

CITY OF HUMBLE

RESOLUTION NO. 18-792

A RESOLUTION OF THE CITY OF HUMBLE ADOPTING THE CITY OF HUMBLE INVESTMENT POLICY AND STRATEGY

WHEREAS, the governing body of the City of Humble, Texas, in the best interest of the citizens and in accordance with State statutes (Government Code 2256, the Public Funds Investment Act, the "Act"), has reviewed and hereby adopts the Investment Policy and Strategy for the City of Humble; and

WHEREAS, this policy satisfies the requirement of the Act which requires the creation and annual adoption of a written investment policy and strategy. The City Council shall review and adopt, no less than annually, the Investment Policy and its incorporated strategies. Any changes to the Policy will be detailed in the adopting resolution; now therefore

BE IT RESOLVED, BY THE CITY COUNCIL OF THE CITY OF HUMBLE, TEXAS THAT:

Section 1: This Investment Policy and Strategy be adopted as required by Section 2256, Public Funds Investment Act, of the Government Code and read as follows, to wit:

**ARTICLE I:
INVESTMENT OBJECTIVES**

General. This investment policy applies to all the financial assets of the City. The policy is to provide the City with specific policy guidelines so that the yield on invested capital may be maximized while the risk to invested capital may be minimized.

Investment Objectives. Safety of principal shall be the foremost objective of the City's investment program. Each investment transaction shall seek to first insure that capital losses are avoided, whether they are from securities, defaults or erosion of market value. The portfolio shall be managed with the objective of obtaining a reasonable market yield. The primary objectives, in priority order, of the City's investment activities shall be:

- a. Safety of Principal - The primary objective of the investment activity is the preservation of capital. Each investment transaction shall be conducted in a manner to avoid capital losses, whether from security defaults, safekeeping, or erosion of market value. Investments in high credit quality securities and decisions based on anticipated cash needs are primary factors in providing safety.
- b. Liquidity - The investment portfolio shall be structured to meet all expected obligations in a timely manner. This shall be achieved by matching investment maturities with forecasted cash flow liabilities and maintaining additional liquidity for unexpected liabilities. The maximum maturity of any investment shall be four (4) years.
- c. Diversification - The portfolio shall be diversified by institution, market sector and maturity as much as possible to minimize risk.

- d. Yield - The benchmark for the combined portfolio shall be the comparable period one year U.S. Treasury Bill, designated for its comparability to the City's expected average cash flow pattern and the Policy maximum weighted average maturity (WAM) limit of one year. The investment program shall seek to augment returns above this threshold consistent with risk limitations identified and the City's prudent investment strategy.

Quality and Capability of Investment Management. Public Trust - All City officials having either a direct or indirect role in the process of investing City funds shall act responsibly as custodians of the public trust. Investment officials shall avoid any transaction that might involve or create a conflict of interest, give the appearance of a conflict of interest, or otherwise impair public confidence in the City government's ability to govern effectively. An investment officer who has a personal business relationship with or is related to an entity seeking to sell an investment to the City of Humble shall file a statement disclosing such relationships or interest in accordance with the Act.

Prudence - The standard of care to be used by investment officials shall be the "Prudent Person Rule".

“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.”

Prudence shall be determined by taking into consideration the investment of all funds over which the Investments Officer had responsibility (rather than a consideration as to the prudence of a single investment), and whether the investment decision was consistent with the City's Investment Policy.

ARTICLE II: SCOPE

This Investment Policy applies to all financial assets of the City of Humble. These funds are accounted for in the City's annual financial report and include:

- a. the general fund;
- b. the special revenue fund;
- c. capital projects funds;
- d. enterprise fund;
- e. trust and agency funds, to the extent not required by law or existing contract to be kept segregated and managed separately;
- f. debt service funds, including reserves and sinking funds, to the extent not required by law or existing contract to be kept segregated and managed separately; and
- g. any new fund created by the City, unless specifically exempted from this Policy by the City Council or by law.

This Investment Policy shall apply to all transactions involving the financial assets and related activity for all the foregoing funds. However, this policy does not apply to the employee retirement and pension funds sponsored by the City of Humble.

ARTICLE III: INVESTMENT STRATEGY

As an integral part of the investment policy, the investment strategy provides that the investment of funds will be governed by its investment objectives listed in the Investment Objectives of this Policy.

The City may maintain one combined portfolio for investment purposes which incorporates the specific uses and the unique characteristics of the individual operating funds in the portfolio. The investment strategy has as its primary objective assurance that anticipated liabilities are matched and adequate investment liquidity provided. The City shall pursue pro-active but conservative portfolio management strategy. This may be accomplished by creating a laddered maturity structure with some extension for yield enhancement. The maximum maturity of any security will be four years and the maximum dollar weighted average maturity of twelve months or less will be calculated using the stated final maturity date of each security.

The investment strategy for debt service funds shall have as its primary objective the timely payment of debt service obligations. Successive debt service dates will be fully funded before any investment extensions are made.

ARTICLE IV: RESPONSIBILITIES

Designated Investment Officers. The City of Humble's City Manager and Chief Financial Officer shall be designated by resolution of the Council as investment officers who are responsible for the investment of the City's funds. No unauthorized person may engage in an investment transaction and all transactions shall be executed as provided under the terms of this Policy and its supporting procedures. . The Investment Officer(s) are responsible for creating and maintaining the portfolio in accordance with this Policy, providing timely quarterly reporting to the Council, and establishing supporting procedures.

All investment officers shall attend at least ten (10) hours of training approved by the City Council within twelve months of designation as investment officer and shall attend eight (8) hours of training every two successive fiscal years.

The Investment Officer, acting in accordance with written procedures and exercising due diligence, shall be responsible but not liable for a specific security's credit risk or market price changes, provided that these deviations are reported immediately and that appropriate action is taken to control adverse developments.

Term. Investment authority granted to the investing officers is effective until the termination of City employment or rescinded by the City Council.

Statement of Interest and Affiliation. Statement of Interest and Affiliation. Each investment officer shall complete a Statement of Interest and Affiliation form disclosing financial interests, ownership interests, and personal relationships with any entities or individuals seeking to sell investments to the City of Humble. The Statement of Interest and Affiliation form shall be completed for at the beginning of each fiscal year.

Personal Responsibility. Investment officers acting in accordance with written procedures and this investment policy and exercising due diligence shall be relieved of personal responsibility.

City Council Responsibilities. The City Council holds ultimate fiduciary responsibility for the portfolio. It will designate investment officer(s), receive and review quarterly reporting, approve and provide for investment officer training, approve broker/dealers, and review and adopt the Investment Policy and

Strategy at least annually.

ARTICLE V: AUTHORIZED INVESTMENTS

Assets of the City may be invested only in the following instruments as further defined by the Act. If changes are made to the Act they will not be authorized for City use until this Policy is modified and adopted by the City Council. All investment transactions will be made on a competitive basis.

- a. Obligations of the United States Government, its agencies and instrumentalities with a maximum stated maturity of four (4) years, excluding mortgage backed securities.
- b. Fully insured or collateralized depository certificates of deposit from banks in Texas, with a maximum maturity of four (4) years insured by the Federal Deposit Insurance Corporation, or its successor, or collateralized in accordance with this Policy.
- c. AAA-rated, Texas Local Government Investment Pools which strive to maintain a \$1 net asset value (NAV) in accordance with the Act and authorized by resolution of the City Council.
- d. AAA-rated, SEC registered money market mutual funds in compliance with SEC Rule 2a-7 and striving to maintain a \$1 net asset value.
- e. FDIC insured, brokered certificate of deposit securities from a bank in any US state, delivered versus payment to the City's safekeeping agent, not to exceed four (4) years to maturity. Before purchase, the Investment Officer must verify the FDIC status of the bank on www.fdic.gov to assure that the bank is FDIC insured.
- f. FDIC insured or collateralized interest bearing and money market accounts from any FDIC insured bank in Texas.
- g. A1/P1 rated commercial paper with a stated maturity of 270 or fewer days.
- h. General debt obligations of any US state or political subdivision rated AA or better with a stated maturity not to exceed four years.
- i. Share certificates of Texas credit unions which are fully insured by the National Credit Union Insurance Fund.
- j. Interest bearing accounts from any bank in Texas which are FDIC insured or collateralized in accordance with this Policy.

Delivery versus Payment. All securities shall be purchased on a delivery versus payment (DVP) settlement basis. Funds shall not be released until receipt of the security by the City's approved custodian. The custodian shall provide the City with proof of ownership or claim by an original document delivered to the City.

ARTICLE VI: UNAUTHORIZED INVESTMENTS

Under no circumstances shall investments be made in interest-only or principal-only strips of mortgage-backed securities, or in collateralized mortgage obligations with an inverse floating interest rate or a maturity date of over 10 years. Neither shall investments be made in obligations that are secured by these prohibited investments.

ARTICLE VII: REPORTING REQUIREMENTS

Internal Management Reports. On a timely basis each quarter, the designated Investment Officers shall submit a written report of all investments, in compliance with Section 2256.023 of the Public Funds Investment Act. The Investment Officers shall submit the signed quarterly investment report to the

governing body in accordance with the Act giving detail information on each portfolio and bank position and summary information to permit an informed outside reader to evaluate the performance of the investment program. The reports shall be submitted to the City Council and the City Manager. Market prices for the calculation of market value will be obtained from independent sources.

Audit Reports. An internal compliance audit of management controls on investments and adherence to this investment policy shall be performed in conjunction within the City of Humble's annual financial audit. The City's external auditor shall be provided with the quarterly investment reports.

ARTICLE VIII: Internal Controls

The Investment Officer is responsible for establishing and maintaining internal controls to reasonably assure that assets are protected from loss, theft, or misuse. The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits likely to be derived, and, the valuation of costs and benefits requires ongoing estimates and judgments by management.

The internal controls shall address the following points at a minimum:

- Control of collusion,
- Separation of transaction authority from accounting and record keeping,
- Custodial safekeeping,
- Clear delegation of authority,
- Written confirmation for all transactions, and
- Review, maintenance and monitoring of security procedures both manual and automated.

Annually the Investment Officer shall perform an internal compliance audit to assure compliance with requirements of this Policy and the Act. Annually, the City's external auditor shall review the quarterly reports.

Cash Flow Forecasting Cash flow forecasting is designed to protect and sustain cash flow requirements of the City. The Investment Officer will analyze and maintain a cash flow plan to monitor and forecast cash positions for investment purposes.

Competitive Bidding All security transactions will be made on documented competitive bid basis to assure the City is receiving good market rates. When-issued US agency securities should be compared to other securities available in the secondary market to determine competitiveness.

Monitoring Credit Ratings The Investment Officer shall monitor, on no less than a monthly basis, the credit rating on all authorized investments in the portfolio which require credit ratings 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 notify the City Manager of the loss of rating, and liquidate the investment within two days.

Monitoring FDIC Status for Mergers and Acquisitions The Investment Officer shall monitor, on no less than a weekly basis, the status and ownership of all banks issuing brokered CD securities owned by the City based upon information from the FDIC (fdic.gov). If any bank has been acquired or merged with another bank in which brokered CDs are owned by the City, the Investment Officer or Adviser shall immediately liquidate any brokered CD which places the City above the FDIC insurance level.

ARTICLE IX: FINANCIAL COUNTERPARTIES

Depository At least every five years, a banking services depository shall be selected through a competitive request for proposal or bid process in accordance with the Texas Government Code 105. In selecting a depository, the services, cost of services, credit worthiness, earnings potential, and collateralization by the institutions shall be considered. If securities require safekeeping, the RFP/bid will request information on safekeeping services. The depository contract will provide for collateral if balances exceed the FDIC insurance balance per tax identification number.

All time and demand deposits in any depository of the City shall be insured or collateralized at all times in accordance with this Policy.

Other banking institutions, from which the City may purchase certificates of deposit or place interest bearing accounts, will also be designated as a depository for depository/collateral purposes. All depositories will execute a depository agreement and have the Bank's Board or Bank Loan Committee pass a resolution approving the agreement if collateral is required.

Security Broker/Dealers All pools, financial institutions, and broker/dealers who desire to transact business with the City must supply the following documents to the Investments Officer(s).

- Financial Industry Regulatory Authority (FINRA) certification and CRD #
- Proof of Texas State Securities registration

Each broker/dealer will be sent a copy of the City's investment policy. If material changes are made to the policy, the new policy will be sent to the entities.

A list of qualified broker/dealers will be reviewed at least annually by the City Council. In order to perfect the DVP process the banking services depository, or its brokerage subsidiary, will not be used as a broker.

Each pool must be provided a copy of the City's current Investment Policy and certify to a review of the Policy stating that the pool has controls in place to assure only Policy approved investments will be sold to the City.

ARTICLE X: COLLATERAL

Time and Demand Deposits Pledged Collateral All bank time and demand deposits shall be collateralized above the FDIC insurance coverage by collateral pledged to the City. In order to anticipate market changes and provide a level of security for all funds, collateral will be maintained and monitored by the pledging depository at 102% of market value of principal and accrued interest on the deposits. The bank shall monitor and maintain the margins on a daily basis.

Collateral pledged to secure deposits shall be held by an independent financial institution outside the holding company of the depository. The collateral agreement with the depository shall be approved by resolution of the Bank Board or Bank Loan Committee. The Custodian shall provide a monthly report of collateral directly to the City.

All collateral shall be subject to inspection and audit by the City or its independent auditors.

Authorized Collateral Only the following securities are authorized as collateral for time and demand deposits or repurchase agreements:

- a. FDIC insurance coverage.
- b. Obligations of the United States, its agencies or instrumentalities, or evidence of indebtedness of the United States guaranteed as to principal and interest including MBS and CMO which pass the bank test.
- c. Obligations of any US state or of a county, City or other political subdivision of any state having been rated as investment grade (investment rating no less than “A” or its equivalent) by two nationally recognized rating agencies.
- d. Letter of Credit from the FHLB.

Preference will be given to banks providing pledged securities (A-C).

**ARTICLE XI:
SAFEKEEPING**

All purchased securities are to be cleared to the City’s safekeeping agent on a delivery versus payment (DVP) basis. All safekeeping arrangements shall be approved by the Investment Officer and an agreement of the terms executed in writing. The independent 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.

**ARTICLE VIII:
REVIEW AND ADOPTION OF INVESTMENT POLICY AND STRATEGY**

The City Council of the City of Humble shall adopt by rule, order, ordinance, or resolution, as appropriate, the City's investment policy. The policy shall be reviewed and adopted annually and any modifications made thereto must be reflected on the adopting resolution.

POLICY CERTIFICATION FORM
as required by Texas Government Code 2256.005 (k)

CITY OF HUMBLE (the "City")

FIRM: _____

The City acknowledges that the only means the firm has to preclude imprudent investment activities arising out of transactions between the firm and the City are to confirm that all provisions of the City's investment policy are followed in investment transactions conducted between the firm and the City, and the second paragraph should be read accordingly. Business organizations, defined by the Act as local government pools and discretionary investment advisers must certify to a review of the policy.

I, as an authorized individual acting for the Firm do hereby certify that I have received and both reviewed the Investment Policy of the City of Humble.

We acknowledge that this firm has implemented reasonable internal procedures and controls in an effort to preclude imprudent investments between the firm and the City arising from transactions between the City and the firm.

Signature: _____

Name: _____

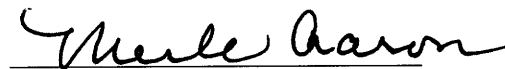
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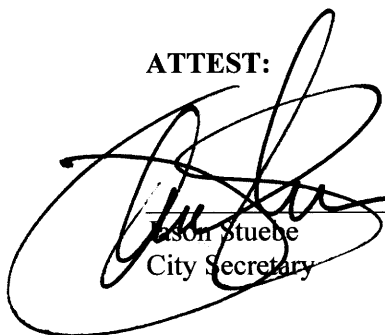
Section 2: That the above stated Investment Policy and Strategy shall be effective immediately upon and after the date of passage.

PASSED, APPROVED AND ADOPTED this the 25th day of January, 2018.

APPROVED:


Merle Aaron
Mayor

ATTEST:


Jason Stuebe
City Secretary

