

RESOLUTION NO: 2014-2-18-1

A RESOLUTION REVIEWING AND ADOPTING THE INVESTMENT POLICY REGARDING FUNDS FOR THE VILLAGE OF VINTON, TEXAS; AND PROVIDING AND EFFECTIVE DATE

**WHEREAS**, Chapter 2256 of the Government Code, commonly known as the "Public Funds Investment Act," requires the city to adopt an investment policy by rule, order, ordinance, or resolution; and

**WHEREAS**, the city council had passed and adopted an Investment Policy on August 1, 1996 in compliance with the Public Funds Investment Act; and amended on August 30, 1996; and

**WHEREAS**, the City Council desires to revise the Investment Policy in order to reflect changes in the Public Funds Investment Act (PFIA), as well as incorporate needed administrative and procedural modifications which have occurred over time

**WHEREAS**, the treasurer; the chief financial officer, if not the treasurer; and the investment officer of the city must attend an investment training course as required by the Public Funds Investment Act; and

**WHEREAS**, the attached investment policy and incorporated revisions strategy comply with the Public Funds Investment Act, as amended, and authorize the investment of city funds in safe and prudent investments.

**NOW, THEREFORE, BE IT RESOLVED** by the City Council of the VILLAGE OF VINTON:

**THE VILLAGE OF VINTON, TEXAS** has complied with the requirements of the Public Funds Investment Act, and the Investment Policy, as amended, attached hereto is hereby adopted as the investment policy of **THE VILLAGE OF VINTON, TEXAS** effective 18<sup>th</sup> day of February, 2014.

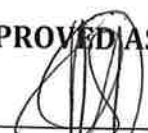
**PASSED AND APPROVED** this 18<sup>th</sup> day of February, 2014.

  
Madeleine Praino, Mayor

**ATTEST:**

  
Jessica Garza, Village Clerk

**APPROVED AS TO FORM:**

  
Shane English, Village Attorney

VILLAGE OF VINTON  
Investment Policy

**I. Policy Statement**

It is the policy of the City that the administration of its funds and the investment of those funds shall be handled as its highest public trust. Investments shall be made in a manner which will provide the maximum security of principal invested through limitations and diversification while meeting the daily cash flow needs of the City and conforming to all applicable state statutes governing the investment of public funds.

The receipt of a market rate of return will be secondary to the requirements for safety of principal and liquidity. It is the intent of the city to be in complete compliance with local law and the Texas Public Funds Investment Act (the "Act"). The earnings from investments will be used in a manner that best serves the interests of the City.

**II. Scope**

This investment policy applies to all the financial assets and funds of the City. The City commingles its funds into one pooled investment fund for investment purposes for efficiency and maximum investment opportunity. These funds are defined in the City's Annual Financial Report and include:

1. General Funds- used to account for resources traditionally associated with government, which are not required to be accounted for in another fund.
2. Special Revenue Funds- used to account for the proceeds from specific revenue sources which are restricted to expenditures for specific purposes.
3. Debt Service Funds- used to account for resources to be used for the payment of principal, interest and related costs on general obligation debt.
4. Capital Project Funds- used to account for resources to enable the acquisition, or planning and engineering, or construction of major capital improvements which are not financed by enterprise funds, internal service funds, or trust funds.
5. Enterprise Funds- used to account for operations that are financed and operated in a manner similar to private business enterprises.
6. Trust and Agency Funds- used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, other governments, and/or other funds.
7. Bond Reserve Funds- funds set at prescribed levels by certain bond ordinances to pay principal and/or interest if required to prevent default.
8. New funds available for investment by the City, such as (but not limited to) resources associated with Public Improvement Districts or Tax Increment Financing Zones, unless specifically excluded herein.
9. All Other Funds and any new funds created by the City unless specifically exempted by the City Council and this policy.

### III. Objectives and Strategy

It is the policy of the City that all funds shall be managed and invested with the primary objectives, listed in order of their priority: suitability, safety of principal, liquidity, diversification, and yield. Investments are to be chosen in a manner which promotes diversity by market sector, credit and maturity. The choice of high-grade government investments and high-grade, money market instruments are designed to assure the marketability of those investments should liquidity needs arise. To match anticipated cash flow requirements the maximum weighted average maturity of the overall portfolio may not exceed six months.

In accordance with the Public Funds Investment Act, the following prioritized objectives (in order of importance) in accordance with the Tex. Gov't. Code Sec. 2256.005(d) apply for each of the City's investment strategies.

*A. Suitability* - Understanding the suitability of the investment to the financial requirements of the City is important. Any investment eligible in the Investment Policy is suitable for all City funds.

*B. Safety* - Preservation and safety of principal are the primary objectives of the Investment Policy. All investments will be in high quality securities with no perceived default risk.

*C. Liquidity* - The City's investment portfolio will remain sufficiently liquid to meet operating requirements that might be reasonably anticipated. Liquidity shall be achieved by matching investment maturities with forecasted cash flow requirements and by investing in securities with active secondary markets. Short-term investment pools and money market mutual funds provide daily liquidity and may be utilized as a competitive yield alternative to fixed income investments.

*D. Marketability* - Securities with active and efficient secondary markets are necessary in the event of an unanticipated cash requirement. Historical market "spreads" between the bid and offer prices of a particular security type of less than a quarter of a percentage point shall define an efficient secondary market.

*E. Diversification* - Investment maturities shall be staggered throughout the budget cycle to provide cash flow based on the anticipated needs of the City. Diversifying the appropriate maturity structure will reduce market cycle risk.

*F. Yield* - Attaining a competitive market yield, commensurate with the City's investment risk constraints and the cash flow characteristics of the portfolio, is the desired objective. The goal of the City's investment portfolio is to regularly meet or exceed the average rate of return on U.S. Treasury Bills at a maturity level comparable to the portfolio's weighted average maturity in days. The yield of an equally weighted, rolling six-month Treasury Bill portfolio shall be the minimum

yield objective or "benchmark". Six-month U.S. Treasury Bill information is derived from the Federal Reserve Statistical Release H.15 for constant maturities. A secondary objective will be to obtain a yield equal to or in excess of a local government investment pool or money market mutual fund.

The first measure of success in this area will be the attainment of enough income to offset inflationary increases. Although steps will be taken to obtain this goal, the City's staff will follow the "Prudent Person" statement relating to the standard of care that must be exercised when investing public funds as expressed in the Tex. Gov't. Code Sec. 2256.006(a-b). The Investment Officers shall avoid any transactions that might impair public confidence in the City's ability to govern effectively. The governing body recognizes that in diversifying the portfolio, occasional measured unrealized losses due to market volatility are inevitable, and must be considered within the context of the overall portfolio's investment return, provided that adequate diversification has been implemented. The prudence of the investment decision shall be measured in accordance with the tests set forth in the Tex. Gov't. Code Sec. 2256.006(b).

Effective cash management is recognized as essential to good fiscal management. Cash management is defined as the process of managing monies in order to ensure maximum cash availability. The City shall maintain a comprehensive cash management program which includes collection of accounts receivable, prudent investment of its available cash, disbursement of payments in accordance with invoice terms and the management of banking services.

#### **IV. Legal Limitations, Responsibilities and Authority**

Direct specific investment parameters for the investment of public funds in Texas are found in the Public Funds Investment Act, Chapter 2256, Texas Government Code (the "Act"). The Act is attached as Exhibit A. The Public Funds collateral Act, Chapter 2257, Texas Government Code, specifies collateral requirements of all public funds deposits. All investments will be made in accordance with these statutes.

#### **V. Delegation of Investment Authority**

The management responsibility for the investment program is delegated to the Village Clerk. The primary individual who shall be involved in investment activities will be his/her designee. The designee may delegate the day to day activities to a responsible individual(s) who has received the appropriate training required by state statute. The Village Clerk and department designees will use this Policy as the primary guideline for the City's investment program, procedures, and internal control issues. The Mayor who oversees financial operations and the Village Clerk are designated as the Investment Officers, pursuant to Tex Gov't. Code Sec. 2256.005(f). The Mayor and the Village Clerk are also responsible for considering the quality and capability of staff, investment advisors, and consultants involved in investment management and procedures.

The Investment Officers and persons authorized to execute investment transactions shall attend at least one training session relating to their responsibilities under the Public Funds Investment Act within 12 months after assuming duties and receive no less than 10 hours of instruction relating to investment functions every two years. The training must include education in investment controls, security risks, strategy risks, market risks, and compliance with the Public Funds Investment Act. The investment training session shall be provided by an independent source approved by the Investment Committee. For purposes of this policy, an "independent source" from which investment training shall be obtained shall include a professional organization, an institute of higher learning or any other sponsor other than a business organization with whom the City may engage in an investment transaction. Thus, these independent sources will be training sessions sponsored by the Government Treasurers Organization of Texas (GTOT), Center For Public Management at the University of North Texas (UNT), Government Finance Officers Association of Texas (GFOAT), Texas Municipal League (TML), North Central Texas Council of Governments (NCTCOG), Association of Public Treasurers United States & Canada (APT US & C), and Government Finance Officers' Association (GFOA). No persons may engage in investment transactions except as provided under the terms of this Policy.

The Investment Officer shall develop and maintain written administrative procedures for the operation of the investment program which are consistent with the Investment Policy. Procedures will include reference to safekeeping, require and include the "Bond market master Repurchase Agreements" (as applicable), wire transfer agreements, banking service contracts, and other investment related activities.

The Investment Officer shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials and staff.

The Investment Officer shall designate a staff person as a liaison/deputy in the event circumstances require timely action and the Investment Officer is not available.

No officer or designee may engage in an investment transaction except as provided under the terms of this Policy and the procedures established herein. The Village Clerk, Mayor, City Council and other employees involved through this policy as designated shall be personally indemnified in the event of investment loss provided the Investment Policy has been followed.

### **Conflicts of Interest**

All participants in the investment process shall seek to act responsibly as custodians of the public trust and in accordance with this policy. Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment program, or which could impair their ability to make impartial investment decisions.

### **Disclosure**

Anyone involved in investing City funds shall file with the City Council a statement disclosing any personal business relationship with a business organization offering to

engage in investment transactions with the City or is related within the second degree by affinity or consanguinity as determined under the Tex. Gov't. Code Ch. 573, to an individual seeking to transact investment business with the City. An Investment Officer or other employee has a personal business relationship with a business organization if anyone of the following three conditions are met:

1. The Investment Officer or employee owns 10% 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 or employee from the business organization exceed 10% of the investment officers gross income for the prior year.
3. The Investment Officer or employee has acquired from the business organization during the prior year investments with a book value of \$2,500 or more for their personal account.

### **Authorization Resolution**

A Trading Resolution is established with this investment policy and attached hereto, authorizing the Investment Officer to engage in investment transactions on behalf of the City. The persons authorized by the Trading Resolution to transact business for the City are also authorized to approve wire transfers used in the process of investing.

### **VI. Prudence**

The standard of prudence to be used in the investment function shall be the "Prudent Person" rule and shall be applied in the context of managing the overall portfolio.

This standard 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 for speculation, but for investment, considering the probable safety of their capital as well as the expected income to be derived."

Limitation of Personal Liability:

The Investment Officer and those delegated with investment authority under this Policy, when acting in accordance with the written procedures and this Policy and in accordance with the Prudent Person Rule, shall be relieved of personal liability in the management of the portfolio provided that deviations from expectations for a specific security's credit risk or market price change or portfolio shifts are reported in a timely manner and that appropriate action is taken to control adverse market effects.

### **VII. Internal Controls**

The Investment Officer shall establish a system of written internal controls which will be reviewed annually with the independent auditor of the City. The controls shall be designed

to prevent loss of public funds due to fraud, employee error, misrepresentation by third parties, unanticipated market changes, or imprudent actions by employees of the City.

#### Cash Flow Forecasting

Cash flow forecasting is designed to protect and sustain cash flow requirements of the City. Supplemental to the financial and budgetary systems, the Investment Officer will maintain a cash flow forecasting process designed to monitor and forecast cash positions for investment purposes.

### **VIII. Authorized Investments**

The City shall take all prudent measures consistent with this investment Policy to liquidate an investment that no longer meets the required minimum rating standards, as per the Tex. Gov't. Code Sec. 2256.021. However, if it is determined by the Investment Officers that the City would benefit from holding the securities to maturity to recapture its initial investment then the Investment Officers may act accordingly. The City is not required to liquidate investments that were authorized investments at the time of purchase. (Tex Gov't. Code Sec. 2256.017)

Acceptable investments under this policy shall be limited to the instruments listed below and as further described by the Public Funds Investment Act.

- A. Obligations of the United State Government, its agencies and instrumentalities, and government sponsoring enterprises, not to exceed two years to stated maturity, excluding collateralized mortgage obligations (CMOs);
- B. Fully insured or collateralized certificates of deposit from a bank doing business in the State of Texas and under the terms of a written depository agreement with that bank, not to exceed one year to stated maturity;
- C. Repurchase agreement and reverse repurchase agreements as defined by the Act, not to exceed 180 days to stated maturity, provided an executed Bond Market Master Repurchase Agreement is on file with the City and the counterparty bank or primary dealer. Flex repurchase agreements used specifically for capital projects may extend beyond two years but only to match the expenditure plan of the projects;
- D. No-load, SEC registered money market funds, each approved specifically before use by the City
- E. Constant dollar Texas Local Government Investment Pools as defined by the Public Funds Investment Act; and,

If additional types of securities are approved for investment by public funds by state statute, they will not be eligible for investment by the City until this policy has been amended and the amended version approved by the City Council.

### **Competitive Bidding Requirement**

All securities, including certificates of deposit, will be purchased or sold after three (3) offers/bids are taken to verify that the City is receiving fair market value/price for the investment.

### **Delivery versus Payment**

All security transactions, including collateral for repurchase agreements, entered into by the city, shall be conducted on a delivery versus payment (DVP) basis.

## **IX. Authorized Financial Dealers and Institutions**

*A. Depository* - City Council shall, by ordinance, "select and designate one or more banking institutions as the depository for the monies and funds of the City" in accordance with the requirement of Tex. Loc. Gov't. Code Ch. IOS. At least every five years a depository shall be selected through the City's banking services procurement process, which shall include a formal request for proposal (RFP). The selection of a depository will be determined by a competitive process and evaluated on the following criteria:

1. Qualified as a depository for public funds in accordance with state and local laws.
2. Provided requested information or financial statements for the periods specified.
3. Complied with all requirements in the banking RFP.
4. Completed responses to all required items on the proposal form.
5. Offered lowest net banking service cost, consistent with the ability to provide an appropriate level of service.
6. Met credit worthiness and financial standards.

*B. Investment Broker/Dealers* - If the City has not retained an investment advisor, then the City Council shall be responsible for adopting the list of qualified brokers/dealers and financial institutions authorized to engage in investment transactions with the City. Authorized firms may include primary dealers or regional broker/dealers that qualify under SEC Rule ISC3-1 (uniform net capital rule) and qualified depositories as established by the Tex. Loc. Gov't. Code Ch. IOS. The City Council shall base its evaluation of security broker/dealers and financial institutions upon:

1. Financial condition, strength and capability to fulfill commitments.
2. Overall reputation with other broker/dealers or investors.
3. Regulatory status of the broker/dealer.
4. Background and expertise of the individual representatives.
5. Ability to provide additional advisory services.

The City Council must annually review the list of qualified broker/dealers authorized to engage in investment transactions with the City. Investment Officers, or their authorized representatives, shall not conduct business with any firm with whom public entities have sustained realized losses on investments or whose name the City Council has removed from an approved list.

*C. Investment Advisor* - The City may retain the services of an investment advisory firm registered under the Investment Advisers Act of 1940 (15 U.S.C. Section 80b-1 et seq.) or



with the State Securities Board to assist in the review of cash flow requirements, the formulation of investment strategies, and the execution of security purchases, sales and deliveries. The investment advisory contract with the City may not be for a term longer than two years and its renewal or extension must be approved by the City Council by ordinance or resolution as required by the Tex. Gov't. Code Sec.22S6.003(b).

D. *Compliance* - A qualified representative from any firm offering to engage in investment transactions with the City is required to sign a written instrument upon receiving and reviewing a copy of the City's Investment Policy. Investments shall only be made with those business organizations (including money market mutual funds and local government investment pools) which have provided the City with this written instrument executed by a qualified representative of the firm, acknowledging that the business organization has:

1. Received and reviewed the City's Investment Policy.
2. 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.
3. If the City has contracted with an investment advisor, the advisor shall be responsible for performing financial due diligence on the City's behalf. On an annual basis, the advisor will provide the City with a list of its authorized broker/dealers as well as the written instrument above.

**X. Diversification and Maturity Limitations**

It is the policy of the City to diversify its investment portfolio. Invested funds shall be diversified to minimize risk or loss resulting from over-concentration of assets in a specific maturity, specific issuer, or specific class of securities. Diversification strategies shall be established and periodically reviewed. At a minimum, diversification standards by security type and issuer shall be:

<i>Security Type</i>	<i>Max% of Portfolio</i>
U. S. Treasury Obligations	100%
U. S. Government agencies and instrumentalities	100%
State of Texas Obligations, Agencies & Local Gov't.	15%
Local Government Investment Pools	50%
Repurchase agreements	20%
*Must comply with Government Code 2256.011	
Fully insured or collateralized CDs	35%
*Must comply with Government Code 2256.010	
U.S. Money Market funds	35%

The Investment Officer shall be required to diversify maturities. The Investment Officer, to the extent possible, will attempt to match investment with anticipated cash flow requirements. Matching maturities with cash flow dates will reduce the need to sell

securities prior to maturity, thus reducing market risk. Unless matched to specific requirements, the Investment Officer may not invest more than 20% of the portfolio for a period greater than one (1) year.

## **XI. Safekeeping and Collateralization**

The law of the State and prudent treasury management require that all purchased securities be bought on a delivery versus payment basis and be held in safekeeping by either the City, an independent third party financial institution, or the City's designated banking services depository.

All safekeeping arrangements shall be designated by the Investment Officer and an agreement of the terms executed in writing. The third party custodian shall be required to issue safekeeping receipts to the City listing each specific security, rate, description, maturity, cusip number, and other pertinent information. Each safekeeping receipt will be clearly marked that the security is held for the City or pledged to the City.

All securities pledged to the City for certificates of deposit or demand deposits shall be held by an independent third party bank doing business in Texas. The safekeeping bank may not be within the same holding company as the bank from the securities is pledged.

### **Collateralization**

Collateralization on time and demand deposits over the FDIC insurance coverage of \$100,000, and repurchase agreements.

In order to anticipate market changes and provide a level of additional security of all funds, the collateralization level required will be 102% of the market value of the principal and accrued interest. Collateral will be held by an independent third party safekeeping agent.

## **XII. Performance Evaluation and Reporting**

The Investment Officer shall submit quarterly reports to the Mayor and City Council containing sufficient information to permit an informed outsider reader to evaluate the performance of the investment program and consistent with statutory requirements.

All reports shall be in compliance with the Act. The report shall: 1) describe in detail the investment position of the City as of the end of the reporting period, 2) be prepared jointly by all Investment Officers, 3) be signed by each Investment Officer, 4) contain a summary statement, prepared in compliance with generally accepted accounting principles, of each pooled fund group including a) beginning market value for the reporting period; b) additions and changes to the market value during the period; c) ending market value for the period; and d) fully accrued interest for the reporting period, 5) state the book value and market value of each separately invested asset at the beginning and end of the reporting period by type of asset and fund type invested, 6) state the maturity date of each separately invested asset that has a maturity date, 7) state the account or fund or pooled fund group for which each individual investment was acquired, and 8) state the compliance

of the investment portfolio as it relates to the investment strategy expressed in the investment Policy and with relevant provisions of the Tex. Govt. Code Ch. 2256.

The guidelines of retaining records for seven years as recommended in the *Texas State Library Municipal Records Manual* should be followed. The Village Clerk shall oversee the filing and/or storing of investment records.

Market prices for market evaluations will be obtained from an independent source.

### **XIII. Depositories**

The City will designate one banking institution through a competitive process as its central banking services provider at least every three years. This institution will be used for normal banking services including disbursements, collections, and safekeeping of securities. Other banking institutions from which the City may purchase certificates of deposit will also be designated as a depository after they provide their latest audited financial statements to the City.

### **XIV. MANAGEMENT AND INTERNAL CONTROLS**

Controls shall be designed to prevent losses of public funds arising from fraud, employee error, and misrepresentation by third parties, unanticipated changes in financial markets, or imprudent actions by employees or Investment Officers of the City.

Controls and managerial emphasis deemed most important that shall be employed include the following:

#### Imperative Controls

- Custodian safekeeping receipts records management
- Avoidance of bearer-form securities
- Documentation of investment bidding events
- Written confirmation of telephone transactions
- Reconcilements and comparisons of security receipts with the investment records
- Compliance with Investment Policy
- Verification of all interest income and security purchase and sell computations

#### Controls Where Practical

- Control of Collusion
- Separation of duties
- Separation of transaction authority between Accounting and record-keeping
- Clear delegation of authority
- Accurate and timely reports
- Validation of investment maturity decisions with supporting cash flow data
- Adequate training and development of Investment Officials
- Review of financial conditions of all brokers/dealers, and depository institutions

Staying informed about market conditions, changes and trends that require adjustments to investment strategies.

#### **XIIV. Investment Policy Adoption by Council**

The City's Investment Policy shall be reviewed, amended and adopted annually by the Council in accordance with the Texas Local Government Code Chapter 2256.

#### **APPENDIX B: Illustrative Broker/ Dealer Certification Form**

##### **BROKER DEALER CERTIFICATION FORM**

(As required by Texas Government Code 2256.005 (k))

The City acknowledges that the only means the firm has to preclude unauthorized investment transactions between the firm and the City of Buda is to confirm that all provisions of the City's investment policy are followed in investment transactions conducted between the firm and the City, and, the second paragraph below should be read accordingly.

I, as a qualified representative for the firm \_\_\_\_\_ do hereby certify that I and the broker covering this account have received and thoroughly reviewed the investment policy of the Village of Vinton.

I acknowledge that this firm has implemented reasonable internal procedures and controls in an effort to preclude investment transactions not authorized by the City's investment policy.

Signature

Name:

Title:

Date: