

**RESOLUTION NO. 1057**

**A RESOLUTION OF THE CITY COMMISSION OF THE CITY OF VERNON, TEXAS, THAT AUTHORIZES THE CITY OF VERNON INVESTMENT POLICY AND PROVIDING FOR RECORDING AND AN EFFECTIVE DATE.**

**WHEREAS**, as the City of Vernon is required to review the City's Investment Policy annually, and

**WHEREAS**, this review is authorized by the Public Funds Investment Act, as amended.

**NOW, THEREFORE, BE IT RESOLVED BY THE CITY COMMISSION OF THE CITY OF VERNON, TEXAS:**

That the City of Vernon Investment Policy, as written, attached hereto as "Exhibit A" is hereby reviewed and adopted as the investment policy of the City of Vernon effective January 1, 2021.

**PASSED, ADOPTED and APPROVED** on this the 27<sup>th</sup> day of October, 2020.

  
Pamela Gosline, Mayor

**ATTEST:**

  
Marsha Jo Stone, City Secretary



**CITY OF VERNON**

***INVESTMENT POLICY***

**For the Depository Year Ending December, 2021**

## **INTRODUCTION**

The purpose of this document is to set forth specific investment policy and strategy guidelines for the City of Vernon in order to achieve the goals of safety, liquidity, yield, and public trust for all investment activity. The City of Vernon shall review its investment strategies and policy not less than annually. This policy serves to satisfy the statutory requirements (specifically the Public Funds Investment Act, Article 342a-2 V.T.C.S. (the "Act") to define, adopt and review a formal investment strategy and policy.

## **INVESTMENT STRATEGY**

The City of Vernon maintains separate accounts held through Depository Contract at local bank. Investment strategies for all funds have as their primary objective to assure that anticipated cash flows are matched with adequate investment liquidity. The secondary objective is to create a conservative portfolio structure, which will experience minimal volatility during economic cycles. This may be accomplished by holding funds on deposit per Depository Contract with local bank in interest-bearing deposit accounts or certificates of deposit. Local bank will guarantee adequate collateral of City's deposits through ownership of high quality securities as defined by Public Funds Investment Act.

## **INVESTMENT POLICY**

### ***I. SCOPE***

This investment policy applies to all financial assets of the City of Vernon. These funds are accounted for in the City's Comprehensive Annual Financial Report (CAFR) and include:

- General Fund
- Special Revenue Funds
- Debt Service Funds
- Capital Project Funds
- Enterprise Funds
- Trust and Agency Funds

### ***II. OBJECTIVES***

The City of Vernon shall manage and invest its cash with four objectives, listed in order of priority: Safety, Liquidity, Yield, and Public Trust. The safety of the principal invested always remains the primary objective. All investments shall be designed and managed in a manner responsive to the 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 payment in accordance with invoice terms, and prudent investment of available cash. Cash management is defined as the process of managing monies in order to insure maximum cash availability and maximum yield on short-term investment of pooled idle cash.

#### **Safety**

The primary objective of the City's investment activity is the preservation of capital in the overall portfolio. Each investment transaction shall be conducted in a manner to avoid capital losses, whether they are from securities defaults or erosion of market value.

**Liquidity**

The City's investment portfolio shall be structured such that the City is able to meet all obligations in a timely manner. This shall be achieved by matching investment maturities with forecasted cash flow requirements and by investing in securities with active secondary markets.

**Yield**

The City's cash management portfolio shall be designed with the conservative objective of regularly exceeding the average rate of return on three-month U.S. Treasury Bills. The investment program shall seek to augment returns above this threshold consistent with risk limitations identified herein and prudent investment policies. Yield of interest-bearing deposit accounts or certificates of deposit will be determined by competitive sealed bids of Depository Contracts every two years.

**Public Trust**

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

**III. RESPONSIBILITY AND CONTROL****Delegation of Authority and Training**

Authority to manage the City's investment program is derived from a resolution of the City Commission. The Finance Director is designated as the primary investment officer of the City with the City Manager as the alternate investment officer. The Finance Director shall establish written procedures for the operation of the investment program, consistent with this investment policy.

Finance Director and City Manager must initially receive ten hours of training within 12 months after taking office or assuming investment duties, and should thereafter attend 8 hours of biennial (every two years) training pertaining to Public Funds Investment Act (Chapter 2256.008, Texas Government Code) to effectively learn industry conditions and legal changes applicable to the PFIA.

**Internal Controls**

The Finance Director is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the entity are protected from loss, theft or misuse. The internal control structure shall be designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgments by management.

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

- A. Control of collusion
- B. Separation of transaction authority from accounting and record keeping.
- C. Custodial Safekeeping.
- D. Avoidance of physical delivery securities.
- E. Clear delegation of authority to subordinate staff members.
- F. Written confirmation for telephone (voice) transactions for investment and wire transfers.
- G. Development of a wire transfer agreement with the depository bank or third party custodian.

**Prudence**

The standard of prudence to be applied by the investment officers shall be the "prudent investor" rule, which states: "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:

- A. The investment of all funds, or funds under the City's control, over which the officer has responsibility rather than a consideration as to the prudence of a single investment.
- B. Whether the investment decision was consistent with the written investment policy of the City.

The investment officers, 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 that appropriate action is taken to control adverse developments.

#### **Ethics and Conflicts of Interest**

City staff involved in the investment process shall refrain from personal business activity that could conflict with the proper execution of the investment program, or which could impair the ability to make impartial investment decisions. City staff shall disclose to the City Manager any material financial interests in financial institutions that conduct business with the City and they shall further disclose positions that could be related to the performance of the City's portfolio. City staff shall subordinate their personal financial transactions to those of the City, particularly with regard to timing of purchases and sales.

An investment officer of the City who has a personal business relationship with an organization seeking to sell an investment to 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 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 governing body of the entity.

### **IV. REPORTING**

#### **Quarterly Reporting**

The Finance Director shall submit a signed investment report at least quarterly that summarizes current market conditions. The report shall summarize investment strategies employed in the most recent quarter (including location of investments and interest rates), and describe the portfolio in terms of investment securities, maturities, risk characteristics, and shall explain the total investment return for the quarter.

#### **Annual Report**

Within 60 days of the end of the fiscal year, the Finance Director shall present an annual report on the investment program and investment activity. This report may be presented as a component of the fourth quarter report to the City Manager and City Commission.

#### **Methods**

The quarterly investment report shall include a succinct management summary that provides a clear picture of the status of the current investment portfolio and transactions made over the last quarter. The management summary will be prepared in a manner that 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 City Commission. The report will include the following:

- A. A listing of individual securities held at the end of the reporting period.
- B. Unrealized gains or losses resulting from appreciation or depreciation by listing the beginning and ending book and market value of securities for the period.
- C. Additions and changes to the market value during the period.
- D. Average weighted yield to maturity of portfolio on entity investments as compared to applicable benchmarks.
- E. Listing of investments by maturity date.
- F. The percentage of the total portfolio that each type of investment represents.
- G. Statement of compliance of the City's investment portfolio with State Law and the investment strategy and policy approved by the City Commission.

## **V. INVESTMENT PORTFOLIO**

### **Passive Portfolio Management**

The City shall pursue a passive portfolio management philosophy. The City's cash management portfolio shall be designed with the conservative objective of regularly exceeding the average rate of return on three-month U.S. Treasury Bills. The investment program shall seek to augment returns above this threshold consistent with risk limitations identified herein and prudent investment policies. Yield of interest-bearing deposit accounts or certificates of deposit will be determined by competitive sealed bids of Depository Contracts every two years.

### **Investment**

Assets of the City of Vernon 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.

Authorized are Interest-bearing deposit accounts or Certificates of Deposit of state and national banks domiciled in Texas, guaranteed or insured by the Federal Deposit Insurance or its successor or secured by obligations described in A through D above, which are intended to include all direct agency or instrumentality issued mortgage backed securities rated AAA by a nationally recognized rating agency, or by Article 2529b-1, V.T.C.S. and that have a market value of not less than the principal amount of the certificates.

### **Holding Period**

The City of Vernon intends to match the holding periods of investment funds with liquidity needs of the City. In no case will the average maturity of investments of the City's operating funds exceed one year. The maximum final stated maturity of any investment shall not exceed five years.

### **Risk and Diversification**

The City of Vernon 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 which shall be achieved by the following general guidelines:

- A. Risk of issuer default is controlled by limiting investments to those instruments allowed by the Act.
- B. Risk of market price changes shall be controlled by passive and conservative investment strategy of utilizing only Interest-bearing deposit accounts or Certificates of Deposit of state and national banks domiciled in Texas.
- C. Risk of illiquidity due to technical complications shall be controlled by monthly proofs of collateralization per Depository Agreements with local bank.

## **VI. SELECTION OF BANKS**

### **Depository**

A Depository shall be selected through the City's banking services procurement process, which shall include a formal request for proposal (RFP), as outlined in Local Government Code, Chapter 105. In selecting a depository, the credit worthiness of institutions shall be considered, and the Finance Director shall conduct a comprehensive review of prospective depository's credit characteristics and financial history.

### **Interest-bearing deposit accounts and Certificates of Deposit**

Banks seeking to establish eligibility for the City's competitive interest-bearing deposit accounts and certificate of deposit purchase program shall submit for review annual financial statements, evidence of federal insurance and other information as required by the Finance Director.

## **VII. SAFEKEEPING AND CUSTODY**

### **Insurance or Collateral**

All deposits and investments of City funds shall be secured by pledged collateral. 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 or investments less an amount insured by the FDIC or FSLIC. Evidence of the pledged collateral shall be maintained by the Finance Director or a third party financial institution. Repurchase agreements shall be documented by a specific agreement noting the collateral pledge in each agreement. Collateral shall be reviewed at a minimum monthly to assure that the market value of the pledged securities is adequate.

### **Safekeeping Agreement**

Collateral pledged to secure deposits of the City shall be held by a safekeeping institution in accordance with a Safekeeping Agreement which clearly defines the procedural steps for gaining access to the collateral should The City of Vernon determine that the City's funds are in jeopardy. The safekeeping institution, or Trustee, shall be the Federal Reserve Bank or an institution not affiliated with the firm pledging the collateral. The safekeeping agreement shall include the signatures of authorized representatives of the City of Vernon, the firm pledging the collateral, and the Trustee.

### **Collateral Defined**

The City of Vernon shall accept only the following securities as collateral:

- A. FDIC Insured coverage.
- B. A bond, certificate of indebtedness, or Treasury Note of the United States, or other evidence of indebtedness of the United States that is guaranteed as to principal and interest by the United States.
- C. Obligations, the principal and interest on which, are unconditionally guaranteed or insured by the State of Texas.
- D. A bond of the State of Texas or of a county, city or other political subdivision of the State of Texas having been rated as investment grade (investment rating no less than "A" or its equivalent) by a nationally recognized rating agency with a remaining maturity of ten (10) years or less.

### **Subject to Audit**

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

### **Delivery vs. Payment**

Treasury Bills, Notes, Bonds and Government Agencies' securities shall be purchased using the delivery vs. payment method. That is, funds shall not be wired or paid until verification has been made that the correct security was received by the Trustee. The security shall be held in the name of the City or held on behalf of the City. The Trustee'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.

## **VII. INVESTMENT POLICY ADOPTION**

The City of Vernon investment policy shall be adopted by resolution of the City Commission. The policy shall be reviewed for effectiveness on an annual basis by the City Commission.