

CITY OF EDEN

INVESTMENT

POLICY

2024

PREFACE

The purpose of this document is to set forth specific investment policy and strategy guidelines for the City of Eden in order to achieve the goals of safety, liquidity, yield, and public trust for all investment activity. The City Council of the City of Eden shall review its investment strategies and policy not less than annually. This policy serves to satisfy the statutory requirement (specifically the Public Funds Investment Act, Article 342a-2 V.T.C.S. (the “Act”) to define, adopt and review a formal investment strategy and policy.

It is the policy of the City of Eden, Texas that, giving due regard to the safety and risk of investment, all available funds shall be invested in conformance with State and Federal regulations, applicable Bond Resolution requirements, adopted Investment Policy and adopted Investment Strategy.

Effective investment strategy development coordinates the primary objective of the City of Eden’s Investment Policy and cash management procedures with investment security risk/return analysis to enhance interest earnings and reduce investment risk and aggressive cash management to increase the available “investment period.” Maturity selections shall be based on cash flow and market conditions to take advantage of interest earnings as a viable and material revenue to all City of Eden funds. The City of Eden’s portfolio shall be designed and managed in a manner responsive to the public trust and consistent with the Investment Policy.

Each major fund type has varying cash flow requirements and liquidity needs. Therefore, specific strategies shall be implemented considering the fund’s unique requirements.

CITY OF EDEN

INVESTMENT POLICY

I. POLICY

It is the policy of the City of Eden (City) that after allowing for the anticipated cash flow requirements of the City and giving due consideration to the safety and risk of investment, all available funds shall be invested in conformance with these legal and administrative guidelines and to the maximum extent possible, at the highest rates obtainable at the time of investment.

Effective cash management is recognized as essential to good fiscal management. Investment interest is a viable and material source of revenue to City funds. The City's investment portfolio shall be designed and managed in a manner designed to maximize this revenue source, to be responsive to public trust, and to be in compliance with legal requirements and limitations.

Investments shall be made with the primary objectives of:

- **Safety** and preservation of principal
- Maintenance of sufficient **liquidity** to meet operating needs
- Maximization of **yield** on the portfolio
- **Public trust** from prudent investment activities

II. PURPOSE

The purpose of this investment policy is to comply with Chapter 2256 of Title 10 of the Local Government Code ("Public Funds Investment Act") which requires each city to adopt a written investment policy regarding the investment of its funds and funds under its control. The Investment Policy addresses the methods, procedures and practices that must be exercised to ensure effective and judicious fiscal management of the City of Eden funds.

III. SCOPE

This Investment Policy shall govern the investment of all financial assets of the City of Eden. These funds are accounted for in the City's Comprehensive Annual Financial Report (CAFR) and include:

- General Fund
- Special Revenue Funds
- Capital Projects Funds
- Enterprise Funds

- Trust and Agency Funds, to the extent not required by law or existing contract to be kept segregated and managed separately
- Debt Service Funds, including reserves and sinking funds, to the extent not required by law or existing contract to be kept segregated and managed separately
- Any new fund created by the City, unless specifically exempted from this Policy by the City Council or by law.

The City of Eden will consolidate cash balances from all funds to maximize investment earnings. Investment income will be allocated to the various funds based on their respective participation and in accordance with generally accepted accounting principles.

The investment policy shall apply to all transactions involving the financial assets related activity for all the foregoing funds. However, this policy does not apply to the assets administered for the benefits of the City by outside agencies under deferred compensation programs.

IV. INVESTMENT OBJECTIVES

The City of Eden shall manage and invest its cash with four primary objectives, listed in order of priority: **safety, liquidity, yield, and public trust**. The safety of the principal invested always remains the primary objective. All investments shall be designed and managed in a manner responsive to the public trust and consistent with state and local law.

The City shall maintain a comprehensive cash management program which includes collection of accounts receivable, vendor payments in accordance with invoice terms, and prudent investment of available cash. Cash management is defined as the process of managing monies in order to insure maximum cash availability and maximum yield on short-term investment of pooled idle cash.

Safety

Safety of principal is the foremost objective of the investment program. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. The objective will be to mitigate credit and interest rate risk.

- Credit Risk – The City will minimize credit risk, the risk of loss due to the failure of the security issuer or backer, by:
 - Limiting investments to the safest types of securities
 - Pre-qualifying the financial institutions and broker/dealers with which the City will do business
 - Diversifying the investment portfolio so that potential losses on individual securities will be minimized.
- Interest Rate Risk – the City will minimize the risk that the market value of securities in the portfolio will fall due to changes in general interest rates, by:

- Structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity
- Investing operating funds primarily in shorter-term securities, money market mutual funds, or similar investment pools

Liquidity

The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated. This is accomplished by structuring the portfolio so that securities mature concurrent with cash needs to meet anticipated demands. Because all possible cash demands cannot be anticipated, the portfolio should consist largely of securities with active secondary or resale markets. A portion of the portfolio will also be placed in money market mutual funds or local government investment pools which offer same day liquidity for short-term funds.

Yield

The investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints with liquidity needs. Return on investment is of secondary importance compared to the safety and liquidity objective described above. The cores of investments are limited to relatively low risk securities in anticipation of earning a fair return relative to the risk being assumed.

Public Trust

All participants in the City's investment process shall seek to act responsibly as custodians of the public trust. Investment officials shall avoid any transaction that might impair public confidence in the City's ability to govern effectively.

V. RESPONSIBILITY AND CONTROL

Delegation of Authority

Through the adoption of this policy, the positions of Mayor and City Secretary shall be designated as investment officers who are responsible for the investment of the City's funds. No person may engage in an investment transaction or the management of funds except as provided under the terms of this Investment Policy as approved by the City Council. The investment authority granted to the investing officers is effective until rescinded by the governing body.

Training Requirement

The Mayor and City Secretary shall attend an investment training session no less often than once every two fiscal years and shall not receive less than 10 hours of instruction relating to investment responsibilities. The investment training 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 of Eden may engage in an investment transaction.

Internal Controls

The Mayor and City Secretary are responsible for establishing and maintaining an internal control structure designed to ensure that the assets that the entity are protected from loss, theft, or misuse. The internal control structure shall be designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgements by management.

Accordingly, the City Secretary shall establish a process for annual independent review by an external auditor to assure compliance with policies and procedures. The internal controls shall address the following points.

- Control of collusion.
- Separation of transactions authority from accounting and record keeping.
- Custodial safekeeping.
- Avoidance of physical delivery securities.
- Clear delegation of authority to subordinate staff members.
- Written confirmation for telephone (voice) transactions for investments and wire transfers.
- Development of a wire transfer agreement with the depository bank or third party custodian.

Prudence

The standard of prudence to be applied by the investment officers shall be the “prudent investor” rule which states: “Investments shall be made with judgement and care, under circumstances then prevailing, which person of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probably 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, or funds under the City's control over which the officer had responsibility rather than a consideration as to the prudence of a single investment.

- Whether the investment decision was consistent with the written investment policy of the City.

Indemnification

The investment officers, acting in accordance with written procedures and exercising due diligence, shall not be held personally responsible for a specific security's credit risk or market price changes, provided that these deviations are reported immediately and the appropriate action is taken to control adverse developments.

Ethics and Conflicts of Interest

Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with the proper execution and management of the investment program, or that could impair their ability to make impartial decisions. Employees and investment officials shall disclose any material interests in financial institutions with which they conduct business. They shall further disclose any personal financial/investment positions that could be related to the performance of the investment portfolio. Employees and officer shall refrain from undertaking personal investment transactions with the same individual with whom business is conducted on behalf of the City.

An investment officer of the City who has a personal business relationship with an organization seeking to sell an investment for the City shall file a statement disclosing that personal business interest. An investment officer 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 relationship. A statement required under this subsection must be filed with the Texas Ethics Commission and the governing body of the entity.

VI. SUITABLE AND AUTHORIZED INVESTMENTS

Investments

Assets of the City of Eden may be invested in the following instruments; provided, however, that at no time shall assets of the City be invested in any instrument or security not authorized for investment under the Act, as the Act may from time to time be amended.

I. Authorized

1. Obligations of the United States of America, its agencies and instrumentalities.
2. Certificate of Deposit of state and national banks domiciled in Texas, a saving and loan association domiciled in this state, or a state or federal credit union domiciled in this state that is guaranteed or insured by the Federal Deposit Insurance or its successor or secured by obligations in a manner and amount provided by law for deposits of the investing entity.
3. Fully collateralized direct repurchase agreements with a defined termination date secured by obligations of the United States or its agencies and instrumentalities pledged to the City, held in the City's name, and deposited at the time the investment is made with the City or with a third party selected and approved by the City. Repurchase agreements must be purchased through a primary government securities dealer, as defined by the Federal Reserve, or a bank domiciled in Texas. A Master Repurchase Agreement must be signed by the bank/dealer prior to investment in a repurchase agreement. All repurchase agreement transactions will be on a delivery vs. payment basis. Securities received for repurchase agreements must have a market value greater than or equal to 102 percent at the time funds are disbursed.
4. Money market Mutual funds that are 1) registered and regulated by the SEC, 2) have a dollar weighted average stated maturity of 90 days or less, and 3) maintain a net asset value of \$1 for each share.
5. Government investment pools which 1) meet the requirements of Chapter 225.016 of the Public Funds Investment Act, 2) are rated no lower than AAA or an equivalent rating by at least one nationally recognized rating service and 3) are authorized by resolution or ordinance by City Council.

II. Not Authorized

Under no circumstances shall investments be made in interest-only or principal-only strips of obligations with underlying mortgage-backed security collateral, or in collateralized mortgage obligations with an inverse floating interest rate or a maturity date of over 10 years. Neither shall investments be made in obligations that are secured by these prohibited investments.

VII. INVESTMENT PARAMETERS

Maximum Maturities

The longer the maturity of investments, the greater their price volatility. Therefore, it is the City's policy to concentrate its investment portfolio in shorter-term securities in order to limit principal risk caused by changes in interest rates.

The City attempts to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, the City will not directly invest in securities maturity more than three (3) years from the date of the purchase, however, the above described obligations, certificates, or agreements may be collateralized using longer dated investments.

Because no secondary market exists for repurchase agreements, the maximum maturity shall be 120 days.

The composite portfolio will have a weighted average maturity of one (1) year or less. This dollar weighted average maturity will be calculated using the stated final maturity dates of each security.

Diversification

The City of Eden recognizes that investment risk can result from issuer defaults, market price changes or various technical complications leading to temporary illiquidity. Risk is controlled through portfolio diversification which shall be achieved by the following general guidelines:

- Limiting investments to avoid overconcentration in securities from a specific issuer or business sector (excluding U.S. Treasury securities),
- Limiting investment in securities that have higher credit risks,
- Investing in securities with varying maturities, and
- Continuously investing a portion of the portfolio in readily available funds such as local government investment pools (LGIPs), money market funds or overnight repurchase agreement to ensure that appropriate liquidity is maintained in order to meet ongoing obligations.

The following maximum limits, by instrument, are established by the City's total portfolio:

1.	U.S Treasury Securities.....	100%
2.	Agencies and Instrumentalities.....	75%
3.	Certificates of Deposit.....	100%
4.	Repurchase Agreements.....	50%
5.	Money Market Mutual Funds.....	50%
6.	Authorized Pools.....	100%

VIII. SELECTION OF BANKS AND DEALERS

Depository

At least every five years a Depository shall be selected through the City's banking services procurement process, which shall include a formal request for proposal (RFP). The selection of a depository will be determined by competitive bid and evaluation of bids will be based on the following selection criteria:

- The ability to qualify as a depository for public funds in accordance with state and local laws.
- The ability to provide requested information or financial statements for the periods specified.
- The ability to meet all requirements in the banking RFP.
- Complete response to all required items on the bid form.
- Lowest net banking service cost, consistent with the ability to provide an appropriate level of service.
- The credit worthiness and financial stability of the bank.

Delivery vs. Payment

Securities shall be purchased using the **delivery vs. payment** method with the exception of investment pools and mutual funds. Funds shall not be wired or paid until verification has been made that the correct security was received by the Trustee. The security shall be held in the name of the City or held on behalf of the City. The Trustee's records shall assure the notation of the City's ownership of or explicit claims on the securities. The original copy of all safekeeping receipts shall be delivered to the City.

IX. SAFEKEEPING OF SECURITIES

Safekeeping Agreement

The City shall contract with a bank or banks for the safekeeping of securities either owned by the City as part of its investment portfolio or held as collateral to secure demand or time deposits.

Safekeeping

All securities owned by the City shall be held by its safekeeping agent, except the collateral for certificates of deposits in banks. The collateral for certificates of deposit in banks will be registered in the City's name in the bank's trust department or, alternatively, in a Federal Reserve Bank account in the City's name, or a third-party bank in the City's name, at the City's discretion. Original safekeeping receipts shall be obtained.

Collateralization

Consistent with the requirements of the Public Funds Collateral Act, it is the policy of the City to require full collateralization of all City investments and funds on deposit with a depository bank, other than investments which are obligations of the U.S. government and its agencies and instrumentalities. In order to anticipate market changes and provide a level of security for all funds, the collateralization level will be 100% of market value of principal and accrued interests on the deposits or investments less an amount insured by the FDIC or FSLIC. At its discretion, the City may require a higher level of collateralization for certain investment services. Securities pledged as collateral shall be held by an independent third party. A clearly marked evidence of ownership (safekeeping receipt) must be supplied to the City and retained. Collateral shall be reviewed at least monthly to assure that the market value of the pledged securities is adequate.

Collateral Defined

The City of Eden shall accept only the following securities as collateral:

- FDIC and FSLIC insurance coverage.
- A bond, certificate of indebtedness, or Treasury Note of the United States, or other evidence of indebtedness of the United States that is guaranteed as to principal and interest by the United States.
- Obligations, the principal and interest on which, are unconditionally guaranteed or insured by the State of Texas.
- A bond of the State of Texas or of a county, city or other political subdivision of the State of Texas having been rated as investment grade (investment rating no less than "A" or its equivalent) by a nationally recognized rating agency with a remaining maturity of ten (10) years or less.

Subject to Audit

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

X. PERFORMANCE

Performance Standards

The City's investment portfolio will be managed in accordance with the parameters specified within this policy. The portfolio shall be designed with the objective of obtaining a rate of return through budgetary and economic cycles, commensurate with the investment risk constraints and the cash flow requirements of the City.

Performance Benchmark

It is the policy of the City to purchase investments with maturity dates coinciding with cash flow needs. Through this strategy, the City attempts to purchase the highest yielding allowable investments available on the market at that time. Market value will be calculated on a quarterly basis on all securities owned and compared to current book value of those securities to determine portfolio performance during that period time. The City's portfolio shall be designed with the objective of regularly meeting or exceeding the average rate of return on U.S. Treasury Bills at a maturity level comparable to the City's weighted average maturing in days.

XI. REPORTING

Methods

The City Secretary shall prepare an investment report on a quarterly basis that summarizes investment strategies employed in the most recent quarter and describes the portfolio in terms of investment securities, maturities, and shall explain the total investment return for the quarter.

The quarterly investment report shall include a summary statement activity prepared in compliance with generally accepted accounting principals. This summary will be prepared in a manner which will allow the City to ascertain whether investment activities during the reporting period have conformed to the Investment Policy. The report will be provided to the City Council. The report will include the following:

- A listing of individual securities held at the end of the reporting period.
- Unrealized gains or losses resulting from appreciation or depreciation by listing the beginning and ending book and market value or securities for the period.
- Additions and changes to the market value during the period.
- Average weighted yield to maturity of portfolio as compared to applicable benchmark.
- Listing of investments by maturity date.
- Fully accrued interest for the reporting period.
- The percentage of the total portfolio which each type of investment represents.
- Statement of compliance of the City's investment portfolio with state law and the investment strategy and policy approved by the City Council.

A formal annual review of the quarterly reports will be performed by an independent auditor with the results reported to the governing body.

Market to Market

Market value of all securities in the portfolio will be determined on a quarterly basis. These values will be obtained from a reputable and independent source and disclosed to the governing body quarterly in a written report.

XII. INVESTMENT POLICY ADOPTION

The City of Eden investment policy shall be adopted by resolution of the City Council. It is the City's intent to comply with state laws and regulations. The City's investment policies shall be subject to revisions to stay current with changing laws, regulations, and needs of the City. The policy shall be reviewed annually by the City Council and any changes or modifications must be approved by the City Council.