

**Revised September 9 2024**

**CITY OF LAGO VISTA, TEXAS  
INVESTMENT POLICY**

**I. POLICY**

It is the policy of the City of Lago Vista (hereinafter referred to as "City") that after allowing for the anticipated cash flow requirements of the City and giving due consideration to the safety and risk of investment, all available funds shall be invested in conformance with these legal and administrative guidelines and to the extent possible, at the optimum rates obtainable at the time of investment.

Effective cash management is recognized as essential to good fiscal management. Investment interest is a visible and material source of revenue to City funds. The City's investment portfolio shall be managed in a manner designed to optimize this revenue source, to be responsive to the public trust, and to follow legal requirements and limitations.

Investments shall be made with the primary objectives of:

- A. Safety - Preservation of Principal.
- B. Liquidity - Maintenance of Liquidity to Fund Operations.
- C. Public Trust - Prudent Investment Activities.
- D. Yield- Optimization of the Portfolio.

**II. PURPOSE**

The purpose of the investment policy is to comply with Chapter 2256 of Title IO of the Texas Local Government Code, "Public Funds Investment Act" (hereinafter referred to as the "Act") which requires each city to adopt a written investment policy regarding the investment of its funds and funds under its control. The Investment Policy addresses the methods, procedures and practices that must be exercised to ensure effective and judicious fiscal management of the City's funds.

**III. SCOPE**

This Investment Policy shall govern the investment of all financial assets of the City. These funds are accounted for in the City's Annual Program of Services (budget) and the Annual Comprehensive Financial Report when it is prepared.

A. Funds Included

1. General Fund
2. Special Revenue Funds
3. Capital Project Funds
4. Enterprise Funds
5. Trust and Agency Funds - To the extent required by law or existing contract to be kept segregated and managed separately.
6. Debt Service Funds - Including reserves and sinking funds, to the extent not required by law or existing contract to be kept segregated and managed separately.
7. New Funds - Created by the City, unless specifically exempted from this Policy by the City Council or by law.

B. Funds Excluded

This Policy shall not govern funds that are managed under separate investment programs. Such funds currently include the City's participation in the Texas Municipal Retirement System (TMRS) and any deferred compensation programs, including Nationwide and the ICMA-RC 457, administered for the benefit of city employees by outside agencies. The City shall maintain responsibility for these funds only as required by State Law, City Charter or Code of Ordinances.

#### **IV. INVESTMENT OBJECTIVES**

The City shall manage and invest its cash with four primary objectives listed in the order of priority as follows: safety, liquidity, public trust, and yield

(expressed as optimization of interest earnings). The safety of the principal invested always remains the primary objective. All investments shall be designed and managed in a manner responsive to public trust and consistent with State and local law.

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

A. Safety (PFIA 2256.00S(b)(2))

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 being to mitigate credit and interest rate risk.

1. Credit Risk - The City will minimize credit risk, the risk of loss due to the failure of the issuer or backer, by:
  - a. Limiting investments to the safety types of securities.
  - b. Pre-qualifying the financial institutions and broker/dealers with which the City will do business.
  - c. Diversifying the investment portfolio so that potential losses on individual securities will be minimized.
2. Interest Rate Risk -The City will minimize the risk that the market value of securities in the portfolio will fall due to changes in interest rates, by:
  - a. 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.
  - b. Investing operating funds primarily in shorter-term securities, bank deposits, money market mutual funds or local government

investment pools.

- c. Diversifying maturities and staggering purchase dates to minimize the impact market movements over time.

B. Liquidity (PFIA2256.005 (b)(2))

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. Because all possible cash demands cannot be anticipated, the portfolio will also be placed in bank deposits, money market mutual funds, or local government investment pools that offer same day liquidity for short term funds.

C. Public Trust

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

D. Yield (Optimization of Interest Earnings) (PFIA 2256.005(b)(2))

The investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, considering the investment risk constraints and liquidity needs. Return on investment is of secondary 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 return relative to the risk being assumed.

**V. RESPONSIBILITY AND CONTROL**

A. Delegation of Authority (PFIA2256.005(f))

Management responsibility for the investment program is assigned to the City Manager as provided in the Home Rule Charter for the City.

The Director of Finance is hereby designated as the primary Investment Officer and is responsible for establishing a system of controls to regulate the activities of investment.

No person may engage in an investment transaction or the management of funds except as provided under the terms of this Investment Policy as approved by the City Council. The investment authority granted to these Investment Officers is effective until rescinded by the City Council.

The City Council may designate by resolution one or more Investment Officers or employees as members of the Investment Advisory Committee assigned to review investment policies and procedures, investment strategies, broker/dealers, independent training sources and investment performance. Members of the Committee must demonstrate knowledge and expertise in finance, investments, or cash management. If a Committee is designated, it shall elect a Chairman, and the meetings shall be called as needed.

B. Training Requirement (PFIA 2256.008)

To ensure qualified and capable investment management, the Director of Finance and any other designated Investment Officers must attend ten (10) hours of training within twelve (12) months of taking office. Additionally, Investment Officers must attend investment training not less than once in a two-year period and receive not less than ten (10) hours of instruction relating to investment responsibilities. The investment training session shall be provided by an independent source approved by the Investment Advisory Committee. For purposes of this Policy, an "independent source" from which investment training shall be obtained shall include a professional organization (such as the Texas Municipal League (TML)), an institute of higher learning, or any other sponsor other than a business organization with whom the City may engage in an investment transaction. The Director of Finance and any other designated Investment Officers shall also comply with any continuing education or retraining requirement prescribed by law.

C. Internal Controls (Best Practice)

The Director of Finance is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the entity are protected from fraud, waste, abuse, or mismanagement. The internal control structure shall be designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits likely to be derived and the valuation of costs and benefits requires estimates and judgments by management.

Accordingly, the Director of Finance shall establish a process, as part of the annual audit, for review by the external auditor to assure compliance with policies and procedures. The internal controls shall address the following points:

1. Control of collusion.
2. Segregation of duties.
3. Separation of transactions authority from accounting and record keeping.
3. Custodial safekeeping receipts records management.
4. Avoidance of physical delivery securities.
5. Clear delegation of authority to subordinate staff members.
6. Written confirmation for telephone (voice) transactions for investments and wire transfers.
7. Development of a wire transfer agreement with the depository bank or third-party custodian.

D. Prudence (PFIA 2256.006)

The standard of prudence to be applied by the Investment Officer shall be the "prudent investor" rule.

This rule states that "Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence,

discretion, and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived."

In determining whether an Investment Officer has exercised prudence with respect to an investment decision, the determination shall be made taking into consideration the following:

1. The investment of all funds or funds under the City's control over which the officer had responsibility rather than a consideration as to the prudence of a single investment.
2. Whether the investment decision was consistent with the written Investment Policy of the City and that any deviation from expected outcome was reported in a timely manner to the City Manager and City Council.

E. Indemnification (Best Practice)

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

F. Ethics and Conflicts of Interest (PFIA 2256.005(1))

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

An Investment Officer of the City who has a personal business relationship with an organization seeking to sell an investment to the

The city shall file a statement disclosing that personal business interest. An investment officer who is related within the second degree of affinity or sanguinity to an individual seeking to sell an investment to the City shall file a statement disclosing that relationship. A statement required under this subsection must be filed with the Texas Ethics Commission and the City Council.

## VI. **SUITABLE AND AUTHORIZED INVESTMENTS**

### A. Portfolio Management

The city currently has a "buy and hold" portfolio strategy. Maturity dates are matched with cash flow requirements and investments purchased with the intent to be held until maturity. However, securities may be sold before they mature if market conditions present an opportunity for the City to benefit from the trade. Securities may be sold for the following reasons:

1. A security with declining credit may be sold early to minimize loss of principal.
2. A security swap would improve the quality, yield, or target duration in the portfolio.
3. Liquidity needs of the portfolio require that the security be sold.

### B. Investments (PFIA2256.00S(b)(4)(A))

Assets of the City may be invested in the following instruments provided, however, that at no time shall assets of the City be invested in any instrument or security not authorized for investment under the Act, as the Act may from time to time be amended.

1. Authorized.
  - a. Obligations of the United States of America, its agencies or instrumentalities.
  - b. Certificates of Deposit (CD's) of state and national banks

domiciled in Texas, a savings and loan association domiciled in this state, or a state or federal credit union that has its main office or a branch office in this state that is guaranteed or insured by the Federal Deposit Insurance Corporation (FDIC) or its successor or secured by obligations in manner and amount provided by law for deposits of the investing entity.

- c. Fully collateralized direct repurchase agreements with a defined termination date secured by obligations of the United States or its agencies and instrumentalities. These shall be pledged to the City, held in the City's name, and deposited at the time the investment is made with the City or with a third party selected and approved by the City. Repurchase agreements must be purchased through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in this state. A Master Repurchase Agreement must be signed by the bank/dealer prior to investment in a repurchase agreement. All repurchase agreement transactions will be on a delivery vs. payment basis. Securities received for repurchase agreements must have a market value greater than or equal to 110 percent at the time funds are disbursed.
  
- d. Money Market Mutual funds that are:
  - (1) registered and regulated by the Securities Exchange Commission (SEC).
  - (2) have a dollar weighted average stated maturity of ninety (90) days or less.
  - (3) and maintain a net asset value of \$1 for each share.
  
- e. Government investment pools which:
  - (1) meet the requirements of Chapter 2256.016 of the Act.

- (2) are rated no lower than AAA or an equivalent rating by at least one nationally recognized rating service.
- (3) and are authorized by resolution or ordinance by the City Council.

2 Not Authorized (PFIA 2256.009(b)(1-4))

Under no circumstances shall investments be made in interest-only or principal-only strips of obligations with underlying mortgage-backed security collateral, or in collateralized mortgage obligations with an inverse floating interest rate or a final maturity date of ten (10) years.

## VII. INVESTMENT PARAMETERS

### A. Maximum Maturities (PFIA 2256.005(b)(4)(B))

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

The city attempts 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 greater than twenty-four (24) months from the date of purchase. Additionally, the above-described obligations, certificates, or agreements may be collateralized using only those investments meeting these same criteria provided that the securities pledged for collateral may not mature more than sixty (60) months from the date of purchase or pledge.

Because no secondary market exists for repurchase agreements, the maximum maturity shall be 120 days.

Each Fund portfolio will have a weighted average maturity of twelve (12) months or less. This dollar weighted average maturity will be calculated using the stated final maturity dates of each security.

B. Diversification (PFIA 2256.005(b)(3))

The city recognizes that investment risks can result from issuer defaults, market price changes, or various technical complications leading to temporary illiquidity. Risk is controlled through portfolio diversification that shall be achieved by the following general guidelines.

1. Limiting investments to avoid overconcentration in securities from a specific issuer or business sector (excluding U.S. government securities).
2. Limiting investment in securities that have higher credit risks.
3. Investing in securities with varying maturities.
4. Continuously investing a portion of the portfolio in readily available funds such as bank deposits, local government investment pools, money market mutual funds or overnight repurchase agreements to ensure that appropriate liquidity is maintained to meet ongoing obligations.

The following maximum limits, by instrument, are established for the City of Lago Vista portfolio:

1. U. S. Treasury Securities	100%
2. Agencies and Instrumentalities	85%
3. Certificates of Deposit	100%
4. Repurchase Agreements*	20%
5. Money Market Mutual Funds	50%
6. Authorized Pools	100%
7. Depository Bank	100%

\*Excluding flexible repurchase agreements for investment of bond proceeds.

## **VIII. INVESTMENT STRATEGY BY FUND TYPE**

### **A. Operating Funds and Commingled Funds Containing Operating Funds**

Operating Funds will have as their primary objective to support the goals of the Investment Policy on these funds for safety and assure that cash flows are matched with adequate liquidity while obtaining reasonable market yields. This will be accomplished by purchasing quality, short-term securities in a laddered structure or utilizing other liquid alternatives.

The dollar weighted average will be 180 days or less to accomplish this goal. The portfolio shall be diversified to protect against credit and market risk in any one sector. No security will be purchased with maturity over eighteen (18) months. Operating fund reserves or fund balances shall only be invested in securities that have a maximum maturity of twelve (12) months.

### **B. Debt Service**

Investment strategies for debt service funds shall have as the primary objective the guarantee of investment liquidity adequate to cover the debt service obligation on the required payment date. Investment will be made that will promise safety of principal and liquidity first and yield and diversification second. Securities purchased will not have maturity dates that exceed the next debt service payment date until the next debt service payment is fully funded and in no instance will have a maximum weighted average maturity greater than six (6) months.

### **C. Debt Service Reserves**

Investments will have as the primary objective the ability to generate a dependable revenue stream to the appropriate debt service fund within the limits set forth by the bond ordinance or debt covenants specific to each individual bond issue.

Since this is one of the highest priorities of the city, securities with the highest safety will be chosen. Securities will be chosen for their maturity dates and not require the highest degree of diversification.

Reserve funds will purchase securities carrying the optimum yield available within the desired maturity and quality range, with a maximum weighted average maturity of twelve (12) months.

D. Capital Project and Special Purpose Funds

These funds will have as their primary objective to ensure that anticipated cash flows are matched with adequate investment liquidity. No funds will be invested longer than the related anticipated expenditures.

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 dollar weighted average life of the portfolio should match the weighted average life of the expenditures. Funds invested for capital projects may be from bond proceeds that are subject to arbitrage rebate regulations.

The city will have an arbitrage rebate calculation performed annually to determine the income, if any, that has exceeded the arbitrage yield of bonds. Any positive arbitrage income will be rebated to the Federal Government according to arbitrage regulations. A secondary objective of these funds is to achieve a yield equal to or greater than the arbitrage yield on the applicable bond.

**IX. SELECTION OF BANK DEPOSITORY, BROKER/DEALERS,  
AND INVESTMENT ADVISORS**

A. Depository (Chapter 116, Texas Local Government Code)

At least every five (5) years, as allowed by State Law, a Depository shall be selected through the City's banking services procurement process, which shall include a formal request for proposal (RFP). The term of said banking services shall be for a maximum of an initial three (3) year term, with options to renew for either one or two-year terms.

The

selection of a depository will be determined by competitive process and evaluation of proposals will be based on the following selection criteria:

1. The ability to qualify as a depository for public funds in accordance with state and local laws.
2. The ability to provide the requested information or: financial statements for the periods specified.
3. The ability to meet all requirements in the banking RFP and the Investment Policy.
4. Complete response to all required items on the bid form.
5. Lowest net banking service cost, consistent with the ability to provide an appropriate level of service.
6. The credit worthiness and financial stability of the bank.

B. Brokers/Dealers (PFIA 2256.025)

The City shall select dealers reporting to the Market Reports Division of the Federal Reserve Board of New York, also known as "Primary Government Security Dealers", or regional dealers that qualify under Securities and Exchange Commission (SEC) 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 following as appropriate:

1. Audited financial statements.
2. Completed broker/dealer questionnaire.
3. Certification of having read and understood the City's Investment Policy and agreeing to comply with the Policy.

An Investment Advisory Committee must adopt and annually review a

list of qualified brokers/dealers authorized to engage in investment transactions with the City.

C. Investment Advisors

Investment Advisors shall adhere to the spirit, philosophy, and specific terms of this Policy and shall advise within the same "Standard of Care". Selected Investment Advisors must be registered under the Investment Advisors Act of 1940 or with the State Securities Board. A contact with an Investment Advisor may not be for a term longer than two years and must be approved by the City Council, including any renewals or extensions.

D. Competitive Bids (Best Practice)

Competitive quotes must be taken from at least three (3) qualifying institutions for any investment transaction, other than the investment of funds in an authorized pool, money market mutual fund, or certificate of deposit through the depository bank. Investment transactions may be done orally but must be followed by electronic or written communication. Written confirmation shall be received from the : financial institution or broker/dealer.

D. Delivery Versus Payment (PFIA2256.005(b)(4)(E))

Securities shall be purchased using the delivery versus payment method except for investment pools and mutual funds. Funds shall not be wired and paid until verification has been made that the safekeeping bank received the correct security. The security shall be held in the name of the City or held on behalf of the City. The safekeeping bank's records shall assure the notation of the City's ownership of or explicit claim on the securities. The original copy of all safekeeping receipts shall be delivered to the City.

**X. SAFEKEEPING OF SECURITIES**

A. Safekeeping Agreement (Best Practice)

The City shall contract with a bank or banks for the safekeeping of

securities either owned by the city as part of its investment portfolio or held as collateral to secure demand or time deposits.

B. Safekeeping

All securities owned by the City shall be held by its safekeeping agent, except the collateral for certificates of deposit in banks. The collateral for certificates of deposit or banks will be registered in the City's name, or a third-party bank in the City's name, at the City's discretion. Original safekeeping receipts shall be obtained by the Director of Finance.

C. Collateralization (PFIA 2257 .023)

Consistent with the requirements of the Public Funds Collateral Act, it is the policy of the City to require full collateralization of all City investments and funds on deposit with a depository bank or other financial institution. In order to anticipate market changes and provide a level of security for all funds, the collateralization level will be 102% of market value of principal and accrued interest on the deposits, less an amount insured by the FDIC or FSLIC. At its discretion, the City may require a higher level of collateralization for certain collateral securities.

Securities pledged as collateral shall be held by an independent third party with whom the City has a current custodial agreement. The Director of Finance is responsible for entering into collateralization agreements with third party custodians in compliance with this Policy. The agreements are to specify the acceptable investment securities for collateral, including provisions relating to possession of the collateral, the substitution or release of investment securities, ownership of securities, and the method of valuation of securities.

Clearly marked evidence of ownership (safekeeping receipt) must be supplied to the City and retained by the Director of Finance. Collateral shall be reviewed at least monthly to ensure that the market value of the pledged securities is adequate. The City, at its sole discretion, may change the reporting frequency.

D. Collateral Defined

The City shall accept the following securities as collateral:

1. Obligations of the United States or its agencies and instrumentalities.
2. Direct obligations of the State of Texas or its agencies and instrumentalities.
3. Collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States.
4. Obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized rating firm not less than <sup>11</sup>A <sup>11</sup> or its equivalent with a remaining maturity of ten (10) years or less.
5. A surety bond issued by an insurance company rated as to investment quality by a nationally recognized rating firm not less than "A" or its equivalent.
6. A letter of credit issued to the City by the Federal Home Loan Bank.

E. Subject to Audit

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

## **XI. PERFORMANCE**

A. Performance Standards

The City's investment portfolio will be managed in accordance with the parameters specified within this Policy. The portfolio shall be designed with the objective of obtaining a rate of return through budgetary and economic cycles commensurate with the investment risk constraints and the cash flow requirements of the City.

B. Performance Benchmark (Best Practice)

The City's portfolio shall be designed with the objective of regularly meeting or exceeding the average rate of return on U. S. Treasury Bills at a maturity level comparable to the City's weighted average maturity in days. Weighted -average yield to maturity shall be the portfolio performance measurement.

**XII. REPORTING**

A. Methods (PFIA 2256.023)

The Investment Officers shall prepare an investment report on no less than a quarterly basis that summarizes investment strategies employed in the most recent quarter.

The quarterly investment report shall include a summary statement of investment activity prepared in compliance with generally accepted accounting principles. This summary will be prepared in a manner which will allow the City to ascertain whether investment activities during the reporting period have conformed to the Investment Policy. The report will be provided to the City Manager and the City Council. The report will include the following:

1. A listing of individual securities held at the end of the reporting period.
2. Unrealized gains or losses resulting from appreciation or depreciation by listing the beginning and ending book and market value of securities for the period.
3. Additions and changes to the market value during the period.
4. Average weighted yield to maturity of portfolio as compared to applicable benchmark.
5. Listing of investments by maturity date.
6. Fully accrued interest for the reporting period.

7. The percentage of total portfolio which each represents.
8. Statement of compliance of the City's investment with State Law and the investment strategy and the City Council.

In conjunction with the annual audit, an independent auditor will perform a formal review of the quarterly reports reported to the City Council (PFIA 2256.023(d)).

B. Marking to Market (PFIA 2256.005(b)(4)(D))

Market value of all securities in the portfolio will be determined on a quarterly basis. These values will be obtained from an independent source.

### **XIII. INVESTMENT POLICY ADOPTION**

The City's Investment Policy shall be adopted by the City Council (PFIA 2256.005(e)). It is the City's intent to comply with all laws and regulations. The City's Investment Policy shall be kept current with changing laws, regulations, and the market. The Policy shall be reviewed annually by the City Council and any modifications must be approved by the City Council.