



CITY OF BUDA, TEXAS

INVESTMENT POLICY

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I. PURPOSE

Purpose and Scope

This Investment Policy applies to all investment activities of the City of BUDA of all funds held by the City of BUDA excluding funds held in the Employee Retirement Trust, Texas Municipal Retirement System, and the Deferred Compensation Plan. All applicable funds held by the City of BUDA shall be administered in accordance with the provisions of this policy. In addition to this policy, bond proceeds shall also be governed by the respective bond covenants and all applicable State and Federal Law.

This Investment Policy is intended to comply with the statutory requirements of the Texas Public Funds Investment Act (Chapter 2256, Texas Government Code).

Standard of care: Investments will be made with judgment and care, under prevailing circumstances, 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.

II. INVESTMENT OBJECTIVES

A. Preservation and Safety of Principal

The primary objective of all investment activity is the preservation and safety of principal in the overall portfolio.

B. Maintenance of Adequate Liquidity

The investment portfolio will be managed to provide adequate liquidity in order to meet the cash flow requirements that might be reasonably anticipated. Liquidity shall be achieved to the extent practical and feasible by matching investment maturities with forecasted cash flow requirements.

C. Diversification

The policy of the City of BUDA, except when investing with the Depository Bank will be to diversify its portfolio to the extent allowed under this policy. Investments of the City shall always be selected on the basis which provides for the preservation and safety of principal.

D. Yield

Consistent with federal and state law and the City's Investment Policy, it will be the objective of the Investment Officer to earn the maximum interest rate feasible in compliance with the requirements of the types of investments allowed under this policy.

E. Maturity

Portfolio maturities will be selected, if market conditions are favorable, in such a manner to optimize earnings while maintaining the necessary liquidity to meet the City's cash requirements. The maximum allowable stated maturity of any individual investment owned by the City will not exceed five years.

The Maximum Weighted Average (WAM) will not exceed 25% of total revenue and the market prices will be obtained from an independent source.

F. Sale of Securities Prior to Maturity

The City Investment Officer may sell securities before maturity if market conditions present an opportunity for the City to benefit from the sale; funds are urgently needed to meet unforeseen expenditures, even if there is a loss of interest and/or principal due to the early sale; and when a security has lost its minimum required rating as an authorized investment.

G. Investment Management

It is the City's policy to provide training required under the Public Funds Investment Act, Sec. 2256.008 and periodic training in investments for the Investment Officer offered by professional organizations and associations in order to ensure compliance with the Act.

III. INVESTMENT STRATEGY

A. General

In conjunction with the annual review of the City's Investment Policy, the City Council shall review the investment strategy for investing City funds. The investment strategy shall be based on the investment objectives outlined in Section II of this policy.

B. Investment Guidelines by Fund Type

1. Operating Funds

Operating Funds require short-term liquidity to meet day to day cash requirements for City operations. Therefore, diversified investment maturities shall provide monthly cash flow based on the anticipated operating needs of the City. Short-term investment pools and other short-term securities allowed under this policy will be considered for the City's Operating Funds

2. Bond Funds

Proceeds from the issuance of debt obligations such as Bonds issued for the acquisition and or the construction of capital assets shall only be invested in the types of investments allowed under this policy. The investment maturities shall generally follow the anticipated cash flow requirements of the capital projects for which the debt obligations were issued.

3. Repair and Replacement Funds

Should the City Council authorize the establishment of a Repair and Replacement Fund, the maturity date of investments in this Fund shall generally be limited to the anticipated cash flow requirements identified in the City's approved budget for planned projects. Funds accumulated in the Repair and Replacement Funds shall only be invested in the types of investments allowed under this policy.

4. Debt Service Funds

Debt Service Funds shall be invested to ensure adequate liquidity for making semi-annual principal and interest payments on outstanding debt obligations. Funds accumulated in the Debt Service Funds shall only be invested in the types of investments allowed under this policy.

5. Bond Reserve Funds

Should the City Council authorize the establishment of a Bond Reserve Fund in compliance with future bond covenants, funds accumulated in the Bond Reserve Fund shall only be invested in the types of investments allowed under this policy.

Generally, Bond Reserve Funds do not incur planned expenditures. When required under a specific bond covenant, the funds are deposited as a reserve to provide payment protection to the bondholders. The funds are eventually released after the reserve requirements have been fully satisfied.

6. Fiduciary Funds

Fiduciary Funds are used to report assets held in a trust or agency capacity for others such as for the City's Other Post-Employment Benefits (OPEB). All funds accumulated in the Fiduciary Funds shall only be invested in the types of investments allowed under this policy and shall be limited to the anticipated cash flow requirements.

IV. AUTHORIZED INVESTMENTS

Under the Texas Public Funds Investment Act several different types of investments are authorized. The City's Investment Policy requires that all funds held by the City of BUDA, Texas, as defined in this policy, shall be invested in the following types of investments which are authorized by the Texas Public Funds Investment Act: All securities must be settled (delivered to an independent party) delivery versus payment.

A. Guaranteed Securities

Securities guaranteed for both principal and interest by the federal government of the United States of America. All securities held in the City's name prior to the effective date

of this City Council Resolution are exempt until such securities mature and funds become available for reinvestment.

B. Certificates of Deposit

Collateralized certificates of deposit from banks whose collateral consists of securities of the United States or secured by a letter of credit from the Federal Home Loan Bank Board that guarantees both principal and interest and Certificates of Deposit must be made through a financial institution doing business in Texas.

C. Investment Pools

Local government investments pools that comply with the requirements as defined and authorized under the Texas Public Funds Investment Act; or

D. Other Authorized Investments

Collateralized certificates of deposit from banks secured by a combination of collateral and guarantees as provided in (A) and (B), and/or bonds and debt obligations of the State of Texas and other selected investment instruments as authorized under the Texas Public Funds Investment Act and approved by the City's Investment Officer that meet the investment objectives as prescribed in this policy.

V. COLLATERAL REQUIREMENTS

A. Collateral Levels

Consistent with the requirements of State law, the City requires all deposits in financial institutions to be federally insured or collateralized with eligible securities.

1. Certificates of Deposit

The market value of the principal portion of collateral pledged for certificates of deposit must at all times be equal to or greater than the par value of the certificate of deposit plus accrued interest, less the applicable level of FDIC coverage.

2. Guaranteed Securities

Securities that are guaranteed for both principal and interest by the federal government of the United States of America may not be subject to collateral requirements.

B. Monitoring Collateral Adequacy

The City shall require monthly reports with market values of pledged securities from all financial institutions that have issued Certificates of Deposits to the City as an investment. The City's Investment Officer will monitor adequacy of collateral levels for the protection of the City's investments.

If the collateral pledged for a Certificate of Deposit falls below the par value of the deposit less FDIC coverage, the financial institution that issued the Certificate of Deposit will be

notified by the Investment Officer or its designee and will be required to pledge additional securities no later than two business days of notification.

C. Collateral Substitution

Collateral for Certificates of Deposit often require substitution of the original collateral. Any broker, dealer or financial institution requesting substitution must contact the Investment Officer or its designee for approval and settlement. The substituted security's value shall be calculated to ensure that its value is equal to or greater than the required collateral level. The Investment Officer or its designee must provide written notification of the decision to the bank or the safekeeping agent holding the security prior to any substitution. The Investment Officer or its designee may limit substitution and assess appropriate fees if substitution becomes excessive.

VI. SAFEKEEPING OF SECURITIES AND COLLATERAL

A. Safekeeping Agreement

The City shall contract with a financial institution or an investment bank for the safekeeping of securities either owned by the City as a part of its investment portfolio.

B. Safekeeping of Certificate of Deposit Collateral

All collateral securing any Certificate of Deposit in the City's investment portfolio must be held by the Federal Reserve Bank in the name of the City of BUDA, Texas.

VII. INVESTMENT ADVISORY AND BROKER/DEALER SERVICES

A. Investment Advisor

The City may utilize the services of an investment advisory firm to assist the City in managing investments. The selection of the best firm by the City shall be based on criteria established and evaluation of proposals solicited through a public solicitation process such as a Request for Proposal (RFP).

B. Investment Advisors and Broker/Dealers

Investment selection for all funds shall be based on compliance with the City's Investment Policy and the Texas Public Funds Investment Act. The City's investment portfolio shall be prudently managed to meet the stated objectives of this policy.

All investments made by the City will be made through either the City's depository bank or a primary dealer. A list of at least three broker/dealers will be maintained and reviewed annually in order to assure competitive bidding.

The City's Investment Officer will establish criteria to evaluate Investment Advisors and Broker/Dealers, including:

1. Adherence to the City's Investment Policy and strategies
2. Capability to comply with the Texas Public Funds Investment Act
3. Investment performance and transaction pricing
4. Responsiveness to the City's request for services, information and transparency in government investment activities
5. Understanding of the inherent fiduciary responsibility of investing public funds
6. Management and record-keeping system capabilities to meet all City and State reporting requirements including those required by the City's Investment Officer for transaction confirmations, market values, investment earnings, realized and unrealized gains and losses, and other monthly portfolio reports

Investment Advisory and Broker/Dealers firms authorized to complete investment transactions for City shall be provided a written copy of this Investment Policy. The registered principal of the business organization selected to transact investment business for the City shall execute a written instrument to acknowledge and document that they have:

1. Received and reviewed the City's Investment Policy
2. The firm has taken precautionary measures and has implemented necessary procedures and internal controls to prevent imprudent and illegal investment activities with or for the City of BUDA.

The City shall not enter into an investment transaction with an Investment Advisory and or a Broker/Dealer firm prior to receiving the written assurance as described above.

VIII. INVESTMENT AUTHORITY AND MANAGEMENT REQUIREMENTS

A. Authority to Invest

The Director of Finance is the Investment Officer of the City. As the Investment Officer he/she is authorized to make all investment decisions related to deposits, withdrawals, fund transfers, execution of documents, and manage City funds in accordance and compliance with the rules governing the investment of City funds as provided in this Policy. In the absence of the Director of Finance, the City Manager shall serve as the interim Investment Officer in his/her place and is subject to the requirements set forth in this policy.

B. Investment Management

The City's Investment Officer shall perform his/her duties in accordance with the procedures prescribed in the Investment Policy. The City's Investment Officer may designate the Investment Advisor to complete certain financial transactions on the City's behalf as deemed necessary.

C. Personnel Authorized to Transact Fiscal Affairs

All vouchers, checks, drafts, certificates of deposit, orders for the release or exchange of securities

held as collateral for City's funds on deposit with its depository banks and any other instruments necessary in the transaction of City's financial affairs shall bear the signature of the Director of Finance or the City Manager and one of the following City officials:

1. Mayor
2. Assistant City Manager
3. City Secretary

It is required that at least one of the authorized signatures must be that of either the City's Director of Finance or the City Manager.

D. Standards of Ethics

The designated Investment Officer shall adhere to City's Code of Conduct. Additionally, the 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 within the second degree by affinity or consanguinity to an individual seeking to sell investments to the City.

E. Establishment of Internal Controls

The Director of Finance will oversee the maintenance of a system of internal controls over the investment activities of the City within the City organization.

F. Liability of City's Investment Officer

The City Investment Officer is not responsible for any loss of City funds through the failure or negligence of a depository. The City's Investment Officer shall be relieved of any personal liability when fulfilling his/her responsibilities as the City's Investment Officer and acting in good faith to comply with the City's Investment Policy.

G. Required Training for City's Investment Officer

As required by the Texas Public Funds Investment Act, the City shall allow at its expense, for the Director of Finance as the City's Investment Officer, to obtain:

1. At least one training session from an independent source containing a minimum of ten (10) hours of instructions relating to the Investment Officer's responsibilities, within 12 months after taking office or assuming duties
2. Investments training session not less than once in a two-year period and receive not less than ten (10) hours of instructions relating to investment responsibilities from an independent source

H. Reporting Requirements

Investment performance will be monitored and evaluated by the Investment Officer. Not less than quarterly, the Investment Officer will provide a Quarterly report to the City Council that shall include:

1. Description of the investment position of the City
2. Beginning market value for the reporting period
3. Additions and changes to the market value during the period
4. Ending market value for the period
5. Fully accrued interest for the period
6. State the maturity date of investments that have a maturity date
7. State the compliance of the investment portfolio with the City's
8. Investment Policy and relevant provisions of the Texas Public Funds Investment Act

I. Annual Audit

The City's independent auditor, in connection with the annual audit of City's financial statements, records, and internal controls shall include review of investment reports. The independent auditor shall present the annual audit report to the City Council.

IX. ANNUAL REVIEW OF INVESTMENT POLICY

In compliance with the annual review requirements specified in the Texas Public Funds Investment Act, the City Council shall review the City's Investment Policy and investment strategies at least on an annual basis.

The City Council shall adopt a written instrument by rule, order, ordinance, or resolution stating that it has reviewed the Investment Policy and investment strategies and that the written instrument so adopted shall record any changes made to the Investment Policy or investment strategies.