

# **CITY OF WILLOW PARK INVESTMENT POLICY**

## **INTRODUCTION**

The purpose of this document is to set forth specific investment policy and strategy guidelines for the City of Willow Park in order to achieve the goals of safety, liquidity, yield, and public trust for all investment activity. The City Council of the City of Willow Park shall review and adopt, by resolution, its investment strategies and policy not less than every three years. The resolution shall include a record of changes made to either the investment policy or strategy. 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.

## **INVESTMENT STRATEGY**

The City of Willow Park maintains portfolios, which utilize four specific investment strategy considerations, designed to address the unique characteristics of the fund groups represented in the portfolios:

- A. Investment strategies for operating funds and commingled pools (i. e. Tex-Pool) containing operating funds have as their primary objective to assure that anticipated cash flows are matched with adequate investment liquidity. The secondary objective is to create a portfolio structure, which will experience minimal volatility during economic cycles. This may be accomplished by purchasing high quality, short to medium-term securities which will complement each other in a laddered or barbell maturity structure. The dollar weighted average maturity of 365 days or less will be calculated using the stated final maturity date of each security.
- B. Investment strategies for debt service funds shall have as the primary objective the assurance of investment liquidity adequate to cover the debt service obligation on the required payment date. Securities purchased shall not have a stated final maturity date which exceeds the debt service payment date.
- C. Investment strategies for debt service reserve funds shall have as the primary objective the ability to generate a dependable revenue stream to the appropriate debt service fund from securities with a low degree of volatility. Securities should be of high quality and, except as may be required by the bond ordinance specific to an individual issue, of short to intermediate-term maturities. Volatility shall be further controlled through the purchase of securities carrying the highest coupon available, within the desired maturity and quality range, without paying a premium, if at all possible.
- D. Investment strategies for special projects or special purpose fund portfolios will have as their primary objective to assure that anticipated cash flows are matched with adequate

investment liquidity. These portfolios should include at least 10% in highly liquid securities to allow for flexibility and unanticipated project outlays. The stated final maturity dates of securities held will not exceed the estimated project completion date.

## **INVESTMENT POLICY**

### **I. SCOPE**

This investment policy applies to all financial assets of the City of Willow Park. These funds are accounted for in the City's Annual Audit Report (CAAR) and include:

- A. General Fund
- B. Water Fund
- C. Wastewater Fund
- D. Debt Service Funds
- E. Project Improvement Funds
- F. All Other Funds and Accounts

### **II. OBJECTIVES**

The City of Willow Park shall manage and invest its cash with four 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 all Federal, State, and Local laws.

The City shall maintain a comprehensive cash management program that includes collection of accounts receivable, vendor payment 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 cash.

#### **A. Safety**

The primary objective of the City's investment activity is the preservation of capital in the overall portfolio. Each investment transaction shall be conducted in a manner to avoid capital losses, whether they are from securities default or erosion of market value.

#### **B. Liquidity**

The City's investment portfolio shall be structured in order that the City is able to meet all financial obligations in a timely manner. This shall be achieved by matching investment

maturities with forecasted cash flow requirements and by investing in securities with active secondary markets.

#### C. Yield

The City's cash management portfolio shall be designed with the objective of regularly exceeding the average rate of return on U.S. Treasury Bills at a maturity level comparable to the City's weighted average maturity in days. The investment program shall seek to augment returns above this threshold consistent with risk limitations identified herein and prudent investment policies.

#### E. 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 which might impair public confidence in the City's ability to govern effectively.

### **III. RESPONSIBILITY AND CONTROL**

#### A. Delegation of Authority and Training

Authority to manage the City's investment program is derived from a resolution of the City Council. The City's Treasurer is designated as the investment officer of the City. The investment officer is responsible for investment decisions and activities. The investment officer shall attend at least one training session relating to the officer's responsibility under the Act within 12 months after assuming duties. The investment officer will also be required to attend a training session not less than once every two years and receive 10 hours of training. Such training from an independent source shall be approved or endorsed by either the Government Finance Officers Association of Texas, the Government Treasurers Organization of Texas, the Texas Municipal League, or the North Central Texas Council of Governments.

#### B. Internal Controls

The investment officer is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of 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 judgments by management.

Accordingly, the investment officer shall establish a process for annual independent review by an external auditor to assure compliance with policies and procedures. The results of this review shall be reported to the City Council. The internal controls shall address the following points:

- Control of collusion.
- Separation of transaction authority from accounting and record keeping.
- Custodial safekeeping.
- A voidance 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.

### C. Prudence

The standard of prudence to be applied by the investment officer shall be the "prudent investor" 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 in 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, or funds under the City's control, over which the officer had responsibility rather than the prudence of a single investment.
- Whether the investment decision was consistent with the written investment policy of the City.

The investment officer, 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 that appropriate action is taken to control adverse developments.

### D. Ethics and Conflicts of Interest

City staff involved in the investment process shall refrain from personal business activity that could conflict with the proper execution of the investment program, or that could impair the employee's ability to make impartial investment decisions. City staff shall disclose to the City Administrator, any material financial interests in financial institutions that conduct business with the City and they shall further disclose positions that could be related to the performance of the City's portfolio.

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. An investment officer who is related within the second degree of 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.

#### **IV. REPORTING**

##### **A. Annual Report**

Within sixty (60) days of the end of the fiscal year, the investment officer shall present an annual report on the investment program and investment activity.

##### **B. Methods**

The annual investment report shall include a succinct management summary that provides a clear picture of the status of the current investment portfolio and transactions made over the last year. This management summary will be prepared in a manner that will allow the City to ascertain whether investment activities during the reporting period have conformed to the investment policy. The report will be prepared in compliance with generally accepted accounting principles. The report will include the following:

- A listing of individual securities held at the end of the reporting period. This list will include the name of the fund or pooled group fund for which each individual investment was acquired.
- Unrealized gains or losses resulting from appreciation or depreciation by listing the beginning and ending book and market value of securities for the period. Market values shall be obtained from financial institutions or portfolio reporting services independent from the broker/dealer from which the security was purchased.
- Additions and changes to the market value. during the period.
- Fully accrued interest for the reporting period.
- Average weighted yield to maturity of portfolio on entity investments as compared to applicable benchmarks.
- Listing of investments by maturity date.
- 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.

#### **V. INVESTMENT PORTFOLIO**

##### **A. Active Portfolio Management**

The City shall pursue an active versus a passive portfolio management philosophy. That is, securities may be sold before they mature if market conditions present an opportunity for the City to benefit from the trade. The investment officer will routinely monitor the

contents of the portfolio, the available markets, and the relative value of competing instruments, and will adjust the portfolio accordingly.

## B. Investments

Assets of the City of Willow Park 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. The City is not required to liquidate investments that were authorized investments at the time of purchase.

## C. Authorized Investments.

- Obligations of the United States of America, its agencies and instrumentalities, which have a liquid market with a readily determinable market value.
- Direct obligations of the State of Texas and agencies thereof.
- Other obligations, the principal of and interest on which are unconditionally guaranteed by the State of Texas or United States of America.
- Obligations of the States, agencies thereof, Counties, Cities, and other political subdivisions of any state having been rated as investment quality by a nationally recognized investment rating firm, and having received a rating of not less than "A" or it's equivalent
- Certificates of Deposit of state and national banks domiciled in Texas, guaranteed or insured by the Federal Deposit Insurance or it's successor or secured by obligations described in A through D above, which are intended to include all direct agency or instrumentality issued mortgage backed securities rated AAA by a nationally recognized rating agency, or by Article 2529b-1, V.T.C.S., and that have a market value of not less than the principal amount of the certificates.
- Fully collateralized direct repurchase agreements with a defined termination date secured by obligations of the United States or it's agencies and instrumentalities pledged with a third party, selected by the Director of Finance, other than an agency for the pledgor. 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
- Joint pools of political subdivisions in the State of Texas which invest in instruments and follow practices allowed by current law. Investment in such pools shall be limited to 15% of the City's entire portfolio. A pool must be continuously rated no lower than AAA or AAA-m or at an equivalent rating by at least one nationally recognized rating service.

## D. Not Authorized

The City's authorized investments options are more restrictive than those allowed by State law. State law specifically prohibits investment in the following investment securities.

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

#### E. Holding Period

The City of Willow Park intends to match the holding periods of investment funds with liquidity needs of the City. In no case will the average maturity of investments of the City's operating funds exceed one year. The maximum final stated maturity of any investment shall not exceed two years.

#### F. Risk and Diversification

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

- Risk of issuer defaults is controlled by limiting investments to those instruments allowed by the Act, which are described herein.
- Risk of market price changes shall be controlled by avoiding over-concentration of assets in a specific maturity sector, limitation of average, maturity of operating funds investments to one year, and avoidance of over-concentration of assets in specific instruments other than U.S. Treasury Securities and Insured or Collateralized Certificates of Deposits.
- Risk of liquidity due to technical complications shall be controlled by the selection of securities dealers as described herein.

## **VI. SELECTION OF BANKS AND DEALERS**

### A. Depository

At least every three years a Depository shall be selected through the City's banking services procurement process, which shall include a formal request for proposal (RFP). In selecting a depository, the credit worthiness of institutions shall be considered, and the investment officer shall conduct a comprehensive review of prospective depository's credit characteristics and financial history.

#### B. Certificates of Deposit

Banks seeking to establish eligibility for the City's competitive certificate of deposit purchase programs shall submit for review annual financial statements, evidence of federal insurance and other information as required by the investment officer.

#### C. Securities Dealers

For brokers and dealers of government securities, the City shall select only those dealers reporting to the Market Reports Division of the Federal Reserve Board of New York, also known as the "Primary Government Security Dealers", unless a comprehensive credit and capitalization analysis reveals that other firms are adequately financed to conduct public business. Only brokers and dealers with a, Texas or Willow Park, Texas office shall be selected. Investment officials shall not knowingly conduct business with any firm with whom public entities have sustained losses on investments. All Securities dealers shall provide the City with references from public entities that they are currently serving. The investment officer shall adopt and annually review a list of qualified brokers authorized to engage in investment transactions with the entity.

All financial institutions and broker/dealers who desire to become qualified bidders for investment transactions must supply the following as appropriate:

- Audited financial statements
- Proof of National Association of Securities Dealers (NASD) certification
- Proof of state registration
- Completed broker/dealer questionnaire
- Certification of having read the City's investment policy signed by a qualified representative of the organization.
- Acknowledgment that the organization has implemented reasonable procedures and controls in an effort to preclude imprudent investment activities arising out of investment transactions conducted between the City and the organization.

Qualified representative means a person who holds a position with a business organization, who is authorized to act on behalf of the business organization, and who is one of the following:



- For a business organization doing business that is regulated by or registered with a securities commission, a person who is registered under the rules of the National Association of Securities Dealers;
- For a state or federal bank, a savings bank, or a state or federal credit union, a member of the loan committee for the bank or branch or the bank or a person authorized by corporate resolution to act on behalf of and bind the banking institution; or
- For an investment pool, the person authorized by the elected official or board with authority to sign the certification on behalf of the investment pool.

#### D. Investment Pools

A thorough investigation of the pool is required prior to investing, and on a continual basis. All investment pools must supply the following information in order to be eligible to receive funds:

- The types of investments in which money is allowed to be invested.
- The maximum average dollar-weighted maturity allowed, based on the stated maturity date of the pool.
- The maximum stated maturity date any investment security within the portfolio.
- The objectives of the pool.
- The size of the pool.
- The names of the members of the advisory board of the pool and the dates their terms expire.
- The custodian bank that will safekeep the pool's assets.
- Whether the intent of the pool is to maintain a net asset value of one dollar and the risk of market place fluctuation.
- The name and address of the independent auditor of the pool.
- The requirements to be satisfied for an entity to deposit funds in and withdraw funds from the pool and any deadlines or other operating policies required for the entity to invest funds in and withdraw funds from the pool.
- The performance history of the pool, including yield, average dollar weighted maturities, and expense ratios.
- A description of interest calculations and how interest is distributed, and how gains and losses are treated

An annual review of the financial condition and registration of qualified bidders will be conducted by the investment officer.

## VII. SAFEKEEPING AND CUSTODY

#### A. Insurance or Collateral

All deposits and investments of City funds other than direct purchases of U.S. Treasuries or agencies shall be secured by pledged collateral. In order to anticipate market changes and provide a level of security for all funds, the collateralization level will be 102% of market value of principal and accrued interest on the deposits or investments less an amount insured by the FDIC or FSLIC. Evidence of the pledged collateral shall be maintained by the investment officer or a third party financial institution. Repurchase agreements shall be documented by a specific agreement noting the collateral pledge in each agreement. Collateral shall be reviewed monthly to assure that the market value of the pledged securities is adequate.

#### B. Safekeeping Agreement

Collateral pledged to secure deposits of the City shall be held by a safekeeping institution in accordance with a Safekeeping Agreement which clearly defines the procedural steps for gaining access to the collateral should the City of Willow Park determine that the City's funds are in jeopardy. The safekeeping institution, or Trustee, shall be the Federal Reserve Bank or an institution not affiliated with the firm pledging the collateral. The safekeeping agreement shall include the signatures of authorized representatives of the City of Willow Park, the firm pledging the collateral, and the Trustee.

#### C. Collateral Defined

The City of Willow Park 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 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 it's equivalent) by a nationally recognized rating agency with a remaining maturity of ten (10) years or less.

#### D. Subject to Audit

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

#### E. Delivery vs. Payment

Treasury Bills, Notes, Bonds, Repurchase Agreements and Government Agencies' securities shall be purchased using the delivery vs. payment method. That is, 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 claim on the securities. The original copy of all safekeeping receipts shall be delivered to the City.

#### **VIII. INVESTMENT POLICY ADOPTION**

The City of Willow Park investment policy shall be adopted by resolution of the City Council. The policy shall be reviewed for effectiveness on an annual basis and any modifications will be approved by the City Council.