

**RESOLUTION NO. 25-23**

**A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF SUGAR LAND, TEXAS, ADOPTING THE CITY OF SUGAR LAND INVESTMENT POLICY AND INVESTMENT STRATEGY IN ACCORDANCE WITH THE PUBLIC FUNDS INVESTMENT ACT.**

WHEREAS, the Public Funds Investment Act (“Act”), Chapter 2256 of the Texas Government Code, requires the City to review and adopt an investment policy and investment strategy annually for its funds and funds under its control [section 2256.005(e)]; and

WHEREAS, section 2256.005(b) of the Act provides that the investment policies must:

- (1) be written;
- (2) primarily emphasize safety of principal and liquidity;
- (3) address investment diversification, yield, and maturity and the quality and capability of investment management; and
- (4) include:
  - (A) a list of the types of authorized investments in which the investing entity's funds may be invested;
  - (B) the maximum allowable stated maturity of any individual investment owned by the entity;
  - (C) for pooled fund groups, the maximum dollar-weighted average maturity allowed based on the stated maturity date for the portfolio;
  - (D) methods to monitor the market price of investments acquired with public funds;
  - (E) a requirement for settlement of all transactions, except investment pool funds and mutual funds, on a delivery versus payment basis; and
  - (F) procedures to monitor rating changes in investments acquired with public funds and the liquidation of such investments consistent with the provisions of Section 2256.021; and

WHEREAS, the Act requires the City Council to adopt, as part of its investment policy, a separate written investment strategy for each of the funds or group of funds under its control [2256.005(d)]; and

WHEREAS, the Act requires that the City Council adopt a written instrument by ordinance or resolution 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 [2256.005(e)]; NOW, THEREFORE,

**BE IT RESOLVED BY THE CITY COUNCIL  
OF THE CITY OF SUGAR LAND, TEXAS:**

**Section 1.** That the facts and recitations set forth in the preamble of this Resolution are declared true and correct.

**Section 2.** That it has reviewed the attached City of Sugar Land Investment Policy, as shown in Exhibit A and the attached City of Sugar Land Investment Strategy, as shown in Exhibit B.

**Section 3.** That the attached City of Sugar Land Investment Policy and City of Sugar Land Investment Strategy show no changes since adopted last year.

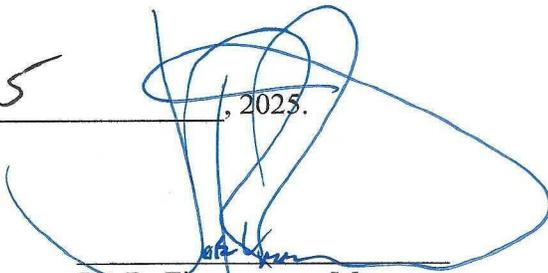
**Section 4.** That it adopts the attached City of Sugar Land Investment Policy, as shown in Exhibit A and City of Sugar Land Investment Strategy, as shown in Exhibit B.

**Section 5.** That the adopted Investment Policy and Investment Strategy apply to all funds under its control, including the funds of the Sugar Land Development Corporation and the Sugar Land 4B Corporation.

**Section 6.** That Resolution No. 24-15 and Resolution No. 24-16 are repealed.

**Section 7.** That City Council Policies 5000-22 and 5000-24 are repealed and replaced by this combined policy to be numbered as Policy 5000-25.

APPROVED on April 15, 2025.



Joe R. Zimmerman, Mayor

ATTEST:

APPROVED AS TO FORM:

  
Linda Mendenhall, City Clerk



APPROVED AS TO FORM:

Attachment: Exhibit A – City of Sugar Land Investment Policy  
Exhibit B – City of Sugar Land Investment Strategy

**Exhibit A**  
**CITY OF SUGAR LAND**  
**INVESTMENT POLICY**

**A. PURPOSE**

To establish and provide specific policy and guidelines for the conduct of the investment program of the City of Sugar Land.

**B. POLICY**

It is the policy of the City of Sugar Land that all City funds will be invested in compliance with state statutes, City Charter and Ordinances, and all related Governmental Accounting Standards Board Statements, and related financial accounting standards.

**C. DELEGATION OF AUTHORITY**

The City of Sugar Land is required by the Public Funds Investment Act (Chapter 2256, Texas Government Code) to adopt by Resolution, a written investment policy regarding the investment of its funds and funds under its control.

Authority to manage the City of Sugar Land's investment program is derived by Resolution. Procedures include explicit delegation of authority to persons responsible for investment transactions. The Investment Program Manager is responsible for the management of the investment program. The Investment Officers are responsible for the daily operation of the investment function. A person may not deposit, withdraw, invest, transfer, or manage in any other manner funds of the City without written authority by City Council. All investments must be approved in writing by two Investment Officers. Authority granted to a person(s) to deposit, withdraw, invest, transfer, or manage the City's funds is effective until rescinded by City Council or until termination of the person's employment. The Investment Program Manager shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials. Controls shall include but may not be limited to an annual review of sampled transactions by an external auditor. The auditor will review internal control by monitoring compliance with policies and procedures.

**D. SCOPE**

The investment policy applies to all financial assets of the City of Sugar Land [as reported in the City of Sugar Land's Annual Comprehensive Financial Report] and includes the following funds:

- 1) General Fund
- 2) Special Revenue Funds
- 3) Capital Project Funds
- 4) Enterprise Funds
- 5) Trust and Agency Funds
- 6) Debt Service Funds, including Reserves and Sinking Funds
- 7) Internal Service Funds

- 8) Component Units, excluding those that have adopted a separate investment policy.  
Current component units included under this policy:
  - a. Sugar Land Development Corporation
  - b. Sugar Land 4B Corporation
  - c. Tax Increment Reinvestment Zone #1
  - d. Tax Increment Reinvestment Zone #3
  - e. Tax Increment Reinvestment Zone #4
- 9) Any other funds or component units as created by the City.

These funds, as well as funds that may be created from time to time, shall be administered in accordance with the provisions of this policy. All funds invested under this policy shall be considered as a pooled group for investment purposes.

Deferred compensation and the retirement system assets the City sets aside or holds for its employees are not subject to this policy.

#### **E. PRUDENCE**

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. The governing body of the investing entity retains ultimate responsibility as fiduciaries of the assets of the entity.

In determining whether an Investment Officer has exercised prudence with respect to an investment decision, the determination shall be made taking into consideration:

- 1) the investment of all funds under the City's control over which the officer had responsibility rather than a consideration as to the prudence of a single investment; and
- 2) whether the investment decision was consistent with the written investment policy of the city.

The Investment Program Manager and the Investment Officers are not personally liable for changes in the market.

#### **F. OBJECTIVES**

It is the City's full intent, at the time of purchase, to hold all investments until maturity to ensure the return of all invested principal. The primary objectives, in priority order, of the City of Sugar Land's investment activities shall be:

**Safety.** Safety of principal is the foremost objective of the investment program. Investments for the City of Sugar Land shall be undertaken in a manner that seeks to ensure preservation of capital in the overall portfolio. 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, investments are limited to the safest types of securities, and pre-qualification is required for broker/dealers, financial institutions, and advisors with which the City will do business.

**Liquidity.** The City of Sugar Land's investment portfolio will remain sufficiently liquid to enable the City of Sugar Land to meet all operating requirements, which might be reasonably anticipated. Liquidity shall be achieved by matching investment maturities with budgetary and economic cycles and forecasted cash flow requirements. A portion of the portfolio will be maintained in liquid short-term securities that can be converted to cash if necessary to meet disbursement requirements. Investment pools and no-load money market mutual funds provide daily liquidity and may be utilized as a competitive yield alternative to fixed maturity investments.

**Return on Investment (Yield).** The City of Sugar Land's investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, considering the City of Sugar Land's investment risk constraints and the cash flow characteristics of the portfolio. Return on Investment is of secondary importance compared to Safety and Liquidity objectives.

The City shall attempt to obtain an acceptable return provided that the requirements of safety and liquidity are first met. The yields of the three and six-month Treasury bill shall be the yield objectives or "benchmarks". The portfolio shall also be benchmarked against an agency note with approximately the same maturity as the weighted average maturity of the portfolio.

The City of Sugar Land shall strive to maintain the level of investment of all fund balances, reserves, and bond funds as close to 100% as possible. While the objectives of safety and liquidity must first be met, it is recognized that portfolio assets represent a potential source of significant revenues. It is to the benefit of the City that these assets be managed to produce optimum revenues, consistent with state statutes and local ordinances.

## **G. STRATEGY**

The governing body shall adopt a separate written investment strategy for each of the funds or pooled group of funds under its control. The strategy shall be reviewed on an annual basis with formal action by the City Council stating that the strategy has been reviewed and recording any changes made.

## **H. ETHICS AND CONFLICT OF INTEREST**

Officers, employees, and elected officials shall refrain from personal business activities that could conflict with the proper execution of the investment program, or which could impair their ability to make impartial investment decisions. Elected officials and investment officials who have a personal relationship with an entity seeking to sell an investment to the City and anyone 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 personal business interest to the Investment Program Manager and City Manager.

**For purposes of this section, an investment officer or elected official has a personal business relationship with a business organization if:**

- (1) the official 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;

- (2) funds received by the official from the business organization exceed 10 percent of the official's gross income for the previous year; or
- (3) an 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.

The statements must be filed with the Texas Ethics Commission and the City Council. For elected officials, this requirement is in addition to the Conflict Disclosure filings required under Local Government Code Chapter 176 and the City's Ethics Ordinance. Employees and officers shall subordinate their personal investment transactions to those of the City of Sugar Land, particularly regarding timing of purchases and sales.

#### **I. INVESTMENT TRAINING**

The Investment Officers shall take (a) 10 hours of training within twelve (12) months after taking office or assuming duties and (b) not less than eight (8) hours of training every (2) two years, relating to their investment responsibilities. The two-year training cycle begins on October 1st and ends two years later based on the City's fiscal year. Training must include education in investment controls, security risks, strategy risks, market risks, diversification, and compliance. The training must be provided by an independent source approved by the governing body or designated investment committee. For these purposes, courses or seminars offered by the Government Finance Officers Association, Government Finance Officers Association of Texas, Texas Municipal League, University of North Texas, Texas Association of Counties, North Texas Council of Governments – Training & Development Institute, the Government Treasurers Organization of Texas, Texas CLASS or the TexPool Academy will satisfy the training requirements. Training provided by organizations not listed here may be reviewed by the Investment Program Manager to determine if meets the requirements. Training may be done virtually or in-person. Documentation of training hours shall be reviewed annually by an external auditor.

#### **J. QUALITY AND CAPABILITY OF INVESTMENT MANAGEMENT**

Investment Officers shall always be cognizant of the standard of care and the investment objectives as set forth in the Public Funds Investment Act and the City's investment policy. The City shall provide the required investment training in compliance with the Public Funds Investment Act to ensure the quality and capability of investment management. Staff will set the standard of training required, which may be over and above the eight (8) hours as required by the Public Funds Investment Act depending on the Investment Officer's experience.

#### **K. SELECTION AND COMPLIANCE OF FINANCIAL INSTITUTION / BROKER/DEALERS INVESTMENT BROKER/DEALERS**

##### **Selection Process**

The Investment Officers will maintain a list of financial institutions, primary brokers/dealers and local government investment pools authorized by the City Council to provide investment services to the City. Investment Officers shall not conduct business with any firm not approved by the City

Council. As required under 2256.025, this list shall be reviewed and approved annually by City Council.

The City will prepare a Request for Investment Services every three years. The City shall follow the RFQ process to solicit the broker qualifications. All financial institutions and broker/dealers who desire to become qualified bidders for investment services must submit the required documents to the City by the stated day and time. After a review of all qualified submissions, a list of selected brokers/dealers will be prepared by the Investment Officers and approved by City Council. The following will be required with the application: most recent audited financial statements, proof of FINRA certification, trading resolution, proof of state registration, completed broker/dealer questionnaire, a list of local government clients and statements of qualifications.

**Criteria used in the selection of authorized broker/dealers will include but are not limited to material litigation against the firm, regulatory status of the dealer, completed packet, references from local government clients, background, and expertise in investment of public funds.**

The top six qualified firms/banks shall be selected to appear on the City's approved broker/dealer list. If, after a firm is selected, they no longer qualify to appear on the City's approved dealer list, or provide services inconsistent with acceptable levels, the Investment Officers may recommend to City Council to remove the firm from the approved list and replace it with the next qualified candidate based on the latest RFQ evaluation. The City may also approve one firm or bank to manage brokered CD purchases in addition to firms appearing on the approved broker/dealer listing.

#### **CERTIFICATES OF DEPOSIT**

The City may purchase Certificates of Deposit from banks within the United States through a broker/dealer on the City's approved broker/dealer list who has an office located in the state of Texas. To avoid the additional collateral requirement, the amount invested in each CD will not exceed \$250,000 (FDIC insurance coverage) and to avoid the duplicate purchase of same CD, the City will utilize only one broker/dealer.

#### **CERTIFICATION**

A copy of the investment policy shall be presented to authorized investment pools annually. The qualified representative of the investment pool shall execute a written instrument stating to the effect that the qualified representative has:

- a. Received the investment policy,
- b. Acknowledged that the organization has implemented reasonable procedures and controls to preclude imprudent activities.

The Investment Officers may not deposit funds in an investment pool that has not signed a certification of receipt. The instrument must be signed annually by a qualified representative.

#### **COMPETITIVE BIDDING REQUIREMENT**

All purchases of investments will be placed after receiving competitive quotes from at least three financial institutions, broker/dealers, investment pools or any combination thereof. Quotes will be accepted either written or electronically, or a combination thereof. An exception to this rule may be made when time limitations preclude the bidding process such as rapidly changing market conditions, or if the security to be purchased is a "new issue" (offered in the primary market) with a future settlement date or brokered Certificates of Deposit. New issues should be compared to securities available in the secondary market of similar characteristics (maturity date, type, etc.). Funds may be invested in an authorized investment pool without receiving competitive bids to facilitate the investment of City funds.

The investment will be made with the broker/dealer offering the greatest return and quality to the City within the specified maturity window. If three bids/offers are solicited but three responses are not received within the time frame specified in the solicitation of the bid/offer, the Investment Officer may act based on the responses received if the solicitation of and failure to receive the bids/offers is documented. Other than Certificates of Deposit, evaluations of investments purchased must have the signature of at least two Investment Officers.

#### **L. AUTHORIZED AND SUITABLE INVESTMENTS**

The City of Sugar Land is empowered by state statute and City resolution to invest in the following types of securities and/or Public Fund Investment Pools:

##### **Obligations of or guaranteed by Governmental Entities**

- 1) Direct obligations of the United States or its agencies and instrumentalities.
- 2) Direct obligations of the State of Texas or its agencies and instrumentalities.
- 3) Other obligations, the principal and interest of which are unconditionally guaranteed or insured by or backed by the full faith and credit of the State of Texas or the United States or their respective agencies and instrumentalities.
- 4) Obligations of states, agencies, counties, cities, and other political subdivisions of any state rated not less than A or its equivalent.
- 5) Interest-bearing banking deposits that are guaranteed or insured by the Federal Deposit Insurance Corporation or its successor, or the National Credit Union Share Insurance Fund or its successor.
- 6) Interest-bearing banking deposits, other than those guaranteed or insured by the Federal Deposit Insurance Corporation or its successor, or the National Credit Union Share Insurance Fund or its successor, if:
  - a. the funds invested in the banking deposits are invested through:
    - i. a broker with a main office or branch office in this state that the investing entity selects from a list the governing body or designated investment committee of the entity adopts as required by Government Code Section 2256.025; or
    - ii. a depository institution with a main office or branch office in this state that the investing entity selects.
  - b. the broker or depository institution selected as described by Paragraph (5)(A) above arranges for the deposit of the funds in the banking deposits in one or more federally

insured depository institutions, regardless of where located, for the investing entity's account.

- c. the full amount of the principal and accrued interest of the banking deposits is insured by the United States or an instrumentality of the United States; and
- d. the investing entity appoints as the entity's custodian of the banking deposits issued for the entity's account:
  - i. the depository institution selected as described by Paragraph (5)(a) above.
  - ii. a state or national bank that:
    1. is designated by the comptroller as a state depository,
    2. has its main office or a branch office in this state; and
    3. has a capital stock and permanent surplus of \$5 million or more,
  - iii. the Texas Treasury Safekeeping Trust Company
  - iv. a Federal Reserve Bank or a branch of a Federal Reserve Bank
  - v. a federal home loan bank
  - vi. a financial institution authorized to exercise fiduciary powers that is designated by the comptroller as a custodian pursuant to Government Code Section 404.031(e)
  - vii. an entity described by Government Code Section 2257.041(d); or
  - viii. a clearing broker dealer registered with the Securities and Exchange Commission and operating under Securities and Exchange Commission Rule 15c3-3 (17 C.F.R. Section 240.15c3-3).

### **Certificates of Deposit**

Authorized investment if the certificate of deposit is issued by a depository institution that has its main office or a branch office in this state, or purchased through a broker/dealer located in this state, and is:

- 1) Guaranteed or insured by the Federal Deposit Insurance Corporation or its successor.
- 2) Secured by obligations that are described in Section L or Section O or secured in any other manner and amount provided by law for deposits of the city.

CDs purchased through a broker shall meet criteria for maturity and interest rates determined by the City's investment officers in advance of purchase. The City must appoint an entity or the broker/dealer as custodian with respect to the CD's issued for the account of the City. The custodian shall provide monthly reports of CD's owned by the City.

### **Repurchase Agreements**

Repurchase agreements may only be made with a Master Repurchase Agreement in place between the City and the financial institution.

Authorized investments:

- 1) Must have a defined termination date.
- 2) Can be secured either by: obligations described in Obligations of, or guaranteed by, Governmental Entities, or cash held by a third party.

- 3) Must be pledged to the City, held in the City's name, and deposited at the time the investment is made with a third party approved by the City.
- 4) Must be placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in this state.

### **Bankers' Acceptances**

Bankers' Acceptances can be an authorized investment if they:

- 1) Have a stated maturity of 270 days or less from the date of issuance.
- 2) Can be liquidated in full at maturity.
- 3) Are eligible for collateral for borrowing from a Federal Reserve Bank.
- 4) Are accepted by a bank organized and existing under the laws of the United States if the short-term obligations of the bank are rated not less than A-1 or P-1 or an equivalent rating by at least one nationally recognized credit rating agency.

### **Mutual Funds**

A no-load money market mutual fund is an authorized investment if the mutual fund:

- 1) Is registered and regulated by the Securities and Exchange Commission.
- 2) Has a dollar-weighted average stated maturity of 90 days or fewer.
- 3) Includes in its investment objectives the maintenance of a stable net asset value of \$1 for each share.

A no-load mutual fund is an authorized investment if the mutual fund:

- 1) Is registered with the Securities and Exchange Commission.
- 2) Has an average weighted maturity of less than two (2) years.
- 3) Is invested exclusively in obligations and investment pools as approved in the City's investment policy.
- 4) Is continually rated as to investment quality by at least one nationally recognized investment rating firm of not less than AAA or its equivalent.

The City will be provided with a prospectus and other information required by the Securities Exchange Act of 1934.

The City may not invest in the aggregate more than 15 percent of its monthly average fund balance, excluding bond proceeds, reserves, and debt service in no-load mutual funds.

The City may not invest any portion of bond proceeds, reserves or funds held for debt service in no-load mutual funds.

The City may not invest funds in an amount that would exceed 10% of the total assets of that mutual fund.

### **Investment Pools**

The City may invest its funds and funds under its control through eligible investment pools if the governing body by ordinance or resolution authorizes participation in the pool. An investment

pool shall invest the funds it receives from entities in authorized investments permitted by Chapter 2256 of the Government Code. An investment pool may invest its funds in money market mutual funds to the extent permitted by and consistent with this subchapter and the investment policies and objectives adopted by the investment pool. The investment pool(s) must furnish a circular or disclosure document, which contains specific and detailed information. A listing of requirements is contained in Chapter 2256.016(b) of the Government Code. Investment pools must provide detailed monthly transaction and performance reports as outlined in Chapter 2256.016 (c) & (e).

A public funds investment pool created to function as a money market mutual fund must mark its portfolio to market daily and, to the extent possible, stabilize at a \$1 net asset value. If the ratio of the market value of the portfolio divided by the book value of the portfolio is less than 0.995 or greater than 1.005, holdings shall be sold as necessary to maintain the ratio between 0.995 and 1.005. The monthly statement for a pool that invests in money market mutual funds must include a statement on how the yield on the pool is calculated.

A public fund investment pool must be continuously rated no lower than AAA or AAAM or no lower than investment grade by at least one nationally recognized rating service and have a weighted average maturity no greater than 90 days.

Investment pools created under Chapter 791 and managed by a state agency or private investment manager shall establish an advisory board composed equally of participants in the pool and other persons who do not have a business relationship with the pool.

The City may invest funds in an investment pool that invests in Commercial Paper as part of its portfolio, if the commercial paper meets the requirements of Chapter 2256.013. This policy limits the percentage of the portfolio allowed to be invested with a pool comprised of commercial paper in its portfolio. (See Section Q- Diversification)

#### **Investments with Required Ratings**

Investments with minimum required ratings such as investment pools, no-load mutual funds, and bankers' acceptances do not qualify as authorized investments 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 an investment receives a change in rating that makes it no longer acceptable under the City's investment policy or PFIA, the City shall liquidate the investment at the earliest opportunity and reinvest the funds in an acceptably rated alternative investment.

#### **M. UNAUTHORIZED INVESTMENTS**

The following types of investments are prohibited by this policy:

1. Collateralized mortgage obligations, including but not limited to principal only strips, interest only strips, mortgage obligations with a stated final maturity date of greater than 10 years, and obligations with an inverse floating interest rate.
2. Direct investment in Commercial Paper.
3. All swaps including but not limited to even-basis swaps, interest rate swaps.

4. Forwards and futures.
5. Options.
6. Foreign exchange.
7. Planned amortization classes (PAC).
8. Regular floaters tied to government securities.
9. Investments with various interest rate caps, floors, and collars.
10. Investment pools in which the City would own more than 10% of the market value of the pool.
11. Any other investments that are not on the authorized investments list.

#### **N. ELECTRONIC FUNDS TRANSFER**

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

#### **O. COLLATERALIZATION**

Collateralization will be required on demand deposits, repurchase agreements and all accrued interest. To anticipate market changes and provide a level of security for all funds, the market value of collateral pledged must be at least 102% of the ledger balance of demand deposits and repurchase agreements, and all accrued interest net of FDIC insurance coverage. Pledged securities shall be marked-to-market at least monthly.

A written collateral agreement must be executed, approved by the Board of Directors, an official record since the agreement's inception, and executed contemporaneously with the acquisitions of the asset.

The City chooses to accept collateral based on the list of investments authorized under the Public Funds Investment Act. The right of collateral substitution is granted with the approval of the Investment Program Manager or Deputy Director of Finance. The Investment Program Manager or Deputy Director of Finance may approve and release pledged collateral.

The City shall request additional collateral in the event Investment Officers deem that deposits or investments are not sufficiently protected by the pledged collateral.

Collateral will always be held in the City's name by an independent third party with whom the City or bank has a current custodial agreement. Clearly marked evidence of ownership (safekeeping receipt) must be supplied to the City and will be retained in the office of the Investment Officer. City staff will monitor deposit balances daily, in accordance with the intradepartmental policy on collateral, and will request increases in collateral pledged if deposits are reasonably anticipated to exceed the current collateral pledged.

#### **P. SAFEKEEPING AND CUSTODY**

All security transactions, including collateral for repurchase agreements, entered by the City shall be conducted on a delivery-versus-payment (DVP) basis. Securities will be held in the name of the City by a third-party custodian designated by the City and evidenced by safekeeping receipts. Safekeeping receipts shall be maintained by the Investment Officers and shall be available for review upon request.

## Q. DIVERSIFICATION

The City of Sugar Land will diversify its investments by security type, institution, and broker/dealer. Requests for bids/offers from broker/dealers shall rotate among approved broker/dealers to ensure that the same brokers are not solicited for every bid/offer request, and to ensure competition among broker/dealers.

Except for U.S. Treasury securities, no more than 75% of the City's total investment portfolio will be invested in a single security type. If the City elects to participate in more than one investment pool, the total percent invested in any one pool may not exceed 50% of the portfolio total, however multiple pools may be invested up to 90% of portfolio value if needed. Pools that invest in Commercial Paper may not exceed 25% of the portfolio value.

Diversification requirements are as follows:

<u>Investment Type</u>	<u>Maximum Investment %</u>
Repurchase Agreements	50% of portfolio
Certificates of Deposit	50% of portfolio
U.S. Treasury Bills/Notes	100% of portfolio
Other U.S. Government Securities	75% of portfolio
Authorized Investment Pools (governmental funds)	Max 50% in one pool, 90% of portfolio all pools
Authorized Investment Pools with Commercial Paper	25% of portfolio
Flexible Repurchase Agreements	50% of portfolio
Bankers' Acceptances	25% of portfolio
No Load Money Market Mutual Funds	50% of portfolio
No Load Mutual Funds	See authorized Investments, Mutual Funds

## R. MAXIMUM MATURITIES

To the extent possible, the City will attempt to match its investments with anticipated cash flow requirements. The City will not directly invest in securities maturing more than three (3) years or 1,095 days from date of purchase. The settlement date is considered the date of purchase. However, the City may collateralize its certificates of deposits and repurchase agreements using longer-dated investments not to exceed thirty (30) years.

The maximum weighted average maturity allowed, based on the stated maturity date for the portfolio, is 548 days or 18 months.

## S. INTERNAL CONTROL AND ANNUAL AUDIT

The Investment Program Manager or designee shall establish a system of internal controls. The controls shall be designed to prevent losses of public funds arising from fraud, employee error, misrepresentation of third parties, or imprudent actions by employees of Investment Officers of the City.

Controls and managerial emphasis deemed most important include the following:

Imperative Controls:

- A. Safekeeping receipts records management
- B. Documentation of investment bidding
- C. Written confirmations
- D. Reconciliation and comparisons of security receipts with investment and bank records
- E. Compliance with investment policies
- F. Accurate and timely reporting
- G. Adequate training and development of Investment Officers

Controls Where Practical:

- A. Control of collusion
- B. Segregation of duties
- C. Clear delegation of authority
- D. Staying informed about market conditions, changes and trends that require adjustments in investment strategies.

The City, in conjunction with its annual financial audit, shall perform a compliance audit of management controls on investments and adherence to the City's established investment policies. This annual audit will be performed by an external auditor and will include a formal review of the quarterly reports.

**T. PERFORMANCE STANDARDS**

The investment portfolio will be designed to obtain a market rate of return during budgetary and economic cycles, considering the City of Sugar Land's investment risk constraints and cash flow needs.

**Market Yield Benchmark**

The basis used to determine whether market yields are being achieved shall be the 3-month U.S. Treasury Bill. The portfolio will also be tracked against the 6-month U.S. Treasury Bill, as well as an agency note with maturity approximately equal to the weighted average maturity of the portfolio for that month. In a changing interest rate environment, the change in portfolio yield shall be monitored against the change in benchmark yield and stated as a basis point increase or decrease from the prior reporting period.

**U. ARBITRAGE**

The Tax Reform Act of 1986 issued regulations related to the City's investing of tax-exempt bond proceeds and debt service income. Arbitrage rebate provisions require that the City compute earnings on investments from each issue of bonds on an annual basis to determine if a rebate to the IRS is required. To determine the City's arbitrage position, the City is required to perform specific calculations relative to the actual yield earned on the investment of the funds and the yield that could have been earned if the funds had been invested at a rate equal to the yield on the bonds sold by the City. The rebate provision states that periodically (not less than once every five years, and not later than sixty days after maturity of the bonds), the City is required to pay the IRS a rebate of any excess earnings (positive arbitrage). The regulations require extreme

precision in the monitoring and recording facets of investments, and particularly as it relates to yields and computations to ensure compliance. Failure to comply can dictate that the bonds become taxable, retroactively from the date of issuance, or subject the City to severe penalties.

The City's investment position as it relates to arbitrage regulations is as follows: Investments of bond proceeds will be made with safety of principal and liquidity in mind, but with a competitive rate of return. When project timing and cash flows allow, bond proceeds may be invested in authorized investments. It is preferable to purchase investments solely with individual bond proceeds, and not commingle with operating funds or multiple issues; however, it is recognized that this is not always feasible. It is preferable to commingle funds from multiple issues or other capital projects funds before commingling with operating funds. Investments of bond funds should match maturities with project cash flows as closely as possible. All investments purchased with bond funds shall be documented clearly and reported to the City's arbitrage consultant for tracking and review. Arbitrage rebate calculations will be performed annually on all debt issues and funds set aside annually for any positive arbitrage. Arbitrage rebate payment will be remitted to the IRS, as necessary.

## **V. REPORTING**

The City Manager and the City Council will receive a monthly report listing the investments, collateralization, and interest earnings prepared jointly and signed by all Investment Officers. The reports will be prepared in compliance with generally accepted accounting principles and include fully accrued interest in the aggregate for the reporting period.

The reports shall provide the following:

- 1) Investments by fund and in total.
- 2) Investment by maturity date.
- 3) Collateral amounts.
- 4) Beginning Book and Market Value in Summary and by Investment.
- 5) Additions/Changes to the Market Value in Summary.
- 6) Ending Book and Market Value in Summary and by Investment:
  - Where Book Value = Purchase Value
  - Purchase Value = Par Value x Purchase Price
  - Where Market Value = Par Value x Market Price
  - Market Value will be reported as of the last business day of the period and be obtained from the City's custodian bank.
- 7) Beginning and Ending Accrued Interest.
- 8) Coupon/Discount and Earnings Rate.
- 9) Percentage of the portfolio represented by each investment category.
- 10) Weighted average yield (WAY) to maturity of portfolio as compared to benchmark.
- 11) Change in WAY of portfolio vs change in benchmark yield.
- 12) Statement of compliance with the investment policy, strategy, and Public Funds Investment Act.
- 13) Signature of Investment Officers (physical or electronic).

### **Year-End General Ledger Adjustments**

To ensure compliance with Government Accounting Standards Board Statements #31 and #72, the City shall use the market values of the investments from the City's custodian bank, and if necessary, adjust the market values of the investments in the General Ledger as part of the year-end process.

### **W. INVESTMENT POLICY**

The City of Sugar Land's investment policy shall be adopted by resolution by the City Council. The policy shall be reviewed annually by the Investment Program Manager, City Manager, Council Finance/Audit Committee and City Council. Any modifications made to the policy must be approved by the City Council and documented by formal action. The policy shall be adopted annually by resolution with tracked changes in the policy to document revisions.

## Exhibit B

### INVESTMENT STRATEGY

The City of Sugar Land shall adopt by resolution a separate written investment strategy for each of the funds under its control. For Investment purposes, the City shall use a "Pooled Fund Group" which means that all funds under the City's control shall be treated as one fund.

#### INVESTMENT STRATEGY

##### **I. Suitability**

Investments are to be purchased based on the financial requirements of the City. The City of Sugar Land shall strive to maintain the level of investment of all fund balances, reserves, and bond funds as close as possible to 100%. Any investment eligible in the Investment Policy is suitable for all City funds, including component units.

##### **II. Safety of Principal**

Investments of the City shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. All investments shall be of high quality with no perceived default risk. It is the City's full intent, at the time of purchase, to hold all investments until maturity to ensure the return of all invested principal.

##### **III. Liquidity**

The City's investment portfolio will remain sufficiently liquid to enable the City to meet all operating requirements that might be reasonably anticipated. Liquidity shall be achieved by matching investment maturities with budgetary and economic cycles and forecasted cash flow requirements. A portion of the portfolio will be maintained in liquid short-term securities that can be converted to cash if necessary to meet disbursement requirements. Investment pools and money market mutual funds provide daily liquidity and may be utilized as a competitive yield alternative to fixed maturity investments.

##### **IV. Marketability**

The City shall invest in securities that, if the need arises, can be liquidated before maturity. Investments will never be prematurely sold at less than book value plus accrued interest, without approval of the Investment Program Manager.

##### **V. Diversification**

The City will diversify its investments by security type, broker/dealer, and institution. Except for U.S. Treasury securities (up to 100%) and Investment Pools (which may aggregate to 90%), no more than 75% of the City's total investment portfolio will be invested in a single security type or 50% in a single investment pool, with 25% limit for investment pools that contain commercial paper. (See Diversification in Investment Policy)

##### **VI. Yield**

The investment portfolio shall obtain a competitive rate of return throughout budgetary and economic cycles, commensurate with the investment risk constraints and the cash flow needs. The City shall attempt to obtain an acceptable return provided that the requirements of safety and liquidity are first met. The basis used to determine whether market yields are being achieved shall be the 3-month U.S. Treasury Bill. The portfolio will also be tracked against the 6-month U.S. Treasury Bill, as well as an agency note with maturity approximately equal to the weighted average maturity of the portfolio for that month.



## City Council Agenda Request

APRIL 15, 2025

**AGENDA REQUEST NO:** IV.D.

**AGENDA OF:** City Council Meeting

**INITIATED BY:** *Jing Xiao, Director of Finance*

**PRESENTED BY:** *Jing Xiao, Director of Finance*

**RESPONSIBLE DEPARTMENT:** Finance

**AGENDA CAPTION:**

Consideration of and action on **CITY OF SUGAR LAND RESOLUTION NO. 25-23: A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF SUGAR LAND, TEXAS, ADOPTING THE CITY OF SUGAR LAND INVESTMENT POLICY AND INVESTMENT STRATEGY IN ACCORDANCE WITH THE PUBLIC FUNDS INVESTMENT ACT.**

**RECOMMENDED ACTION:**

Approve Resolution No. 25-23, adopting the City of Sugar Land Investment Policy and Investment Strategy in accordance with the Public Funds Investment Act.

**EXECUTIVE SUMMARY:**

The City's investments are governed by the Public Funds Investment Act (PFIA) under Chapter 2256 of the Texas Government Code. The act requires the governing body to review and adopt each year the investment policy and investment strategy for the funds or group of funds under its control. To meet PFIA requirements, the investment policy must:

1. Be written;
2. Primarily emphasize the safety of principal and liquidity;
3. Address investment diversification, yield, and maturity and the quality and capability of investment management; and
4. Include:
  - A list of the types of authorized investments in which the City's funds may be invested;
  - The maximum allowable stated maturity of any individual investment owned by the City;
  - The maximum dollar-weighted average maturity allowed based on the stated maturity date for the portfolio;
  - Methods to monitor the market price of investments acquired;
  - Methods to monitor rating changes in investments acquired

The City's Investment Policy and Investment Strategy were most recently adopted in March 2024; there has been no identified need for policy and/or strategy change since then.

The PFIA requires that City Council adopt a Resolution stating that it has reviewed the Investment Policy (Exhibit A) and Investment Strategy (Exhibit B).

The Finance Audit Committee reviewed the Investment Policy and Investment Strategy at its April 7<sup>th</sup> 2025 meeting.

The Finance Department recommends the City Council approve Resolution No. 25-23, adopting the City of Sugar Land Investment Policy and Investment Strategy in accordance with the Public Funds Investment Act.

**BUDGET**

**EXPENDITURE REQUIRED:**

**CURRENT BUDGET:**

**ADDITIONAL FUNDING:**

**FUNDING SOURCE:**

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**ATTACHMENTS:**

<b>Description</b>	<b>Type</b>
□ <a href="#">Resolution No. 25-23</a>	Resolutions
□ <a href="#">Exhibit A City of Sugar Land Investment Policy</a>	Other Supporting Documents
□ <a href="#">Exhibit B City of Sugar Land Investment Strategy</a>	Other Supporting Documents