ORDINANCE 889

AN ORDINANCE ADOPTING AN INVESTMENT POLICY FOR THE TOWN OF HOLLYWOOD PARK

WHEREAS, the Town of Hollywood Park is required under state law to adopt an investment policy; and

WHEREAS, the Town of Hollywood Park recognizes a proper investment policy to preserve the towns funds and assets is appropriate and for the health and welfare of its citizens; and

WHEREAS, the town believes that as a conservative investment policy geared towards protection of the principle amount is the proper imprudent policy to adopt for the Town of Hollywood Park; and

THEREFORE, the town council for the Town of Hollywood Park ordains as follows;

The town hereby adopts the following investment policy:

Investment Policy

1. Policy Statement

It is the policy of the City that the administration of its funds and the investment of those funds shall be handled as its highest public trust. Investments shall be made in a manner that will provide the maximum security of principal invested. Policy limits and diversification of the portfolio are primary and established to protect liquidity for daily cash flow needs. The receipt of a reasonable market rate of return will be secondary to the requirements for safety and liquidity. All investments will be made in full compliance with local ordinances, state statutes and any applicable IRS requirements.

2. Annual Review

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

3. Scope

This investment policy applies to the investment and management of all the funds under direct authority of the Town of Hollywood Park. These funds are accounted for in the City's Annual Financial Report and include: General Fund, Special Revenue Funds, Capital Project Funds, etc. and any other funds created by the governing body. This policy does not apply to the various employee retirement and pension funds administered or sponsored by the City.

4. Purpose & Objectives

The Town of Hollywood Park shall manage and invest its cash and assets with four major objectives, listed in order of priority: safety, liquidity, yield, and diversification. Safety of the principal is the primary objective. All investments shall be managed in a manner responsive to the public trust and consistent with state and local law.

Safety

The primary objective of the City's investment activity is the preservation of capital. Each investment transaction shall be conducted in a manner to avoid capital losses, whether they are from security defaults, safekeeping, or erosion of market value.

Liquidity

The City's 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 maintain additional liquidity for unexpected liabilities.

Yield

The benchmark for the City's portfolio shall be the U.S. Treasury Bill, designated for its comparability to the City's maximum weighted average maturity based on its expected average cash flow pattern. The investment program shall seek to augment returns above this threshold consistent with risk limitations identified herein and prudent investment policies.

The City shall maintain a comprehensive cash management program that includes timely collection of accounts receivable, vendor payments in accordance with invoice terms, and prudent investment of assets. Cash management is the process of managing monies in order to insure maximum cash availability and reasonable yield on short-term investments.

Diversification

It is the policy of the City to diversify its investment portfolios to eliminate the risk of loss resulting from one concentration of assets in a specific maturity, a specific issuer or a specific class of securities. Portfolio maturities should be staggered in a way that protects interest income from the volatility of interest rates that avoids undue concentration of assets in a specific maturity sector. It is anticipated that the majority of the City's funds will be invested in maturities of 12 months or less and targeted with the projected cash flow needs of the City. Investments with maturities in excess of 12 months can be made to match specific cash flow requirements. The stated maturity of any investment in the City's portfolio will not exceed 24 months and the average weighted maturity of the City's portfolio will not exceed 180 days.

5. Delegation of Responsibility and Authority

The investment authority for the Town of Hollywood Park is established in the Texas Government Code (Section 2256.005(f)--(h)). Management responsibility for the investment program has been delegated to the Mayor by the City Council. The Mayor has delegated this authority to Investment Officers who are responsible for daily investment management decisions and activities, namely the Town Treasurer.

The Investment Officer will establish written procedures for the operation of the investment program consistent with this policy. Procedures will include reference to safekeeping, wires, banking services, and other investment related activities. No person may engage in an investment transaction or the management of funds except as provided under the terms of the Policy as approved by the City Council.

The Council is also responsible for considering the quality and capability of staff, investment advisors, and consultants involved in investment management and procedures. All participants in the investment process shall seek to act responsibly as custodians of the public trust.

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

6. 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 expected income to be derived."

7. Authorized Investments

All investment transactions will be made on a competitive basis.

Authorized Investments Include:

a. Obligations of the US Government, its agencies and instrumentalities with a maximum stated maturity of two (2) years and excluding mortgage backed securities.

b. Direct obligations of the state or its agencies and instrumentalities;

c. Other obligations the principal of and interest on which are unconditionally guaranteed or ensured by, or backed by the full faith and credit of, the state or the United States or their respective agencies and instrumentalities;

d. Certificates of deposit issued by state and national banks domiciled in the state, or a savings bank domiciled in the state, that are:

1. Guaranteed or insured by the Federal Deposit Insurance Corporation, or its successor; or

2. Secured by a direct federal agency or instrumentality issued mortgage backed security that has a market value of not less than the principal amount of the certificates or in any other manner an amount provided by the Act.

e. Fully collateralized repurchase agreements purchased by the City on a direct basis and provided that:

1. All securities purchased under such repurchase agreement shall be held by a custodial (safekeeping) agent as approved by the city, pledged to the city, held in the city's name and deposited at the time the investment is made.

2. The seller of repurchase agreement securities shall be entitled to substitute securities upon authorization by the City.

3. No repurchase agreement shall be entered into unless a Master Repurchase Agreement has been executed between the City and its trading partners.

4. The Repurchase Agreement must satisfy all of the requirements of section 2256.011 of the Act.

f. An investment pool to the extent and manner provided by law if:

1. The City, by rule, ordinance, order or resolution, authorizes investment in the particular pool;

2. The investment pool: (i) has furnished the investment officer and for the City an offering circular or similar disclosure instrument containing the matters required to be disclosed in section 2256.016(b) of the Act; (ii) furnishes: (1) the city investment transaction confirmations, and (2) a monthly report containing the information required by section 2256.016(c) of the Act; and (iii) satisfies the eligibility requirements set forth in section 22256.016(f), (g) and (h) of the Act; and

3. The yield of an investment pool shall be calculated in accordance with regulations governing the registration of open-end management investment companies under the Investment Company Act of 1940 as promulgated from time to time by the Federal Securities and Exchange Commission; and

g. Such other investments as permitted by the Act. All investment transactions will be completed on a delivery versus payment "DVP" basis. The City authorizes the designated investment officer to solicit bids for investments orally, in writing, electronically, or in any combination of these methods. Further, no investment of City funds shall be authorized unless it conforms to this investment policy and the seller of the investment has executed a certificate in favor of the City substantially in the form titled "Certification Form".

8. Prohibited investments

The City will not invest in derivatives. For the purposes of this investment policy, the definition of derivatives includes instruments which have embedded features that alter their character or income stream or allow holders to hedge or speculate on a market or spreads between markets that are external to the issuer, or are not correlated on a one-to-one basis to the associated index or market. Prohibited derivatives include the following:

a. Arrangements in which an investor has swapped the natural cash flows or some portion of the natural cash flows of an instrument for a different set of cash flows. (i.e. Interest Rate Swaps).

b. Over-the-counter/exchange traded options or futures. (i.e., Option Contracts, Futures Contracts).

c. Instruments explicitly specified as follows: Inverse Floating Rate Notes, Range Index Notes, Non-Money Market Index based Notes, Dual Index Notes, Index Amortizing Notes, Inverse Multi-Index Bonds, Stepped Inverse Index Bonds, Inverse Index Bonds.

9. Ethics and Disclosure Requirements

Investment officers and any person involved in the investment process shall refrain from personal and business activities involving any of the City's custodians, depositories, broker/dealers or investment advisors which may influence the officer's ability to conduct his duties in an unbiased manner. Employees and investment officers shall

disclose any material interests in financial institutions with which they transact City business. Officers shall refrain from undertaking personal investment transactions with the same individual with whom business is conducted on behalf of the entity. All personal business relationships shall be disclosed to the governing body.

10. 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 and counter-parties.

11. Safekeeping

All safekeeping arrangements shall be designated by the Investment Officer and an agreement of the terms executed in writing. The 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.

a. Safekeeping of City Owned Securities

All securities purchased by the City will be safe-kept with the City's designated depository institution as an independent third party to the transaction. No securities will be safe-kept by a brokerage firm. All securities will be settled delivery versus payment. A safekeeping receipt will be issued clearly marked that the security is held for the City.

b. Safekeeping of Pledged Securities

All securities pledged to the City for time or demand deposits, or under a master repurchase agreement, shall be held by an independent third party bank approved by the City. No securities will be safe-kept by a brokerage firm and all securities will be settled delivery versus payment. The safekeeping bank may not be within the same holding company as the bank from which the securities are pledged. The custodian shall be responsible for reporting on the securities monthly.

12. Collateral

Collateralization is required on all bank time and demand deposits over the applicable FDIC insurance coverage. All securities pledged to the City for these deposits shall be held by an independent third party institution outside the holding company of the pledging bank.

In order to anticipate market changes and provide a level of additional security for all funds, the market value of the collateral will be maintained at 102% of total principal and accrued interest. The depository will be responsible for monitoring and maintaining the collateral and margins at all times. The depository or custodian will provide monthly reports to the City detailing the collateral and including current market values.

Collateral will be pledged under the terms of a written tri-party depository agreement executed under the terms of FIRREA. (If the custodian is the Federal Reserve the City will execute a Circular 7 form.) The agreement shall be approved by resolution of the bank's board or loan committee.

Acceptable collateral shall include only obligations of the U.S. Government, its agencies and instrumentalities, including mortgage backed securities passing the bank test. The Financial Institutions Resource and Recovery Enforcement Act governs the deliberations of the FDIC in the case of default or bankruptcy of the bank.

13. Reporting

The Investment Officer shall submit to each member of the City Council an investment report no less than on a quarterly basis. The report will contain sufficient information to provide for a comprehensive review of investment activity, current investment instruments, independent and timely pricing information as required by the Act. The investment report also shall address any variations noted from the investment strategy of the City. The investment report shall present the book value and market value for each investment at the beginning and end of the reporting period. If funds are pooled and invested, the investment report shall present the beginning market value of the pool, portfolio changes in the market value during the reporting periods and the ending market value of the portfolio. Each report shall be signed by the Investment Officer and shall state the compliance of the investment portfolio as it relates to the City's investment policy and the Act. It is recognized that there may be fluctuations in value during and in comparative reporting periods. If it is the City's intent to hold some or all of its investment securities to maturity, that shall be so stated in the investment report. In conjunction with the annual audit, the City may perform a compliance audit of management controls on investments and adherence to the established investment policies as set forth in this document.

14. Methods for Monitoring Market Price.

Sources used for monitoring and pricing securities will be independent and include, but are not limited to, the Wall Street Journal, Bloomberg and financial advisors.

15. Certification Form

Every seller of investments to the City must execute a certificate in favor of the City substantially in the form set out herein below.

PASSED AND APPROVED THIS 19 DAY OF OCTOBER, 2010.

Bob Sartor

Bob Sartor, Mayor

ATTEST:

Janice Alamia, City Secretary

TOWN OF HOLLYWOOD PARK
BEXAR COUNTY
TEXAS

APPROVED AS TO FORM:

Ryan S. Henry, City Attorney