

INVESTMENT POLICY OF THE CITY OF GLEN ROSE, TEXAS

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TABLE OF CONTENTS

- I. INTRODUCTION
- II. SCOPE
- III. OBJECTIVES
- IV. INVESTMENT STRATEGY
- V. RESPONSIBILITY AND CONTROL
- VI. PRUDENCE
- VII. CONFLICTS OF INTEREST
- VIII. AUTHORIZED INVESTMENTS
- IX. REPORTING
- X. FINANCIAL COUNTERPARTIES
- XI. COLLATERAL, SAFEKEEPING AND CUSTODY
- XII. INVESTMENT POLICY ADOPTION

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 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 90 Day U.S. Treasury, 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:

- 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 high quality, short to medium term maturity securities (0-2 years) which will complement each other in a laddered maturity structure permitting some extension for yield enhancement. The maximum dollar weighted average maturity of six (6) months or less will be calculated using the stated final maturity date of each security.
- 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 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.

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 maturity. The investment officer will continuously monitor the contents of the portfolio, the available markets, and the relative value of completing instruments to adjust the portfolio in response to market conditions.

V. RESPONSIBILITY AND CONTROL

Investment Officer(s)

The 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 within 12 months of assuming investment duties and shall attend ten (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 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.

VII. 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.

VIII. 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 stated maturity of 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 guaranteed or insured by the financial institution or its successor 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.

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%
Local Government Investment Pools	100%
Money Market Mutual Funds	100%
U.S. Government Obligations	80%

IX. REPORTING

Quarterly Reporting

The Investment Officer shall submit a written investment report to Council on a quarterly basis. The reports shall include a listing of investments. The report will include the following at a minimum:

- A full description of each security held at the end of the reporting period based on amortized cost value.
- 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.

X. 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.

XI. COLLATERAL, SAFEKEEPING AND CUSTODY

Time and Demand Pledged Collateral

All City cash and interest deposits shall be secured above 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 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 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). 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 the State of Texas or other US states rated A or better by a rating agency.

XII. INVESTMENT POLICY ADOPTION

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