

**City of Anna, Texas**  
**Investment Policy**

# INVESTMENT POLICY

A component part of the overall financial management of the City of Anna, Texas is an effective cash management plan. Many factors determine the amount of funds on hand during any fiscal year, but these funds are an important revenue source for the City budget. It is imperative that these funds be managed in such a way as to be responsive to the public need and consistent with a conservative cash management plan. To provide this framework for effective cash management, an Investment Policy and a Statement of Investment Strategy have been prepared.

## ***Purpose:***

The Investment Policy is authorized by the City Council of the City of Anna in accordance with Chapter 2256, Texas Government Code, also known as the Public Funds Investment Act (PFIA). The Policy addresses the methods, procedures and practices that must be exercised to ensure effective and judicious fiscal management of City funds. All such funds will be managed within the guidelines of this Policy with the exception of pension and other deferred compensation plans that are separately managed. Bond funds, in addition to this Policy, shall be managed in accordance with their issuing documentation and all applicable state and federal law.

This Policy provides a separate written investment strategy for each of the City's funds. Each investment strategy describes the investment objectives for each particular fund according to the following priorities:

- 1) Investment Suitability
- 2) Preservation and Safety of Principal
- 3) Liquidity
- 4) Marketability Prior to Maturity of each Investment
- 5) Diversification
- 6) Yield

## ***Annual Review:***

The Investment Policy and the Statement of Investment Strategy will be reviewed on an annual basis by the City Council. Revisions and/or amendments will be approved and documented by the City Council. A written document shall attest to the annual review and amendment adoption.

## ***Investment Objectives:***

The investment of funds will be governed by the following investment objectives, in order of priority:

1. Preservation and Safety of Principal

Preservation of capital is the foremost objective of the City. Each investment transaction shall seek first to ensure that capital losses are avoided, whether they are from issuer defaults, erosion of market value, or other risks.

2. Liquidity

The City's investment portfolio will remain sufficiently liquid to enable the City to meet all operating requirements that can be reasonably anticipated. Liquidity will be achieved by matching investment maturities with forecasted cash flow requirements.

3. Public Trust

All employees involved in the City's investment program shall seek to act responsibly as custodians of the public trust. All employees involved in the investment process shall avoid any transaction which might impair public confidence in the City's ability to govern effectively.

4. Yield

The investment portfolio of the City shall be designed to attain a market rate of return throughout budgetary and economic cycles taking into account risk constraints and liquidity needs. Return on investment, while important, is of less importance than safety and liquidity.

### ***Authorized Investments:***

While the PFIA allows a wide range of eligible investments, the City has chosen to allow only the following, which are more restrictive than the PFIA:

1. Obligations of the United States government or its agencies and instrumentalities, including the Federal Home Loan Banks.
2. Other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, this State or the United States or their respective agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States.
3. Direct obligations of this State or its agencies and instrumentalities.
4. Certificates of Deposit, and other forms of deposit, issued in compliance with the PFIA and insured by the FDIC, or when applicable, collateralized in accordance with this Policy and the Public Funds Collateral Act.
5. Repurchase agreements placed and secured in compliance with the PFIA and, collateralized with a minimum market value of 102 percent of the dollar value of the transaction plus accumulated accrued interest.
6. SEC-registered, AAAM, or its equivalent, (as rated by Fitch, Moody's or Standard & Poor's), no-load money market mutual funds. The investment objective of the fund must be to maintain a stable dollar net asset value of \$1.0000. The City may not invest funds under its control in an amount that exceeds 10% of total assets of any individual money

market mutual fund. A fund prospectus shall be reviewed for compliance with this Policy prior to depositing monies.

7. State or local investment pools organized under the Interlocal Cooperation Act, operating in compliance with the PFIA and authorized by the City Council. The investment pool must be rated AAAM, or its equivalent, (as rated by Fitch, Moody's or Standard & Poor's). The investment objective of the pool must be to maintain a stable dollar net asset value.

### ***Prohibited Investments:***

The City is expressly prohibited from entering into options trading or futures contracts, hedging or purchasing any security that is not authorized by Texas State law, or any direct investment in asset backed or mortgage-backed securities. The City expressly prohibits the acceptance of Interest-only (IO) and Principal-only (PO) Collateralized Mortgage Obligations (CMOs) as collateral for bank deposits or repurchase agreements. No transactions may be entered for speculation. No transaction may be entered using leverage.

### ***Protection of Principal:***

The City shall seek to control the risk of principal loss due to the failure of an issuer or grantor. Such default risk shall be controlled by investing only in the safest types of issuers as defined in the Policy and by collateralization as required by law.

Individual security transactions shall be executed by "delivery versus payment" (DVP) method through the City's safekeeping agent. By so doing, City funds are not released until the City has received, through the safekeeping agent, the securities purchased.

### ***Diversification by Investment Type:***

When appropriate and applicable, diversification by investment type shall be maintained by ensuring an active and efficient secondary market in portfolio investments, and by controlling the market and opportunity risks associated with specific investment types. Undue concentrations of assets in a specific maturity sector shall be avoided. Bond proceeds may be invested to comply with Federal arbitrage restrictions or to facilitate arbitrage record-keeping and calculation.

### ***Diversification by Investment Maturity:***

In order to minimize risk of loss due to interest rate fluctuations, investment maturities will not exceed the anticipated cash flow requirements of the funds. Maturity guidelines by fund are as follows:

### ***Operating Funds Strategy:***

**Suitability** - Any investment eligible in the Investment Policy is suitable for Operating Funds.

**Safety of Principal** - All investments shall be of high quality with no perceived default risk. Market price fluctuations may occur. However, by managing the weighted average days to maturity for the Operating Fund's portfolio to less than 270 days and restricting the maximum allowable maturity to two years, the price volatility of the overall portfolio will be minimized.

**Marketability** - Securities with active and efficient secondary markets are necessary in the event of an unanticipated cash flow requirement.

**Liquidity** - The Operating Fund requires the greatest short-term liquidity of any of the Fund types. Cash equivalent investments will provide daily liquidity and may be utilized as a competitive yield alternative to fixed maturity investments.

**Diversification** - Investment maturities should be staggered throughout the budget cycle to provide cash flow based on the anticipated operating needs of the City. Market cycle risk will be reduced by diversifying the appropriate maturity structure out through two years.

**Yield** - Attaining a competitive market yield for comparable investment-types and portfolio restrictions is the desired objective. The yield of an equally weighted, rolling three-month Treasury Bill portfolio will be the minimum yield objective.

### ***Construction and Capital Improvement Funds Strategy:***

**Suitability** - Any investment eligible in the Investment Policy is suitable for Construction and Capital Improvement Funds.

**Safety of Principal** – All investments will be of high quality with no perceived default risk. Market fluctuations may occur. However, by restricting the maximum maturity to the lesser of the anticipated cash flow requirements or the IRS defined temporary period, the market risk of the portfolio will be minimized.

**Marketability** - The balancing of short-term and long-term cash flow needs requires the Construction and Capital Improvement Funds portfolio to have securities with active and efficient secondary markets.

**Liquidity** - Construction and Capital Improvement Funds used as part of a CIP plan or scheduled repair and replacement program are reasonably predictable. However, unanticipated needs or emergencies may arise. Maintaining minimum cash equivalent investment amounts will reduce the liquidity risk of unanticipated expenditures. A singular repurchase agreement may be utilized if disbursements are allowed in the amount necessary to satisfy any required expenditures. This investment structure is commonly referred to as a flexible repurchase agreement.

**Diversification** - Investment maturities should blend the short-term and long-term cash flow needs to provide adequate liquidity, yield enhancement and stability. A “barbell” maturity ladder may be appropriate.

**Yield** - Attaining a competitive market yield for comparable investment-types and portfolio structures is the desired objective. The yield of an equally weighted, rolling six-month Treasury Bill portfolio will be the minimum yield objective.

### ***Debt Service Funds Strategy:***

**Suitability** - Any investment eligible in the Investment Policy is suitable for the Debt Service Fund.

**Safety of Principal** - All investments shall be of high quality with no perceived default risk. Market price fluctuations may occur. However, by managing Debt Service Funds to not exceed the debt service payment schedule, the market risk of the overall portfolio will be minimized.

**Marketability** - Securities with active and efficient secondary markets are not necessary as the event of an unanticipated cash flow requirement is not probable.

**Liquidity** - Debt Service Funds have predictable payment schedules. Therefore, investment maturities should not exceed the anticipated cash flow requirements. Cash equivalent investments may provide a competitive yield alternative for short term fixed maturity investments. A singular repurchase agreement may be utilized if disbursements are allowed in the amount necessary to satisfy any debt service payment. This investment structure is commonly referred to as a flexible repurchase agreement.

**Diversification** - Market conditions influence the attractiveness of fully extending maturity to the next “unfunded” payment date. Generally, if investment rates are anticipated to decrease over time, the City is best served by locking in most investments. If the interest rates are potentially rising, then investing in shorter and larger amounts may provide advantage. At no time shall the debt service schedule be exceeded in an attempt to bolster yield.

**Yield** - Attaining a competitive market yield for comparable investment-types and portfolio restrictions is the desired objective. The yield of an equally weighted, rolling three-month Treasury Bill portfolio shall be the minimum yield objective.

### ***Ensuring Liquidity:***

Liquidity shall be achieved by analyzing and anticipating cash flow requirements, by investing in securities with active secondary markets and by maintaining minimum cash equivalent investment balances. An investment may be liquidated or redeemed prior to maturity for the following reasons:

1. To meet unanticipated cash requirements
2. To re-deploy cash into other investments expected to outperform current holdings
3. To otherwise to adjust the portfolio.

### ***Depository Agreements:***

The City will select and designate a qualified primary bank depository in compliance with State law and the City’s purchasing policy. Additionally, the City may utilize other depository institutions to expand deposit placement opportunities or provide specialty services.

All depository balances shall be insured or collateralized in compliance with applicable State law. The City reserves the right, in its sole discretion, to accept or reject any form of insurance or collateralization pledged towards depository deposits. Depositories will be required to sign a Depository Agreement with the City. The Agreement shall address any concerns in relation to

acceptable collateral, levels of collateral, substitution and addition of collateral, and reporting and monitoring of collateral. The collateralized deposit portion of the Agreement shall define the City's rights to the collateral in case of default, bankruptcy, or closing and shall establish a perfected security interest in compliance with Federal and State regulations, including:

- The Agreement must be in writing;
- The Agreement has to be executed by the Depository and the City contemporaneously with the acquisition of the asset;
- The Agreement must be approved by the Board of Directors or Designated Committee of the Depository and a copy of the meeting minutes must be delivered to the City; and
- The Agreement must be part of the Depository's "official record" continuously since its execution.

### ***Safekeeping and Custody:***

The City shall contract with a bank or banks for the safekeeping of securities either owned by the City as part of its investment portfolio or held as collateral to secure financial institution deposits and repurchase agreements.

Securities owned by the City shall be held in the City's account as evidenced by safekeeping receipts of the institution holding the securities. Safekeeping institutions shall be independent from the parties involved in the investment transaction.

Collateral will be held by a third party custodian designated by the City and pledged to the City as evidenced by pledge receipts of the institution with which the collateral is deposited. Original pledge receipts shall be obtained. Collateral may be held by a Federal Reserve Bank or branch of a Federal Reserve Bank, a Federal Home Loan Bank, or a third party bank approved by the City and eligible under State law.

### ***Competitive Environment:***

It is the policy of the City to provide a competitive environment for all individual investment purchases and sales, and financial institution, money market mutual fund, and local government investment pool selections.

### ***Authority to Invest:***

The City Manager and Finance Director shall be the Investment Officers. The Investment Officers shall oversee and approve any deposit, withdrawal, investment, transfer, documentation, and otherwise manage City funds according to this Policy. No person may engage in an investment transaction or the management of funds except as provided under the terms of the Investment Policy, the Statement of Investment Strategy, and other operational procedures established by the City Manager.

In order ensure qualified and capable investment management, within twelve (12) months after taking office or assuming duties, each Investment Officer shall attend training relating to his/her investment responsibilities and accumulate not less than ten (10) hours of instruction. On an

ongoing basis, all Investment Officers shall receive not less than eight (8) hours of instruction in each subsequent 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. Training will be conducted by an independent source approved by the Investment Committee and must include education in investment controls, security risks, strategy risks, market risks and compliance with the Public Funds Investment Act.

### ***Prudent Investment Management:***

Each Investment Officer shall perform his/her duties in accordance with the adopted Investment Policy and internal procedures. In determining whether an Investment Officer has exercised prudence with respect to an investment decision, the investment of all funds over which the Investment Officer had responsibility, rather than the prudence of a single investment, shall be considered. Investment Officers acting in good faith and in accordance with these policies and procedures shall be relieved of personal liability.

### ***Standard of Care:***

The standard of care used by the City shall be the "prudent person rule" and shall be applied in the context of managing the overall portfolio within the applicable legal constraints. The PFIA states:

*"Investments shall be made with judgment and care, under circumstances then prevailing, that a person of prudence, discretion, and intelligence would exercise in the management of the person's own affairs, not for speculation, but for investment, considering the probable safety of capital and the probable income to be derived."*

### ***Standard of Ethics:***

Each Investment Officer shall act as custodian of the public trust avoiding any transaction which might involve a conflict of interest, the appearance of a conflict of interest, or any activity which might otherwise discourage public confidence. An Investment Officer shall refrain from personal business activity that could conflict with proper execution of the investment program, or which could impair his/her ability to make impartial investment decisions. Additionally, an Investment Officer shall file with the Texas Ethics Commission and the City Council a statement disclosing any personal business relationship with an entity seeking to sell investments to the City or any relationship with the second degree by affinity or third degree of consanguinity to an individual seeking to sell investments to the City.

### ***Internal Controls:***

The City Manager will establish a system of internal controls that 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 City staff. Controls deemed most important would include, but not be limited to:

1. Control of collusion
2. Separation of duties
3. Separating transaction authority from accounting and record-keeping
4. Custodial safekeeping
5. Avoidance of bearer-form securities

6. Clear delegation of authority
7. Written confirmation of telephone transactions
8. Documentation of transactions

As part of the annual audit, the Investment Officers shall facilitate an independent review by the City's external auditor to assure compliance with policies and procedures.

***Monitoring Market Value:***

Market value of all collateral, mutual funds, pools, and securities will be monitored periodically and obtained from a reputable and independent source.

***Effect of Loss of Rating:***

All prudent measures will be taken to liquidate an investment that is downgraded to less than the required minimum rating. At least quarterly, the City shall monitor the rating of all investments, as applicable.

***Exemption for Existing Investments:***

The City is not required to liquidate investments authorized at the time of purchase.

***Performance:***

The City's investment portfolio shall be designed to obtain a market rate of return on investments consistent with risk constraints and expected cash flow of the City. Weighted average yield to maturity shall be the performance measurement standard.

***Authorized Broker/Dealers:***

The Investment Committee shall, at least annually, review, revise, and adopt a list of qualified broker/dealers authorized to engage in securities transactions with the City. Authorized firms include primary dealers or secondary dealers that qualify under Securities & Exchange Commission Rule 15C3-1 (Uniform Net Capital Rule).

***Investment Policy Certification:***

All local government investment pools and discretionary investment management firms must sign a certification acknowledging that the organization has received and reviewed the City's Investment Policy, and that reasonable procedures and controls have been implemented to preclude investment transactions that are not authorized by the City's Policy in accordance with the PFIA.

***Investment Committee:***

An Investment Committee comprised of the City Manager, City Finance Director and the City Finance and Budget Analyst will meet on a periodic basis. The Committee shall monitor the investment activities; assist in the development of investment policies, strategies and procedures; and annually review and approve the City's broker/dealers and independent training sources.

***Reporting:***

The Investment Officers shall prepare an investment report at least quarterly in compliance with the PFIA. This report will be prepared in a manner that will allow the City to ascertain whether investment activities during the reporting period have conformed to this Policy. The report will be provided to the City Council.

In conjunction with the annual audit, the external auditor will perform a formal review of the quarterly reports with the results reported to the City Council.