

ORDINANCE NO. 2024-O-163

Amending Article VI [Investment Policy] of Chapter 2 [Administration] of the Code of Ordinances in order to:

1. UPDATE INVESTMENT OFFICER TITLES,
2. MAKE MINOR LANGUAGE ADJUSTMENTS,
3. ADD UPDATED BROKER/DEALER LIST AS ATTACHMENT A

WHEREAS, the City’s investment policy is embodied in Article VI of Chapter 2 of the Code of the ordinance of the City of Laredo; and

WHEREAS, the Finance Director recommends that said Article VI be amended, first, to insert minor punctuation and typing edits; and

WHEREAS, the Finance Director recommends subsidiary editing in order to have Article VI of Chapter 2 of the Code of Ordinance conform with Chapter 2256 of the Government Code, popularly known as the Public Funds Investment Act.

NOW, THEREFORE, BE IT ORDAINED BY THE CITY COUNCIL OF THE CITY OF LAREDO THAT:

Section 1. Article VI “Investment Policy” of Chapter 2 “Administration” of the Code of Ordinances is amended as follows:

Chapter 2 – Administration

Article VI – Investment Policy

Sec. 2-250. Policy

It is the policy of the City of Laredo (“City”) to invest all available funds to the maximum extent possible at the risk appropriate rates obtainable at the time of investment with the maximum security while meeting the cash flow demands of the City and conforming with federal, state, and local laws governing the investment of public funds, including but not limited to, Government Code Chapter 2256 – The Public Funds Investment Act (“Act”).

Sec. 2-251. Scope

This Investment Policy applies to all funds of the City as accounted for in the City’s general ledger system and disclosed in the City’s Annual Comprehensive Financial Report, with the exception of the Laredo Firefighters Retirement System. The Policy applies to all funds including but not limited to operating funds and proceeds from bond issues. The City’s fund types include:

- General Fund

- Special Revenue Funds
- Capital Projects Funds
- Enterprise Funds, including Debt Service Reserves
- Trust and Agency Funds
- Debt Service Funds
- Any new fund created by the City, unless specifically exempted from this Policy by the City Council or by law.

Pooling of Funds. Except for cash in certain restricted funds, the City will consolidate cash balances from all funds to optimize investment earnings. Investment income will be allocated to the various funds based on their respective participation and in accordance with generally accepted accounting principles.

Sec. 2-252. Standard of Care

The standard of care to be used by Investment Officers shall be the "prudent person" standard and shall be applied in the context of managing an overall portfolio. The prudent person standard states that investments shall be made with judgment and care, under prevailing circumstances, that a person of prudence, discretion, and intelligence would exercise in the management of the person's own affairs, not for speculation, but for investment, considering the probable safety of capital and the probable income to be derived.

Investment Officers acting in accordance with written procedures and the Investment Policy and exercising due diligence shall be relieved of personal responsibility for an individual investment's credit risk or market price changes, provided that deviations from expectations are reported in a timely fashion and an appropriate action is taken to control adverse developments.

Sec. 2-253. Objectives

Investment of funds shall be governed by the following investment objectives:

A. Preservation and safety of principal

Investments of the City shall be made in a manner that ensures preservation of capital in the overall portfolio. Each investment transaction shall be conducted in a manner to avoid principal losses, whether from investment defaults or erosion of market value. This will be attained through the diversification of the investment portfolio to mitigate credit risk and market risk.

B. Liquidity

The investment portfolio is an integral element in the City's cash management program. As such, the portfolio will remain sufficiently liquid to enable the City to meet all operating requirements, which might be reasonably anticipated.

C. Yield

The investment portfolio shall be designed with the objective of attaining an overall yield commensurate with the City's risk preference and the cash flow characteristics of the portfolio.

Sec. 2-254. Delegation of Authority

A. City of Laredo Investment Authority

City depository and investment authority is established within the office of the City Manager in the Charter of the City of Laredo, Texas (1995, Section 6.20). By the authority of the City Charter (Section 3.05(4)), the City Manager hereby designates, with the approval of City Council, the Deputy City Manager, Finance Director and the Assistant Finance Director of the City as Investment Officers and, as such, are responsible for depositing funds, investing such funds, assuring that each investment has the proper and authorized collateral, monitoring investments, assuring the security of the City's principal and interest, receiving and reporting principal and interest at the maturity of each investment, and providing the proper documentation and reports on such investments to the City Manager and the City Council.

To ensure the quality and capability of investment management, the Investment Officers shall attend investment training sessions as required by and in compliance with the Act. Authorized training sources are the Texas Municipal League, Government Finance Officers Association of Texas, Government Treasurers' Organization of Texas, Government Finance Officers Association, Association of Public Treasurers of the United States and Canada, American Institute of Certified Public Accountants, Council of Governments, and University of North Texas.

B. Delegation and Restriction of Investment Authority

Responsibility and authority for the City's investment policies and procedures reside with the City Manager. Responsibility and authority for investment transactions reside with the City's Investment Officers and, as such, they are fully authorized to buy, sell, and trade investments in accordance with the City's Investment Policy and the Act.

Certain bonded officials share signatory responsibilities with the Financial Services Department for backup purposes. These officials are the City Manager, Deputy City Manager, and Assistant City Manager(s). The persons holding these positions are also authorized to transact wire transfers. However, only the City's Investment Officers are authorized to transact investments.

Bonding of all Financial Services Department staff with signatory authority is required, and such bonding requirements will also apply to those individuals authorized to place, purchase, or sell investment instruments.

Sec. 2-255. Ethics and Conflict of Interest

The City's Investment Officers shall refrain from any personal business activity that could conflict with the administration of the investment program or which could compromise their ability to carry on the City's investment business impartially. In this respect, the Investment Officers shall file a statement disclosing any personal business relationship with a business organization (to include investment pools) offering to engage in an investment transaction with the City. At the same time, any relationship within the second degree by affinity or consanguinity as determined under Chapter 573 (Texas Government Code) to an individual seeking to sell investment products to the City shall be disclosed in statements filed by the Investment Officers. These statements must be filed with the Texas Ethics Commission and the City Council.

For purposes of this section, an Investment Officer has a personal business relationship with a business organization if:

- A. The Investment Officer owns 10 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;
- B. Funds received by the Investment Officer from the business organization exceed 10 percent of the Investment Officer's gross income for the previous year; or
- C. 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.

Sec. 2-256. Authorized Broker/Dealers

The Investment Officers will maintain a list of broker/dealers and local government pools that are authorized to provide investment services. The City Council shall, at least annually, review, revise, and adopt a list of qualified broker/dealers that are authorized to engage in investment transactions with the City (Attachment A). Authorization to join eligible Local Government Pools will be authorized by City Council through a resolution.

All broker/dealers must be registered and certified with the Texas State Securities Board, Financial Industry Regulatory Authority (FINRA), and Securities and Exchange Commission (SEC), as applicable. Repurchase Agreements will be transacted only with "primary" dealers or financial institutions doing business in this State.

When requested, all broker/dealers who desire to become qualified for the aforementioned list must supply the following, as appropriate: audited financial statements, proof of registration and certification as noted above, and completed broker/dealer questionnaire.

All investment transactions will be analyzed on a competitive basis. Responses from other broker/dealers will also be documented. Quotes may be submitted in writing or by email, telephone, or facsimile.

All securities purchased shall be consummated on a delivery versus payment basis. The City will maintain a safekeeping account with the current depository banks and/or at a Federal Reserve Bank for delivery of securities.

A written copy of the Investment Policy shall be presented to any person offering to engage in an investment transaction with the City. The qualified representative of any local government investment pool or discretionary investment management firm (i.e. business organization) offering to engage in an investment transaction with the City shall execute a written instrument substantially to the effect that the business organization has received and reviewed the Investment Policy and 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 Investment Policy, except to the extent that this authorization is dependent on an analysis of the makeup of the City's entire portfolio or requires an interpretation of subjective investment standards or relates to investment transactions of the City that are not made through accounts or other contractual arrangements over which the business organization has accepted discretionary investment authority.

The Investment Officers may not acquire or otherwise obtain any authorized investment described in the Investment Policy from a person who has not delivered to the City the instrument required in this section. Nothing in this section relieves the City of the responsibility for monitoring the investments made by the City to determine that they are in compliance with the Investment Policy.

Sec. 2-257. Investment Advisors

Investment advisors shall adhere to the spirit, philosophy and specific terms of this Policy and shall advise within the same "Standard of Care". Selected investment advisors must be registered under the Investment Advisors Act of 1940 or with the State Securities Board.

Sec. 2-258. Authorized Investments

The City is empowered by statute to invest in the following:

A. Obligations of, or Guaranteed by, Governmental Entities.

1. Except as provided by 2, the following are authorized investments under this section:
 - Obligations of the United States or its agencies and instrumentalities including letters of credit and the Federal Home Loan Banks;
 - Direct obligations of this state or its agencies and instrumentalities;
 - Collateralized mortgage obligations, or similar obligations, directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States, and pass-through mortgage back securities directly issued by a federal agency or instrumentality of the United States;

- Other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, this state or the United States or their respective agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States; and
 - Obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent.
2. The following are not authorized investments under this section:
- Obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pay no principal;
 - Obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security collateral and bears no interest;
 - Collateralized mortgage obligations that have a stated final maturity date of greater than 10 years; and
 - Collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in a market index.

B. Financial Institution Deposits.

1. A deposit is an authorized investment under this section if the deposit is with a state or national bank, a savings bank, or a state or federal credit union that has its main office or a branch office in this State and is:
- Guaranteed or insured by the Federal Deposit Insurance Corporation or its successor or the National Credit Union Share Insurance Fund or its successor; or
 - Secured by obligations as required by Sec. 2-259. Collateralization.
2. A deposit placed through a depository institution or authorized broker that has a main office or a branch office in this State that participates in a program that fully insures the deposit plus accrued interest and meets the requirements of the Act is additionally authorized.

C. Repurchase Agreements.

1. A fully collateralized repurchase agreement is an authorized investment under this section if the repurchase agreement:
- Has a defined termination date;
 - Is secured by cash or obligations in compliance with the Act; and
 - Requires the cash or securities being purchased by the City to be pledged to the City, held in an account in the City's name, and deposited at the time the investment is made with the City or with a third party selected and approved by the City; and
 - Is placed through a primary government securities dealer as defined by the Federal

Reserve, or a financial institution doing business in this State.

2. In this section, "repurchase agreement" means a simultaneous agreement to buy, hold for a specified time, and sell back at a future date the eligible obligations, at a market value at the time the funds are disbursed of not less than the principal amount of the funds disbursed. The term includes a direct security repurchase agreement and a reverse security repurchase agreement.
3. Notwithstanding any other law, the term of any reverse security repurchase agreement may not exceed 90 days after the date the reverse security repurchase agreement is delivered.
4. Money received by the City under the terms of a reverse security repurchase agreement shall be used to acquire additional authorized investments, but the term of the authorized investments acquired must mature no later than the expiration date stated in the reverse security repurchase agreement.

D. Mutual Funds.

1. A no-load money market mutual fund is an authorized investment under this section if the mutual fund:
 - Is registered with and regulated by the Securities and Exchange Commission and provides the City with a prospectus and other information required by the Securities Exchange Act of 1934 (15 U.S.C. Section 78a et seq.) or the Investment Company Act of 1940 (15 U.S.C. Section 80a-1 et seq.); and
 - Includes in its investment objectives the maintenance of a stable net asset value of \$1.0000 for each share.
2. The City shall not invest its funds or funds under its control, including bond proceeds and reserves and other funds held for debt service, in any one mutual fund in an amount that exceeds 10 percent of the total assets of the mutual fund.

E. Investment Pools.

The City may invest its funds and funds under its control through an eligible investment pool if the pool operates in compliance with the Act, invests in a manner consistent with the risk criteria of this Policy, and City Council by rule, order, ordinance, or resolution, as appropriate, authorizes investment in the particular pool.

F. Existing Investments.

The City is not required to liquidate investments that were authorized at the time of purchase.

G. Rating of Certain Investment Pools.

A public funds investment pool must be continuously rated no lower than AAA or AAA-m or at an equivalent rating by at least one nationally recognized rating agency.

H. Monitoring Credit Ratings and Effect of Loss of Required Rating.

Not less than quarterly, the Investment Officers will monitor the credit rating for each held investment that has an Act required minimum rating. An investment that requires a minimum rating under this section 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.

Sec. 2-259. Collateralization

In agreement with the requirements of the Act and the Public Funds Collateral Act, Chapter 2257 of the Texas Government Code, it is the Policy of the City that collateral will be required on financial institution deposits and repurchase agreements with a market value greater than or equal to 102%, unless secured with irrevocable letters of credit at 100%, of the City's deposits plus accrued interest, less any amount insured by the FDIC. Acceptable forms of collateral are those included in the Public Funds Collateral Act.

The City reserves the right to accept or reject any form of collateral. The right of substitution will be granted, with the approval of an Investment Officer.

Collateral will be held and maintained as noted under the caption "Safekeeping and Custody".

Sec. 2-260. Safekeeping and Custody

All purchased securities shall be held in safekeeping by either the City, the City's account in a third-party financial institution, or the City's safekeeping account at its designated depository bank. Signatures authorized on the safekeeping accounts are those identified in Sec. 2-254, Delegation of Authority B. Transfers of securities in safekeeping shall be processed with written confirmations. The confirmation will be used for documentation and retention purposes. Securities rendered for payment will always be sent Delivery versus Payment to the City's designated safekeeping bank.

Pledged collateral shall be held in custody by the City's Custodian(s).

Sec. 2-261. Diversification

The City will diversify its investments in terms of maturity as well as type and issuer pursuant to the list of authorized investments included herein. Investment in any one pool is limited to 50% of the City's total investment portfolio.

Sec. 2-262. Maximum Maturities

To the extent possible, the City will attempt to match its investments with projected cash flow requirements. Unless matched to a specific cash flow, the City's investment with maturities exceeding two (2) years will not exceed twenty-five percent (25%) of the total portfolio. The maximum maturity of any investment will not exceed ten (10) years to maturity. However, the City may collateralize its deposits and repurchase agreements using approved collateral that exceeds ten (10) years to maturity.

Sec. 2-263. Internal Control

The external audit firm, as part of the City's annual financial audit, will perform a compliance audit of management controls on investments and adherence to the City's Investment Policy.

Sec. 2-264. Performance Benchmark

It is the Policy of the City to purchase investments, and hold them until maturity, with maturity dates coinciding with cash flow needs. Through this strategy, the City attempts to purchase the highest yielding allowable investments available on the market at that time, considering risk constraints. Market value will be calculated at least on a quarterly basis on all securities owned and compared to current book value of those securities. The City's portfolio shall be designed with the objective of regularly meeting or exceeding the average rate of return on U. S. Treasury Bills at a maturity level comparable to the City's weighted average maturity in days. "Weighted Average Yield to Maturity" shall be the performance measurement standard for the portfolio.

Sec. 2-265. Reporting

The City Manager, through the Investment Officers, will prepare and submit to City Council on a quarterly basis a written report of investment transactions for all funds covered by this Policy for the preceding period. The report must:

- A. Describe in detail the investment position of the City on the date of the report;
- B. Be prepared jointly by all Investment Officers;
- C. Be signed by each Investment Officer;
- D. Contain a summary statement prepared for each pooled fund group that states the beginning market value for the reporting period, ending market value for the period, and fully accrued interest for the reporting period;
- E. 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. In defining market value, sources independent of the investment providers will determine valuations and considerations will be given to GASB Statements No. 31

and 72;

F. State the maturity date of each separately invested asset that has a maturity date;

G. State the account or fund or pooled group fund in the City for which each individual investment was acquired; and

H. State the compliance of the investment portfolio as it relates to the Investment Strategy expressed in the City's Investment Policy and relevant provisions of the Act.

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, money market accounts, or similar accounts, the reports prepared by Investment Officers, as included in this section, shall be formally reviewed at least annually by an independent auditor, in conjunction with the annual financial audit, and the result of the review shall be reported to the City Council by that auditor.

Sec. 2-266. Investment Policy Adoption

The City's Investment Policy shall be adopted by ordinance of the City Council.

The City Council shall review the Investment Policy and Investment Strategies annually, and it shall by ordinance state that it has reviewed the Investment Policy and Investment Strategies and that said ordinance so adopted includes any changes made to either the Investment Policy or Investment Strategies.

Investment Policy adopted by City of Laredo Ordinance No. 95-O-228; Amended by the following Ordinances: 97-O-225; 98-O-279; 2001-O-218; 2002-O-256; 2006-O-251; 2007-O-243; 2008-O-250; 2010-O-002; 2011-O-061; 2012-O-081; 2013-O-079; 2014-O-076; 2015-O-089; 2016-O-90; 2017-O-111; 2018-O-170; 2019-O-182; 2020-O-157, 2022-O-167, and 2023-O-154.

Sec. 2-267. Depository for City Funds

The City Council shall designate a banking institution as the primary depository for the funds of the City. The bank shall be selected through a formalized solicitation process in response to a City request for application outlining all services required. The banking services contract shall comply with the City Charter and any statutory requirements. The designation of the primary depository bank does not preclude the City from entering into other depository contracts for the purpose of receiving investment or other bank services.

Sec. 2-268. Investment Strategy

The City's Investment Portfolio is a combination of all the City funds with the exception of

the Laredo Firefighters Retirement Fund. The following investment strategy applies to the City's Investment Portfolio. The portfolio is maintained to meet anticipated daily cash requirements for the City's operations, debt service payments, and capital projects while investing to the maximum extent possible at risk-appropriate rates obtainable at the time of the investment.

The overall objectives of the portfolio are:

A. Suitability

Any investments eligible in the Investment Policy are suitable for City funds. Bond resolution and loan documentation constraints and insurance company restrictions may create specific considerations in addition to the Investment Policy.

B. Preservation and safety of principal

The investments of the City shall be made in a manner that ensures preservation of capital in the overall portfolio. This will be attained through the diversification of the portfolio and by investing in high-quality investments for which a strong secondary market exists, where applicable.

C. Liquidity

The portfolio is an integral element of the City's cash management program, and as such, the portfolio will remain sufficiently liquid to enable the City to meet all operating requirements, which might be reasonably anticipated. This will be accomplished by structuring the portfolio so that investments mature concurrent with cash need to meet anticipated demands. A portion of the portfolio also may be placed in stable-value investment options that offer same-day liquidity for short-term funds.

D. Marketability

Securities with active and efficient secondary markets will be utilized for funds in the event of an unanticipated cash flow requirement.

E. Diversification

The City will diversify its investments in terms of maturity as well as type and issuer pursuant to the list of Authorized Investments.

F. Yield

The investment portfolio shall be designed with the objective of attaining an overall return commensurate with the City's risk preference and the cash flow characteristics of the portfolio.

Sec. 2-269. Investment Strategy by Fund Type

A. General and Enterprise Operating Funds

Operating Funds will have as their primary objective to assure that cash flows are matched while obtaining reasonable market yields. This will be accomplished by purchasing quality, short-term investments in a ladder structure, or utilizing other liquid alternatives.

The dollar weighted average will be 270 days or less to accomplish this goal. The portfolio shall be diversified to protect against credit and market risk in any one sector. No investment will be purchased with maturity over twenty-four (24) months.

B. Capital Project and Special Purpose Funds

Capital Project and Special Purpose Funds will have as their primary objective to ensure that anticipated cash flows are matched with adequate investment liquidity. No funds will be invested longer than the related anticipated expenditures.

These portfolios should have adequate liquid, stable-value investment options to allow for unanticipated project expenditures or accelerated project outlays. The dollar weighted average life of the portfolio should match the weighted average life of the expenditures. Funds invested for capital projects may be from bond proceeds that are subject to arbitrage rebate regulations.

The City will have an arbitrage rebate calculation performed as needed to determine the income, if any, that has exceeded the arbitrage yield of bonds. Any positive arbitrage income will be rebated to the Federal Government according to arbitrage regulations. A secondary objective of these funds is to achieve a yield equal to or greater than the arbitrage yield on the applicable bond.

B. Debt Service Fund and Debt Service Reserve

Debt Service Funds shall have as the primary objective the guarantee of investment liquidity adequate to cover the debt service obligation on the required payment date. Investments purchased will not have maturity dates that exceed the next debt service payment date until the preceding debt service payment is fully funded.

Debt Service Reserve will have as the primary objective the ability to generate a dependable revenue stream to the appropriate debt service fund within the limits set forth by the bond ordinance or debt covenants specific to each individual bond issue.

Section 2. This ordinance shall become effective upon the final reading of this ordinance.

PASSED BY THE CITY COUNCIL AND APPROVED BY THE MAYOR ON THIS THE ____
DAY OF _____, 2024.

DR. VICTOR D. TREVIÑO, MAYOR

ATTEST:

MARIO MALDONADO, JR.
CITY SECRETARY

APPROVED AS TO FORM
DOANH “ZONE” T. NGUYEN
CITY ATTORNEY

Attachment A

List of Authorized Broker/Dealers

- FHN Financial
- Great Pacific
- Multi-Bank Securities
- Oppenheimer
- Pershing Advisor Solutions: Cresta Advisors
- SAMCO Capital Markets
- Wells Fargo Securities*

*Denotes Primary Dealer