MEMORANDUM

To: Lisa Agnor, City Manager

From: Debbie Manuel, Acting Finance Director

Date: January 8, 2016

Subject: Investment Policy

The attached Resolution calls for the adoption of the City of Marshall Investment Policy. The Public Funds Investment Act requires that the governing body of an investing entity review its investment policy and investment strategies not less than annually. In accordance with this Act, I am submitting for review the City's Investment Policy.

The City's Investment Policy was last reviewed and approved on January 22, 2015.

RESOLUTION _____

A RESOLUTION ADOPTING THE CITY OF MARSHALL, TEXAS INVESTMENT POLICY

WHEREAS, the Public Funds Investment Act, as amended, requires the City to adopt an investment policy by rule, order, ordinance or resolution; and

WHEREAS, the Public Funds Investment Act, as amended, requires the Finance Director and all investment officers of the City to attend investment training; and

WHEREAS, the City Commission of the City of Marshall, Texas approves of the investment training courses sponsored by the Texas Municipal League, the Government Finance Officers Association of Texas, the Government Treasurer's Organization of Texas, and the University of North Texas Center for Public Management; and

WHEREAS, the Finance Director and the Senior Accountant are required to attend an investment training course sponsored by one or more of the aforementioned organizations; and

WHEREAS, the City Commission authorizes the investment officer of the City of Marshall, Texas to acquire investments from the City's depository bank; other state or national banks domiciled in Texas that are insured by FDIC (approved on an individual basis by the City Commission); public funds investment pools; and the following brokers and dealers: (1) Chase Investment Services Corp and (2) Edward D. Jones and

WHEREAS, the attached investment policy and incorporated revisions comply with the Public Funds Investment Act, as amended, and authorize the investment of City funds in safe and prudent investments.

WHEREAS, the City's investment policy requires that the policy be reviewed and adopted annually. Now, therefore,

BE IT RESOLVED BY THE CITY COMMISSION OF THE CITY OF MARSHALL, TEXAS THAT:

The City of Marshall, Texas has complied with the requirements of the Public Funds Investment Act, and the Investment Policy, attached hereto is hereby adopted as the investment policy of the City of Marshall, Texas effective January 14, 2016.

PASSED, APPROVED AND ADOPTED this 14th day of January 2016.

_____
CHAIRMAN OF THE CITY COMMISSION
OF THE CITY OF MARSHALL, TEXAS

ATTEST:

_____
ACTING CITY SECRETARY

INVESTMENT POLICY

CITY OF MARSHALL, TEXAS

INVESTMENT POLICY
CITY OF MARSHALL, TEXAS

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INVESTMENT POLICY
CITY OF MARSHALL, TEXAS

I. POLICY STATEMENT

It is the policy of the City of Marshall, Texas ("City") that the administration of its funds and the investment of those funds shall be handled at its highest public trust. Investments shall be made 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 governing the investment of public funds. The receipt of a market rate of return will be secondary to the requirements for safety and liquidity. It is the intent of the City to be in complete compliance with local law and the Texas Public Funds Investment Act. The earnings from investments will be used in a manner that best serves the public trust and interests of the City.

II. SCOPE

This investment policy applies to all the financial assets and funds held by the City unless expressly prohibited by law or unless it is in contravention of any depository contract between the City and any depository bank. The City commingles its funds into five (5) categories of investments for investment purposes for efficiency and maximum investment opportunity (pooled fund groups).

Operating Funds (General Fund/Water & Sewer Enterprise Fund):
- General Fund
- Water & Sewer Enterprise Fund

Special Revenue Funds:
- OPEB Funding Fund
- Hotel/Motel Occupancy Tax Fund
- Law Enforcement Fund
- Litter Control Fund
- DARE Fund
- Downtown Projects Fund
- Municipal Court Technology and Efficiency Fund
- Community Development Fund
- Art Center Projects Fund
- Police Special Projects Fund
- Disaster Relief Fund
- Main Street Fund
- Park Trails Fund
- Community Assistance Grant Fund
- Firing Range Fund
- Special Projects Fund
- EMS – ESD Fund
- Street Maintenance Fund

Debt Service/Bond Reserve Funds:
- Water and Sewer Revenue Bond Reserve Fund
- Water and Sewer Revenue Bond Interest and Sinking Fund
- 2007 General Obligation Debt Service Fund
- 2010 Tax & Surplus Refunding Bond Fund
- 2010 Certificates of Obligation, Series 2010A (Memorial City Hall) Fund

2010 Combination Tax and Limited Surplus Revenue Certificates of Obligation Debt Service Fund (Energy Efficiency)
2001 Combination Tax and Revenue Debt Service Fund (Convention Center)

Capital Improvement/Bond Funds:

1995 Capital Improvement Program Bond Fund
2000 Water Revenue Bond Fund
2003 Water &Sewer Revenue Bond Fund
2007 Capital Improvement Program Bond Fund
2010 Utility Conservation Project Fund
2010 Memorial City Hall Restoration Project Fund
Equipment Replacement Fund – General Fund
Equipment Replacement Fund – Water and Sewer Enterprise Fund
Capital Improvement Fund – General Fund

Trust Funds:

Police Local Relief Fund
Firemen's Emergency Relief Fund
Library Funds
Meter Trustee Fund

Note: These categorizations (pooled fund groups) are for investing and investment reporting purposes only and do not correspond to fund classifications per the annual financial statement, which are as follows:

Governmental Funds
Proprietary Funds
Fiduciary Funds

Any new funds created by the City, unless specifically exempted by the City Commission and this policy will be added to the above list in the appropriate category of funds (pooled fund group).

This policy also applies to Marshall Economic Development Corporation and Marshall Downtown Development Corporation.

III. OBJECTIVES

It is the policy of the City that all funds shall be managed and invested with three primary objectives, listed in order of their priority: safety and liquidity; diversification; and yield. These objectives encompass:

Safety of Principal and Maintenance of Adequate Liquidity

Safety of principal is the foremost objective of the City in any investment transaction. Investments of the City shall be undertaken in a manner that seeks to insure the return of its principal.

Cash flow forecasting is designed to protect and sustain cash flow requirements of the City. The Investment Officer will maintain a cash flow forecasting process designed to monitor and forecast cash positions for investment purposes, as well as insuring adequate liquidity necessary to pay obligations as they become due. Cash flow will include the historical researching and monitoring of specific cash flow items, payables and receivables as well as overall cash position and patterns.

Diversification
It will be the policy of the City to diversify its portfolio to eliminate the risk of loss resulting from over concentration of assets in a specific maturity, a specific issuer or a specific class of investments.

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

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, ("Act").

V. DELEGATION OF INVESTMENT AUTHORITY

The Finance Director, acting upon authority of a resolution of the City Commission is designated as the Investment Officer of the City and is responsible for investment management decisions and activities under the direction of the City Manager. The City Commission and the City Manager are 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 Officer shall develop and maintain administrative procedures for the operation of the investment program which are consistent with this investment policy. Procedures should include references to: competitive bidding on purchases and sales of investments, safekeeping, delivery vs. payment, investment accounting, repurchase agreements, wire transfer agreements, collateral/depository agreements and banking services contracts.

The Investment Officer shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate staff. The Investment Officer shall designate a Senior Accountant as a liaison/deputy in the event circumstances require timely action and the Investment Officer is not available. The designated Senior Accountant may not engage in an investment transaction except as provided under the terms of this policy and the procedures established by the Investment Officer and approval by the City Manager or Assistant City Manager.

The Investment Officer and the designated Senior Accountant shall attend at least one training session relating to the officer's responsibility under the Act within 12 months after assuming duties and thereafter, a training session not less than once every two years and receive 10 hours of training. Such training from an independent source shall be approved or endorsed by either the Government Finance Officers Association of Texas, The Government Treasurer's Organization of Texas, The Texas Municipal League, or The University of North Texas Center for Public Management.

VI. PRUDENCE

The standard of prudence to be used in the investment function shall be the "prudent investor" rule and shall be applied in the context of managing the overall portfolio. This rule 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."

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 Investor 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 that appropriate action is taken to control adverse market effects.

VII. INTERNAL CONTROLS

The Investment Officer shall establish a system of internal controls which will be reviewed annually with the independent auditor of the City. 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.

VIII. 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 of market sector and maturity. The choice of high-grade government investments and high-grade money market instruments is designed to assure the marketability of those investments should liquidity needs arise. The maximum allowable stated maturity of any individual investment owned by the City is three (3) years.

(A) U.S. Government and State of Texas Investments:

(1) obligations of the United States or its agencies and instrumentalities, not to exceed three years to stated maturity;

(2) direct obligations of this state or its agencies and instrumentalities, not to exceed one year to stated maturity, except for City of Marshall, Texas obligations which may have any stated maturity.

(B) Certificates of deposit, not to exceed one year to stated maturity, if issued by a state or national bank domiciled in this state and is:

(1) guaranteed or insured by the Federal Deposit Insurance Corporation or its successor;

(2) secured by obligations that are described by Section 2256.009(a) of the Public Funds Investment Act, including mortgage backed securities directly issued by a federal agency or instrumentality that have a market value of not less than the principal amount of the certificates, but excluding those mortgage backed securities of the nature described by Section 2256.009(b) of the Public Funds Investment Act or;

(3) secured in any other manner and amount provided by law for deposits of the City.

(C) A fully collateralized repurchase agreement, as defined in the Act, if it:

(1) has a defined termination date;

(2) is secured by obligations described by Section 2256.009(a)(1) of the Public

Funds Investment Act; and

(3) requires the securities being purchased by the City to be pledged to the City, held in the City's name, and deposited at the time the investment is made with the City or with a third party selected and approved by the City; and

(4) is placed through a government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in this state.

(D) No-load money market mutual funds if the mutual fund:

(1) is registered with and regulated by the Securities and Exchange Commission;

(2) has a dollar-weighted average stated maturity of 90 days or less;

(3) includes in its investment objectives the maintenance of a stable net asset value of $1 for each share;

(4) is continuously rated as to investment quality by at least one nationally recognized investment rating firm of not less than AAA or its equivalent; and

(5) invests exclusively in authorized investments permitted by the Act.

(E) Public funds investment pools as defined in the Public Funds Investment Act Section 2256.016-2256.019. An investment pool must invest the funds it receives from the City in authorized investments permitted by the Public Funds Investment Act. Further, as required by the Act, a public funds investment pool must continuously be rated no lower than AAA or AAA-m or at an equivalent rating by at least one nationally recognized rating service.

(F) If additional types of securities are approved for investment of public funds by state statues, they will not be eligible for investment by the City until this policy has been amended and the amended version approved by the City Commission.

(G) Prohibited: The Investment Officer has no authority to use any of the following investment instruments.

(1) Obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal;

(2) Obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security collateral and bears no interest;

(3) Collateralized mortgage obligations that have a stated final maturity date of greater than 10 years; and:

(4) Collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in a market index.

(5) Bankers Acceptances

(6) Commercial Paper

(7) Mutual Funds

IX. AUTHORIZED FINANCIAL DEALERS AND INSTITUTIONS

The Investment Officer shall invest City funds with any or all of the following institutions or groups consistent with federal and state law and the current Depository Bank contract:

(1) Depository Bank;

(2) Other state or national banks domiciled in Texas that are insured by FDIC. (approved on an individual basis by the City Commission and a contract executed requiring adequate security for the investment/deposit)

(3) Public funds investment pools.
(4) Government securities brokers and dealers. (approved on an individual basis by the City Commission)

Qualifications for Approval of Broker/Dealers

In accordance with the Act, a written copy of this investment policy shall be presented to any person seeking to sell to the City an authorized investment. A qualified representative of the business organization seeking to sell an authorized investment shall execute a written instrument substantially to the effect that the qualified representative has: (Exhibit A)

(1) received and thoroughly reviewed the investment policy of the City; and
(2) acknowledged 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.

The Investment Officer may not buy any securities from a person who has not delivered to the City an instrument in substantially the form provided above according to the Act.

X. DIVERSIFICATION

As stated above, 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. Diversification strategies shall be established and periodically reviewed. At a minimum, diversification standards by security type and issuer shall be:

Investment Types	Maximum Portfolio Concentration
(1) Obligations of the United States or its agencies and instrumentalities	100%
(2) Direct obligations of this state or its agencies and instrumentalities	50%
(3) Fully insured or collateralized certificates of deposit	100%
(4) Fully collateralized repurchase agreements	100%
(5) Money Market Funds	50%
(6) Public funds investment pools	100%

The Investment Officer shall be required to diversify maturities. The Investment Officer, to the extent possible, will attempt to match investments with anticipated cash flow requirements. Matching maturities with cash flow requirements will reduce the need to sell securities prior to maturity, thus reducing market risk. Unless matched to a specific requirement, the Investment Officer may not invest more than 25% 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 three (3) years. (Except for City of Marshall, Texas obligations; see VIII (A) (2))

XI. SAFEKEEPING AND COLLATERALIZATION

The laws of the State and prudent treasury management require that all purchased securities be held in safekeeping by either the City, a third party financial institution, in an insured account with a designated broker/dealer, or the City's designated depository. All safekeeping arrangements shall be designated by the Investment Officer and an agreement of the terms executed in writing. The third party custodian shall be required to issue safekeeping receipts to the City listing each specific security, rate, description, maturity, cusip number, and other pertinent information. Each safekeeping receipt will be clearly marked that the security is held for the City or pledged to the City.

All securities pledged to the City for certificates of deposit or demand deposits shall be held by an independent third party bank domiciled in Texas. The safekeeping bank may be within the same holding company as the bank from which the securities are pledged.

Collateralization

Collateralization shall be required on two types of investments:

(a) certificates of deposits over the FDIC insurance coverage of $100,000 and
(b) repurchase agreements.

Collateralization shall be of the type described in VIII (B) (1)-(3).

XII. PERFORMANCE EVALUATION AND REPORTING

The Investment Officer shall submit quarterly to the City Manager and to the City Commission reports containing sufficient information to permit an informed outside reader to evaluate the performance of the investment program. At a minimum, this report shall:

(1) Describe, in detail, the investment position of the City on the date of the report
(2) Be signed by the Investment Officer
(3) Contain a summary statement of each category of investments (pooled fund group) that states the:
    (a) Beginning market value for the period;
    (b) Additions and changes to the market value for the period; and
    (c) Ending market value for the period
(4) State 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 category of investment (pooled fund group)
(5) State the maturity date of each separately invested asset that has a maturity date
(6) State the category of investments (pooled fund group) for which each individual investment was acquired
(7) State the compliance of the investment portfolio of the City as it relates to:
    (a) The investment strategy expressed in the City's Investment Policy; and
    (b) Relevant provisions of the Act
(8) Overall current yield of the portfolio by asset type and in total
(9) Rate of return over current reporting period and year to date in total, by pooled fund group, and by asset type

XIII. DEPOSITORIES

The City will designate one banking institution through a competitive process as its central banking services provider every two years. This institution will be used for normal banking services including disbursements, deposits, lockbox, controlled disbursement and safekeeping of securities. Other banking institutions from which the City may purchase certificates of deposit may also be designated after they provide their latest audited financial statements to the City.

XIV. INVESTMENT POLICY ADOPTION BY CITY COMMISSION

The City's investment policy shall be reviewed, on an annual basis, by the City Commission and the City Manager. The City's investment policy shall be adopted annually by resolution of the City Commission.

XV. AMENDMENT

In the event State law changes and the City cannot invest in the investments described in this policy, this policy shall automatically be conformed to existing law. Any other changes or modifications to this policy must be approved by the City Commission.

AMENDED AND ADOPTED ON THIS THE 14th DAY OF JANUARY, 2016.

_____
Chairman of the City Commission
Marshall, Texas

Attest:

_____
Acting City Secretary

APPENDIX A

TEXAS PUBLIC FUNDS INVESTMENT ACT
CERTIFICATION BY BUSINESS ORGANIZATION

This certification is executed on behalf of the City of Marshall, Texas (the Investor) and _____ (the Business Organization) pursuant to the Public Funds Investment Act, Chapter 2256, Texas Government Code (the "Act") in connection with investment transactions conducted between the Investor and the Business Organization.

The undersigned Qualified Representative of the Business Organization hereby certifies on behalf of the Business Organization that:

1. The undersigned is a Qualified Representative of the Business Organization offering to enter into an investment transaction with the Investor on such terms as are defined in the Texas Public Funds Investment Act, chapter 2256, Texas Government Code,

2. The Qualified Representative of the Business Organization has received and reviewed the Investor's Investment Policy furnished by the Investor, and

3. The Qualified Representative of the Business Organization has implemented reasonable procedures and controls in an effort to preclude investment transactions conducted between the Business Organization and the Investor that are not authorized by the Investor's Investment Policy. However, authorization dependent upon an analysis of the makeup of the Investor's entire portfolio or which requires and interpretation of subjective investment standards by the Investor is not required by the Business Organization.

Qualified Representative of the Business Organization

_____

Name: _____

Title: _____

Date: _____

APPENDIX B

INVESTMENT STRATEGIES BY POOLED FUND GROUP

All pooled fund groups will have the three primary objectives described in Section III of this policy; safety and liquidity; diversification; and yield.

Operating Funds (General Fund/Water & Sewer Enterprise Fund)

Operating Funds have as their primary objective to assure that anticipated cash flows are matched with adequate investment liquidity. Consequently, these funds will be invested in short-to-medium term securities which will complement each utilizing a staggered maturity basis.

Special Revenue Funds

Special Revenue Funds, as with Operating Funds have as their primary objective to assure that anticipated cash flows are matched with adequate investment liquidity. Consequently, these funds also will be invested in short-to-medium term securities which will complement each utilizing a staggered maturity basis. However, in certain cases, longer term securities which result in a better yield may be utilized when matched to specific requirements. These portfolios should include approximately 5-10% in highly liquid securities to allow for flexibility and unanticipated outlays.

Debt Service/Bond Reserve Funds

Debt Service/Bond Reserve Funds have as their primary objective to assure investment liquidity adequate to cover debt service obligations on the required payment dates. Securities purchased shall not have a stated final maturity date which exceeds the next debt service payment date.

Capital Improvement/Bond Funds

Capital Improvement and Bond Funds shall have as their primary objective to assure funds are available at the time project outlays are required to be made. The Investment Officer will confer with the Water Utilities/Public Works Director and obtain anticipated cash flow requirements for each ongoing project and determine the appropriate term of securities to be purchased for each individual fund. These securities may be short-to-medium or longer term securities, depending upon current market yields. The stated final maturity date of securities held in a particular fund may not exceed the estimated project completion date. These portfolios should include approximately 5-10% in highly liquid securities to allow for flexibility and unanticipated outlays.

Trust Funds

Trust Funds, as with Operating Funds have as their primary objective to assure that anticipated cash flows are matched with adequate investment liquidity. Consequently, these funds also will be invested in short-to-medium term securities which will complement each utilizing a staggered maturity basis. However, in certain cases, longer term securities which result in a better yield may be utilized when matched to specific requirements. These portfolios should include approximately 5-10% in highly liquid securities to allow for flexibility and unanticipated outlays.