

CITY OF PITTSBURG
INVESTMENT POLICY

INTRODUCTION

The purpose of this document is to set forth specific investment policy and strategy guidelines for the City of Pittsburg in order to achieve the goals of safety, liquidity, yield, and public trust for all investment activity. The City Council of Pittsburg shall review its investment strategies and policy not less than annually. This policy serves to satisfy the statutory requirement (specifically the Public Funds Investment Act, Article 342a-2 V.T.C.S. (the "Act") to define, adopt and review a formal investment strategy and policy.

INVESTMENT STRATEGY BY FUND TYPE

The City of Pittsburg maintains portfolios that utilize four specific investment strategy considerations, designed to address the unique characteristics of the fund groups represented in the portfolios:

A. OPERATING FUNDS

Investment strategies for operating funds and co-mingled pools containing operating funds have as their primary objective to assure that anticipated cash flows are matched with adequate investment liquidity. The secondary objective is to create a portfolio structure that will experience minimal volatility during economic cycles. The dollar weighted average maturity of 365 days or less will be calculated using the stated final maturity date of each security.

B. DEBT SERVICE FUND

Investment strategies for debt service funds shall have as the primary objective the assurance of investment liquidity adequate to cover the debt service obligation on the required payment date. Securities purchased shall not have a stated final maturity date that exceeds the debt payment date.

C. DEBT SERVICE RESERVE FUNDS

Investment strategies for debt service reserve funds shall have as the primary objectives the ability to generate a dependable revenue stream to the appropriate debt service fund from securities with a low degree of volatility. Securities should be of high quality and, except as may be required by the bond ordinance specific to an individual issue, of short to intermediate term maturities.

D. CAPITAL PROJECT AND SPECIAL PURPOSE FUNDS

Investment strategies for special projects or special purpose fund portfolios will have as their primary objective to assure that anticipated cash flows are matched with adequate investment liquidity. The stated final maturity dates of securities held should not exceed the estimated project completion date.

INVESTMENT POLICY

I. SCOPE

This investment policy applies to all financial assets of the City of Pittsburg. These funds are accounted for in the City's Comprehensive Annual General Purpose Financial Statement and include:

- *General Fund
- *Special Revenue Funds
- *Capital Project Funds
- *Enterprise Funds
- *Trust and Agency Funds

II. OBJECTIVES

The City of Pittsburg shall manage and invest its cash with four objectives, listed in order of priority: Safety, Liquidity, Yield and Public Trust. The safety of the principal invested always remains the primary objective. All investments shall be designated and managed in a manner responsive to the public trust and consistent with State and Local law.

The City shall maintain a comprehensive cash management program which includes collection of accounts receivable, vendor payment in accordance with invoice terms, and prudent investment of available cash. Cash management is defined as the process of managing monies in order to insure maximum cash availability and maximum yield on short-term investment of pooled idle cash.

SAFETY

The primary objective of the City's investment activity is the preservation of capital in the overall portfolio. Each investment transaction shall be conducted in a manner to avoid capital losses, whether they be from securities defaults or erosion of market value. To attain this objective, diversification is required in order that potential losses on individual securities do not exceed the income generated from the remainder of the portfolio.

LIQUIDITY

The City's investment portfolio shall be structured such that the City is able to meet all obligations in a timely manner. This shall be achieved by matching investment maturities with forecasted cash flow requirements and by investing in securities with active secondary markets. 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.

YIELD

It will be the objective of the city to earn the maximum rate of return allowed on its investment within the policies imposed by its safety and liquidity objectives, investment strategies for each fund, and state and federal law governing investment of public funds.

MATURITY

Portfolio maturities will be structured to meet the obligations of the city first and then to achieve the highest return of interest. When the city has funds that will not be needed to meet current-year obligations, maturity restraints will be imposed based upon the investment strategy for each fund. The maximum allowable stated maturity of any individual investment owned by the city is one year or less.

PUBLIC TRUST

All participants in the city's investment process shall seek to act responsibly as custodians of the public trust. Investment officials shall avoid any transaction, which might impair public confidence in the city's ability to govern effectively.

III. RESPONSIBILITY AND CONTROL

FINANCE COMMITTEE

The City Council of Pittsburg shall review investment policies and procedures, operational strategies and investment performance. The Pittsburg City Council shall include in its deliberations such topics as: performance reports, economic outlook, portfolio diversification, and maturity structure, potential risk to the City's funds and authorized brokers and dealers.

DELEGATION OF AUTHORITY AND TRAINING

Authority to manage the City's investment program is derived from a resolution of the City Council. The City Manager is designated as investment officer of the City and is responsible for investment decisions and activities. The City Secretary is designated as investment officer in the same capacity as the City Manager in the event the City Manager is not available or needs assistance. The City Manger shall establish written procedures for the operation of the investment program, consistent with this investment policy. . The Public Funds Investment Act (Chapter 2256, Texas Government Code) requires Treasurers, Chief Financial Officers, and Investment Officers of local governments, to receive 10 hours of training on topics pertaining to the Act within the first 12 months after assuming duties and every 2 years thereafter. The Public Funds Investment Act requires that investment training include education in investment controls, security risks, strategy risks, market risks, diversification of investment portfolio, and compliance with the Act.

INTERNAL CONTROLS

The City Secretary with the approval of the City Council is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the entity are protected from loss, theft or misuse. The internal control structure shall be designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgments by management.

Accordingly, the City Council shall establish a process for annual independent review by an external auditor to assure compliance with policies and procedures. The internal controls shall address the following points:

- A. Control of collusion.
- B. Separation of transaction authority from accounting and record keeping.
- C. Custodial safekeeping.
- D. Avoidance of physical delivery securities.
- E. Clear delegation of authority to subordinate staff members.
- F. Written confirmation for telephone (voice) transactions for investments and wire transfers.
- G. Development of a wire transfer agreement with the depository bank or third party custodian.

PRUDENCE

The standard of prudence to be applied by the investment officers shall be the "prudent investor" rule, which state: "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." In determining whether an investment officer has exercised prudence with respect to an investment decision, the determination shall be made taking into consideration:

- A. The investment of all funds, or funds under the City's control, over which the officers had responsibility rather than a consideration as the prudence of a single investment.
- B. Whether the investment decision was consistent with the written investment policy of the City.

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

ETHICS AND CONFLICTS OF INTEREST

City staff 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 the ability to make impartial investment decisions. City staff shall disclose to the City Manager any material financial interests in financial institutions that conduct business with the City and they shall further disclose positions that could be related to the performance of the City's portfolio. City staff subordinates their personal financial transactions to those of the City, particularly with regard to timing of purchases and sales.

An investment officer of the City who has a personal relationship with an organization seeking to sell an investment to the City shall file a statement disclosing that personal business interest. An investment officer who is related within the second degree by affinity or consanguinity to an individual seeking to sell an investment to the City shall file a statement disclosing that relationship. A statement required under this subsection must be filed with the Texas Ethics Commission and the governing body of the entity.

IV. REPORTING

QUARTERLY REPORTING

The City Secretary shall submit a signed quarterly investment report that summarizes current market conditions, economic developments and anticipated investment conditions. The report shall summarize investment strategies employed in the most recent quarter, and describe the portfolio in terms of investment securities, maturities, risk characteristics and shall explain the total investment return for the quarter.

ANNUAL REPORT

Within 60 days of end of the fiscal year, the City Secretary shall present an annual report on the investment program and investment activity. This report may be presented as a component of the fourth quarter report to the City Manager and City Council.

METHODS

The quarterly investment report shall include a management summary that provides a clear picture of the status of the current investment portfolio and transactions made over the last quarter. This management summary will be prepared in a manner that allows the City to ascertain whether investment activities during the reporting period have conformed to the investment policy. The report will be provided to the City Manager and City Council. The report will include the following:

- A. A listing of individual securities held at the end of the reporting period.
- B. Unrealized gains or losses resulting from appreciation or depreciation by listing the beginning and ending book and market value of securities for the period.
- C. Average weighted yield to maturity of portfolio on entity investments.
- D. Additions and changes to the market value during the period.
- E. Listing of investments by maturity date.
- F. The percentage of the total portfolio which each type of investment represents.
- G. Statement of compliance of the City's investment portfolio with State Law and the investment strategy and policy approved by the City Council.

INVESTMENTS

Assets of the City of Pittsburg may be invested in the following instruments; provided, however, that at no time shall assets of the City be invested in any instruments or security not authorized for investment under the Act, or as the Act may from time to time be amended.

The Investment officer shall use any or all of the following authorized investment instruments consistent with governing law (Government Code 2256) and this policy.

A. Bank Investments

- (1) Fully collateralized Time Deposits;
- (2) Fully collateralized Certificates of Deposit;
- (3) Fully collateralized interest-bearing checking accounts.

B. Direct Investments

- (1) United States Treasury Securities;
- (2) Obligations of the United States or its agencies and instrumentalities, with a legal stated maturity of no more than twelve (12) months;

C. Eligible Investment Pools

- (1.) Any "Public Funds Pool" authorized by State Statute and City Council.

HOLDING PERIOD

The City of Pittsburg intends to match the holding periods of investment funds with liquidity needs of the City. In no case will the average maturity of investments of the City's operating funds exceed one year.

RISK AND DIVERSIFICATION

The City of Pittsburg recognizes that investment risks can result from issuer defaults, market price changes or various technical complications leading to temporary illiquidity. Risk is controlled through portfolio diversification which shall be achieved by the following general guidelines:

- A. Risk of issuer default is controlled by limiting investments to those instruments allowed by the Act, which are described herein.
- B. Risk of market price changes shall be controlled by avoiding over-concentration of assets in a specific maturity sector, limitation of average maturity of operating funds investments to one year, and avoidance of over-concentration of assets in specific

instruments other than U. S. Treasury Securities and Insured or Collateralized Certificates of Deposits.

- C. Risk of illiquidity due to technical complications shall be controlled by the selection of securities dealers as described herein.

DEPOSITORY

The City Secretary will maintain a list of financial institutions authorized to provide investments 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. These may include "primary" dealers or regional dealers that qualify under **Securities & Exchange Commission Rule 15C3-1 (uniform net capital rule)**. No public deposit shall be made except in a **qualified public depository** as established by state laws.

SECURITIES DEALERS

For brokers and dealers of government securities, the City shall select only those dealers reporting to the Market Reports Division of the Federal Reserve Board of New York, also known as the "Primary Government Security Dealers." Investment officials shall not knowingly conduct business with any firm with whom public entities have sustained losses on investments. All Securities dealers shall provide the City with references from public entities which they are currently serving.

All financial institutions and broker/dealers who desire to become qualified bidders for investment transactions must supply the following as appropriate:

- * audited financial statements
- * proof of National Association of Securities Dealers (NASD) certification
- * proof of state registration
- * completed broker/dealer questionnaire
- * certification of having read the City's investment policy signed by a registered principal of the organization
- * acknowledgment that the organization has implemented reasonable procedures and controls in an effort to preclude investment activities arising out of investment transactions conducted between the City and the organization

V. SAFEKEEPING AND CUSTODY

INSURANCE OR COLLATERAL

All deposits and investments of City funds other than direct purchases of U. S. Treasuries or Agencies shall be secured by pledged collateral. In order to anticipate market changes and provide a level of security for all funds, the collateralization level will be 103% of market value of principal and accrued interest on the deposits or investments less an amount insured by the FDIC or FSLIC. Evidence of the pledged collateral shall be maintained by the Director of Finance or a designated third party financial institution. Repurchase agreements shall be documented by a specific agreement noting the collateral pledge in each agreement. Collateral shall be reviewed monthly to assure that the market value of the pledged securities is adequate.

Any funds invested in any eligible Public Fund Pool and are secured by U.S. Government or its agencies and instrumentalities such funds need not be collateralized.

SAFEKEEPING AGREEMENT

Collateral pledged to secure deposits of the City shall be held by a safekeeping institution in accordance with a Safekeeping Agreement which clearly defines the procedural steps for gaining access to the collateral should the City of Pittsburg determine that the City's funds are in jeopardy. The safekeeping institution, or Trustee, shall be the Federal Reserve Bank or an institution not affiliated with the firm pledging the collateral. The safekeeping agreement shall include the signatures of authorized representatives of the City of Pittsburg, the firm pledging the collateral, and the Trustee.

SAFEKEEPING INSTALLATIONS

All purchased securities shall be held in safekeeping by the city, or a city account in a third party financial institution, or with the Federal Reserve Bank.

All certificates of deposit, insured by the FDIC, purchased outside the Depository Bank shall be held in safekeeping by either the city or a city account in a third party financial institution.

All pledged securities by the Depository Bank shall be held in safekeeping by the city, or a city account in a third party financial institution, or with a Federal Reserve Bank.

COLLATERAL DEFINED

The City of Pittsburg shall accept only the following securities as collateral:

- A. FDIC AND FSLIC insurance coverage.
- B. A bond certified of indebtedness, or Treasury Note of the United States, or other evidence of indebtedness of the United States that is guaranteed as to principal and interest by the United States.
- C. Obligations, the principal and interest on which, are unconditionally guaranteed or insured by the State of Texas.
- D. A bond of the State of Texas or of a county, city or other political subdivision of the State of Texas having been rated as investment grade (investment rating no less than "A" or its equivalent) by a nationally recognized rating agency with a remaining maturity of ten (10) years or less.

SUBJECT TO AUDIT

All collateral shall be subject to inspection and audit by the Director of Finance or the City's independent auditors.

DELIVERY VS. PAYMENT

Treasury Bills, Notes, Bonds and Government Agencies' securities shall be purchased using the **delivery-versus-payment (DVP)** method. That is, funds shall not be wired or paid until verification has been made that the correct security was received by the Trustee. The security shall be held in the name of the City or held on behalf of the City. The trustee's records shall assure the notation of the City's ownership of or explicit claim on the securities. The original copy of all safekeeping receipts shall be delivered to the City.

VI. INVESTMENT POLICY ADOPTION

The City of Pittsburg policy shall be adopted by resolution of the City Council. The policy shall be reviewed for effectiveness on an annual basis and any modifications will be recommended for approval to the City Council.