

RESOLUTION NO. 2015-10-05-1

A RESOLUTION REVIEWING AND ADOPTING REVISIONS TO THE INVESTMENT POLICY REGARDING FUNDS FOR THE CITY OF LLANO; AND PROVIDING AN EFFECTIVE DATE.

WHEREAS, the City Council passed Resolution which adopted an Investment Policy for the City, in compliance with the Public Funds Investment Act, 74th Leg., ch. 402, 1995 Tex. Sess. Law Serv. 2958 (Vernon) (TEX. GOV'T CODE Ann. Ch. 2256); 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; NOW, THEREFORE,

THE COUNCIL OF THE CITY OF LLANO HEREBY RESOLVES:

SECTION 1. The following policy entitled "Investment Policy", attached hereto and made a part hereof, is hereby adopted as an official policy of the City of Llano, Texas and shall replace the existing Investment Policy.

SECTION 2. The attached Policy shall be filed in the official records with the City Secretary.

SECTION 3. This Resolution shall become effective immediately upon its passage and approval.

Passed and approved this 5th day of October, 2015




Mike Reagor, Mayor


Toni Milam, City Secretary

CITY OF LLANO

Investment Policy

I. PURPOSE

It is the objective of the City of Llano to invest public funds in a manner which will provide maximum security and the best commensurate yield while meeting the daily cash flow demands of the City and conforming to all federal, state, and local statutes, rules, and regulations governing the investment of public funds. This Policy serves to satisfy the statutory requirements of defining and adopting a formal investment policy. The Policy and investment strategies shall be reviewed annually by the City Council who will formally approve any modifications. This Investment Policy, as approved, is in compliance with the provisions of the Public Funds Investment Act of Tex. Gov't. Code Chapter 2256.

II. SCOPE

- A. This Investment Policy applies to the investment activities of the City of Llano, Texas. All financial assets of all funds, including the General Fund and any other accounts of the City not specifically excluded in these policy guidelines are included. These funds are accounted for in the City's audited Basic Financial Statements. These funds, as well as funds that may be created from time-to-time, shall be administered in accordance with the provisions of this Policy.

In addition to this Policy, the investment of bond proceeds and other bond funds (including debt service and reserve funds) shall be governed and controlled by their governing ordinance and by the provisions of the Tax Reform Act of 1986, including all regulations and rulings promulgated there under applicable to the issuance of tax-exempt obligations.

- B. Funds covered by this Policy and which may be managed as a pooled fund group:
1. General Fund - 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 Fund 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 construction of major capital facilities which are not financed by enterprise 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.

III. INVESTMENT OBJECTIVES & STRATEGIES

It is the policy of the City that, giving due regard to the safety and risk of investments, all available funds shall be invested in conformance with State and Federal Regulations, applicable Bond Ordinance requirements, adopted Investment Policy and adopted Investment Strategies.

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. *Diversification* — The City's investment portfolio will be maintained in multiple financial institutions and/or investment instruments to reduce risk and enhance preservation of principal. Investment maturities shall provide cash flow based on the anticipated needs of the City. Diversifying the appropriate maturity structure will reduce market cycle risk.
- E. *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.

IV. RESPONSIBILITY AND STANDARD OF CARE

- A. *Delegation & Training* — The management responsibility for the investment program is delegated to the City Manager. The primary individual who shall be involved in investment activities will be the Director of Finance. The City Manager and Director of Finance will use this Policy as the primary guideline for the City's investment program, procedures, and internal control procedures. The City Manager and the Director of Finance are designated as the Investment Officers, pursuant to Tex Gov't. Code Sec. 2256.005(f). Accordingly, the Investment Officers 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. 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 City, in conjunction with its annual financial audit, shall perform a compliance audit of management controls on investments and adherence to the City's Investment Policy. The City Manager, Director of Finance, Mayor, City Council, and other Finance Department employees shall be personally indemnified in the event of investment loss provided the Investment Policy has been followed.
- B. *Conflicts of Interest* -All participants in the investment process shall seek to act responsibly as custodians of public assets. 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.
- C. *Disclosure* -Anyone involved in investing City funds shall file with the City Secretary 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.
- D. *Prudence* -The standard of prudence to be used by the investment officials shall be the "Prudent Person Rule", as set forth in Tex. Gov't. Code Sec. 2256.006 and will be applied in the context of managing an overall portfolio: "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 their capital as well as the probable income to be derived."

Investment officials acting in accordance with the Investment Policy and exercising due

diligence shall be relieved of personal responsibilities for an individual security's credit risk or market price change. In determining whether an investment official has exercised prudence with respect to an investment decision, the determination shall be made taking into consideration the investment of all funds over which the official had responsibility rather than consideration as to the prudence of a single investment and, whether, the investment decision was consistent with the City's Investment Policy.

E *Reporting*

Quarterly Not less than quarterly, the Chief Financial Officer shall submit to the City Manager, Mayor and City Council a written report of the City's investment transactions. 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) 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, 5) state the maturity date of each separately invested asset that has a maturity date, 6) state the account or fund or pooled fund group for which each individual investment was acquired, and 7) 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. Gov't. Code Ch. 2256.

Annually The City Council shall review and approve the Investment Policy and investment strategies at least annually and be documented by ordinance or resolution which shall include any changes made.

Compliance Audit The City's external independent auditor will conduct an annual review of the quarterly reports in conjunction with the annual financial audit. The results of the audit will be reported to City Council. The audit will also review compliance with management controls on investments and adherence to this Policy.

V. SUITABLE AND AUTHORIZED INVESTMENT SECURITIES

A. *Authorized Investments* City funds governed by this Policy may be invested in the instruments described below, all of which are authorized by the Public Funds Investment Act.

1. Direct obligations of the United States of America, its agencies and instrumentalities (maturing in less than five (5) years.)
2. Other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, the United States of America (maturing in less than five (5) years).
3. Direct obligations of the State of Texas or its agencies thereof, Counties, Cities and other political subdivisions rated as to investment quality by a nationally recognized investment rating firm not less than AA or its equivalent (maturing in less than two (2) years).
4. Other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, the State of Texas, rated as to investment quality by a nationally recognized investment rating firm not less than

AA or its equivalent (maturing in less than two (2) years).

5. Fully insured or collateralized certificates of deposit/share certificates issued by state and national banks or savings bank or a state or federal credit union (having its main or branch office in Texas) guaranteed or insured by the Federal Deposit Insurance Corporation or its successor or the National Credit Union Share Insurance Fund or its successor; and secured by obligations in accordance with Section XII herein (maturing in less than two (2) years).
6. Public (Local) Fund Investment Pools with a dollar weighted average maturity of 90 days or less. The pool must be approved (by resolution) by the City Council to provide services to the City. The pool must be continuously rated no lower than Aaa or AAAM or at an equivalent rating by at least one nationally recognized rating service. A public funds investment pool created to function as a money market mutual fund must mark to market daily and stabilize at a \$1 net asset value.
7. A Securities and Exchange Commission (SEC) registered, no load money market mutual fund which has a dollar weighted average stated maturity of 60 days or less and whose investment objectives includes the maintenance of a stable net asset value of \$1 for each share. Furthermore, it must be rated not less than Aaa, AAAM or an equivalent rating by at least one nationally recognized rating service and the City must be provided with a prospectus and other information required by the SEC Act of 1934 or the Investment Company Act of 1940.

C. *Prohibited Investments* — The City's authorized investment options are more restrictive than those allowed by state law. Furthermore, this Policy specifically prohibits investment in the securities listed below:

1. Obligations, whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal.
2. Obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security collateral and bears no interest.
3. All collateralized mortgage obligations.
4. Reverse repurchase agreements.

D. *Diversification* — It is the policy of the City to diversify its investment portfolios. Risk of principal loss in the portfolio as a whole shall be minimized by diversifying investment types.

VI. COMPETITIVE BIDDING

It is the policy of the City to require competitive bidding for all individual security purchases and sales, as well as for certificates of deposit. Exceptions include:

- A. Transactions with money market mutual funds and local government investment pools which are deemed to be made at prevailing market rates.
- B. Treasury and agency securities purchased as new issues through an approved broker/dealer,

financial institution or investment advisor.

- C. Automatic overnight "sweep" transactions with the City's depository bank.

At least three bids or offers must be solicited for all other transactions involving individual securities. The City's investment advisor, if one has been retained, is also required to solicit at least three bids or offers when transacting trades on the City's behalf. In situations where the exact security is not offered by other broker/dealers, offers on the closest comparable investment may be used to establish a fair market price for the security. In the case of a certificate of deposit purchase, at least two other offers should be solicited to provide a comparison. When few, if any, banks wish to participate then staff may use another authorized investment of similar maturity for evaluation purposes. The quotes may be accepted orally, in writing, electronically, or any combination of these methods

VII. SELECTION OF BANKS, BROKER/DEALERS AND INVESTMENT ADVISORS

- 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. 105. 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* -Authorized firms may include primary dealers or regional broker/dealers that qualify under SEC Rule 15C3-1 (uniform net capital rule) and qualified depositories as established by the Tex. Loc. Gov't. Code Ch. 105. The evaluation of security broker/dealers and financial institutions shall be based 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 list of qualified broker/dealers authorized to engage in investment transactions with the City must be reviewed annually. Investment Officers shall not conduct business with any firm with whom public entities have sustained realized losses on investments.

- 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.2256.003(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) 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.

VIII. COLLATERALIZATION, SAFEKEEPING AND CUSTODY

- A. *Collateralization* - The City requires that all uninsured collected balances plus accrued interest, if any, in depository accounts be secured in accordance with the requirements of state law. Financial institutions serving as City depositories will be required to sign a depository agreement with the City which details eligible collateral, collateralization ratios, standards for collateral custody and control, collateral valuation, rights of substitution and conditions for agreement termination.

The City requires that all uninsured certificates of deposit plus accrued interest held with a depository be secured in accordance with the requirements of state law. Financial institutions will be required to sign a written depository and security agreement which stipulates eligible collateral, collateralization ratios, standards for collateral custody and control, collateral valuation, rights of substitution, and conditions for agreement termination.

Collateral will always be held by an independent third party with which the City has a current custodial agreement and shall be reviewed at least monthly to ensure that the market value of the pledged securities is adequate. All deposits and investments of City funds, other

than direct security purchases, money market mutual funds and local government investment pools shall be secured by pledged collateral set at no less than 102 percent of the market value of the principal and accrued interest on the deposits or investments less an amount insured by FDIC. Eligible collateral to secure the City's deposits include:

1. Direct obligations of the United States government.
2. Other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, the United States government.
3. Direct obligations of agencies or instrumentalities of the United States government, including letters of credit.

The City will reject adjustable rate mortgages (ARMs), collateralized mortgage obligations (CMOs), step-ups, variable rate instruments (except U.S. Treasury inflation protected securities), or securities that are not found on common pricing systems.

- B. Safekeeping and Custody* — Safekeeping and custody of the City's investment securities shall be in accordance with state law. All security transactions, except local government investment pool and money market mutual fund transactions, shall be conducted on a delivery versus payment (DVP) basis. Investment securities will be held by a third party custodian designated by the City, and be required to issue safekeeping receipts clearly detailing that the securities are owned by the City.

Safekeeping and custody of collateral shall be in accordance with state law. Collateral will be held by a third party custodian designated by the City, and pledged to the City as evidenced by safekeeping receipts from the institution holding the securities.

- C. Subject to Audit* — All collateral shall be subject to inspection and audit by the City Manager or Director of Finance, as well as the City's independent auditors.

IX. 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

Documentation of investment bidding events

Written confirmation of telephone transactions

Reconcilements and comparisons of security receipts with the investment records

Compliance with Investment Policy

Controls where Practical

Control of Collusion

Separation of duties

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 depository institutions

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

X. INVESTMENT POLICY ADOPTION

The 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.