



# INVESTMENT POLICY

*\*The Sanger City Council approved the City's Investment Policy on September 19, 2022*

## **POLICY STATEMENT**

It is the objective of the City of Sanger, Texas ("City") that the administration of its funds and the investment of those funds shall be handled in the highest public trust. Investments shall be made in a manner which will provide the maximum security of principle invested through limitations and diversification while meeting the daily cash flow needs of the city and conforming to all applicable federal, state, and local statutes, rules and regulations governing the investment of public funds. The receipt of a market rate return will be secondary to the requirements for safety and liquidity. The earning from investments shall be used in a manner that best serves the public trust and interest of the City. This policy serves to satisfy the statutory requirements of defining and adopting a formal investment policy and shall be reviewed annually for modifications. It is the intent of the City to be in compliance with local law and the provisions of Public Funds Investment Act of the Texas Government Code Chapter 2256.

## **SCOPE**

This Investment Policy applies to the investment activities, all financial assets and funds held by the City of Sanger, Texas. Funds covered and managed by this Investment Policy include:

- A. General Fund – Used to account for resources traditionally associated with government, which are not required to be accounted for in another fund.
- B. Debt Service Fund – Used to account for resources to be used for the payment of principle, interest and related costs on debt.
- C. Enterprise Fund – Used to account for operations that are financed and operated in a manner similar to private business enterprises.
- D. Capital Improvement Fund – Used to account for resources to enable the acquisition or construction of major capital facilities which are not financed by enterprise funds, internal service funds, or trust funds.
- E. Special Revenue Funds – Used to account for proceeds from specific revenue sources which are restricted to expenditures for specific purposes.
  - 1. 4A Fund
  - 2. 4B Fund
  - 3. Employee Benefits Fund

## **INVESTMENT OBJECTIVES AND STRATEGY**

It is the policy of the City that all funds shall be invested in conformance with state and federal regulations, applicable bond ordinance requirements, and adopted Investment Policy. In accordance with the Public Funds Investment Act, the following prioritized primary objectives, in accordance with the Texas Government Code

Section 2256.005(d) apply to the City's investment strategy. Listed in order of their priority, these objectives encompass:

- A. Suitability – Understanding the suitability of the investment to the financial requirement 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. Investments of the City shall be undertaken in a manner that seeks to insure the preservation of capital in the overall portfolio. To obtain this goal, diversification is required in the portfolio's composition. The suitability of each investment decision will be made on the basis of these objectives. The City prefers to invest in money market accounts, certificates of deposits, and United States government backed agency discount notes.
- C. Liquidity – The City's investment portfolio will remain sufficiently liquid to meet operating requirements that might be reasonably anticipated. The City's investment portfolio will remain sufficiently liquid and enable it to meet all operating requirements which might be reasonably anticipated.
- D. 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. Diversification of the portfolio will include diversification by maturity and market sector and will include the use of a number of brokers/dealers for diversification and market coverage. Competitive bidding will be used on each sale and purchase.
- E. Yield – Attaining a competitive market yield, commensurate with the City's investment risk constraints and cash flow characteristic of the portfolio, is the desired objective. The City's investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the City's risk constraints and the cash flow of the portfolio. "Market rate of return" may be defined as the average yield of the current three-month U.S. Treasury Bill or such other index that most closely matches the average maturity of the portfolio. The City's objective shall be a reasonably safe yield rate in accordance with payment schedules and other investment goals.

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. The City 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 Texas Government Code Section 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 Texas Government Code Section 2256.006(b).

It shall be the policy of the City not to invest in speculative instruments such as derivatives.

## **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 of the Texas Government Code Section 2256. The Interlocal Cooperation Contracts, Section 791, of the Texas Government Code authorizes local governments to participate in public funds investments in conjunction with other local governments and agencies of the state of Texas. Section 791 along with Section 2256 of the Texas Government Code provides authorization for participation in investment pools to invest public funds jointly with objectives of preservation and safety of principal, liquidity, and yield.

## **DELEGATION OF INVESTMENT AUTHORITY**

The City Manager and the Finance Director acting on behalf of the City Council are designated as the Investment Officers of the City and are responsible for investment management decisions and activities. The Council is responsible for considering the quality and capability of staff, investment advisors, and consultants involved in investment management and procedures. All participants in the investment process shall seek to act responsibly as custodians of the public trust.

The Investment Officers 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, wire transfers, certificates of deposit, and fund accounts. Additional procedures will be documented for the performance of wire transfer agreements; banking services contracts, and other investment related activities.

The Investment Officers 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 Officers shall designate a staff person as a liaison/deputy in the event circumstances require timely action and the Investment Officers are 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 by the Investment Officers and approved by the City Council.

## **PRUDENCE – STANDARD OF CARE**

The standard of prudence to be used in the investment function shall be the “prudent person” standard and shall be applied in the context of managing the overall portfolio. The Texas Government Code Section 2256.006(a) states Investments shall 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.

### Limitation of Personal Liability

The Investment Officers and those delegated investment authority under this policy, when acting in accordance with the written procedures and this policy and in accordance with the written procedures and this policy and in accord with the Prudent Person Rule, shall be relieved of personal responsibility and 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.

## **INTERNAL CONTROLS**

The Investment Officers 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 losses of public funds arising from fraud, employee error, misrepresentation by third parties, unanticipated changes in financial markets, or imprudent actions by employees or Investment Officers of the City.

### Cash Flow Forecasting

Cash flow forecasting is designated to protect and sustain cash flow requirements of the City. Supplemental to the financial and budgetary systems, the Investment Officers will maintain a cash flow forecasting process designed to monitor and forecast cash positions for investment purposes. Cash flow will include the historical researching and monitoring of specific cash flow items, payables, and receivables as well as overall cash position and patterns.

## **AUTHORIZED INVESTMENTS**

Acceptable investments under this policy shall be limited to the instruments listed below. The investments shall be selected in a manner which promotes diversity of the market sector and maturity. The selection of high-grade government investments and high-grade money market instruments is designed to assure the marketability of those investments should the need for liquidity arise.

- A. Obligations of the United States Government, its agencies and instrumentalities, and government sponsoring enterprises, not to exceed two years to stated maturity;
- 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 three years to the stated maturity;
- C. Money market funds authorized by the Public Funds Investment Act of the Texas Government Code Chapter 2256.
- D. Texas Local Government Investment Pools authorized by the Public Funds Investment Act of the Texas Government Code Chapter 2256.

Additional types of securities approved for investment of public funds by Texas state statutes are not eligible for investment by the City until this Investment Policy has been amended and the amended version approved by the City Council authorizing investment of these additional types of securities.

### Competitive Bidding Requirements

All securities, excluding 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.

## **SAFEKEEPING AND COLLATERALIZATION**

The laws 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 depository.

All safekeeping arrangements shall be designed by the Investment Officers 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 domiciled in Texas. The safekeeping bank may be written within the same holding company as the bank, from which the securities are pledged.

### Collateralization

Collateralization shall be required on all public funds of the City over the FDIC insurance coverage limit, and in order to anticipate market changes and provide a level of additional security for all funds, the collateralized level required will be 102% of the market value of the principal accrued interest.

## **PERFORMANCE EVALUATION AND REPORTING**

The Investment Officers shall submit quarterly and annual reports to the City Council containing a written report of investment transactions and investment positions as of the date of report. The report will be prepared jointly by all involved in the investment activity and be signed by the Investment Officer(s).

## **DEPOSITORIES**

The City will designate one banking institution through a competitive process as its central banking service provider. This institution will be used for normal banking services including disbursements, deposits, and lockbox. As a matter of ensuring liquidity and security should the funds deposited with the designated bank be temporarily unavailable, the City will maintain an emergency reserve in another qualified bank.

## **INVESTMENT POLICY ADOPTION BY CITY COUNCIL**

The City's Investment Policy shall be formally approved and adopted by resolution of the City Council and reviewed annually in accordance with the provisions of the Public Funds Investment Act of the Texas Government Code Chapter 2256.

## **AMENDMENT**

In the event Texas state law changes and the City cannot invest in the investments described by this policy, this policy shall automatically be conforming to existing law.