



TO: Mayor and Councilmembers
FROM: City Manager John Moran
DATE: June 14, 2011
SUBJECT: Discussion and possible action regarding the Annual Public Funds Investment Review.

ACTION: Discussion and action as deemed by the Council.

(VII – C)

CITY OF FARMERSVILLE INVESTMENT POLICY

All investments made by the City of Farmersville shall comply with the Public Funds Investment Act (Texas Government Code Chapter 2256, Subchapter A) and all federal, state, and local statutes, rules or regulations.

INVESTMENT POLICY ADOPTION AND REVIEW

This policy shall be adopted by resolution by the City Council and shall be reviewed not less than annually by the City Council. The Council shall adopt a written instrument stating that it has reviewed the investment policy and investment strategies and that the written instrument so adopted shall record any changes made to either the investment policy or investment strategies.

The Council shall perform a compliance audit of management controls on investments and adherence to the Council's established investment policies. The compliance audit shall be performed in conjunction with the annual financial audit.

SCOPE

This investment policy applies to the investment activities of the City of Farmersville. All financial assets including all governmental funds, enterprise funds and other funds that may be created from time to time shall be administered in accordance with the provisions of these guidelines.

INVESTMENT AUTHORITY

The City Council shall designate one or more employees as investment officer(s) to be responsible for the investment of its funds pursuant to this policy. Authority granted to a person to invest City funds is effective until rescinded by the Council or until termination of the person's employment by the City.

Within 12 months after assuming duties, the investment officer(s) of the City shall attend at least one training session and receive not less than ten hours of training relating to their respective responsibilities under the Public Funds Investment Act. The investment officer(s) must also subsequently attend investment training not less than once in a two-year period and receive not less than ten hours of instructions relating to investment policies under the Public Funds Investment Act.

STANDARD OF CARE / INVESTMENT OBJECTIVES

Investments shall be made with the judgment and care, under prevailing circumstances that a person of prudence, discretion, and intelligence would exercise in the management of his or her own affairs, not for speculation, but for investment, considering the probable safety of capital and the probable income to be derived. Investment strategies shall have as their primary objective safety, investment liquidity, and maturity sufficient to meet anticipated cash flow requirements. Investments shall be governed by the following objectives in order of priority:

1. Preservation and safety of principal;
2. Liquidity; and
3. Yield

In determining whether an investment officer has exercised prudence with respect to an investment decision, the following shall be taken into consideration:

1. The investment of all funds, rather than the prudence of a single investment, over which the officer had responsibility.
2. Whether the investment decision was consistent with the Council's written investment policy.

PERSONAL INTEREST

A City investment officer who has a personal business relationship with a business organization offering to engage in an investment transaction with the City shall file a statement disclosing the personal business interest. An investment officer who is related within the second degree by affinity or consanguinity, as determined by Government Code Chapter 573, to an individual seeking to sell and investment to the City shall file a statement disclosing that relationship with the City and with the Texas Ethics Commission. For purposes of this policy, an investment officer has a personal business interest with a business organization if:

1. The investment officer owns ten percent or more of the voting stock or shares of the business organization or owns \$5,000 or more of the fair market value of the business organization;
2. Funds received by the investment officer from the business organization exceed ten percent of the investment officer's gross income for the previous year; or
3. The investment officer has acquired from the business organization during the previous year investments with a book value of \$2,500 or more for the personal account of the investment officer.

QUARTERLY REPORTS

Not less than quarterly, the investment officer shall prepare and submit to the Council a written report of investment transactions for all funds covered by the Public Funds Investment Act. This report shall be presented to the Council not less than quarterly, within a reasonable time after the end of the period. The report must:

1. Contain a detailed description of the investment position of the City on the date of the report;
2. Be prepared jointly and signed by all City investment officers.
3. Contain a summary statement for each pooled fund group. The report must be prepared in compliance with generally accepted accounting principles and must state:
 - a. Beginning market value during the period;
 - b. Additions and changes to the market value during the period;
 - c. Ending market value for the period; and

- d. Fully accrued interest for the reporting 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 fund type invested.
5. State the maturity date of each separately invested asset that has a maturity date.
6. State the account or fund or pooled group fund in the City for which each individual investment was acquired.
7. State the compliance of the investment portfolio of the City as it relates to the City's investment strategy expressed in the City's investment policy and relevant provisions of law.

If the City invests in other than money market mutual funds, investment pools or accounts offered by its depository bank in the form of certificates of deposit, or money market accounts or similar accounts, the reports shall be formally reviewed at least annually by an independent auditor, and the result of the review shall be reported to the Council by that auditor.

AUTHORIZED INVESTMENTS

The City may purchase, sell, and invest its funds under its control in investments described below, in compliance with its adopted investment policies and according to the standard of care set out in this policy. The Council shall permit investment of City funds in only the following investment types, consistent with the strategies defined in this policy:

1. Obligations of, or guaranteed by, governmental entities as permitted by Government Code 2256.009.
2. Certificates of deposit and share certificates as permitted by Government Code 2256.010.
3. Fully collateralized repurchase agreements permitted by Government Code 2256.011.
4. Banker's acceptances as permitted by Government Code 2256.012.
5. Commercial paper as permitted by Government Code 2256.013.
6. Two types of mutual funds as permitted by Government Code 2256.014: money market mutual funds and no-load mutual funds.
7. A guaranteed investment contract as an investment vehicle for bond proceeds provided it meets the criteria and eligibility requirements established by Government Code 2256.015.
8. Public funds investment pools as permitted by Government Code 2256.016.

ELECTRONIC FUNDS TRANSFER

The City may use electronic means to transfer or invest all funds collected or controlled by the City.

SAFETY AND INVESTMENT MANAGEMENT

The main goal of the investment program is to ensure its safety and maximize financial returns within current market conditions in accordance with this policy. Investments shall be made in a manner that ensures the preservation of capital in the overall portfolio, and offsets during a 12-month period any market price losses resulting from the interest-rate fluctuations by income received from the balance of the portfolio. No individual investment transaction shall be undertaken that jeopardizes the total capital position of the overall portfolio.

LIQUIDITY AND MATURITY

The City's investment portfolio shall have sufficient liquidity to meet anticipated cash flow requirements.

DIVERSITY

The investment portfolio shall be diversified in terms of investment instruments, maturity scheduling, and financial institutions to reduce risk of loss resulting from over concentration of assets in a specific class of investments, specific maturity, or specific issuer.

MONITORING MARKET PRICES

Monitoring shall be done monthly or more often as economic conditions warrant by using appropriate reports, indices, or benchmarks for the type of investment. The investment officer shall keep the Council informed of significant declines in the market value of the City's investment portfolio. Information sources may include financial/investment publications and electronic media, available software for tracking investments, depository banks, commercial or investment banks, financial advisors, and representatives/advisors of investment pools or money market funds.

SAFEKEEPING AND CUSTODY

The City shall retain clearly marked receipts providing proof of the City's ownership, or the City may delegate to an investment pool the authority to hold legal title as custodian of investments purchased with City funds. All investment transactions except investment pool funds and mutual funds shall be executed on a delivery versus payment basis.

SELLERS OF INVESTMENTS

A written copy of the investment policy shall be presented to any person offering to engage in an investment transaction with an investing entity or to an investment management firm under contract with an investing entity to invest or manage the entity's investment portfolio. For purposes of this policy, a business organization includes investment pools and an investment management firm under contract with an investing entity to invest or manage the entity's investment portfolio. The qualified representative of the business organization offering to engage in an investment transaction with the City shall execute a written instrument in a form acceptable to the City and the business organization substantially to the effect that the business organization has:

1. Received and thoroughly reviewed the City investment policy; and
2. Has acknowledged that the business 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 policy.

The investment officer may not acquire or otherwise obtain any authorized investment described in the City's investment policy from a person who has not delivered to the City the instrument described above.

BROKERS / DEALERS

Prior to handling investments on behalf of the City, brokers/dealers must submit required written documents in accordance with law. Representatives of brokers/dealers shall be registered with the Texas State Securities Board and must have membership in the Securities Investor Protection Corporation (SIPC), and be in good standing with the National Association of Securities Dealers.

SOLICITING BIDS

In order to get the best return on its investments, the City may solicit bids in writing, by telephone, or electronically.

INTERNAL CONTROLS

A system of internal controls shall be established and documented in writing and must include specific procedures designating who has authority to withdraw funds. Also, they shall be designed to protect against losses of public funds arising from fraud, employee error, misrepresentation by third parties, unanticipated changes in financial markets, or imprudent actions by employees and officers of the City. Controls deemed most important shall include:

1. Separation of transaction authority from accounting and record keeping and electronic transfer of funds.
2. Avoidance of collusion.
3. Custodial safekeeping
4. Clear delegation of authority
5. Written confirmation of telephone transactions.
6. Documentation of dealer questionnaires, quotations and bids, evaluations, transactions, and rationale.
7. Avoidance of bearer-form securities.

These controls shall be reviewed by the City's independent auditing firm.

Government Treasurers' Organization of Texas

Certification of Investment Policy

Presented to

City of Farmersville

for developing an investment policy that meets the requirements of the Public Funds Investment Act and the standards for prudent public investing established by the Government Treasurers' Organization of Texas.



Government Treasurers' Organization of Texas
President



Investment Policy Review Committee
Chairperson

For the two-year period ending October 31, 2012

Government Treasurers' Organization of Texas

October 19, 2010

Ms. Daphne Hamlin
Finance Director
City of Farmersville
205 S. Main
Farmersville, TX 75442

Dear Ms. Hamlin:

On behalf of the Investment Policy Review Committee, I am pleased to inform you that the Government Treasurers' Organization of Texas is awarding the Certificate of Distinction to the City of Farmersville for its Investment Policy. I congratulate you on developing a comprehensive written investment policy that meets the criteria set forth in our Investment Policy Review Checklist.

Since investment policies require periodic review and modification, we recommend the following changes to the city's policy at the next opportunity:

- Annual Review of Qualified Bidders List - Investment Policy must require either the entity's governing body or its Investment Committee to, at least annually, review, revise, and adopt a list of qualified brokers that are authorized to engage in investment transactions with the entity.
- Independent Third Party Safekeeping - Securities and collateral will be held by a third party custodian designated by the entity, and held in the entity's name as evidenced by safekeeping receipts of the institution with which the securities are deposited.
- Delivery vs. Payment – when you have third party safekeeping the safekeeping bank will generate the payments based on your investment instructions to them so you don't have to generate wires.
- Competitive Bidding - Investment Policy should require at least three competitive offers or bids for all individual security purchases and sales (excluding transactions with money market mutual funds and local government investment pools, which are deemed to be made at prevailing market rates).
- Collateral Policy – policy should specify that all Certificates of Deposit and city deposits in excess of FDIC coverage should be collateralized with collateral held in the City's name by a third party.
- Weighted Average Maturity for Pooled Fund Groups and Maximum Maturity – if your entity combines funds as a "pooled fund group" for investing purposes, then the maximum dollar-weighted average maturity of the portfolio, based on the stated maturity date, must be included in your Investment Policy. Also should state maximum maturity for individual investment types.



- Annual Review of Investment Policy – the governing body must adopt the policy annually regardless of whether there are any changes.

Congratulations once again, and thank you for participating in our certification program. Your Certificate is being mailed under separate cover and is good for a two-year period ending October 31, 2012.

Sincerely,

A handwritten signature in black ink that reads "David Balsamo". The signature is written in a cursive style with a large, prominent 'D' and 'B'.

David Balsamo, CTP
Chair, GTOT Investment Policy Review Committee