

CITY OF CRANDALL, TEXAS

RESOLUTION NO. 020509R

A RESOLUTION OF THE CITY OF CRANDALL, TEXAS, APPROVING AND ADOPTING THE CITY OF CRANDALL INVESTMENT POLICY; AND PROVIDING AN EFFECTIVE DATE.

WHEREAS, it is the policy of the City of Crandall, Texas ("City") to administer City funds and the investment of those funds at the highest possible level of public trust and in accordance with the Texas Public Funds Investment Act and other applicable law; and

WHEREAS, the City Council of the City of Crandall, Texas ("City Council") has previously adopted policies regarding the administration of City funds and the investment of City Funds; and

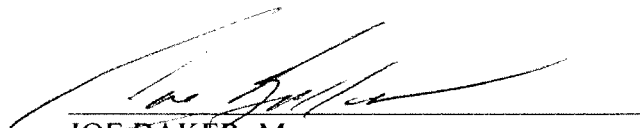
WHEREAS, the City Council has determined that the City's investment policies should be reviewed, amended and updated.

NOW, THEREFORE, BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF CRANDALL, TEXAS, THAT:

Section 1: The City Council hereby approves of and adopts the City of Crandall Investment Policy, which is attached to this Resolution as Exhibit A, which policy supersedes the previous investment policy adopted by the City.

Section 2: This Resolution shall take effective immediately from and after the date of its passage.


PASSED, APPROVED AND ADOPTED by the City Council of the City of Crandall, Texas, on this the _____ day of February, 2009.


JOE BAKER, Mayor

ATTEST:


JANA SHELTON, City Secretary, TRMC

APPROVED AS TO FORM:


KENT S. HOFMEISTER, City Attorney

THE CITY OF CRANDALL

INVESTMENT POLICY

February, 2009

I. POLICY STATEMENT

It is the policy of the City of Crandall, 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 investment will be used in a manner that best serves the public trust and interest of the City.

II. SCOPE

This investment policy applies to all the financial assets and funds held by the City. The City co-mingles its funds into one pooled investment fund for investment purposes for efficiency and maximum investment opportunity. These funds are defined in the City’s Annual Financial Report and include:

- General Fund
- Special Revenue Funds
- Debt Service Fund
- Capital Project Funds
- Enterprise Funds
- Internal Service Funds
- Trust and Agency Funds

And any new funds created by the City unless specifically exempted by the City Council and this policy.

III. OBJECTIVES AND STRATEGY

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

A. Safety of Principal

Safety of principal is the foremost objective of the City. Investments of the City shall be undertaken in a manner that seeks to insure the preservation of capital in the overall portfolio. To obtain this goal, diversification is required in the portfolio's composition. The suitability of each investment decision will be made on the basis of these objectives.

B. Liquidity

The City's investment portfolio will remain sufficiently liquid to enable the City to meet all operating requirements that might be reasonable anticipated.

C. Diversification

Diversification of the portfolio will include diversification by maturity and market sector and will include the use of a number of broker/dealers for diversification and market coverage. Competitive bidding will be used on each sale and purchase.

D. Yield

The City's investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the City's risk constraints and the cash flow of the portfolio. "Market rate of return" may be defined as the average yield of the current three months U.S. Treasury Bill or such other index that most closely matches the average maturity of the portfolio.

Effective cash management is recognized as essential to good fiscal management. Cash management is defined as the process of managing monies in order to insure maximum cash availability. The City shall maintain a comprehensive cash management program that includes collection of accounts receivable, prudent investment of its available cash, disbursement of payments in accordance with invoice terms and the management of banking services.

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 (the "Act").

V. INVESTMENT POOLS

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The Interlocal Cooperation Act, Chapter 791, Texas Government Code, authorizes local governments in Texas to participate in an investment pool established thereunder. That statute and reference to authorized investment in investment pools in the Act, is primary authority for use of investment pools by political subdivisions of the State of Texas.

A thorough investigation of the pool is required prior to investing, and on a continual basis. All investment pools must supply the following information in order to be eligible to receive funds:

- the types of investment in which money is allowed to be invested the maximum average dollar-weighted maturity allowed, based on the stated maturity date of the pool
- the maximum stated maturity date any investment security within the portfolio has
- the objectives of the pool
- the size of the pool
- the names of the members of the advisory board of the pool and the dates their terms expire
- the custodian bank that will safe-keep the pool's assets
- whether the intent of the pools is to maintain a net asset value of one dollar and the risk of market price fluctuation
- whether the only source of payment is the assets of the pool at market value or whether there is a secondary source of payment, such as insurance or guarantees, and a description of the secondary source of payment
- the name and address of the independent auditor of the pool
- the requirements to be satisfied for an entity to deposit funds in and withdraw funds from the pool and any deadlines or other operating policies required for the entity to invest funds in and withdraw funds from the pool
- the performance history of the pool, including yield, average dollar-weighted maturities, and expense ratios
- a description of interest calculations and how interest is distributed, and how gains and losses are treated.

An annual review of the financial condition will be conducted by the City.

VI. DELEGATION OF INVESTMENT AUTHORITY

The City Manager, acting on behalf of the City Council, is designated as the Investment Officer of the City and is responsible for investment management decisions and activities. The Council is responsible for considering the quality and capability of staff, investment advisors, and consultants involved in investment

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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 written administrative procedures for the operation of the investment program which are consistent with this investment policy. Procedures will include reference to safe-keeping, require and include PSA Master Repurchase Agreements, with the explicit exception to the Master Repurchase Agreement, thereby deleting Section 8 of PSA Master Agreement, being that all collateral used in the repurchase agreement be delivered out to a third party safe keeping agent. Additional procedures will be documented for the performance of wire transfer agreements, collateral/depository agreements, banking services contracts, and other investment related activities.

The Investment Officer shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials and staff. The Investment Officer shall designate a staff person as liaison/deputy in the event circumstances require timely action and the Investment Officer is not available.

No officer or designee may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the Investment Officer and approved by the City Council.

The Investment Officer shall attend at least one training session relating to the responsibilities within 12 months after assuming duties. Training must include education in investment controls, security risks, strategy risks, market risks, and compliance with the Public Funds Investment Act. Investment training sessions must be attended at least once in a two-year period for at least ten hours of instruction. An independent source of instruction must be approved by the governing body.

If the Investment Officer has a personal business relationship with an entity seeking to sell an investment to the City, the Officer shall file a statement disclosing that personal business interest. The statement must be filed with the Texas Ethics Commission and the City Council. 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.

Authorization Resolution

A trading Resolution is established with this investment policy, and attached hereto, authorizing the Investment Officer or Agent to engage in investment

transactions on behalf of the City. The Trading Resolution shall be used to establish brokerage and banking accounts in the performance of this policy. The persons authorized by the Trading Resolution to transact business for the City are also authorized to approve wire transfers used in the process of investing. See Exhibit A.

VII. PRUDENCE

The standard of prudence to be used in the investment function shall be the “prudent person” standard and shall be applied in the context of managing the overall portfolio. This standard 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.”

Limitation of Personal Liability

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 Person 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 and reported in a timely manner and that appropriate action is taken to control adverse market effects.

VIII. INTERNAL CONTROLS

The Investment Officer shall establish a system of written 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.

Cash Flow Forecasting

Cash flow forecasting is designed to protect and sustain cash flow requirements of the City. Supplemental to the financial and budgetary systems, the Investment Officer will maintain a cash flow forecasting process designed to monitor and forecast cash positions for investment purposes. Cash flow will include the historical researching and monitoring of specific cash flow items, payable and receivables as well as overall cash position and patterns.

IX. 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 or 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.

- A. Obligations of the United State Government, its agencies and instrumentalities, and government sponsoring enterprises, as defined in Section 2256.009 of the Act, not to exceed two years to stated maturity;
- B. Fully insured or collateralized certificates of deposit from a bank domiciled in the State of Texas and under the terms of a written depository agreement with that bank, not to exceed one year to the stated maturity;
- C. Bankers acceptances as defined by the Public Funds Investment Act not to exceed 180 days to stated maturity;
- D. Repurchase agreement as defined by the Public Funds Investment Act, not to exceed 180 days to stated counter-party bank or primary dealer;
- E. No-load, SEC registered money market funds, each approved specifically before use by the City Council. No more than 80% of the entity's monthly average balance may be invested in money market funds;
- F. Texas Local Government Investment Pools as defined by the Public Funds Investment Act Section 2256.016 and Section 2256.019;
- G. No-load mutual fund registered with the SEC, rated AAA by at least one nationally recognized rating agency, investing exclusively in the policy's authorized investments, and having a stated maturity of not more than two (2) years. This fund must conform to all requirements of Investment pools, including prospectus information, confirmations and monthly reporting.
- H. Reverse repurchase agreements not to exceed 90 days and meeting all requirements of Item E above.
- I. Commercial Paper as defined by the Public Funds Investment Act Section 2256.013.
- J. An investment that requires a minimum rating does not qualify, as an authorized investment during the period the investment does not have the minimum rating. The City shall take all prudent measures that are consistent with its investment policy to liquidate an investment that does not have the minimum rating.

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

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Competitive Bidding Requirement

All Securities, including certificates of deposit, will be purchased or sold after three (3) offers/bids are taken to verify that the City is receiving fair market value/price for the investment.

Delivery versus Payment

All security transactions, including collateral for repurchase agreements, entered into by the City, shall be conducted on a delivery versus payment (DVP) basis. Securities will be held by a third part custodian designated by the City and evidenced by safekeeping receipts.

X. AUTHORIZED FINANCIAL DEALERS AND INSTITUTIONS

All investments made by the City will be made through the City's banking services bank (trading desk), a primary dealer, or the City's Financial Advisor.

The City shall maintain a list of financial institutions which are authorized to provide investment services. Banks shall continuously provide their most recent "Consolidated Report of Condition" (call report). At a minimum the City shall conduct an annual evaluation of each bank's creditworthiness to determine whether it should be on the "Qualified Institution" listing.

Securities broker/dealers not affiliated with a bank shall be required to be classified as reporting dealers affiliated with the New York Federal Reserve as primary dealers, and meet certain other criteria as determined by the Investment Officer. A list of no more the ten (10) authorized primary dealers will be established and maintained. The following criteria must be met by those firms on the list:

- provision of an audited financial statement for the most recent period,
- proof of certification by the National Association of Securities Dealers (NASD),
- proof of current registration with the State securities Commission, and
- completion of a City questionnaire.

Every dealer with whom the City transacts business will be provided a copy of this Investment Policy to assure that they are familiar with the goals and objectives of the investment program. The broker/dealer will be required to return a signed copy of the Certification Form certifying that the policy has been received and reviewed. (Exhibit B)

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XI. DIVERSIFICATION AND MATURITY LIMITATIONS

It is 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 (percentages apply to total investment portfolio):

U.S. Treasuries and securities with U.S. Government's guarantee	100%
U.S. Government agencies & instrumentalities	not to exceed 50%
Fully insured or collateralized CDs	100%
Banker's acceptances	not to exceed 15%
Repurchase agreements	100%
Money Market funds	100%
Local Government Investment Pools (Commercial/Non Commercial Paper) (Maximum percent ownership of pool not to exceed 20%)	100%
Mutual Funds – AAA	100%

The Investment Officer shall be required to diversify maturities. The Investment Officer, to the extent possible, will attempt to match investment with anticipated cash flow requirements. Matching maturities with cash flow dates 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 any portion of the portfolio for a period greater than three (3) years except proceeds from City of Crandall Obligations which may have any stated maturity.

XII. SAFEKEEPING AND COLLATERALIZATION

The laws of the State and prudent treasury management require that all purchased securities be bought on a delivery versus payment basis and be held in safekeeping by either the City, an independent third party financial institution, 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 safekeeping receipts to the City shall list 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.

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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. The right of collateral substitution is granted.

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.

In order to anticipate market changes and provide a lever an additional security for all funds, the collateralization level required will be 102% of the market value of the principal and accrued interest.

XIII. PERFORMANCE EVALUATION AND REPORTING

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

- A. Beginning and ending market value of the portfolio by market sector and total portfolio,
- B. Beginning and ending carrying (book) value of the portfolio by market sector and total portfolio,
- C. Transactions which change market and book value, detail reporting on each asset (book, market, and maturity dates at a minimum),
- D. Overall current yield of the portfolio,
- E. Overall weighted average maturity of the portfolio, and maximum maturities in the portfolio,
- F. Allocation of each investment to a fund or pool, and
- G. Statement of compliance with the written Investment Policy.
- H. Fully accrued interest payable at the end of the reporting period.

Portfolio Pricing

The Portfolio shall be valued, at a minimum, on a quarterly basis. Market prices for securities may be provided by an Investment Advisor, or any independent

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market pricing source including, but not limited to, Bloomberg, the Wall Street Journal or any broker/dealer that is not responsible for selling the security being proceed to the City.

Audit Requirements

If the City places funds in any vestment other registered investment pools or accounts offered by it depository bank, the above reports shall be formally reviewed at least annually by an independent auditor, and the result of the review shall be reported to the City Council by that auditor.

XIV. DEPOSITORIES

The City will designate one banking institution through a competitive process as its central banking services provider at least every three 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 will also be designated after they provide their latest audited financial statements to the City.

XV. INVESTMENT POLICY ADOPTION BY CITY COUNCIL

The City's investment policy shall be adopted by resolution of the City Council. The policy shall be reviewed on an annual basis by the City Manager and City Council. Any modifications made thereto must be approved by the City Council.

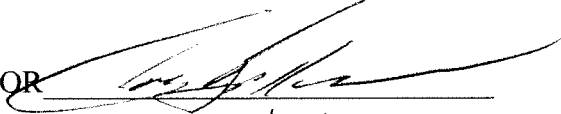
XVI. AMENDMENT

In the event State Law changed and the City cannot invest in the investments described in this policy, this policy shall automatically be conformed to existing law.

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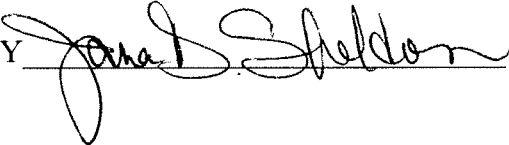
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APPROVED BY CITY COUNCIL:

MAYOR 

DATE 2/5/09

ATTEST:

CITY SECRETARY 

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**DESIGNATION OF CENTRAL BANK
CITY OF CRANDALL**

Pursuant to Section XIV of the Investment Policy for the City of Crandall, the City of Crandall hereby designates The American National Bank, PO Box 428, Crandall, Texas 75114 as the depository to be used for normal banking services including disbursements, deposits, lockbox, controlled disbursements and depositories, and safekeeping of securities.

This designation is to be reviewed at least every three years.

APPROVED BY CITY COUNCIL:

MAYOR

DATE



2/5/09

ATTEST:

CITY SECRETARY

