



# CITY OF BURNET

## INVESTMENT POLICY AND STRATEGY

Adopted February 10, 2026

### I. INTRODUCTION

It is the policy of the City of Burnet (the "City") that the administration and investment of public funds shall be conducted with the highest degree of public trust. All funds shall be invested in a manner that prioritizes the preservation of principal, provides sufficient liquidity to meet the City's daily cash flow requirements, and complies fully with applicable laws, including the Texas Public Funds Investment Act, Texas Government Code Chapter 2256 (the "Act"), and the Texas Public Funds Collateral Act, Texas Government Code Chapter 2257. It is the City's intent to maintain full and continuous compliance with these statutes and all other applicable local, state, and federal requirements and to operate in accordance with the prudent person standard described herein.

The purpose of this Investment Policy is to establish specific investment objectives, strategies, and guidelines for the management of the City's public funds. Authorized investment parameters are governed by the Act, while the Texas Public Funds Collateral Act prescribes collateral requirements for public funds deposits.

**Definitions:** For purposes of this Policy, the following terms shall have the meanings set forth below:

- "Operating Funds" means funds used for day-to-day operations of the City, including general operating cash and other working capital.
- "Debt Service Funds" means funds used to pay principal and interest on outstanding debt.
- "Capital Project Funds" means funds used for construction or acquisition of capital assets.
- "WAM" means weighted average maturity.

### II. SCOPE

This Investment Policy applies to investment activities of all funds of the City and all funds under the control of the City, excluding the investment of employees' retirement funds.

#### 1. Pooling of Funds

Except for cash in certain restricted and special funds, the City may consolidate cash and reserve balances from all funds to maximize investment earnings and to increase efficiencies regarding investment pricing, safekeeping, and administration. Investment income will be allocated to the various funds based on

their respective participation and in accordance with generally accepted accounting principles. Pooling of funds shall be for investment purposes only and shall not result in commingling of funds for accounting or legal purposes. Restricted funds that are not pooled include (but are not limited to): Debt Service Funds, trust and agency funds, and any other fund where pooling would violate legal restrictions or bond covenants. Pooling shall not create a joint and several liability among the individual funds of the City.

### **III. OBJECTIVES**

It is the policy of the City that all funds shall be managed and invested in accordance with four primary objectives, listed in order of priority: safety, liquidity, diversification, and yield. Investment decisions shall be made in a manner that promotes prudent diversification of the City's portfolio.

#### **1. Safety**

The primary objective of the investment activity is the preservation of capital. Each investment transaction shall be conducted in a manner to avoid capital losses, whether from security defaults, safekeeping, or erosion of market value. The objectives will be to mitigate credit risk and interest rate risk.

- a. **Credit Risk:** the City will minimize credit risk, which is the risk of loss of all or part of the investment due to the failure of the security issuer or backer by:
  - i. Limiting investments to the safest types of securities authorized under this Investment Policy.
  - ii. Pre-qualifying and conducting ongoing due diligence of financial institutions, brokers/dealers, intermediaries, and advisers with which the City will do business.
- b. **Interest Rate Risk:** The City will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will decline or fluctuate due to changes in market interest rates, by:
  - i. Structuring the investment portfolio so that security maturities match cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity.
  - ii. Investing operating funds primarily in shorter-term securities, money market, mutual funds or similar investment pools and limiting individual security maturity as well as the average maturity of the portfolio in accordance with this policy.

#### **2. Liquidity**

The investment portfolio shall be structured to meet all anticipated obligations in a timely manner. This shall be achieved by matching investment maturities with forecasted cash flow liabilities and maintaining additional liquidity for unexpected liabilities.

**3. Diversification**

The portfolio shall be diversified by institution, market sector, and maturity as much as possible within liquidity needs so that the impact of potential losses for any one type of security or from any one individual issuer will be minimized.

**4. Yield**

The maximum stated maturity of any investment shall be one (1) year with the maximum weighted average maturity not to exceed six (6) months. This weighted average maturity limitation is a policy constraint and is more restrictive than the limits permitted under the Act. The investment program shall seek to augment returns only after safety, liquidity, and diversification objectives have been met, consistent with risk limitations identified and the City's prudent investment strategy. Yield shall never be pursued at the expense of safety or liquidity.

Cash management is the process of managing funds in order to ensure maximum cash availability and reasonable yield on short-term investments. The cash management procedures include timely collection of accounts receivable, vendor payments in accordance with invoice terms, and prudent investment of assets.

**IV. INVESTMENT STRATEGY**

The City may maintain one commingled portfolio for investment purposes which incorporates the specific uses and the unique characteristics of the funds in the portfolio. The portfolio may be divided into sub-portfolios (funds). The investment strategy has as its primary objective assurance that anticipated liabilities are matched and adequate investment liquidity is provided. The City shall pursue a conservative but proactive portfolio management strategy and invest in a buy-and-hold philosophy for any investment security purchased.

1. This strategy may be accomplished by creating a laddered maturity structure with some extension for yield enhancement. Investment decisions will be based on cash flow requirements. The portfolio will be structured to benefit from anticipated market conditions and to achieve a reasonable return. Relative value between asset groups shall be analyzed and pursued as part of the active investment program within the restrictions set forth by the policy. Asset types with higher credit risk (defined as securities rated below "AA" or its equivalent) shall be limited to no more than 20% of each portfolio. This limitation applies only to securities otherwise authorized by this Policy and does not apply to obligations of the United States Treasury, FDIC-insured deposits, or investments that do not require a credit rating under the Act. In addition, commercial paper shall be limited to no more than 20% of each portfolio and no more than 5% should be invested in the securities of a single paper issuer to limit credit risk.

Specific strategies for each type of fund group of the City are as follows:

- a. **Operating Funds.** Operating funds are defined as cash and investments used for day-to-day operations. Operating funds are to be invested in a manner suitable to provide adequate liquidity for the anticipated operating needs of the City. All investment instruments must meet credit and safety criteria as required by the PFIA and this Policy. All investments shall be of high quality with no perceived default risk.
- b. **Capital Project and Special Purpose Funds.** Capital project and special purpose funds shall have as their primary objective to ensure that anticipated cash outflows are matched with adequate investment liquidity. The portfolios shall be invested based on cash flow estimates to be supplied by the capital projects managers and finance estimates.
- c. **Debt Service Funds.** Debt Service Funds shall have as their primary objective the timely payment of debt service obligations. Successive debt service dates will be fully funded before any investment extensions are made. Any extension of maturity beyond the next debt service date is prohibited unless all debt service obligations are fully funded and cash flow needs are satisfied.

## **V. DELEGATION OF RESPONSIBILITY**

Only designated Investment Officers may engage in an investment transaction, and all transactions shall be executed as provided under the terms of this Policy and its supporting procedures. Investment Officers are subject to the ethics provisions of Chapter 176, Texas Local Government Code.

### **1. Designated Investment Officer(s)**

The Finance Director, Assistant Finance Director, and Senior Accountant (collectively, the “Investment Officers”) are hereby designated as the City’s Investment Officers. Their authority to manage the City’s investment program is derived from applicable state statutes and resolutions approved by the governing body. The Investment Officers are responsible for all investment decisions and activities, including maintaining the investment portfolio in compliance with this Policy, establishing supporting procedures, and providing timely quarterly reports to the governing body.

All Investment Officers must attend training relating to investment responsibilities as required by Section 2256.008 of the Texas Public Funds Investment Act and approved by this Policy in Appendix A.

Investment Officers shall refrain from personal and business activity that could conflict with proper execution of the investment program, or which could impair their ability to make impartial investment decisions. Disclosure shall be made to the governing body. An Investment Officer who has a personal business relationship within the second degree by affinity or consanguinity with an

organization seeking to sell an investment to the City that meets the parameters established in the Act, shall file a statement disclosing that relationship to the governing body and the Texas Ethics Commission.

Investment Officers shall act as custodians of public trust and avoid any transaction that could reasonably be perceived as a conflict of interest.

## **2. Governing Body Responsibilities**

The governing body holds ultimate fiduciary responsibility for the portfolio. It will designate Investment Officer(s), receive and review quarterly reporting, approve and provide for Investment Officer training, annually approve brokers/dealers, and annually review and adopt the Investment Policy and Strategy.

## **VI. PRUDENCE AND CONTROLS**

The standard of prudence to be applied to all investments and investment transactions shall be the “prudent person” rule, which states:

“Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion, and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived.”

In determining whether an Investment Officer has exercised prudence with respect to an investment decision, the determination shall be made taking into consideration the investment of all funds under the Officer’s control over which the Officer has a responsibility rather than a consideration as to the prudence of a single investment.

The Investment Officer, acting in accordance with written procedures and exercising due diligence, shall be responsible but not liable for a specific security’s credit risk or market price changes, provided that these deviations are reported immediately and that appropriate action is taken to control adverse developments.

### **1. Internal Controls**

The Investment Officer is responsible for establishing and maintaining internal controls to reasonably assure that assets are protected from loss, theft, or misuse. The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits likely to be derived, and the valuation of costs and benefits requires ongoing estimates and judgments by management.

The internal controls shall address the following points at a minimum:

- Competitively bidding all investments where practicable and required by the Act,
- Control of collusion,
- Segregation of duties between investment execution, recordkeeping, and reconciliation,

- Dual authorization of wire transfers,
- Safekeeping of owned and pledged securities,
- Clear delegation of authority,
- Reconciliations of security receipts with the investment subsidiary records,
- Business continuity and disaster recovery procedures related to investment records, wire transfer authority, and safekeeping access, including cyber-risk considerations.
- Written confirmation for all transactions, and
- Review, maintenance and monitoring of security procedures both manual and automated.

The above internal controls represent only a partial list of a system of internal control. Annually the Investment Officer shall perform an internal compliance audit to ensure compliance with requirements of this Policy and the Act. An annual process of independent review by an external auditor shall be established. This review will provide internal control by assuring compliance with laws, policies, and procedures. This annual compliance audit is required by Section 2256.005(m) of the PFIA.

## **2. Cash Flow Forecasting**

Cash flow forecasting is designed to protect and sustain the cash flow requirements of the portfolio. The Investment Officer will analyze needs and maintain a cash flow plan regularly to monitor and forecast cash positions for investment purposes.

## **3. Competitive Bidding**

All security transactions will be made on a documented competitive bid basis where practicable and as required by the Act to assure the City is receiving the best available market rates.

## **4. Monitoring Credit Ratings**

The Act requires that securities requiring a specific credit rating by law or policy must be liquidated if the required rating falls below that minimum rating. The Investment Officer shall monitor, at least quarterly, the credit rating on all authorized investments in the portfolio for which the Act or Policy requires a credit rating. The rating should be based upon independent information from a nationally recognized rating agency. If any security falls below the minimum rating required by Policy, the Investment Officer shall take all prudent measures to liquidate the investment in accordance with the Act and prevailing market conditions.

## **5. Monitoring FDIC Status for Mergers and Acquisitions**

A merger or acquisition of brokered CDs into one bank reduces FDIC coverage. The Investment Officer shall regularly monitor the status and ownership of all banks issuing brokered CD securities if owned by the City based upon information from the FDIC (fdic.gov). If any bank has been acquired or merged with another bank

with which brokered CDs are owned by the City, the Investment Officer shall immediately liquidate any brokered CD which places the City above the FDIC insurance level.

If a merger or acquisition of two banks occurs where the City holds funds, the Investment Officer shall immediately confirm that status of the FDIC insurance and assure that adequate collateral has been pledged.

## **VII. AUTHORIZED INVESTMENTS**

1. Assets of the City may be invested only in the following instruments as further defined by the Act. If changes are made to the Act they will not be authorized until this Policy is modified and adopted by the governing body. All investment transactions will be made on a competitive basis where practicable and as required by the Act.
  - a. Obligations of the United States Government, its agencies, and instrumentalities with a maximum stated maturity of one (1) year, excluding mortgage-backed securities (MBS). MBS are not authorized investments for the portfolio but may be used as collateral as permitted by the Texas Public Funds Collateral Act.
  - b. Fully insured or collateralized depository certificates of deposit from banks in Texas, with a maximum maturity of one (1) year insured by the Federal Deposit Insurance Corporation, or its successor, or collateralized in accordance with this Policy. This includes spread deposits under the IntraFi programs.
  - c. AAA-rated, Texas Local Government Investment Pools which strive to maintain a \$1 net asset value (NAV) and as defined by the Act and authorized by resolution of the governing body. Investment pools must comply with the requirements of Section 2256.016 of the Act and only pools rated AAA and operating under a stable NAV structure are permitted.
  - d. AAA-rated, SEC registered money market mutual funds that comply with SEC Rule 2a-7 and Section 2256.014 of the Act, which strive to maintain a \$1 net asset value.
  - e. FDIC insured, *brokered* certificates of deposit securities from a bank in any U.S. state, delivered versus payment (DVP) to the City's safekeeping agent, not to exceed twelve months to maturity. Before purchase, the Investment Officer must verify the FDIC status of the bank on [www.fdic.gov](http://www.fdic.gov) to assure that the bank is FDIC insured.

- f. FDIC insured or collateralized interest-bearing and money market accounts from any FDIC insured bank in Texas.
- g. Share certificates from credit unions doing business in Texas which are fully insured by the National Credit Union Share Insurance Fund and with a maximum stated maturity of twelve months.
- h. General debt obligations of any US state or political subdivision rated A or better with a stated maturity not to exceed twelve months.
- i. Commercial Paper with a stated maturity of 180 days or fewer from the date of its issuance, rated not less than A-1 or P-1, or an equivalent rating by at least two nationally recognized credit rating agencies, or by one nationally recognized credit rating agency and is fully secured by an irrevocable letter of credit issued by a bank organized and existing under the laws of the United States or any state. No more than 20% of any one portfolio should be invested in commercial paper and no more than 5% should be invested in the securities of a single paper issuer. Commercial paper shall be limited to securities issued by corporations that are domestic (U.S.) and have a minimum of two rating agency ratings.

## 2. **Delivery versus Payment**

All securities shall be purchased on a delivery versus payment (DVP) settlement basis. Funds shall not be released until receipt of the security by the approved safekeeping depository/custodian. The safekeeping entity or custodian shall provide proof of ownership to the Investment Officer.

## **VIII. REPORTING**

### 1. **Quarterly Reporting**

The Investment Officer(s) shall prepare and submit a signed quarterly investment report to the governing body in accordance with the Act giving detailed information on the total portfolio including bank positions and providing summary information to permit an informed outside reader to evaluate the performance of the investment program. The report will include the following at a minimum:

- A full description of each individual security or bank/pool position held at the end of the reporting period including the amortized book and market value at the beginning and end of the period,
- Unrealized gains or losses (book value minus market value),
- Weighted average yield of the portfolio and its applicable benchmarks (the benchmark for the overall portfolio performance measurement shall be the 6-month U.S. Treasury Bill or a comparable government index approved by the governing body from time to time),
- Earnings for the period (accrued interest plus accretion minus amortization),

- Allocation analysis of the total portfolio by market sector and maturity, and
- Statement of compliance with the investment portfolio with the Act and the Investment Policy with the signature of all Investment Officers.

Market prices for the calculation of market value will be obtained from independent sources.

## **IX. FINANCIAL COUNTERPARTIES**

### **1. Depository**

At least every five years, a banking services depository shall be selected through a competitive request for proposal or bid process in accordance with the Texas Government Code. In selecting a depository, the services, cost of services, creditworthiness, earnings potential, and collateralization by the institutions shall be considered. If securities require safekeeping, the RFP/bid will request information on safekeeping services. The depository contract will provide collateral if balances exceed the FDIC insurance balance per tax identification number and shall be executed under the terms of FIRREA (Financial Institutions Reform, Recovery, and Enforcement Act).

All time and demand deposits in any depository of the City shall be insured or collateralized at all times in accordance with this Policy.

Other banking institutions, from which the City may purchase certificates of deposit or place interest-bearing accounts, will also be designated as a depository for depository/collateral purposes. All depositories will execute a depository agreement and have the Bank's Board or Bank Loan Committee pass a resolution approving the agreement if collateral is required complying with the terms of FIRREA. Collateral requirements of this Policy must apply.

### **2. Security Brokers/Dealers**

All brokers/dealers who desire to transact business with the City must supply the following documents to the Investment Officer(s).

- Financial Industry Regulatory Authority (FINRA) certification and CRD No.
- proof of Texas State Securities registration

Each broker/dealer will be sent a copy of the Investment Policy and shall annually certify in writing that it has received, reviewed, and understands the current Investment Policy of the City and agrees to comply with its terms. If material changes are made to the policy, the new policy will be sent to the broker/dealer.

Each local government pool will be sent a copy of the current Investment Policy and certify a review of the Policy stating that the pool has controls in place to ensure only Policy-approved investments are included in the investment pool.

A list of qualified Brokers/Dealers will be reviewed and approved at least annually by the governing body. A list approved by this Policy in Appendix A will be maintained by financial institutions and depositories authorized to provide investment services. In addition, if applicable, a list will be maintained of approved security Brokers/Dealers selected by creditworthiness and other factors. In the event a broker/dealer must be added between annual reviews, the Investment Officer may approve a counterparty subject to approval at the next governing body meeting.

## **X. COLLATERAL**

### **1. Time and Demand Deposits – Depository Pledged Collateral**

All bank time and demand deposits shall be collateralized above the FDIC coverage by pledged collateral. In order to anticipate market changes and provide a level of security for all funds, collateral will be maintained and monitored by the pledging depository at a market value of 102% of the deposited principal and accrued interest on the deposits. The bank shall monitor and maintain the margins on a daily basis. Collateral shall be held by an independent financial institution outside the holding company of the pledging bank.

Collateral pledged to secure deposits shall be held by an independent financial institution outside the holding company of the depository. The collateral agreement with the depository shall be approved by resolution of the Bank Board or Bank Loan Committee. The Custodian or bank shall provide a monthly report of collateral directly to the City.

All collateral shall be subject to inspection and audit by the City or its independent auditors.

### **2. Authorized Collateral**

Only the following are authorized as collateral for time and demand deposits:

- a. Obligations of the United States, its agencies or instrumentalities, or evidence of indebtedness of the United States guaranteed as to principal and interest including MBS and CMO that meet the quality, marketability, and legal requirements of the Texas Public Funds Collateral Act and are acceptable to the City's custodian and legal counsel. MBS are not authorized investments for the portfolio but may be used as collateral.
- b. Obligations of any US state or of a county, City or other political subdivision of any state having been rated as investment grade (investment rating no less than "A" or its equivalent) by two nationally recognized rating agencies.
- c. Irrevocable Letter of Credit from the Federal Home Loan Bank (FHLB). Preference will be given to pledged collateral securities.

**XI. SAFEKEEPING**

All purchased securities are to be cleared to the City's safekeeping agent on a delivery versus payment (DVP) basis. All safekeeping arrangements shall be approved by the Investment Officer and an agreement of the terms executed in writing. The independent third-party safekeeping agent shall be required to issue safekeeping receipts to the City listing each specific security, rate, description, maturity, CUSIP number, and other pertinent information.

**XII. INVESTMENT POLICY ADOPTION**

The Investment Policy shall be reviewed and adopted by resolution of the governing body no less than annually. Any changes must be approved by the Investment Officers, City Manager and City Council.

## APPENDIX A

### AUTHORIZED BROKERS/DEALERS, FINANCIAL INSTITUTIONS, GOVERNMENT POOLS, AND APPROVED PROVIDERS OF PFIA TRAINING

#### BROKERS/DEALERS AND FINANCIAL INSTITUTIONS AUTHORIZED TO DO BUSINESS WITH THE CITY OF BURNET

First State Bank of Burnet

#### GOVERNMENT POOLS AUTHORIZED BY CITY COUNCIL RESOLUTION

(TEXPOOL) TexPool Local Government Investment Pool  
Texas Class Local Government Investment Pool  
Texas Range Government Investment Pool

#### APPROVED PROVIDERS OF PFIA TRAINING

University of North Texas  
Government Finance Officers Association  
Government Finance Officers Association of Texas  
Government Treasurer's Organization of Texas  
Texas Municipal League