivisions of any state having been rated as to investment quality by a nationally recognized investment rating firm and having received a rating of not less than A or its equivalent.
- E. Repurchase agreements and reverse repurchase agreements as defined by the Public Funds Investment Act, as amended, not to exceed ninety (90) days to stated maturity, provided an executed PSA Master Repurchase Agreement is on file with the City and the counterparty bank or primary dealer.
- F. Texas Local Government Investment Pools as defined by the Public Funds Investment Act, as amended. The maximum dollar-weighted maturity for the pool may not exceed ninety (90) days and the pool must maintain a minimum rating of AAAm.
- G. Interest-bearing banking deposits that are guaranteed or insured by the Federal Deposit Insurance Corporation or its successor or the National Credit Union Share Insurance Fund or its successor.

VII. AUTHORIZED FINANCIAL DEALERS AND INSTITUTIONS

All investments made by the City will be made through either the City's banking services bank or a primary dealer. The City shall maintain a list of financial institutions which are authorized to provide investment services. Banks shall continuously provide their most recent "Consolidated Report of Condition" (call report). Securities broker/dealers not affiliated with a bank shall be required to be classified as reporting dealers affiliated with the New York Federal Reserve as primary dealers. The following criteria must be met by those firms on the list: provision of an audited financial statement for the most recent period, proof of certification by the National Association of Securities Dealers (NASD), and proof of current registration with the State Securities Commission.

Every business organization with whom the City transacts business will be provided a copy of this Investment Policy to assure that they are familiar with the goals and objectives of the investment program. The business organization will be required to return a signed copy of a certification form certifying that the policy has been received and reviewed.

VIII. DIVERSIFICATION AND MATURITY LIMITATIONS

It is the policy of the City 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 securities. With the exception of U.S. Treasury securities and authorized investment pools, no more than 50% of the City's total investment portfolio will be invested in a single security type or with a single financial institution.

The Investment Officer shall be required to diversify maturities. The Investment Officer, to the extent possible, will attempt to match investment with anticipated cash flow requirements. Matching maturities with cash flow dates will reduce the need to sell securities prior to maturity, thus reducing market risk. Unless matched to specific requirements such as semiannual or annual bond payments, the Investment Officer may not invest more than 20% of the portfolio for a period greater than one (1) year. The Investment Officer may not invest any portion of the portfolio for a period greater than two (2) years.

IX. SAFEKEEPING AND COLLATERALIZATION

All security transactions, including collateral for repurchase agreements, entered into by the City shall be conducted on a delivery-versus-payment (DVP) basis. Securities will be held by a third party custodian designated by the Investment Officer and evidenced by safekeeping receipts.

X. PERFORMANCE EVALUATION AND REPORTING

The Investment Officer shall submit quarterly reports to the City Manager and City Council containing sufficient information to permit an informed outside reader to evaluate the performance of the investment program. This report shall contain:

- Beginning and ending market value of the portfolio by market sector and total portfolio;
- Beginning and ending carrying (Book) value of the portfolio by market sector and total portfolio;
- Transactions which change market and book value;
- Detail reporting on each asset (book, market, and maturity dates);
- Overall current yield of the portfolio;
- Overall weighted average maturity of the portfolio;
- Maximum maturities in the portfolio; and,
- The signature of the investment officer.

XI. INVESTMENT POLICY ADOPTION BY THE CITY COUNCIL

The City's investment policy shall be adopted by the City Council. The policy shall be reviewed on an annual basis by the City Manager and City Council.

AUTHORIZED FINANCIAL INSTITUTIONS AND GOVERNMENT POOLS

Financial Institutions Authorized To Do Business with the City of Pflugerville

First Texas Bank

Government Pools Authorized To Do Business with the City of Pflugerville

First Public Lonestar Investment Pool
TexPool Local Government Investment Pools