



Investment policy

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Introduction

It is the policy of the City of La Vernia to invest public funds in a manner that obtains the optimal balance of safety, liquidity, yield, and diversification, meets the city's daily cash flow demands, and conforms to the statutes governing the investment of public funds. This policy addresses the methods, procedures, and practices needed to ensure effective fiscal management of the City's funds.

These procedures satisfy the statutory requirements of defining and adopting a formal investment policy and comply with the provisions of the Public Funds Investment Act (PFIA) of the Texas Government Code, Chapter 2256.

1. Scope

This investment policy applies to all of the city's financial assets. 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

All funds will be pooled for investment purposes with the exception of the following, which are managed as separately invested assets:

- Bond Funds
- Bond Reserve Funds

This policy does not govern funds managed under separate investment programs in accordance with Section 2256.004 of the PFIA. Such funds currently include:

- State Funds
- Retirement/Pension Fund
- Deferred Compensation Fund

2. Objectives

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

All investments shall be managed in a manner responsive to the public trust and consistent with state and local law. The City shall manage and invest its cash and assets with four major objectives: safety, liquidity, diversification, and yield. [2256.005(d)]

2.1 Safety: The investment policy's primary objective is the principal's safety. The City will invest in a manner that assures the preservation of capital for the overall portfolio. The City's portfolio shall be diversified by market sector and maturity to avoid market risk and ensure safety.

2.2 Liquidity: The City's investment portfolio shall be structured to meet all operational 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.

2.3 Diversification: To avoid market risk, the city's portfolio shall be diversified by market sector and maturity.

2.4 Yield: The City's investment portfolio shall be designed to attain a market rate of return commensurate with the City's investment risk constraints and cash flow needs. The benchmark for the City's portfolio is the six-month U.S. Treasury Bill; it serves as a threshold measurement. The investment program may seek to augment returns above this threshold consistent with risk limitations identified in the Policy.

3. Delegations of Authority

3.1 City Council

- A. Retains responsibility and control over all investments of City funds.
- B. Shall appoint one or more Investment Officers responsible for the investment of City funds by resolution.
- C. Shall delegate daily operations and investment oversight to the City Administrator and Finance Administrator according to PFIA and this investment policy.
- D. Shall adopt a written investment policy.
- E. Shall review the policy and its strategies not less than annually. The council shall state by resolution that it has reviewed the policy and strategy and recorded any changes made.
- F. Approves and provides training for investment officers, finance administrators, and city administrators according to the requirements of PFIA.
- G. may retain the services of an Investment Advisor to assist in reviewing cash flow requirements, formulating investment strategies, and executing security purchases, sales, and deliveries.
- H. At least annually, the Council shall review, revise, and adopt a list of qualified brokers/dealers authorized to engage in securities transactions with the City.
- I. At least every five years, the Council shall select a City Depository in accordance with Texas Government Code 105.017.

Finance Administrator

The finance administrator is responsible for the city's cash management activities under the direction and control of the City Administrator. Investment Officers, in collaboration with the City Administrator, are responsible for the City's investments.

3.2 City Administrator

- A. Serves as the City's Primary Investment Officer.
- B. Shall develop and maintain internal controls in accordance with section 7 of this Policy.
- C. The City Administrator, in collaboration with the finance administrator, shall develop and maintain a comprehensive cash flow analysis for all of the City's fund types. The purpose of this analysis will be to determine liquidity needs and the available funds for investing. **The summarized cash flow analysis report will be provided to the City Council quarterly.**
- D. The City Administrator shall routinely monitor the investment portfolio's contents, available markets, and the relative values of competing instruments and shall adjust the portfolio accordingly, keeping in mind the overall objectives of the investments.

3.3 Investment Officers

- A. Written procedures for operating the investment program shall be established consistent with the Investment Policy.
- B. Not less than quarterly and in a timely manner, the Investment Officers shall prepare, sign, and submit to the Council a written report of investment transactions for all funds. Reports shall be written according to PFIA 2256.023.**
- C. Are solely authorized to invest City funds. No person may engage in an investment transaction except as provided under the terms of this Policy.

4. Prudence

The standard of prudence to be applied to all City investments shall be the "prudent person" rule, which states:

"Investments shall be made with judgment and care, under prevailing circumstances, which persons of prudence, discretion and intelligence exercise in the management of their 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 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 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.

5. Conflicts of Interest

Investment Officers involved in the investment process shall refrain from personal business activity that could conflict with the proper execution of the investment program or impair their ability to make impartial investment decisions.

Investment Officers must file a disclosure statement with the Texas Ethics Commission and City Council if:

- A. The Investment Officer has a personal relationship with a business organization offering to engage in an investment transaction with the City.
- B. The Officer is related within the second degree by affinity or consanguinity, as determined under Chapter 573 of the Texas Government Code, to an individual seeking to transact investment business with the City.

6. Training

The City Administrator, Finance Administrator, Investment Officer(s), and any other as designated by the Council shall attend an investment training session not less than once in a two-year period that begins on the first day of the City's fiscal year and consists of the two consecutive fiscal years after that date. Trainees shall receive not less than (10) hours of instruction relating to investment responsibilities from an independent source approved by the Council.

7. Internal Controls

The Finance Director is responsible for developing and maintaining internal controls to protect all assets from loss, theft, or misuse. The internal controls shall address the following points at a minimum:

- Control of collusion – segregation of duties
- Separation of transaction authority from accounting and record-keeping
- Custodial safekeeping
- Clear delegation of authority
- Written confirmation for all transactions
- Review, monitoring, and maintenance of security procedures

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

8. Financial Counter-Parties

8.1 Documents

All financial institutions and brokers/dealers who desire to transact business with the City must supply the following minimal documents:

- A. Financial Industry Regulatory (FINRA) registration and CRDN
- B. Proof of Texas State Securities Registration

8.2 Acknowledgement

A written copy of this Investment Policy shall be presented to any counterparties offering to engage in investment transactions with the City. Investments shall only be made with those business organizations that have provided the City with a written acknowledgment that the business has:

- A. Received and reviewed the City's Investment Policy
- B. Implemented reasonable procedures and controls to preclude unauthorized investments

8.3 Broker/Dealer List

At least annually, the Council shall review, revise, and adopt a list of qualified brokers/dealers authorized to engage in securities transactions with the City. No broker may be used without the approved broker/dealer list.

9. Competitive Bidding

It is the intent of the City to require competitive bidding for all individual security purchases and sales except for:

- A. Transactions with money market mutual funds and local government investment pools (which are deemed to be made at prevailing market rates)
- B. Treasury and agency securities purchased at issue through an approved broker/dealer or financial institution
- C. Automatic overnight sweep transactions with the City Depository
- D. Fully insured certificates of deposit placed in accordance with the conditions of the PFIA

The Investment Officer(s) shall solicit at least three bids for all other transactions involving individual securities.

10. 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.

The City intends to match investments with the anticipated cash flow requirements of the City. In no case will the average maturity of the portfolio exceed 12 months. The weighted average of any single investment shall not exceed two years. This dollar-weighted average maturity will be calculated using each security's stated final maturity dates.

The City shall pursue a conservative portfolio management strategy emphasizing low credit risk, diversification, and liquidity. The City intends to concentrate its investments in shorter-term securities to limit risk from interest rate changes. The city may only invest in the authorized investments in Section 11 of this Policy.

The City's policy is to hold securities to maturity. However, securities may be sold:

- A. To minimize the potential loss of principal on a security whose credit quality has declined
- B. To reposition the portfolio to improve the quality, yield, or target duration
- C. To meet unanticipated liquidity needs of the portfolio

The City calls for using investment pools as a primary source of diversification and a supplemental source of liquidity. Funds that may be needed on a short-term basis but in excess of the amount maintained at the depository bank are available for deposit in investment pools.

Proceeds from the sale of general obligation bonds or certificates of obligation will be segregated from the other investments of the City. The basic intent is to match the funds' availability to the capital projects' cash requirements.

11. Authorized Investments

11.1 The City may only invest in the following instruments:

- A. Obligations of the United States Government, its agencies, and instrumentalities with a remaining stated maximum maturity of (2) years, to exclude mortgage-backed securities.
- B. Obligations of any state or political subdivisions of a state rated A or better by a nationally recognized rating agency, not to exceed one year.
- C. A certificate of deposit, or share certificate, issued by a depository institution that has its main office or a branch office in Texas. Certificates must be fully insured by the Federal Deposit Insurance Corporation (FDIC) or the National Credit Union Share Insurance Fund.
- D. A brokered certificate of deposit from a depository institution with its main office or branch office in the state of Texas is selected from a list adopted by the Council. The FDIC must fully insure the full amount of each certificate. Maturity shall not exceed one year.
- E. Fully collateralized repurchase agreements that have a defined termination

date and are secured by obligations of the United States or its agencies and instrumentalities. The securities purchased by the City must be pledged to the City, held in the City's name, and deposited at the time the investment is made with the City's custodial bank. Repurchase agreements can only be placed through primary government securities dealers or financial institutions doing business in Texas. The maximum term for repurchase agreements is (90) days from the date the reverse security repurchase agreement is delivered. Securities held as collateral must not mature later than the agreement's expiration date.

- F. A no-load money market mutual fund registered with and regulated by the Securities and Exchange Commission provides the investing entity with a prospectus and other information required by the Securities Exchange Act of 1934 or the Investment Company Act of 1940. The fund must include in its investment objectives the maintenance of a stable net asset value of \$1 for each share and have a dollar-weighted average stated maturity of (90) days or fewer.
- G. Local Government Investment Pools that are AAA-rated and maintain a constant-dollar value. Pool(s) must be authorized by the Council and meet the requirements of the PFIA section 2256.016.
- H. Commercial papers, only if all investment officers agree to do so in writing and subject to annual review.

11.2 The City shall not invest in:

- A. Structured notes, investments with inverse-floaters, collateralized mortgage obligations, or any other form of derivatives;
- B. Any investment not authorized by this Policy or the PFIA;
- C. Any instrument for which there would not be a ready market for immediate resale;
- D. Any investment pool in which the City would own more than 10% of the pool;
- E. Highly sophisticated investments not freely conducted in the marketplace e.g., derivatives; and
- F. Any one mutual fund in which the City would own more than 10% of the fund.

11.3 Investment Officers may restrict or prohibit the purchase of specific issues due to current market conditions. An investment that requires a minimum rating under this section 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 consistent with PFIA to liquidate an investment that does not have the minimum required rating. Ratings shall be monitored using nationally recognized financial information sources.

12. Diversification

The city recognizes that investment risk can result from issuer defaults, market price changes, or various technical complications leading to temporary illiquidity. The City's investment pool

will be diversified to limit investment risk by observing the maximum limitations at the time of purchase as listed below:

<u>Investment Type</u>	<u>Portfolio Maximum</u>
US Obligations	100%
US Agencies/Instrumentalities	75%
From any one issuer	25%
Certificates of Deposit	25%
From any on bank	10%
Repurchase Agreements	20%
Flex in CIP Funds	100%
Local Government Investment Pools	100%
Percent ownership	10%
Money Market Funds	25%
Percent ownership	10%
Brokered CD Securities	25%
From any one bank	\$250,000

Maturity schedules shall be timed according to anticipated liquidity needs. Investments, from time to time, may be liquidated before maturity for cash-flow purposes. To meet these disbursement schedules, market gains or losses may be required. Any losses for early maturity liquidation should be minimized and reported to the Council in a timely manner. Actual risk of default shall be minimized by adequate collateralization. Market risk shall be minimized by diversification of investment type and maturity.

13. Collateralization

All City time and demand deposits shall be secured above full coverage by pledged collateral in accordance with Chapter 2257, Government Code (Public Funds Collateral Act) and the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA). To anticipate market changes and provide a level of security for all funds, collateral will be maintained and held by the depository at 102% of the market value of principal and accrued interest on the deposits.

The City Administrator, through collaboration with the finance administrator, must approve the collateral before it is pledged; they reserve the right to reject any form of collateral. Financial institutions serving as City depositories will be required to sign a Depository Agreement with the City, which details securities that can serve as eligible collateral, collateralization ratios, standards for collateral custody and control, collateral valuation, rights of substitution, and conditions for agreement termination. **It is the responsibility of the bank to monitor collateral margins on a daily basis.**

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

- A. Cash
- B. Surety Bonds
- C. FDIC insurance coverage
- D. Letters of Credit issued by Federal Home Loan Banks (FHLB)
- E. Obligations of the United States, its agencies, or instrumentalities, including mortgage-backed securities and Collateralized Mortgage Obligations (CMO), which pass the bank test.
- F. Obligations are 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 national credit agency.
- G. Obligations of other states or a county, city or other political subdivision of a state having been rated as investment grade by a national credit agency.

14. Safekeeping and Custody

Collateral pledged to secure deposits shall be held by an independent third-party institution 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). All collateral shall be subject to audit and inspection by the City and the City's auditor.

All securities transactions, except local government investment pool and money market mutual fund transactions, shall be conducted on a delivery versus payment (DVP) basis. Investment and collateral securities will be held by a third-party custodian designated by the City and pledged to the City, as evidenced by safekeeping receipts of the institution where the securities are deposited.

15. Reporting

The Investment Officers shall submit a joint investment report to Council no less than quarterly and on a timely basis. Market prices for calculating market value will be obtained from nationally recognized sources such as The Wall Street Journal or Bloomberg. The report shall be prepared in accordance with the requirements of the PFIA, 2256.023.

If the City invests in other than money market mutual funds, investment pools, or accounts offered by its depository bank in the form of certificates of deposit, or money market accounts or similar accounts, the reports prepared by the investment officers under this section shall be formally reviewed at least annually by an independent auditor, and the result of the review shall be reported to Council by that auditor.