

INVESTMENT POLICY OF THE CITY OF GLEN ROSE, TEXAS

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I. INTRODUCTION

The purpose of this Policy is to set specific investment policy and strategy guidelines for the City in order to achieve the goals of safety, liquidity, yield, and diversification for all investment activity. In accordance with the state statute, the City Council shall review **and adopt** its investment strategies and policy no less than annually. This Policy satisfies the statutory requirement of Texas Government Code Chapter 2256, the Public Funds Investment Act (the “Act”).

II. SCOPE

This investment policy applies to all financial assets of the City. These funds are reported in the City’s Comprehensive Annual Financial Report (CAFR) and include:

- General Fund
- Special Revenue Funds
- Debt Service and Debt Reserve Funds
- Capital Projects Funds
- Enterprise Funds

And any other funds created and not specifically expected from this policy.

III. OBJECTIVES

The City shall manage and invest its cash and assets with four major objectives, listed in order of priority: safety, liquidity, diversification and yield. Safety of the principal is the primary objective. All investments shall be managed in a manner responsive to the public trust and consistent with state and local law.

The City shall maintain a proactive cash management program which includes timely collection of accounts receivable, vendor payments in accordance with invoice terms, and prudent investment of assets. Cash management is the process of managing money in order to ensure maximum cash availability and reasonable yield on short-term investments.

Safety

The primary objective of the City’s investment activity is the preservation of capital. Each investment transaction shall be conducted in a manner to avoid capital losses, whether from securities defaults, safekeeping, or erosion of market value.

Liquidity

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

Diversification

The City's portfolio shall be diversified by market sector and maturity in order to avoid market risk.

Yield

The benchmark for the City's portfolio shall be the **average yield of the 90 Day U.S. Treasury bill during the period**, designated for its comparability to the City's expected average cash flow pattern. The benchmark will serve as a security measurement on the portfolio. The investment program may seek to augment returns above this threshold consistent with risk limitations identified herein and prudent investment policies.

IV. INVESTMENT STRATEGY

The City maintains one commingled portfolio for investment purposes which incorporates the specific investment strategy considerations and the unique characteristics of the fund groups represented in the portfolio. **All investment strategies will incorporate the objectives stated above. Investment purchases will be diversified and suitable to the intended objectives. The portfolio will be limited to a maximum dollar weighted average maturity of six (6) months or less, calculated using the stated final maturity date of each security:**

- A. The investment strategy for operating, enterprise and special revenue funds has as its primary objective assurance that anticipated liabilities are matched and adequate investment liquidity provided. This may be accomplished by purchasing **marketable**, high quality, short to medium term maturity securities (**1 day 0 -2 years**) which will complement each other in a laddered maturity structure permitting some extension for yield enhancement.
- B. The investment strategy for debt service funds shall have as its primary objective the assurance of available funds adequate to fund each debt service obligation on a timely basis. Successive debt service dates will be fully funded before any extension.
- C. The investment strategy for debt services reserve funds shall have as its primary objective the liability to generate a revenue stream to the debt service funds from high quality securities with a low degree of volatility. Securities should be high credit quality and, except as may be required by the bond ordinance specific to an individual issues, of short to intermediate term maturities. The potential for loss shall be further controlled through the purchase of securities within the **two-year** maturity range.

- D. The investment strategy for capital project funds will have as its primary objective assurance that all cash flows are matched and provide short term investment liquidity. At least 10% total liquidity is planned to provide flexibility and for unanticipated project outlays. The stated final maturity dates of securities held may not exceed the estimated completion date.

The City intends to match investments with the projected cash flow analysis and liquidity needs of the City. In no case will the average maturity of the portfolio exceed ~~six (6) months~~ **one (1) year**.

The City shall pursue a short term portfolio management strategy. Securities may be sold before they mature if market conditions present an opportunity for the City to benefit from the trade but the strategy will be primarily to ~~sell on the date of~~ **hold securities until maturity**. The investment officer will ~~continuously~~ **regularly** monitor ~~the contents of the~~ portfolio **investments**, the available ~~markets~~ **opportunities**, and ~~the relative value of completing instruments~~ to adjust the portfolio, **to the extent possible**, in response to **changing** market conditions.

V. RESPONSIBILITY AND CONTROL

Investment Officer(s)

The ~~City Administrator and~~ City Secretary ~~and Deputy City Secretary~~ are designated by the City Council as Investment Officers of the City, responsible for investment decisions and activities. Other Investment Officers may be so designated. The City may further contract with a registered investment advisor to advise in the management of the City's portfolio. No person may engage in an investment of City funds except as provided under the terms of this Policy and supporting procedures.

All Investment Officers shall attend at least one training session **consisting of no less than 10 hours** within 12 months of assuming investment duties and **thereafter** shall attend ~~ten eight (8 10)~~ **eight (8 10)** hours of training every two successive fiscal years. The Council will budget for the training and approve the expenditure.

Internal Controls

The City Administration is responsible for establishing and maintaining an internal control structure designed 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:

- Control of collusion,
- Separation of transaction authority from accounting and record keeping,
- Custodial safekeeping,
- Clear delegation of authority,
- Written confirmation for all transactions, and
- Review, maintenance and monitoring of security procedures both manual and automated.

The external auditor shall provide an annual independent review to assure compliance with state law, policies and procedures.

Any security requiring a credit rating by the Act and this Policy will not be authorized during the time that security does not hold that rating. The Investment Officer will monitor, on at least a **monthly semi-annual** basis the credit rating and should the rating fall below acceptable levels, the Officer will **immediately** advise the City Administrator of the loss of rating, the possible loss of principal. The City Administrator and Officer will decide on the appropriate liquidation of the security.

VI. PRUDENCE

The standard of prudence to be applied to all City investments shall be the “Investment” rule, which states:

“Investments shall be made with judgment and care, under due diligence which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for themselves, but for the citizens 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 City’s control, over which the officer has 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 care, shall not be held 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.

V. CONFLICTS OF INTEREST

Investment Officers involved in the investment process shall refrain from personal activity that could conflict with proper execution of the investment program or which could impair the availability to make sound investment decisions. City staff shall disclose to the City

Administrator any investments with financial interests in financial institutions that conduct investment business with the City.

~~An Investment Officer of the City who has a personal business relationship with an organization seeking to sell an investment to the City shall file a statement disclosing that personal business interest with the City Administrator and the Council.~~ Additionally, all Investment Officers shall file with the Texas Ethics Commission and the City a statement disclosing any personal business relationship with any business or individual seeking to sell investments to the City, or any relationship within the second degree by affinity or consanguinity to an individual seeking to sell investments to the City. For purposes of this subsection, an Investment Officer has a personal business relationship with a business organization if:

- 1) The Investment Officer owns 10 percent or more of the voting stock or shares of the business organization or owns \$5,000 or more of the fair market value of the business organization;
- 2) Funds received by the Investment Officer from the business organization exceed 10 percent of the Investment Officer's gross income for the previous year; or
- 3) The Investment Officer has acquired from the business organization during the previous year investments with a book value of \$2,500 or more for the personal account of the Investment Officer.

VII. AUTHORIZED AND UNAUTHORIZED INVESTMENTS

Authorized Investments

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 are not authorized until this Policy is modified and adopted by the City Council. ~~All securities will be safe kept by the City's Secretary.~~

- A. Obligations of the United States Government, its agencies and instruments with a maximum stated maturity of two (2) years ~~six (6) months~~ to exclude mortgage backed securities.
- B. Fully insured or collateralized certificates of deposit of banks doing business in Texas, with a maximum maturity of ~~six (6) months~~ one (1) year ~~guaranteed or~~ insured by the ~~financial institution or its successor~~ FDIC and/or collateralized as defined by this policy.
- C. AAA-rated, constant-dollar Local Government Investment Pools as defined by the Act and authorized by City Council.
- D. No-load Money Market Mutual Fund subject to the specifications in the Act.

Unauthorized Investments

- A. Obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pay no principal.
- B. Obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security collateral and bears no interest.
- C. Collateralized mortgage obligations that have a stated final maturity date of greater than 10 years.
- D. Collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in a market index.

Diversification

The City recognizes that investment can result from issuer defaults, market price changes, or various technical complications leading to temporary illiquidity. The maximum limits for diversification will be:

Certificates of Deposit	80% 50%
Local Government Investment Pools	100%
Money Market Mutual Funds	100%
U.S. Government Obligations	80%

An Investment that requires a minimum rating does not qualify as an authorized investment during the period the investment does not have the minimum rating. The City shall take all prudent measures that are consistent with its Investment Policy to liquidate an investment that does not have the minimum rating. The City is not required to liquidate an investment that was authorized at the time of purchase.

IX. COMPETITIVE BIDDING

The City shall require at least three competitive offers or bids for all individual security purchases and sales (*excluding transactions with money market mutual funds, local government investment pools and “when issued” securities, which are deemed to be made at prevailing market rates*).

The purchase of individual securities shall be executed “delivery versus payment” (DVP) through the City’s Safekeeping Agent. By so doing, City’s funds are not released until the City has received, through the Safekeeping Agent, the securities purchased.

X. INVESTMENT PROVIDERS

The City shall establish a list of approved broker/dealers from which it will conduct security transactions. This list shall be presented to Council annually for approval. Each prospective business organization must provide current financial statements, resumes of key sales personnel, local government references and a completed broker/dealer questionnaire.

In addition, all business organizations eligible to transact investment business with the City shall be presented a written copy of this Investment Policy. Additionally, the qualified representative of any public funds investment pool or discretionary investment manager offering to engage in an investment transaction with the City shall execute a written instrument in a form acceptable to the City substantially to the effect that the pool or manager has:

- 1) Received and reviewed the investment policy of the City; and
- 2) Acknowledged that the pool or manager has implemented reasonable procedures and controls in an effort to preclude investment transactions conducted between the City and the organization that are not authorized by the City's investment policy, except to the extent that this authorization is dependent on an analysis of the makeup of the City's entire portfolio or requires an interpretation of subjective investment standards.

The City shall not enter into an investment transaction prior to receiving the written instrument described above.

The City Council shall, at least annually, review, revise, and adopt a list of qualified Investment Providers that are authorized to engage in investment transactions with the City.

If the City has contracted with an Investment Advisor, the advisor shall be responsible for performing financial due diligence on the City's behalf. The advisor will annually provide the City with a list of authorized Broker/Dealers as well as the written acknowledgement above.

XI. REPORTING

Quarterly Reporting

The Investment Officers shall submit a written and signed investment report in compliance with requirements listed in Chapter 2256.023 of the Act to the Council on a quarterly basis. ~~The report shall include a listing of investments.~~ The report will include the following at a minimum:

- A summary statement, prepared in compliance with generally accepted accounting principles, of each pooled fund group that states the beginning market value for the reporting period, ending market value for the period; and fully accrued interest for the reporting period;

- A full description of each security held at the end of the reporting period by fund or pooled group, based on amortized cost value, including book and market value, maturity date and yield.
- ~~Overall change in market value for each security and the change during the period.~~
- Statement of compliance of the investment portfolio with the Act and the Investment Policy of the City.

Market prices for the calculation of market value will be obtained from outside sources including, but not limited to: Bloomberg, the Wall Street Journal, the City's depository bank, safekeeping agent or investment advisor.

XII. FINANCIAL COUNTERPARTIES

City Depository

A City Depository shall be selected through a formal request for proposal (RFP) process in accordance with §105.017 of the Texas Local Government Code. In selecting a depository, the service, cost of services, credit worthiness, earning potential and collateralization by the institutions shall be considered.

XIII. COLLATERAL, SAFEKEEPING AND CUSTODY

Time and Demand Pledged Collateral

All City ~~cash and interest~~ deposits shall be secured above FDIC coverage by pledged collateral ~~or an FHLB Letter of Credit (LOC)~~. In order to anticipate market changes and provide a level of security for all funds, collateral will be maintained ~~and purchased~~ by the depository at 102% of market value of principal and accrued interest on the deposits. It is the responsibility of the ~~financial officer~~ ~~Depository Bank~~ to monitor collateral margins on a monthly basis.

Collateral pledged to secure deposits shall be held by an independent financial institution outside the holding company of the depository in accordance with a safekeeping agreement signed by authorized representatives of the City, the Depository, and the custodian (with the exception of the Federal Reserve as Custodian). ~~Substitution of collateral is permitted, provided adequate coverage is maintained.~~ The financial institution shall provide a listing of collateral directly to the City.

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

Authorized Collateral

The City shall accept only the following securities as collateral for time and demand deposits or repurchase agreements:

- A. FDIC insurance coverage.
- B. Obligations of the United States, its agencies or instrumentalities.
- C. Obligations, ~~the principal and interest on which, are guaranteed or insured by~~ of the State of Texas ~~and its agencies or other US states~~ rated A or better by a rating agency.

XIV. INVESTMENT POLICY ADOPTION

The City Investment Policy shall be adopted by resolution of the City Council no less than annually.