

# *INVESTMENT POLICY*

*CITY OF HIDEAWAY, TEXAS*

Approved: \_\_\_\_\_ 2022-2023

I. OVERVIEW

This policy is created to comply with all current requirements of the Texas Public Funds Investment Act, Section 2256 of the Texas Government Code. It is the policy of the City of Hideaway, Texas ("the City") to invest public funds in a manner which will provide for safety of principal and a market rate of interest while meeting daily cash flow demands and conforming to all state and local statutes governing the investment of public funds. The City's investment policy, as approved by the Board of Aldermen, is adopted to provide investment policy guidelines.

II. SCOPE

This policy applies to all investment activities of the City's funds except those subject to other investment covenants or excluded by contract. All funds covered by this policy shall be invested in accordance with the Public Funds Investment Act (Section 2256 of the Texas Government Code), as amended. These funds are accounted for in the City's annual financial report of the General Fund.

III. OBJECTIVES

The primary objectives, in priority order, of investment activities shall be:

A. **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 shall be to mitigate credit risk and interest rate risk.

1. Credit Risk - the risk of loss due to the failure of the security issuer or backer. Credit risk may be mitigated by:
  - a. Limiting investments to those in this policy.
  - b. Pre-qualifying financial institutions, brokers/dealers, intermediaries, and advisors with which the City will do business; and,
  - c. Diversifying investments to minimize potential losses.
2. Interest Rate Risk - the risk that the market value of securities in the portfolio will fall due to changes in general interest rates. Interest rate risk may be mitigated by:
  - a. Structuring the portfolio so that investments mature to meet cash requirements for ongoing operations, and,
  - b. By investing general funds primarily in shorter-term securities.

B. **Liquidity**

The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated. This is accomplished by structuring maturities to match expected cash needs.

C. **Yield**

The investment portfolio shall be designed with the objective of attaining a market

rate of interest, considering the investment risk constraints and liquidity needs. Return on investment is of least importance compared to the safety and liquidity objectives described above.

#### IV. STANDARDS OF CARE

##### A. Prudence

The standard of prudence to be used by investment officials shall be the "prudent person standard," which states: *Investments shall be made with judgement and care, under circumstances then prevailing, which persons of prudence, discretion, and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived.*

Investment officers acting in accordance with the investment policy and 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.

##### B. Investment Officer(s)

Bill Kashouty will be considered the *Investment Officer* for the City. Written procedures for the operation of the investment program consistent with this investment policy shall be established. Such procedures shall include explicit delegation of authority to persons responsible for investment transactions, including additional Investment Officers as delegated and approved by Board of Aldermen. No person may engage in an investment transaction on behalf of the City, except as provided under the terms of this policy and the established procedures.

##### C. Ethics and Conflicts

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. Investment officers 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. Investment officers shall refrain from undertaking personal investment transactions with the same individual person with whom business is conducted on behalf of the City.

An investment officer of the City who has a personal business relationship with a business organization offering to engage in an investment transaction with 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, as determined under Chapter 573, to an individual seeking to sell an investment to the investment officer shall file a statement disclosing that relationship. A statement required under this subsection must be filed with the Texas Ethics Commission and the Board of

Aldermen. 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.

**D. Required Training**

Investment Officers shall attend at least one training session relating to the responsibilities of maintaining the investment portfolio within 12 months after taking office or assuming duties and shall receive no less than 10 hours of instruction related to investment functions. Thereafter, eight (8) hours of investment training is required in every two-year period that begins on the first day of the fiscal year and consists of the two consecutive fiscal years after that date. Such training, from an independent source as approved by Board of Aldermen, shall include education in investment controls, security risks, strategy risks, market risks, and compliance with the Public Funds Investment Act.

**V. INVESTMENT STRATEGIES**

The City's investment portfolio shall be designed with the objective of obtaining a market rate of interest throughout budgetary and economic cycles, commensurate with the investment risk constraints and the cash flow needs.

**A. Market Benchmark**

The City's investment strategy is *conservative*. Given this strategy, the basis used by Investment Officers to determine whether market yields are being achieved shall be the average of the 91-day T-bill rate during the reporting period.

**B. Maximum Maturities**

To the extent possible, the City will attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, the City will not directly invest operating funds in securities maturing more than 12 months from the date of purchase, unless approved by the Board of Aldermen.

**C. Competitive Bidding**

If the City chooses to invest in direct securities, three competitive bids (offers) shall be obtained on all transactions to best ensure it is receiving fair market value on its investments. *This requirement does not apply to the City's depository bank.*

**D. Diversification**

The City will seek to diversify investments by maturity date, type of investment, and investment provider to the extent possible.

**VI. SAFEKEEPING AND CUSTODY**

**A. Authorized Financial Dealer and Institution**

The City shall maintain a list of financial institutions authorized to provide investment services. In addition, a list will also be maintained of approved broker/dealers who are authorized to provide investment services in the State of Texas.

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

1. Audited financial statements.
2. Proof of Financial Industry Regulatory Authority (FINRA) membership.
3. Proof of state registration.
4. Completed broker/dealer questionnaire; and,
5. Acknowledgement of having received the City's investment policy.

**B. Collateralization**

The City, in accordance with state statute, requires all City funds held by financial institutions above the Federal Deposit Insurance Corporation (FDIC) insurance limit to be collateralized with securities whose market value is pledged at 102% of principal and accrued interest by that institution with the City's custodial bank. Securities which are acceptable for collateralization purposes are as follows:

1. FDIC insurance coverage.
2. Obligations, the principal, and interest of which are unconditionally guaranteed or insured by or backed by the full faith and credit of the United States or its agencies and instrumentalities. This shall include letters of credit (LOCs) issued by U.S. government agencies.
3. Obligations, the principal, and interest on which, are unconditionally guaranteed or insured by the State of Texas.

**C. Custody - Delivery vs. Payment**

All security transactions entered by the City shall be conducted on a delivery-versus-payment (DVP) basis. Securities will be held by the City's custodial bank and evidenced by safekeeping receipts.

**D. Safekeeping of Securities**

Securities purchased for the City's portfolios will be delivered in book entry form and will be held in third-party safekeeping by the City's safekeeping and custodian bank.

The City will execute Safekeeping Agreements prior to utilizing the custodian's safekeeping services. The safekeeping agreement must provide that the safekeeping agent will immediately record and promptly issue and deliver a safekeeping receipt

showing the receipt and the identification of the security. All securities owned by the City will be held in a Customer Account naming the City as the owner.

VII. AUTHORIZED AND SUITABLE INVESTMENTS

The investment of City funds will be made using only those investment types approved by the Board of Aldermen and which are in accordance with State of Texas Government Code, Chapter 2256. The approved investment types will be limited to the following:

- A. U.S. Treasury issues, backed by the full faith and credit of the United States government.
- B. Certificates of deposit (CDs) or demand deposits of state and national banks that are fully guaranteed or insured by the Federal Deposit Insurance Corporation (FDIC), or its successor; or, secured by obligations described in section A above. These deposits shall be governed by a Depository Contract that complies with federal and state regulation to properly secure a pledged security interest.

VIII. REPORTING AND REVIEW

A. **Reporting**

The Investment Officer shall prepare a quarterly investment report, including a summary that provides a clear picture of the status of the current investment portfolio and transactions made over the last quarter. The report should be provided to the Board of Aldermen on a quarterly basis for review. The report shall include the following:

- 1. A summary statement including beginning and ending market values, and the average maturity and average yield of the portfolio.
- 2. Signature of all investment officers.
- 3. Statement that the investment portfolio complies with the City's investment policy and strategies; and
- 4. A detailed holdings report including issuer, settlement and maturity date, purchase yield, ending book value and market value by fund, along with fully accrued interest for the reporting period.

B. **Security Pricing**

Current market value of securities (if owned) may be obtained by independent market pricing sources including, but not limited to, the Wall Street Journal, broker/dealers, and banks other than those who originally sold the security to the City as well as the City's safekeeping agent.

C. **Review and Audit**

If the City places funds in any investment other than registered investment pools or accounts offered by its depository bank, the above reports shall be formally reviewed at least annually by an independent auditor, and the result of the review shall be reported to the Board of Aldermen. In addition, the City's external auditors shall conduct a *compliance audit* on investments and adherence to the Investment Policy.

D. **Downgrade Provision for Investment Ratings**

An Investment that requires a minimum rating does not qualify as an authorized investment during the period the investment does not have a 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 shall also monitor the credit ratings on investments that require minimum ratings. This may be accomplished through research, or with the assistance of broker dealers, banks, or safekeeping agents.

IX. **POLICY**

A. **Exemption**

Any investment purchased prior to a change in policy, which subsequently does not meet the amended guidelines may be held to maturity provided it does not pose a default risk to the portfolio or conflict with State law.

B. **Amendment**

The Board of Aldermen shall review the Investment Policy annually and adopt any recommended changes by resolution of Council.