

RESOLUTION NO. 2022-R-4

**A RESOLUTION APPROVING AND ADOPTING
A REVISED INVESTMENT POLICY FOR THE
VILLAGE OF VOLENTE, TEXAS, AND
MAKING VARIOUS PROVISIONS RELATED
TO THE SUBJECT; PROVIDING AN
EFFECTIVE DATE; AND PROVIDING PROPER
NOTICE & MEETING.**

WHEREAS, the Public Funds Investment Act, Texas Government Code Ann., Chapter 2256 (the "Act"), provides that the governing body of an investment entity shall adopt a written investment policy regarding the investment of its funds and review it annually; and

WHEREAS, the City Council of Volente must approve any amendments to such Investment Policy; and

WHEREAS, the City Council wishes to amend its policy to align with the Act by adopting as the Investment Policy of the Village of Volente the policy attached hereto as Exhibit A (the "Investment Policy"); and

WHEREAS, the Investment Policy applies to all investment activities of the Village of Volente, and to all assets of all funds of the Village of Volente at the present time and any funds received in the future pending any further amendment.

NOW, THEREFORE, BE IT RESOLVED BY THE CITY COUNCIL OF THE VILLAGE OF VOLENTE, TEXAS THAT:

Section 1. The City Council hereby approves and adopts the revised Investment Policy attached hereto as Exhibit A and made a part hereof by this reference.

Section 2. It is hereby officially found and determined that the meeting at which this Resolution was passed was open to the public, and that public notice of the time, place and purpose of said meeting was given as required by the Open Meetings Act, Texas Government Code, Chapter 551.

NOW, THEREFORE, BE IT RESOLVED BY THE COUNCIL OF THE VILLAGE OF VOLENTE, TEXAS, THAT EFFECTIVE IMMEDIATELY UPON PASSAGE:

PASSED AND ADOPTED this 15th day of November, 2022.

VILLAGE OF VOLENTE

By: 

Dan Thost, Mayor

ATTEST:

By: 

Lacie Hale, City Secretary

Village of Volente Investment Policy

The Village of Volente assumes the responsibility to our citizens to carefully account for public funds, and to manage city finances conservatively and wisely. The purpose of this policy is to provide guidance in the managing and investing of village funds.

I. Governing Authority

Legality

The investment program shall be operated in conformance with federal, state, and other legal requirements, including *Title 4: Finances of the Texas Local Government Code*

II. Scope

This policy applies to the investment of all funds.

1. Pooling of Funds

Except for cash in certain restricted and special funds, the village can consolidate cash and reserve balances from all funds to increase efficiencies with regard to 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. General Objectives

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

1. 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 will be to mitigate credit risk and interest rate risk.

a. Credit Risk

The Village will minimize credit risk, which is the risk of loss due to the failure of the security issuer or backer, by:

- Limiting investments to the types of securities listed in Section VII of this Investment Policy
- Pre-qualifying the financial institutions, broker/dealers, intermediaries, and advisers with which the Village will do business in accordance with Section V

b. Interest Rate Risk

The Village will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, 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
- Investing operating funds primarily in shorter-term securities.

2. 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 (static liquidity). Furthermore, since all possible cash demands cannot be anticipated, the portfolio should consist of at least 3 months anticipated expenses in demand deposits or checking accounts.

3. Yield

The investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints and liquidity needs. Return on investment is of secondary importance compared to the safety and liquidity objectives described above. Investments are limited to relatively low risk securities in anticipation of earning a fair return relative to the risk being assumed.

IV. Standards of Care

1. 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 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 carried out in accordance with the terms of this policy. The "prudent person" standard 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."

2. 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. 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 Village.

3. Delegation of Authority

Authority to manage the investment program is granted to [designated official, hereinafter referred to as investment officer] and derived from the following:

LOCAL GOVERNMENT CODE

TITLE 4. FINANCES

SUBTITLE A. MUNICIPAL FINANCES

CHAPTER 101. GENERAL FINANCIAL PROVISIONS AFFECTING MUNICIPALITIES

SUBCHAPTER A. PROVISIONS AFFECTING TYPE A GENERAL-LAW MUNICIPALITIES

Sec. 101.001. MUNICIPALITY COVERED BY SUBCHAPTER. This subchapter applies only to a Type A general-law municipality.

Acts 1987, 70th Leg., ch. 149, Sec. 1, eff. Sept. 1, 1987.

Sec. 101.002. CONTROL OF FINANCES. The governing body of the municipality may manage and control the finances of the municipality.

Acts 1987, 70th Leg., ch. 149, Sec. 1, eff. Sept. 1, 1987.

-Responsibility for the operation of the investment program is hereby delegated to the investment officer, who shall act in accordance with established written procedures and internal controls for the operation of the investment program consistent with this investment policy. Procedures should include references to: safekeeping, investment accounting, and collateral/depository agreements. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures approved by the Village council.

V. Authorized Banks, and Broker/Dealers

1. Authorized Banks, and Broker/Dealers

A list will be maintained of banks authorized to provide banking services. All banks must be members of the FDIC, and be properly licensed in the state of Texas, with tier 1 capital of at least \$100,000,000. In addition, a list will be maintained of approved security broker/dealers selected by creditworthiness. Broker/ Dealers must maintain a minimum capital requirement of \$10,000,000 and have at least ten years of operation history. All banks and broker/dealers who desire to become qualified for investment transactions, other than deposits and ~~transactions of the checking~~ ~~accounts~~ ~~accounts~~ must supply the following as appropriate:

- Audited financial statements demonstrating compliance with state and federal capital adequacy guidelines
- Proof of Financial Industry Regulatory Authority (FINRA) certification (not applicable to Certificate of Deposit counterparties)
- Proof of state registration
- Certification of having read and understood and agreeing to comply with the Village's investment policy.
- Evidence of adequate insurance coverage.

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

VI. Safekeeping and Custody

1. *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 financial institution prior to the release of funds.

2. *Safekeeping*

Securities will be held by a [centralized] independent third-party custodian selected by the entity as evidenced by safekeeping receipts in the [entity's] name. The safekeeping institution shall annually provide a copy of their most recent report on internal controls (Statement of Auditing Standards No. 70, or SAS 70).

3. *Internal Controls*

The investment officer is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the Village are protected from loss, theft or misuse. Details of the internal controls system shall be documented in an investment procedures manual and shall be reviewed and updated annually. The internal control structure shall be designed to provide reasonable assurance that these objectives are met.

The internal controls structure shall address the following points:

- Control of collusion
- Separation of transaction authority from accounting and recordkeeping
- Custodial safekeeping
- Avoidance of physical delivery securities
- Clear delegation of authority to subordinate staff members

- Control the use of wire transfers

Accordingly, the investment officer shall establish a process for an annual independent review by an external auditor to assure compliance with policies and procedures or alternatively, compliance should be assured through the village annual independent audit.

VII. Suitable and Authorized Investments

1. *Investment Types*

The following investments will be permitted by this policy and are those defined by state and local law where applicable:

- U.S. Treasury obligations which carry the full faith and credit guarantee of the United States government and are considered to be the most secure instruments available;
- U.S. government agency and instrumentality obligations that have a liquid market with a readily determinable market value;
- Certificates of deposit and other evidences of deposit at financial institutions,
- Money market mutual funds regulated by the Securities and Exchange Commission and whose portfolios consist only of dollar-denominated securities; and
- Local government investment pools either state-administered or developed through joint powers statutes and other intergovernmental agreement legislation.

2. *Collateralization*

Coverage by FDIC insurance or full collateralization will be required on all bank deposit accounts, including checking accounts, savings accounts and certificates of deposit.

VIII. Investment Parameters

1. *Diversification*

It is the policy of the Village to diversify its investment portfolios. To eliminate risk of loss resulting from the over-concentration of assets in a specific maturity, issuer, or class of securities, all cash and cash equivalent assets in all Village funds shall be diversified by maturity, issuer, and class of security. Diversification strategies shall be determined and revised periodically by the investment committee/investment officer for all funds. In establishing specific diversification strategies, the following general policies and constraints shall apply: Portfolio maturities shall be staggered to avoid undue concentration of assets in a specific maturity sector. Maturities selected shall provide for stability of income and reasonable liquidity.

2. *Maximum Maturities*

To the extent possible, the Village shall attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, the [entity] will not directly invest in securities maturing more than five (5) years from the date of purchase or in accordance with state and local statutes and ordinances. The Village shall adopt weighted average maturity limitations, consistent with the investment objectives.

Reserve funds and other funds with longer-term investment horizons may be invested in securities exceeding five (5) years if the maturities of such investments are made to coincide as nearly as practicable with the expected use of funds. The intent to invest in securities with longer maturities shall be disclosed in writing to the legislative body. Because of inherent difficulties in accurately forecasting cash flow requirements, a portion of the portfolio should be continuously invested in readily available funds such as local government investment pools, money market funds, or demand deposits to ensure that appropriate liquidity is maintained to meet ongoing obligations.

IX. Reporting

1. *Methods*

The investment officer shall prepare an investment report at least quarterly, including a management summary that provides an analysis of the status of the current investment portfolio and the individual transactions executed over the last quarter. If the Village financial assets consist only of bank deposits, then a statement of bank balances shall be considered as an investment report. This management summary will be prepared in a manner which will allow the Village to ascertain whether investment activities during the reporting period have conformed to the investment policy. The report should be provided to the entity's chief administrative officer, the legislative body, the investment committee and any pool participants. The report will include the following:

- Listing of individual securities and deposits held at the end of the reporting period.
- Realized and unrealized gains or losses resulting from appreciation or depreciation by listing the cost and market value of securities over one-year duration that are not intended to be held until maturity (in accordance with Governmental Accounting Standards Board (GASB) requirements).
- Average weighted yield to maturity of portfolio on investments.
- Listing of investment by maturity date.
- Percentage of the total portfolio which each type of investment represents.

2. *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.

3. *Marking to Market*

The market value of the portfolio shall be calculated at least quarterly and a statement of the market value of the portfolio shall be issued at least quarterly.

X. Approval of Investment Policy

The investment policy shall be formally approved and adopted by the Village council and reviewed annually.

XI. List of Attachments

The following documents, as applicable, are attached to this policy:

- ~~• Listing of authorized personnel (Investment Officer, Mark Scott);~~
- ~~• Relevant investment statutes and ordinances~~ Bank Depository Agreement
- ~~• Security Agreement, including~~
 - ~~▪ Exhibit A Schedule of Eligible Collateral~~
 - ~~▪ Exhibit B Certificate of Authorized Persons~~
- ~~• Third Party Custodian Agreement, including~~
 - ~~▪ Exhibit A Certificate of Authorized Persons~~
 - ~~▪ Schedule A Schedule of Eligible Collateral~~
- ~~• Financial Controls and Spending Policy re.~~
- ~~• Listing of authorized broker/dealers and financial institutions (Current Banking Institution);~~
- ~~• Internal Controls~~ Authorized Signatories.
- ~~• Glossary.~~

XIII. Other Documentation

- ▲ Safekeeping agreements (Most recent version);
- ▲ Wire transfer agreements;
- ▲ Sample investment reports.