

RESOLUTION NO. 2021-R-30

**A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF BUDA,
TEXAS ADOPTING THE CITY OF BUDA INVESTMENT POLICY**

WHEREAS, the Public Funds Investment Act ("Act"), Chapter 2256 of the Texas Government Code, requires the City to review and adopt an investment policy annually for its funds and funds under its control; and

WHEREAS, section 2256.005(b) of the Act provides that the investment policies must:

- (1) be written;
- (2) primarily emphasize safety of principal and liquidity;
- (3) address investment diversification, yield, and maturity and the quality and capability of investment management; and
- (4) include:
 - (A) a list of the types of authorized investments in which the investing entity's funds may be invested;
 - (B) the maximum allowable stated maturity of any individual investment owned by the entity;
 - (C) for pooled fund groups, the maximum dollar-weighted average maturity allowed based on the stated maturity date for the portfolio;
 - (D) methods to monitor the market price of investments acquired with public funds;
 - (E) a requirement for settlement of all transactions, except investment pool funds and mutual funds, on a delivery versus payment basis; and
 - (F) procedures to monitor rating changes in investments acquired with public funds and the liquidation of such investments consistent with the provisions of Section 2256.021; and

WHEREAS, the attached Investment Policy complies with the provisions of the Public Funds Investment Act;

WHEREAS, the Act requires the governing body to review and adopt the investment policy and investment strategy by rule, order, ordinance, or resolution not less than annually;

NOW, THEREFORE, BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF BUDA, HAYS COUNTY, TEXAS THAT:

Section 1. The facts and recitations set forth in the preamble of this Resolution are declared true and correct.


Section 2. It has reviewed the City of Buda Investment Policy attached as Exhibit "A".

Section 3. It adopts the attached City of Buda Investment Policy.

Section 4. The adopted Investment Policy applies to all funds under its control.

PASSED AND APPROVED by the City Council of the City of Buda Texas this 3rd day of August, 2021.

ATTEST:



Alicia Ramirez

Alicia Ramirez, City Clerk

CITY OF BUDA, TEXAS



Lee Urbanovsky, Mayor

Exhibit "A"



CITY OF BUDA, TEXAS

INVESTMENT POLICY

August 2021

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I. POLICY

This policy is created to comply with all current requirements of the Texas Public Funds Investment Act, Section 2256 of the Texas Government Code. It is the policy of the City of Buda (City) to invest public funds in a manner which will provide for safety of principal and a market rate of interest, while meeting the daily cash flow demands of the City and conforming to all state and local statutes governing the investment of public funds. The City's investment policy, as approved by the City Council, is adopted to provide investment policy guidelines for use by City Staff.

II. SCOPE

This policy applies to all investment activities of the City's funds, excluding funds held in the Employee Retirement Trust, Texas Municipal Retirement System and the Deferred Compensation Plan, or subject to other investment covenants, or excluded by contract. All funds covered by this policy shall be invested in accordance with the Public Funds Investment Act (Section 2256 of the Texas Government Code), as amended. These funds are accounted for in the City's annual financial report and include:

- ✓ Operating Fund
- ✓ Bond Fund
- ✓ Repair and Replacement Fund
- ✓ Debt Service Fund
- ✓ Bond Reserve Fund

III. OBJECTIVES

The primary objectives, in priority order, of investment activities shall be:

A. Safety

Safety of 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 shall be to mitigate credit risk and interest rate risk.

1. Credit Risk

Credit risk is the risk of loss due to the failure of the security issuer or backer. Credit risk may be mitigated by limiting investments to the safest types of securities, pre-qualifying issuers, financial institutions and brokers/dealers with which the City plans to do business and diversifying the investment portfolio so that potential losses on individual securities will be minimized.

2. Interest Rate Risk

Interest rate risk is the risk that the market value of securities in the portfolio will fall due to changes in general interest rates. Interest rate risk may be mitigated by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity and by investing operating funds primarily in shorter-term securities.

B. 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 securities mature concurrent with cash needs to meet anticipated demands.

C. Yield

The investment portfolio shall be designed with the objective of attaining a market rate of interest throughout budgetary and economic cycles, taking into account the investment risk constraints and liquidity needs. Return on investment is of least importance compared to the safety and liquidity objectives described above. The core of investments is limited to relatively low risk securities in anticipation of earning a fair rate of interest relative to the risk being assumed. Securities shall not be sold prior to maturity with the following exceptions:

- ✓ A declining credit security could be sold early to minimize loss of principal;
- ✓ A security swap could be used to adjust average portfolio maturity or improve the quality or yield of the portfolio; or,
- ✓ Liquidity needs of the portfolio require that the security be sold.

IV. STANDARDS OF CARE

A. Prudence

The standard of prudence to be used by investment officials shall be the "prudent person" standard and shall be applied in the context of managing an overall portfolio. Investment officers acting in accordance with the investment policy and written procedures and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments.

Investments shall be made with judgement 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.

B. Ethics and Conflicts

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

An investment officer of the City who has a personal business relationship with a business organization offering to engage in an investment transaction with the City shall file a statement disclosing that personal business interest. An investment officer who is related within the second degree by affinity or consanguinity, as determined under Chapter 573, to an individual seeking to sell an investment to the investment officer 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 purposes of this subsection, an investment officer has a personal business relationship with a business organization if:

1. The investment officer owns 10 percent or more of the voting stock or shares of the business organization or owns \$5,000 or more of the fair market value of the business organization;
2. Funds received by the investment officer from the business organization exceed 10 percent of the investment officer's gross income for the previous year; or
3. The investment officer has acquired from the business organization during the previous year investments with a book value of \$2,500 or more for the personal account of the investment officer.

C. Investment Officer

The Finance Director will be City's Investment Officer, and shall establish written procedures for the operation of the investment program consistent with this investment policy. Such procedures shall include explicit delegation of authority to persons responsible for investment transactions. No person may engage in an investment transaction except as provided under the terms of this policy and the established procedures.

D. Required Training

The Finance Director, and any other City official designated as Investment Officer, shall attend at least one training session relating to the responsibilities of maintaining the investment portfolio within 12 months after taking office or assuming duties and shall receive no less than 10 hours of instruction relating to investment functions. Thereafter eight hours of

investment training is required in every two year period that begins on the first day of the fiscal year and consists of the two consecutive fiscal years after that date. Such training, from an independent source as approved by City Council, shall include education in investment controls, security risks, strategy risks, market risks, and compliance with the Public Funds Investment Act.

V. BENCHMARKS AND LIMITATIONS

The City's investment portfolio shall be designed with the objective of obtaining a market rate of interest throughout budgetary and economic cycles, commensurate with the investment risk constraints and the cash flow needs.

A. Market Yield Benchmark

The City's investment strategy is conservative. Given this strategy, the basis used by the Finance Director to determine whether market yields are being achieved shall be the 6-month Treasury Bill (T-bill) rate.

B. Maximum Maturities

To the extent possible, the City will attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, the City will not directly invest in securities maturing more than three years from the date of purchase, unless approved by the City Council. The weighted-average maturity of the overall portfolio shall not exceed 18 months.

Bond Funds may be invested in securities exceeding three years if the maturity of such investments is made to coincide as nearly as practicable with the expected use of the funds. Reserve funds may be invested in securities exceeding three years provided that the maturity of such investments does not exceed the initial call date on the related bond issue.

C. Diversification

The City will seek to diversify investments by security type, issuer and maturity date in order to avoid incurring unreasonable credit and market risks.

D. 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:

- ✓ Transactions with money market mutual funds and local government investment pools which are deemed to be made at prevailing market rates.

- ✓ Treasury and agency securities purchased as new issues through an approved broker/dealer, financial institution or investment advisor.
- ✓ 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. If the City utilized an investment advisor, the advisor 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.

VI. COLLATERAL AND SAFEKEEPING

A. Collateralization

The City, in accordance with State Statute, requires all City deposits held by financial institutions above the Federal Deposit Insurance Corporation (FDIC) insurance limit to be collateralized with securities whose market value is pledged at 102% of principal and accrued interest by that institution with the City's custodial bank. Private insurance coverage is not an acceptable collateralization form. Acceptable security for deposits include:

- ✓ FDIC insurance coverage.
- ✓ 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 or its agencies and instrumentalities. This shall include letters of credit issued by The Federal Home Loan Bank (FHLB).
- ✓ Obligations, the principal and interest on which, are unconditionally guaranteed or insured by the State of Texas.
- ✓ Obligations of the State of Texas or debt obligations of a county, city or other political subdivision of the State of Texas having been rated no less than AA or its equivalent by a nationally recognized rating agency with a remaining maturity of ten years or less.

B. Delivery vs. Payment

All security transactions entered into by the City shall be conducted on a delivery-versus-payment (DVP) basis. Securities will be held by the City's custodial bank and evidenced by safekeeping receipts.

C. Safekeeping of Securities

Securities purchased for the City's portfolios will be delivered in book entry form and will be held in third-party safekeeping by a Federal Reserve member financial institution designated as the City's safekeeping and custodian bank.

The City will execute Safekeeping Agreements prior to utilizing the custodian's safekeeping services. The safekeeping agreement must provide that the safekeeping agent will immediately record and promptly issue and deliver a safekeeping receipt showing the receipt and the identification of the security, as well as the City's interest. All securities owned by the City will be held in a Customer Account naming the City as the owner.

VII. INVESTMENT PROVIDERS

A. Authorized Financial Dealers and Institutions

The Finance Director shall maintain a list of financial institutions authorized to provide investment services. In addition, a list will also be maintained of approved security broker/dealers who are authorized to provide investment services in the State of Texas. These may include "primary" dealers or regional dealers that qualify under Securities & Exchange Commission Rule 15C3-1 (uniform net capital rule).

All financial institutions and broker/dealers who desire to become qualified bidders for investment transactions must supply the Finance Director with the following:

1. Audited financial statements;
2. Proof of Financial Industry Regulatory Authority (FINRA) certification;
3. Proof of state registration;
4. Completed broker/dealer questionnaire;
4. Contact information and delivery instructions;
5. Resumes of representatives serving the account; and
6. Written affidavit that broker/dealer has reviewed the City's Investment Policy.

A current audited financial statement is required to be on file for each financial institution and broker/dealer in which the City invests. An annual review of the financial condition and registrations of qualified bidders will be conducted by the Finance Director.

B. Investment Advisors

The City may retain the services of an investment advisory firm registered under the Investment Advisers Act of 1940 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 Texas Government Code Sec. 2256.003(b).

C. Compliance

A qualified representative from any business organization offering to engage in investment transactions with the City shall be provided a copy of this policy. Investments shall only be made with those business organizations (including investment managers and local government investment pools) which have provided the City with written acknowledgement that the business organization has reviewed the City's Investment Policy, and has 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.

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 required written instrument described above.

VIII. AUTHORIZED AND SUITABLE INVESTMENTS

The investment of City funds will be made using only those investment types approved by the City Council and which are in accordance with State of Texas Government Code, Chapter 2256. The approved investment types will be limited to the following:

A. U.S. Treasury and Federal Agency issues, not to exceed 75% of the total investment portfolio, including any investment insured by the Federal Deposit Insurance Corporation (FDIC) or backed by the full faith and credit of the United States government.

B. Certificates of deposit (CDs) or demand deposits of state and national banks that are fully guaranteed or insured by the Federal Deposit Insurance Corporation (FDIC), or its successor; or, secured by obligations described in section A above, which are intended to include Treasuries as well as all direct federal agency securities that have a market value of not less than the principal amount of the certificates or in any other manner and amount provided by law for deposits of the City. These deposits shall be governed by a Depository Contract that complies with federal and state regulation to properly secure a pledged security interest.

C. Repurchase Agreements secured by any combination of cash and U.S. Treasury or Federal Agency issues as collateral with a market value which equals or exceeds 102% of the City's investment plus accrued interest and are pledged and held with the City's custodial bank, or an approved third-party safekeeping agent. Repurchase agreements can only be entered with primary dealers and banks within the State of Texas in accordance with State law. Maximum term for repurchase agreements is 90 days from delivery *unless the repurchase agreement is associated with the investment of bond proceeds*;

D. Local government investment pools, e.g., TexPool, TexSTAR, LOGIC, which are

AAA-rated by a nationally recognized bond rating company, e.g., Moody's, S&P, Fitch, and which participation in any particular investment pool(s) has been authorized by resolution of the City Council, not to exceed 50% of the total investment portfolio less bond funds. Bond funds may be invested at 100%.

IX. REPORTING AND REVIEW

A. Reporting

The Finance Director shall prepare an investment report quarterly, including a summary that provides a clear picture of the status of the current investment portfolio and transactions made over the last quarter. The report should be provided to the City Manager and City Council. The report shall include the following:

- The investment position of the City on the date of the report.
- Statement that the investment portfolio is in compliance with the City's investment policy and strategies.
- Signature of all investment officers.
- Summary for each fund, or pool fund, stating the beginning book and market value, additions and changes, and the ending book and market value, along with fully accrued interest for the reporting period.
- Description of individual investments, including issuer, par value, yield, purchase date and maturity date.

B. Security Pricing

Current market value of securities may be obtained by independent market pricing sources including, but not limited to, the Wall Street Journal, broker dealers and banks other than those who originally sold the security to the City as well as the City's safekeeping agent.

C. Review

If the City places funds in any investment other than registered investment pools or accounts offered by its depository bank, the above reports shall be formally reviewed at least annually by an independent auditor, and the result of the review shall be reported to the City Council.

In addition, the City's external auditors shall conduct a compliance audit of management controls on investments and adherence to the Investment Policy.

D. Downgrade Provision for Investment Ratings

An Investment that requires a minimum rating does not qualify as an authorized investment during the period the investment does not have a minimum rating. The City shall take all prudent measures that are consistent with its Investment Policy to liquidate an investment that does not have the minimum rating. The City shall also monitor the credit ratings on securities that require minimum ratings. This may be accomplished through research, or with the assistance of broker dealers, banks or safekeeping agents.

X. 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 III 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. Investment pools, money market funds, bank deposits and other short-term securities allowed under this policy will be considered for the City's Operating Funds.

2. Bond Funds

Bond proceeds 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.

XII. POLICY MAINTENANCE

A. Exemption

Any investment purchased prior to a change in policy, which subsequently does not meet the amended guidelines, may be held to maturity provided that it does not pose a default risk to the portfolio or conflict with State law.

B. Amendment

The City shall review the Investment Policy annually. An annual review of the Investment Policy shall be conducted by the City Manager, Assistant City Manager, and Finance Director. The City Council shall consider for adoption as necessary the changes recommended by the City Manager, Assistant City Manager, and Finance Director.

CITY OF BUDA
SECURITY BROKER/DEALER QUESTIONNAIRE

1. Name of Firm:
2. Name, title and contact information for primary representative:
3. Name and contact information for backup:
4. Is your firm registered with the Texas Securities Commission? Include proof.
5. List security/investment types your firm specializes in:
6. Provide contact information for *three comparable public sector references*.
7. Submit a copy of your most recent annual financial report.
8. Submit a copy of all necessary paperwork to establish an account with your firm.
9. Please describe a typical transaction between the City and your firm. Note deadlines or cut off times involved.
10. Do you clear through another firm? If so, what firm?
11. Is your firm a member of any trade organizations supporting local governments? If so, please describe: