



CITY OF VICTORIA, TEXAS INVESTMENT POLICY

I. INTRODUCTION

The following document represents the investment scope, prudence, objective/strategy, delegation of authority, ethics and conflicts of interest, authorized financial dealers and institutions, authorized and suitable investments, collateralization, safekeeping and custody, diversification, maximum maturities, internal control, performance standards, reporting, and investment policy adoption guidelines for the City of Victoria, Texas. The purpose for the document is:

- To establish and promote an understanding of the constraints that governs the conduct of the investment program of the City of Victoria, Texas.
- To establish objectives/goals and policies for the program.
- To comply with rules and regulations as set forth in the Public Funds Investment Act ("The Act"), Chapter 2256 of the Texas Government Code.

It is the policy of the City of Victoria, Texas to invest public funds in a manner which will provide a market rate of return with the maximum security while meeting the daily cash flow demands of the entity and conforming to all state and local statutes governing the investment of public funds.

Investments shall be made with the primary objectives of:

- **Safety** and preservation of principal
- Maintenance of sufficient **liquidity** to meet anticipated operating needs
- 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

II. INVESTMENT SCOPE

This investment policy applies to all financial assets of the City of Victoria, Texas. These funds are accounted for in the City's Comprehensive Annual Financial Report and include the following funds:

- General Fund
- Special Revenue Funds
- Capital Project Funds
- Enterprise Funds
- Internal Service Funds
- Trust and Agency Funds
- Debt Service Funds
- Any new fund created by the City Council, unless specifically exempted

All deposits, to the extent possible, will be concentrated with one central depository. This maximizes the City's ability to pool cash for investment purposes and keeps banking relationships manageable. In addition, except as provided below, all uninvested City funds shall be deposited in the City's depository bank. To the extent such City funds in the depository bank are not insured by the Federal Deposit Insurance Corporation, they shall be secured by collateral pledged to the market value not insured in accordance with the Public Funds Collateral Act, Chapter 2257 of the Texas Government Code.

III. STANDARD OF CARE

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 probable income to be derived.

The standard of care 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 of an individual security's credit risk or market price changes, provided deviations from expectation are reported in a timely fashion and appropriate action is taken to control adverse developments.

IV. INVESTMENT OBJECTIVES / STRATEGY

The primary objectives/strategy, in priority order, of the City of Victoria, Texas investment activities shall be:

- **Safety:** Safety of principal is the foremost objective of the investment program. Investments of the City of Victoria, Texas shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. To attain this objective, diversification is required in order that potential losses on an individual security do not exceed the income generated from the remainder of the portfolio.

- **Liquidity:** The City of Victoria, Texas investment portfolio will remain sufficiently liquid to enable the City of Victoria, Texas to meet all operating requirements which might be reasonably anticipated.
- **Return of Investments:** The City of Victoria, Texas 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.
- **Marketability:** Investments should have an active and efficient secondary market to enable the City to liquidate investments prior to the maturity if the need should arise; however, the City will purchase investments with the intent to hold to maturity.
- **Weighted Average Maturity for a Pooled Fund Group:** The weighted average maturity will be 365 days or less. This dollar-weighted average maturity will be calculated using the stated final maturity dates of each security.

V. DELEGATION OF AUTHORITY

The City of Victoria, Texas designates the Director of Finance as the "Investment Officer" to be responsible for the investment of the City's funds. The Director of Finance may appoint the Assistant Director of Finance or other designee of the Director of Finance as an "Investment Officer". Management responsibility for the investment program is hereby delegated to the Director of Finance and Investment Officer, who shall establish written procedures for the operation of the investment program consistent with this investment policy.

Procedures should include reference to: safekeeping receipt, repurchase agreements (following the guideline under the House Bill No. 2459, Chapter 2256 of the Government Code-Public Funds Investment Act), wire transfer agreements, banking service contracts, collateral/depository agreements and investment training. Such procedures shall include explicit delegation of authority to persons responsible for investment transactions. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the Director of Finance and Investment Officer. The Director of Finance and Investment Officer shall be responsible for all transactions undertaken and shall establish a system of control as follows to regulate the activities of subordinate officials. The system of control consists of, but not limited to, (1) all transactions require dual approval by two Investment Officers, (2) normal internal controls of daily transactions within the Finance Department shall apply to all investment transactions, and (3) review by the Director of Finance and City Council of the quarterly investment reports prepared by the Investment Officer.

The Director of Finance and Investment Officer shall attend at least one training session of no less than 10 hours of instruction within 12 months after taking such position, which must include education in investment controls, security risks, market risks, and compliance with the Act. The Director of Finance and Investment Officer shall attend a training session not less than once in a two-year period that begins on the first day of the fiscal year and consists of consecutive fiscal years after that date and receive not less than 8 hours of instruction relating to investment responsibilities. The training provider must be an independent source approved by the governing board. The City of Victoria shall provide the required training for the investment personnel in order to insure the quality and capability of the personnel making investment decisions in compliance with the PFIA.

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 Texas Ethics Commission and City Council any material financial interest in financial institutions that conduct business within this jurisdiction, and they shall further disclose any material personal financial/investment positions that could be related to the performance of the City of Victoria, Texas, particularly with regard to the time of purchases and sales.

The Investment Officer or any person who purchases investments on behalf of the City shall disclose in writing to the City Council any personal business relationships or relationship within the second degree of affinity or consanguinity to an individual seeking to sell an investment to the City and shall further file such a statement with the Texas Ethics Commission.

VII. AUTHORIZED AND SUITABLE INVESTMENTS

The City of Victoria, Texas is empowered by statute to invest in the following types of securities:

- Obligations of the United States, its agencies and instrumentalities, and other governmental entities under the guidelines of Chapter 2256, Section 2256.009 of "The Act" with a maximum stated maturity of 2 years.
- Certificates of Deposit under the guidelines of Section 2256.010 of "The Act". The Investment Officer will monitor weekly the status and ownership of all banks issuing brokered CD's owned by the City of Victoria based upon information from the FDIC at www.fdic.org. If any bank has been acquired or merged with another bank in which brokered CD's are owned, the Investment Officer shall immediately liquidate any brokered CD which places the City above the FDIC insurance level with a maximum stated maturity of 2 years.
- Repurchase Agreements under the guidelines of Chapter 2256, Section 2256.011 of "The Act". A Master Repurchase Agreement must be signed by the bank/dealer prior to the investment transaction.
- Commercial Paper rated A1/P1 or equivalent under the guidelines of Chapter 2256, Section 2256.013 of "The Act" with a maximum stated maturity of 270 days.
- Money Market Mutual Funds, AAA rated SEC registered, under the guidelines of Chapter 2256.014 of "The Act".
- Investment Pools, AAA or equivalent rated constant dollar pools. Only if the pool is approved and passed by a resolution of the City Council. The investment pool must comply with the requirements of Section 2256.016 of "The Act".

The following are not authorized investments under the investment policy:

- **Interest-Only Strips (IO's):** Obligations whose payments represent the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal.
- **Principal-Only Strips (PO's):** Obligations whose payments represent the principal stream of cash flow from the underlying mortgage-backed security collateral and bears no interest.

- **Collateralized Mortgage Obligations (CMO's):** Obligations that have a stated final maturity date of greater than 10 years.
- **Collateralized Mortgage Obligations (CMO's):** the interest rate of which is determined by an index that adjusts opposite to the change in a market index.

Effect of Loss of Required Rating

The Investment Officer will monitor monthly the credit rating of all investments in the portfolio based upon independent information from a nationally recognized rating agency. If any security falls below the minimum rating required by this Policy, the Investment Officer will immediately advise the Director of Finance of the loss of rating. The Director of Finance and the Investment Officer will determine the possible loss of principal if the investment is sold and sell the investment if it is in the best interest of the City.

Exemption for Existing Investments

The City is not required to liquidate any investments that were authorized at the time of the purchase.

VIII. INVESTMENT PARAMETERS

Maximum Maturities

To the extent possible, the City of Victoria, Texas will attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, the City of Victoria, Texas will not directly invest in securities maturing more than two (2) years from the date of purchase.

Diversification

The City will endeavor to diversify its portfolio to reduce risk. The portion of its investment portfolio invested in direct obligations of the U.S. Government or certificates of deposit insured by the Federal Deposit Insurance Corporation will be diversified in terms of maturity. The City will attempt to invest in instruments issued by more than one agency or instrumentality and in instruments of various maturities. The City will not invest in certificates of deposit unless they are federally insured or are collateralized as required by law.

IX. AUTHORIZED FINANCIAL DEALERS AND INSTITUTIONS

Authorized Brokers/Dealers

The Finance Department will 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. This list will be reviewed, revised and adopted at least annually by the City Council. These may include "primary" dealers or regional dealers that qualify under Securities and Exchange Commission Rule 15C3-1. No public deposit shall be made except in a qualified public depository as established by the state and local laws.

All financial institutions and broker/dealers who desire to become a qualified bidder for investment transactions must:

- Acknowledge that the organization has implemented reasonable procedures and controls in an effort to preclude investment transactions conducted between the entity and the organization that are not authorized by the City of Victoria, Texas Investment Policy, except to the extent that this authorization is dependent on an analysis of the makeup of the entity's entire portfolio or requires an interpretation of subjective investment standards.
- Submit an audited financial statement to be reviewed by the City of Victoria, Texas Finance Department.

Qualified brokers will be provided with a copy of the City's Investment Policy.

Competitive Bidding

Investment transactions will normally be conducted based on comparison of three quotes obtained from any of the approved brokers with attention to yield as well as diversification with regard to issuing entity and broker/dealer. Limitations of a particular investment type, time and supply may provide otherwise.

Delivery vs. Payment

All security transactions, including collateral for repurchase agreements and brokered certificates of deposit securities, entered into by the City of Victoria, Texas shall be conducted on a delivery-versus-payment basis. Securities will be held by a third party custodian designated by the Finance Department and evidenced by safekeeping receipts. The securities must be kept in the name of the City of Victoria, Texas.

X. COLLATERALIZATION

Collateralization will be required on the following: (1) certificates of deposits (over and above the FDIC coverage), (2) repurchase agreements and (3) uninsured depository bank deposits. 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 all uninsured collected balances, plus accrued interest, if any.

The City of Victoria, Texas chooses to limit collateral to the following: 1) United States Treasury bills, bonds and notes, 2) Federal National Mortgage Association (FNMA), 3) Federal Home Loan Bank (FHLB), and 4) Letter of Credit. The right of collateral substitution is granted. The Finance Department is authorized to review and must first approve any collateral release which falls within these limitations.

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

The right of collateral substitution or reduction is to be granted on an individual issue basis. Any depository institution requesting substitution or reduction must contact the Investment Officer for approval and settlement. The value will be calculated and substitution/reduction approved if its resulting value is equal to or greater than the required value.

XI. PERFORMANCE

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.

Performance Benchmark

The City of Victoria, Texas investment strategy is passive. Given this strategy, the basis used by the Finance Department to determine whether marked yield is being achieved shall be the average of the six-month U.S. Treasury Bill and A1/P1 Commercial Paper, which will be included in the quarterly reports submitted to Council.

Internal Controls

The Director of Finance, in conjunction with the City's annual financial audit, shall perform a compliance audit of management controls on investment and adherence to the City's Investment Policy.

XII. REPORTING

Not less than quarterly, the investment officer shall prepare and submit to City Council a market investment portfolio report.

The report must meet all criteria of Section 2256.023 of the PFIA. Specifically, but not limited to, the report must:

- Describe in detail the investment position of the City as of the end date of the report.
- Be prepared jointly and signed by all investment officers of the City.
- The report shall further set out a summary statement of each pooled fund group, state the maturity date of each separately invested asset, and state how the City has complied with the investment strategy expressed in this Policy and the relevant provisions of the Act.
- The market value of all securities in the portfolio will be determined on a quarterly basis. The City will use both the average of the six-month U.S. Treasury Bill and A1/P1 Commercial Paper rate to determine the market value. These values will be obtained from a reputable and independent source, such as the Wall Street Journal, and disclosed to the governing body quarterly in the investment report.

At least annually, the report must be reviewed by an independent auditor and presented to the City.

Subsequent to each regular legislative session, City Council will be presented a report outlining any changes to the Public Funds Investment act.

XIII. INVESTMENT POLICY ADOPTION

The City of Victoria, Texas investment policy and strategies shall be adopted by resolution of the City Council of the City of Victoria, Texas. The policy and strategies shall be reviewed and adopted by resolution annually by the City Council and Finance Department. Any changes made to the current policy or strategies should be listed in the resolution. Even if no changes are made to the policy or strategies, City Council must still adopt a resolution on an annual basis. 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.