

City of Blanco

# Investment Policy

July 11, 2023

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## I. PURPOSE

The purpose of this Policy is to provide policy and strategy guidelines for the prudent investment of funds of the City of Blanco (“the City”), to achieve the goals of safety, liquidity, yield, and diversification for all investment activity. It is the policy of the City that, giving due regard to the safety and risk of investment, all available funds shall be invested in conformance with State and Federal Regulations, applicable Bond Resolution requirements, applicable Loan Covenants, adopted Investment Policy, and adopted investment Strategy.

This investment policy complies with the Public Funds Investment Act, Chapter 2256 of the Government Code (the “Act”), which requires each local government to adopt a written investment policy regarding the investment of its funds and funds under its control and is designed to secure all funds of the City. The Investment Policy addresses the methods, procedures, and practices that must be exercised to ensure effective and judicious fiscal management of the City’s funds.

## II. GOVERNING AUTHORITY

**Public Funds Investment Act.** All investments shall be managed in a manner responsive to the public trust, consistent with state and local law, including Texas Government Code Chapter §2256, the Public Funds Investment Act (PFIA or “the Act”).

**Local Governance.** The City Council retains ultimate fiduciary responsibility for the city portfolio. The Finance Director is designated by the City Council as the Investment Officer of the City and other

Investment Officers may be additionally designated to provide adequate redundancy by having properly trained and informed staff. The City may engage the services of one or more external investment managers to assist in the management of the entity's investment portfolio in a manner consistent with the entity's objectives (PFIA §2256.005 (f)). Such external managers may be granted discretion to purchase and sell investment securities in accordance with this Investment Policy and held to the Prudent Investor standard of care. No person may engage in an investment transaction except as provided under the terms of this Policy.

**Trained Staff.** All Investment Officers shall attend at least one training session provided by an independent source, in accordance with the Act, within 12 months after assuming investment duties and shall attend ten hours of training every two successive fiscal years beginning on the first day of the fiscal year (PFIA §2256.008).

### III. SCOPE

This Investment Policy shall govern the investment of all financial assets of the City.

When reasonable, the City will consolidate cash balances from all funds to maximize investment earnings. Investment income will be allocated to the various funds based on their respective participation and in accordance with generally accepted accounting principles (GAAP).

This Investment Policy shall apply to all transactions involving the financial assets and related activity for all the foregoing funds. However, this policy does not apply to the assets administered for the benefit of the City by outside agencies under deferred compensation programs.

At the time of the adoption of this policy, the City's only investments lie with the local government investment pool, Texas CLASS.

### IV. INVESTMENT OBJECTIVES AND STRATEGY

The City shall manage and invest its cash with five primary objectives, listed in order of priority: safety, liquidity, diversification, public trust, and yield, expressed as optimization of interest earnings. 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 state and local law.

The City shall maintain a comprehensive cash management program, which includes a collection of accounts receivable, vendor payments in accordance with invoice terms, and prudent investment of available cash. Cash management is defined as the process of managing monies to insure maximum cash availability and maximum earnings on short-term investment of idle cash.

#### **Safety**

Protection of the 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 will be to mitigate credit and interest rate risk.

**A. Credit Risk** – The City will minimize credit risk, the risk of loss due to the failure of the issuer or backer of the investment, by:

- Limiting investments to the safest types of investments.
- Pre-qualifying the financial institutions and broker/dealers with which the City will do business.
- Diversifying the investment portfolio so that potential losses on individual issuers will be minimized.

**B. Interest Rate Risk** – The City will minimize the risk that the interest earnings and the market value of investments in the portfolio will fall due to changes in general interest rates, by:

- Structuring the investment portfolio so that investments mature to meet cash requirements for ongoing operations, thereby avoiding the need to liquidate investments prior to maturity.
- Investing operating funds primarily in certificates of deposit, shorter term securities, money market mutual funds, or local government investment pools functioning as money market mutual funds.
- When applicable, diversifying maturities and staggering purchase dates to minimize the impact of market movements over time.

### **Liquidity**

The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated. This is accomplished by structuring the portfolio so that investments mature concurrent with cash needs to meet anticipated demands. Because all possible cash demands cannot be anticipated, some or all of the portfolios may be invested in shares of money market mutual funds or local government investment pools that offer same-day liquidity.

### **Diversification**

If the City's portfolio expands beyond local government investment pools, investment selections shall be diversified by market sector, issuer, and maturity to spread risk and manage market risk.

### **Public Trust**

All participants in the City's investment process shall seek to act responsibly as custodians of the public trust. Investment Officers shall avoid any transaction that might impair public confidence in the City's ability to govern effectively.

### **Yield**

The investment portfolio shall be designed with the objective of attaining a reasonable market yield throughout budgetary and economic cycles, taking into account the investment risk constraints and liquidity needs. Return on investment is of secondary importance compared to the safety and liquidity objectives described above.

### **Strategy**

The current investment strategy has been designed to accomplish these objectives:

- The City invests in Texas CLASS, an investment trust open to any municipality, county, school district, or authority created under Section 52(b)(1) or (2), Article III or Section 59, Article XVI, Texas Constitution, a fresh water supply district, a hospital district and any political subdivision, authority, public corporation, body politic, or instrumentality of the state of Texas, any office, department, commission, board, or other agency that is part of any branch of State government, an institution of higher education, and any nonprofit corporation acting on behalf of any of those entities that has taken the actions required by Section 2256.016 of the Act and that has executed either the Trust Agreement or a counterpart of the Trust Agreement or a participation certificate. Texas CLASS employs similar investment objectives and strategies to the City, which include legality, safety, liquidity, and yield.

If the City expands its investment portfolio to include investments beyond Texas local government investment pools, the Strategy will be updated to be compliant with the requirements set forth in Section 2256.005 of the Act.

## V. RESPONSIBILITY AND CONTROL

### **Delegation of Authority**

In accordance with the Act, the City Council will designate the City's Investment Officers by resolution. An Investment Officer is authorized to execute investment transactions on behalf of the City and may deposit, withdraw, transfer, or manage funds for investment purposes. Only the Investment Officers may engage in an investment transaction or the management of City funds after designation by the Council. The City may further contract with a non-discretionary registered investment adviser to advise on the management of the City's portfolio. The investment authority granted to the investing officers is effective until rescinded by the City Council.

### **Quality and Capability of Investment Management**

The City shall ensure that periodic training in investments is completed by the designated Investment Officers through courses and seminars offered by professional organizations, associations, and other independent sources in order to ensure the quality and capability of investment management in compliance with the Act.

### **Training Requirement**

In accordance with the City and the Act, designated Investment Officers shall attend eight (8) hours of investment training every two fiscal years relating to investment risks and responsibilities as specified in the Act. A newly appointed Investment Officer must attend a training session of at least 10 hours of instruction within twelve months of the date the officer took office or assumed the officer's duties. The investment training session shall be provided by an independent source approved by the City Council. For purposes of this policy, an "independent source" from which investment training shall be obtained include a professional organization, an institution of higher education or any other sponsor other than a business organization with whom the City may engage in an investment transaction.

### **Internal Controls**

The City's Finance Director is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the City 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.

### **Prudence**

The standard of prudence to be applied by the Investment Officers shall be the “prudent investor” rule. This rule states that “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 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 a consideration as to the prudence of a single investment.
- Whether the investment decision was consistent with the written approved investment policy of the City.

### **Indemnification**

The Investment Officers, acting in accordance with written procedures and exercising due diligence, shall not be held personally liable for a specific investment's credit risk or market price changes, provided that these deviations are reported immediately, and the appropriate action is taken to control adverse developments.

### **Ethics and Conflicts of Interest**

Investment Officers and employees involved in the investment process shall refrain from personal business activity that would conflict with the proper execution and management of the investment program, or that would impair their ability to make impartial decisions. Employees and Investment Officers shall disclose any material interests in financial institutions or counterparties 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. Employees and officers shall refrain from undertaking personal investment transactions with the same individual with which business is conducted on behalf of the City.

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 to the City Council.

In addition, an Investment Officer who is related within the second degree by 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 City Council. For this purpose, a personal business relationship shall be defined as:

- Owning 10% or more of the voting stock of the firm
- Owning \$5,000 or more of the fair market value of the firm
- Receiving more than 10% of the Officer’s annual income from the firm, or

- Having acquired \$2,500 or more from the firm in his personal account

## VI. SUITABLE AND AUTHORIZED INVESTMENTS

### Portfolio Management

The City's investment portfolio is comprised entirely of investments in Texas CLASS, over which the City has no management authority or discretion. However, in general, the City maintains a "buy and hold," portfolio strategy. Maturity dates are matched with cash flow requirements and investments are purchased with the intent to be held until maturity. However, investments may be liquidated prior to maturity for the following reasons:

- An investment with declining credit may be liquidated early to minimize loss of principal.
- The cash flow needs of the City require that the investment be liquidated.

### Investments

City funds governed by this policy may be invested only in the instruments described in "A. Authorized Investments Under This Policy" below, all of which are authorized by the Act. Authorized investments under the Act are more extensive than the investments authorized under this policy. Investment of City funds in any instrument or security not authorized under this Policy is prohibited. If the City desires to invest in the instruments authorized under the Act that are not authorized under this policy, the City must amend this policy to reflect authorization of those instruments. Any amendments or revisions to this policy shall be approved by the City Council. The City will not be required to liquidate an investment that becomes unauthorized subsequent to its purchase.

#### A. Authorized Investments Under This Policy

- Texas local government investment pools, which 1) meet the requirements of the Act, 2) are rated no lower than AAA or an equivalent rating by at least one nationally recognized rating service, 3) must maintain a maximum average dollar weighted maturity of 60 days, 4) seek to maintain a \$1.00 net asset value, 5) be authorized by resolution or ordinance of the City Council; and 6) are in compliance with SEC Rule 2a- 7.

#### B. Authorized Investments Under the Act

- Obligations of the United States of America, its agencies and instrumentalities, excluding mortgage-backed securities, with a stated final maturity not to exceed three years.
- Obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent, with a stated final maturity not to exceed three years.
- Depository Certificates of Deposit issued by a bank or savings bank doing business in Texas that is insured by the Federal Deposit Insurance Corporation or its successor or secured by obligations in a manner and amount provided by law and this policy for deposits of the City.
- Money Market Mutual Funds that 1) are registered and regulated by the Securities and Exchange Commission, 2) have a dollar weighted average stated maturity of 60 days or less,

3) are rated AAA by at least one nationally recognized rating service, 4) seek to maintain a net asset value of \$1.00 per share; and 5) are in compliance with SEC Rule 2a-7

- Texas local government investment pools, which 1) meet the requirements of the Act, 2) are rated no lower than AAA or an equivalent rating by at least one nationally recognized rating service, 3) must maintain a maximum average dollar weighted maturity of 60 days, 4) seek to maintain a \$1.00 net asset value, 5) be authorized by resolution or ordinance of the City Council; and 6) are in compliance with SEC Rule 2a-7.
- Fully collateralized repurchase agreements with a bank in Texas or a primary dealer, executed under the Bond Market Master Repurchase Agreement in accordance with the Act not to exceed 120 days. Flex repurchase agreements may be used for bond proceeds and may exceed 120 days but must be matched to the projected expenditures of the funds.
- FDIC insured "brokered certificates of deposit" securities from a bank in any U.S. state, delivered versus payment to the City's safekeeping agent, not to exceed one year to maturity. Before purchase, the Investment Officer must verify the FDIC status of the bank (at [www.fdic.gov](http://www.fdic.gov)) to assure that the bank is FDIC insured.
- FDIC insured or collateralized interest-bearing accounts in any bank in Texas.

#### **C. Not Authorized**

- Interest-only or principal-only mortgage-backed securities, collateralized mortgage obligations with an inverse floating interest rate or a maturity date of over 10 years are strictly prohibited.

## **VII. INVESTMENT PARAMETERS**

### **Maximum Maturities**

The longer the maturity of investments the greater their potential price volatility, therefore it is the City's policy to concentrate its investment portfolio in shorter-term securities in order to limit principal risk caused by changes in interest rates.

The City attempts to match its investments with anticipated cash flow requirements. The City will not directly invest in securities maturing more than two (2) years from the date of purchase; however, the above-described obligations, certificates, or agreements may be collateralized using longer dated investments.

Because no secondary market exists for repurchase agreements, the maximum maturity shall be 120 days except in the case of a flexible repurchase agreement for bond proceeds. The maximum maturity for such an investment shall be determined in accordance with project cash flow projections and the requirements of the governing bond ordinance.

The composite portfolio will have a maximum weighted average maturity of 365 days. This dollar-weighted average maturity will be calculated using the stated final maturity dates of each security.

### **Diversification**



The City 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:

- Limiting investments to avoid over concentration in investments from a specific issuer or business sector (excluding U.S. Treasury securities and certificates of deposit that are fully insured and collateralized in accordance with state and federal law),
- Limiting investment in investments that have higher credit risks,
- Investing in investments with varying maturities, and
- Continuously investing a portion of the portfolio in readily available funds such as local government investment pools (LGIPs), money market funds or overnight repurchase agreements to ensure that appropriate liquidity is maintained to meet ongoing obligations.

## VIII. AUTHORIZED BANKS AND DEALERS

### **Depository**

At least every five years, a banking services 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 competitive bid and evaluation of bids will be based on the following selection criteria:

- The ability to qualify as a depository for public funds in accordance with state law.
- The ability to provide requested information or financial statements for the periods specified.
- The ability to meet all requirements in the banking RFP.
- Complete response to all required items on the bid form.
- Lowest net banking service cost, consistent with the ability to provide an appropriate level of service.

### **Authorized Brokers/Dealers**

The City Council shall, at least annually, review, revise, and adopt a list of qualified broker/dealers authorized to engage in investment transactions with the City.

Those firms that request to become qualified bidders for securities transactions will be required to provide a completed broker/dealer questionnaire that provides information regarding creditworthiness, experience, and reputation. Authorized firms may include primary dealers or regional dealers that qualify under Securities & Exchange Commission Rule 15C3-1 (Uniform Net Capital Rule), and qualified depositories.

All local government investment pools must sign a certification acknowledging that the pool has received and reviewed the City of Blanco Investment Policy and that reasonable procedures and controls have been implemented to preclude investment transactions that are not authorized by the City's policy.

## **Competitive Bids**

It is the policy of the City to require competitive bidding for all individual security purchases and sales except for transactions with money market mutual funds and local government investment pools. Treasury and agency securities purchased at issue through an approved broker/dealer or financial institution must still be compared to alternatives in the secondary market.

## **Delivery vs. Payment**

Securities shall be purchased using the **delivery vs. payment** method except for investment pools and money market mutual funds. Funds will be released after notification that the purchased security has been received.

# **IX. SAFEKEEPING OF SECURITIES AND COLLATERAL**

## **Safekeeping and Custodian Agreements**

The City shall contract with a bank or banks for the safekeeping of securities owned by the City as part of its investment portfolio. The City will approve the Custodian for pledged collateral to secure demand or time deposits. Securities owned by the City shall be held for the City as evidenced by safekeeping receipts from the safekeeping institution.

An independent third-party Custodian for collateral will be approved by the City. Collateral for deposits will be evidenced by original safekeeping receipts from the Custodian in which the collateral is held. Collateral must be held by an independent bank outside the holding company of the depository, a Federal Reserve Bank, or a Federal Home Loan Bank.

## **Collateral Policy**

Consistent with the requirements of the Public Funds Collateral Act (Gov' t Code 2257), it is the policy of the City to require full collateralization of all City funds at all times and demand deposits with any depository bank. In order to anticipate market changes and provide security for all funds, the market value of the collateral will be no less than 100% of principal and accrued interest on the deposits less the amount insured by the FDIC daily.

At its discretion, the City may require a higher level of collateralization for certain investment securities. The Finance Director is responsible for entering into collateralization agreements with third party custodians in compliance with this policy. The acceptable investment securities for collateral are:

- Obligations of the U.S. Government, its agencies and instrumentalities including mortgage-backed securities and CMOs passing the bank test.
- Obligations of any state or local government rated AA or better by at least two nationally recognized rating agencies.
- Letters of credit from the FHLB.

Preference will be given to pledged securities rather than letters of credit. The collateral agreement shall include provisions relating to possession of the collateral, the substitution or release of investment securities, pledge of securities, and the method of valuation of securities. A clearly marked evidence of ownership (safekeeping receipt) must be supplied to the City directly from the Custodian and retained.

The custodian shall provide a monthly report of collateral directly to the City. Collateral shall be reviewed at least quarterly by the City to assure the market value of the pledged securities is adequate.

### **Subject to Audit**

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

## **X. MONITORING**

### **Performance Standards**

The City's investment portfolio will be managed in accordance with the parameters specified within this Policy. The portfolio shall be designed with the objective of obtaining a reasonable yield through budgetary and economic cycles, commensurate with the investment risk constraints and the cash flow requirements of the City. Quarterly reports will provide performance information comparing the City's yield to the one-year Treasury Bill which will be the benchmark for the portfolio in keeping with its one-year maximum weighted average maturity.

It is the policy of the City to purchase investments with maturity dates coinciding with cash flow needs. Through this strategy, the City shall seek to optimize interest earnings utilizing allowable investments available on the market at that time. Market values will be reported, at a minimum, on a quarterly basis on all securities owned and compared to the current amortized book value.

The Investment Officers shall prepare and sign an investment report on a quarterly basis that summarizes investment strategies employed in the most recent quarter and describes the portfolio in terms of investment securities, maturities, and shall explain the average investment yield for the quarter.

The quarterly investment report shall include a summary statement of investment activity prepared in compliance with generally accepted accounting principles (GAAP) and the Act. This summary will be prepared in a manner that will allow the City to ascertain whether investments activities during the reporting period have complied with the Investment Policy. The report will be provided to the City Council on a timely basis. The report will include the following:

- A listing of individual securities held at the end of the reporting period.
- Realized and unrealized gains or losses.
- A listing of the beginning and ending book and market value of securities for the period.
- Average weighted yield to maturity of portfolio as compared to applicable benchmark.
- Listing of investments by maturity date.
- Fully accrued and amortized interest and earnings for the reporting period.
- A comparison to performance benchmarks for the period for individual securities.
- The percentage of the total portfolio that each type of investment represents.

- Statement of compliance of the City's investment portfolio with the Act and the Investment Strategy and Policy approved by the City Council.
- Additions and changes to the market value during the period.

#### **Monitoring Market Value**

The market value of all securities in the portfolio will be determined on a quarterly basis at a minimum. These values will be obtained from a reputable and independent source and disclosed to the governing body quarterly in a written report.

An independent auditor will be provided with the quarterly reports as a part of the annual financial audit.

## **XI. INVESTMENT POLICY ADOPTION**

It is the City's intent to comply with state laws and regulations. The City's Investment Policy and Strategy shall be subject to revisions consistent with changing laws, regulations, and needs of the City. At least annually, the City Council shall adopt a resolution stating that it has reviewed the Blanco Investment policy and investment strategies and include any changes or modifications to the Policy or Strategy.

## XII. CITY OF BLANCO AUTHORIZED ENTITY LIST

The authorized broker/dealer list for the City is shown below. Each of these firms, and the individual covering the account, are sent the current Investment Policy.

The City's Policy establishes specific criteria for the brokers and requires that the list of broker/dealers be approved annually by the City Council. If the City chooses to expand to brokerage investments, the City should revise this policy and select an Investment Advisor. The Investment Advisor should maintain the brokerage compliance files for the City.

When any material changes are made to the Investment Policy, the new Policy shall be sent out to all broker/dealers and pools.

### **Investment Officers**

City Administrator, Warren Escovy

Finance Director, Sasha Ricks

### **Council Authorized Broker/Dealers**

None authorized at this time

### **City Council Authorized Pools**

Texas CLASS

TexPool