

RESOLUTION NO. R2024-07

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF BURNET, TEXAS, ADOPTING THE INVESTMENT POLICY AND INVESTMENT STRATEGIES AND APPROVING SAID POLICY AS FULFILLMENT OF CHAPTERS 2256.005 AND 2256.025, GOVERNMENT CODE, THE PUBLIC FUNDS INVESTMENT ACT; AND PROVIDING AN EFFECTIVE DATE.

WHEREAS, Chapter 2256 of the Government Code, commonly known as the “Public Funds Investment Act, “requires that the governing body of an investment entity shall adopt by rule, order, ordinance, or resolution, as appropriate, a written Investment Policy regarding the investment of its funds and funds under its control, and,

WHEREAS, the Public Funds Investment Act requires that the Investment Policy, including a list of authorized investments and investment strategies, must be approved annually, and,

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

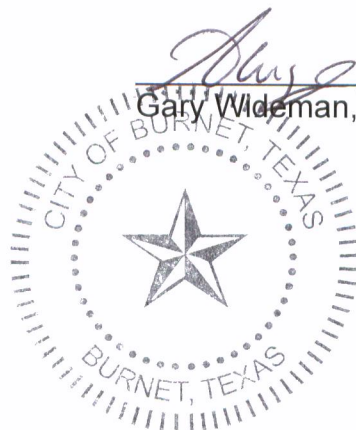
NOW, THEREFORE, BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF BURNET, TEXAS:

That the City of Burnet has complied with the requirements of the Public Funds Investment Act, and the Investment Policy, attached hereto as “Exhibit A,” is hereby officially reviewed and adopted as the investment policy of the city effective January 23, 2024.


PASSED, ADOPTED AND APPROVED by the City Council of the City of Burnet this the 23rd day of January 2024.



Gary Wideman, Mayor



ATTEST:



Kelly Dix, City Secretary

CITY OF BURNET INVESTMENT POLICY

The investment policy of the City of Burnet (the City) is to invest public funds in a manner which will provide the highest investment return with the maximum security while meeting the daily cash flow demands of the City and conforming with all state and local statutes governing the investment of public funds.

I. GOVERNING AUTHORITY

The investment program shall be operated in conformance with Chapter 2256 of the State of Texas Government Code, known as the “Public Funds Investment Act” (PFIA) and any other governing legislation or legal requirements.

II. SCOPE

The investment policy applies to investment activities of all funds of the City and all funds under the control of the City, excluding the investment of employees’ retirement funds.

- (a) **Pooling of Funds.** Except for cash in certain restricted and special funds, the City will consolidate cash and reserve balances from all funds to maximize investment earnings and to increase efficiencies regarding investment pricing, safekeeping, and administration. Investment income will be allocated to the various funds based on their respective participation and in accordance with generally accepted accounting principles.

III. OBJECTIVES

The primary objectives, in priority order, of investment activities shall be safety, liquidity, and return:

- (a) **Safety.** The foremost and primary objective of the City’s investment program is the preservation and safety of principal in the overall portfolio. Each investment transaction will seek first to ensure that capital losses are avoided, whether the loss occurs from the default of a security or from erosion of market value. The objectives will be to mitigate credit risk and interest rate risk.

- (1) Credit Risk: The City will minimize credit risk, which is the risk of loss of all or part of the investment due to the failure of the security issuer or backer, by:

- (A) Limiting investments to the safest types of securities authorized under this investment policy.
- (B) Pre-qualifying and conducting ongoing due diligence of financial institutions, brokers/dealers, intermediaries, and advisers with which the City will do business.
- (C) Diversifying the investment portfolio so that the impact of potential losses from any one type of security or from any one individual issuer will be minimized.

- (2) Interest Rate Risk: The City will minimize interest rate risk, which is the risk that

the market value of securities in the portfolio will fail due to changes in market interest rates, by:

- (A) Structuring the investment portfolio so that security maturities match cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity.
 - (B) Investing operating funds primarily in shorter-term securities, money market mutual funds, or similar investment pools and limiting individual security maturity as well as the average maturity of the portfolio in accordance with this policy.
- (b) **Liquidity.** The City's investment portfolio shall remain sufficiently liquid to enable the City to meet all operating requirements, which might be reasonably anticipated. This is accomplished by structuring the portfolio so that securities mature concurrent with cash needs to meet anticipated demands (static liquidity). Furthermore, since all possible cash demands cannot be anticipated, the portfolio should consist largely of securities with active secondary or resale markets (dynamic liquidity). Alternatively, a portion of the portfolio may be placed in money market mutual funds or local government investment pools which offer same-day liquidity for short-term funds.
- (c) **Return on investment.** The City's investment portfolio will be designed with the objective of attaining a rate of return commensurate with the City's investment risk restraints and the cash flow operating requirements. Return on investment is of secondary importance compared to the safety and liquidity objectives described above. The core investments are limited to relatively minimal risk securities in anticipation of earning a fair return relative to the risk being assumed.

IV. STANDARDS OF CARE

- (a) **Prudence.** The standard of prudence to be used by investment officers shall be the "uniform prudent investor act" standard and shall be applied in the context of managing an overall portfolio. Investment officers acting in accordance with written procedures and this investment policy 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 the liquidity and the sale of securities are conducted in accordance with the terms of this policy.
- (b) **Ethics and Conflicts of Interest.** 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. Employees and investment officials shall disclose any material interests in financial institutions with which they conduct business, in accordance with applicable laws. 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 whom business is conducted on behalf of the City.
- (c) **Delegation of Authority.** Authority to manage the City's investment program is granted to the Finance Director and the Senior Accountant (hereinafter referred to

as the investment officers) and is derived from state statutes and City resolutions. Responsibility for the operation of the investment program is hereby delegated to the investment officers, who shall act in accordance with established written procedures and internal controls for the operation of the investment program consistent with this investment policy. At a minimum, procedures should include references to the following: safekeeping, delivery vs. payment, investment accounting, repurchase agreements, wire transfer agreements, and collateral/depository agreements. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the investment officers. The investment officers shall be responsible for all transactions undertaken and must attend training relating to investment responsibilities as required by Section 2256.008 of the Public Funds Investment Act and approved by this policy in appendix A.

V. AUTHORIZED FINANCIAL INSTITUTIONS, DEPOSITORIES, AND BROKER/DEALERS

- (a) A list will be maintained of financial institutions and depositories authorized to provide investment services. In addition, if applicable, a list will be maintained of approved security broker/dealers selected by creditworthiness and other factors.
- (b) Depositories should be selected through the City's banking services procurement process, which shall include a formal request for proposal (RFP) issued not less than every five years. No public deposit shall be made except in a qualified depository as established by state depository laws. The depository bank bid should not include bids for investment rates on certificates of deposits. Certificate of deposit rates will be bid competitively between financial institutions in accordance with the way all other types of securities are purchased.
- (c) All financial institutions and broker/dealers who desire to become qualified for investment transactions must supply the following as appropriate:
 - (1) Audited financial statements demonstrating compliance with state and federal capital adequacy guidelines.
 - (2) Proof of Financial Industry Regulatory Authority (FINRA) certification (not applicable to Certificate of Deposit counterparties).
 - (3) Proof of state registration.
 - (4) Completed broker/dealer questionnaire (not applicable to Certificate of Deposit counterparties).
 - (5) Certification of having read and understood and agreeing to comply with the City's investment policy.
 - (6) Evidence of adequate insurance coverage.

An annual review of the financial condition and registration of all qualified financial institutions and broker/dealers will be conducted by the investment officers.

VI. SAFEKEEPING AND CUSTODY

- (a) **Delivery vs. Payment.** All trades of marketable securities will be executed by delivery vs. payment (DVP) to ensure that securities are deposited in an eligible custody account prior to the release of funds.

- (b) **Safekeeping.** Securities will be held by an independent third-party custodian approved by the City and evidenced by safekeeping receipts. A safekeeping agreement must be in place which clearly defines the responsibilities of the safekeeping bank.
- (c) **Collateral.** All funds must be insured by the FDIC or FSLIC or by collateral pledged to the extent of the fair market value of any amount not insured. To the extent not insured by the FDIC or FSLIC, City funds must be secured by direct obligations of the United States backed by the full faith and credit of the government or by governmental securities or obligations issued by the State of Texas, its agencies, or political subdivisions. Collateral will be held by an independent third party, and a safekeeping receipt will be supplied to the City. The City's bank depository will provide the City with a report on the collateral pledged, and a City representative will have the right to inspect the pledged collateral at any time. Collateral may be substituted; however, the City must approve any substitution of collateral in writing.
- (d) **Internal Controls.** The investment officers are responsible for establishing and maintaining an internal control structure designed to protect the assets of the City of Burnet. The controls shall be designated to prevent the loss of public funds arising from fraud, employee error, misrepresentation by third parties, unanticipated changes in financial markets, or imprudent actions by employees of the City.

Controls and managerial emphasis deemed most important that shall be employed where practical are:

- (1) Control of collusion.
- (2) Separation of duties.
- (3) Separation of transaction authority from accounting and record keeping.
- (4) Custodian safekeeping receipts and records management.
- (5) Dual authorization of wire transfers.
- (6) Avoidance of physical delivery securities.
- (7) Documentation of investment bidding.
- (8) Written confirmation from broker/dealers and financial institutions.
- (9) Reconciliations of security receipts with the investment subsidiary records.
- (10) Compliance with investment policies.
- (11) Accurate and timely investment reports.
- (12) Adequate training and development of investment officers.
- (13) Verification of all investment income and security purchases and sell computations.
- (14) Review of financial condition of all broker/dealers and depository institutions.

The above internal controls represent only a partial list of a system of internal control. An annual process of independent review by an external auditor shall be established. This review will provide internal control by assuring compliance with laws, policies, and procedures. This annual compliance audit is required by Section 2256.005(m) of the PFIA.

VII. SUITABLE AND AUTHORIZED INVESTMENTS

Investment type funds of the City may be invested in the following investments, consistent with the PFIA and as authorized by this investment policy. Investments not specifically listed below will not be permitted by this policy.

- (a) **Financial Institution Deposits.** Certificates of Deposits and other evidence of deposit at a financial institution that:
 - (1) has its main office or a branch office in Texas and is guaranteed or insured by the Federal Deposit Insurance Corporation (FDIC) or its successor,
 - (2) is secured by obligations or in any other manner and amount provided by law for deposits of the City, or
 - (3) is executed through a depository institution or approved broker that has its main office or a branch office in Texas that meets the requirements of the PFIA. All financial institution deposits in excess of the FDIC insured amount must be collateralized as described in the policy under Section VI (c) "Collateral."

- (b) **U.S. Treasuries and Agencies.** Obligations of the United States of America, its agencies, and instrumentalities, including 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 or its agencies and instrumentalities including obligations that are fully guaranteed or insured by the FDIC or by the explicit full faith and credit of the United States. Such obligations include letters of credit of the United States or its agencies and instrumentalities, including the Federal Home Loan Banks.

- (c) **Investment Pools.** The City may invest its funds through an eligible investment pool if the Burnet City Council by resolution authorizes investment in the pool. Eligible investment pools must:
 - (1) Provide an offering circular or other similar disclosure instruments and provide monthly and transaction reporting as required by Section 2256.016 of the PFIA.
 - (2) Be continuously rated no lower than AAA or AAA-m or at an equivalent rating by at least one nationally recognized rating service.

- (d) **Money Market Mutual Funds.** No-load government money market mutual funds are eligible investments if the fund:
 - (1) Is compliant with the PFIA.
 - (2) Is registered with and regulated by the Securities and Exchange Commission.
 - (3) Has an average weighted maturity of less than 180 days and meets the liquidity requirements of the City.

- (e) **Repurchase Agreements.** Fully collateralized repurchase agreements that:
 - (1) Have a defined termination date.
 - (2) Are secured by cash or obligations as allowed by the PFIA and this Policy.
 - (3) Require independent third-party safekeeping of all securities prior to the release of any funds.
 - (4) Are placed through a primary dealer or financial institution doing business in Texas.
 - (5) Do not create a reverse repurchase agreement by the City.

(f) **Municipal Issuers.** Obligations of:

- (1) The State of Texas or its agencies and instrumentalities; and
- (2) Counties, cities, and other political subdivisions of the State of Texas rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent.

(g) **Commercial Paper.** Commercial Paper with a stated maturity of 180 days or fewer from the date of its issuance, rated not less than A-1 or P-1, or an equivalent rating by at least two nationally recognized credit rating agencies, or by one nationally recognized credit rating agency and is fully secured by an irrevocable letter of credit issued by a bank organized and existing under the laws of the United States or any state. No more than 20% of any one portfolio should be invested in commercial paper and no more than 5% should be invested in the securities of a single paper issuer.

(h) **Securities Lending Program.** A securities lending program is an authorized investment under this policy if it meets the conditions provided in PFIA Sec. 2256.0115.

(i) **Banker's Acceptances.** A bankers' acceptance is an authorized investment under this policy if it meets the conditions provided in PFIA Sec. 2256.0012. No more than 20% of any one portfolio should be invested in banker's acceptances and no more than 5% should be invested in the securities of a single banker's acceptances issuer.

(j) **Guaranteed Investment Contracts.** A guaranteed investment contract is an authorized investment for bond proceeds under this policy if it meets the conditions provided in PFIA Sec. 2256.0015.

The following investments are specifically **not** authorized under the PFIA:

- (a) Obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principle.
- (b) Obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security collateral and bears no interest.
- (c) Collateralized mortgage obligations that have a stated final maturity date of greater than 10 years.
- (d) Collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in a market index.

An investment that requires a minimum rating under the PFIA does not qualify as an authorized investment during the period the investment does not have the minimum rating. The City shall at least quarterly obtain from a reliable source the current credit rating for each held investment that has a PFIA required minimum rating and shall take all prudent measures to liquidate an investment that does not have the minimum rating.

VIII. INVESTMENT PARAMETERS

- (a) **Bidding Process for Investments.** Investment officers for the City may accept bids for certificates of deposit and for all marketable securities either orally, in writing, electronically, or in any combination of these methods. The investment officers will strive to receive three price quotes on marketable securities being sold but may allow one broker/dealer to sell at a predetermined price under certain market conditions. Investments purchased shall be shopped competitively between approved financial institutions and broker/dealers.
- (b) **Diversification.** The City recognizes that investment risks can result from issuer defaults and market price changes. Risk is partly controlled through portfolio diversification that shall be achieved by the following general guidelines:
- (1) Limiting investment to avoid overconcentration 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).
 - (2) Limiting investment in investments that have higher credit risks (example: commercial paper).
 - (3) Investing in investments with varying maturities.
 - (4) Continuously investing a portion of the portfolio in readily available funds such as local government investment pools to ensure that appropriate liquidity is maintained in order to meet ongoing obligations.
- (c) **Maximum Maturities.** To the extent possible, the City shall 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 365 days from the date of purchase. The City shall adopt weighted average maturity limitations consistent with the investment objectives.

IX. INVESTMENT STRATEGY

The portfolio will be structured to benefit from anticipated market conditions and to achieve a reasonable return. Relative value between asset groups shall be analyzed and pursued as part of the active investment program within the restrictions set forth by this policy. Asset types with higher credit risk shall be limited to no more than 20% of each portfolio. In addition, commercial paper and bankers' acceptances shall be limited to no more than 5% of each portfolio held in any individual issuer name to limit credit risk.

Specific strategies for each type of fund group of the city are as follows.

- (a) **Operating Funds.** Operating funds are defined as cash and investments used for day-to-day operations. Operating funds are to be invested in a manner suitable to provide adequate liquidity for the anticipated operating needs of the City. Investments of the Operating Funds shall be limited to a weighted average maturity of no greater than 180 days. All investment instruments must meet credit and safety criteria as required by the PFIA and this policy. All investments shall be of high quality with no perceived default risk. Operating funds will remain sufficiently liquid to enable the City to meet operating requirements that may be reasonably anticipated. Operating funds' maturities will be staggered based on

the City's anticipated operating needs, and the investments may include financial institution deposits, U.S. treasuries and agencies, state and municipal debt instruments, investment pools, and money market mutual funds. Investment of Operating funds will be structured to attain the optimal yield given the liquidity and safety requirements.

- (b) **Capital Project Funds and Special Purpose Funds.** Capital project funds and special purpose funds shall have as their primary objective to assure that anticipated cash outflows are matched with adequate investment liquidity. These portfolios should have liquid securities to allow for unanticipated project expenditures or accelerated project outlays due to a better than expected or changed construction schedule. The portfolios shall be invested based on cash flow estimates to be supplied by the capital projects managers and finance estimates. The dollar-weighted average life of the portfolio should be matched to that of the duration of the liabilities. A secondary objective of these funds is to achieve a yield equal or greater than the arbitrage yield of the applicable bond.
- (c) **Debt Service Funds.** Debt service funds shall have as the primary objective, the assurance of investment liquidity adequate to cover the debt service obligation on the required payment dates. Securities purchased shall not have a stated final maturity date which exceeds the debt service payment date.

X. REPORTING

- (a) **Quarterly Reporting.** No less than quarterly, the investment officers shall prepare and submit to the City Council a written investment report. The report must describe in detail the investment position of the City on the date of the report, state the book value and fair market value of each separately invested asset at the beginning and end of the reporting period by the type of asset and fund type invested. State the maturity date of each separately invested asset at the beginning and end of the reporting period by the type of asset and fund type invested. State the compliance of the investment portfolio of the City as it relates to the investment policies and investment strategies expressed in the City's Investment Policy and the PFIA.
- (b) **Performance Standards.** The investment portfolio will be managed in accordance with the parameters specified within this policy. The portfolio should obtain a market average rate of return during a market/economic environment of stable interest rates. A series of treasury benchmarks whose final maturity most closely matches the weighted average maturity (WAM) of the portfolio shall be established against which portfolio performance shall be compared on a regular basis.
- (c) **Marking to Market.** The market value of the portfolio shall be calculated at least monthly and a statement of the market value of the portfolio shall be issued at least quarterly. This will ensure that review of the investment portfolio, in terms of value and price volatility, has been performed.

XI. INVESTMENT POLICY CONSIDERATIONS

- (a) **Amendments.** This policy shall be reviewed on an annual basis. Any changes must be approved by the investment officers, City Manager and City Council. The

City Council should adopt a written instrument, not less than annually, stating the City Council has reviewed and authorized the investment strategies and the amendments, to this Investment Policy.

APPENDIX A

AUTHORIZED BROKER/DEALERS, FINANCIAL INSTITUTIONS,
GOVERNMENT POOLS, AND APPROVED PROVIDERS OF PFIA
TRAINING

**BROKER/DEALERS AND FINANCIAL INSTITUTIONS AUTHORIZED TO
DO BUSINESS WITH THE CITY OF BURNET**

First State Bank of Burnet

**GOVERNMENT POOLS AUTHORIZED BY CITY COUNCIL
RESOLUTION**

(TEXPOOL) Texpool Local Government Investment Pool

Texas Class Local Government Investment Pool

APPROVED PROVIDERS OF PFIA TRAINING

University of North Texas
Government Finance Officers Association
Government Finance Officers Association of Texas
Government Treasurer's Organization of Texas
Texas Municipal League