RESOLUTION NO. 2024 – 03 - 04

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF COMMERCE, TEXAS, ADOPTING THE COMMERCE FINANCIAL POLICIES ATTACHED HERETO, AS "EXHIBIT A" AND PROVIDING FOR AN EFFECTIVE DATE.

WHEREAS, it is the responsibility of local government to ensure that public funds are managed in a prudent and financially sound manner; and

WHEREAS, financial policies provide guidelines for managing risk and assisting the City in complying with established public management best practices, while also ensuring compliance with federal, state and local laws and reporting requirements; and

WHEREAS, the City Council will review and adopt annually these financial policies to ensure they remain current with State Law and appropriately address the operational needs of our organization; and

WHEREAS, the City Council of the City of Commerce, Texas, has deemed it necessary and in the best interest of the citizens of the City of Commerce to adopt the attached financial policies; and

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

Section 1: THAT, the City Council of the City of Commerce hereby approves the City of Commerce (1) Fund Balance Policy, (2) Investment Policy and (3) Debt Management Policy, all attached hereto as "Exhibit A".

Section 2: THAT, any prior Resolution of the City Council in conflict with the provisions contained in this Resolution are hereby repealed and revoked.

Section 3: THAT, should any part of this Resolution be found invalid for any reason, the reminder shall not be affected thereby, and such remaining portions are hereby declared to be severable.

Section 4: THAT, this Resolution shall be in full force and effect immediately from and after its passage, and it is so duly resolved.

PASSED AND APPROVED THIS 19TH DAY OF MARCH 2024.

CITY OF COMMERCE, TEXAS	**CITY OF COMMERCE, TEXAS**
Howdy Lisenbee, City Manager	Ted Reel Teddy Reel, Mayor

(Seal)

ATTEST:

Molly Jacobsen, City Secretary

APPROVED AS TO FORM:

Charles Anderson, City Attorney

APPROVED:

Jamie Campbell, Director of Finance

I, Molly Jacobsen, City Secretary of the City of Commerce, Texas, do hereby certify that the above is a true and correct copy of a resolution and that the same has not been repealed and is in full force and effect.

(Seal)

Molly Jacobsen, City Secretary

City of Commerce, Texas

of that fund (i.e. only funds in the capital projects fund may be used for capital projects).

a. The City Council has authorized the City Manager to assign fund balance to a specific purpose as approved by this fund balance policy.

5) Unassigned fund balance – is the residual classification of the general fund and includes all amounts not contained in other classifications. Unassigned amounts are technically available for any purpose.

General Fund Minimum Unassigned Fund Balance Policy and Target

The City shall use the following guidelines to maintain the fund balance, working capital and net assets of the various operating funds at levels sufficient to protect the City's creditworthiness as well as its financial position from unforeseeable emergencies.

1) General Fund Unassigned Fund Balance -The City shall strive to maintain the General Fund unassigned fund balance at an amount equal to a Minimum twenty five percent (25 %) and a Target of thirty five percent (35 %) of the general operating budget to avoid cash-flow interruptions, generate interest income, reduce need for short-term borrowing and assist in maintaining an investment-grade bond rating. At the close of each fiscal year, any excess above the Target will be designated to the Capital Improvement Program and the Equipment Replacement Program, and if the fund balance falls below the minimum, the City Manager and Finance Director will notify the City Council and develop and implement a multi-year strategy to meet the minimum goal through a combination of cost cutting, cost recovery, and revenue enhancing strategies

2) Enterprise Fund Working Capital -The City shall strive to the Enterprise Fund unassigned fund balance at an amount equal to a Minimum twenty five percent (25 %) and a Target of forty five percent (45 %) to provide sufficient reserves for emergencies and revenue shortfalls. At the close of each fiscal year, any excess above the Target will be designated to the Capital Improvement Program and the Equipment Replacement Program, and if the fund balance falls below the minimum, the City Manager and Finance Director will notify the City Council and develop and implement a multi-year strategy to meet the minimum goal through a combination of cost cutting, cost recovery, and revenue enhancing strategies.

Use of Unassigned Fund Balance Policy

Unassigned Fund Balance shall be used only for emergencies, non-recurring expenditures, major capital purchases that cannot be accommodated through current year savings, and as designated by the City Council. Should such use reduce the balance below the appropriate level set as the objective for that fund, recommendations will be made on how to restore it.

Fund Balance Policy Review and Update

The City Manager and Finance Director will perform at minimum a three (3) year periodic or as needed review and analysis of the City's revenue and expense composition and forecast, cash flow position and forecasted operational and capital needs to determine the performance of the Fund Balance Policy and to determine if any modifications are need which will be presented to the City Council.

Investment Policy

CITY OF COMMERCE
COMMERCE WATER DISTRICT
COMMERCE ECONOMIC DEVELOPMENT CORPORATION

1.0 Policy:

It is the policy of the City of Commerce, Commerce Water District, and the Commerce Economic Development Corporation (City) to invest public funds in a manner which will provide the highest investment return with the maximum security while meeting the daily cash flow demands of the city and conforming to all state and local statues governing the investment of public funds.

This Investment Policy is intended to comply with the provisions of the Texas Public Funds Investment Act, Texas Gov't. Code Chapter 2256.

Collateral Policy is intended to be comply with the provisions of the Texas Public Funds Collateral Act; Texas Gov't Code Chapter 2257.

2.0 Scope:

This investment policy applies to all financial assets for the City. These funds are accounted for the City's Annual Audit Report and include:

2.1 Funds:

2.1.1 General Fund
2.1.2 Debt Service Funds
2.1.3 Capital Project Funds
2.1.4 Enterprise Funds
2.1.5 Trust and Agency Funds
2.1.6 Internal Service Funds

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

3.0 Prudence:

Investments shall be made with judgment and care – under all 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 standard of prudence to be used by investment officials shall be the "prudent person" standard and shall be applied in the context of managing an overall portfolio. 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 security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments.

Limitation of Personal Liability

The Investment Officer and those delegated investment authority under this policy, when acting in accordance with the written procedures and this policy and in accordance with the Prudent Person Rule, shall be relieved of personal responsibility and liability in the management of the portfolio provided that deviations from expectations for a specific security's credit risk or market price change or portfolio shifts are reported in a timely manner and that appropriate action is taken to control adverse market effects.

4.0 Objectives

The primary objectives, in priority order, of the City's investment activities shall be:

4.1 Safety: Safety of principal is the foremost objective of the investment program. Investments of the City shall be undertaken in a manner that seeks to ensure the 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.

4.2 Liquidity: The City's investment portfolio will remain sufficiently liquid to enable the City to meet all operating requirements which might be reasonably anticipated.

4.3 Return on Investments: The City's investment portfolio shall be designed with the objective of attaining a rate of return throughout budgetary and economic cycles, commensurate with the City's investment risk constraints and the cash flow characteristics of the portfolio.

5.0 Delegation of Authority

The Finance Director is designated by the City Council as the Investment Officer of the City and is responsible for investment management decisions and activities. The Council is responsible for considering the quality and capability of staff, investment advisors and consultants involved in investment management and procedures. All participants in the investment process shall seek to act responsibly as custodians of the public trust.

The Investment Officer shall establish written procedures for the operation of the investment program consistent with this investment policy. Procedures should include reference to: safekeeping master repurchase agreements, wire transfer agreements, banking service contracts and collateral/depository agreements. Such procedures shall include explicit delegation of authority to persons responsible for investment transaction. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the Investment Officer. The Investment Officer shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials.

6.0 Ethics and Conflicts of Interest

Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment program, or which could impair their ability to make impartial investment decisions. Employees and investment officials shall disclose to the Investment Officer any material financial interests in financial institutions that conduct business with this jurisdiction, and they shall further disclose any large personal finance/investment positions that could be related to the performance of the City, particularly with regard to the time of purchases and sales.

7.0 Authorized Financial Dealers and Institutions:

The Investment Officer will maintain a list of financial institutions authorized to provide investment services. In addition, a list will also be maintained of approved security broker/dealers selected by credit worthiness who are authorized to provide investment services in the State of Texas. These may include "primary" dealers or regional dealers that qualify under Securities & Exchange commission Rule 15C3-1 (uniform net capital rule). No public deposit shall be made except in a qualified public depository as established by state laws.

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

- 7.1 Audited financial statements for the most recent period
- 7.2 Proof of Financial Industry Regulatory Authority (FINRA),
- 7.3 Proof of current registration with the State Securities Board,
- 7.4 Certification of having read the City's Investment Policy.

An annual review of the financial condition and registrations of qualified bidders will be conducted by the Investment Officer.

A current audited financial statement is required to be on file for each financial institution and broker/dealer in which the City invests.

8.0 Authorized & Suitable Investments:

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

- 8.1 U.S. Treasuries and securities with U.S. Government's guarantee
- 8.2 U.S. Government agencies and instrumentalities
- 8.3 Fully insured, secured, or collateralized CDs
- 8.4 Money Market funds
- 8.5 Local Government Investment Pools

9.0 Investment Pools:

A thorough investigation of the pool/fund is required prior to investing and on a continual basis. There shall be a questionnaire developed which will answer the following general questions:

- A description of eligible investment securities, and a written statement of investment policy and objectives.
- A description of interest calculations and how it is distributed, and how gains and losses are treated.
- A description of how the securities is safeguarded (including the settlement processes), and how often are the securities priced and the program audited.
- A description of who may invest in the program, how often, what size deposit and withdrawal.
- A schedule for receiving statements and portfolio listings.

- Are reserves, retained earnings, etc. utilized by the pool/fund?
- A fee schedule, and when and how it is assessed.
- Is the pool/fund eligible for bond proceeds and/or will it accept such proceeds?

10.0 Collateralizations:
Collateralization will be required on certificates of deposit. In order to anticipate market changes and provide a level security for all funds, the collateralization level will be (102%) of market value of principal and accrued interest. An FHLB letter of credit (LOC) is also an acceptable method of securing a bank deposit as long as the LOC is in place prior to fund transfer and the amount is equal or above the total deposit amount.

Collateral will always be held by an independent third party with whom the entity has a current custodial agreement. A clearly marked evidence of ownership (safekeeping receipt) must be supplied to the entity and retained.

11.0 Safekeeping and Custody:
All security transactions entered into by the City shall be conducted on a delivery-versus-payment (DVP) basis. Securities will be held by a third party custodian designated by the Investment Officer and evidenced by safekeeping receipts.

12.0 Diversification:
The City will diversify its investments by security type and institution. With the exception of U.S. Treasury Securities and authorized pools, no more than 50% of the City's total investment portfolio will be invested in a single security type or with a single financial institution.

13.0 Maximum Maturities:
To the extent possible, the City will attempt to match investment with anticipated cashflow requirements. Matching maturities with cashflow dates will reduce the need to sell securities prior to maturity, thus reducing market risk. Unless matched to a specific requirement, the City may not invest more than 20% of the portfolio for a period greater than one (1) year. Unless matched to a specific requirement, the Investment Officer may not invest any portion of the portfolio for a period greater than two (2) years.

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

15.0 Internal Control:
The Investment Officer shall establish an annual process of independent review by an external auditor. This review will provide internal control by assuring compliance with policies and procedures.

16.0 Performance Standards:

The investment portfolio shall be designed with the objective of obtaining a rate of return throughout budgetary and economic return throughout budgetary and economic cycles, commensurate with the investment risk constraints and the cash flow needs.

16.1 Market Yield (Benchmark):
The City's investment strategy is passive. Given this strategy, the basis used by the Investment Officer to determine whether market yields are being achieved shall be the three-month U.S. Treasury Bill and the average Fed Funds rate.

17.0 Reporting:
The Investment Officer shall submit quarterly investment reports which provide a clear picture of the status of the current investment portfolio. The report will be prepared jointly by all involved in the investment activity and be signed by the staff involved.

Schedules in the quarterly report should include the following:

- A listing of individual securities held at the end of the reporting period by authorized investment category.
- A detailed description of each security, including issuer name, security type, par value, coupon, purchase yield and final maturity date.
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- Amortized Book Value and Market Value.
- Percentage of the Portfolio represented by each investment category.

The methods and sources to be used to monitor the price of investments that have been acquired with public funds shall include the following:

- Primary and regional broker/dealers, *excluding the original seller of the investment*
- The City's depository bank
- The City's safekeeping agent
- Other documented, independent pricing sources

18.0 Independent Source for Training:
The Finance Director/Investment Officer shall attend an investment training session of no less than 10 hours within the first 12 months of assuming duties, and not less than once in every two-year period commencing on the first day of the new fiscal year shall receive not less than eight (8) hours of instruction relating to investment responsibilities. The investment training session shall be provided by an independent source approved by the City Council. For purposes of this policy, an "independent source" from which investment training shall be obtained shall include a professional organization, an institute of higher learning or any other sponsor other than a business organization with whom the City may engage in an investment transaction.

19.0 Investment Policy Adoption:
The City's investment policy shall be adopted by resolution of the City Council. The policy shall be reviewed annually by the City Manager and City Council and any modifications made thereto must be approved by the City Council.

20.0 Fund Strategies:

As required in section 2256.005 of the Texas Gov't Code, the City is required to adopt a separate written strategy for each of its funds or fund groups, addressing suitability, safety of principal, liquidity, marketability, diversification, and yield.

- Operating Funds (including general funds, enterprise funds, trust and agency funds) - Operating funds shall seek safety of principal, adequate liquidity, and a fair market yield while creating a diversified portfolio by investing in high-quality, marketable securities in a laddered or cashflow-matching structure. The average-maturity of the operating funds shall be limited to one year.

- Debt Service Funds - Debt service funds shall assure that adequate liquidity is available to fund debt service obligations on required payment dates while ensuring preservation of principal and seeking a fair market yield. The maximum maturity shall not exceed two years, although each successive debt service payment date should be fully funded before longer securities are purchased.

- Capital Project Funds - Capital project funds shall seek to ensure that expected project cashflows are matched with adequate liquidity, either by purchasing securities with maturities corresponding to expected expense payment dates or by maintaining funds in investment pools or other liquid investments. Investments shall be diversified in marketable instruments with active secondary markets. Maturities shall not exceed expected cashflow requirements.

Debt Issuance and Management Policy

1) Purpose

The City establishes the following policy concerning the issuance and management of the City's debt. This debt policy, as presented to City Council and the citizens, is established to improve the quality of decisions in relation to the City's financing activities, provide a comprehensive view of the City's long term debt picture and make it easier for decision makers to understand issues concerning debt issuance and management.

2) Conditions of Debt Issuance

a. Community Needs - Debt should be issued for the purpose of meeting the needs of the community through funding of capital projects and equipment but without constituting an unreasonable burden to taxpayers.

b. Qualified Projects - Long term debt is only to be issued to finance the acquisition and/or construction of capital improvements with an economic or useful life greater than three years and the term of the debt. Additionally, only capital needs identified in the capital improvement program will be considered. Refunding bonds will only be issued if the present value of debt service savings exceeds three percent of the par value of the refunded bonds, or if the refunding assists with the absorption of new debt or the refunding is intended for tax rate management purposes. Debt for other purposes, such as acquisition of capital assets, is covered separately in this policy.

c. Emergency Purposes - Debt may be issued in compliance with State law to repair or replace an essential public asset, e.g., wastewater trunk line, that has suffered catastrophic damages, or for other purposes if there is immediate risk to the health and/or general safety of the general population of the City. The issuance of debt under this subsection requires an affirmative vote by a majority of the members of the City Council present and voting, provided not less than four affirmative votes shall be required to authorize the issuance of debt under this subsection.

3) Types of Debt

a. General Obligation Bonds - General Obligation Bonds may only be issued with a majority approval of a popular vote. The use of the proceeds from GO Bonds is limited to the acquisition or improvement of real property and other uses allowed by law and applicable bond ordinances. Libraries, parks, and public safety facilities are all types of facilities that can be financed with GO Bonds. To the extent that property tax revenues are used to fund debt service, a separate property tax will be levied.

b. Enterprise Revenue Bonds - Enterprise Revenue Bonds finance facilities for a revenue producing enterprise and are payable from revenue sources within that enterprise. Municipal Water and Sewer and Solid Waste are examples of revenue producing enterprises within the City.

c. Certificates of Obligation (CO's) and Limited Tax Notes (Notes) - Debt service for CO's or Notes may be either from general revenues or backed by a specific revenue stream or streams or by a combination of both. The term of the CO's will not exceed the useful life of the major capital projects funded by the certificate issuances. Unless provided otherwise by State law neither CO's nor Notes require a vote of the citizens of the City.

d. Refunding Obligations - Pursuant to the Government Code and various other financing statutes applicable in particular situations, the City Council is authorized to provide for the issuance of bonds for the purpose of refunding any long-term obligation of the City. Absent any significant noneconomic factors (such as assisting with absorption of new debt or tax rate management), a refunding should produce minimum debt service savings (net of reserve fund earnings and other offsets) of at least three percent of the par value of the refunded bonds on a net present value basis, using the refunding issue's True Interest Cost (TIC) as the discount rate, unless the Finance Department determines that a lower savings percentage is acceptable for issues or maturities with short maturity dates.

e. Tax Increment Financing Bonds (TIF) - The City may use these bonds to finance capital improvements within the tax increment reinvestment zone. Repayment is from property taxes generated on the incremental increases in tax values within the zone.

f. Leases and Lease Purchase - Financing leases and lease purchase agreements may be used to finance major capital purchases, including infrastructure, fleet, major system upgrades and large equipment purchases. The useful life of the asset should not exceed the term of the lease.

g. Assessment Bonds - Proceeds from Assessment Bonds may be used to finance local public improvements, provided that said improvements benefit the parcels of land to be assessed. Local streetlights, landscaping, sidewalks, and sanitary sewers are some of the examples of local improvements commonly financed by assessment bonds.

h. Other Obligations - There may be special circumstances when other forms of debt are appropriate and may be evaluated on a case-by-case basis. Such other forms include, but are not limited to limited tax notes, non-enterprise revenue bonds, bond anticipation notes, grant anticipation notes and judgment or settlement obligation bonds.

4) Restrictions on Debt Issuance

   a. The City will not use long term debt to finance current operations or normal maintenance.

   b. Derivative products will not be used by the city.

   c. Variable rate debt will not be used to refinance fixed-rate, long term debt.

   d. All debt issuances shall be approved by the City Council.

   e. Before any debt may be issued, the city will perform an analysis of the requirements to determine the impact on future budgets, the sufficiency of revenues to fund the debt service requirements and additional operating costs of the capital asset acquired. The analysis will ensure that debt service payments not tied to a specific revenue source shall be not greater than forty percent of budgeted General Fund revenue for the current fiscal year. For calculation purposes, General Fund revenue shall include revenue in both Community Development and Recreation Funds of the City. Payments on bonds that are tied to a specified revenue stream such as waterworks bonds or TIF supported bonds are not subject to this forty percent limit. This percentage restriction may be waived on a case-by-case basis for emergency purposes.

5) Limitations on Outstanding Debt

   a. Limitations on the city's outstanding bonded debt include:

      i. The total of gross bonded debt payable from the General Fund of the City (to include principal portion only) will not exceed ten percent of the assessed valuation of the City for the same year.

      ii. Certificates of obligation payable from the General Fund shall not exceed seven percent of the assessed valuation of the City.

      iii. These limitations shall not apply to utility-supported or TIF-supported debt and shall be periodically compared with other cities to determine if the city is still within the norm for comparably sized cities.

   b. Characteristics of Debt Issuance

      i. When the City finances capital projects by issuing bonds, it will pay back the bonds in a period not exceeding the expected life of those projects. Other standard terms shall include the following:

1. Term may be up to 30 years depending on cash flow assumptions, and useful life of asset being financed.

2. Call provisions will be shortest possible optional call consistent with optimal pricing.

3. The City will seek level or declining overall debt repayment schedules and will avoid issuing debt that provides for balloon principal payments reserved at the end of the term of the issue unless such debt issue is originally intended to be refinanced to produce level or declining overall debt repayment.

4. The City will avoid variable rate debt due to the potential volatility of such instruments. Therefore, the City will avoid the use of variable rate debt for its general obligation bond issues.

5. Debt service reserves will be in conformity with bond covenants, if applicable.

6. Commercial insurance or other credit enhancements to the bond rating shall be considered when cost effective.

7. Repayment of debt shall be made with revenues derived from the projects that benefitted from the bond issuance when possible.

6) Review of Debt Policy

To ensure the City is meeting the expectations of this policy the Finance Director will review this policy annually, at least three months prior to the beginning of the budget process and report the findings to the City Manager.

7) Debt Issuance Process

a. The City will strive continually to achieve higher long term debt ratings. The City will maintain good communications with bond rating agencies about its financial condition and will follow a policy of full disclosure on every financial report and bond prospectus. The City will also comply with all federal tax law provisions, including arbitrage requirements.

b. The City shall utilize the services of a Financial Advisor on debt financing.

c. The City will use the services of a Bond Counsel on debt financing.

d. The Finance Department and Financial Advisor will review each debt issuance transaction on a case-by-case basis to determine the most appropriate method of sale.

   i. Competitive Sale. In a competitive sale, bids for the purchase of the bonds are opened at a specified place and time and are awarded to the underwriter (or syndicate) whose conforming bid represents the lowest true interest cost to the City (TIC). This method is most advantageous when the debt to be issued is less complex, the municipal bond market for high grade credits is stable, and the sale of the City's bonds is assured. Bond sales shall be cancelable at any time prior to the time bids are to be received. Upon award to the bidder whose conforming bid represents the lowest true interest cost, the City may restructure the bonds in accordance with the Official Notice of Sale. The City shall reserve the unfettered right to reject all bids or waive bid irregularities.

   ii. Negotiated Sale. In a negotiated sale, the City chooses the initial buyer of the bonds in advance of the sale date. The initial buyer is usually an investment banking firm, or a syndicate of investment banking firms interested in reoffering the bonds to investors through an underwriting process. This type of sale allows the City to discuss different financing techniques with the underwriter in advance of the sale date. This method is most advantageous when the debt issue is complex, debt structuring flexibility is required (as would be the case in a bond refunding) or the municipal bond market is unstable or uncertain.

   iii. Private Placement. In a private placement, the City may select a private purchaser / investor willing to purchase debt directly from the City. Such placements often allow debt to be issued efficiently by eliminating the need for bond ratings and other associated issuance costs. Such financing will be analyzed on a case-by-case basis, depending primarily on market conditions and rates prevailing in the placement market from time to time.